



Redefining **flow control**

about Rotork...



**We are a flow control company.
Our products are operated worldwide
and in markets where the flow of gasses,
liquids or powders needs to be controlled
across the industrial landscape.**

When you turn on a tap or switch on a light, turn on a kettle or put fuel in your car, a flow control product is being used somewhere in the process of delivering that service. We are the only UK listed company with a global presence that is dedicated to this and nothing else.

Rotork p.l.c.

Rotork Management Board

Controls

Rotork Controls specialises in electrically-operated actuators and control systems for the valve and damper control market.

Fluid Systems

Rotork's Fluid Systems division focuses on designing and manufacturing the world's widest range of pneumatic and hydraulic actuators and control systems.

Gears

Rotork Gears provides the widest range of gearboxes for the valve industry in the world. They are used with actuators and as direct valve operators.

Instruments

Rotork Instruments is a newly established division which will include a range of products targeted at the wider flow control market.

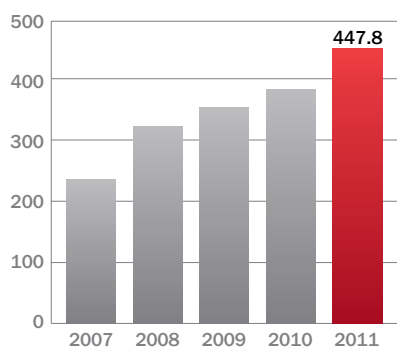
Site Services

HIGHLIGHTS

FINANCIAL

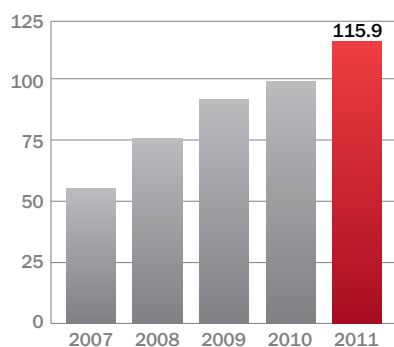
REVENUE (£m)

+ 17.7%



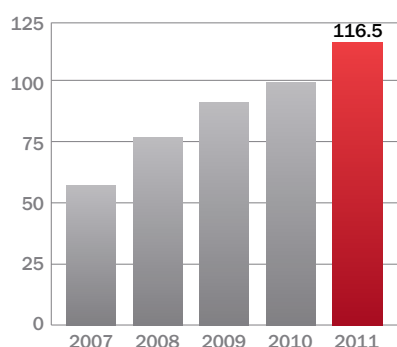
OPERATING PROFIT* (£m)

+ 16.6%



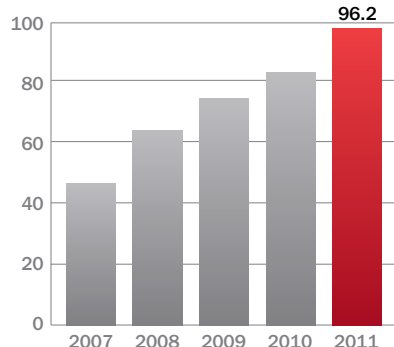
PROFIT BEFORE TAX* (£m)

+ 17.0%



BASIC EARNINGS PER SHARE* (p)

+ 17.5%



* Adjusted before the amortisation of acquired intangible assets.

OPERATIONAL

- Completion of six acquisitions
- Creation of Rotork Instruments division
- Opened new facilities in Houston and Shanghai
- Increase in Research & Development activity
- Continued investment in people and infrastructure

GROUP

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GLOBAL OPPORTUNITIES

Global Revenue (£m)

	Americas	Europe	RoW	Total
Revenue 2011	125.4	174.2	148.2	447.8
Revenue 2010	110.5	145.9	124.2	380.6



Rotork is the only UK listed company committed to developing, selling and supporting the best flow control products to rapidly growing markets across the globe.

Rotork currently has over **2,500 employees** in **31 countries.**

KEY

- Manufacturing Plant and Customer Service Centre
- Customer Service Centre

NORTH AMERICA

Within this complex and sophisticated market we have six manufacturing plants and eight distribution and marketing locations. During 2011 we opened a new sales and service facility in Houston and acquired two companies, Fairchild and K-Tork. The acquisition of Fairchild will further develop our strategy in the flow control market and K-Tork enables us to strengthen our presence in the power and water markets.

LATIN AMERICA

The acquisition at the beginning of the year of our sales and service agent in Mexico has enhanced our geographic coverage in Latin America. We now have direct presence in Mexico, Brazil and Venezuela and have plans to open another office in Brazil in 2012. We also have a strong network of agents across the region providing total coverage of this growing and varied market.

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UK

Currently there are three manufacturing plants which support both the UK and worldwide operations. 2012 will see the development of a new facility in Bath and the relocation of the Leeds business to a larger facility. The restructure of the sales and service organisation within the newly created Rotork UK will see improved focus on driving this market. In 2011, we acquired Prokits, a manufacturer of valve adaptor kits and accessories.

EUROPE

Rotork has a well established presence in continental Europe with six manufacturing locations across the region, supported by nine direct customer service centres. During the year we expanded our factory in Italy and made two acquisitions: Centork in Spain and our long-standing agent in Norway, VVA. In 2012, we plan to open an office in St Petersburg and expand our Moscow and Bilbao sales and service centres.



AFRICA

During 2012 we plan to open an office in Bloemfontein, South Africa. Africa is a diverse market that has significant project development programmes. Investment in the power industry and oil & gas is supported through our direct presence, local agents and distributors.

MIDDLE EAST

Oil & gas revenue has driven high levels of investment in the region. In 2011, we opened a new sales office in Jebel Ali and in 2012 we will expand into a full service centre. These will complement our other offices and service centres in the region to provide comprehensive support to local customers.

ASIA

Rotork has traditionally been strong throughout Asia with China being the largest market for Rotork's electric valve actuators and India being important to Rotork's strategy. During 2011 we opened a new factory in India and expanded our factory in China. The year ahead will see us open two new offices in China, one in India and expand our offices in Indonesia and Singapore. These investments will strengthen our presence and allow us to be equipped for the forecasted growth in this region.

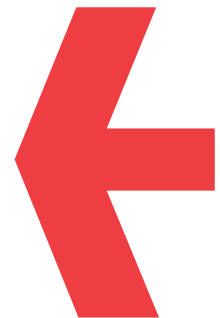
AUSTRALIA AND NEW ZEALAND

This region is supported by seven customer support centres, five in Australia and two in New Zealand. In 2012 Rotork Australia will be combined as one legal entity, which will allow the business to develop all of the available markets. One key market for Rotork is the Australian Coalbed Methane and LNG Plants.

CHAIRMAN'S STATEMENT

I am pleased to report another year of strong growth for Rotork, with our order intake, revenue and profit all at record levels.

During the year we completed six acquisitions and announced the formation of a new division, Rotork Instruments. Rotork Instruments will provide a platform for our expansion into the wider flow control market. While economic uncertainty affected activity levels in some countries in which we operate, the continued broadening of our geographic spread and end-market exposure limited the overall impact on the Group.



Roger Lockwood *Chairman*

“ Rotork Instruments will provide a platform for our expansion into the wider flow control market ”

In addition to our increased spend on acquisitions, which amounted to £64.2m in the year, we continued to invest in our facilities and people in the locations and sectors where we see growth opportunities. Investment in product development was also higher in the year at £5.8m, an increase of 35% on 2010. This investment will result in an increased number of product launches in 2012, including the next generation of our IQ actuator range. We aim to extend our industry leadership position and consolidate Rotork's reputation for world-class innovation.

The Rotork brand continues to strengthen and customers who demand high quality products and services recognise that Rotork provides a superior solution to their automation needs, improving the reliability and operation of their plant.

Our continued success is due to the dedication of our people, whether in customer facing, operational or support roles. Their hard work has allowed Rotork to capitalise on the available opportunities and continue to provide excellent customer service.

FINANCIAL HIGHLIGHTS

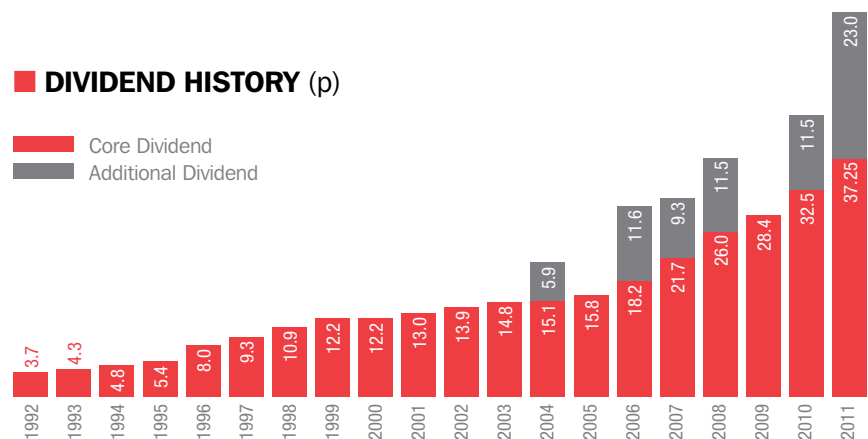
Revenue of £447.8m was 17.7% higher than the previous year, with organic growth on a constant currency basis of 15.9%. Adjusted profit before tax* increased by 17.0% to £116.5m resulting in a return on sales on this basis of 26.0%, similar to the prior year. In aggregate, acquisitions reported a lower return on sales than the Group average, so when taken with a modest currency headwind, return on sales restated on an organic constant currency basis was 26.3%, slightly above 2010. Cash generation from operations was good and after returning £49.5m to shareholders in dividends and spending £64.2m on acquisitions, we finished the year with net cash of £48.5m.

BOARD COMPOSITION

The Board supports Lord Davies' recent report regarding Women on Boards and has a stated aim that 25% of its non-executive directors will be women by the end of 2012. We have always believed that good corporate governance stems from a quality Board which has a wide range of experience and skills. We are actively recruiting a suitable member of the Board using our established formal appointment process. The successful candidate will bring the necessary level of expertise,

■ DIVIDEND HISTORY (p)

■ Core Dividend
■ Additional Dividend



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questioning and debate and provide the required level of support to the executive team.

BOARD PERFORMANCE

For a number of years we have appointed external consultants to conduct an independent appraisal of Board effectiveness and this year we repeated the process. Overall, the feedback from the review was positive and, having been discussed by the Board, this has led to a number of changes. The primary changes are: increasing the membership of the Management Board to cover Human Resources and Business Development roles; altering the format of Board meetings to allow more time for debate and discussion; and providing greater opportunities for non-executive directors to participate in discussion of the Group's strategic direction. It is clear that the breadth of experience and skills represented on the Board is an important factor in the Board's effectiveness. The open and inclusive discussions we enjoy ensure consideration is given to all points of view. Overall, I remain satisfied that the composition of the Board enables it to fulfill its expected role. The non-executive directors also reviewed my performance as Chairman and provided feedback via the senior independent director.

CORPORATE GOVERNANCE

The Board sets the tone for the way in which Rotork operates and we remain committed to running the business in a responsible way. The Board considers current performance, strategy and acquisitions, risk management, the internal control framework and the other aspects of corporate governance throughout the year. Some of the discussions involve the wider Rotork Management Board. The executive management are then able to disseminate the values and standards of the Board throughout the Group and ensure these are embedded at all levels.

In response to the UK Corporate Governance Code 2010, all directors stood for re-election at the last Annual General Meeting and we intend to continue this practice in the future.

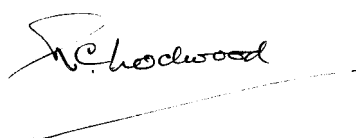
DIVIDEND

The Board recommends a final dividend of 22.75p per share which, taken together with the 2011 interim dividend, gives a payment of 37.25p per share (2010: 32.50p), representing a 14.6% increase. This dividend will be payable on 21 May 2012 to shareholders on the register on 13 April 2012.

OUTLOOK

Rotork is well positioned in growth markets and the execution of our long-term strategy of expanding into the wider flow control market will provide further opportunities for growth. This year will see the introduction of several new products and we will also continue to look for suitable acquisition targets.

We continue to invest in our infrastructure, product development and sales coverage to support the growth projections of the business. Whilst mindful of the uncertain economic environment, the indications we are receiving from our customers are positive. The markets that we serve, combined with our extensive product portfolio, international presence and end-market exposure, provide the Board with confidence of achieving further progress in the coming year.

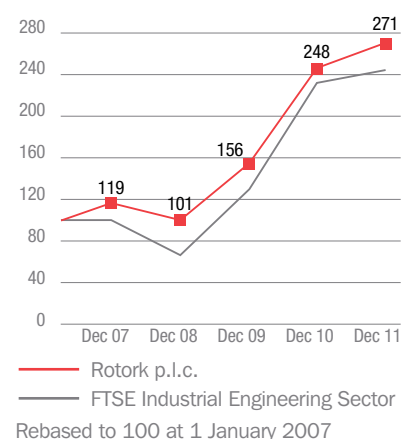


Roger Lockwood *Chairman*
27 February 2012

* References to adjusted profit throughout this document are defined as the IFRS profit, whether profit before tax or operating profit, with the amortisation of acquired intangibles added back.

“ ...we continue to invest in our facilities and people... ”

TOTAL SHAREHOLDER RETURN





Pioneering Innovation

Rotork is at the forefront of creating the latest innovative applications for its customers and fully committed to delivering the best in flow control solutions. Innovation is embedded in Rotork's culture and all employees are encouraged to bring new ideas, both in terms of product and service offering to the customer. Any innovation adopted goes through rigorous testing; some are tested for thousands of hours before they are available to customers.

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Our strategy for growth and value creation for our shareholders continues to deliver positive results.

The momentum we experienced in 2010 continued into 2011, with each division achieving record results. The focus on developing our international sales channels, expanding our product portfolio and carefully managing our cost base provides a strong platform for further growth.



Peter France *Chief Executive*

We are a global company with 19 manufacturing sites, 104 offices, direct employees in 31 countries, and sales channels in 89 countries. Our customers demand first-class after-sales support and our dedicated teams around the world are equipped to provide the local support they require.

This year we established a new division, Rotork Instruments, to strengthen our presence in the wider flow control market. The acquisition of Fairchild Industrial Products Company (Fairchild) is the first step in developing another Rotork division with market leading products.

Rotork has a strong brand identity, international presence and technical capabilities that support our objective of providing our customers with high quality, technically advanced, innovative products and services.

HIGHLIGHTS

I am pleased to report another successful year. Customer orders were weighted towards the end of 2011, and with the receipt of our largest ever order in December, a £8.9m pipeline project in Mexico, the fourth quarter was particularly strong. Overall, order intake for the year was £461.8m, up 20.9% compared with 2010. Removing the contribution from acquisitions and a small currency headwind, order intake was 18.1% ahead of the prior year.

Rotork offices benefit from both local business and international projects where the orders are often placed through valvemakers in their area. This means that our offices in mature markets can still experience significant growth due to export activity. This was evident during the year with strong export-led performances from countries such as the UK, USA, Korea and Italy. There was also strong

domestic growth in countries such as Australia, China and India. Overall, Europe, Asia and the Americas all posted results higher than the prior year. Revenue was strong at £447.8m, 17.7% up on the prior year. Adjusted profit before tax* margin was 26.0%, fractionally below the 26.2% achieved last year, but with the impact of acquisitions and currency reversed the adjusted margin was 26.3%.

The creation of a new division reflects the wider market ambitions of the Group in flow control, an area identified by the Board during our strategy discussions as having significant growth potential. The acquisition of Fairchild provides a strong foundation on which Rotork Instruments can build a product portfolio and access new end-markets as well as strengthening our presence in existing markets. Fairchild will also continue as a supplier to other parts of the Group and we will look to capitalise on this opportunity.

In addition to Fairchild, we completed a further five acquisitions in the year:

- Rotork Servo Controles de Mexico S.A. de C.V. (RSCM) and Valco Valves & Automation AS, (VVA), based in Mexico and Norway respectively, strengthened our geographic coverage with their strong sales and service organisations. Both of these new sales offices will focus mainly on Rotork Controls and Rotork Fluid Systems products;
- Controls International Inc (K-Tork) a company based in the USA and Centork Valve Control S.L. (Centork) in Spain, provides product as well as sales channels to Rotork Fluid System and Rotork Controls respectively;
- Prokits Limited (Prokits), a UK based valve adaption company, will be integrated into the Rotork Gears business.

OPERATIONAL REVIEW

continued

Our growth strategy is focused on both organic and acquisition-led growth. The acquisitions completed in 2011 are all aligned with our acquisition criteria of expanding the product portfolio, strengthening or entering a new geography and strengthening or entering a new market. Integration of the new companies is going to plan and all of them are contributing to the Group in-line with the acquisition case.

To support the continued organic growth of the Group, we have also been investing in the infrastructure of the business. The most significant investments include a new factory in Chennai, India, that will be operational by April 2012 and a new facility very close to the existing Bath site that will provide room for expansion. In January 2011, we also inaugurated an additional plant in China for our Gears business.

ROTORK INSTRUMENTS

This newly formed division will ultimately contain a range of products which address the wider flow control market. Many of the products are sold into the same end-markets as actuators and are often used as part of the actuator control system but they are also used in areas not associated directly with actuation. We will retain our focus on high quality, high accuracy, high specification products, rather than on the commoditised end of this market where margins are generally lower.

Fairchild, which manufactures precision pneumatic and electro-pneumatic control products, was acquired in November. Fairchild's customers are spread across many end-markets, with the largest being oil & gas. Other important markets include tyre manufacture, automation, paper, chemicals and a wide variety of industrial applications. The 2011 divisional revenue of £1.4m and adjusted operating profit* of £0.4m represent the six weeks of trading post acquisition. For the twelve months to December 2011, Fairchild's revenue was £15.1m with an adjusted operating profit* of £4.8m, giving an operating margin of 31.6%. The lead times for sales in Fairchild are far shorter than the other divisions and the £1m order book at the end of the year is at a typical level.

ROTORK SITE SERVICES

Rotork Site Services (RSS) is our after-sales and support activity which operates mainly within the Controls and Fluid Systems divisions. It is embedded within the divisions and as such is reported within the divisions'

results. The development of RSS is a key part of our Group strategy and this year there has been progress on a number of fronts. In terms of geographic coverage, we have either opened new service workshops or expanded them in six locations around the world. The acquisitions in Mexico and Norway were important to RSS, as both former agents were responsible for servicing and maintaining the large installed base of actuators in their countries. Bringing this capability in-house will allow us to promote the full range of RSS activities and leverage this closer relationship to generate new sales for the full range of Rotork products.

We measure RSS performance against a number of key metrics to assess the rate of growth. The best measure of growth is the number of service engineers we employ, which has grown a further 18% in the year. Over the last three years, service engineer numbers have risen 44% whilst consistently high utilisation levels have been maintained. Our actuators are often required to work in arduous environments and customers demand a high level of certainty that they will operate when required. To this end we provide preventative maintenance contracts for our customers and during the year we have seen the number of actuators under contract grow to 86,000 units, an increase of 21%. This still represents a very small proportion of the installed base and provides us with a substantial opportunity as we continue to grow our capability.

STRATEGY

Rotork's vision is to be the leader in our targeted segments of the global flow control market. The targeted segments comprise the traditional electric, fluid power and manual valve actuation devices used to control the flow of liquids, gases and powders. These are addressed by our Controls, Fluid Systems and Gears divisions. In addition, the broader instrumentation, diagnostics and feedback devices used in pressure control and flow measurement form the targeted segments for Rotork's new Instruments division.

To maintain a market leading position, we aim to provide high quality, technically advanced, innovative products and a superior level of service that supports our customers' activities around the world. Our global network of offices and manufacturing sites expands each year and ensures that support is local to the customer. We operate an asset-light business model, with most of our manufacturing sites purchasing components in a finished form

Controls

- Global growth particularly in emerging markets
- Acquisition of Centork
- Faster growth of process control product range

Fluid Systems

- Strong second half margins
- Investment in Lucca and Houston facilities
- Acquisition of K-Tork

Gears

- Record sales and profit
 - Good growth in Russia, China and India markets
 - Completed expansion of China factory
-

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VISION

Global Strategy

MISSION

OBJECTIVES

FINANCIAL

Processes and Strategies common across all divisions

FINANCE	GROUP SALES & MARKETING	GROUP R&D	GROUP OPERATIONS	HR	INFORMATION SYSTEMS	CSR	RISK MANAGEMENT	LEGAL
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CONTROLS

- Sales
- Product Development
- Manufacturing & Facilities
- Procurement
- Acquisitions
- Finance
- RSS

FLUID SYSTEMS

- Sales
- Product Development
- Manufacturing & Facilities
- Procurement
- Acquisitions
- Finance
- RSS

GEARS

- Sales
- Product Development
- Manufacturing & Facilities
- Procurement
- Acquisitions
- Finance
- RSS

INSTRUMENTS

- Sales
- Product Development
- Manufacturing & Facilities
- Procurement
- Acquisitions
- Finance
- RSS

and then assembling to order. We seek to deliver strong return on capital, quality margins and consistent year on year growth in revenues and profit, which combined with the asset-light model delivers strong cash generation. This cash is used to fund the growth of the business, both organic and by acquisition, and to fund consistent core dividend growth.

To provide short-term focus, we agree an annual set of key objectives. This year there is a new objective specifically to address the establishment and growth of the new division, Rotork Instruments. The main achievements for 2011 and headline objectives for 2012 are shown below in respect of each of the objectives:

1. Sales growth

The drive for organic growth requires subsidiaries to sell all the products available to them and target all end-markets within their geographies. We will also achieve growth by opening new sales offices in targeted markets.

2011

Expanding customisation capabilities in Houston, restructuring of US sales offices and Australian business, increase number of salespeople around the world and strengthen our management team.

2012

New sales offices in Brazil, Russia, India, South Africa, Indonesia and China with expansion of service capabilities in other offices. The sales and service organisation in the UK will also be re-organised into a single unit under one General Manager.

2. Product development

2012 will see the fruition of a number of developments with new product launches from each division.

2011

Growth of Rotork Innovation Design and Engineering Centre (RIDECE), expansion of the Rotork Process Control (RPC) ranges, investment in products for the nuclear power industry and other projects that will benefit Rotork in 2012 and beyond, led to spend increasing 35% in the year.

2012

Product launches will take place through the year in line with the product roadmap established for each division. Development continues on other areas, some of which is focused on recently acquired businesses. We will continue to build our resources in RIDECE and invest in engineering expertise during the year.

* Adjusted profit is defined as the IFRS profit, whether profit before tax or operating profit, with the amortisation of acquired intangibles added back.

OPERATIONAL REVIEW

continued

3. Acquisitions

These are a core part of our growth strategy and 2011 was a record year in terms of the number and value of acquisitions completed. We will continue to seek suitable opportunities in 2012. We require an acquisition to bring Rotork either a new product, a new geographical market or a new market sector. Often the target will satisfy two or even three of these criteria. The size of the acquisitions we are prepared to undertake is limited by opportunity, rather than by our financial capacity, but we retain a rigorous and disciplined approach to acquisition pricing.

2011

Six acquisitions including Fairchild for a total consideration of £64.2m.

2012

Continue to look at acquisitions which satisfy Rotork's objectives.

4. New division

Fairchild has been established as the first company within the new Rotork Instruments division. This division will contain business and products which sit outside the narrow definition of actuators and gearboxes but are within the wider flow control market.

2011

Acquisition of Fairchild and creation of the new division.

2012

Seek opportunities to grow the new division, both organically within Fairchild and through further acquisitions.

5. Manufacturing and facilities

Rotork has invested in a number of factories and sales offices to develop world-class facilities from which to work. The investment programme will continue into 2012.

2011

New factory in Chennai, expansion of Shanghai factory, new Houston sales and service facility and a new office in the Middle East.

2012

Complete the new Chennai factory, develop the new facility in Bath and relocate the Leeds-based business. Open six new sales and service offices.

6. Procurement

Rotork's outsourced manufacturing model means that material costs are the most significant component of direct costs. We have always sought to control these costs and wherever possible leverage our global presence to source materials.

2011

We continued to increase our sourcing team and delivered positive results against a background of increasing raw material costs. A number of new suppliers from North America, Europe and the Far East came on stream during the year.

2012

Continue to look for opportunities to take costs out of our products through sourcing or product development, including a focus on recently acquired businesses. Teams based in each of our factories will lead the process and we will add to our sourcing capability.

7. Development of RSS

We continue to invest in more service engineers and facilities to ensure we provide the level of local support our customers have come to expect.

2011

Increased the number of service engineers by 18%, invested in the service workshops in six locations, four of which are new facilities, and acquired the businesses in Mexico and Norway which already had established service operations.

2012

New RSS Director will take up post, continue to expand the service team and establish new workshops where there is customer demand.

8. IT

Develop a global system for the sales and service offices.

2011

Design and development of the system is nearing completion but due to the expanded scope of the development we will now go-live in the first half of 2012.

2012

Finalise the development and begin rollout.



K-Tork Pneumatic Vane Actuator

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9. Nuclear

Expand our nuclear-certified product offering in all divisions and ensure we are able to participate in this type of power generation project as fully as we do in others.

2011

Continued development of all our products to be used in nuclear applications as well as work to gain the necessary certifications.

2012

Continue to work with the contractors in the nuclear industry to ensure our products meet their needs in terms of specification and certification and are available in time for the upcoming projects that are expected in the future.

10. Corporate Social Responsibility

Our objectives for Corporate Social Responsibility (CSR) are monitored by four separate committees covering health & safety, environment, ethics and social issues. Our approach in these areas is to communicate best practice throughout the Group, training those responsible and, where appropriate, verifying adoption in each subsidiary.

2011

Health & safety audit scores improved in the year but the associated KPI (Accident Frequency Rate) was slightly higher than the previous year. Our environmental KPI, waste recycling, showed a significant improvement in the year. The ethics committee supervised the communication and training of the provisions of the UK Bribery Act to directors and managers worldwide. Our employees gave their time and energy to support a wide variety of good causes around the world.

2012

Continue to communicate best practice to all locations and provide the necessary training to support local teams. Encourage our employees to continue in their efforts for our global charity, WaterAid, and other local charities.

People are key to delivering our strategy. We train and develop our people, ensuring that they understand the Group's objectives and the importance of delivering exceptional

customer service. Understanding and abiding by Rotork's Ethics and Values is central to providing outstanding service and these core values will ensure each individual acts at all times with integrity, honesty and fairness towards others. We invest in our people to ensure they receive the necessary training to reach their full potential, with a view to promoting from within. Our Employee Satisfaction Survey provides feedback on our success in training and developing our people.

RESEARCH & DEVELOPMENT

During 2011 we completed the development of our next generation, multi-turn electric actuator. The product will be launched in the second quarter of 2012 and will be the successor to the current flagship IQ series. This replacement product will introduce a number of new features that will help us to retain a market leading position.

Within the Process Controls product line-up we have extended the capability of the CVA series through the introduction of a larger linear unit and development is now underway of a larger quarter-turn version that will complete the current family. Further development of the complementary Compact Modulating Actuator (CMA) series was undertaken during the year and this product family is also due to be introduced to the market in the second quarter of 2012.

During the year, the Fluid Systems division established an R&D team and a test capability within our Leeds facility. The test facility will serve the needs of both the Gears and Fluid Systems divisions. The new R&D team will be focused on the development of our Skilmatic range of electro-hydraulic actuators. Elsewhere within the Fluid Systems division we have begun development of a range of rotary nuclear actuators qualified to the latest standard. These actuators are based upon our successful CP and GH series and will complement the electric, multi-turn, nuclear qualified designs currently under development within the Controls division. The design team in Lucca is undertaking development of a second generation of gas over oil actuators that are optimised for international markets and should herald a number of productivity improvements. The design of this range has also been facilitated by our increased investment in 3D CAD tools.

The Gears division has had another successful year with the introduction of the declutchable ILGD family and the FB series



Research & Development Lab, Rotork Gears, Leeds



IQT and CVA actuator on new gas dehydration units in Transylvanian Romania

OPERATIONAL REVIEW

continued

of small manual operators. The division has a strong pipeline of product introductions scheduled for 2012 and in common with the other divisions is actively working on a nuclear qualified range of products.

RIDEC, the Group's centralised development resource based in Chennai, India, has continued to grow during 2011 and was engaged in joint developments with all divisions. We are planning to double its size during 2012 following the move to the new building which will also include a dedicated test facility.

During the year the Group has also begun a project to evaluate computer based Product Lifecycle Management tools that together with our other CAD investments should bring improvements in efficiency and aid both cross-divisional and multi-site working.

OPERATIONAL EXCELLENCE

Our commitment to product excellence and exceeding customer expectations is a fundamental part of Rotork's strategy. A quality-driven focus is embedded in all our business processes, from procurement and vendor approval, through to manufacture and delivery, and extends into our site service activities. All Rotork manufacturing sites are required to adopt Rotork systems and working practices and to maintain a quality management system registered to ISO 9001.

Our matrix management structure allows us to disseminate best practice between our businesses and foster a culture of continuous improvement at all levels, which is reviewed in regular quality audits. KPIs allow us to target, monitor and improve our performance and instil an approach that is focused on the customer.

Techniques such as six sigma and lean manufacturing principles are used extensively and allow us to leverage world-class standards and place ourselves at the leading edge of product quality and performance.

OUR PEOPLE

At the end of November we completed our annual Employee Satisfaction Survey. Although 188 more people completed the survey, the response rate fell to 73% from last year's 78%. The overall satisfaction score of 3.5 has remained at a similar high level for a number of years despite improvements being seen in a number of areas. We have used the same questionnaire now for several years and feel that it is time to review the list of questions and reinvigorate the process for the 2012 survey.

I am pleased to welcome two new members of the Rotork Management Board, Mark Williams, Global HR Director and Pamela Bingham, Group Business Development Director. I am looking forward to working with both of them in achieving the strategic aims of the Group. I am also pleased to welcome Phil Burness to the company. Phil will be responsible for the Rotork Site Services business and replaces Grant Wood, who was appointed Divisional Managing Director for Rotork Controls in March 2011.

During the year we welcomed 370 people into the Rotork family and we now have 2,500 staff in 31 countries. 209 people joined Rotork as part of the six acquisitions that we completed and 161 were recruited due to growth in our existing locations. It is a privilege for me to have visited so many offices during the year and to have met such a dedicated team of people. I was very proud to open our new factory in India and see the reaction from staff as they received a guided tour of the new building. It is down to the hard work and dedication of our staff that we are able to report record results and I would like to thank everyone for what they do every day to make this such a great company.

CORPORATE SOCIAL RESPONSIBILITY

We see Corporate Social Responsibility (CSR) as an area which needs to be embedded in all aspects of our business and should be continually improved. To achieve this Rotork has one main CSR Committee and four Sub-Committees who each focus on one of the following areas: health & safety, the environment, ethics or social issues. More information about the progress that is being made and new initiatives taken are set out in pages 28 to 34.

During 2011 we continued to measure our impact on the environment and the data gathered includes energy and water consumption, waste generation and recycling and business travel. We encourage open communication with employees, customers, suppliers and other stakeholders in order to continually develop the business and achieve our CSR objectives.

We have continued to develop our charitable work with the Group and employees, contributing £179,000 to global charities. WaterAid has continued to be our main Global Charity with £109,000 donated during 2011.

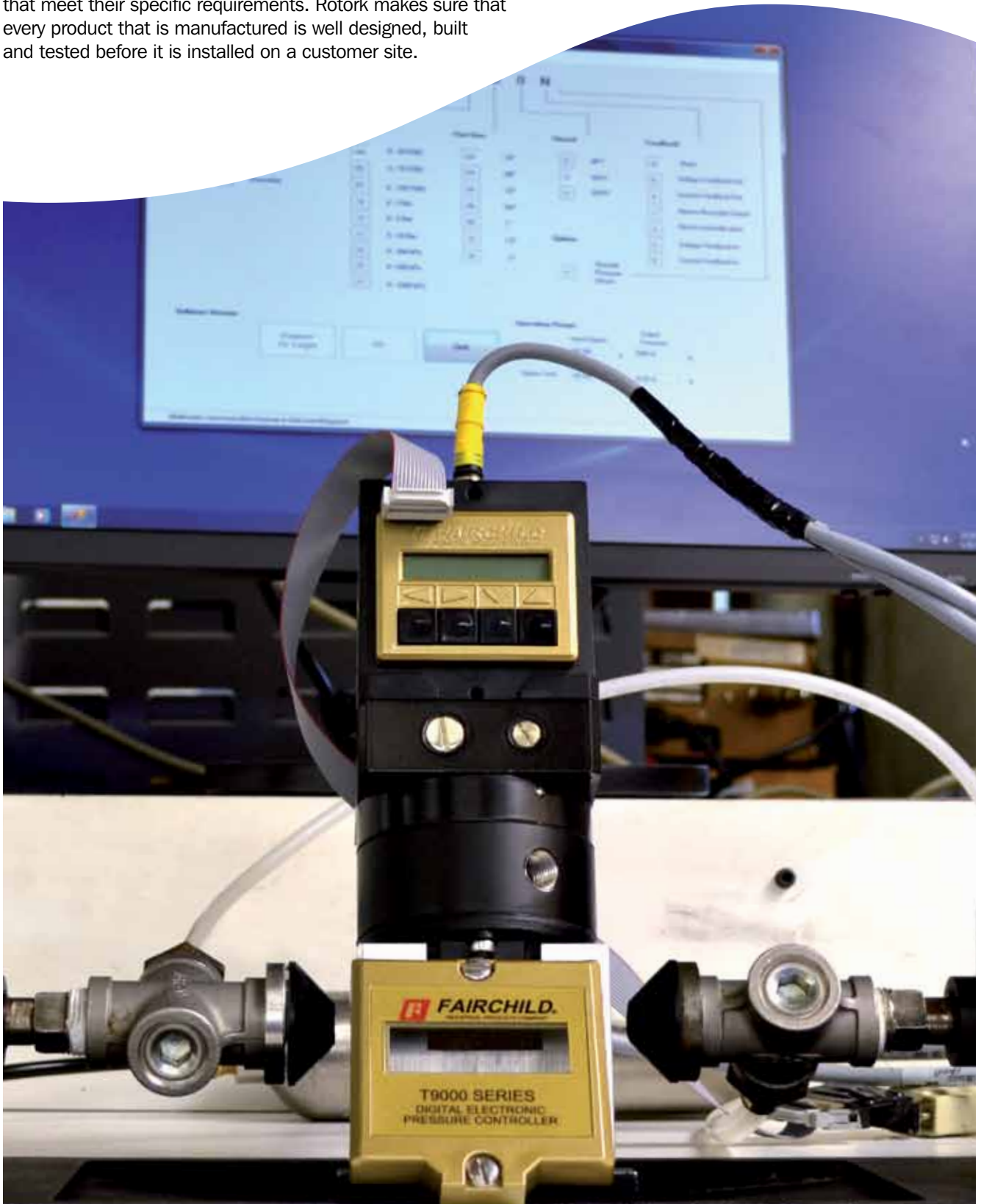


The workshop in Norway, busy motorising valves with IQ actuators for the Oseberg offshore platform project

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Designing in Quality

Customers trust Rotork to deliver high quality flow control products that meet their specific requirements. Rotork makes sure that every product that is manufactured is well designed, built and tested before it is installed on a customer site.



Rotork Controls had an excellent year, reporting record revenue and operating profit, with double-digit growth in both. We also achieved record adjusted operating margins of 33.1%.

The growth was broad based, with our offices in each region – the Americas, the Far East and Europe – all making progress in aggregate. We have continued to invest in our sales channels and have benefited from increased activity in a number of our end-markets.



Grant Wood MD Rotork Controls

“As well as increased acquisition activity we continue to invest in product development”

Downstream and midstream project activity in the oil & gas sector was particularly strong and in certain countries we benefited from increased investment in infrastructure, mainly power generation and water treatment plants. We continued to make progress with our Rotork Process Controls (RPC) products and the growth of these actuators, which include the CVA, exceeded the growth rate for the division as a whole.

Divisional revenue grew 14.2% in the year to £278.0m and with order intake increasing by 17.4%, the year end order book grew by 6.4%. Removing the contribution from acquisitions and restating this year at 2010 exchange rates, revenue growth was 13.8% and order intake growth 15.9%. Currency was a modest headwind for the division, principally driven by the weaker average US dollar rate in 2011, offset by a slight tailwind from the euro and other currencies. Adjusted operating profit increased 16.9% in the year to £92.1m, which represents a 33.1% margin compared with 32.4% in 2010. Cost pressures arising from commodity price increases during the year were successfully mitigated, with material costs remaining a near-constant proportion of sales compared with the prior year. At the same time, labour and overheads costs increased at a lower rate than revenue growth.

Three of this year's acquisitions benefited the division, albeit their contributions to profit in the year were modest. Centork brings a new actuator range which will allow us to better target certain segments of the electric actuator market, whilst the acquisitions in both Norway and Mexico enhance our geographic coverage. Both these countries already have a large installed base of Rotork actuators and the acquisitions provide an opportunity to strengthen our direct relationship with the end-users and grow our after-market service offering through Rotork Site Services (RSS).

As well as increased acquisition activity we continue to invest in product development. We have significantly grown our engineering resource and the Rotork Innovation and Design and Engineering Centre (RIDE), in India, is now operational and contributing to our development programme. The increased investment will benefit the business in 2012 and beyond as new products are introduced.

This year has also seen investment in a number of our sites around the world, the most significant of which was the redevelopment of our factory in Chennai, India. The new factory, which is now nearing completion, will house a larger manufacturing area two and a half times larger than the one it replaces. It will provide improved office facilities and bring RIDE together with the factory. This will provide our business in India with a world-class facility to support its growth for years to come and follows a similar investment made last year in Bangalore.

The Far East region grew the fastest, with Korea delivering the highest growth, followed by India and China, and Japan bouncing back from a slow 2010. Our Korean office benefited from a series of oil & gas orders destined for the Middle East, which were won by Korean Engineering and Procurement Contractors (EPCs) although the valves were supplied from a number of other countries. In China, our factory in Shanghai raised its output once again in response to a very active Chinese power market. Power also remains the largest market for us in India and with our new factory in Bangalore operational for the full year we were able to respond to rising demand. Africa was the only business in the region not to deliver growth in the year and this was only after a particularly strong 2010.

In 2010 we restructured the USA domestic operation by creating regional branch

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offices. This brought benefits in the year and we were able to deliver record results. In the Americas, domestic US spending on oil & gas, transportation and storage projects was positive and resulted in a good performance at FlowQuip, based in Oklahoma, whilst new projects in the municipal water sector supported the overall results. The new power generation market remained slow. However, maintenance and repair spend still provided a steady workload for the RSS teams in the municipal and power markets. The EPCs

based around Houston placed a number of export orders, and in Latin America oil & gas activity was ahead of the prior year.

Activity in Europe followed a similar pattern to 2010 with our offices in Russia and the Netherlands growing the fastest. The major focus was on oil & gas pipelines, refinery upgrades and oil and LPG terminals in Russia. Tank storage projects continued to underpin demand from the Netherlands.

Business Opportunities

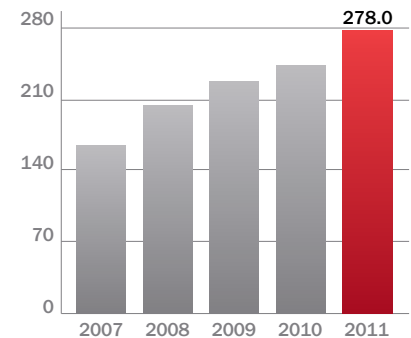
- Delivery of R&D projects
- Launch of IQ3
- Opening of new offices
- Expanded workshop facilities



Rotork IQ actuator installations at Vopak Phase 8

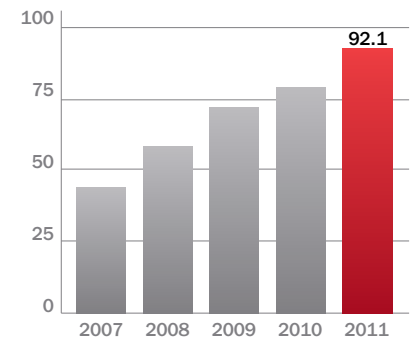
REVENUE (£m)

+ 14.2%



ADJUSTED OPERATING PROFIT (£m)

+ 16.9%



This year Rotork Fluid Systems (RFS) was once again the fastest growing division, with particularly strong trading in the second half of the year.

Acquisitions have played a significant part in the growth of the division over the last ten years and this year we completed the purchase of K-Tork in Dallas, USA, which brought a new product range and increased the exposure of RFS to the power and water markets.



Alex Busby MD Rotork Fluid Systems

“...we completed the expansion of the Lucca factory in Italy which has enabled us to improve production flows and operational efficiency”

The acquisition of the businesses in Norway and Mexico also contributed to the results of the division. More importantly, they increase the future opportunities for RFS as we continue to grow our global aftermarket offering. The acquisition of Rotork Mexico and the development of our own service team in Mexico were instrumental in winning the largest ever single order for Rotork in December. The project is to supply the complete actuator solution for 47 pipelines in Mexico, with deliveries scheduled between now and 2014.

The integration and development of these acquisitions, and those completed in earlier years, remains key to our strategy. K-Tork's products have a very good reputation and, although predominantly focused on the US market, they are well suited to being sold through Rotork's worldwide sales offices. The education process to deliver increased sales outside of the USA is now underway. The scope for development of the Hiller product range remains significant, and our focus for the business in 2012 is to deliver an enhanced and fully certified solution for the next generation of nuclear power station projects. Development of our core product lines is also important, and this year we launched SI Pro, the latest generation of electro-hydraulic actuators. These specifiable emergency shutdown actuators are very much in demand in safety critical applications, and where increased diagnostics are required.

Order intake increased by 30.1% and the order book rose 24.3%, 8.4% of which was due to order book taken on with acquired businesses. On an organic constant currency basis, order intake was 25.0%

higher. Annual revenue grew 24.1% to a record £132.6m, with the second half of £79.6m being 49.9% higher than the first half of the year. Revenue is often greater in the second half year in RFS but this year saw a higher than usual increase driven purely by customer delivery requirements. Removing the benefit of acquisitions and restating revenue at 2010 exchange rates, revenue growth would have been 20.4%. Adjusted operating profit was a record at £17.1m, 14.5% higher than the prior year with the second half representing 71% of the full year's profit. Adjusted operating margins, which, affected by the lower revenue, had been disappointing in the first half of the year at 9.2%, met the division's target in the second half at 15.3%, giving a full year average of 12.9%. On an organic constant currency basis full year margins were 13.1%.

Early in 2011 we completed the expansion of the Lucca factory in Italy which has enabled us to improve production flows and operational efficiency at the largest RFS site. Our new facility in Houston is also important to RFS, allowing us to handle larger actuators and valves within our premises in this major oil & gas centre. Whilst acquisitions such as K-Tork and Hiller are diversifying our end-market exposure, RFS remains largely focused on oil & gas and the largest contributors to the division's revenue are located in countries with large oil & gas reserves or where there are concentrations of valvemakers who focus on oil & gas applications. The factories in Lucca (Italy), Rochester (USA) and Melle (Germany) all made progress in the year, underpinned by growth in demand from their respective geographic markets. The

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Melle factory predominantly supplies Russia, Rochester covers the Americas and Lucca sends RFS products to the rest of the world.

Whilst some of these sales go direct from the factory to the valvemaker or end-user, the Centres of Excellence (CoE), like Houston, which offer additional services including design and build of control packages and the mounting of actuators to valves, provide a more local point of

support. Singapore, Spain and Canada reported the strongest growth amongst the CoEs this year. The CoEs and other sales offices offer local support to the customer and, whilst Rotork Site Services are less developed in RFS than they are in Controls, we made significant progress in 2011, on which we expect to build in the current year.

Business Opportunities

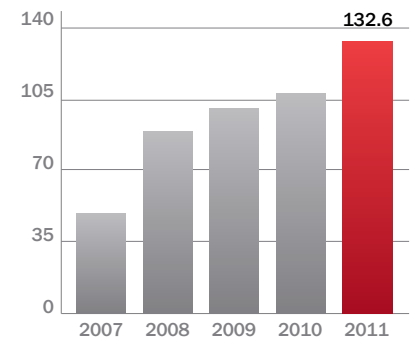
- Increased product development providing specifiable products
- K-Tork product sales through existing sales channels
- China and CoE investment to benefit the business in 2012



RC200 actuators at Sisak Power Plant, south of Zagreb in Croatia

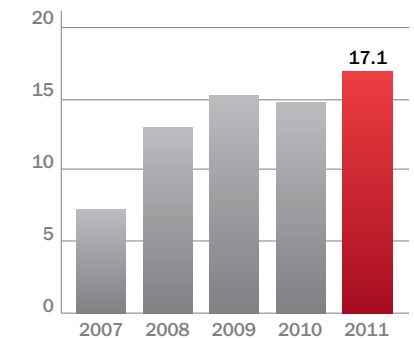
■ REVENUE (£m)

+ 24.1%



■ ADJUSTED OPERATING PROFIT (£m)

+ 14.5%



Rotork Gears manufactures and sells manual and motorised gearboxes. We continue to increase our third party sales to the valve industry as a strategic objective and reduce our dependence on intercompany transactions.

Around three quarters of revenue is now generated from sales to third party valve manufacturers. Whilst the sales to Rotork offices are often driven by project activity, the sales to valvemakers are very different in nature.



David Littlejohns MD Rotork Gears

“ ...order intake rose 15.6% and our order book increased by 8.6%, all of which set new records for Gears ”

The gearbox is seen as a component of the valve and with the majority of valves still being manually operated, most require a gearbox to provide the mechanical advantage necessary to operate the valve. All valvemakers therefore need a supply of gearboxes and although some make their own, our sales proposition is very attractive. We can provide a high quality, reliable gearbox and by virtue of our scale and buying power through our global supply chain, offer our gearboxes at a better rate than internally manufactured products.

Revenue in the year was £46.6m, an increase of 18.8% over 2010, order intake rose 15.6%, and our order book increased by 8.6%, all of which set new records for Gears. The acquisition of Prokits came too close to the end of the year to have a significant effect on the results, and the overall currency impact on revenue was negligible. Adjusted operating profit for the year was £10.3m, 12.8% higher than the prior year. There had been some margin pressure in the first half of the year, reducing operating margin to 21.7%. However during the second half the benefit of July price increases and higher revenue increased margins to 22.6%, resulting in a full year average of 22.2%. Gears has a very different currency exposure to the rest of the Group and purchases a greater proportion of its components in US dollars, such that, with a weaker US dollar this year, operating profit benefited from a currency tailwind.

Restating adjusted operating profit at last year's exchange rates reduces the operating profit to £9.9m and the margin to 21.5%, compared with 23.4% in 2010.

The largest contributors to the Gears results were sales direct from factories in the UK, the Netherlands, Italy and China. At the start of the year the Shanghai facility in China, which shares the site with Controls, was expanded and Gears moved into an adjoining building. We made good progress this year selling to Chinese valvemakers rather than using this facility solely to export products. We also used the new facility in Houston to establish a customisation centre. This allows 'blank' gearboxes to be held in stock and finished to specific customers' requirements and by doing this we improve delivery time. India is another investment area for Gears, where we now have sourcing expertise and during the year we began to source components for other divisions from here. Our manufacturing capability has also increased in India to support the local market. Managing the global supply chain and raw material cost pressures remains a priority and is a key objective of the division and the Group as a whole. In addition to the factories, Rotork's marketing subsidiaries around the world sell manual gearboxes. This is most successful in countries which have a large domestic valve industry. We identified Russia as a country with significant potential and increased our sales through the year by building new relationships with

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Russian valvemakers. The other growing market for Gears is Australia. Here the key relationship is built with valve distributors rather than the valvemaker but the business is again based on building a long term supply relationship.

We have launched new products focused on niche applications: fire protection systems and certified water applications. During the year we have seen growth in sales of these product ranges. Product

development in Gears not only focuses on the applications but also on ways of making improvements to existing models and reducing the costs of production. The year ahead will see further product launches that address both types of development.



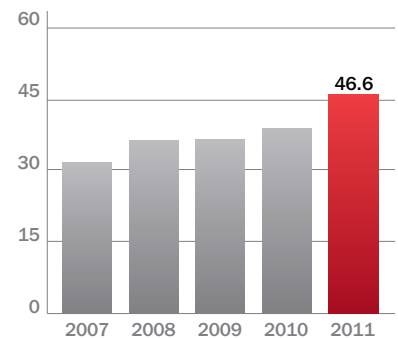
Rotork Gears participating in the Chinese Gas Transportation Network

Business Opportunities

- Launch of new products
- Houston expansion providing customised products
- Target further material cost reductions
- Increase Indian manufacturing

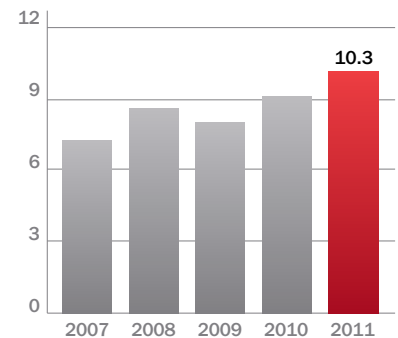
■ REVENUE (£m)

+ 18.8%



■ ADJUSTED OPERATING PROFIT (£m)

+ 12.8%





Supporting Customers

The excellent reliability record of Rotork's products is reinforced by the skill of its employees who are dedicated to specifying the right unit for each job and keeping them maintained for optimal performance and life. No matter where in the world its flow control products are being used, Rotork is devoted to delivering the highest levels of service and support.

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Rotork has achieved another year of strong growth, with record order intake, revenue, profits and dividend payments.

Adjusted operating profit margin remained high and increased on an organic constant currency basis. However, profit margins were lower where the results of the acquired businesses and intangible amortisation are included.



Jonathan Davis Finance Director

“ Adjusted operating profit margin remained high and increased on an organic constant currency basis ”

Revenue grew 17.7% in the year to £447.8m, increasing our ten year compound annual growth figure to 13.7%. To establish a true like-for-like comparison, the impact of acquisitions and currency should be eliminated. Currency was relatively benign, although a modest headwind. Acquisitions generated £9.6m of revenue and reversing the impact of both of these gives growth on an organic constant currency basis of 15.9%.

Adjusted operating profit (stated before the amortisation of acquired intangibles) grew 16.6% to £115.9m, an adjusted operating margin of 25.9% compared with 26.1% in the prior year. Removing the impact of currency and the part-year trading results of acquisitions, adjusted operating profit grew by 16.0% and adjusted operating margin increased to 26.2%.

ACQUISITIONS

This year was a record for Rotork in terms of the number and value of acquisitions completed. Fairchild, acquired in November for £49.5m, was by far the largest, and forms the basis of the new Rotork Instruments division. With an asset-light business model similar to Rotork's, this acquisition generated £28.3m of goodwill and £25.8m of intangible assets, which together account for the majority of the increase in capital employed during the year. The five other acquisitions cost £14.7m in total. The acquired intangible assets for all this year's acquisitions were valued at £33.4m and gave rise to goodwill of £32.5m.

As a result of these acquisitions the amortisation charge - the writing down of acquired intangible assets of this and previous years' acquisitions - rose from £1.7m last year to £3.9m this year. With a full year effect of this year's acquisitions

the charge is expected to rise to £7.1m next year. The income statement also includes acquisition-related costs of £0.8m, compared with £0.2m in 2010. With the acquisitions taking place throughout the year, the contribution to this year's results added £9.6m to revenue and £1.0m to adjusted operating profit. Had these businesses all contributed for the whole of 2011, they would have added £31.6m to revenue and £6.1m to adjusted operating profit.

CURRENCY

A £2.7m revenue headwind was the result of a 5 cent weakening of the average US dollar rate, offset by modest strengthening of the euro and basket of other currencies. This was a combination of the translation of overseas companies' results and restating transactions within our businesses, as many sales are not denominated in the reporting currency of our operations making the sale. The net currency impact on operating profit was a headwind of £0.4m. The mix of currencies in which we source components is very different from the mix of currencies in which we sell, and the impact on the different divisions also varies. With a greater proportion of US dollar denominated purchases, the Gears division actually benefited from the weakening US dollar, which improved operating profit by £0.4m relative to last year.

There is an element of natural hedging from trading within the Group but we generate surplus euros and US dollars and are net sellers of both these currencies. It is the net sale of these currencies which we principally address through our hedging policy, covering up to 75% of trading transactions in the next 12 months and up to 50% between 12 and 24 months.

FINANCIAL REVIEW

continued

ORGANIC BUSINESS GROWTH

£m	2011		Constant currency adjustment	Group at 2010 exchange rates		Remove acquisitions	Organic business at 2010 exchange rates		2010	
	Group as reported							Group as reported		
Revenue	447.8		2.7	450.5		(9.6)	440.9		380.6	
Cost of sales	(236.3)		(2.3)	(238.6)		5.9	(232.7)		(199.8)	
Gross profit	47.2%	211.5	0.4	47.0%	211.9	(3.7)	47.2%	208.2	47.5%	180.8
Overheads		(95.6)	–	(95.6)		2.7	92.9		(81.4)	
Operating profit*	25.9%	115.9	0.4	25.9%	116.3	(1.0)	26.2%	115.3	26.1%	99.4
Financial income/expenses		0.6	–	0.6		–	0.6		0.2	
Profit before tax*	26.0%	116.5	0.4	25.9%	116.9	(1.0)	26.3%	115.9	26.2%	99.6

* Adjusted profit is defined as the IFRS profit, whether profit before tax or operating profit, with the amortisation of acquired intangibles added back.

“ Our dividend policy is to grow the core dividends generally in line with earnings... ”

In order to estimate the impact of currency, at the current exchange rates we consider the effect of a 1 cent movement versus sterling. For both euro and US dollar a 1 cent movement now results in a £350,000 adjustment to profit. The growth in both euro and US dollar denominated revenues saw this adjustment increase from £250,000 and £300,000 respectively last year.

TREASURY

The Group operates a centralised treasury function with the actions that subsidiaries can take are limited by procedures contained in the Subsidiary Treasury Policy. The Group Treasurer monitors compliance with this policy and is responsible for overseeing all the Group's banking relationships.

The Treasury Committee, comprising the Chief Executive, Group Finance Director, Legal Director, Group Financial Controller and Group Treasurer, meet regularly to consider foreign currency exposure, control over deposits and cash management. The Group uses financial instruments where appropriate to hedge significant currency transactions, principally forward and swap contracts. These financial instruments are used to reduce volatility which might affect the Group's cash or income statement. In assessing the level of cash flows to

hedge with forward exchange contracts, the maximum cover taken is 75% of forecast flows. The Board receives monthly treasury reports which summarise the Group's foreign currency hedging position, distribution of cash balances and significant changes to banking operations.

RETURN ON CAPITAL EMPLOYED

Rotork's asset-light manufacturing model and high profit margins have meant that our return on capital employed (ROCE) is high. Basing the calculation on adjusted operating profit and taking an average balance sheet position (using the opening and closing balance sheet), ROCE reduced from 90.3% in 2010 to 74.1% this year. The reduction in the metric was largely caused by the acquisition of Fairchild taking place so close to the year end.

CASH GENERATION

Net cash at the end of the year was £48.5m, having reduced by £49.4m during the year. Our biggest cash outflows are always tax, dividends and acquisitions. The aggregate spend across these headings increased from £67.7m in 2010 to £137.2m this year, which accounts for the overall net cash outflow. Operating cash generation relative to adjusted operating profit was 89.6% this year compared with 95.7% in 2010.

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Working capital as a function of annual sales increased from 23.2% to 27.0% but this is affected by the timing of sales and acquisitions. Fourth quarter revenue was 33% higher than the final quarter of 2010 and working capital was still only 22.4% of revenue calculated from this base. Capital expenditure in the year was £10.0m as expected with the factory in India, new building in Bath and new subsidiary IT system accounting for the majority of the increased spend over the prior year.

CREDIT MANAGEMENT

The Group's credit risk is primarily attributable to trade receivables with the risk spread over a large number of countries and customers, and with no significant concentration of risk. Credit worthiness checks are undertaken before entering into contracts or commencing trade with new customers. The majority of our trade receivables are insured, so the authorisation process operates in conjunction with the insurer, taking advantage of their market intelligence. Where appropriate, we will use trade finance instruments such as letters of credit to mitigate any identified risk.

TAXATION

The Group's effective tax rate fell this year from 29.0% to 28.6%. This is a blended rate from the 25 countries in which we currently pay tax and is affected by the mix of where our taxable profits are generated as well as changes to the tax rates within those jurisdictions. The main driver behind the reduction in the overall rate this year was the reduction in the UK headline tax rate from 28% to 26%. 2011 was the last year our factory in China benefited from a reduced tax rate of 12.5% so we will see this rate increase in 2012 to the standard 25%. Our philosophy with tax is to operate on the basis of full disclosure and co-operation with all tax authorities and, where possible, mitigate the burden of tax within the local legislation.

DIVIDENDS

The directors are proposing a 15.2% increase in the final dividend to 22.75p per share. When taken together with the 14.5p interim dividend paid in September, this represents a 14.6% increase in core dividends over the prior year. This gives core dividend cover of 2.5 times, the same as 2010. Our dividend policy is to grow the core dividends generally in line with earnings and supplement core dividends with

additional dividends when projected cash requirements show we are able to. During 2011 we paid two additional dividends which in total were a further 23.0p per share and gave a record total distribution to shareholders of £49.5m during the year.

RETIREMENT BENEFITS

The Group accounts for post-retirement benefits in accordance with IAS19, Employee Benefits. The balance sheet reflects the net deficit on these schemes at 31 December based on the market value of the assets at that date, and the valuation of liabilities using year end AA corporate bond rates. We have closed both of the main defined benefit pension schemes to new entrants; the UK scheme in 2002 and the US one in 2009, in order to reduce the risk of volatility of the Group's liabilities.

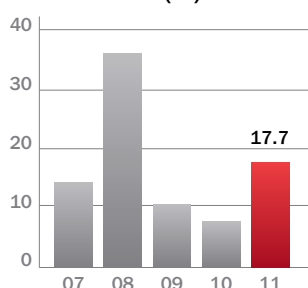
Following agreement of the March 2010 actuarial valuation for the UK scheme, a deficit funding plan was agreed which would eliminate the shortfall by March 2015. This plan included the payment of £3.3m of past deficit contributions during 2011 and £7.3m payable in 2012. Despite these higher UK contributions, the funding level of the schemes reduced to 81% at the year end compared with 85% at December 2010 which now equates to a £25.4m shortfall. Once again discount rates have reduced, driving up the current value of future liabilities, which was compounded this year by income from the funds' assets failing to meet expectations. The mortality assumptions were updated in 2010 to reflect the latest data from occupational pension schemes and these tables are again applied this year.

KEY PERFORMANCE INDICATORS

FINANCIAL KPIS

Growth of the business, market penetration and quality of earnings are crucial target areas for Rotork and we have a number of measures of performance used throughout Rotork aimed at monitoring this. The increased level of acquisitions this year affects a number of the KPIs as previously reported. To better reflect trading performance those affected by the higher intangible amortisation charge have been revised to reflect adjusted profits, stated before intangible amortisation. The KPIs used to monitor the financial performance of the business are set out below:

SALES REVENUE GROWTH (%)



17.7%

REASON FOR CHOICE

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

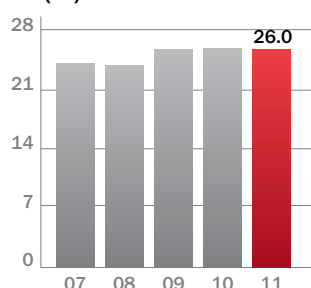
HOW WE CALCULATE

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

COMMENTS ON RESULTS

We grew revenue by 17.7% despite some markets and geographies being flat.

RETURN ON SALES (%)



26.0%

REASON FOR CHOICE

This measure brings together the combined effects of procurement costs and pricing as well as the leverage of our operating assets. It is also a check on the quality of revenue growth.

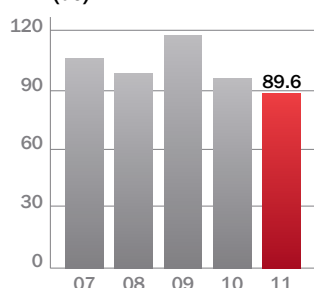
HOW WE CALCULATE

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

COMMENTS ON RESULTS

Lower gross margins meant return on sales declined with the acquired businesses being dilutive in the period. On an organic constant currency basis return on sales increased to 26.3%.

CASH GENERATION (%)



89.6%

REASON FOR CHOICE

This is used as a measure of performance where a target of 85% is regarded as a base level of achievement. Cash generation is also one of the constituent parts of the senior management reward system.

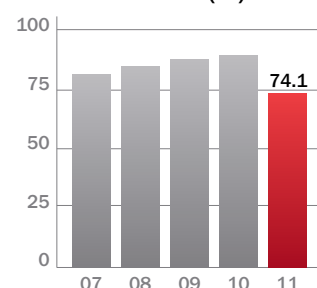
HOW WE CALCULATE

Cash flow from operating activities, before tax outflows and the pension charge to cash adjustment, as a percentage of adjusted operating profit*.

COMMENTS ON RESULTS

Cash generation remains above target but the strong last quarter output resulted in an increase in the cash held in working capital.

RETURN ON CAPITAL EMPLOYED (%)



74.1%

REASON FOR CHOICE

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

HOW WE CALCULATE

Adjusted operating profit* as a percentage of average capital employed. The definition of return on capital employed is shown on page 92.

COMMENTS ON RESULTS

Capital employed has risen significantly with the acquisition of six businesses in the year whilst these businesses only contributed profits for part of the year.

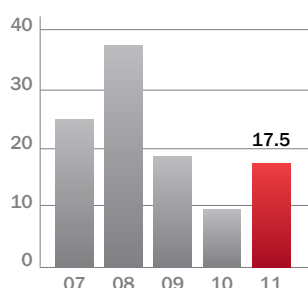
* Adjusted profit is profit before tax or operating profit, with the amortisation of acquired intangibles added back.

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NON-FINANCIAL KPIs

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

■ EPS GROWTH (%)



17.5%

REASON FOR CHOICE

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

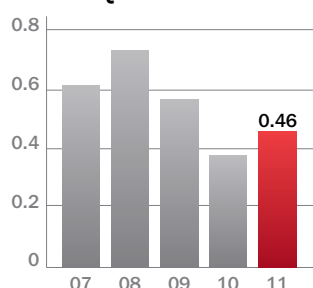
HOW WE CALCULATE

Increase in adjusted basic EPS (based on adjusted profit after tax) year on year divided by the earlier year adjusted basic EPS.

COMMENTS ON RESULTS

Adjusted basic EPS has increased ahead of profit before tax due to a reduced effective tax rate arising from a lower tax rate in the UK and the international mix of where our profits were generated.

■ ACCIDENT FREQUENCY RATE



0.46

REASON FOR CHOICE

The safety of every individual on our properties or on client sites is a paramount concern.

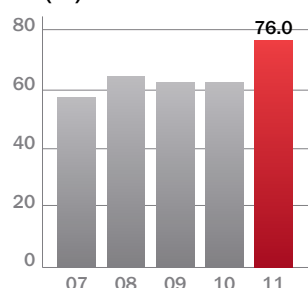
HOW WE CALCULATE

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

COMMENTS ON RESULTS

The focus on health & safety, investment in training and the review and audit process across our facilities all help raise awareness of safe working practices but despite this reportable accidents rose slightly in the year.

■ WASTE RECYCLING (%)



76.0%

REASON FOR CHOICE

We are committed to the continuous improvement of environmental performance.

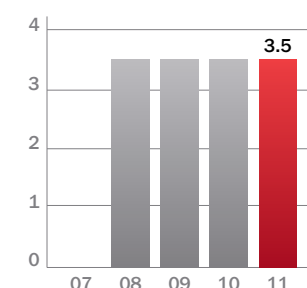
HOW WE CALCULATE

This information is collected through regular submissions into our main UK site in Bath.

COMMENTS ON RESULTS

Even with higher output and an increased number of facilities this year, we have succeeded in improving the percentage of waste recycled.

■ EMPLOYEE SATISFACTION



3.5

REASON FOR CHOICE

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

HOW WE CALCULATE

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

COMMENTS ON RESULTS

We had a record number of respondents this year although the response rate fell slightly to 73%. The scores relating to training and workplace atmosphere / environment showed the greatest improvement.

STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

The assessment and management of risk is the responsibility of the Board, and the development and execution of a comprehensive and robust system of risk management has a high priority in Rotork. This is based on an established process for the identification and management of risk, first at divisional board level, and then for the Group as a whole. Rotork works within the governance framework set out in our corporate governance statement, see page 38.

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

The Group Finance Director is responsible for risk management within the Group and leads the development of the risk management process and the tools used. The Board approves appetite for risk at both Group and divisional level and the consequential actions in terms of mitigation where possible and appropriate.

The processes of risk management within the businesses involve:

- Identification and regular assessment of individual risks at both subsidiary and divisional level;
- Reviewing previously identified risks and the effectiveness of mitigation where appropriate;
- Design of controls to mitigate identified risks;

- Testing the controls through management review and internal audit;
- Forming a conclusion on the effectiveness of the control environment in place.

The major risks affecting the Group are first identified and considered by the divisional boards during their regular meetings. Once a risk has been identified it is allocated to one of the directors to ensure the risk is appropriately considered and the risk managed. Risks are categorised by likelihood and potential impact on the business, and once the assessment matrix is completed by each division, the risks are then aggregated and re-evaluated in relation to the Group as a whole. Identified risks are discussed, and the progress reviewed at both Rotork Management Board and divisional board meetings during the year. Senior management, in association with the full Board of Directors, meet twice a year to consider the Group risk matrix and progress with mitigating actions. The external Auditor is invited to attend one of the meetings each year.

This is an ongoing process involving regular assessment of the risks, with clear and consistent procedures for monitoring,

updating and implementing appropriate controls to manage the identified risks. We are therefore confident that we have a methodology for ensuring that the Group's approach to dealing with individual risks is robust and timely.

We identify three main risk areas:

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

The top 11 risks identified in the risk management process are categorised by the three main risk areas identified above and are listed in the table below. Potential impact and mitigation, where possible, is shown for each risk identified.

FINANCIAL RISKS

Description

Volatility of exchange rates.

Political instability in a key end-market.

Losses arising from complex and extended scope contracts where risks could be assumed which are beyond the terms covered by insurance.

Potential Impact

Significant fluctuations in exchange rates could have an adverse impact on Rotork's reported results.

Disruption of normal business activity would impact our sales in that country and might ultimately leads to loss of any assets located in that country as well.

Assuming contractual liabilities which are not covered by insurance could expose Rotork to significant financial costs.

Mitigation

A clear treasury hedging policy addresses short-term risk and this works together with the natural hedging provided by the geographical spread of operations, sourcing and customers.

The wide geographic spread of Rotork's operations and customers diminishes the impact of any one market.

Rotork has policies in place for the authorisation of significant contracts. Regular training is given at various levels of the Group on Rotork policies and insurance conditions.

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STRATEGIC RISKS

Description

Competition on price as a result of an existing competitor moving to manufacture in a lower cost area of the world.

Not having the appropriate products, either in terms of features or costs.

Lower investment in Rotork's traditional market sectors.

Loss of technological leadership.

Potential Impact

Where a competitor decides to use cost savings to reduce their selling prices, this could lead to a reduction in the general market price. Rotork might need to respond to a change in market price levels whilst still maintaining the price premium currently enjoyed for some products.

In order to be able to compete on a project, our products must meet both the necessary specification and pricing level. A failure on either count could harm our competitive position.

A reduction in capital or maintenance expenditure in one of Rotork's key market sectors would result in a smaller addressable market, which in turn could lead to a reduction in revenue from that sector.

Rotork's reputation for innovation is one of the elements which underline the Group's position in the industry. Customer perceptions of Rotork would be adversely affected over time if competitors were seen to be taking the lead in product development.

Mitigation

Rotork already has a direct presence, in terms of production, sales and service support, in the major low cost locations. There is a constant drive to maintain differentiation from the competition both in terms of the quality of our products and of the service we provide.

Development of products to meet required specifications is an ongoing activity as is the drive to take cost out of our products to meet target pricing levels.

Identification of new markets takes place in each location and is coordinated at divisional level. This is supported by product development and innovation to address new markets and new applications in existing markets.

Investment in Research & Development continues to grow each year across the Group. Aside from specific projects, setting aside time for innovation and sharing ideas is an important means of fostering new ideas. Recruiting talented engineers and then investing in their development and training supports these activities.

OPERATIONAL RISKS

Description

Quality and application failures in a hazardous area and/or causing an environmental impact.

Major in field product failure arising from a component defect or warranty issue which might require a product recall.

Failure of a key supplier or tooling failure at a supplier causing disruption to planned manufacturing.

Failure of an acquisition to deliver the growth or synergies anticipated, due to incorrect assumptions or changing market conditions, or failure to integrate an acquisition to ensure compliance with Rotork's policies and procedures.

Potential Impact

Actuators are used in applications where their failure could result in environmental damage. This could lead to financial penalties as well as the loss of a customer and damage of reputation.

Replacement of defective components or complete units would give rise to a direct financial cost but there would also be a reputational risk.

Where customer delivery expectations are not met, this could lead to financial penalties and damage customer relationships.

Whilst growth opportunities, cost savings and synergies are identified prior to completion, these may not always be delivered at the levels anticipated or to the timetable expected.

Mitigation

Product design and development is supported by extensive life cycle and performance tests and are subject to internal quality control procedures.

A comprehensive set of quality control procedures operates over suppliers. These include supplier visits, audits and a scorecard system to measure their performance.

Dual sourcing for key components wherever possible with regular monitoring and replacement of tooling at all suppliers.

During the due diligence process and preparation of the 100 day plan, consideration is given to the composition and skills of the management team. Training and support is provided by a variety of Rotork personnel to ensure effective integration and communication of Rotork's policies and procedures, whilst monitoring delivery of the financial plan.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) Committee

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



The diagram above sets out the Group's Corporate Social Responsibility structure.

Each year Rotork summarises its Corporate Social Responsibility and reports on the progress that has been made during the year and highlights new initiatives in this area. We hope that through such disclosure we can enhance the trust people place in Rotork, its products and services and ensure we continue to attract and retain the best people throughout the world, including the next generation of Rotork leaders. Effective communication with all of our stakeholders ensures we obtain feedback which in turn can be used to evaluate and improve our CSR performance.

Rotork believes that responsible business is the best business. It can benefit our operational effectiveness and develop and grow our industry leading products and services as well as build on the trust of stakeholders.

We have been participants of the United Nations Global Compact since 2003 and are continually striving to embed its principles into our everyday operations as part of our ongoing commitment to CSR. Since joining the Global Compact, we have made many improvements in a wide range of CSR areas. We now have a developed CSR structure including a CSR Committee chaired by the Chief Executive with sub-committees currently covering health &

safety, the environment, ethics and social issues. The Chief Executive reports to the Rotork Management Board and the Board of Directors on CSR matters.

The Committees act as a focal point for further development of the subject matter within their remit. Underlying all their work is a determination to embed the Group's CSR values within all its activities.

These values are contained in our vision and mission statement which can be found at www.rotork.com in the **investors** section under **Our Strategy**

Improvements since implementation of this updated structure include a revised ethics and values statement, a reduced water consumption rate and the introduction of an annual global charity together with the launch of local charity committees at most of our overseas subsidiaries. Rotork recognises that the Global Compact is a continuing commitment and is engaged in further work in environmental and labour issues which will lead to a further performance improvement.

Inclusion in the FTSE4Good index further demonstrates our strong commitment to CSR. FTSE4Good assesses its constituents on environmental management, climate change, human and labour rights, supply chain labour standards, corporate governance and countering bribery. We

“ Effective communication with all of our stakeholders ensures we obtain feedback which in turn can be used to evaluate and improve our CSR performance ”

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have also taken account of the guidelines on social responsibility issued by the Association of British Insurers and take full account of ethical matters in business conduct and risk assessment processes.

As a global business manufacturing products used in a wide range of industries including water, power and oil & gas, we recognise that we affect a significant number of individuals and businesses globally. Through Global Compact, FTSE4Good, ISO 9000 and the other benchmarks we use, we set an example of good, responsible and effective business.

ENVIRONMENTAL

The Group's environmental policy applies to the Company and all its subsidiaries worldwide. The policy includes commitments to the prevention of pollution, compliance with all relevant legal and regulatory requirements and to the continuous improvement of environmental performance. The policy was reviewed, revised and reissued in July 2011.

The Group environmental policy can be found at www.rotork.com in the **investors** section under **Corporate Social Responsibility – Environment**.

In support of the above policy, Rotork's Environmental Management System, which is a system of procedures developed to minimise the impact of our operations on the environment, will:

- Allocate formal environmental responsibilities to ensure compliance with legislation;
- Support a culture of consultation with employees, key stakeholders and other interested parties;
- Provide environmental information, guidance and training that meets best practice;
- Monitor, measure, audit and seek continuous improvement in its environmental performance;
- Work with external agencies and bodies to ensure continued adoption of best practice solutions in environmental management;
- Communicate best practice and publish internal and external information detailing its aims and achievements;
- Foster open communication with employees, customers, suppliers and other stakeholders via email and face-to-face discussion.

ENVIRONMENTAL PERFORMANCE

Systems and procedures are in place to gather environmental performance data and enter the data onto a web based reporting tool. The data gathered includes energy and water consumption, waste generation and recycling and business travel. In addition, all Rotork manufacturing companies are required to separately report usage of volatile organic compounds (VOC) and refrigerants (HFC).

This year's report includes performance data from Flow-Quip and Hiller, both located in the USA and acquired in 2009 and 2010 respectively. The 2011 acquisitions will be included in the 2012 report.

ENERGY CONSUMPTION

Rotork operates an assembly only philosophy in all but three of its business units relying on specialist suppliers for most of its manufactured components. In all facilities energy is used for IT systems, lighting, heating and cooling. Exceptions are Rotork Gears BV (Lossler), Rotork Sweden (Falun), and Rotork Valvekits UK (Nottingham) where machine processes are in operation. In other facilities test equipment is used to ensure the product meets customer operational requirements. This test equipment can consume large amounts of energy for short periods of time when in use.

Energy consumption of electricity, gas and steam is established via utility invoices. The consumption of liquid petroleum gas (LPG) and oil is gathered via invoices.

In 2011 energy consumption increased 10.8% on the 2010 figure. This is due to increased business activity, new acquisitions and small fluctuations in climate conditions at some facilities.

WASTE GENERATION AND RECYCLING

Waste generation includes packaging waste (card, wood and plastic), metal waste (ferrous and non-ferrous), hazardous materials (paint waste, oils and adhesives), batteries and waste electrical electronic equipment (WEEE).

Rotork's environmental aspect and impact assessment completed in 2003 established that packaging waste generation was the Group's most significant environmental impact. Recycling systems were introduced to reduce this impact in 2004; this was followed by a Group recycling key performance indicator (KPI)



Bath employees raised money for Jeans for Genes



Cees Jacobi, Rotork BV, took part in 110km hike organised by the Foundation 'Omloop Goeree-Overflakkee'

CORPORATE SOCIAL RESPONSIBILITY

continued



Rotork Controls Canada raised money for Alberta Cancer Foundation

“ Improved recycling and reduction in waste going to landfill reflects the Company’s commitment to reduce this impact on the environment ”

of 62% in 2005. To support this KPI a supplier packaging policy was introduced in 2009 to ensure suppliers only used packaging materials compatible to Rotork’s recycling systems.

The Group’s 2011 change in environmental impact measures since 2010

- The Group’s waste recycling performance improved from 62% to 76% of the total waste produced (see page 25 for more details). In 2012, a new KPI has been set to take into account the current performance and acquisitions with the aim of recycling 70% of total waste generated;
- Waste sent to landfill fell by 6%.

Improved recycling and reduction in waste going to landfill reflects the Company’s commitment to reduce this impact on the environment.

Legal compliance

- Waste Packaging (Producers Obligation) Regulation 2007: Rotork is a member of the Clarity compliance scheme, membership number CPC0009;
- Waste Electrical and Electronic Equipment Regulations 2006: Rotork is a member of the ECONO-WEEE compliance scheme, membership number WEE/JD2053ZR;
- Waste Battery and Accumulator Regulations 2009: Rotork is registered as a small battery producer, Batteries Producer Registration Number BPRN01259;
- Licensed waste carriers are used for the removal of all types of waste from Rotork’s facilities and the waste goes to licensed treatment facilities.

WATER

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

A number of our sales offices have less than five employees and are situated in shared facilities where water consumption is not measured separately. Some landlords have assisted Rotork with measuring water consumption, however, we are still in the process of encouraging others to assist.

The Group’s 2011 change in water usage measures since 2010

- Water consumption increased by 15% against 2010 results.

Rotork does not operate any process that consumes large amounts of water, the increase is seen as a result of fluctuations in normal usage and the inclusion of performance data from new acquisitions.

CARBON EMISSIONS

Since 2003, the Group has been measuring and disclosing their Scope 1 & 2 Greenhouse Gas Emissions (GHG) which comes from the use of electricity, gas, LPG, oil and steam.

The Group’s Scope 1 GHG emissions derive from the consumption of gas, LPG, oil and through business travel and the transport of goods by Company owned vehicles. The Group’s Scope 2 GHG emissions derive from the consumption of electricity and steam.

The Group records emissions of greenhouse gases in accordance with the Greenhouse Gas Protocol (GHG Protocol) developed jointly by the World Business Council for Sustainable Development and the World Resource Institute.

All Scope 1 & 2 GHG emissions are calculated in accordance with the GHG Protocol using conversion factors published by the US Environmental Protection Agency (EPA), The Department for Environment, Food and Rural Affairs (DEFRA) and the International Energy Agency (IEA). All Scope 2 GHG emissions have been calculated using the relevant conversion factor for the territory where energy was consumed, based on the mix of coal, oil, gas, hydroelectric or nuclear generation used.

Group’s 2011 Scope 1 (excluding business travel or transportation data) & Scope 2 GHG Emissions

Whilst the Group does not operate any processes that consumes large amount of energy, the Scope 1 increases are seen as a result of increased business activity, fluctuations in normal usage and new acquisitions.

- Scope 1 GHG emissions increased by 14% against 2010 results;
- Scope 2 GHG emissions increased by 15% against 2010 results.

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GROUP'S OTHER EMISSIONS

The Group's Scope 1 & 3 GHG emissions derive from the use of materials in the product, supply chain emissions, business travel, water usage and generation of waste.

The Group is committed to reporting these emissions in its Carbon Disclosure Project (CDP), starting with business travel in 2012 and GHG emissions for the manufacture of products on a progressive basis from 2013.

Progress

- Scope 1 & 3 GHG emissions for business travel will be disclosed in the 2012 CDP disclosure;
- The Group has commenced calculation of GHG emissions for the manufacture of its products.

ETHICS AND VALUES HUMAN RIGHTS AND ETHICAL BUSINESS

The Group is fully committed to respecting internationally proclaimed human rights under the International Declaration of Human Rights and the International Labor Organisation's standards in all its business activities. Implementation of the UN Global Compact's principles is a demonstration of this commitment.

The Group has a zero tolerance policy on forced and child labour and through this policy is contributing towards the effective abolition of child labour. Starting in 2011, the Group has undertaken a review of its assessment criteria used for suppliers during the procurement selection process to reflect a range of ethical issues, including human rights. These new criteria will be applied to all new suppliers going forward and over the next year will be retrospectively applied to existing major suppliers to ensure they are in compliance. All Rotork agents are required to comply with the Rotork Ethics and Values statement which, amongst other things, guarantees a standard of human rights be adhered to, in accordance with Global Compact principles.

The Ethics and Value statement can be found at www.rotork.com in the **investors** section under **Corporate Social Responsibility – Ethics and Values**.

The Group also has a whistleblowing policy which allows employees to make senior management aware of any wrongdoing in the business. It is available on Rotork's website in the Investors section under Our People.

Outcomes

In 2011 the Group:

- Terminated no contracts on the grounds of non-compliance with the Ethics and Values statement or unethical behaviour;
- Commenced work into assessing new and existing suppliers on ethical grounds;
- Commenced the development of an ethical performance survey for all employees regarding awareness and training on ethics and values;
- Published an article on ethical issues in Rotork's internal global newsletter One Rotork;
- Translated the Ethics and Values statement into five Asian languages including three Indian dialects to enhance understanding amongst employees and business partners;
- Had no claims made against it on unethical or humanitarian grounds;
- Scored a FTSE4Good rating of 3.8/5 which is above the UK average.

EMPLOYEES

The Group has a firm commitment to all of its employees regarding their safety and development. The Group has an objective and fair recruitment process which helps to promote equal opportunities across the Group in line with the global respect at work and equality of opportunity policy. We aim to give employees a voice through an employee forum where employees can raise concerns to be dealt with by management. It is the Group's intention to have in place similar mechanisms where employees can be consulted in its larger locations.

The Group supports apprenticeship schemes which helps to increase access into engineering.

Outcomes

In 2011 the Group:

- Had an employee satisfaction survey score of 3.5 which is equal to 2010. The recent growth of the business has meant more employees were surveyed;
- Employed 27 apprentices;
- Measured its demographics by age in 2011.

BRIBERY AND CORRUPTION

The Group has a zero tolerance policy on bribery and corruption worldwide, which applies irrespective of country or business culture. The Group's Ethics and Values statement published on Rotork's website prohibits employees offering, paying or soliciting bribes in any form. The Group also



Rotork Bath sponsors Judo athlete Tom Reed

CORPORATE SOCIAL RESPONSIBILITY

continued

requires all its worldwide agents to sign up to this undertaking. The Group's policy is also not to make any political contributions in cash or kind anywhere in the world.

The Group's whistleblowing policy gives employees a platform to alert senior management to any suspected bribery or corruption.

The Bribery Act 2010 came into force in April 2011. The Group has ensured that it complies with the Act's six principles globally by reviewing its procedures and practices and by re-emphasising top level commitment to its aims and objectives. During the year, the Ethics Committee undertook a risk review to identify major risks for Rotork with respect to geographical, sectoral and business opportunity risks. The Chief Executive personally briefed general managers and senior worldwide sales managers on the Group's zero tolerance policy. Managers also received presentations on the application of the Bribery Act 2010 and bribery and corruption. Agents are required to comply with the Ethics and Values statement which encompasses the Bribery Act's obligations. The Group's internal audit processes include review and monitoring of potential bribery and corruption risks.

Outcomes

In 2011 the Group:

- Had no investigations or legal proceedings brought against it for bribery or corruption;
- Trained general managers and senior sales staff, including training on how to effectively train their staff on the provisions of the Bribery Act;
- Incorporated bribery and corruption audit procedures as part of its internal audit process.

Further reinforcement of bribery and corruption training will take place in 2012 through direct engagement with staff using various communication methods.

SUPPLIERS

The Group's outsourced manufacturing model places a high emphasis on supplier selection and evaluation. The Group is committed to long term relationships with all members within the supply chain. These relationships are reinforced through regular visits, audits, supplier development and a focus on risk reduction. Values such as integrity, working conditions and non-use of child labour are core to our principles and we actively search for the same values from our suppliers. Assurance is sought from suppliers that they uphold all local laws and regulations.

Any deviations observed in the areas of safe working practices, working conditions, or the use of hazardous materials will be pointed out to the supplier and immediate corrective action sought. All key suppliers are normally qualified to ISO 9000 standards.

Future audits will be developed to benchmark the ethical and sustainability standards of the companies within the supply base. A programme is also to be developed to retrospectively screen current suppliers in these areas.

Outcomes

In 2011 the Group:

- Had a key supplier base with over 95% registered to ISO 9000;
- Needed to take no action to rectify unethical behaviour by suppliers;
- Updated supplier audit and assessment methods in respect of ethical issues;
- Commenced work into the development of retrospective screening of existing major suppliers on the new ethics criteria.

HEALTH & SAFETY

Rotork aims to provide a safe working environment for all employees and visitors to its sites globally. The Group's health & safety policy, endorsed by the Chief Executive, sets out the Group's requirement to 'meet or exceed legislation and other requirements in the countries in which Rotork operates'.

The Group Health & Safety policy can be found at www.rotork.com in the **investors** section under **Corporate Social Responsibility – Health & Safety**.

Effective management of our health & safety programme enables us to:

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

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

- Promoting regular safety observations by all staff;
- Regularly asking employees for their suggestions for improving safety at their facility;



Rotork employees from Rochester, USA supporting a human race event



A team of Rotork employees from Rochester, USA provided voluntary work to support a ladies golf tournament

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- Holding employees accountable for observing these practices;
- Providing managing safety courses for line management;
- Regular health & safety training to employees on subjects such as manual handling and confined spaces.

In all of our sites, the safety of people and property is of paramount importance. Rotork employees are engaged in activities which include manual handling of heavy objects, mechanical lifting, operating machinery and driving to suppliers and customers locations. In addition to working in the Group's facilities, Rotork Site Service (RSS) engineers work on customer sites, which are often inherently more hazardous. To reduce the risks associated with the RSS activity additional safe working practices are in place which include:

- Site surveys to establish requirements, measurements and an assessment of the potential work area;
- Design assessments to identify risks, hazards and necessary controls to eliminate, reduce or control the risk to a reasonable level;
- Method statements detailing the work that is to be done, the control and equipment that are to be used;
- Point of work risk assessments, before work starts, which must also be reviewed after any period away from the work area;
- The use of permits-to-work when working in hazardous environments such as confined space work;
- Unannounced internal audits of RSS engineers when working on a customer site.

Three key measures are monitored across the Group: accident frequency rate, lost time rate and incident frequency rate. By monitoring the results of these measures we are able to identify areas of strong performance which can then be shared across the Group and areas of weakness which may require additional resources and training.

The Group's second non-financial Key Performance Indicator (KPI) is its Accident Frequency Rate (AFR). The target for this KPI is calculated as an average of the past three year's AFR performance, the target for 2011 was 0.56.

In addition to monitoring accidents, Rotork undertakes health & safety audits of all

of its companies. A schedule of audits is established and approved by the CSR Committee. Each Rotork Company is audited against a checklist which has been developed to ensure each Company meets Rotork exacting standards for health & safety. Each characteristic on the checklist is compared against stated criteria and scored. A calculation of the overall score gives the company a rating and any company not achieving the baseline rating is given limited time to improve.

All audits are reviewed by the Group's Health, Safety and Environmental Officer. All required actions emanating from audits are logged on a database and monitored for correct and prompt completion.

The results of audits, the ratings of the companies and the status of audit actions are reviewed by the Health & Safety Committee. The Committee meets quarterly and any actions required as a result of these reviews are recorded in the minutes of the meeting and acted upon.

Outcomes

In 2011 the Group:

- Had an AFR outcome of 0.46, 0.1 better than the target of 0.56;
- The new AFR target for 2012 will be 0.47.

Details of the Group's AFR over the past five years and how it is calculated is shown on page 25.

COMMUNITY INVOLVEMENT

Rotork considers it important to contribute to and engage positively in the communities in which it operates.

In 2011, Rotork has held and participated in numerous fundraising events for its nominated charity, WaterAid. Highlights over the last year include:

- All Rotork Sweden employees donated cash in lieu of the annual Christmas gift from Rotork;
- Rotork Malaysia sold t-shirts;
- Rotork Italy held a charity lottery and a charity football match;
- A team of UK employees took part in Coast Along, a 10km trail around Cardiff Bay, Wales.

The Group donated £90,000 to WaterAid and a further £19,000 was raised from employee fundraising. The Group will continue to support WaterAid in 2012 and sponsor its Jeldu Woreda Solar Powered



Bath employees took part in the Cardiff Bay Coast Along walk for WaterAid



Mehbrihit Kalay drinking water from the school's tapstand, Mai Gbitsi, Ethiopia
Photographer Credit: WaterAid / Marco Betti

CORPORATE SOCIAL RESPONSIBILITY

continued

water project in Ethiopia, which will improve access to clean drinking water, provide education and promote good sanitation practices. In addition, in 2012, Rotork is looking to set up its own global charity initiatives.

Rotork also believes it is important to be a good neighbour by working in the community. We regard this as part of our ongoing responsibilities as a corporate entity and seek to be regarded as a good corporate citizen. One of the ways the Group does this is by having local Charity Committees at each of its sites which donate to local charities. This empowers local employees to decide how to distribute the funds in their local communities. During 2011, £70,000 was donated by the local Charity Committees. For example, Rotork Milwaukee, USA donated school supplies to fill 50 rucksacks to be distributed to children from the Silver Spring Neighborhood Center, a non-profit social service agency which supports Wisconsin's largest low-income housing development as well as surrounding communities.

Individual employees or groups of employees also engage in community activities and the Charity Committees will normally match monies raised by employees who undertake charitable events personally. Highlights from 2011 include:

- Employees from Rochester, USA, hosted a game of Penny Wars, a popular North American method of fundraising. All proceeds went to the American Cancer Society with the Group matching the funds;
- Rotork Thailand donated cash to primary schools in Loey province in Thailand to enable them to host a lunch function, as well as purchase sports equipment in order to promote health and wellbeing;
- Employees based in Shanghai volunteered in a local school which helps disabled children;
- A Rotork Canada team took part in the CE Franklin 3 on 3 Hockey Challenge, which raised \$155,000 for the Calgary Health Trust;
- The Group was a main sponsor of a charity football match in Bath, UK;

- Rotork is sponsoring Judo athlete Tom Reed's bid to be included in the Great Britain Olympic team.

Rotork has forged links with local universities, colleges and schools in a number of the locations where it operates. It also sponsors students to go into higher education in India in addition to sponsoring a school there. Rotork is the industry member of the Bath Education Trust, which has as its objectives educational advancement in local schools and the promotion of community cohesion. The Bath Education Trust has provided Rotork with an opportunity to further develop local links. Staff hold sessions for students providing experience through courses intended to develop skills such as negotiating, presenting, project management, conducting meetings and financial management.

Rotork has a representative who is a member of the Industrial Advisory Board for the Mechanical Engineering Department of Bath University. Rotork is also a member of an initiative of the Engineering Development Trust and sponsors a science project currently being undertaken by pupils in the sixth form of a local Bath school.



Rotork employees ran the 10k Leeds race to raise money for the Jane Tomlinson Appeal



Rotork Controls, Inc. Rochester sponsored Bivona Child Advocacy Center

Peter France Chief Executive
27 February 2012

ROTORK MANAGEMENT BOARD

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The Rotork Management Board (RMB) is the executive committee of Rotork responsible for ensuring the development, implementation and execution of Group strategy. The RMB meets bi-monthly during the year.

Biographies for the following RMB members appear on page 36

Peter France Chief Executive, Jonathan Davis Finance Director, Bob Arnold President, Rotork Controls Inc, Graham Ogden Group R&D Director



Grant Wood
MD Rotork Controls

Grant joined Rotork in 2006 as Director of Rotork Site Services before being appointed as Managing Director of the Controls Division and joining the RMB in March 2011. Before joining Rotork Grant gained considerable experience in the utility, financial and energy sectors.



Alex Busby
MD Rotork Fluid Systems

Alex joined Rotork in 1985 and in 1989 he went to a company in the same industry holding various management roles in Asia and Europe. He rejoined Rotork in 2003 as Business Development Manager, and then was Business Development Director, before becoming Managing Director of Rotork Fluid Systems and joining the RMB in 2008.



David Littlejohns
MD Rotork Gears

David joined the engineering design department in 1985 and he moved to Rochester, USA in 1996 as an engineer. He moved into sales before becoming General Manager in California. In 2006 he was appointed Managing Director of the Gears Division and joined the RMB.



Carlos Elvira
Group Sales & Marketing Director

Carlos joined in 1981 as the first Graduate Trainee in International Sales. He became International Sales Manager in 1989. In 1999 he became Controls Sales & Marketing Director and joined the RMB. In January 2011, he was appointed Group Sales & Marketing Director.



Alastair Spurr
Group Operations Director

Alastair joined Rotork in 2005 as Operations Director of the Controls Division and he was appointed Group Operations Director and joined the RMB in January 2011. Before joining Rotork, Alastair held positions within the engineering, construction and retail industries.



Stephen Jones
Group Legal Director

Stephen joined Rotork in 1999. He is Group Legal Director and Company Secretary and joined the RMB in 2007. He is a Solicitor and has held positions in the engineering and construction industries as well as in private practice.



Mark Williams
Global HR Director

Mark joined Rotork in 2007 as Bath HR Manager before being promoted to Global HR Director in 2009. He joined the RMB at the beginning of 2012. Prior to joining Rotork, Mark has held various HR positions in the automotive manufacturing sector and transport industries.



Pamela Bingham
Group Business Development Director

Pamela joins Rotork as Group Business Development Director and the RMB in March 2012. She has gained a wealth of experience in Legal, Commercial and Business Development roles. Pamela has worked in engineering, rail, renewable energy and oil & gas sectors.

BOARD OF DIRECTORS

The Board of Directors comprises of the Chairman, the three independent non-executive directors and the four executive directors.

Executive



Peter France
Chief Executive ▲

Peter was appointed as Chief Executive of Rotork p.l.c. in 2008 and is a member of the Nomination Committee. He joined Rotork in 1989 as an Inside Sales Engineer. In 1998 he was appointed Director and General Manager at Rotork Singapore before becoming Managing Director of the Fluid Systems Division and then Chief Operating Officer.



Jonathan Davis
Finance Director

Jonathan joined Rotork in 2002 after holding a number of finance positions in listed companies. He gained experience of the Rotork business initially as Group Financial Controller and then as Finance Director of the Controls Division. He was appointed Group Finance Director and joined the Board of Rotork p.l.c. in April 2010.



Graham Ogden
Research & Development Director

Graham has been with Rotork since 1985. Graham leads product development including Rotork's award winning IQ series. He was appointed to the Controls Divisional board in 1997 as Research & Development Director and joined the Board of Rotork p.l.c. in January 2005.



Bob Arnold
President of Rotork Controls Inc.

Bob was appointed to the Rotork p.l.c. Board in 2001. Prior to joining Rotork Bob worked in the USA as a Design Engineer in the Nuclear Valve Group. He joined Rotork Controls Inc. in 1978 as Engineering Manager subsequently becoming Vice President, Engineering. He was appointed President of Rotork Controls Inc. in 1988 and has responsibility for all Rotork's interests in the Americas.

Key

- **Audit Committee**
JE Nicholas (Chairman), G Bullard, IG King
- ▲ **Nomination Committee**
RC Lockwood (Chairman), G Bullard, IG King, JE Nicholas, PI France
- **Remuneration Committee**
G Bullard (Chairman), IG King, JE Nicholas

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Roger Lockwood

Chairman ▲

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



Ian King

Non-executive Director ●▲■

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

Non-executive



John Nicholas

Non-executive Director ●▲■

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



Gary Bullard

Non-executive Director ●▲■

Gary joined the Board in June 2010 as a non-executive director. Gary is currently a member of the Executive Committee of Logica plc in his role as President Logica UK. He is also Founder and CEO of Catquin, a company which supports senior female executives in furthering or diversifying their careers. He previously held senior management positions, including sales and marketing roles, at IBM and BT Group plc and was a non-executive director of Chloride Group plc. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

CORPORATE GOVERNANCE

Application of the Principles of the Code and Compliance with its Provisions.

This section explains how the Board and its Committees operate and function and how the principles and supporting principles in the UK Corporate Governance Code (the Code) were applied. Here you will also find specific disclosures and standards required within the provisions of the Code that are applicable to the accounting period applying to this Report and Accounts.

BOARD EFFECTIVENESS AND PERFORMANCE

The directors consider that the Board is fully effective and functions well. The Chairman and the Chief Executive have worked closely over recent years to ensure that the best use of the time and talents of the Board are applied at Board meetings. This has resulted in more open discussion and interaction by the Board rather than spending time on verbal reporting into the Board meeting by executive management which can be achieved through written reports. In particular, more time is now spent on strategic discussion and through the year there is a cycle of discussion and further development and refinement of Group strategy.

Non-executive directors constructively challenge as well as scrutinise management and business performance levels. This is done in the context of a unitary and unified Board working together for the long term success of the Company.

During the year under review an externally facilitated Board performance evaluation confirmed that directors are individually satisfied with the quality of information that they are provided with and feel they are all able to fully contribute to Board discussion.

CODE COMPLIANCE STATEMENT

The Board comprises of the Chairman, four executive directors and the three independent non-executive directors (B.1.1). As Rotork p.l.c. is considered a large company by the Code it is recognised that full compliance would require one further independent non-executive to be appointed so that half the Board, excluding the Chairman, comprises independent non-executive directors (B.1.2).

Following recommendations by the Nomination Committee the Board has decided that it is in the best interests of the Company that an additional, female independent non-executive director be

appointed to the Board. Further details of this commitment are included in the Nomination Committee report.

Subject to the matter of the number of independent non-executives referred to in this paragraph, which the Board is committed to rectifying during 2012, the Company considers that it complies with the provisions of the Code. The Board does however, continue to believe that as each of the non-executives are very strong and senior individuals with experience of international FTSE 100 Boards, sufficient strength does in any event currently exist on the Board.

In response to Lord Davies' Women on Boards report and subsequent requests for public statements by FTSE 350 Chairmen on targets, the Company published a statement which can be accessed on the Company's website under RNS announcements. The statement said that the Company will endeavour to achieve gender representation in line with the recommendations of Lord Davies' Report and confirmed that it has a short term objective of having at least one female Board member by the end of 2012, thus ensuring at least 25% of our independent non-executives are female.

The Company also in February 2012 provided further information to Cranfield University, who were acting on behalf of the government, re-confirming the target for women on the Board and providing further information on the proportion of women on the Board, in senior executive positions and female employees in the organisation as a whole.

INTERNAL CONTROL

Board members recognise their responsibilities to ensure that the statutory requirements to deliver balanced and understandable assessments of the Company's position are achieved. The Board is satisfied that these responsibilities

are met by using the financial systems and applying the procedures, described below, supported by the Group's system of internal control:

- Using an appropriate system of accounting records, capable of operating with reasonable accuracy to be in compliance with local and international financial and legal reporting requirements. The basis used to prepare our Group financial statements is International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company financial statements and Directors' Remuneration Report are prepared in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice;
- Using IFRS to ensure a true and fair view of the state of affairs of the Group, including our profit or loss for the period;
- Applying appropriate accounting policies within the framework of IFRS and ensuring these are consistently applied;
- Making judgments and preparing estimates that are reasonable and prudent;
- Operating within the guidelines of all the disclosure advice provided by UK and international statute;
- Considering whether adoption of the going concern basis is appropriate;
- Maintaining robust assurance processes and controls over financial reporting procedures;
- Extending these principles to half-yearly reports and other reports in the public domain.

The Board at least annually formally reviews the effectiveness of the Company's risk management and internal control system (C.2.1). The review covers financial, operational, compliance and risk management controls. The role of management is to implement and maintain the internal control and risk management systems. The system of internal control is

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designed to reduce but cannot eliminate the risks of failure to meet business objectives. Internal control therefore can only provide reasonable but not absolute assurance in meeting such business objectives or against material misstatement or loss.

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

- During the year the Audit Committee:
- Monitored and reviewed the effectiveness of internal audit activities;
 - Reviewed and monitored external auditor independence and objectivity and the effectiveness of the audit process;
 - Considered reports from management, internal and external audit on the system of internal financial control and any material control weaknesses;
 - Received reports on health & safety;
 - Discussed with management the range of actions taken on issues affecting the business that were identified by Board members or in the internal and external audit reports.

All matters are undertaken using a rolling agenda programme which is agreed each year by the Committee.

Additionally:

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

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

RISK MANAGEMENT

A continuous process for identifying, evaluating and managing the significant risks faced by the Group continued to be applied and developed during the year under review and operated up to the date of approval of the Annual Report and Accounts. Details of the processes used are explained on pages 26 and 27.

Following the risk identification process the major risks are reported into the Audit Committee and Board by the Group Finance Director. The top 11 risks identified are described on pages 26 and 27.

Internal financial audits are undertaken on a regular basis by a selected group of accountants drawn from head office and across the divisional businesses and geographic centres. All these accountants participate in a training programme which covers internal audit, best practice and control procedures.

Work will continue to further embed internal control and risk management in the operations of the business and to further enhance and add to the relevant processes.

HOW THE BOARD OPERATES

The Board currently has eight members comprising of the Chairman, the three independent non-executive directors and four executive directors.

The Company's Articles of Association provide that one third of the directors shall retire from office by rotation at each Annual General Meeting (AGM). New directors are subject to election by shareholders at the first opportunity after their appointment (B.7.1). From the 2011 AGM onwards, the Board decided that all directors will be subject to annual re-election. In line with the Code guidance, non-executive directors are normally appointed for an initial term of three years, which is then reviewed and extended for up to a further two three year periods (B.7.1). On appointment directors receive a suitable and tailored induction (B.4.1). During the year non-executive directors were given the opportunity to attend a training seminar directed at their role and responsibilities (B.4.2). There is a clear division of responsibility approved by the Board in writing between the Chairman, RC Lockwood, and the Chief Executive, PI France, that ensures that there is a balance of power and authority between the running of the Board and the executive responsible for the running of the Company's business (A.2.1).

IG King is the current senior independent non-executive director (A.4.1). As senior independent non-executive director IG King annually arranges a meeting of the non-executive directors without the Chairman present to appraise the Chairman's performance (B.6.3). The Board annually approves a detailed timetable for each financial year including dates for all scheduled Board meetings, of which there are usually at least eight, and four Committee meetings.

■ DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS (A.1.2)

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
No. of Meetings	10	5	3	2
RH Arnold	10	2 ¹	n/a	n/a
JM Davis	10	5 ¹	1 ¹	n/a
PI France	10	5 ¹	3 ¹	2
GM Ogden	10	2 ¹	n/a	n/a
G Bullard	10	5	3	2
IG King	10	5	3	2
RC Lockwood	10	5 ¹	3 ¹	2
JE Nicholas	10	5	3	2

¹ by Invitation

CORPORATE GOVERNANCE

continued

The timetable also schedules time for meetings of the Chairman and non-executives without the Chief Executive present. During the year, Board meetings are scheduled at significant sites other than the Company's headquarters in Bath. This allows, in particular, non-executive directors to meet management at these sites and receive presentations from them. During the year under review the Board visited and held Board meetings at its new sales and service centre in Houston, Texas, USA. A visit to the new factory and RIDECE centre in Chennai, India is planned for 2012.

The Chairman ensures through the Company Secretary, that the Board Agenda and all relevant information is provided to the Board sufficiently in advance of meetings. The Chairman and Company Secretary discuss the Agenda in detail ahead of every meeting and the Chairman and the Chief Executive always have a review meeting ahead of each Board meeting. At Board meetings the Chairman ensures that all directors are able to make an effective contribution throughout meetings and every director is encouraged to participate and provide opinions for each Agenda item. The Chairman always seeks to achieve unanimous decisions of the Board following appropriate discussion of Agenda items. The Board regularly considers and discusses future strategy, following submissions on strategy development by management, at Board meetings. The non-executive directors through constructive challenge and comment help develop proposals on strategy at those meetings.

The Schedule of Reserved Matters details those matters specifically reserved for Board decision. The types of decision relate to matters which cannot, or the Board considers should not, be delegated to the Chief Executive and executive management. They include approval of Group commercial strategy and succession planning, approval of Group annual operating and capital expenditure budgets, recommendations for payment of the final proposed dividend and decisions for interim dividends and dividend policy, approval of the Annual Report and Accounts and announcements of final and interim results, ensuring sound internal control and risk management, executive director remuneration, corporate governance matters including Board and Committee performance appraisals, Board and Committee membership, approval of material contacts in the ordinary course of

business over £10m and all acquisitions in ordinary course of business over £1m. The directors also have powers to issue and buy back the Company's shares conferred annually by the shareholders at the AGM. The decisions which are left to management are all those related to the successful operation and management of the Company's business and in development and implementation of the strategy within the limits set by the Board annually for overall operational budgets and capital expenditure (A.1.1).

The Chairman ensures that meetings of non-executives without the executives present are held (A.4.2). All directors have access to the advice and services of the Company Secretary and through him they can request and obtain independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors (B.5.1 and B.5.2). The Company maintains appropriate directors' and officers' insurance cover (A.1.3).

PERFORMANCE EVALUATION

For the year under review the Board commissioned an externally facilitated Board Performance Evaluation. The facilitators did not have any connection with the Company other than providing support on previous evaluations. The evaluation included individual discussions with each director by the external facilitators using a series of questions as prompts for the discussion. The main findings of the report were circulated to the Board and discussed.

The report contained comments on how further improvements could be made in the processes to develop corporate strategy and in the resources available for mergers and acquisitions. Following the evaluation, a Group Business Development Director has been appointed to the Rotork Management Board to focus on these issues.

SHARE CAPITAL

Information on the Company's share capital is provided on page 50 of the Directors' Report.

NOMINATION COMMITTEE RESPONSIBILITIES

- Reviewing regularly the composition of the Board and making recommendations to the Board on any desired changes;

- Planning for the orderly succession of new directors to the Board including identifying and nominating for the Board's approval suitable candidates to fill non-executive vacancies;
- Recommending to the Board the membership of Board Committees.

COMMITTEE MEMBERSHIP

The Nomination Committee's members during the year under review were RC Lockwood (who chairs the Committee), IG King, JE Nicholas, G Bullard and PI France. The Nomination Committee comprises of the three independent directors, the Chief Executive and the Chairman. The majority of the members of the Nomination Committee are therefore independent non-executive directors as accepted by the Code (B.2.1).

The Terms of Reference of the Nomination Committee can be accessed on the Company's website in the Investors section under Corporate Governance - Committees (B.2.1).

ACTIVITIES OF NOMINATION COMMITTEE DURING THE YEAR

During the year the Committee considered Board succession planning including the need for additional non-executive directors.

The Committee decided to recommend to the Board that it should search for a suitable female non-executive director, as it considers it is in the best interests of the Company to do so taking account of the balance of skills and experience and diversity, including gender, on the Board and noting the added dimension a female contribution could bring to Board discussion. The Committee is currently actively searching for such a candidate.

During the year under review the Committee considered the report of Lord Davies entitled Women on Boards. The Company also published its aims for the percentage of women on its Board. The announcement stated that Rotork will endeavour to achieve gender representation in line with the recommendations of Lord Davies' report. It added that Rotork has a short-term objective of having at least one female Board member by the end of 2012, thus ensuring at least 25% of its independent non-executive directors are female. The announcement also stated that Rotork anticipates its cooperation with numerous universities, apprentice schemes and

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secondment programmes will promote gender diversity, leading to a better pipeline of appropriate female senior executives. Rotork was commended in the Women on Boards six month monitoring report published in October 2011 for its declared target for women on the Board.

During the year the Committee received updates from the Chief Executive on management structure changes and executive appointments as well as management succession planning and talent and development programmes.

AUDIT COMMITTEE MAIN RESPONSIBILITIES

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

COMMITTEE MEMBERSHIP

The Audit Committee of the Board is currently comprised of three non-executive directors, JE Nicholas, IG King and G Bullard. JE Nicholas was Chairman of the Committee throughout the year. There were therefore three independent non-executive directors who were members of the Audit Committee at all times throughout the year (C.3.1). The Board is satisfied that at least one member of the Committee, JE Nicholas, has recent and relevant financial experience having served as the Finance Director of a large listed company. He is also a member of the Financial Reporting Review Panel of the Financial Reporting Council (FRC). The Finance Director, the Chief Executive, the Chairman and the external auditors normally attend meetings.

ACTIVITIES OF THE AUDIT COMMITTEE DURING THE YEAR

The Committee met five times during the year. An annual Rolling Audit Committee Agenda is reviewed at each meeting and ensures that all matters within the Audit Committee's Terms of Reference are appropriately covered.

The Committee operates under formal Terms of Reference and these are reviewed annually. The Committee considers that it has discharged its responsibilities as set out in its Terms of Reference to the extent appropriate during the year. There were no changes to the Terms of Reference in the year under review.

The Terms of Reference of the Audit Committee are available to view on Rotork's website in the Investors section under Corporate Governance - Committees (C.3.2 and C.3.3).

Specific matters reviewed by the Committee during 2011 included:

Financial Reporting

- Reviewing the appropriateness of the Group's financial statements including considering significant financial reporting judgements made by management, taking into account the reports received from the Group Finance Director and the external auditors and ensuring the compliance of the financial statements with International Financial Reporting Standards and UK company law;
- Reviewing and recommending approval of the annual financial statements including the statements on corporate governance, internal controls and risk management and the half year and interim management statements;
- Reviewing and recommending the going concern statement.

External Auditors

- Reviewing the effectiveness, independence and objectivity of the external auditors and the external audit process. The Committee oversees the relationship with the external auditors including reviewing the auditor engagement letter, considering the audit fees and the appointment of the Auditor (C.3.6). The Committee makes recommendations to the Board, for shareholder approval at the AGM;
- Representatives from the Auditor, report to the Committee on their independence and objectivity and the mechanisms employed to ensure this is maintained;
- In considering whether the audit had been effective, the Committee considered whether the auditor had met the agreed audit plan for 2011 including any work undertaken to address any changes in perceived risks; the robustness and perceptiveness of the

Auditors handling of key accounting judgements; responses to questions from the Committee and feedback about the conduct of the audit from key finance personnel within the Company;

- The current audit partner having served for five years retires by rotation following the 2011 audit. After carefully considering whether to change auditors, the Committee decided to continue with KPMG and appoint a replacement audit partner;
- The Committee having considered all relevant matters, has concluded that it is satisfied that auditor independence and objectivity has been maintained. As such, the Committee does not consider that it would be appropriate at this time to put the audit out to tender but will continue to keep this under review having discussed the European Commission Green Paper and FRC proposals on Effective Company Stewardship. Following these considerations the Committee made a recommendation which was accepted by the Board that resolutions to re-appoint KPMG Audit plc be proposed at the 2012 AGM;
- Review of the representation letter;
- A policy that formalises the arrangements regarding the provision of non-audit services provided by the auditors and sets out the procedures for the pre-approval of such services is reviewed annually. All non-audit services provided by the auditors are pre-approved by either the Group Finance Director or the Committee Chairman under delegated approval authorities from the Committee. The breakdown of the fees paid to the external auditors, including the split between audit and non-audit fees, is included in note 8 on page 71 to the financial statements;
- Consideration of the risk of KPMG, as external auditor, leaving the market;
- Reviewing external audit findings;
- Discussing with the auditors the appropriateness of accounting policies, estimates and judgements;
- Discussing the external auditors views on the control environment including fraud risk management;
- At least once during each financial year the Committee meets with the external auditors, separately, without executive management present. This provides an additional opportunity for an open exchange of views and feedback.

CORPORATE GOVERNANCE

continued

Internal Control

- Reviewing the effectiveness of the Group's system of internal controls and risk management including fraud risk management;
- Monitoring and reviewing the effectiveness of internal audit activities, which included: a review of the internal audit terms of reference; audits carried out; the results thereof and management's response and the programmes and resourcing for 2011 and 2012;
- The internal audit function is undertaken by members of the Group's finance departments who all have other distinct posts. Further detail is provided in the Internal Control section. The Finance Director is also Head of Internal Audit. This method of internal audit is reviewed annually by the Committee. The Committee remains satisfied with the arrangements which ensure a comprehensive internal audit programme is undertaken across the Group;
- Monitoring the effectiveness of the risk management process, including an annual review of all key Group risks identified and mitigating controls;
- Monitoring the effectiveness of the Group's system of internal controls including reviewing significant internal audit reports and findings;
- Monitoring health and safety performance data and receiving reports from the Rotork Management Board member responsible for health and safety practice and procedures.

Other Matters

- A review of new regulations and governance regarding the operation and responsibilities of audit committees;
- A review of whistleblowing policies;
- A review of Group policies in place regarding the employment of previous external audit staff.

REMUNERATION COMMITTEE

The work of the Remuneration Committee is described in the Remuneration Report on pages 43 to 49. The Chairman and the Chief Executive were invited to and did attend all meetings but both were not in attendance when their own fees and remuneration respectively were considered (D.2).

RELATIONS WITH SHAREHOLDERS

Communication with shareholders is given high priority. The Board recognises the importance of shareholder engagement and welcomes the introduction of the UK Stewardship Code and fully supports the practice of ongoing constructive dialogue with institutional holders. All members of the Board receive copies of all analysts' reports of which the Company is made aware. The Board receives non-attributable comments from analyst meetings and shareholder meetings after both interim and final results (E.1.1) and other updates from its corporate advisers. The Chief Executive reports at each Board meeting upon his meetings with analysts, fund managers and shareholders (E.1.2).

Specific examples of shareholder engagement during the year under review are detailed below:

Full Year and Half Year Announcements

The Chief Executive and Group Finance Director attend with the Chairman and provide opportunities for meetings with fund managers and analysts;

Investors Meetings

The Chief Executive and Group Finance Director regularly meet investors. This year over 100 meetings in person have occurred with shareholders, fund managers and analysts. Throughout the year, teleconferences are also arranged with these parties including following the announcement of the two interim management statements in the first and second half of the year. Investor and analyst roadshows have been held throughout the year under review in London, Edinburgh, Norway, Boston, New York, Chicago and Toronto providing the opportunity for investors to meet the Group Finance Director and the Chief Executive;

Capital Markets Day

This was held in November 2011 in UBS offices in London and provided an opportunity for shareholders and analysts to meet and receive presentations from the Rotork Management Board including the executive directors and also to have access to the Chairman and two independent non-executive directors who also attended;

Survey of Major Shareholders

During the year, the Board instructed its Corporate Advisors to contact the main shareholders independently of management to confirm they were content with the level of disclosure provided. Their findings were reported to the Board;

Non-Executive Meetings

The Company Secretary has written to major shareholders inviting them to meetings with the non-executives and to provide feedback on the current levels of Board contact with the Company and communication to non-executives. Responses indicated major shareholders are satisfied with current levels of contact;

AGM

All the directors attend the AGM and are available to take questions from shareholders. The Notice of AGM is communicated to shareholders at least 20 working days prior to the meeting. At the AGM, where a vote has been taken on a show of hands, all votes are counted and are clearly displayed on a screen detailing the number of votes for, against and withheld in relation to resolutions and copies of the proxy votes are available to shareholders at the end of the meeting;

Other shareholder information

Rotork's website includes information and updates for all investors. Individual shareholder enquiries are also addressed by the Company Secretarial Department.

REMUNERATION REPORT

▲ Audited Information

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REMUNERATION COMMITTEE ROLE AND RESPONSIBILITIES

- The Remuneration Committee is a Committee of the Board;
- The principal role of the Committee is to determine the framework and policy for remuneration of the Chairman and executive directors;
- Within the agreed policy, the Committee determines individual remuneration packages for the Chairman and executive directors, including the terms of any discretionary share schemes in which executive directors may be invited to participate, taking account of the level of remuneration for other Rotork Management Board members and being sensitive to remuneration conditions throughout the Group (B.2.2.);
- Agreeing the terms and conditions to be included in service agreements for executive directors, including termination payments (B.2.2.).

This report is presented to shareholders by the Board at the AGM for approval. The auditor is required to report on the information concerning directors' emoluments, long-term incentive plan and other share awards and pension disclosures.

The full Terms of Reference of the Remuneration Committee can be found on Rotork's website, in the Investors section under Corporate Governance - Committees (B.2.1)

COMMITTEE MEMBERSHIP

The Remuneration Committee is currently comprised of three independent non-executive directors, G Bullard, IG King and JE Nicholas (B.2.1). G Bullard is the Chairman of the Committee. The Company Secretary advises the Committee and is secretary to the Committee. The Global Human Resources Director is invited to Remuneration Committee meetings, where executive director salary levels are set, to assist the Committee and inform them of pay awards throughout the Group. The Chairman and the Chief Executive are invited to attend the meetings of the Committee, other than when their own remuneration is considered.

EXECUTIVE DIRECTORS' CONTRACTS OF EMPLOYMENT

RH Arnold, JM Davis, PI France and GM Ogden all have rolling service contracts with a one year notice period (D.1.5). The most recent executive director service contracts contain provisions which limit payments on termination to basic salary with employer rights to require phased payments. For future executive director appointments, the Board's intention will be to continue to limit service contracts to one year on a rolling basis.

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

NON-EXECUTIVE DIRECTORS

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

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

EXECUTIVE DIRECTORS' CONTRACTS OF EMPLOYMENT

Name of executive director	Date of service contract	Notice period from Company	Notice period from director	Contractual retirement date
RH Arnold	28/5/2002	1 year	1 year	18/8/2016
JM Davis	1/4/2010	1 year	1 year	8/3/2031
PI France	2/5/2008	1 year	1 year	6/4/2033
GM Ogden	1/1/2005	1 year	1 year	9/1/2017

NON-EXECUTIVE DIRECTORS

Name of non-executive	Date of letter of appointment	Notice period from Company	Notice period from non-executive director
G Bullard	16/6/2010	3 months	3 months
IG King	31/1/2011	3 months	3 months
RC Lockwood	1/1/2011	3 months	3 months
JE Nicholas	21/2/2011	3 months	3 months

REMUNERATION REPORT

continued

■ BASE SALARY AND INCENTIVE PACKAGE OF EXECUTIVE DIRECTORS

Element	How this supports the strategy	Performance period	Opportunity 2011	Performance measure
Base Salary	Reflects the role and the sustained value of the individual in terms of skills, experience and personal contribution.	Not applicable	Not applicable	Benchmarked against companies of a similar size and complexity and other companies in the same industry sector. Reviewed annually from 1 January.
Annual Cash Bonus	Drives and rewards performance against annual financial and operational goals which are consistent with the medium to long-term strategic needs of the business.	One year	125% of base salary of the Chief Executive and 100% for other executive directors.	For 2011, annual targets were based on increase in profit, and earnings per share (EPS) cash generation and certain non-financial targets.
Long Term Incentive Plan (LTIP)	Incentivise long-term value creation and alignment with shareholder interests. Drive and reward delivery of sustained long-term EPS and total shareholder return (TSR) performance.	Three years	100% of base salary for the Chief Executive and other executive directors.	One half on EPS compared with Retail Price Index (RPI) growth. One half on relative TSR compared with a comparator group.

REMUNERATION POLICY

For the year under review, the Board continued to consider that it was critical that the Company had remuneration policies that enabled it to motivate, retain and, when required, recruit high quality management. Levels of remuneration are set to be sufficient to meet these objectives but should not be excessive. There should be strong alignment with attainment of performance objectives and the delivery of value for shareholders.

The Committee considers it important that a significant proportion of executive directors' potential total remuneration is dependent on attainment of demanding performance related (B.1.1) short and longer term targets. This is demonstrated by the percentage of basic salary potentially

payable as cash or share awards under the annual cash bonus scheme and long-term incentive plans respectively.

EXECUTIVE REMUNERATION

The remuneration packages of each individual director currently include basic salary, an annual cash bonus, benefits in kind (car and fuel, or car and fuel allowance, and private medical insurance for employee only), membership of the all employee Rotork Share Incentive Plan (SIP) or Overseas Profit-Linked Share Scheme (OPLSS), discretionary Rotork LTIP and the offer of 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 and summarised above. Salary and benefits including

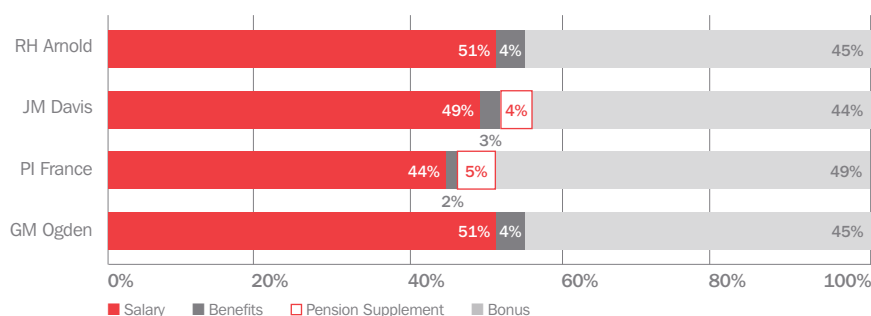
pension, car and fuel, or car and fuel allowance, constitute fixed pay.

In recommending the level of remuneration for executive directors, the Committee took account of the size and nature of the Company, including its international scope, using peer group comparators identified using total revenue and market capitalisation data supplied by its independent remuneration consultant and advisor PricewaterhouseCoopers (PwC).

PwC's other connections with the Company are limited to the provision of actuarial advice for the LTIP calculations, associated LTIP accounting advice and a limited amount of other corporate advice including UK computation and other tax advice, due diligence work on acquisitions and one subsidiary external audit.

■ BREAKDOWN OF DIRECTORS' EMOLUMENTS

FOR DIRECTORS IN OFFICE AT 31 DECEMBER 2011



BASE SALARY

Fixed elements of remuneration including base salary are designed to be competitive but not excessive. This avoids building unnecessary current and future costs into the business.

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EXECUTIVE BONUS

The executive annual cash bonus is focused on delivery of strategically important performance measures. These include demanding financial and non-financial business related objectives.

The bonus rewards increases in profit, in two parts. One half is based on the average profit over the three immediately preceding years and the other half is based on performance against an annual profit target.

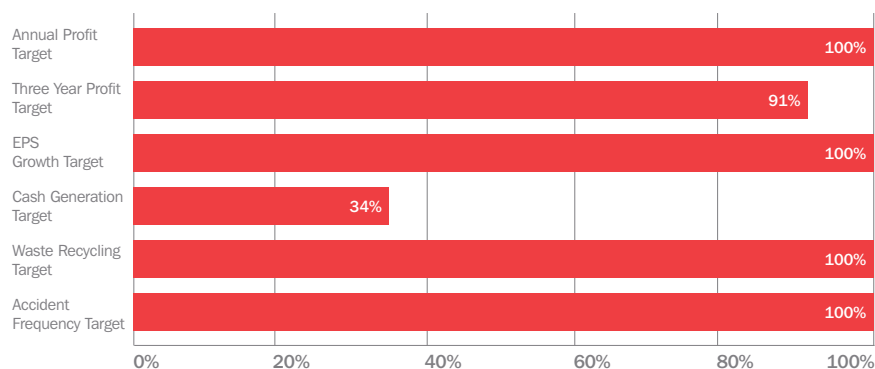
The plan additionally rewards high levels of free cash generation and growth in EPS.

The final element of bonus payable is based on non-financial targets where objectives will be set annually.

During the year under review the bonus payment for directors other than the Chief Executive was limited to 100% of basic salary. The Chief Executive's bonus was limited to 125% of basic salary.

The scheme provides the Remuneration Committee with discretion to withhold bonus where, in exceptional circumstances, there is evidence of misstatement or misconduct.

2011 BONUS PAYOUT AS PROPORTION OF MAXIMUM



ALL EMPLOYEE SHARE AWARDS TO EXECUTIVE DIRECTORS ▲

In common with all eligible employees, UK based executive directors receive an entitlement to ordinary shares under The Rotork Share Incentive Plan (SIP) which is approved by Her Majesty's Revenue and Customs (HMRC). Under the SIP and Rotork Overseas Profit-Linked Share Scheme (OPLSS) an aggregate total of up to 5% of profits are distributed to employees each year in the form of ordinary shares. The distribution is calculated by reference to years of service and basic salary. The beneficial interests of the executive directors at 31 December included ordinary shares held under the SIP and the OPLSS in trust as shown in the table below. Details of total free share awards under the SIP and OPLSS and awards made to executive directors in 2011 and the prior year are set out

below. Free shares awarded to all three UK executive directors under the SIP are subject to the HMRC upper limit of £3,000 by value. This limit also applies to RH Arnold under the OPLSS for the year under review.

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

UK based executive directors, in common with other eligible UK employees, have the opportunity to invest in the HMRC approved Rotork Sharesave Scheme. PI France, GM Ogden, and JM Davis participate in the Scheme. PI France was granted 1,179 share options at an option price of £13.10 on 5 October 2010. On 28 September 2007 GM Ogden was granted 2,071 share

options under the scheme at an option price of £8.11. On 6 October 2008 JM Davis was granted 1,301 shares at an option price of £7.72. These options are all exercisable five years from grant. The exercise period is six months after which the options lapse.

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

Save as disclosed on page 48, no director or his family had any interest in the shares of the Company at 31 December 2011.

FREE SIP AND OPLSS SHARE AWARDS TO EXECUTIVE DIRECTORS ▲

Free SIP and OPLSS Share Awards	Awards in		Total Awards Held	
	2011	2010	2011	2010
Executive Directors				
RH Arnold	169	209	394	583
JM Davis	169	209	2,203	2,034
PI France	169	209	3,969	3,800
GM Ogden	169	209	4,149	3,980

REMUNERATION REPORT

continued

■ DIRECTORS' EMOLUMENTS (£000) ▲

FOR DIRECTORS IN OFFICE AT 31 DECEMBER 2011

	Salary and fees	Bonus	Benefits*	Pension Supplement	2011 Total	2010 Total
Executive directors						
RH Arnold ¹	222	196	17	–	435	397
JM Davis ^{2,3}	240	213	17	20	490	284
PI France ²	375	417	17	41	850	755
GM Ogden	186	165	17	–	368	327
Non-executive directors						
G Bullard ⁴	42	–	–	–	42	15
IG King	44	–	–	–	44	43
RC Lockwood	113	–	–	–	113	100
JE Nicholas	42	–	–	–	42	41
Total	1,264	991	68	61	2,384	1,962

¹ RH Arnold is paid in US dollars.

² PI France and JM Davis are subject to the Rotork p.l.c. Pension and Life Assurance Scheme specific salary cap.

In consideration of this limitation on their benefits under the scheme they receive a monthly cash sum equal to 22.5% and 18.0% respectively of that part of their basic salary above the scheme's specific cap on an annualised basis.

³ JM Davis was appointed on 1 April 2010.

⁴ G Bullard was appointed on 25 June 2010.

* Includes the cash value on allocation of SIP and OPLSS share awards as appropriate.

ROTORK LONG TERM INCENTIVE PLANS ▲

Rotork's Long Term Incentive Plans (LTIP) reward the creation of shareholder value as a strategic priority. Performance is measured over a three year period using a combination of EPS, growth and relative TSR compared to a comparator group.

In the year under review awards of 100% of basic salary were made to directors under the Rotork Long Term Incentive Plan 2010 (the 2010 Plan). The maximum award under the 2010 Plan is 150% of basic salary per annum. This maximum was introduced taking account of current market practice and the ten year life of the Plan to introduce flexibility although the Committee has no current plans to utilise this increased headroom.

ROTORK LONG TERM INCENTIVE PLAN 2000

From 2000 to 2009 LTIP Awards were made under the Rotork LTIP (the 2000 Plan). The 2000 Plan is a performance share plan under which shares are conditionally allocated to selected members of senior management at the discretion of the Committee on an annual basis. No shares will normally be released to participants unless they are still in the Group's service following completion of

the relevant full performance period and the Company's relative TSR against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the relevant performance period. TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares transferred will be determined by the number of shares initially allocated, multiplied by a vesting percentage which for awards granted from 2006 is 30% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.8% to the vesting percentage.

Under the 2000 Plan the Company's EPS is also monitored during the relevant performance period to ensure it meets a minimum average annual growth equal to the rise in the RPI plus 2% per annum. Failure to meet this RPI plus 2% per annum requirement will result in nil vesting. The relative TSR against a comparator group performance measure was chosen as it enabled the Committee to select a comparator group considered to be sufficiently challenging given the historic performance of the Company. A three-year performance period applies to awards granted from 2006. The 2009 award was the last award made to executives under the 2000 plan.

ROTORK LONG TERM INCENTIVE PLAN (2010)

In 2010 shareholders approved the Rotork Long Term Incentive Plan (2010). Awards under the 2010 Plan are subject to a three-year performance period.

One half of the award (currently comprising shares to a maximum initial value of 50% of basic salary) is subject to a relative TSR performance condition measured against a comparator group of companies.

There would be proportionate vesting for performance which falls between the 50th and 75th percentile TSR rankings shown opposite. Prior to any vesting, however, the Committee will need to be satisfied that the recorded TSR performance is a genuine reflection of the Company's overall underlying financial performance.

The remaining half of the award (currently comprising shares to a maximum initial value of 50% of basic annual salary) will be subject to an EPS growth condition which will be in addition to any increase in inflation over the same three year period as measured by reference to the RPI.

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There would be proportionate vesting for performance which falls between the RPI + 10% and RPI + 25% EPS growth targets.

It is the intention of the Committee, when considering whether to make awards under the LTIP each year, to review both the size of awards and the performance conditions to ensure that, at the time of an award, they are appropriate and challenging taking into account any guidelines issued by organisations representing the interests of institutional shareholders or any other relevant guidelines issued from time to time. The maximum award permitted is 150% of basic annual salary, however there is currently no intention to exceed 100% of basic annual salary for any participant.

The LTIP grant comparator group of companies applying to outstanding LTIP Awards during 2011 were as set out in the table opposite.

From the 2012 LTIP Award the Committee has decided to replace the current TSR comparative group with a larger group made up of the FTSE 250 (excluding all financial companies and investment trusts). Vesting requirements using the FTSE 250 as a comparator group will continue to be suitably demanding. The Committee has decided to make this change as the number of companies within the original TSR group was diminishing and suitable replacement within a narrow grouping of industrial stocks was becoming challenging.

LTIP Awards still outstanding at the time of publication of this report made to executive directors are set out in the table below.

SHARE RETENTION POLICY

The Committee recommended and the Board approved an executive share retention policy which supports the accumulation of significant shareholdings in the Company by executive directors and other senior executives. The policy requires executive directors to achieve a minimum holding of ordinary shares in the Company equivalent to 150% of basic salary for executive directors. Executive directors are required to make use of vesting LTIP shares to meet this minimum target.

RANKING OF THE COMPANY'S TSR IN THE PEER GROUP

	% of award vesting
Below 50th percentile	Nil
50th percentile	25%
75th percentile or above	100%

EPS GROWTH TARGETS

	% of award vesting
Below RPI + 10%	Nil
RPI + 10%	15%
RPI + 25%	100%

COMPARATOR GROUP OF COMPANIES FOR LTIP AWARDS IN 2011

Bodycote plc	Morgan Crucible Company plc
Brammer plc	Renishaw plc
BSS plc ¹	Senior plc
Charter plc ²	Smiths Group plc
Cookson Group plc	Spectris plc
Halma plc	Spirax-Sarco Engineering plc
IMI plc	TT Electronics plc
Invensys plc	Volex plc
Laird plc	Weir Group plc
Meggitt plc	

¹ Following its delisting in December 2010, BSS plc was removed from the comparator group for outstanding LTIP Awards in 2011.

² Following its delisting in January 2012 Charter plc has now been removed from the comparator group for outstanding LTIP Awards.

ROTORK LONG TERM INCENTIVE PLANS ▲

	Outstanding share or cash unit Awards made to 1 January 2011	Share or cash unit Awards made during 2011 ¹	Share or cash unit Awards vesting in 2011 ²	Lapsed in 2011	Outstanding share Awards at 31 December 2011
RH Arnold	63,908	12,904	(15,300)	(908)	60,604
JM Davis	22,153	14,076	(3,043)	(181)	33,005
PI France	100,668	21,994	(27,203)	(1,614)	93,845
GM Ogden	52,047	10,888	(15,217)	(903)	46,815

¹ All awards were granted on 4 March 2011. The market price of shares in the Company used to calculate the award was £17.05.

² The 2008 LTIP Awards vested at 94.4% of Award value.

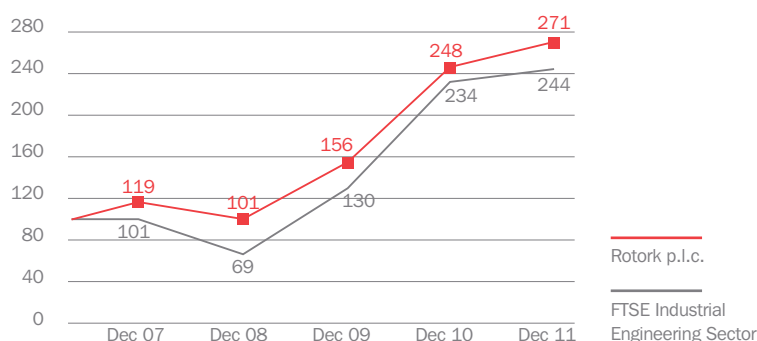
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TOTAL SHAREHOLDER RETURN

A graph showing the value, on 31 December 2011, of £100 invested in Rotork p.l.c. on 1 January 2007 compared with the value of £100 invested in the FTSE Industrial Engineering Sector Index is shown opposite. The other points plotted show values at intervening financial year ends. The graph measures the Company's performance against other companies in the FTSE Industrial Engineering sector by showing the TSR on a holding of ordinary shares in the Company compared with the average total shareholder return of other companies in its sector being the sector within which the Company is quoted on the London Stock Exchange and which is therefore considered the most appropriate index over the five-year period to 31 December 2011.

TOTAL SHAREHOLDER RETURN



Rotork p.l.c. Total Return Index vs the Total Return Index of the FTSE Industrial Engineering Sector for the five preceding financial years ending 31 December 2011. (rebased as at 1 January 2007).

INTERESTS IN SHARES

The interests of the directors in the ordinary share capital of the Company, at 31 December 2011 are shown in the table opposite.

All interests were beneficial and include directors' directly held and family share interests and in total represent less than 1% (2010: less than 1%) of voting shares of the Company.

DIRECTORS' INTERESTS IN SHARES

Director	2011	2010
RH Arnold	19,074	18,886
JM Davis	13,047	11,298
PI France	52,688	43,616
GM Ogden	36,414	28,789
G Bullard	2,790	2,790
IG King	5,000	5,000
RC Lockwood	2,000	1,000
JE Nicholas	500	500

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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.

Director	Age at 31.12.2011	Increase in accrued pension over the year (Note 1) £	Accumulated accrued pension at 31.12.2011 (Note 2) £
RH Arnold	60	723	115,305
JM Davis	45	3,042	15,237
PI France	43	1,213	48,310
GM Ogden	54	3,897	89,752

Notes:

- The figures shown for the increase in accrued pension over the year exclude any increase for inflation.
- The accumulated accrued pension is that which would be paid annually on retirement from normal pension age, based on service to 31 December 2011.
- A lump sum death benefit of four times basic annual salary is payable on death in service.
- A dependant's pension of one-half of prospective pension is payable on death in service, and of one-half of pre-commutation pension on death in retirement.
- Post-retirement increases are applied at the rate of increase of the RPI up to a maximum of 5% per annum, except that for pension benefits in respect of pensionable service up to 15 May 2000 the minimum inflationary increase is 4.5% per annum.
- The pensionable salary used to calculate benefits in the defined benefit scheme for PI France and JM Davis is restricted to a scheme specific earnings cap which is currently £123,600.
- The figures shown for RH Arnold are in respect of his membership of the Rotork Controls Inc. pension scheme and a supplemental executive retirement plan so that, in aggregate, the pension arrangements for RH Arnold will provide a pension of at least 60% of uncapped basic salary at age 65.

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.

Director	Increase in accrued pension during the year (Note 1) £	Transfer value of accrued pension at 31.12.10 £'000	Transfer value of accrued pension at 31.12.11 £'000	Increase in transfer value over the year £'000
RH Arnold	6,386	1,422	1,610	188
JM Davis	3,645	158	214	56
PI France	3,541	776	934	158
GM Ogden	8,141	2,057	2,471	414

Notes:

- The figures shown for the increase in accrued pension over the year incorporate the increase for inflation.
- The transfer values have been calculated in accordance with the relevant Technical Actuarial Standards (TASs) published by the Board for Actuarial Standards.
- The increase in accrued pension and the increase in transfer value over the year for RH Arnold are due to movements in the US dollar relative to sterling. In US dollars, the accrued pension for RH Arnold increased from \$168,344 per annum at 31 December 2010 to \$179,195 per annum at 31 December 2011 and the transfer value increased from \$2,198,000 at 31 December 2010 to \$2,503,000 at 31 December 2011. The transfer value of accrued pension for RH Arnold reflects the benefits provided by the US scheme together with a US valuation of these benefits and is therefore not directly comparable with the transfer values for directors in the UK scheme.

REPORT OF THE DIRECTORS

The directors submit their report which incorporates the management report required under the Disclosure and Transparency Rules for listed companies and the audited accounts for the year ended 31 December 2011 as set out on pages 54 to 100. In compiling this report, the directors have consulted with the management of the Group.

PRINCIPAL ACTIVITIES

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

The Rotork Group provides a range of products, systems and services within the global flow control markets including those for the motorisation and manual operation of adaption to industrial valves and dampers for isolation duty and process control applications and other products associated with flow and pressure control and diagnostics and gathering of information. It does this through its Controls, Gears, Fluid Systems and Instruments divisions. Actuated valves are major control elements in refineries, pipelines, power stations, water distribution systems and effluent treatment plants and in all industries in which liquids or gases are transported through pipes.

A summary of the principal subsidiaries of the Group are set out on page 98.

The Business Review of the Group is set out on pages 7 to 34. It provides a balanced and comprehensive analysis of the development and performance of the business during the year under review and the position at the end of the year. It includes future development of the business and information about environmental matters, the Company's employees and social and community issues. The review contains analysis using financial and non-financial key performance indicators.

The principal risks and uncertainties facing the Group and the Group's approach to mitigating those risks are set out on pages 26 to 27.

ACQUISITIONS

On 22 February 2011 the Group acquired all the outstanding issued share capital of Rotork Servo Controles de Mexico S.A. de C.V., its Mexican sales and service agent for £2,000,000.

On 8 June 2011, the Group acquired Valco Valves and Automation AS, its Norwegian sales and service agent from Valco Group AS for £1,911,000.

On 15 July 2011, the Group acquired 100% of the share capital of Centork Valve Control S.L. (Centork) for £3,147,000. Centork is a manufacturer of electric actuators based near San Sebastian, North East Spain.

On 25 July 2011, the Group acquired 100% of the share capital of K-Tork International Inc. (K-Tork) for £6,518,000. K-Tork is a manufacturer of pneumatic valve actuators based in Dallas, Texas, USA.

On 15 November 2011, the Group acquired 100% of the share capital of Fairchild Industrial Products Company (Fairchild) for £49,532,000. Fairchild is a manufacturer of high precision pneumatic controls and power transmission products for a wide range of industries, based in Winston Salem, North Carolina, USA.

On 30 November 2011, the Group acquired Prokits Limited based in Mansfield, Nottinghamshire, UK for £1,080,000. Prokits is a designer and manufacturer of valve adaptor kits and accessories for the valve industry.

DIVIDENDS

The directors recommend a final dividend of 22.75p per ordinary share (2010: 19.75p) for the year, payable on 21 May 2012 to shareholders on the register on 13 April 2012. An additional dividend of 11.5p was paid on 24 June 2011, an interim dividend for 2011 of 14.5p per ordinary share (2010: 12.75p) was paid on 23 September 2011 and a further additional dividend of 11.5p was paid on 16 December 2011.

SHARE CAPITAL

Details of the Company's share capital including rights and obligations attached to each class of share and the ordinary shares issued during 2011 are set out in note 16 of the financial statements. 5p ordinary shares represent over 99.9% of the Company's total share capital and £1 preference shares represent less than 0.1% of the Company's total share capital.

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

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

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

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

EMPLOYEE SHARE SCHEMES

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

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NOTIFICATION OF MAJOR INTEREST IN SHARES

Since the 2010 Directors' Report, the Company has been notified of major interests and voting rights (held directly and/or indirectly) by the following:

Name	% of Voting Rights
AXA Investment Manager SA	5%
Kames Capital	4%
Norges Bank	3%

RESEARCH AND DEVELOPMENT

Total Group expenditure on Research and Development in the year was £5,823,000 (2010: £4,319,000) further details of which are contained in the Business Review on pages 11 and 12.

DONATIONS

During the year the Company made charitable donations of £94,000 (2010: £87,000) which is part of the total Group contribution of £163,000 (2010: £144,000).

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

DIRECTORS

The names of the directors in office during the year and their biographies and other details including the other significant commitments of the Chairman are as shown on pages 36 and 37. The interests of the directors in office, at the end of the financial year, in the shares of the Company are as shown in the Remuneration Report on page 48.

RH Arnold, JM Davis, PI France and GM Ogden have service agreements and details of these are contained in the Remuneration Report on page 43.

The Company's procedure with regard to the appointment and replacement of directors and those powers reserved for the Board are described in the Corporate Governance Report on pages 38 to 42.

At the AGM, all the directors currently in office being RH Arnold, G Bullard, JM Davis, PI France, IG King, RC Lockwood, JE Nicholas and GM Ogden, will offer themselves for re-election.

FINANCIAL INSTRUMENTS

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

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and

- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

DIRECTORS STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

Each of the directors, whose names and functions are listed on pages 36 and 37 confirm that, to the best of each person's knowledge and belief:

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

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

REPORT OF THE DIRECTORS

continued

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the Group has 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. In forming this view, the directors have considered trading and cash flow forecasts, financial commitments, the significant orderbook with customers spread across different geographic areas and industries and the significant net cash position.

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

CREDITOR PAYMENT POLICY

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

DIRECTORS' AND OFFICERS' INDEMNITY INSURANCE

Subject to the provisions of the Companies Acts, the Company's Articles of Association provide for the directors and officers of the Company to be appropriately indemnified. The Company purchases and maintains insurance for the directors and officers of the Company in undertaking their duties, in accordance with section 233 Companies Act 2006.

DISCLOSURE OF INFORMATION TO AUDITORS

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

AUDITORS

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

ANNUAL GENERAL MEETING

The AGM of the Company will be held at the Company's offices at Rotork House, Brassmill Lane, Bath BA1 3JQ on Friday 20 April 2012 at 12 noon. A separate circular containing the Notice of the Meeting is sent to shareholders with this Annual Report and Accounts.



On behalf of the Board
Stephen Rhys Jones
Secretary
27 February 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROTORK PLC

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We have audited the financial statements of Rotork p.l.c. for the year ended 31 December 2011 set out on pages 54 to 100. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 38 to 42 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 52, in relation to going concern;
- the part of the Corporate Governance Statement on page 38 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

AC Campbell-Orde
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc,
Statutory Auditor

Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

27 February 2012

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Revenue	2	447,833	380,560
Cost of sales		(236,359)	(199,742)
Gross profit		211,474	180,818
Other income	4	194	83
Distribution costs		(4,020)	(3,604)
Administrative expenses		(95,589)	(79,513)
Other expenses	5	(59)	(60)
Adjusted operating profit		115,921	99,442
Amortisation of acquired intangible assets		(3,921)	(1,718)
Operating profit	2	112,000	97,724
Financial income	7	7,590	6,931
Financial expenses	7	(7,040)	(6,800)
Profit before tax	8	112,550	97,855
Income tax expense	9	(32,149)	(28,334)
Profit for the year		80,401	69,521
		Pence	Pence
Basic earnings per share	17	93.0	80.5
Adjusted basic earnings per share	17	96.2	81.9
Diluted earnings per share	17	92.6	80.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	2011 £000	2010 £000
Profit for the year	80,401	69,521
Other comprehensive income		
Foreign exchange translation differences	(2,484)	1,119
Actuarial (loss) / gain in pension scheme	(8,499)	1,095
Effective portion of changes in fair value of cash flow hedges	207	674
Income and expenses recognised directly in equity	(10,776)	2,888
Total comprehensive income for the year	69,625	72,409

CONSOLIDATED BALANCE SHEET

at 31 December 2011

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	Notes	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	10	31,954	25,780
Intangible assets	11	106,784	43,990
Deferred tax assets	12	13,244	11,480
Derivative financial instruments	22	315	–
Other receivables	14	1,556	1,290
Total non-current assets		153,853	82,540
Current assets			
Inventories	13	62,928	48,241
Trade receivables	14	96,734	70,362
Current tax	14	988	2,398
Derivative financial instruments	22	677	918
Other receivables	14	8,461	6,684
Cash and cash equivalents	15	48,557	97,881
Total current assets		218,345	226,484
Total assets		372,198	309,024
Equity			
Issued equity capital	16	4,338	4,334
Share premium		7,835	7,389
Reserves		13,924	16,201
Retained earnings		198,072	175,927
Total equity		224,169	203,851
Non-current liabilities			
Interest bearing loans and borrowings	18	229	127
Employee benefits	19	28,142	19,752
Deferred tax liabilities	12	12,782	3,165
Provisions	20	2,218	1,968
Total non-current liabilities		43,371	25,012
Current liabilities			
Bank overdraft	18	38	–
Interest bearing loans and borrowings	18	85	49
Trade payables	21	38,742	30,447
Employee benefits	19	9,624	8,220
Current tax	21	13,225	10,821
Derivative financial instruments	22	614	294
Other payables	21	38,360	26,334
Provisions	20	3,970	3,996
Total current liabilities		104,658	80,161
Total liabilities		148,029	105,173
Total equity and liabilities		372,198	309,024

These financial statements were approved by the Board of Directors on 27 February 2012 and were signed on its behalf by:



PI France and JM Davis, Directors.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued equity capital	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 31 December 2009	4,330	7,033	12,981	1,642	(217)	140,402	166,171
Profit for the year	–	–	–	–	–	69,521	69,521
Other comprehensive income							
Foreign exchange translation differences	–	–	1,119	–	–	–	1,119
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	674	–	674
Actuarial gain on defined benefit pension plans net of tax	–	–	–	–	–	1,095	1,095
Total other comprehensive income	–	–	1,119	–	674	1,095	2,888
Total comprehensive income	–	–	1,119	–	674	70,616	72,409
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions net of tax	–	–	–	–	–	195	195
Share options exercised by employees	4	356	–	–	–	–	360
Own ordinary shares acquired	–	–	–	–	–	(2,876)	(2,876)
Own ordinary shares awarded under share schemes	–	–	–	–	–	3,506	3,506
Preference shares redeemed	–	–	–	2	–	(4)	(2)
Dividends	–	–	–	–	–	(35,912)	(35,912)
Balance at 31 December 2010	4,334	7,389	14,100	1,644	457	175,927	203,851
Profit for the year	–	–	–	–	–	80,401	80,401
Other comprehensive income							
Foreign exchange translation differences	–	–	(2,484)	–	–	–	(2,484)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	207	–	207
Actuarial loss on defined benefit pension plans net of tax	–	–	–	–	–	(8,499)	(8,499)
Total other comprehensive income	–	–	(2,484)	–	207	(8,499)	(10,776)
Total comprehensive income	–	–	(2,484)	–	207	71,902	69,625
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions net of tax	–	–	–	–	–	(196)	(196)
Share options exercised by employees	4	446	–	–	–	–	450
Own ordinary shares acquired	–	–	–	–	–	(3,185)	(3,185)
Own ordinary shares awarded under share schemes	–	–	–	–	–	3,158	3,158
Dividends	–	–	–	–	–	(49,534)	(49,534)
Balance at 31 December 2011	4,338	7,835	11,616	1,644	664	198,072	224,169

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2011

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	Notes	2011 £000	2011 £000	2010 £000	2010 £000
Cash flows from operating activities					
Profit for the year		80,401		69,521	
<i>Adjustments for:</i>					
Amortisation of intangibles		3,921		1,718	
Amortisation of development costs		732		639	
Depreciation		4,479		3,972	
Equity settled share-based payment expense		1,251		1,086	
Profit on sale of property, plant and equipment		(129)		(12)	
Financial income		(7,590)		(6,931)	
Financial expenses		7,040		6,800	
Income tax expense		32,149		28,334	
		122,254		105,127	
(Increase) / decrease in inventories		(11,402)		489	
Increase in trade and other receivables		(26,791)		(14,503)	
Increase in trade and other payables		18,537		3,189	
Difference between pension charge and cash contribution		(2,929)		(844)	
(Decrease) / increase in provisions		(436)		385	
Increase in other employee benefits		1,692		507	
		100,925		94,350	
Income taxes paid		(27,754)		(26,186)	
Cash flows from operating activities			73,171		68,164
Investing activities					
Purchase of property, plant and equipment		(10,143)		(5,034)	
Development costs capitalised		(1,328)		(1,018)	
Sale of property, plant and equipment		274		154	
Acquisition of businesses, net of cash acquired	3	(59,876)		(5,621)	
Contingent consideration paid		(41)		-	
Interest received		694		483	
Cash flows from investing activities			(70,420)		(11,036)
Financing activities					
Issue of ordinary share capital		450		360	
Purchase of ordinary share capital		(3,185)		(2,876)	
Purchase of preference shares treated as debt		-		(4)	
Interest paid		(117)		(88)	
Repayment of amounts borrowed		(421)		(464)	
Repayment of finance lease liabilities		(54)		(102)	
Dividends paid on ordinary shares		(49,534)		(35,912)	
Cash flows from financing activities			(52,861)		(39,086)
Increase in cash and cash equivalents			(50,110)		18,042
Cash and cash equivalents at 1 January			97,881		78,676
Effect of exchange rate fluctuations on cash held			748		1,163
Cash and cash equivalents at 31 December	15		48,519		97,881

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 December 2011

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

Rotork p.l.c. is a company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the 'Group'). The accounting policies contained below in note 1 and the disclosures in notes 2 to 29 all relate to the Group financial statements. The Company balance sheet can be found following note 29. As the Company has elected to continue reporting under UK GAAP, the applicable accounting policies are contained in note a, and notes b to k relate to the Company's financial statements.

1. Accounting policies

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

Basis of preparation

The consolidated financial statements of Rotork p.l.c. have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

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

New accounting standards and interpretations

The following amendments to standards or interpretations are mandatory for the first time for the financial year ending 31 December 2011:

- IAS 24 (Revised) - Related Party Disclosures
- IFRIC 14 (Amendment) - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Application of these standards and interpretations has not had a material impact on the net assets or results of the Group.

Recent accounting developments

The following standards and interpretations were issued but are not yet effective and have not been adopted as application was not mandatory for the year (and in some cases not yet endorsed for use in the EU):

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 19 (amendment) - Employee benefits

The directors anticipate that the adoption of these standards and interpretations will not have a material impact on the net assets or results of the Group.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has 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. In forming this view, the directors have considered trading and cash flow forecasts, financial commitments, the significant orderbook with customers spread across different geographic areas and industries and the significant net cash position.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2011. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intra-group balances and any unrealised gains or losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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1. Accounting policies (continued)

Foreign currencies

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

Assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign subsidiaries are translated to sterling at rates approximating those ruling at the date of the transactions. Differences on exchange arising from the retranslation of the opening net investment in subsidiaries, and from the translation of the results of those subsidiaries at average rate, are reported as an item of other comprehensive income and accumulated in the translation reserve.

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

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities.

Revenue from the sale of valve actuators, gearboxes and flow control products is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer in accordance with the contracted shipping terms.

Revenue from service work is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated completion costs, the possible return of goods or continuing management involvement with the goods.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For acquisitions between 1 January 2004 and 31 December 2009, goodwill represents the difference between the cost of the acquisition, including acquisition costs and the fair value of the net identifiable assets acquired.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 December 2011

1. Accounting policies (continued)

Business combinations (continued)

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP on transition to IFRS.

Goodwill is stated at cost or deemed cost less any impairment losses. The carrying value of goodwill is reviewed at each balance sheet date and is allocated to cash-generating units (CGU). An impairment loss is recognised whenever the carrying value of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Intangible assets

(i) Research & development

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

(ii) Other intangible assets

Other intangible assets that are acquired by the Group as part of a business combination are stated at cost less accumulated amortisation and impairment losses. The useful life of each of these assets is assessed based on discussions with the management of the acquired business and takes account of the differing natures of each of the intangibles acquired. The assessed useful lives of intangibles acquired are as follows:

Order backlog	6 months to 1 year
Brands and trademarks	4 to 10 years
Customer relationships	2 to 5 years
Product design patents	5 to 8 years

Amortisation is charged on a straight-line basis over the estimated useful life of the assets.

Property, plant and equipment

Freehold land is not depreciated. Long leasehold buildings are amortised over 50 years or the expected useful life of the building where less than 50 years. Other assets are depreciated in equal annual instalments by reference to their estimated useful lives and residual values at the following annual rates:

Freehold buildings	2% to 4%
Short leasehold buildings	period of lease
Plant and equipment	10% to 33%

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

Leases

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

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1. Accounting policies (continued)

Taxation

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

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

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

Inventory and work in progress

Inventory and work in progress is valued at the lower of cost, on a 'first in, first out' basis, and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses which are required to bring inventories to their present location and condition. The net realisable value in respect of old and slow moving inventory is assessed by reference to historic usage patterns and forecast future usage.

Cash and cash equivalents

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

Equity

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

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

Provisions

(i) Warranties

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

(ii) Contingent consideration

The terms of an acquisition may provide that the value of the purchase consideration, which may be payable in cash at a future date, depends on uncertain future events. Where it is not possible to estimate the amounts payable with any degree of certainty, the amounts recognised in the financial statements represent a fair value estimate at the balance sheet date of the amounts expected to be paid.

Employee benefits

(i) Pension plans

The Group operates a number of defined benefit pension schemes and contributes to these schemes in accordance with qualified actuaries' recommendations. In respect of all actuarial gains and losses that arise in calculating the Group's obligation in respect of the plans, these are recognised in equity. Interest on pension scheme liabilities has been recognised within financing expenses and the expected return on scheme assets within financing income in the income statement.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 December 2011

1. Accounting policies (continued)

Employee benefits (continued)

(ii) Share-based payment transactions

The Rotork Share Option Scheme allows certain employees to acquire shares in Rotork p.l.c. This scheme is now closed and the last grant of new options took place in 2004. Details of the scheme are given in note 24. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Rotork Sharesave Plan, introduced in 2004, offers certain employees the opportunity to purchase shares in Rotork p.l.c. at a discounted price compared with the market price at the time of grant. Details of the scheme are given in note 24. The fair value of the right / option is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant and maturity. The right / option reaches maturity when the employee becomes unconditionally entitled. The fair value of the grant is measured using a Black-Scholes model, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Rotork Long Term Incentive Plan grants awards of shares to executive directors and senior managers. These awards may vest after a period of three years dependent upon both market and non-market performance conditions being met. Details of the grants are given in note 24. This plan gives share awards or cash awards (of equivalent value to the share awards) dependent upon the employee's country of residence at date of grant. The fair value of the award is measured at grant date, using a Monte Carlo simulation model which takes into account the market based performance criteria, and spread over the vesting period. The fair value of the award is recognised as an employee expense with a corresponding increase in equity for the share settled award and a provision within employee benefits for the cash settled award. The amount recognised as an expense is adjusted to exclude options that do not vest as a result of non-market performance conditions not being met. In the case of the cash awards, the liability is re-measured at each balance sheet date and at settlement date and any changes in fair value recognised in the income statement, spread equally over the vesting period.

(iii) Long-term service leave

The Group's net obligation in respect of long-term service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

(iv) Other employee benefits

In addition to the above schemes the Group offers a number of discretionary bonus schemes to employees around the world. The costs of these schemes are recognised in the income statement as incurred. This includes the Share Incentive Plan and Overseas Profit Linked Share Scheme both of which are a known liability at the year end.

Derivative financial instruments

The Group uses forward exchange contracts and swaps to hedge its exposure to foreign exchange risk arising from operational and financing activities. These are the only derivative financial instruments used by the Group. In accordance with its Treasury Policy, the Group does not hold or issue contracts for trading purposes. Forward exchange contracts that do not qualify for hedge accounting are accounted for as trading instruments.

Forward exchange contracts are recognised initially at fair value. Where a forward exchange contract is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the forward contract is recognised directly in equity. Any effective cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

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

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1. Accounting policies (continued)

Dividends

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

Critical accounting estimates and judgements

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

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

(i) Impairment of goodwill

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

(ii) Valuation of acquired intangible assets

Acquisitions may result in customer relationships, brands and trademarks, product design patents and order backlogs being recognised. These are valued using discounted cash flows and relief from royalty methods. In applying these methodologies certain key judgements and estimates are required to be made in respect of future cash flows. Details of the accounting policies are shown earlier in this note and the carrying value of the acquired intangible assets are shown in note 11.

(iii) Defined benefit pension scheme liabilities

Determining the value of the future defined benefit obligation requires judgement in respect of the assumptions used to calculate present values. These include future mortality, discount rate, inflation and salary increases. Management makes these judgements in consultation with an independent actuary. Details of the estimates and judgements in respect of the current year are in note 23.

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2. Operating segments

The Group has chosen to organise the management and financial structure by the grouping of related products. The four identifiable operating segments where the financial and operating performance is reviewed monthly by the chief operating decision maker are as follows:

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

Fluid Systems – the design, manufacture and sale of pneumatic and hydraulic valve actuators

Gears – the design, manufacture and sale of gearboxes, adaption and ancillaries for the valve industry

Instruments – the manufacture of high precision pneumatic controls and power transmission products for a wide range of industries

Unallocated expenses comprise corporate expenses.

Geographic analysis

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

Analysis by Operating segment:

	Controls 2011	Fluid Systems 2011	Gears 2011	Instruments 2011	Elimination 2011	Unallocated 2011	Group 2011
Revenue from external customers	277,957	132,624	35,816	1,436	–	–	447,833
Inter segment revenue	–	–	10,777	–	(10,777)	–	–
Total revenue	277,957	132,624	46,593	1,436	(10,777)	–	447,833
Adjusted operating profit	92,085	17,077	10,336	394	–	(3,971)	115,921
Amortisation of acquired intangibles	(890)	(2,277)	(18)	(736)	–	–	(3,921)
Operating profit	91,195	14,800	10,318	(342)	–	(3,971)	112,000
Net financing income							550
Income tax expense							(32,149)
Profit for the year							80,401

	Controls 2010	Fluid Systems 2010	Gears 2010	Instruments 2010	Elimination 2010	Unallocated 2010	Group 2010
Revenue from external customers	243,361	106,838	30,361	–	–	–	380,560
Inter segment revenue	–	–	8,844	–	(8,844)	–	–
Total revenue	243,361	106,838	39,205	–	(8,844)	–	380,560
Adjusted operating profit	78,786	14,911	9,161	–	–	(3,416)	99,442
Amortisation of acquired intangibles	–	(1,659)	(59)	–	–	–	(1,718)
Operating profit	78,786	13,252	9,102	–	–	(3,416)	97,724
Net financing income							131
Income tax expense							(28,334)
Profit for the year							69,521

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2. Operating segments (continued)

Analysis by Operating segment (continued):

	Controls 2011	Fluid Systems 2011	Gears 2011	Instruments 2011	Unallocated 2011	Group 2011
Depreciation	3,026	1,205	229	19	–	4,479
Amortisation:						
Other intangibles	890	2,277	18	736	–	3,921
Development costs	732	–	–	–	–	732
Non-cash items: equity settled share-based payments	543	205	129	–	374	1,251
Net financing income	–	–	–	–	550	550
Intangible assets acquired as part of business combinations	5,674	5,461	668	54,101	–	65,904
Capital expenditure	7,947	1,512	455	88	–	10,002

	Controls 2010	Fluid Systems 2010	Gears 2010	Instruments 2010	Unallocated 2010	Group 2010
Depreciation	2,634	1,124	214	–	–	3,972
Amortisation:						
Other intangibles	–	1,659	59	–	–	1,718
Development costs	639	–	–	–	–	639
Non-cash items: equity settled share-based payments	609	129	111	–	237	1,086
Net financing expense	–	–	–	–	131	131
Intangible assets acquired as part of a business combination	–	4,102	–	–	–	4,102
Capital expenditure	3,953	940	179	–	–	5,072

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

Geographical analysis:

	UK 2011	Rest of Europe 2011	USA 2011	Other Americas 2011	Rest of World 2011	Group 2011
Revenue from external customers by location of customer	25,703	148,513	87,144	38,256	148,217	447,833
Non-current assets						
- Intangible assets	8,704	20,315	71,960	1,756	4,049	106,784
- Property, plant and equipment	9,027	10,323	6,271	310	6,023	31,954

	UK 2010	Rest of Europe 2010	USA 2010	Other Americas 2010	Rest of World 2010	Group 2010
Revenue from external customers by location of customer	24,277	121,595	71,036	39,488	124,164	380,560
Non-current assets						
- Intangible assets	7,248	18,621	13,564	213	4,344	43,990
- Property, plant and equipment	6,423	10,618	4,363	230	4,146	25,780

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3. Acquisitions

2011

(i) Fairchild

On 15 November 2011 the Group acquired 100% of the share capital of Fairchild Industrial Products Company (Fairchild) for £49,532,000. Fairchild is a manufacturer of high precision pneumatic controls and power transmission products for a wide range of industries, based in Winston Salem, North Carolina, USA. The acquired business will be reported as a new division called Rotork Instruments. In the six weeks to 31 December 2011 Fairchild contributed £1,436,000 to Group revenue and £394,000 to consolidated operating profit before amortisation. The amortisation charge in the six week period from the acquired intangible assets was £736,000.

If the acquisition had occurred on 1 January 2011 the business would have contributed £15,132,000 to Group revenue and £4,777,000 to Group operating profit. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

(ii) Other acquisitions

On 25 July 2011 the Group acquired 100% of the share capital of K-Tork International Inc. (K-Tork) for £6,518,000. K-Tork is a manufacturer of pneumatic valve actuators based in Dallas, Texas, USA. The acquired business will be reported within the Rotork Fluid System division.

On 15 July 2011 the Group acquired 100% of the share capital of Centork Valve Control S.L. (Centork) for £3,147,000. Centork is a manufacturer of electric actuators based near San Sebastian in Spain. The acquired business will be reported within the Rotork Controls division.

The Group also acquired 100% of the share capital of Rotork Servo Controles de Mexico S.A. de C.V. in Mexico (RSCM), Valco Valves & Automation AS in Norway (VVA), and Prokits Limited (Prokits) based in Mansfield, UK for a combined consideration of £4,991,000. RSCM and VVA were Rotork agents and the results of the acquired businesses will be reported in each of the divisions. Prokits designs and manufactures valve adaptor kits and accessories for the valve industry and will be reported as part of the Gears division.

In the period from acquisition to 31 December 2011 the businesses contributed £8,170,000 to Group revenue and £563,000 to consolidated operating profit before amortisation. The amortisation charge in respect of these acquisitions during the year was £1,464,000.

If these other acquisitions had occurred on 1 January 2011 the businesses would have contributed £16,488,000 to Group revenue and £1,309,000 to Group operating profit. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

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3. Acquisitions (continued)

2011 (continued)

(iii) Acquisitions fair value table

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

	Fairchild			Other acquisitions			Total Fair value
	Book value	Adjustments	Fair value	Book value	Adjustments	Fair value	
Non-current assets							
Property, plant and equipment	638	–	638	668	(140)	528	1,166
Intangible assets	–	25,811	25,811	–	7,545	7,545	33,356
Deferred tax assets	97	106	203	–	360	360	563
Current assets							
Inventory	1,821	(77)	1,744	2,745	(637)	2,108	3,852
Trade and other receivables	1,832	(26)	1,806	1,883	(148)	1,735	3,541
Cash	1,415	–	1,415	2,347	–	2,347	3,762
Current liabilities							
Trade and other payables	(1,106)	(63)	(1,169)	(1,701)	(730)	(2,431)	(3,600)
Warranty provision	(35)	(136)	(171)	–	(198)	(198)	(369)
Loans and other borrowings	–	–	–	(205)	–	(205)	(205)
Non-current							
Deferred tax liability	–	(9,034)	(9,034)	(131)	(850)	(981)	(10,015)
Loans and other borrowings	–	–	–	(411)	–	(411)	(411)
Total net assets	4,662	16,581	21,243	5,195	5,202	10,397	31,640
Goodwill			28,289			4,259	32,548
Purchase consideration			49,532			14,656	64,188
Paid in cash			49,532			14,106	63,638
Contingent consideration			–			550	550
			49,532			14,656	64,188
Purchase consideration			49,532			14,106	63,638
Cash held in subsidiary			(1,415)			(2,347)	(3,762)
Cash outflow on acquisition			48,117			11,759	59,876

The adjustments shown in the table above represent the alignment of accounting policies of the acquired businesses to Rotork Group policies and the fair value adjustments of the assets and liabilities at the acquisition date of each of the businesses.

Goodwill has arisen on these acquisitions as a result of the value attributed to staff expertise and the assembled workforce, which did not meet the recognition criteria for an intangible asset.

The intangible assets identified comprise customer relationships, brands, product design patents and acquired order books.

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3. Acquisitions (continued)

2010

On 19 May 2010 the Group acquired 100% of the share capital of Ralph A. Hiller Company (Hiller) for £5,453,000. Hiller is a designer and manufacturer of nuclear actuators and a distributor of related products based in Pittsburgh, Pennsylvania, USA. The acquired business will be integrated into the Rotork Fluid Systems division.

In the eight months to 31 December 2010 Hiller contributed £6,643,000 to Group revenue and £837,000 to consolidated operating profit before the £390,000 amortisation charge from the acquired intangible assets. If the acquisition had occurred on 1 January 2010 the business would have contributed £10,249,000 to Group revenue and £942,000 to Group operating profit. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

Goodwill has arisen on this acquisition as a result of the value attributed to staff expertise and the assembled workforce, which did not meet the recognition criteria for an intangible asset.

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

	Pre-acquisition carrying amounts	accounting policies	Fair value adjustments	Provisional Fair value
Property, plant and equipment	1,075	–	–	1,075
Intangible assets	–	–	1,629	1,629
Inventories	1,085	156	–	1,241
Trade and other receivables	2,104	227	–	2,331
Trade and other payables	(641)	(2,023)	–	(2,664)
Overdraft	(168)	–	–	(168)
Borrowings	(464)	–	–	(464)
Total net assets	2,991	(1,640)	1,629	2,980
Goodwill on acquisition				2,473
Consideration paid, settled in cash				5,453
Cash outflow on acquisition				
Purchase consideration settled in cash				5,453
Overdraft in subsidiary acquired				168
				5,621

Accounting policy adjustments were required to align Hiller accounting policies to Rotork Group policies. Adjustments were made in respect of revenue recognition, inventory provisioning, warranty provisions and other accruals.

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

4. Other income

	2011	2010
Gain on disposal of property, plant and equipment	175	66
Other	19	17
	194	83

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5. Other expenses

	2011	2010
Loss on disposal of property, plant and equipment	46	54
Other	13	6
	59	60

6. Personnel expenses

	2011	2010
Wages and salaries (including bonus and incentive plans)	81,649	70,452
Social security costs	9,190	7,928
Pension costs (note 23)	5,003	4,603
Share-based payments (note 24)	1,251	1,848
Increase in liability for long-term service leave	40	42
	97,133	84,873

A total of £1,251,000 (2010: £1,848,000) of the above share-based payments are equity settled, comprising £194,000 (2010: £154,000) for the Sharesave plan and £1,057,000 (2010: £932,000) for the Long Term Incentive Plan (LTIP). The remaining £nil (2010: £762,000) relates to the cash LTIP.

	2011 Number	2010 Number
During the year, the average weekly number of employees, analysed by business segment was:		
Controls	1,383	1,147
Fluid Systems	560	507
Gears	241	215
Instruments	8	-
	2,192	1,869
UK	522	510
Overseas	1,670	1,359
	2,192	1,869

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7. Net financing income

	2011	2010
Recognised in the income statement		
Interest income	746	540
Expected return on assets in the pension schemes	6,739	6,141
Foreign exchange gains	105	250
	7,590	6,931
Interest expense	116	79
Interest charge on pension scheme liabilities	6,468	6,289
Foreign exchange losses	456	432
	7,040	6,800
Recognised in equity		
Effective portion of changes in fair value of cash flow hedges	664	457
Fair value of cash flow hedges transferred to income statement	(457)	217
Foreign currency translation differences for foreign operations	(2,484)	1,119
	(2,277)	1,793
Recognised in:		
Hedging reserve	207	674
Translation reserve	(2,484)	1,119
	(2,277)	1,793

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8. Profit before tax

Profit before tax is stated after charging the following:

	Notes	2011	2010
Depreciation of property, plant and equipment:			
- Owned assets	i	4,408	3,881
- Assets held under finance lease contracts	i	71	91
Amortisation:			
- Other intangibles	i	3,921	1,718
- Development costs	i	732	639
Inventory write downs recognised in the year	i	1,230	772
Hire of plant and machinery	i	957	889
Other operating lease rentals	i	1,460	1,417
Research & development expenditure	ii	4,495	3,300
Exchange differences realised	iii	351	182
Auditors - audit fees and expenses paid to:			
KPMG Audit Plc			
- In respect of Company reporting		64	62
- In respect of Group reporting of subsidiaries		216	196
- In respect of local statutory reporting of subsidiaries		98	93
Other auditors of Group reporting subsidiaries		378	351
		128	102
Total audit fees and expenses		506	453
Other fees paid to KPMG Audit Plc and its associates analysed between:			
- Taxation		83	40
- Other		60	5
		143	45

In addition to the above, the Rotork Pension & Life Assurance Scheme paid KPMG LLP £nil (2010: £10,000) in respect of investment advice.

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

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

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9. Income tax expense

	2011	2011	2010	2010
Current tax:				
UK corporation tax on profits for the year	9,737		8,645	
Adjustment in respect of prior years	(120)		(417)	
		9,617		8,228
Overseas tax on profits for the year	23,086		18,787	
Adjustment in respect of prior years	(210)		42	
		22,876		18,829
Total current tax		32,493		27,057
Deferred tax:				
Origination and reversal of other temporary differences	57		1,477	
Adjustment in respect of prior years	(401)		(200)	
Total deferred tax		(344)		1,277
Total tax charge for year		32,149		28,334
Effective tax rate (based on profit before tax)		28.6%		29.0%
Profit before tax		112,550		97,855
Profit before tax multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28.0%)		29,826		27,399
Effects of:				
Non deductible items		863		785
Utilisation of overseas tax holidays		(1,171)		(1,127)
Different tax rates on overseas earnings		3,362		1,852
Adjustments to tax charge in respect of prior years		(731)		(575)
Total tax charge for year		32,149		28,334

A tax charge of £168,000 (2010: credit £926,000) in respect of share-based payments has been recognised directly in equity in the year.

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

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

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10. Property, plant and equipment

	Land and buildings 2011	Plant and equipment 2011	Total 2011	Land and buildings 2010	Plant and equipment 2010	Total 2010
Cost						
At 1 January	20,990	38,532	59,522	19,493	33,762	53,255
Exchange differences	(288)	(263)	(551)	127	985	1,112
Additions	3,255	6,747	10,002	399	4,673	5,072
Disposals	(39)	(584)	(623)	(89)	(903)	(992)
Acquisition through business combinations	–	1,166	1,166	1,060	15	1,075
At 31 December	23,918	45,598	69,516	20,990	38,532	59,522
Depreciation						
At 1 January	6,716	27,026	33,742	6,029	23,705	29,734
Exchange differences	(74)	(132)	(206)	97	786	883
Charge for year	589	3,890	4,479	614	3,358	3,972
Disposals	(13)	(440)	(453)	(24)	(823)	(847)
At 31 December	7,218	30,344	37,562	6,716	27,026	33,742
Net book value at 31 December	16,700	15,254	31,954	14,274	11,506	25,780
Net book value at 31 December 2009				13,464	10,057	23,521

The net book value of the Group's plant and equipment includes £64,000 (2010: £142,000) in respect of assets held under finance leases.

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

	2011	2010
Land	2,121	1,775
Buildings	14,579	12,499
Net book value at 31 December	16,700	14,274

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

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11. Intangible assets

	Development		Other	Total	Development		Other	Total
	Goodwill	costs	intangibles		Goodwill	costs	intangibles	
Cost								
Balance at 1 January	35,907	5,666	10,505	52,078	33,204	4,647	8,409	46,260
Exchange differences	4	–	199	203	230	–	468	698
Internally developed during the year	–	1,328	–	1,328	–	1,018	–	1,018
Acquisition through business combinations	32,548	–	33,356	65,904	2,473	–	1,629	4,102
Balance at 31 December	68,459	6,994	44,060	119,513	35,907	5,665	10,506	52,078
Amortisation								
Balance at 1 January	–	3,194	4,894	8,088	–	2,555	2,925	5,480
Exchange differences	–	–	(12)	(12)	–	–	251	251
Amortisation for the year	–	732	3,921	4,653	–	639	1,718	2,357
Balance at 31 December	–	3,926	8,803	12,729	–	3,194	4,894	8,088
Net book value at 31 December	68,459	3,068	35,257	106,784	35,907	2,471	5,612	43,990
Net book value at 31 December 2009					33,204	2,092	5,484	40,780

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

Impairment tests for goodwill

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

	2011	2010
Controls	8,967	6,828
Fluid Systems	23,020	21,436
Gears	7,793	7,643
Instruments	28,679	–
	68,459	35,907

The recoverable amounts of all CGUs are based on value in use calculations. These calculations use cash flow projections and are based on actual operating results and the latest Group three year plan. The three year plan is based on management's view of the future and experience of past performance. Cash flows for the remainder of the next twenty years are extrapolated using a 2% growth rate which reflects the Long Term nature of many of the markets the Group serves. This rate has been consistently bettered in the past so is believed to represent a prudent estimate.

The discount rate used is 9.8% (2010: 12.1%), this represents a reasonable rate for a market participant in this sector. The majority of the discount rate reduction is due to the movement in 10 year bond yields on which the risk free rate is based. The discount rate of each business segment is not materially different to 9.8%. For the Goodwill to become impaired in the CGU with the minimum headroom, the discount rate would have to increase to 25.8%. On this basis each business segment has sufficient headroom and therefore no impairment write downs are required.

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12. Recognised deferred tax assets and liabilities

	Assets 2011	Liabilities 2011	Net 2011	Assets 2010	Liabilities 2010	Net 2010
Property, plant and equipment	189	(1,053)	(864)	183	(334)	(151)
Intangible assets	–	(11,450)	(11,450)	–	(1,988)	(1,988)
Employee benefits	8,590	–	8,590	7,742	–	7,742
Provisions	4,620	–	4,620	4,397	–	4,397
Other items	1,435	(1,869)	(434)	351	(2,036)	(1,685)
Net tax assets / (liabilities)	14,834	(14,372)	462	12,673	(4,358)	8,315
Set off of tax	(1,590)	1,590	–	(1,193)	1,193	–
	13,244	(12,782)	462	11,480	(3,165)	8,315

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

	2011	2010
Balance at 1 January	8,315	9,661
Credited / (charged) to the income statement	344	(1,277)
(Charged) / credited directly to equity in respect of share-based payments	(539)	472
Acquired as part of business combinations	(9,452)	262
Credited / (charged) directly to equity in respect of pension schemes	1,934	(633)
Charged directly to hedging reserves in respect of cash flow hedges	(65)	(253)
Exchange differences	(75)	83
Balance at 31 December	462	8,315

A deferred tax asset of £13,244,000 (2010: £11,480,000) has been recognised at 31 December 2011. The directors are of the opinion, based on recent and forecast trading, that the level of profits in the current and future years make it more likely than not that these assets will be recovered.

A deferred tax asset of £1,958,000 (2010: £2,033,000) has not been recognised in relation to capital losses and certain tax credits, tax losses and other temporary differences. These assets may be recovered if sufficient taxable or capital profits are made in future in the companies concerned.

13. Inventories

	2011	2010
Raw materials and consumables	40,609	30,345
Work in progress	13,209	11,411
Finished goods	9,110	6,485
	62,928	48,241

Included in cost of sales was £175,352,000 (2010: £147,651,000) in respect of inventories consumed in the year.

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14. Trade and other receivables

	2011	2010
Non-current assets:		
Insurance policy	1,298	1,158
Other	258	132
Other receivables	1,556	1,290
Current assets:		
Trade receivables	98,779	72,208
Less provision for impairment of receivables	(2,045)	(1,846)
Trade receivables – net	96,734	70,362
Corporation tax	988	2,398
Current tax	988	2,398
Other non-trade receivables	4,357	3,943
Prepayments and accrued income	4,104	2,741
Other receivables	8,461	6,684

15. Cash and cash equivalents

	2011	2010
Bank balances	33,790	40,865
Cash in hand	82	95
Short-term deposits	14,685	56,921
Cash and cash equivalents	48,557	97,881
Bank overdraft	(38)	–
Cash and cash equivalents in the Consolidated Statement of Cash Flows	48,519	97,881

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16. Capital and reserves

Share capital and share premium

	5p Ordinary shares issued and fully paid up 2011	£1 Non- redeemable preference shares 2011	5p Ordinary shares issued and fully paid up 2010	£1 Non- redeemable preference shares 2010
At 1 January	4,334	40	4,330	42
Preference shares redeemed	–	–	–	(2)
Issued under employee share schemes	4	–	4	–
At 31 December	4,338	40	4,334	40
Number of shares (000)	86,750		86,682	

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

The Group received proceeds of £450,000 (2010: £360,000) in respect of the 68,264 (2010: 68,955) ordinary shares issued during the year: £4,000 (2010: £4,000) was credited to share capital and £446,000 (2010: £356,000) to share premium. Further details of the share awards are shown in note 24.

The preference shareholders take priority over the ordinary shareholders when there is a distribution upon winding up the Company or on a reduction of equity involving a return of capital. The holders of preference shares are entitled to vote at a general meeting of the Company if a preference dividend is in arrears for six months or the business of the meeting includes the consideration of a resolution for winding up the Company or the alteration of the preference shareholders' rights.

Within the retained earnings reserve are own shares held. The investment in own shares represents 227,575 (2010: 262,528) ordinary shares of the Company held in trust for the benefit of directors and employees for future payments under the Share Incentive Plan and Long Term Incentive Plan. The dividends on these shares have been waived.

Translation reserve

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

Capital redemption reserve

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

Hedging reserve

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

Dividends

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

	2011 Payment date	2011	2010
19.75p final dividend (2010: 17.25p)	6 May	17,097	14,928
14.5p interim dividend (2010: 12.75p)	23 September	12,543	11,033
2010 additional interim dividend of 11.5p paid	–	–	9,951
2011 additional interim dividend of 11.5p paid	24 June	9,948	–
2011 additional interim dividend of 11.5p paid	16 December	9,946	–
		49,534	35,912

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16. Capital and reserves (continued)

Dividends (continued)

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

	2011	2010
Final proposed dividend per qualifying ordinary share 22.75p	19,736	
19.75p		17,120
Additional interim dividend of 11.5p per qualifying ordinary share proposed for 2011		10,000

17. Earnings per share

Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.5m shares (2010: 86.4m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2011	2010
Net profit attributable to ordinary shareholders	80,401	69,521
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	86,419	86,250
Effect of own shares held	55	131
Effect of shares issued under Share option schemes / Sharesave plans	12	24
Weighted average number of ordinary shares during the year	86,486	86,405
Basic earnings per share	93.0p	80.5p

Adjusted basic earnings per share

Adjusted basic earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year after adding back the after tax amortisation charge.

	2011	2010
Net profit attributable to ordinary shareholders	80,401	69,521
Amortisation	3,921	1,718
Tax effect on amortisation at effective rate	(1,120)	(497)
Adjusted net profit attributable to ordinary shareholders	83,202	70,742
Weighted average number of ordinary shares during the year	86,486	86,405
Adjusted basic earnings per share	96.2p	81.9p

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17. Earnings per share (continued)

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.8m shares (2010: 86.7m shares). The number of shares is equal to the weighted average number of ordinary shares in issue (net of own ordinary shares held) adjusted to assume conversion of all potentially dilutive ordinary shares. The Company has three categories of potentially dilutive ordinary shares: those share options granted to employees under the Share option scheme and Sharesave plan where the exercise price is less than the average market price of the Company's ordinary shares during the year and contingently issuable shares awarded under the Long Term Incentive Plan (LTIP).

	2011	2010
Net profit attributable to ordinary shareholders	80,401	69,521
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	86,486	86,405
Effect of share options in issue	5	9
Effect of Sharesave options in issue	101	108
Effect of LTIP shares in issue	254	145
Weighted average number of ordinary shares (diluted) during the year	86,846	86,667
Diluted earnings per share	92.6p	80.2p

18. Interest bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings. For more information about the Group's exposure to interest rate and currency risk, see note 25.

	2011	2010
Non-current liabilities		
Preference shares classified as debt	40	40
Bank loans	129	–
Finance lease liabilities	60	87
	229	127
Current liabilities		
Bank Overdraft	38	–
Bank loans	31	–
Finance lease liabilities	54	49
	123	49

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Interest Rates	Year of maturity	Face value 2011	Carrying amount 2011	Face value 2010	Carrying amount 2010
Non-redeemable preference shares	Sterling	9.5%	–	40	40	40	40
Bank loans and overdrafts	Euro	0%	2012–16	198	198	–	–
Finance lease liabilities	Various	1.1% – 8.2%	2012–15	122	114	145	136
				360	352	185	176

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18. Interest bearing loans and borrowings (continued)

Repayment profile

Finance leases and bank loans and overdrafts are payable as follows:

	Minimum payments 2011	Interest 2011	Principal 2011	Minimum payments 2010	Interest 2010	Principal 2010
Bank loans less than one year	69	–	69	–	–	–
Bank loans more than one and less than five years	129	–	129	–	–	–
Finance leases less than one year	58	4	54	54	5	49
Finance leases more than one and less than five years	64	4	60	91	4	87
	320	8	312	145	9	136

19. Employee benefits

	2011	2010
Recognised liability for defined benefit obligations:		
- Present value of funded obligations	132,804	117,737
- Fair value of plan assets	(107,429)	(100,466)
	25,375	17,271
Defined contribution scheme liabilities	1,204	812
Employee bonus and incentive plan	9,513	6,828
Long term incentive plan	305	1,717
Employee indemnity provision	993	1,008
Liability for Long Term service leave	376	336
	37,766	27,972
Non-current	28,142	19,752
Current	9,624	8,220
	37,766	27,972

Defined benefit pension scheme disclosures are detailed in note 23.

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20. Provisions

	Contingent Consideration	Warranty Provision	Total
Balance at 1 January 2011	–	5,964	5,964
Exchange differences	–	(49)	(49)
Increase as a result of business combinations	550	369	919
Provisions used during the year	(41)	(1,215)	(1,256)
Charged in the year	–	610	610
Balance at 31 December 2011	509	5,679	6,188
Maturity at 31 December 2011			
Non-current	300	1,918	2,218
Current	209	3,761	3,970
	509	5,679	6,188
Maturity at 31 December 2010			
Non-current	–	1,968	1,968
Current	–	3,996	3,996
	–	5,964	5,964

The warranty provision is based on estimates made from historical warranty data associated with similar products and services. The provision relates mainly to products sold during the last 12 months, the typical warranty period is now 18 months.

Contingent consideration relates to amounts outstanding in respect of the Rotork Servo Controles de Mexico S.A. de C.V. and Prokits Limited acquisitions. It is anticipated that £250,000 of the non-current balance will be settled in 2013 with the remaining £50,000 payable during 2014.

21. Trade and other payables

	2011	2010
Trade payables	38,502	30,447
Bills of exchange	240	–
Trade payables	38,742	30,447
Corporation tax	13,225	10,821
Current tax	13,225	10,821
Other taxes and social security	5,524	4,066
Payments on account	12,847	5,451
Non-trade payables and accrued expenses	19,989	16,817
Other payables	38,360	26,334

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22. Derivative financial instruments

	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Forward foreign exchange contracts - cash flow hedges	992	95	918	294
Foreign exchange swaps - cash flow hedges	–	519	–	–
Total	992	614	918	294
<i>Less non-current portion:</i>				
Forward foreign exchange contracts - cash flow hedges	(315)	–	–	–
Current portion	677	614	918	294

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

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

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates. Gains and losses in respect of these derivatives recognised in the hedging reserve in equity (note 16) at 31 December 2011 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

23. Pension schemes

(i) Defined benefit pension schemes

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

Movements in the present value of defined benefit obligations

	2011	2010
Liabilities at 1 January	117,737	108,514
Current service costs	2,438	2,142
Member contributions	467	465
Interest cost	6,468	6,289
Benefits paid	(3,637)	(3,189)
Past service costs	–	288
Actuarial loss	9,407	2,759
Currency (gain) / loss	(76)	469
Liabilities at 31 December	132,804	117,737

Movements in fair value of plan assets

	2011	2010
Assets at 1 January	100,466	88,906
Expected return on scheme assets	6,739	6,141
Employer contributions	5,287	3,393
Member contributions	467	465
Benefits paid	(3,637)	(3,189)
Actuarial (loss) / gain	(1,858)	4,487
Currency (loss) / gain	(35)	263
Assets at 31 December	107,429	100,466

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23. Pension schemes (continued)

(i) Defined benefit pension schemes (continued)

Expense recognised in the Income Statement

	2011	2010
Current service costs	2,438	2,142
Past service costs	–	288
Interest on obligation	6,468	6,289
Expected return on plan assets	(6,739)	(6,141)
	2,167	2,578

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

	2011	2010
Cost of sales	595	593
Administrative expenses	1,843	1,837
Net financing (income) / expenses	(271)	148
	2,167	2,578

Amounts recognised in the Consolidated Statement of Comprehensive Income

	2011	2010
Actuarial (loss) / gain on plan assets	(1,858)	4,487
Actuarial loss from liabilities	(9,407)	(2,759)
	(11,265)	1,728
Currency gain / (loss)	41	(206)
Net (loss) / gain	(11,224)	1,522
Cumulative losses recognised in the Consolidated Statement of Comprehensive Income	(31,553)	(20,329)

Experience adjustments

	2011	2010	2009	2008	2007
Defined benefit obligation	(132,804)	(117,737)	(108,514)	(81,994)	(93,799)
Scheme assets	107,429	100,466	88,906	76,277	86,215
Deficit	(25,375)	(17,271)	(19,608)	(5,717)	(7,584)
Experience adjustments on liabilities	121	(177)	(2,760)	(2,006)	(1,953)
Experience adjustments on assets	(1,858)	4,487	7,020	(17,843)	(2,954)
Experience adjustments on currency	41	(206)	397	(607)	24

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23. Pension schemes (continued)

(i) Defined benefit pension schemes (continued)

Liability for defined benefit obligations

The principal actuarial assumptions at 31 December 2011 (expressed as weighted averages):

	UK scheme (% per annum)		US scheme (% per annum)		Average (% per annum)	
	2011	2010	2011	2010	2011	2010
Discount rate	4.8	5.4	4.6	5.8	4.8	5.4
Rate of increase in salaries	3.5	4.1	4.5	4.5	3.6	4.1
Rate of increase in pensions (post May 2000)	2.9	3.6	0.0	0.0	2.6	3.3
Rate of increase in pensions (pre May 2000)	4.5	4.5	0.0	0.0	4.0	4.1
Rate of inflation	3.0	3.6	3.5	3.5	3.0	3.6

The Retail Price Index is used as the rate of inflation as it is a requirement of the pension scheme rules.

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

	2011		2010	
	%		%	
Equities	6.5	48,787	7.9	51,435
Bonds	3.8	43,287	4.8	36,431
Property	7.5	6,845	7.5	6,426
Cash	3.4	2,109	3.4	44
US deposit administration contract	6.0	6,400	6.0	6,130
Total		107,428		100,466
Actual return on the schemes' assets		4,846		10,891

The individual return assumptions for each asset class are based on market conditions at 31 December 2011 and represent a best estimate of future returns for that class allowing for risk premiums where appropriate. No scheme assets are invested in the Group's own equity. The Group estimates that cash contributions to the Group's defined benefit pension schemes during 2012 will be £3,300,000 for regular payments and additional payments of £6,100,000 in relation to past service (2011: £2,100,000).

The mortality assumptions used are the S1NXA year of birth tables with future improvements in mortality based on the CMI_2009 projections with a Long Term rate of improvement of 1.5% per annum (2010: 1.5%).

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

Current age	2011		2010	
	Life expectancy at age 65 Male	Life expectancy at age 65 Female	Life expectancy at age 65 Male	Life expectancy at age 65 Female
65	22.4	24.7	22.2	24.5
45	24.7	27.1	24.5	27.0

(ii) Other pension plans

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £2,565,000 (2010: £2,173,000).

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24. Share-based payments

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

	2011	2010
LTIP – cash settled	–	762
LTIP – equity settled	1,057	932
Sharesave plan	194	154
Total expense recognised as employee costs (note 6)	1,251	1,848

Volatility assumptions for equity-based payments

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

(a) Share option scheme

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

No new grants have been made under the scheme since 2004.

Options over 12,229 shares were outstanding at the beginning of the year. During 2011 5,332 options (2010: 5,314) were exercised and the Group received proceeds of £17,000 (2010: £18,000) at a weighted average exercise price of £3.14 (2010: £3.28). The options were exercised throughout the year at between £2.85 and £3.87 (2010: between £2.85 and £3.87). During the year 417 shares lapsed leaving 6,480 options exercisable at 31 December 2011. These options have a weighted average contractual life of two years remaining.

(b) Sharesave plan

UK employees are invited to join the Sharesave plan when an offer is made each year. All the offers to date were made at a 20% discount to market price at the time. There are no performance criteria for the Sharesave plan. Employees are given the option of joining either the 3 year or the 5 year scheme.

	3 year scheme		5 year scheme	
	2011	2010	2011	2010
Grant date	1 December	1 December	1 December	1 December
Share price at grant date	£18.08	£15.79	£18.08	£15.79
Exercise price	£13.32	£13.10	£13.32	£13.10
Shares granted under scheme	29,655	22,838	28,868	29,255
Vesting period	3 years	3 years	5 years	5 years
Expected volatility	31%	37%	34%	34%
Risk free rate	0.7%	1.2%	1.3%	2.1%
Expected dividends expressed as a dividend yield	1.9%	1.9%	1.9%	1.9%
Probability of ceasing employment before vesting	20%	20%	20%	20%
Fair value	£5.59	£4.71	£6.53	£5.28

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24. Share-based payments (continued)

(b) Sharesave plan (continued)

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	Average exercise price in £ per share	2011 Options	Average exercise price in £ per share	2010 Options
At 1 January	8.62	258,411	7.02	274,810
Granted	13.32	58,523	13.10	52,093
Exercised	6.82	(62,932)	5.38	(63,641)
Lapsed	10.33	(6,414)	7.36	(4,851)
At 31 December 2011	10.17	247,588	8.62	258,411

Of the 247,588 outstanding options (2010: 258,411), 7,045 are exercisable (2010: 37,964).

The Group received proceeds of £433,000 in respect of the 62,932 options exercised during the year: £4,000 was credited to share capital and £429,000 to share premium (see note 16). The weighted average share price at date of exercise was £18.07 (2010: £15.48).

The weighted average remaining life of 91,455 (2010: 95,992) awards outstanding under the 3 year plan is two years. The weighted average remaining life of 156,133 (2010: 162,419) awards outstanding under the 5 year plan is three years.

(c) Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a performance share or cash unit plan under which shares or cash units are conditionally allocated to selected members of senior management at the discretion of the Remuneration Committee on an annual basis. Following shareholder approval of the LTIP at the Company's AGM on 18 May 2000, awards over shares were made to executive directors and senior managers in each year from 2000 to 2009. In 2009, 2010 and 2011 awards were only made under the share-based scheme.

LTIP - 2008 and 2009 awards

No shares or cash units will normally be released to participants unless they are still in the Group's service following completion of three year performance periods and the Company's relative total shareholder return (TSR) against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the relevant performance period.

TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares or cash units transferred will be determined by the number of shares or cash units initially allocated multiplied by a vesting percentage. The actual number of shares or cash units transferred will be 30% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.8% to the vesting percentage. The Company's earnings per share (EPS) is also monitored during the relevant performance period to ensure it meets a minimum average annual growth equal to the rise in the Retail Price Index (RPI) plus 2% per annum. Failure to meet the RPI requirement will result in nil vesting.

The performance period for the 2008 awards ended on 31 December 2010. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 94.4% vesting of this award as the Company was in the 73rd percentile relative to the comparator group and the Group's EPS growth has exceeded the minimum average annual growth in the RPI plus 2% per annum. The awards vested during 2011.

The performance period for the 2009 awards ended on 31 December 2011. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 30.0% vesting of these awards based on the performance criteria of the scheme. The awards will vest during 2012.

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24. Share-based payments (continued)

(c) Long Term Incentive Plan (continued)

LTIP (2010) - 2010 and 2011 awards

Following shareholder approval of the 2010 LTIP plan at the Company's AGM on 23 April 2010, awards of shares have been made to executive and senior managers in both 2010 and 2011. Half of these awards vest under a TSR performance condition and half under an EPS performance condition.

TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares transferred will be determined by the number of shares allocated multiplied by a vesting percentage. The actual number of shares transferred will be 25% at the 50th percentile rising to 100% at the 75th percentile.

The EPS performance condition is satisfied with 15% of the awards vesting if the EPS growth is RPI + 10% over the vesting period up to a maximum of 100% vesting if EPS growth exceeds RPI +25%.

(i) Share-based scheme

	2011	2010
Grant date	04 March 2011	23 April 2010
Share price at grant date	£17.00	£13.87
Shares granted under scheme	127,970	138,908
Vesting period	3 years	3 years
Expected volatility	36%	38%
Risk free rate	1.8%	1.8%
Expected dividends expressed as a dividend yield	1.9%	2.1%
Probability of ceasing employment before vesting	5% p.a	1% p.a
Fair value of awards under TSR performance conditions	£9.88	£8.73
Fair value of awards under EPS performance conditions	£16.11	£13.13

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2008 Award	92,249	–	(87,078)	(5,171)	–
2009 Award	191,386	–	–	(4,554)	186,832
2010 Award	138,908	–	–	(3,414)	135,494
2011 Award	–	127,970	–	(1,144)	126,826
	422,543	127,970	(87,078)	(14,283)	449,152

At the date of vesting the 2008 awards were valued at £17.05. The weighted average remaining life of awards outstanding at the year end is one year.

(ii) Cash-based scheme

Awards of 67,565 were outstanding at the beginning of the year in relation to the 2008 cash-based award. The performance period for the 2008 awards ended on 31 December 2010. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 94.4% vesting of these awards based on the performance criteria of the scheme. Awards of 57,652 vested in the year and the weighted average value at the date of vesting was £17.05.

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25. Financial instruments

Financial risk and treasury policies

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

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

(a) Credit risk

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

Management has a credit policy in place and exposure to credit risk is both monitored on an ongoing basis and reduced through the use of credit insurance covering 80% to 90% of trade receivables at any time. Credit evaluations are carried out on all customers requiring credit above a certain threshold, with varying approval levels set above this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk.

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

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

The Group Treasury Committee meets regularly and reviews the credit risk associated with institutions that hold a material cash balance. As well as credit ratings, counterparties and instruments are assessed for credit default swap pricing, liquidity of funds and interest rate.

Exposure to credit risk

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

	Carrying amount	
	2011	2010
Trade receivables	96,734	70,362
Other receivables	10,017	7,974
Cash and cash equivalents	48,557	97,881
Foreign exchange contracts	992	918
	156,300	177,135

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

	Carrying amount	
	2011	2010
Sterling	7,710	5,107
US dollar	24,259	14,183
Euro	43,249	37,730
Indian rupee	4,420	3,002
Other	17,096	10,340
	96,734	70,362

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25. Financial instruments (continued)

(a) Credit risk (continued)

Provisions against trade receivables

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

	Gross 2011	Provision 2011	Gross 2010	Provision 2010
Not past due	70,003	(108)	49,870	(88)
Past due 0-30 days	15,125	(33)	11,503	(89)
Past due 31-60 days	6,178	(15)	5,395	(34)
Past due 61-90 days	2,891	(296)	2,008	(274)
Past due more than 91 days	4,582	(1,593)	3,431	(1,360)
	98,779	(2,045)	72,207	(1,845)

(b) Liquidity risk

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

The Group is highly cash generative, and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on investments. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses; it also maintains a £7m overdraft facility (2010: £2m) on which interest would be payable at base rate plus 150 basis points.

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

31 December 2011	Carrying amount	Contractual cash flows	Analysis of contractual cash flow maturities			
			Less than 12 months	1-2 years	2-5 years	More than 5 years
Bank loans and overdrafts	198	198	69	35	94	–
Finance lease liabilities	114	122	62	36	24	–
Trade and other payables	77,102	77,102	77,102	–	–	–
Foreign exchange contracts	614	614	596	18	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	78,068	78,076	77,829	89	118	40

31 December 2010	Carrying amount	Contractual cash flows	Analysis of contractual cash flow maturities			
			Less than 12 months	1-2 years	2-5 years	More than 5 years
Finance lease liabilities	136	145	54	45	46	–
Trade and other payables	56,781	56,781	56,781	–	–	–
Forward exchange contracts	294	294	294	–	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	57,251	57,260	57,129	45	46	40

Where a counterparty experiences credit stress then the foreign exchange contracts may be settled on a net basis but standard practice is to settle on a gross basis and the undiscounted gross outflow in respect of these contracts is £116,580,000 (2010: £50,428,000) and the gross inflow is £117,216,000 (2010: £51,191,000).

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for the year ended 31 December 2011

25. Financial instruments (continued)

(c) Market risks

Market risk is the risk that changes in market prices, such as currency rates and interest rates, will affect the Group's results.

The objective of market risk management is to manage and control market risk within suitable parameters.

(i) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the business unit's functional currency. The currencies primarily giving rise to this risk are the US dollar and related currencies and the euro. The Group hedges up to 75% of forecast US dollar or euro foreign currency exposures using forward exchange contracts. In respect of other non-sterling monetary assets and liabilities the exposures are maintained and hedged up to 75% where this is deemed appropriate.

As part of the Group's cash management some of the subsidiaries have loan and deposit balances where their intragroup counterparty is in the UK. The balances are typically in local currency for the subsidiary, and the UK holds a foreign currency current asset which is hedged through the use of foreign exchange swaps. At the balance sheet date only the 'forward' part of the swap remains and this is designated as a cash flow hedge to match the currency exposure of the intercompany loan asset.

The Group classifies its forward exchange contracts (that hedge both the forecast sale and purchase transactions and the intercompany loan and deposit balances) as cash flow hedges and states them at fair value. The net fair value of foreign exchange contracts used as hedges at 31 December 2011 was a £378,000 asset (2010: £624,000 asset) comprising an asset of £992,000 (2010: £918,000) and a liability of £614,000 (2010: £294,000). Forward exchange contracts in place at 31 December 2011 mature in 2012 and 2013.

Changes in the fair value of foreign exchange contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied, are recognised in the income statement.

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of one cent in the value of either the US dollar or euro against sterling would have had an impact on the Group's operating profit for the year ended 31 December 2011 of £350,000. The method of estimation, which has been applied consistently, involves assessing the transaction impact of US dollar and euro cash flows and the translation impact of US dollar and euro profits.

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2011	2010	2011	2010
US dollar	1.59	1.54	1.55	1.57
Euro	1.15	1.16	1.20	1.17

(ii) Interest rate risk

The Group does not undertake any hedging activity in this area. All cash deposits are made at prevailing interest rates and the majority is available with same day notice, though deposits are sometimes made with a maturity of no more than three months. The main element of interest rate risk concerns Sterling, US dollar and Renminbi deposits, all of which are on a floating rate basis.

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

	2011	2010
Fixed rate financial liabilities	269	118
Floating rate financial liabilities	83	58
	352	176

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25. Financial instruments (continued)

(c) Market risks (continued)

(ii) Interest rate risk (continued)

The fixed and floating rate financial liabilities comprise finance leases, preference shares and bank loans. The floating rate lease obligations bear interest at rates determined by reference to the relevant LIBOR or equivalent rate.

The weighted average interest rate of the fixed rate financial liabilities is 1.6% or 5.3% excluding the zero rate debt (2010: 6.4%). The weighted average period for which (non zero) interest rates on the fixed rate financial liabilities are fixed is 2.3 years.

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

	2011	2010
In one year or less	123	49
In more than one year but not more than two years	72	43
In more than two years but not more than five years	117	44
In more than five years	40	40
Total	352	176

(d) Capital risk management

The primary objective of the Group's capital management is to ensure it maintains sufficient capital in order to support its business and maximise shareholder value. The group has an asset-light business model and uses cash generated from operations to either invest organically or by acquisition. The Group manages its capital structure and makes adjustments to it in light of changes in economic and market conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

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

The Group monitors capital using the following indicators:

Group net funds

	2011	2010
Total borrowings	(352)	(176)
Cash and cash equivalents (note 15)	48,557	97,881
Group net funds	48,205	97,705

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 December 2011

25. Financial instruments (continued)

(d) Capital risk management (continued)

Return on capital employed

	2011	2010
Adjusted operating profit		
Operating profit	112,000	97,724
Amortisation of acquired intangible assets	3,921	1,718
	115,921	99,442
Capital		
Shareholders funds	224,169	203,850
Net cash (note 15)	(48,519)	(97,881)
Pension deficit net of deferred tax	18,778	12,608
	194,428	118,577
Average capital employed	156,503	110,094
Return on capital employed	74.1%	90.3%

(e) Fair values

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

	Carrying Amount 2011	Fair Value 2011	Carrying Amount 2010	Fair Value 2010
Loans and receivables				
Trade receivables	96,734	96,734	70,362	70,362
Other receivables	10,017	10,017	7,974	7,974
Financial assets				
Cash and cash equivalents	48,557	48,557	97,881	97,881
Designated cash flow hedges				
Foreign exchange contracts:				
Financial assets	992	992	918	918
Financial liabilities	(614)	(614)	(294)	(294)
Financial liabilities at amortised cost				
Bank overdraft and borrowings	(198)	(198)	–	–
Trade and other payables	(77,102)	(77,102)	(56,781)	(56,781)
Preference shares	(40)	(40)	(40)	(40)
Finance lease liabilities	(114)	(114)	(136)	(136)
	78,232	78,232	119,884	119,884

Basis for determining fair values

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

Designated cash flow hedges

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

Trade and other receivables / payables

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

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26. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2011	2010
Less than one year	3,255	1,830
Between one and five years	6,649	5,738
More than five years	1,347	315
	11,251	7,883

Of the £11,251,000 (2010: £7,883,000), £8,657,000 (2010: £5,792,000) relates to property and the balance to plant and equipment.

27. Capital commitments

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

	2011	2010
Contracted	1,192	465

28. Contingencies

	2011	2010
Performance guarantees and indemnities	6,117	8,522

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

29. Related parties

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown on page 98 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent Company for management charges are priced on an arms length basis.

Sales to subsidiaries and associates of BAE Systems plc, a related party by virtue of non-executive director IG King's directorship of that company, totalled £29,000 during the year (2010: £21,000) and no amount was outstanding at 31 December 2011 (2010: £nil).

Key management emoluments

The emoluments of those members of the management team, including directors, who are responsible for planning, directing and controlling the activities of the Group were:

	2011	2010
Emoluments including social security costs	3,782	2,990
Post employment benefits	392	370
Share-based payments	844	755
	5,018	4,115

ROTORK p.l.c. COMPANY BALANCE SHEET

At 31 December 2011

	Notes	2011	2010
Fixed assets			
Tangible assets	c	1,090	1,118
Investments	d	43,205	43,205
		44,295	44,323
Current assets			
Debtors	f	34,787	44,180
Cash at bank and in hand	e	312	10,633
		35,099	54,813
Creditors:			
Amounts falling due within one year	g	4,447	3,824
Net current assets		30,652	50,989
Total assets less current liabilities		74,947	95,312
Creditors:			
Amounts falling due after more than one year	h	40	40
Net assets		74,907	95,272
Capital and reserves			
Called up share capital	j	4,338	4,334
Share premium account	j	7,835	7,389
Capital redemption reserve	j	1,644	1,644
Profit and loss account	j	61,090	81,905
Equity shareholders' funds		74,907	95,272

These Company financial statements were approved by the Board of Directors on 27 February 2012 and were signed on its behalf by:



PI France and JM Davis, Directors.

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for the year ended 31 December 2011

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a. Accounting policies

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

Basis of preparation

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

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Group includes the Company in its own published consolidated financial statements.

The Company has taken advantage of the exemption available under FRS 8 and has not disclosed transactions with entities which are subsidiaries of the Group.

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

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Investments

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

Depreciation and amortisation

Freehold land is not depreciated. Long leasehold buildings are amortised over 50 years or the expected useful life of the building where less than 50 years. Other assets are depreciated by equal annual instalments by reference to their estimated useful lives and residual values at the following annual rates:

Freehold buildings	2% to 4%
Short leasehold buildings	period of lease
Plant and equipment	10% to 33%

Post-retirement benefits

The Company participates in a Group wide pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Classification of preference shares

Following the adoption of the presentation elements of FRS 25, Financial instruments, the cumulative redeemable preference shares issued by the Company are classified as Long Term debt. The preference dividends are charged within interest payable.

Share-based payments

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2011

a. Accounting policies (continued)

Deferred taxation

Deferred tax is provided in full, without discounting, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law, except for the items explained below. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the assets or on unremitted earnings of subsidiaries where there is no commitment to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Dividends

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

b. Personnel expenses in the Company Profit and Loss Account

	2011	2010
Wages and salaries (including bonus and incentive plans)	2,256	1,594
Social security costs	237	304
Pension costs	295	192
Share-based payments	376	235
	3,164	2,325

There are eight (2010: seven) employees of Rotork p.l.c. plus the four (2010: four) executive directors. The personnel costs accounted for within the Company include the full costs of the employees and the Group Finance Director but not the full costs of other executive directors. Upon the appointment of a Divisional Managing Director for the Controls Division all of the Group Chief Executive's costs have been reported within the Company. The two other executive directors are reported within the subsidiary where they are based.

Share-based payments

The share-based payment charge relates to employees of the Company participating in the Long Term Incentive Plan (LTIP). The disclosures required under FRS 20 can be found in note 24 to the Group Financial Statements. The table below sets out the movement of share options under the LTIP for employees of the Company.

	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of of year
2008 Award	22,308	–	(21,058)	(1,250)	–
2009 Award	35,736	–	–	–	35,736
2010 Award	36,318	–	–	–	36,318
2011 Award	–	44,386	–	–	44,386
	94,362	44,386	(21,058)	(1,250)	116,440

At the date of vesting the 2008 awards were valued at £17.05. The weighted average remaining life of awards outstanding at the year end is one year.

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c. Tangible assets in the Company Balance Sheet

	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2011 and 31 December 2011	1,468	13	1,481
Depreciation			
At 1 January 2011	350	13	363
Charge for year	28	-	28
At 31 December 2011	378	13	391
Net book value at 31 December 2011	1,090	-	1,090
at 31 December 2010	1,118	-	1,118

	2011	2010
Net book value of land and buildings can be analysed between:		
Freehold land	60	60
Freehold buildings	1,030	1,058
Net book value at 31 December	1,090	1,118

d. Investments in the Company Balance Sheet

Shares in Group companies

	2011	2010
At 1 January	43,205	43,205
Increased investment in subsidiary undertakings	-	-
At 31 December	43,205	43,205

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2011

d. Investments in the Company Balance Sheet (continued)

A listing of the principal subsidiaries of the Group, all of which are wholly owned, is set out below:

Company and country of incorporation	Nature of business
Rotork Overseas Ltd, England and Wales	Intermediate holding company for the following:
Rotork Inc, USA	Intermediate holding company
¹ Rotork Controls Inc, USA	Manufacture and sale of valve actuators
¹ Remote Control Inc, USA	"
¹ Flow-Quip Inc, USA	Assemble and distribute fluid power solutions
¹ Ralph A. Hiller Company, USA	Manufacture and sale of valve actuators
¹ Rotork (Thailand) Ltd, Thailand	"
¹ Ranger Acquisition Corp, USA	Intermediate holding company
² Fairchild Industrial Products Company, USA	Manufacture of high precision pneumatic controls
² K-Tork International Inc, USA	Intermediate holding company
³ Controls International Inc, USA	Manufacture and sale of vane actuators
Rotork Controls (Iberia) SL, Spain	Sale of valve actuators
⁴ Centork Valve Control SL, Spain	Manufacture and sale of valve actuators
Rotork (Actuation) Sdn Bhd, Malaysia	"
Rotork Controls (Deutschland) GmbH, Germany	"
Rotork Fluid Systems Srl, Italy	"
Rotork Sweden AB, Sweden	"
Rotork Controls (Canada) Ltd, Canada	Sale of valve actuators
Rotork Motorisation SAS, France	"
Rotork BV, Netherlands	"
Rotork Controls (Singapore) Pte Ltd, Singapore	"
Rotork Fluid Systems Pty Ltd, Australia	"
Rotork Australia Pty Ltd, Australia	"
Rotork Controls de Venezuela SA, Venezuela	"
Rotork Ltd, Hong Kong	"
Rotork (Malaysia) Sdn Bhd, Malaysia	"
Rotork Controls (Korea) Co. Ltd, South Korea	"
Rotork Africa (Pty) Limited, South Africa	"
Rotork Japan Co. Ltd, Japan	"
Rotork RUS Ltd, Russia	"
Rotork Controls Comercio de Atuadores LTDA, Brazil	"
Rotork Norge AS, Norway	"
Rotork Middle East FZE, Jebel Ali, Dubai	"
Rotork Servo Controles de Mexico SA de CV, Mexico	"
Rotork Controls Italia Srl, Italy	"
⁵ Rotork Gears Srl, Italy	Manufacture and sale of gearboxes for valve actuators
Rotork Gears BV, Netherlands	"

¹These companies are owned by Rotork Inc, USA

²These companies are owned by Ranger Acquisition Corp, USA

³This company is owned by K-Tork International Inc, USA

⁴This company is owned by Rotork Controls (Iberia) SL, Spain

⁵This company is owned by Rotork Controls Italia Srl, Italy

Rotork Controls Ltd, England and Wales	Manufacture and sale of valve actuators, and intermediate holding company for the following:
Exeeco Ltd, England and Wales	Manufacture and sale of gearboxes and valve actuators
⁶ Prokits Ltd, England and Wales	Design and manufacture of valve adaptor kits
Rotork Actuation (Shanghai) Co. Ltd, China	Manufacture and sale of gearboxes and valve actuators
Rotork Trading (Shanghai) Co. Ltd, China	Sale of gearboxes and valve actuators
Rotork Controls (India) Ltd, India	Manufacture and sale of valve actuators

⁶This company is owned by Exeeco Ltd

A full list of undertakings is attached to the Annual Return of the Company.

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

	2011	2010
Bank balances	312	633
Short-term deposits	–	10,000
Cash at bank and in hand	312	10,633

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

	2011	2010
Amounts owed by Group undertakings	34,102	43,912
Other debtors	91	110
Prepayments and accrued income	81	75
Corporation tax	389	–
Deferred taxation	124	83
	34,787	44,180

A deferred tax asset of £124,000 (2010: £83,000) has been recognised. This asset principally relates to other timing differences in respect of share-based payments. The directors are of the opinion, based on recent and forecast trading that the level of future and current profits make it more likely than not that the asset will be recovered.

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

	2011	2010
Bank loans and overdrafts	–	–
Trade creditors	227	102
Amounts owed to Group undertakings	1,153	1,052
Other taxes and social security	58	28
Other creditors	2,507	2,175
Accruals and deferred income	502	467
	4,447	3,824

The Company has a £20m gross overdraft facility and is part of a UK banking arrangement, see note i.

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

	2011	2010
Preference shares classified as debt	40	40

This debt is not redeemable at any fixed future date.

i. Contingencies in the Company

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

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j. Capital and reserves in the Company Balance Sheet

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Equity Shareholders' funds
Balance at 1 January 2011	4,334	7,389	1,644	81,905	95,272
Profit for the year	–	–	–	28,774	28,774
Equity settled share-based payment transactions net of tax	–	–	–	(28)	(28)
Share options exercised by employees	4	446	–	–	450
Own ordinary shares acquired	–	–	–	(3,185)	(3,185)
Own ordinary shares awarded under share schemes	–	–	–	3,158	3,158
Dividends	–	–	–	(49,534)	(49,534)
Balance at 31 December 2011	4,338	7,835	1,644	61,090	74,907

Details of the number of ordinary shares in issue and dividends paid in the year are given in note 16 to the Group Financial Statements.

Profit for the financial year in the accounts of the Company is £28,774,000 (2010: £54,697,000).

k. Capital risk management in the Company

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

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

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

	2011	2010
Preference shares	(40)	(40)
Cash at bank and in hand	312	10,633
Company net funds	272	10,593

TEN YEAR TRADING HISTORY

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	2011 £000 IFRS	2010 £000 IFRS	2009 £000 IFRS	2008 £000 IFRS	2007 £000 IFRS	2006 £000 IFRS	2005 £000 IFRS	2004 £000 IFRS	2003 £000 UK GAAP	2002 £000 UK GAAP
Continuing operations	447,833	380,560	353,521	320,207	235,688	206,709	174,839	146,883	135,964	129,677
Discontinued operations	-	-	-	-	-	-	-	-	-	3,783
Revenue	447,833	380,560	353,521	320,207	235,688	206,709	174,839	146,883	135,964	133,460
Cost of sales	(236,359)	(199,742)	(187,600)	(176,046)	(127,748)	(115,603)	(95,358)	(79,097)	(72,046)	(71,875)
Gross profit	211,474	180,818	165,921	144,161	107,940	91,106	79,481	67,786	63,918	61,585
Overheads	(99,474)	(83,094)	(74,384)	(69,272)	(52,553)	(46,017)	(42,951)	(37,354)	(36,808)	(35,863)
Operating profit	112,000	97,724	91,537	74,889	55,387	45,089	36,530	30,432	27,110	25,722
Continuing operations	115,921	99,442	92,103	76,014	55,461	45,187	36,709	30,502	28,415	26,553
Discontinued operations	-	-	-	-	-	-	-	-	-	474
Adjusted* operating profit	115,921	99,442	92,103	76,014	55,461	45,187	36,709	30,502	28,415	27,027
Amortisation of acquired intangible assets	(3,921)	(1,718)	(1,153)	(1,125)	(74)	(98)	(179)	(70)	-	-
Disposal of property	-	-	587	-	-	-	-	-	-	-
Amortisation of goodwill	-	-	-	-	-	-	-	-	(1,305)	(1,305)
Operating profit	112,000	97,724	91,537	74,889	55,387	45,089	36,530	30,432	27,110	25,722
Exceptional items	-	-	-	-	-	-	-	-	597	-
Net interest	550	131	(621)	862	1,866	972	127	1,074	461	440
Profit before taxation	112,550	97,855	90,916	75,751	57,253	46,061	36,657	31,506	28,168	26,162
Tax expense	(32,149)	(28,334)	(26,884)	(22,331)	(17,957)	(14,728)	(12,043)	(10,508)	(9,469)	(8,868)
Profit for the year	80,401	69,521	64,032	53,420	39,296	31,333	24,614	20,998	18,699	17,294
Dividends	49,534	35,912	24,102	29,970	24,732	24,140	13,437	17,751	12,592	11,959
Basic eps	93.0p	80.5p	74.2p	62.0p	45.6p	36.4p	28.6p	24.5p	21.8p	20.1p
Adjusted* eps	96.2p	81.9p	74.7p	62.9p	45.7p	36.5p	28.7p	24.5p	-	-
Diluted eps	92.6p	80.2p	73.9p	61.6p	45.2p	36.1p	28.4p	24.3p	21.7p	20.0p

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

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

SHARE REGISTER INFORMATION

Share register information

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

Ordinary shareholder by type	Number of holdings	%	Number of shares	%
Individuals	1,861	66.2	2,750,217	3.2
Bank or nominees	866	30.8	81,691,458	94.2
Other company	39	1.4	516,245	0.6
Other corporate body	45	1.6	1,793,534	2.0
	2,811	100.0	86,751,454	100.0

Range	Number of shareholders	%	Number of shares	%
1 – 1,000	1,577	56.1	599,480	0.7
1,001 – 2,000	397	14.1	595,509	0.7
2,001 – 5,000	331	11.8	1,007,996	1.1
5,001 – 10,000	145	5.2	1,035,304	1.2
10,001 – 50,000	196	7.0	4,585,754	5.3
50,001 – 100,000	51	1.8	3,545,762	4.1
100,001 +	114	4.0	75,381,649	86.9
	2,811	100.0	86,751,454	100.0

Source: Equiniti

Dividend information

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

	Interim dividend (p)	Final dividend (p)	Additional interim dividends (p)	Total dividend (p)
2011	14.50	22.75	23.00	60.25
2010	12.75	19.75	11.50	44.00
2009	11.15	17.25	–	28.40
2008	9.25	16.75	11.50	37.50
2007	7.70	14.00	9.30	31.00

Financial calendar

28 February 2012	Preliminary announcement of annual results for 2011
11 April 2012	Ex-dividend date for final proposed 2011 dividend
13 April 2012	Record date for final proposed 2011 dividend
20 April 2012	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
21 May 2012	Payment date for final proposed 2011 dividend
31 July 2012	Announcement of interim financial results for 2012

CORPORATE DIRECTORY

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Company Secretary
Stephen Rhys Jones

Registered Office
Rotork p.l.c.
Rotork House
Brassmill Lane
Bath BA1 3JQ

Company Number
00578327

Registrars
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Stockbrokers
UBS Investment Bank
1 Finsbury Avenue
London EC2M 2PP

Financial Advisers
UBS Investment Bank
1 Finsbury Avenue
London EC2M 2PP

Auditors
KPMG Audit Plc
100 Temple Street
Bristol BS1 6AG

Financial Public Relations
FTI Consulting
Holborn Gate
26 Southampton Buildings
London EC2A 1PB

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

NOTES

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Rotork p.l.c.

Rotork House
Brassmill Lane
Bath
BA1 3JQ
www.rotork.com