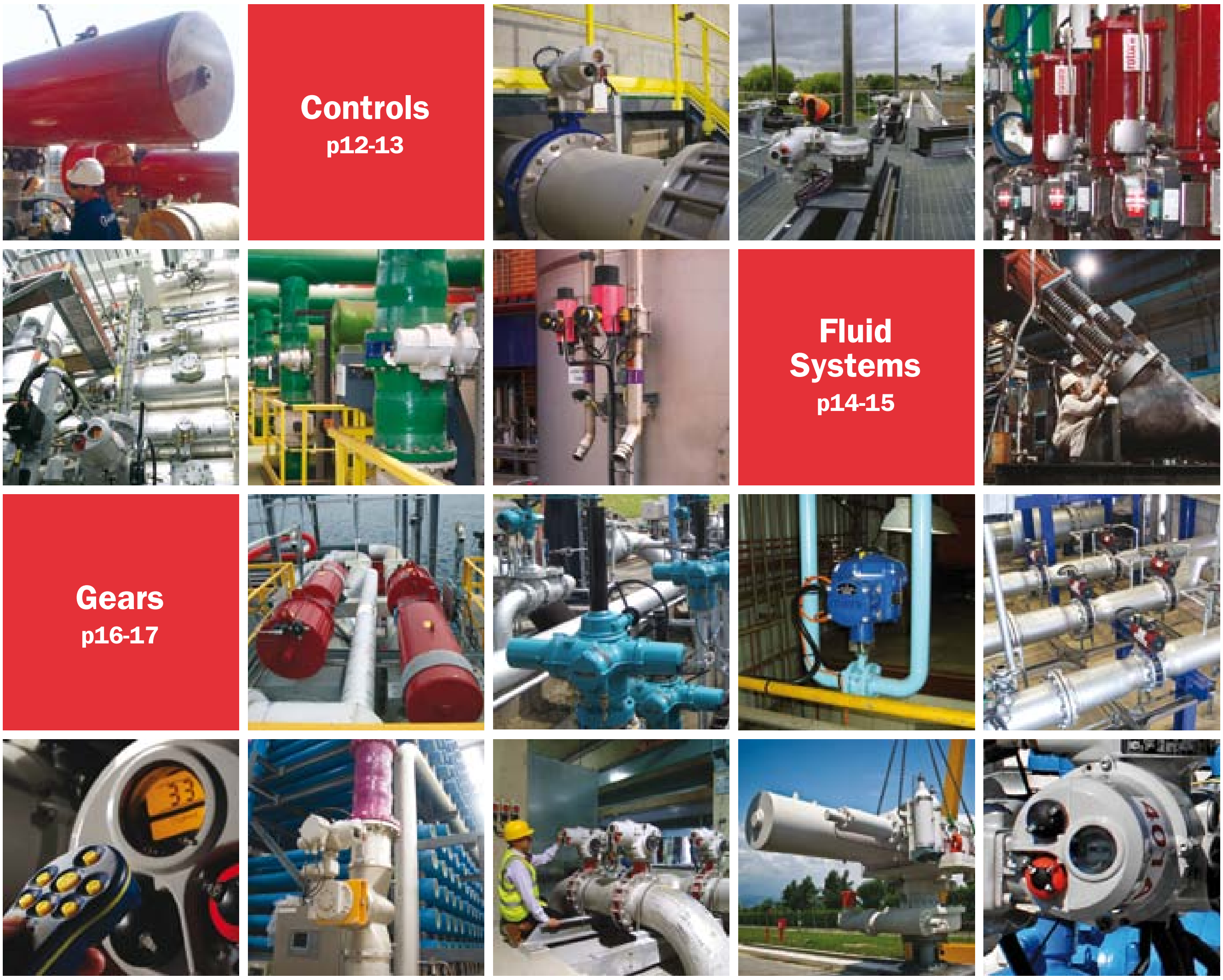
rotork

Annual Report 2010

Controlling the flow of liquids and gases

worldwide.


Controls
p12-13

Fluid Systems
p14-15

Gears
p16-17

About Rotork...

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

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

Rotork p.l.c.

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Rotork Management Board

↓

Controls	Fluid Systems	Gears
Rotork Controls is Rotork's electric valve actuator division, offering an electrical solution to industrial valve control and actuation applications of virtually any size, description and complexity.	Rotork Fluid Systems is dedicated to the design, manufacture, sale and support of powerful and dependable fluid power valve actuators on a global scale.	Rotork Gears offers an unrivalled service for valve gearboxes and accessories, completing Rotork's status as the 'one-stop-shop' for valve actuation and control equipment for applications of all sizes and complexity.

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Site Services

Below: GP actuators, LNG facility, Chile.

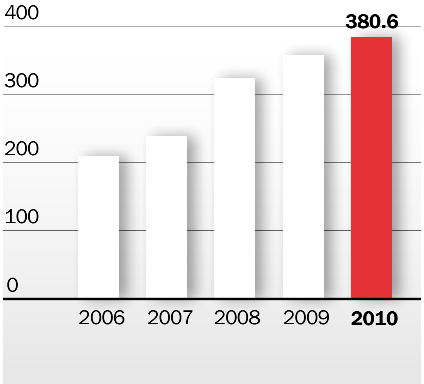
Bottom: GP actuator upgrade to improve partial stroke testing capability, Raffieria Miazzo, Sicily.

Group

Financial Highlights

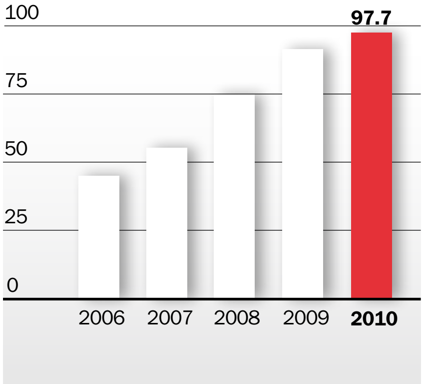
Revenue (£m)

+7.6%



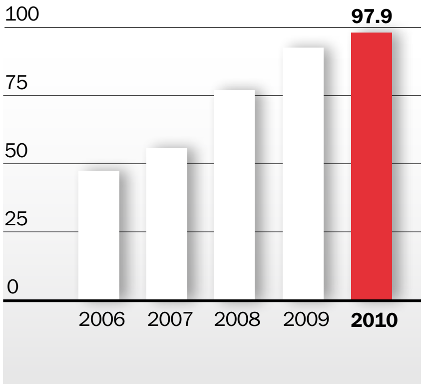
Operating profit (£m)

+6.8%



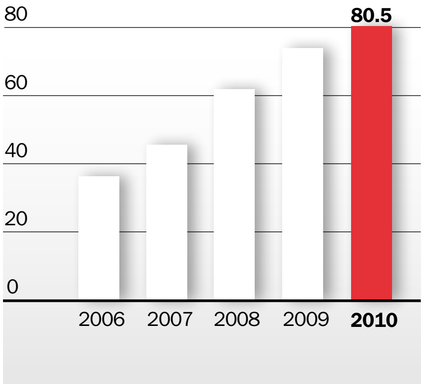
Profit before tax (£m)

+7.6%



Basic earnings per share (p)

+8.4%



Operational Highlights

- **Establishment of Rotork Innovation, Design and Engineering Centre (‘RIDEC’)**
- **Acquisition of Ralph A. Hiller**
- **Increased investment in people and facilities**
- **Positive material cost management**
- **Production commenced in new Bangalore factory in India**

Group
IFC About Rotork
01 Highlights
02 Global Opportunities
04 Chairman’s Statement

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

Governance
29 Rotork Management Board
30 Board of Directors
32 Corporate Governance
37 Remuneration Report
43 Report of the Directors

Financial Statements
45 Independent Auditors’ Report
46 Consolidated Income Statement
46 Consolidated Statement of Comprehensive Income
47 Consolidated Balance Sheet
48 Consolidated Statement of Changes in Equity
49 Consolidated Statement of Cash Flows
50 Notes to the Group Financial Statements
84 Rotork Company Balance Sheet
85 Notes to the Company Financial Statements

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

Global Opportunities

Rotork is the only UK listed company committed to developing, selling and supporting market leading valve actuators to rapidly growing markets across the globe.

Rotork currently has

2,100

employees in

30

countries.

North America

We have four assembly plants in the US and eight distribution and marketing locations in this large, complex and sophisticated market. Our business here supports the Group's three main sectors of water, oil & gas, and power. The acquisition of Hiller provides a nuclear qualified product range to complement the existing product portfolio.

Key

◆ Manufacturing Plant
● Customer Service Centre

Latin America

Our recent acquisition in Mexico and our direct presence in Brazil and Venezuela, combined with a strong network of agents across the whole of Latin America provides us with total coverage of this huge and varied market. Industrial growth and issues of water scarcity are driving market growth in the power and water sectors whilst recent offshore discoveries provide future business potential for all divisions.

Global Revenue (£m)

	Americas	Europe	ROW	Total
Revenue 2010	110.5	145.9	124.2	380.6
Revenue 2009	98.4	146.4	108.7	353.5

UK

We have three assembly plants in the UK which support both our UK and worldwide operations. We continue to maintain and defend our strong position in the water and waste water industry and oil and petrochemical industries. We are actively working on the future of the new nuclear programme.

Europe

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

Asia

Rotork has traditionally been strong throughout Asia and now counts mainland China as the biggest market for Rotork electric valve actuators. India is core to Rotork's strategy and this has been underlined by the opening of the new factory in Bangalore and the Rotork Innovation, Design and Engineering Centre which will be located in the new Chennai factory being built this year. This, and further development of our sales and service networks, strengthens our position to take advantage of the forecast growth in this region.

Africa

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

Middle East

Oil & gas revenue has driven high levels of investment in the region. In 2011, a new subsidiary in the United Arab Emirates will complement our other offices and service centres in the region to provide comprehensive support to local customers.

Australia and New Zealand

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

Chairman's Statement

"The current order book and market activity support the Board's expectation of making further progress in 2011"

Roger Lockwood Chairman

I am pleased to report that 2010 was another year in which Rotork delivered record revenue and profit, with progress being made by all three divisions. Market conditions improved compared with the previous year and this was reflected in the record order intake. The broad base of our business and the level of emerging market focus ensured that, whilst not all our geographic markets grew in the year, each end-market, division, and the Group as a whole, did.

Through the year we have continued to invest in our facilities, our people and our products to enable the Group to capitalise on the long-term growth prospects in the markets we currently serve. At the same time, investment in product development and potential acquisitions will widen what we define as our addressable market so that we continue to create value for our shareholders.

Financial Highlights

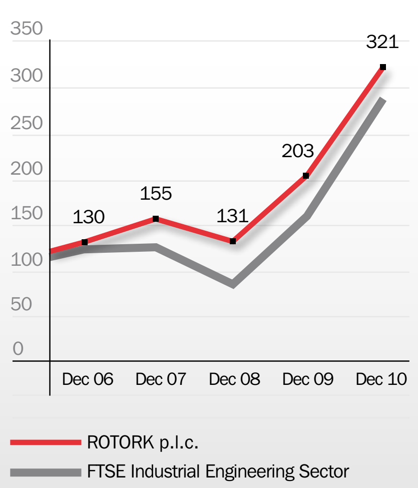
Revenue of £380.6m was 7.6% higher than the previous year and with profit before tax up 7.6% to £97.9m, Group return on sales was in line with last year at 25.7%. Currency was a less significant factor this year than it has been for many years but remained a tailwind, with the majority of the impact arising in the second half of the year. Cash balances of £97.9m at the end of the year reflected strong cash generation throughout the year.

Divisional Highlights

Rotork Controls, the division which manufactures and sells our range of market-leading electric actuators and includes the Rotork Process Control products, reported revenue growth of 7.0% to £243.4m. This division contributed 63.9% of Group revenue. Operating profit rose to £78.8m, up 8.5% and the division achieved a 32.4% operating margin compared with 31.9% in the prior year. Some of the larger projects which were delayed through 2009 returned in 2010 and this was seen in a number of countries and market sectors. Quotation levels remained positive as did the number of active projects we are tracking globally, with the medium-term prospects in each of the oil & gas, power and water markets encouraging. In India, an important growth market for us, we opened a new factory in Bangalore and also started work to rebuild our existing factory in Chennai. This will increase our manufacturing capacity and provide a platform to address the increasing demand from India. Once completed in 2011, it will also house our innovation, design and engineering centre ('RIDEC') that was announced in August 2010 and which is currently operating from temporary offices.

Rotork Fluid Systems, which manufactures and sells pneumatic and hydraulic actuators, and is more focused on the oil & gas market than the other parts of the Group, was the division most affected by the slowdown in 2009 and, accordingly, saw the most significant rebound in order input, up 35.1%. Revenue grew 7.1% to £106.8m but operating profit fell 6.8% to £13.3m as operating margins reduced from 14.3% last year to 12.4% in 2010. Margins improved in the second half, as a result of higher volumes and the return of competitive price pressures to more normal levels, but over the year as a whole this did not offset lower first half margins which were affected by the continuation of the difficult trading environment in 2009, the slightly dilutive effect of an acquisition and the higher amortisation charge. The division's continued organic growth was augmented by Ralph A. Hiller ('Hiller'), purchased in May as part of our strategy of developing our sales coverage and increasing our presence in the important nuclear power market. The business has a distribution arm as well as the nuclear actuator manufacturing arm and, whilst further investment is needed to maximize the potential of the acquisition, the addition of its nuclear-certified hydraulic actuators

Total Shareholder Return
(rebased to 100, 1 Jan 06)



has broadened Rotork's nuclear product offering. Integration of Hiller is progressing well and its understanding of the nuclear industry is already benefiting other parts of the Group.

Rotork Gears, which manufactures and sells manual and motorized gearboxes, grew revenue by 6.5% to £39.2m. As a result of these higher revenues and a continued focus on costs, operating margins improved to 23.2%, reversing most of the reduction seen in 2009. Operating profit was £9.1m, 13.4% higher than the prior year. Rotork Gears remains the consolidator in what is a very fragmented market and has built on its leading position in the year with the launch of new products and by targeting new customers in countries with the greatest potential for growth.

Cash Generation

Cash balances have increased to £97.9m in the year as a result of strong operating cash flows. The main outflows were tax and dividends, as well as the £5.5m acquisition of Hiller. We remain focused on working capital management but higher levels of revenue towards the end of 2010 meant net working capital absorbed £14.0m of cash during the year. Despite this, our cash generation key performance indicator, which measures conversion of operating profit into cash, was 96.5%. Going forward, we intend to use this cash to generate incremental shareholder value, either through our continued strategy to augment our business with acquisitions or via special dividends.

Dividend

The Board recommends a final dividend of 19.75p per share which, taken together with the interim dividend, gives a payment of 32.5p per share (2009: 28.4p), representing a 14.4% increase. This dividend will be payable on 6 May 2011 to shareholders on the register on 8 April 2011. As a result of this increase, dividend cover will reduce to 2.5 times (2009: 2.6). In addition, the directors intend to pay a special dividend of 11.5p per share on 24 June 2011 to shareholders on the register on 27 May 2011. This represents a further cash distribution of £10.0m.

Board Composition

I am pleased to welcome Gary Bullard to the Board as a non-executive director. Gary previously held sales director and managing director roles at IBM and BT Group and now provides management consultancy services to large IT and telecommunications companies. He is a member of the Audit and Nomination Committees and Chairman of the Remuneration Committee.

Corporate Governance

High standards of corporate governance are rightly expected of the Board and we remain committed to those principles which ensure we run our business in a responsible way. Following publication of the UK Corporate Governance Code June 2010 by the Financial Reporting Council, we intend to introduce annual re-election for the Chairman and all the other Directors. We have always believed that good governance stems from a quality Board with a breadth of experience and skills and non-executives who are able to provide the necessary level of question and debate in the boardroom. The purpose of our annual appraisal of Board effectiveness is to ensure that our Board is able to participate meaningfully in discussion and make objective and informed decisions. Following the latest review, I am satisfied the composition of the Board enables it to fulfil its expected role.

Outlook

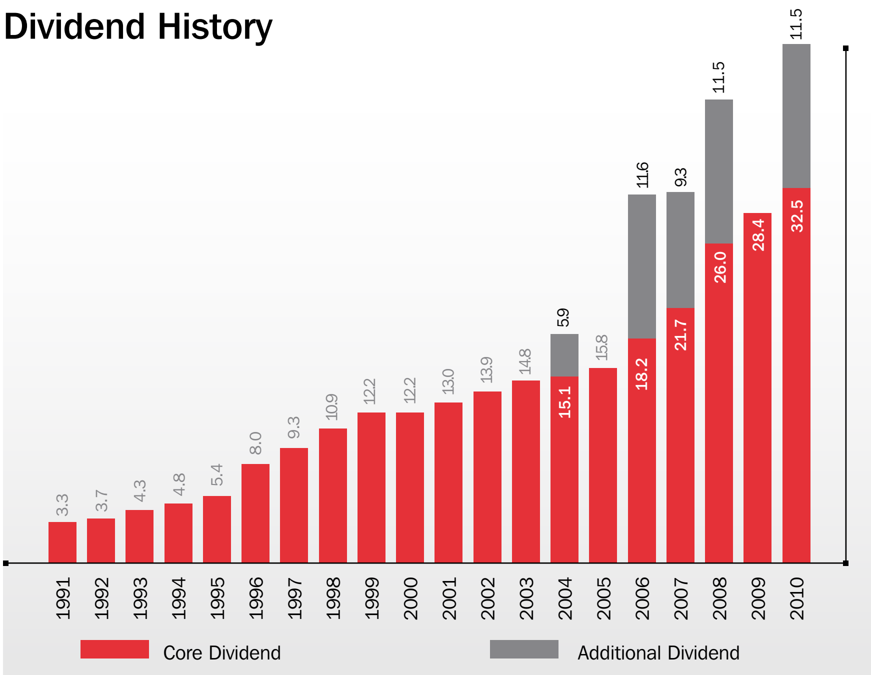
The long-term growth prospects continue to be positive for Rotork as we benefit from infrastructure investment in both new and existing plant. The need for automation is increasing as our customers drive plant safety improvements through their organisations and seek greater operating efficiencies.

Our wide geographic presence, especially in the countries experiencing the greatest growth in demand, the breadth of our product portfolio and strength of our customer relationships, puts us in a strong position to benefit from a continued increase in business activity.

Following several years of favourable movements in foreign exchange, currency may provide a headwind in the current year. However, the current order book and market activity support the Board's expectation of making further progress in 2011.

Roger Lockwood Chairman
28 February 2011

Dividend History



Business Review

Peter France Chief Executive

Rotork actuators are used to control the flow of liquids and gases in many different applications across many different end-user markets. Rotork's markets are often described as oil & gas, power and water as these are the sectors with the greatest requirement for actuators. However, our products can also be found in many other industrial applications – including food and beverage manufacturing, chemicals, mining and shipboard systems.

Our customers are located throughout the world and in order to provide the local support our customers require, so are we. Rotork has 105 offices across 30 countries, which are supplemented by a further 254 sales outlets, bringing the total number of countries with a Rotork presence to 87. From its foundation, Rotork has brought new technology to actuators and continues to set new standards in developing innovative, functionally-advanced, high quality products within each of its divisions.

The final component of Rotork's business model is the method of manufacture. We outsource component manufacture, so most of our manufacturing plants buy components in a relatively finished form. These are then assembled to meet the requirements of a particular customer order. This provides the necessary flexibility in the sourcing of components that supports our 17 worldwide manufacturing operations and ensures we maintain a high return on capital employed.

Year under review

In the same way that some parts of the world were more severely affected than others by the economic disruption of 2009, the start of the year saw a wide variation in the rate at which they rebounded. In the first quarter, Rotork saw order intake return to near the previous peak. However, the pattern of demand was uneven and customers kept their budgets under tight control, this particularly affected Rotork Fluid Systems where our competitors were pricing most aggressively in order to rebuild their order books. The fact that we continued to make progress is testament to the tremendous hard work of our employees, and customers appreciating the benefits of Rotork's products and services. Although the cost of an actuator can be insignificant in the total cost of a project, our customers understand the importance of actuators to the overall running of their operations, and recognise the need to use products that perform reliably, and most of all safely.

Overall, order intake was £381.9m, up 17.0% compared with 2009. Particularly strong improvements were reported by our businesses in the Netherlands (+123%), Italy (+32%) and China (+27%), with all regions showing growth. Removing the positive impacts of currency and the Hiller acquisition, order intake was 12.9% ahead of the prior year.

The revenue split between half years returned to a more customary weighting in favour of the second half as the improvement in orders took effect. In total, revenue advanced 7.6% to £380.6m which, excluding the effects of currency and Hiller represented a 4.6% increase. The closing order book was £138.9m, up £9.9m from the start of the year, including the £5.1m order book acquired with Hiller. Operating margins reduced by 0.2 percentage points to 25.7%, mainly as a result of higher amortisation costs. Return on sales, as defined in our key performance indicators, was maintained at 25.7% and profit before taxation rose 7.6% to £97.9m.

The establishment of the Rotork Innovation Design and Engineering Centre ('RIDEC'), based in India, supplements our already-growing divisional engineering teams and provides the opportunity to improve the capacity and speed of our product development. India has also benefited from one new factory during 2010, in Bangalore, and we are now in the process of building another in Chennai. The Bangalore plant has provided space for the Gears division to start assembly in India. The factory in Chennai will replace an ageing facility which has been making electric actuators for over 30 years.

Top: GP pneumatic actuators, LNG marine import jetty, Chile.

Bottom Left: CVA-control valve actuator, tar distillation plant, Australia.

Bottom Right: Profibus-enabled IQ actuators, UK sewage treatment works.

Through these two world-class facilities, our Indian operations will be even better placed to tackle this large and still-growing market. Elsewhere, in China, we have enlarged our factory in Shanghai and, in the US, will shortly relocate to larger premises in Houston. Both businesses have outgrown their existing sites. We have also expanded our operations in the Middle East, moving to a new facility in Saudi Arabia and increasing Rotork's presence in the region. We will look to develop this further in 2011.

Looking at our main markets, and the underlying factors supporting investment in oil & gas, power and water infrastructure, there is reason to be confident in the prospects of each – both in the medium and long-term. Through our broad geographic coverage and product portfolio we remain focused on meeting our customers' growing needs. However, we still see opportunities to expand our direct presence in new territories – whether through acquisition, as we recently have in Mexico, or organically as in Brazil. Similarly, we continue to seek suitable opportunities to expand our product offering, both organically and through acquisition.

Rotork Controls

Rotork Controls, which manufactures and sells the electric actuators on which Rotork originally built its name, still accounts for 63.9% of the Group's sales and remains the highest margin division. In the year, order intake increased by 9.1% and revenue grew by 7.0% to £243.4m. The closing order book was £85.8m, up 1.2%.

Controls has the widest end-market exposure and improved activity levels were seen across all sectors. Within oil & gas, electric actuators are found in greater numbers on downstream and transmission applications, and tank storage was particularly strong in the year. We also saw an improving trend in the water market, reversing the position at the half year.

Operating profit increased by 8.5% to £78.8m with margins fractionally higher at 32.4%. This division was less affected by the pricing pressure felt earlier in the year and has been able to use the benefit of operational gearing to offset the costs of investing in new facilities and people. These investments position the division for further growth. At the same time, our outsourced manufacturing model has meant that modest cost increases from commodity price rises have been mostly offset by sourcing initiatives.

Rotork Fluid Systems

Since its formation as a stand-alone division in 2001, revenue in Rotork Fluid Systems ('RFS') has risen to £106.8m, up 7.1% in the year. Although this growth has been assisted by acquisitions, the more significant benefits have been derived from the integration of each acquired business into the Group, and their use of our existing sales channels. RFS supplies pneumatic and hydraulic powered actuators and control systems from its seven factories and through a further seven Centres of Excellence, where added value services can be provided to the local customer.

RFS is the division most focused on the oil & gas market, and having felt the biggest decline in orders in 2009, it has now seen the biggest rebound, with order intake up 35.1% in 2010 and the order book increasing to £45.9m. We have continued to strengthen our engineering and R&D infrastructure and at the same time invest in improving our facilities. When the cost of these initiatives are combined with the pricing pressure experienced earlier in the year, they outweighed the benefits gained through operational gearing and material cost control, resulting in a reduction in operating margins to 12.4%, down 1.9 percentage points. RFS is now better placed to capitalise on project opportunities and operational gearing remains a key determinant of the division's margins.

Rotork Gears

Rotork Gears supplies manual and motorized gearboxes and ancillaries to the valve industry. Unlike the Controls and RFS divisions, where sales are project-focused, this division sells direct to valvemakers through long-term supply agreements, and with deliveries at regular intervals. These customers buy from Rotork due to the guarantee of quality and reliability of supply, as the alternative is often their own small-scale gearbox production or local independent vendors. We can also typically provide cost savings due to the scale of our operations and worldwide delivery from the six Gears factories.

Revenue from third party sales rose 14.8% in the year to £30.4m as a result of an increased sales effort in a number of developing markets and the successful launch of new products. Total revenue for this division increased at a lesser rate, up 6.5% to £39.2m, reflecting lower sales to other Rotork divisions. Operating margins had been under pressure in 2009 but

Controls

- **Strong results from BRIC countries**
- **Production commenced in new Bangalore factory**
- **Active downstream oil & gas market**

Fluid Systems

- **Revenue breaks £100million for the first time**
- **Strong recovery in order intake**
- **Strengthened engineering and R&D infrastructure**
- **Acquisition of Ralph A. Hiller**

Gears

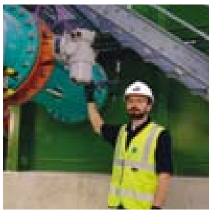
- **Positive material cost management**
- **Margin recovery on higher revenue**
- **Growth of third party order intake**

Business Review

Top: IQT modulating actuator, water treatment plant, UK.

Below: IQ with thrust compensators, chemical plant, Japan.

Bottom: GP pneumatic actuators, offshore gas platform, South America.



the combination of higher revenue and the drive to reduce material costs, even against a commodity cost headwind, saw margins improve to 23.2%.

Rotork Site Services

Our after sales and service business, Rotork Site Services ('RSS') operates through each of the three divisions and is reported within their results. Growing this business forms a key part of the Group's strategy and during the year we have opened service centres in six new locations, from New Zealand to Southern France, although many of the activities RSS performs are carried out on customers' sites. Our continued investment in RSS will ensure that we are able to respond to customers' requirements promptly, and underlines our commitment to supporting our products in the field from a local base.

RSS activities are divided into a number of revenue streams and, whilst we do not report the financial results of these, we are able to monitor other metrics to assess growth. During the year we have increased the number of service engineers by 8% – perhaps the best indication of overall activity levels. These service engineers have responded to 33% more service calls, fitted 18% more actuators to valves at customers' plants and 17% more actuators to new valves in our workshops. We also have 4% more actuators on preventative maintenance contracts, where customers have outsourced their maintenance requirements to Rotork.

Strategy

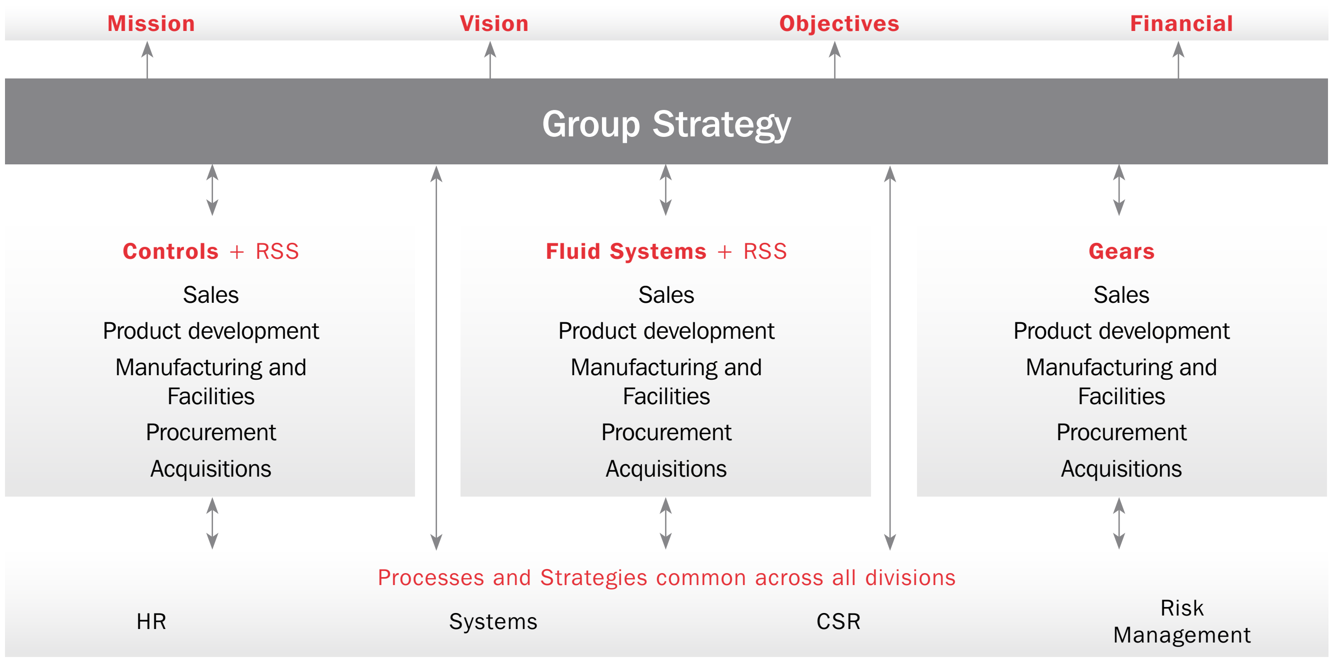
Rotork's vision is to be the recognised global leader in electric, fluid power, manual valve actuation and associated products and services. We focus on valve actuation and associated products and services, principally wherever there is a need to control the movement of fluids or gases. As world market leader, our aim is to provide high quality, technically advanced, innovative products and services that support our customers' activities around the world through our extensive and continually expanding network of offices and manufacturing plants.

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

We develop and train our people to deliver our strategy and satisfy our customers' requirements, while maintaining high ethical and safety standards across the Group and acting as a responsible international corporate entity.

To provide short-term focus, we agree a set of key objectives, the broad areas of which are the same for 2011 as they were for 2010 although all parts relating to corporate and social responsibility have now been grouped together under one objective. In addition, the initiatives within each area have progressed. The key objectives are:

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.
   - 2010 – New Middle East sales subsidiary, new Bangalore factory, establishment of RFS China, growth of sales force worldwide.
   - 2011 – Move to larger premises in Houston, restructuring of US sales offices, new Chennai factory, expansion of China factory.
2. **Product development** – This investment will continue in 2011 and will result in enhancements to existing products and new products entering the market.
   - 2010 – Expansion of wireless capabilities, new gearbox ranges, start up of Rotork Innovation Design and Engineering Centre ('RIDEC'), nuclear qualification of products.
   - 2011 – Growth of RIDEC, expansion of RPC ranges, investment in nuclear products and other projects that will benefit Rotork in 2012 and beyond.
3. **Acquisitions** – These are a core part of our growth strategy and we continue to seek suitable opportunities. 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.
   - 2010 – Acquisition of Hiller.
   - 2011 – Acquisition of Rotork Mexico.
4. **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 2011.
   - 2010 – New factory in Bangalore, investment in Bath factory.



- 2011 – New factory in Chennai, expansion of Shanghai factory, new Houston sales and service facility, new offices in Saudi Arabia.

5. **Material cost management** – 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.

- 2010 – Gross margin increased in the year as rising commodity costs were mitigated through a combination of sourcing initiatives and passing through the increases.
- 2011 – Continue to look for opportunities to take costs out of our products through sourcing or product development. This will include expanding our sourcing network through teams based in each of our factories.

6. **Development of Rotork Site Services** ('RSS') – RSS has grown over the last few years to become a revenue generator as well as a key differentiator for Rotork.

- 2010 – Increased the number of service engineers by 8%, invested in service workshops in six locations, three of which are new facilities.
- 2011 – Continue to expand the service team and establish new workshops where there is customer demand.

7. **IT** – Develop a global system for the sales and service offices.

- 2010 – Commenced the design of the solution.
- 2011 – Finalise the design and begin roll-out.

8. **Nuclear** – Expand our nuclear-certified product offering and ensure we are positioned to take advantage of increased activity in this market.

- 2010 – The acquisition of Hiller was central to achieving this objective. Re-qualification of our nuclear electric actuators was also achieved during the year.
- 2011 – We will continue to develop our traditional products for use in nuclear applications as well as working with Hiller to enhance their products.

9. **Corporate and Social Responsibility** – Our consideration of Corporate and Social Responsibility ('CSR') and objectives cover three distinct areas. The Rotork approach to health and safety is to disseminate best practice around the Group, training those responsible and then verify adoption through auditing each subsidiary.

- 2010 – The improvement in audit scores and reduction in the Accident Frequency Rate KPI show we are making progress.
- 2011 – Continue the initiatives which have already delivered improvements.

People development – Throughout the Group we look to develop internal talent and promote from within where possible. Encouraging people to build their career within Rotork and helping them identify their training needs allows each individual to reach their full potential. Feedback on our success in this is obtained through our Employee Satisfaction Survey.

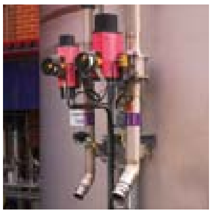
Processes and ethics – We continue to embed a high-performance culture and the delivery of our Corporate Social Responsibility agenda. Communication of Rotork's Ethics and Values is now part of the induction process for new employees and new agents and takes due account of the Bribery Act 2010 and the associated draft guidelines. These core ethical values will ensure each individual employee acts at all times with integrity, honesty and fairness towards those whom they engage. 2010 saw greater employee participation in supporting local charities, as well as WaterAid, the nominated Group charity.

Business Review

Top: RC200 pneumatic actuators, biomass power generation, Sweden.

Middle: IQT actuators at a UK power station.

Bottom: IQT actuator on a sewage treatment aeration control valve, UK.



Research & Development

A major initiative during 2010 has been the setting up of the Rotork Innovation and Design Engineering Centre ('RIDEC') in Chennai, India. This facility became operational in the last quarter and is intended to provide a multi-disciplinary technical resource to all business units within the Group. RIDEC will help with both the engineering integration of acquired businesses that may employ different CAD systems and processes, and the development of new and enhanced products across the Group. It will continue to recruit through the year, aiming to be at full strength by the end of 2011.

The key differentiating features of an electric actuator are motor control, robust communications links, and sensor technology, and our Bath-based engineers remain active in all of these areas. At the end of the year we commenced production of a variant of our IQ series using a novel valve position sensor. This represents the conclusion of several years' research into position measurement techniques and the search for a cost-effective alternative to our existing technology. In addition, we have continued the development of our wireless network and are now ready to move from pilot installations to deployment within an operational environment. There are still challenges ahead but this represents an exciting step forward.

As in previous years we have continued our efforts to gain leverage by applying our IQ technology to other products within the Group. Products scheduled for release by the RFS division during 2011 mark the culmination of this activity. Work has continued on the control valve actuator ('CVA') to increase the range of options available and to extend the torque and thrust capability of the family. A larger size is now planned for introduction in 2011. Throughout 2010, the Process Controls division ('RPC') has been working on the development of a new family of linear, rotary and quarter-turn actuators that will complement the CVA range and replace some of its older products. The first sizes of this new family are due for release during 2011.

In tandem with the acquisition of Hiller, we have substantially increased our resources committed to the development of our nuclear product portfolio. We have completed re-qualification of the existing nuclear electric actuator range to IEEE382 1996, together with seismic qualification of the 90NA/ISN19 actuator / gearbox combination; the 90NA/ISN19 being the largest combination that we produce. We are also actively engaged in the design and qualification of electric and fluid power actuators suitable for use within Westinghouse-designed AP1000 and Areva EPR nuclear power stations.

Quality

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 be registered with a Quality Management Approval System to ISO 9000 standards, and are required to adopt Rotork systems and working practices.

Our divisional structure and decentralised procurement & manufacturing hubs allow us to disseminate best practice between our businesses, and foster a culture of continuous improvement at all levels, which is reviewed in 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

As well as investing in our facilities and product, we have continued to invest in our employees. We now have 2,100 staff and their commitment makes possible the delivery of our promises, obligations and ambitions. We seek to develop their talent, through new and innovative ways of enhancing their capabilities and leadership skills. We also strive to ensure Rotork will continue to attract new talent and be seen as a good employer. Good communication with our employees is an essential part of this and is particularly important in a global business. This is one of the areas assessed in our employee satisfaction survey, and after initiatives to circulate a regular Chief Executive's newsletter, site briefings at many of our facilities and other magazines and communiqués the score has improved. The total score on the employee satisfaction survey has been maintained this year with a record number of employees taking part. This is evidence that the survey is seen as a valuable method for driving change within the Group.

An Equal Opportunities policy is applied throughout the Group and in almost all cases, it is nationals from countries in which the Company operates who manage those companies locally. Financial support for training and learning programmes directly related to employees' working roles are provided. We have permanent full-time training officers in many of our facilities who co-ordinate product training for employees and customers. Our commitment to staff development over the long-term is evidenced by initiatives on four-year apprenticeship programmes, our extended graduate recruitment programme and other training initiatives across the Group.

Corporate Social Responsibility

At Rotork we take our responsibilities to employees, customers, suppliers and all our stakeholders seriously and our strategy includes specific objectives in respect of this. More information on the framework and methodology for addressing our CSR agenda is set out on pages 24 to 28.

2010 has been the first year Rotork has adopted a global charity, WaterAid, and it has been particularly pleasing to see the great variety of ways in which our employees around the world have found ways to raise money for this charity. We also continue to monitor our impact on the environment, reviewing greenhouse gas emissions, waste management and recycling and water use, working with employees and other interested parties to reduce this impact.

IQ actuators, strategic underground gas storage, Latvia.

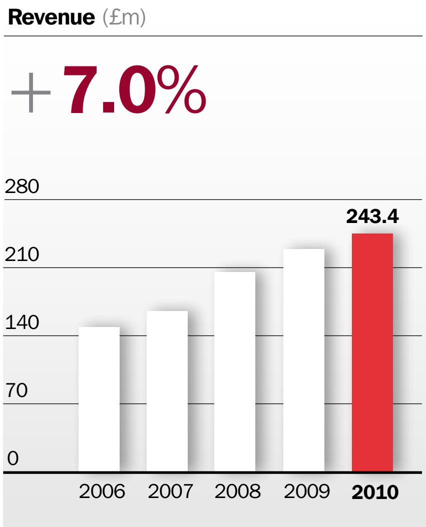
Business Review

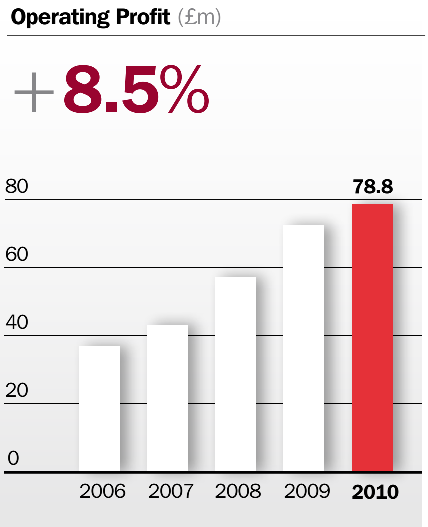
Controls

"Rotork Controls has made further progress this year reporting record revenue and operating profit"

Peter France MD Rotork Controls

Financial Performance





Rotork Controls has made further progress this year reporting record revenue and operating profit, continuing the track record for growth which was maintained throughout the last economic cycle. Positive results were seen across most operating regions, with the UK lower due to reduced spend in the water industry. Rotork Process Controls had a difficult 2009 but has seen an improving market in 2010. New products such as the CVA have benefited this business and we look forward to further progress as more products come on line in 2011. In water, the transition between the AMP4 and AMP5 spending cycles in the UK has delayed order placement here, but spend in other parts of the world has been sufficient to offset the lower UK activity. We continue to look for new markets and develop our products to service these as we become aware of them. In the year we have been successful in a number of non-traditional areas, however the traditional markets of oil & gas, power and water have continued to be active.

Revenue grew 7.0% to £243.4m during the year and with order intake up 9.1%, the order book increased 1.2%. Restated at 2009 exchange rates, the revenue increase is 5.1%. Controls has a greater exposure to currencies other than euro and US dollar than the other divisions and bears the most significant element of the currency adjustment. Over the year as a whole the impact of the weaker euro has been more than offset by the strength of the basket of other currencies, with US dollar being neutral. Operating profit has increased 8.5% to £78.8m with the operating margin increasing to 32.4%.

Considering the regions, the Far East delivered the highest growth in revenue with our businesses in China, India and Australia the biggest contributors. Many of the businesses in this region delivered double digit growth but having delivered large projects in the prior year, Japan and Singapore reported lower revenues this year. China saw the next phases of the transmission pipeline projects which had started in 2009 and made progress in selling into the water market in greater quantities using our locally manufactured IQ actuators. The Chinese power market, despite a reduction in the number of new power stations being announced in China, remained a growth market for us including successes with Chinese contractors on export projects and nuclear power stations. In India, power is our major market and this drove the revenue growth again and judging by the build programme announced this year will continue to do so. In Australia, the focus was on desalination plants, an alumina refinery and power station projects.

Within the Americas, Canada and Brazil were the best performers although our presence in these two countries is at very different stages of their evolution. Canada has been an established subsidiary for many years and this year the growth came from an increase in sales for domestic water and waste water projects rather than

Top: Non-intrusive programming of market-leading IQ valve actuator.

Bottom Left: IQT actuator, solar power plant, Spain.

Bottom Right: CVL actuators in oil recovery plant, USA.

supporting Canadian valvemakers on export projects. In contrast, our first office in Brazil was established in 2009 to supplement the sales effort which in the past had been coordinated from the USA. Brazil not only offers a huge potential oil & gas market but also presents opportunities in water and other natural resource related markets.

In Europe we saw an increase in oil & gas expenditure, both in tank storage and in transmission pipelines. These two areas particularly benefited our offices in the Netherlands and Russia. In Spain the traditional oil & gas markets were quieter but we were still able to grow revenue with orders in solar power and ships.

Since my appointment as Chief Executive, I have also acted as the Controls Division Managing Director. Now, given the growth of this division and the growth of the Group as a whole, the time is right to appoint a full-time Managing Director and for me to focus exclusively on my Group role. I am therefore pleased to announce that Grant Wood has been appointed Managing Director of Rotork Controls and he joins the Rotork Management Board in March 2011. Grant joined Rotork in 2006 as the director of Rotork Site Service ('RSS') following a career in management consultancy and the utility industry and has been responsible for driving RSS forward over the last four years.


IQT actuators, membrane filtration sewage treatment plant, UK.

Operating margin

32.4%

up from

31.9%

in 2009.

Business Opportunities

- **Brazil, Russia, India, China and the Middle East**
- **Nuclear market**
- **Mexico**
- **Rotork Process Controls including CVA**

Business Review

Fluid Systems

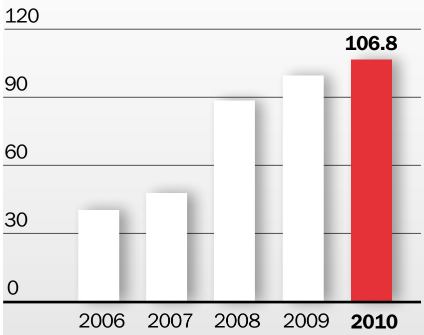
"In the last three years the acquisitions have all brought new products into the RFS portfolio."

Alex Busby MD Rotork Fluid Systems

Financial Performance

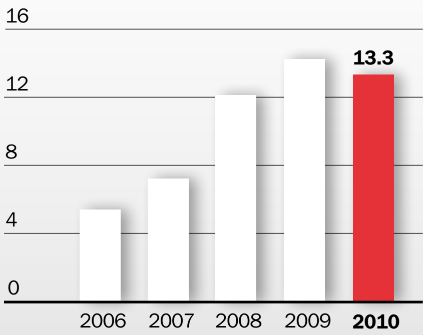
Revenue (£m)

+7.1%



Operating Profit (£m)

–6.8%



This year Rotork Fluid Systems ('RFS') has succeeded in widening both the end-market and geographic areas it serves through a combination of new product development, acquisitions and establishing new sales channels. RFS is the division, which more than any other part of Rotork, has grown through acquisition. In the last three years, the acquisitions of Remote Control, Flow-Quip and Ralph A. Hiller ('Hiller') have all brought new products into the RFS portfolio, each in very different markets and yet each capable of being sold through the existing RFS Centres of Excellence worldwide. The latest of these, Hiller, acquired in May 2010, brought a strong brand, good industry contacts, a range of nuclear certified hydraulic actuators and provided a step change in RFS's capabilities in this field. Integration of acquisitions is key to ensuring they deliver value to the Group. This integration takes place on many levels but with Hiller one of the key areas has been within engineering and product development. The combination of Rotork's greater resources and expertise in actuation, with Hiller's nuclear industry knowledge and contacts, has already created an enhanced product development plan as well as led to new sales leads for traditional Rotork products.

The majority of RFS sales are still oil & gas related projects, with a focus particularly on upstream although this concentration is diminishing with each acquisition and through product development. The range of high pressure gas and gas-over-oil actuators has expanded allowing RFS to take a share of the LNG and gas transmission markets, whilst the Flow-Quip products give access to the US liquids pipelines market and a stronger presence in Latin America. Hiller, as mentioned above, provides nuclear certified products and the expertise and contacts to gain access to this expanding market for other RFS products in development. In order to deliver the product development plan for RFS, which now includes work in Hiller where new opportunities have already been identified, we have continued to invest in the engineering resources of the division. This has included adding engineers and aligning the tools used by the engineers across the division.

Order intake has increased 35.1% but to some extent this reflects the weaker comparatives. Even with Hiller removed, orders were 27.1% ahead of the prior year with a number of markets seeing significant growth. The Centres of Excellence in the UK and Canada both reported double digit increases in order input as did the factories in Sweden and Italy. Integration of acquisitions is an important source of growth for RFS and the actuators produced in Sweden are now sold by more than half of our sales companies.

2010 saw RFS revenue break through the one hundred million pounds mark, posting a 7.1% increase to £106.8m. Removing the impact of currency and the Hiller acquisition, revenue growth would have been a more modest 1% but given the heightened competition earlier in the year this represents a solid result.

Top: RC200 pneumatic actuators at EuroLoop, the Netherlands.

Below: GP pneumatic actuators on Emergency Shutdown valves at natural gas plant, Bolivia.

Bottom: HPG actuators on CO_2 gas pipeline, Denver USA.

Operating margins in RFS have been affected by a number of factors, the net result of which is a reduction to 12.4% but when adjusted to remove the higher amortisation costs this year, operating margin is 14.0% compared with 15.4% in 2009. The continued investment in the infrastructure of the division; building the Chinese sales team, increasing the engineering resources and continuing to develop the Lucca factory, lays the foundation for future growth but the benefits from operational gearing in 2010 were not sufficient to cover this additional cost. The acquisition also had a negative impact on margins.

RFS has demonstrated that the commitment to product development, supplemented by acquisitions, and providing customers with local support is a successful strategy. The Middle East is an important market for Rotork and especially for the RFS division, with many of the projects sold in Europe ending up in the region. We have therefore strengthened our local support in the region and this will remain a focus in 2011.

CP & GP pneumatic actuators, process heating plant at Asian refinery.

Operating margin

12.4%

down from

14.3%

in 2009.

Business Opportunities

- Increased investments announced by oil majors
- New products and broader market focus
- Safety and information diagnostics
- Site services
- Nuclear

Business Review

Gears

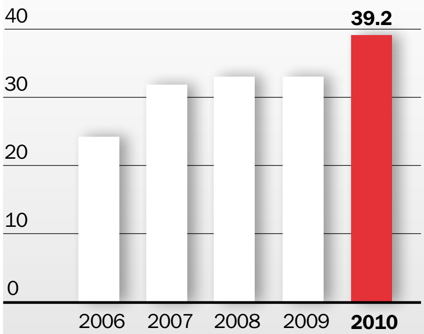
"The relationship with valvemakers is one of long-term partner."

David Littlejohns MD Rotork Gears

Financial Performance

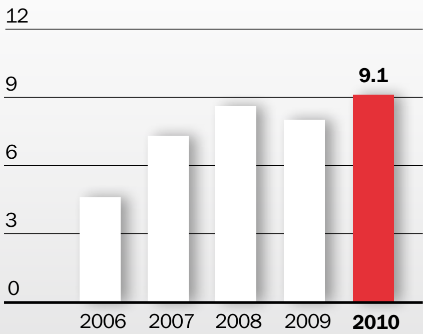
Revenue (£m)

+6.5%



Operating Profit (£m)

+13.4%



Rotork Gears manufactures and sells manual and motorised gearboxes from its factories in the UK, the Netherlands, Italy, China and since mid-2010, India. These gearboxes are sold to provide mechanical advantage when operating industrial valves, whether by hand or using an actuator. The largest customers for Rotork Gears are the two other Rotork divisions, as both electric and pneumatic / hydraulic actuators can operate in conjunction with a gearbox, but they are also sold direct to valvemakers.

The relationship with valvemakers is one of long-term partner, as the gearbox is an essential component in the sale of many manually operated valves. With the majority of valves sold still manually operated, every valvemaker needs a high quality, reliable gearbox supplier. The gearbox market is nearly as fragmented as the valve industry though, with Rotork being the largest participant and the main consolidator of the market. By operating on a larger scale and using our global sourcing expertise to control costs, we are able to offer competitively priced gearboxes. This allows us to compete against small local vendors or in-house gearbox manufacture at the larger valvemakers.

This year saw a far more active valvemaker market for Gears after a slower 2009. We started the year with a variety of initiatives underway to deliver revenue growth and improve margins. A number of new products were in development and to be brought to market in 2010, the manufacturing centre in the new Bangalore factory in India offered an opportunity to make greater progress with the numerous domestic Indian valvemakers, and work was underway to gain greater penetration in a number of other countries. As a result of this work, revenue grew 6.5% in the year to £39.2m, a record for the division, with a more rapid growth in sales to valvemakers offsetting a decline in sales to Controls and RFS. Operating margins improved to 23.2% of sales, with operating profit up 13.4% to £9.1m, again a record.

The revenue growth was derived from a combination of new products and new markets. Investment in the Gears R&D team has meant new products have been launched to meet applications in the American water market and the European and USA fire safety market. The countries where additional sales resource was directed were the ones with large domestic valvemakers and therefore greatest potential. This has led to significant progress in China and Russia in the year, whilst a focus on valve distributors in Australia has led to growth in sales there. India remains a market of huge potential but the process of converting the valvemakers to using the output from our Indian factory will take time.

We have sourced components from the Far East since before the factory was established in China, so controlling component costs through managing a global supplier base is a well established technique in Gears. This year, part of the success in improving margins has been as result of controlling the component costs and reducing the average material content.

Right: IQ actuator with IW gearbox, reverse osmosis desalination plant, Spain.

Below: IQ actuators with IW gearboxes at EuroLoop, the Netherlands.

The factories in Leeds, the Netherlands, Italy and China have all achieved lower material costs despite rising transport and commodity costs. The search for new suppliers is an ongoing process and next year will see the qualification of new suppliers in India.

The current year has seen the successful launch of a number of new products which will continue to provide growth opportunities into next year. We are also expanding our capabilities in the important US market by incorporating a small production cell in the new Houston facility. This will allow standard gearboxes to be tailored locally to meet customers' requirements. Meanwhile, the drive to expand the customer base in China and Russia has provided growth this year and opened up new markets.

Operating margin

23.2%

up from

21.8%

in 2009.

"We have achieved lower material costs despite rising transport and commodity costs."

Subsea declutch-able gearbox and hydraulic actuator.

Business Opportunities

- **USA**
- **Manufacturing in India**
- **Development of new markets**
- **Supply chain management**

Financial Review

"Our asset-light business model has always meant that Rotork generates a high return on capital employed."

Jonathan Davis Finance Director

Rotork has reported another year of growth with record order intake, revenue and profit and has maintained operating margins during a year which saw periods of pricing pressure. Over the last ten years we have delivered compound annual growth rates for revenue of 13.4% and for operating profit of 17.3%.

In a business with subsidiaries operating with 18 different home currencies and transactions taking place in many more, currency movements will always have the potential to significantly influence both the competitive position of Rotork and the reported results. We have seen a different dynamic in the currency markets this year with the movements in US dollar and euro having a less pronounced impact on our results than the other currencies in which we trade. Looking at the impact on the income statement, these other currencies appreciated 13% on average this year compared with a 3% weakening of the euro and virtually static US dollar. Currency has remained a tailwind in 2010 but is far less significant than for the past few years.

Revenue grew 7.6% as reported but restated at constant currency and to remove Hiller, the growth rate is 4.6%. The currency restatement reflects a combination of both the translation and transaction effects so is influenced by where our subsidiaries are located as well as the direction of net flows in each currency pairing. So whilst the currency adjustment to revenue is £4.0m, at operating profit the adjustment is £3.8m (see table opposite). Adjusted operating profit, which is stated before intangible amortisation and any property disposals, has grown 8.0% in the year but after removing the acquisition and currency this increase is 2.9%. Operating margin based on this adjusted profit is 26.1% both for 2010 and 2009 but removing the dilutive effect of Hiller offsets some of the currency gains giving a restated organic return on sales of 25.6%. Earnings per share growth is 8.4%, with this KPI showing higher growth than reported profit before tax of 7.6% due to a 0.6 percentage point reduction in the Group effective tax rate.

To better understand the impact of currency on our results, it is possible to consider the impact of currency in terms of the impact of a 1 cent movement. As we have increased our revenue in US dollar and dollar related currencies the effect of a 1 US dollar cent movement has grown to around £300,000 whilst a 1 euro cent movement remains around £250,000.

Our asset-light business model has always meant that Rotork generates a high return on capital employed ('ROCE'). This year ROCE is 82.4%, which although lower than the 90.1% reported last year, is still a good result. Capital employed, as defined in our KPI calculation, has increased 16.7% as a result of the growth in working capital, predominantly trade receivables. This is due to the phasing of sales, with fourth quarter revenue 31.5% higher this year than 2009. Despite this increase in the value of trade receivables, debtor days have fallen from 60 to 56 days.

Acquisitions

This year we completed the acquisition of Ralph A. Hiller ('Hiller') in May for £5.5m. Hiller manufactures a range of hydraulic actuators, certified for use in the nuclear industry, and is on the approved vendor list to supply the main steam isolation valves in the latest design of nuclear plants.

Upon acquisition, the fair value of tangible and intangible net asset was assessed and as a result intangible assets of £1.6m and goodwill of £2.5m has been recognised in the Group accounts. The intangible assets will be amortised over their estimated useful lives and this has resulted in a charge to the income statement of £0.4m in the year. Taken with the amortisation of intangible assets from previous acquisitions, the total charge to the income statement in the year is £1.7m. Further details regarding the accounting for the acquisition are shown in note 3.

Cash generation

The cash balance at the end of the year was £97.9m with £19.2m added during the year. Our cash generation KPI has averaged more than 100% over the last five years and this year was close to this

Organic Business Growth

£m	2010 Group as reported		Constant currency adjustment	Group at 2009 exchange rates		Remove Hiller acquisition	**Organic business at 2009 exchange rates**		2009 Group as reported	
Revenue	**380.6**		(4.0)	376.6		(6.6)	**370.0**		353.5	
Cost of sales	**(199.8)**		(0.9)	(200.7)		4.3	**(196.4)**		(187.6)	
Gross profit	**180.8**	**47.5%**	(4.9)	175.9	46.7%	(2.3)	**173.6**	**46.9%**	165.9	46.9%
Overheads	**(81.4)**		1.1	(80.3)		1.5	**(78.8)**		(73.8)	
Adjusted operating profit*	**99.4**	**26.1%**	(3.8)	95.6	25.4%	(0.8)	**94.8**	**25.6%**	92.1	26.1%

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

level at 96.5%. Our usually modest capital expenditure requirements have increased marginally this year to £5.0m, with investment in the new facility in Bangalore, improvements to the Bath site and the sales and marketing IT system. Working capital still has the largest influence on our cash generation and viewed as a function of sales was 23.2% at the year end, up from a record low of 21.0% at December 2009. Whilst inventory levels have only increased by £1.5m, despite the additional Hiller inventory, trade receivables have risen by £16.6m to £70.4m, due to the phasing of revenue as explained above. The two major cash outflows in the year were tax (£26.2m) and dividends (£35.9m) which this year were boosted by the additional dividend.

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

As a result of operating subsidiary companies in 22 countries, the Group's effective tax rate is always a blend of these different national rates applied to the locally generated profits. During the year the Group tax rate has reduced to 29.0% from 29.6% last year. The main influences on this change were the growth of our Chinese businesses specifically and the mix of profits in favour of lower tax rate jurisdictions in general. After initially having a tax holiday, our Chinese factory now benefits from a transitional tax rate which started in 2009 and remains in force until the end of 2011. Our philosophy with tax is to operate on the basis of full disclosure and co-operation with all tax authorities and, where possible, in a responsible manner mitigate the burden of tax within the local jurisdictions.

Treasury

The Group operates a centralised treasury function. Actions 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, Group 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 exchange contracts and swaps. 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 any banking relationships.

Dividends

The directors are proposing a final dividend of 19.75p per share which is a 14.5% increase. Taken together with the interim dividend of 12.75p per share paid in September, this represents a 14.4% increase over the prior year. Excluding the additional dividend paid last July, this gives dividend cover of 2.5 times compared with 2.6 times last year. 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 do so. Following an assessment of cash requirements, the directors intend to pay an additional dividend of 11.5p per share in June 2011.

Retirement benefits

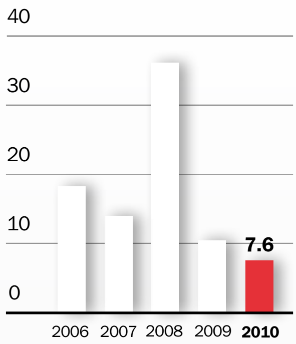
The Group accounts for post-retirement benefits in accordance with IAS19, Employee Benefits. The balance sheet reflects the net deficit on these schemes at 31 December based on the market value of the assets at that date, and the valuation of liabilities using year end AA corporate bond rates. We have closed both 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 Group's liabilities. The funding position of the schemes improved in the year from 82% funded last year to 85% this year. Whilst discount rates have reduced, which increases the current value of future liabilities, this has been more than offset by better returns on assets and a change to the mortality assumption. The mortality tables are based on the latest available data from occupational pension schemes and give a shorter life expectancy than the previous tables which were based on data from insurance companies.

Key Performance Indicators

Financial KPIs

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

Sales Revenue Growth (%)



Sales Revenue Growth of

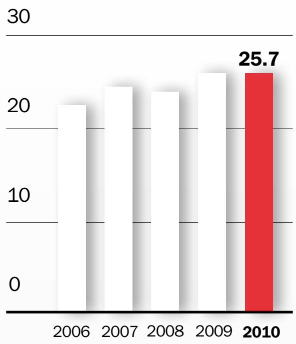
7.6%

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 product 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 7.6% against the backdrop of a global economy emerging from recession.

Return on Sales (%)



Return on Sales consistent at

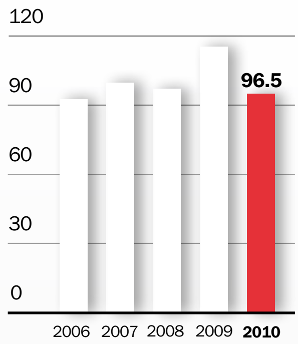
25.7%

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

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

Comments on results
Margin remained at last year's record levels as the impact of operational gearing offset the investment in developing the infrastructure of the Group to position us for further growth.

Cash Generation (%)



Cash Generation good at

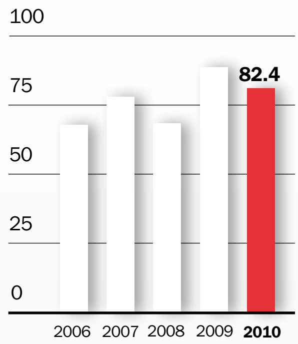
96.5%

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

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

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 (%)



Return on Capital Employed high at

82.4%

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.

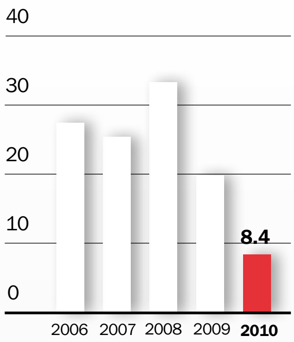
How we calculate
Operating profit as a percentage of capital employed. Capital employed is defined as shareholders' funds less net cash held, with the pension fund deficit net of related deferred tax asset added back.

Comments on results
Increased activity levels in the last quarter have led to higher working capital. This has resulted in capital employed growing faster than operating profit in the year.

Non-financial KPIs

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

EPS Growth (%)



A good rate of EPS Growth

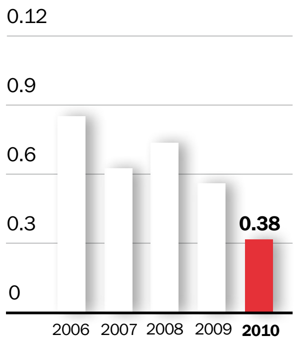
8.4%

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

How we calculate
Increase in basic eps year on year divided by the earlier year eps.

Comments on results
Basic eps has increased slightly ahead of profit before tax due to a reduced effective tax rate arising from lower tax rates in some jurisdictions and the international mix of where our profits were generated.

Accident Frequency Rate



Accident Frequency Rate improved to

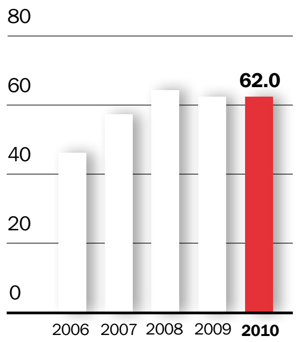
0.38

Reason for choice
The Accident Frequency Rate ('AFR') is used as one measure of the effectiveness of our health & safety procedures.

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

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 and have contributed to this improved score.

Waste Recycling (%)



Waste Recycling consistent at

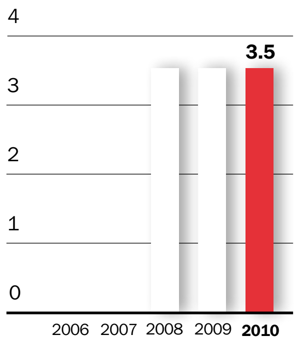
62.0%

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

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

Comments on results
With the higher output this year and more facilities from which we operate, we have succeeded in maintaining the percentage of waste recycled.

Employee Satisfaction



Employee Satisfaction consistent at

3.5

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

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

Comments on results
The overall score has been maintained with the response rate improved to 75% and increasing total employee numbers. Initiatives in communication and in our global charity activities resulted in better scores in those areas.

Statement of Principal Risks and Uncertainties

"The Board promotes a culture that emphasises integrity at all levels of business operations."

The assessment and management of risk is the responsibility of the Board, and the development and execution of a comprehensive and robust system of risk management has a high priority in Rotork. This is based on an established enterprise wide process for the identification and management of risk, first at divisional business level, and then in terms of the Group as a whole, working within the governance framework set out in our corporate governance statement, see page 32.

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

The Group Finance Director is specifically tasked with risk management for the Group, and chairs a committee made up of functional heads at divisional director level to manage this process, each of whom has access to all officers across the Group tasked with risk management. The Board approves appetite for risk at both Group and Divisional level and the consequential actions in terms of mitigation where possible and appropriate.

These processes of risk management within the businesses involve:

- Identification and regular assessment of individual risks 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 identified by senior management in association with the full Board of Directors and the external Auditor is invited into the process in a support role. This is an ongoing process involving regular risk assessment, with clear and consistent procedures for monitoring, updating and implementing appropriate controls to manage the identified risks. We are therefore confident that we have a methodology for ensuring that the Group's approach to dealing with individual risks is robust and timely.

Identified risks are categorised by likelihood and potential impact on the business, and once the assessment matrix is complete the risks are then re-evaluated in relation to the Group overall. Each risk once identified is allocated to one of the directors of the divisional businesses to ensure the risk is appropriately considered and managed. Identified risks are discussed, and the progress reviewed at both Rotork Management Board and divisional board meetings during the year.

We identify three main risk areas:

- Strategic – risks that potentially could affect the strategic aims of the business, or those issues that could affect the strategic objectives that the Group is addressing
- 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
- 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 ten risks identified in the risk management process are listed in the table opposite. These are categorised by the three main risk areas identified above and listed in order of severity as identified in the risk assessment process. Mitigation, where possible, is shown by each identified risk area.

Strategic Risks

Description	Mitigation
Competition on price as a result of an existing competitor moving to manufacture in a lower cost area of the world.	Rotork has a direct presence, in terms of production, sales & service support in the major low cost locations. Constant drive to maintain differentiation from our competition.
Appropriateness of our products, both in terms of cost and features.	Take cost out and differentiate Rotork products from competitors. Ongoing development of products to meet required specification and pricing.
Lower investment in Rotork's traditional market sectors.	Development of business into new markets. Continued product development and innovation.
Loss of technological leadership.	Increased investment in Research and Development across the Group. Setting aside time for innovation and sharing of ideas. Continual development of our team through training and recruiting talented engineers.

Operational Risks

Description	Mitigation
Quality and applications failures in a hazardous area and / or causing an environmental impact.	Quality control procedures including supplier visits and checks. Product design and development supported by life / performance tests.
Major in-field product failure. Risk of product recall due to component defect or warranty issue.	Good quality control procedures including supplier audit and scorecard to monitor performance.
Failure of a key supplier or tooling failure at a supplier causing disruption to planned manufacturing.	Dual sourcing for key components wherever possible and regular monitoring and replacement of tooling at all suppliers.

Financial Risks

Description	Mitigation
Volatility of exchange rates.	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.
Failure of a major bank where deposits are held.	Group Treasury Committee regularly reviews bank credit ratings and adjusts the banking policy accordingly.
Losses arising from complex and extended scope contracts where risks could be assumed which are beyond the terms covered by insurance.	Group policy in place for the authorisation of significant contracts. Regular training on Group policies and insurance conditions.

Corporate Social Responsibility

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

Corporate Social Responsibility Committee ('CSR')

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

Health & Safety Committee

Chaired by the Group Operations Director, meetings are formally held four times a year. The Health & Safety Committee has responsibility for:

- Reviewing all accident and incident reports
- Management of Group health & safety
- Reviewing legislative change

The Committee includes a qualified health & safety professional.

Environmental Committee

Chaired by the Group Operations Director, meetings are formally held at least once a year. The Environmental Committee has responsibility for:

- The Environmental Management System
- Review of all incident reports
- Review of Environment Audit Report
- Reviewing legislative change

The committee uses Resource Futures as the Group's Environmental Consultant.

Ethics Committee

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

Social Issues Committee

Chaired by the Group HR Director, the Social Issues Committee has responsibility for:

- Social issue policies
- HR policies

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

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

These values are contained in our vision and mission statement which can be accessed at www.rotork.com under Investors – Strategy.

The Company has considered the guidelines on Social Responsibility published by the Association of British Insurers. It takes full account of the significance of environmental and ethical matters in the conduct of its business and in its risk assessment processes. Rotork remains committed to the principles laid down for its inclusion in the FTSE4Good Index and the ten Principles of the UN Global Compact of which it is a signatory.

Environmental

The Group's Environmental Policy applies to the Company and all its subsidiaries worldwide. The policy includes commitments to the prevention of pollution, compliance with all relevant legal and regulatory requirements and to the continuous improvement of environmental performance.

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

In support of the above policy, Rotork's Environmental Management System, which is a system of procedures developed to minimize 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 both electronic publishing and face-to-face discussion.

Environmental performance

Environmental data is collected across the Rotork Group of Companies via a purpose built web based data collection tool. This tool delivered significant improvements in on time reporting, completeness and accuracy of data collected.

Carbon Emissions

The Group's greenhouse gas emissions derive from the use of energy, electricity, gas, LPG, oil, coal and wood. We record our emissions of greenhouse gases in accordance with Greenhouse Gas Protocol ('GHG Protocol') developed jointly by the World Business Council for Sustainable Development and the World Resource Institute. All scope 1 & 2 emissions are calculated in accordance with GHG Protocol using conversion factors from the US Environmental Protection Agency, the Department for Environment, Food and Rural Affairs, and the International Energy Agency ('IEA'). All scope 2 emissions have been calculated using the relevant conversion factor for the part of the world the energy was consumed based on the mix of coal, oil, gas, hydroelectric or nuclear energy used.

In 2010 Rotork published its scope 1 & 2 emissions via the Carbon Disclosure Project ('CDP'). Rotork has made a commitment to the disclosure of its Scope 3 emissions via CDP starting with business travel in 2012. The carbon emissions for our products will follow on a progressive basis from 2013.

In order to achieve this, Rotork has commenced research into raw materials, and base materials including percentage of recycled materials, location of suppliers and transport of raw materials. Research is also being conducted into packaging, transport of components and assemblies, assembly of finished product and business travel and the associated emissions.

Photograph courtesy of Andrew Padfield

Roartork, decorated by artist Jane Veveris Callan.

Waste management

Waste recycling is one of the Group's non-financial key performance indicators ('KPI'), which is measured as a percentage of total waste generated by the Group, as Rotork has identified waste as its most significant environmental impact. Rotork is therefore working with its suppliers to improve its waste recycling systems and increase the rate at which generated waste is recycled. There is a cost benefit to reduce waste going to landfill and increase the amount of waste recycled. Last year there was a 17% increase in total waste generated, the amount of waste recycled also increased by 17%. The increase in generated waste was entirely due to an increase in our overseas supply chain activity (see page 21 for more details of this KPI (62%)). All hazardous waste is identified and sent for treatment via licensed waste carriers to licensed treatment facilities.

Water use

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

In 2010, water consumption fell 22%; as Rotork does not operate any process that consumes large amounts of water this is seen as a result of fluctuations in normal use.

Ethics and values

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

Rotork's ethics and values policies which are applicable to all employees worldwide can be accessed at Rotork's website www.rotork.com in the Investors section under Corporate Responsibility – Ethics & Values.

Corporate Social Responsibility

"Rotork aims to provide a safe working environment for all employees and visitors to its premises."

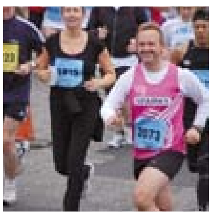
The Ethics and Values policies specifically state that Rotork will never offer, pay, solicit or accept bribes in any form. Group internal audits include Ethics policy compliance monitoring and these are reported to the Audit Committee.

The Ethics Committee is a sub-committee of the CSR Committee and its members include the Group Finance Director and Group Legal Director. The Committee's remit includes review of the Group Ethics Policy and further development of systems and procedures for appropriate monitoring of the policies together with provision of suitable training for employees. The Ethics Committee reports into the CSR Committee whose Chair, the Chief Executive, reports into the RMB and Board on ethical matters. Senior Managers worldwide regularly receive presentations and training on the Group's ethical policies to enable them to ensure their staff are fully aware of and understand Rotork's ethics practices. These presentations make it clear that the Board of Rotork p.l.c. fully support and endorse the Group Ethics Policy.

Top: Rotork Bath sponsor local team tracksuits.

Left: RTS Jiuzhaigou visit during which funds were raised for WaterAid.

Right: Mark Neilson, running the Great Scottish Run for Breast Cancer Care.



The Committee has during the year undertaken a risk assessment of the nature and extent of the risks relating to bribery to which the Company is exposed. Communication of Rotork's Ethics and Values is now part of the induction process for new employees and new agents and takes due account of the Bribery Act 2010 and the associated draft guidelines. These core ethical values will ensure each individual employee acts at all times with integrity, honesty and fairness towards those whom they engage.

Rotork is a signatory to the United Nations Global Compact and its ten Universal Principles. These Principles are derived from the Universal Declaration of Human Rights ('UDHR') and incorporate human rights, labour, environment, bribery and corruption. The Group supports the UDHR and the International Labour Organisation's Declaration of Fundamental Principles and Rights at Work. Rotork supports all United Nations' efforts to ensure the effective abolition of child forced compulsory labour and will never use any such labour in any of its operations worldwide. At Rotork the rights of every employee are respected. The Company acts in ways that ensure all employees are treated with openness, mutual trust, dignity and respect. Everyone working at Rotork will be treated fairly and without discrimination on the basis of race, gender, language or religion.

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

This policy can be viewed on our website www.rotork.com in the Investors' section under Corporate Responsibility – Workplace & Community.

Suppliers

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

Rotork's outsourced model of manufacture places a high emphasis on supplier selection and evaluation. Values such as integrity, working conditions and non use of child labour are core to our principles and we actively search for these same values within our supply base. Rotork is committed to long-term partnerships with its suppliers and these relationships are reinforced through regular visits, robust audits and an active supplier development and risk reduction focus. A typical audit would involve a review of safe working methods, waste reduction initiatives and working conditions appraisal. Our aim is to procure components from the very best suppliers who have a sustainable business model that will reduce their impact on their employees and their environment.

Supplier site visits involve observations of safe working practice, ages of employees, correct handling procedures and the correct use of hazardous materials. Any irregularities observed are pointed out to suppliers and corrective action is taken. Supplier audits are distributed internally within the Group. Assurance is also sought that suppliers uphold all local laws generally applicable to their locality and operations. Most key suppliers are registered to ISO 9000.

Supplier development is ongoing and involves elements developed in the motor industry of the QS 9000 system which is part of ISO 9000.

Health & safety

Rotork aims to provide a safe working environment for all visitors to our premises and also for our employees wherever they work. The Group 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 policy can be viewed on our website www.rotork.com in the investors section under Corporate Responsibility – Workplace & Community.

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

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

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 and consequently activities that may benefit from additional resources and training.

The Group's target is to achieve lower than industry averages in health & safety performance for our sector. A peer group benchmark is used for comparative purposes. In 2010 the rate at which industrial accidents occurred across all of our facilities was 0.38 injuries per 100,000 hours worked. The Group undertakes to keep the number of working hours lost through health & safety incidents to a minimum. For the second consecutive year the number of accidents has fallen while the number of near misses reported remains high, indicating that safety awareness continues to be positive.

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

Photograph courtesy of WaterAid/Marco Betti

Genet Weldegerite, Mahilet Solomon, and Seliman Mehamed Suhar at the tapstand, Hiwane elementary school, Ethiopia.

Corporate Social Responsibility

Shareholders

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

Community involvement

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

As a global Group, Rotork is committed to charitable engagement on a worldwide scale. During 2010, Rotork launched its Global Charity Initiative where each site was encouraged to organise fundraising events to generate funds for the 2010 selected global charity WaterAid and in particular their Project based in the Mysore District of Karnataka state, Southern India. Employees enthusiastically engaged in fundraising in a wide range of activities including an Oklahoma Catfish Fry and silent auctions in the USA, a water melon party in Korea, a family fun day in China and in Spain designing and selling air fresheners for the cause. The Group and its staff made a combined contribution of £90,000 to the Project. Employees from Rotork India visited the Mysore project meeting Project leaders and leaders of the benefitting communities and were pleased to see the successful provision of water and sanitation in this remote area of Karnataka. Over the three years of the Project, approximately 7,000 people in small remote villages have gained access to safe sanitation and 10,000 people have gained access to safe water.

For 2011 Rotork has chosen to continue to support WaterAid and will sponsor its Jeldu Woreda Solar Powered water project in Ethiopia. This project aims to develop water schemes, mainly through capping springs which then distribute water through water points at locations selected by the local benefitting communities who live in remote villages.

Rotork also believes it is important to be a good community neighbour. The Group regards this as part of its ongoing responsibilities as a corporate entity. We seek to be regarded as a good corporate citizen. This links into the Group's corporate values which include producing a positive and beneficial impact in the areas in which we operate. One of the ways Rotork does this is by having local charity committees at each of its sites who donate to local charities and this empowers local employees to decide how to distribute the funds in their local communities.

During 2010, employees have volunteered in a variety of ways including painting community centres, donating time to participate in a day of caring and repairing fences in an animal sanctuary which provides therapy for sick children.

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. This year the sponsored charity events employees participated in included a 100 mile cycle ride and a 26 mile walk.

Rotork was a sponsor of a public art event in Bath where local artists were commissioned to decorate Lion sculptures which were then auctioned off for charity. The Rotork sponsored lion, "Roartork", was decorated in an interpretative way to represent the important role of actuators. Rotork Bath purchased the lion at auction and it now resides in the Group headquarters. Rotork in Bath has also sponsored local sporting teams and events throughout the year.

The Group has forged links with local universities, colleges and schools in a number of the locations where it operates and 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. Bath Education Trust has provided the Group with an opportunity to further develop links with Bath. Rotork staff held sessions for students providing experience of working in industry and ran courses intended to develop skills such as negotiating, presenting and project management.

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

Peter France Chief Executive
28 February 2011

Right: Charity casual day, Rotork South Africa.

Below: RPC Milwaukee employee, Doug Landers, 100 mile cycle ride for Missing Children Charity.

Bottom: Cupcakes at Flow-Quip's Oklahoma Catfish Fry for WaterAid.

Rotork Management Board

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

Grant Wood
MD Rotork Controls

Grant (44) has been appointed Managing Director of Rotork Controls and he joins the Rotork Management Board in March 2011. Grant joined Rotork in 2006 as director of Rotork Site Service ('RSS') following a career in management consultancy and the utility industry. He has been responsible for driving RSS forward over the last four years.

Number of years in industry 5
Number of years at Rotork 5

Alex Busby
MD Rotork Fluid Systems

Alex (51) joined in 1985 and spent four years at Rotork. He then went to a major competitor where he held various management roles in Asia and Europe. On rejoining Rotork in 2003 he became Business Development Manager, then Business Development Director, before taking on the role of Managing Director at Rotork Fluid Systems.

Number of years in industry 26
Number of years at Rotork 12

David Littlejohns
MD Rotork Gears

David (42) joined Rotork in 1985 working in the engineering design department. He moved to the USA in 1996 as an engineer in our plant in Rochester, New York from where he moved into a sales role, initially on the east coast and latterly as Sales Manager in California. In 2006 he returned to the UK as Managing Director of the Rotork Gears Division.

Number of years in industry 26
Number of years at Rotork 26

Alastair Spurr
Group Operations Director

Alastair (42) joined Rotork in 2005 as Operations Director of the Rotork Controls Division and is a member of the Rotork Management Board. He is a Chartered Engineer and has previously held positions within the engineering, construction and retail industries.

Number of years in industry 24
Number of years at Rotork 6

Carlos Elvira
Group Sales & Marketing Director

Carlos (54) joined Rotork in 1981 as an engineering graduate, becoming our first Graduate Trainee in International Sales. He became Middle East and European International Area Manager in 1984 and later International Sales Manager in 1989. He has been Sales and Marketing Director since September 1999.

Number of years in industry 29
Number of years at Rotork 29

Stephen Jones
Group Legal Director

Stephen (52) joined Rotork in 1999. He is Group Legal Director and Company Secretary. He is a Solicitor and has held previous positions in industry and private practice.

Number of years in industry 23
Number of years at Rotork 12

Biographies for the following RMB members appear on page 30

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

Board of Directors

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

Executive

Peter France ▲
Chief Executive

Peter (42) joined Rotork in 1989 and in 2008 was appointed Chief Executive of Rotork p.l.c. Prior to that appointment Peter has had roles within Rotork as Chief Operating Officer, Managing Director of Rotork Fluid Systems, Director of Rotork's Singapore Company, with responsibility for South East Asia, and in International Sales.

Bob Arnold
President of Rotork Controls Inc.

Bob (59), who was appointed to the Rotork p.l.c. Board in 2001, is a Graduate Engineer. Previously with Westinghouse in the USA, he joined Rotork Controls Inc. in 1978 as Engineering Manager subsequently becoming Vice President, Engineering and since 1988 President of Rotork Controls Inc. Bob has responsibility for all Rotork's interests in the Americas.

Graham Ogden
Research & Development Director

Graham (54) holds a PhD and 1st class honours degree in electronic engineering from Bristol University and has been with Rotork since 1985. Graham has been closely involved in product development including our award winning IQ series. He was appointed to the Rotork Controls Divisional board in 1997 as Research & Development Director and joined the Board of Rotork p.l.c. in January 2005.

Jonathan Davis
Finance Director

Jonathan (44) is a Chartered Accountant and joined Rotork in 2002 after holding a number of finance positions in listed companies. Jonathan gained experience of the Rotork business initially as Group Financial Controller and then as Finance Director of the Rotork Controls Division before being appointed Group Finance Director in April 2010.

Non-executive

Roger Lockwood ▲
Chairman

Roger (65) 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 (54) joined the Board in February 2005 as a non-executive director. He is Chief Executive of BAE Systems plc having held other senior general management positions at BAE Systems and previously at Marconi. He is a member of the Audit, Remuneration and Nomination Committees and is the senior independent non-executive director.

John Nicholas ●▲♦
Non-executive Director

John (54) 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. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Gary Bullard ●▲♦
Non-executive Director

Gary (53) joined the Board in June 2010 as a non-executive director. He is the 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.

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

Corporate Governance

This section of the report deals with how the Board and its Committees discharge their duties and how we applied the principles in the UK's Combined Code on Corporate Governance June 2008 edition ('the Code'). Here you will find detailed statements concerning our compliance with the provisions of the Code. Following the publication of the UK Corporate Governance Code June 2010 ('the 2010 Code') the Board reviewed its implications. Consequential changes made to Board procedures following that review are also referred to in this section.

The role that Board Committees play in UK corporate governance is very significant and certain responsibilities need to be overseen by directors who are independent of the activities they are required to oversee.

Set out below is a commentary on how the Company applies the main and supporting principles of the Code applicable to the accounting period applying to this Report and Accounts. Specific disclosures required within the provisions of the Code are also made within this section.

Code compliance statement

The Board currently comprises the Chairman, four executive directors and three non-executive directors (Code provision A.3.1). As Rotork p.l.c. is considered a large company by the Code it is recognised that full compliance (A.3.2) currently would require one further independent non-executive to be appointed so that half the Board, excluding the Chairman comprise independent non-executive directors. The Board has considered whether changes to the composition of the Board should be made and has concluded that as each of the non-executive directors are very strong and senior individuals with experience of International FTSE 100 Boards, sufficient non-executive director strength exists on the Board. The Board intends over time to move towards full compliance with respect to Board composition. Subject to the matter of the number of independent non-executives referred to in this paragraph the Company considers that it complies with the provisions of the Code.

Internal control

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

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

The Board reviews the effectiveness of the system of internal control and risk management annually (C.2.1). The review covers financial, operational, compliance and risk management controls. The role of management is to implement and maintain the internal control and risk management systems. The system of internal control is designed to reduce but cannot eliminate the risks of failure to meet business objectives. Internal control therefore can only provide reasonable but not absolute assurance in meeting such business objectives or against material misstatement or loss.

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

During the year the Audit Committee:

- Monitored and reviewed the effectiveness of internal audit activities;
- Reviewed and monitored external auditor independence and objectivity and the effectiveness of the audit process;
- Considered reports from management, internal and external audit on the system of internal financial control and any material control weaknesses;
- Received reports on health & safety;
- Discussed with management the range of actions taken on problem areas for the business identified by Board members or in the internal and external audit reports.

Additionally:

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

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

Risk management

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

Senior managers with responsibility across all functions participate in the risk management process on a regular basis. During this process key risks already identified are re-evaluated and new key risks facing the Group's businesses are identified and evaluated. Their deliberations are reported to the Audit Committee and Board by the Group Finance Director who is responsible for the risk management matrix. The process is based on senior managers' detailed knowledge and understanding of key risks within and external to the business, based on formal management information and reports and their interaction and daily dealings with those reporting directly to them, their colleagues and external parties. The process includes separate exercises to identify and evaluate key risks at divisional level by each Divisional Board. These divisional key risks are then collated and considered for Group materiality. They are then evaluated formally at a Group risk review exercise attended by members of the Divisional Boards and the Rotork Management Board. The non-executive directors are also invited to attend. The output of that meeting identifies risks with weightings for likelihood and Group impact. The principal risks and uncertainties facing the Group are commented on in the Business Review section of this Annual Report & Accounts.

Internal financial audits are undertaken on a regular basis by a selected group of accountants drawn from head office and across the divisional businesses and geographic centres. All these accountants 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.

The Board

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

The Company's Articles of Association provide that one third of the directors shall retire from office by rotation at each Annual General Meeting ('AGM'). New directors are subject to election by shareholders at the first opportunity after their appointment (A.7.1). Additionally from the 2011 AGM the Board has decided that all directors will be subject to annual re-election which is a new provision of the 2010 Code for FTSE350 companies. In line with the Code guidance, non-executive directors are normally appointed for an initial term of three years, which is then reviewed and extended for up to a further two three year periods (A.7.2). On appointment directors receive a suitable and tailored induction (A.5.1). There is a clear division of responsibility approved by the Board in writing between the Chairman, RC Lockwood, and the

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

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
No. of meetings	8	3	2	1
Bob Arnold	8	n/a	n/a	n/a
Jonathan Davis	8[2]	3[1]	n/a	n/a
Peter France	8	3[1]	2[1]	1
Graham Ogden	8	n/a	n/a	n/a
Bob Slater[3]	1	1[1]	n/a	n/a
Gary Bullard[4]	5	2	1	n/a
Ian King	8	3	2	1
Roger Lockwood	8	3[1]	2[1]	1
John Nicholas	8	3	2	1
Alex Walker[3]	2	1	1	n/a

[1] By Invitation.
[2] Jonathan Davis was appointed to the Board in April 2010 and attended the February 2010 board meeting by Invitation.
[3] Bob Slater retired in March 2010 and Alex Walker resigned in April 2010.
[4] Gary Bullard joined the board of Rotork p.l.c. as a Non-Executive Director in June 2010 and attended all board and committee meetings following his appointment.

Corporate Governance

Chief Executive, PI France, that ensures that there is a balance of power and authority between the running of the Board and the executive responsibility for the running of the Company's business (A.2.1). IG King is the current senior independent non-executive director (A.3.3).

There are usually at least eight meetings of the Board which take place throughout the year (A.1.1).

During the year Board meetings are scheduled at manufacturing sites other than the Company's headquarters in Bath. This allows, in particular, non-executive directors to meet management at these sites and receive presentations from them. During the year under review the Board visited and held Board meetings at its manufacturing site in Lucca, Italy.

The Chairman ensures through the Company Secretary, that the Board Agenda and all relevant information is provided to the Board sufficiently in advance of meetings. The Chairman and Company Secretary discuss the Agenda ahead of every meeting. At meetings the Chairman ensures that all directors are able to make an effective contribution throughout meetings and every director is encouraged to participate and provide opinions for each Agenda item. The Chairman always seeks to achieve unanimous decisions of the Board following due discussion of Agenda items. The Schedule of Reserved Matters details those matters specifically reserved for Board decision. The types of decision which are reserved for Board decision relate to matters which cannot, or the Board considers should not, be delegated to the Chief Executive and executive management. They include approval of Group commercial strategy and succession planning, approval of Group annual operating and capital expenditure budgets, recommendations for payment of the final proposed dividend and decisions for interim dividends and dividend policy, approval of the Annual Report & Accounts and announcements of final and interim results, ensuring sound internal control and risk management, executive director remuneration, corporate governance matters including Board and Committee performance appraisals and Board and Committee membership. The directors also have powers to issue and buy back the Company's shares conferred annually by the shareholders at the AGM. The Board regularly considers and discusses future strategy, following submissions by management, at Board meetings and, on occasion, separate strategy meetings. The non-executive directors constructively challenge and help develop proposals on strategy at those meetings. The decisions which are left to management are all those related to the successful operation and management of the Company's business and in implementing the commercial strategy within the limits set by the Board annually for overall operational budgets and capital expenditure (A.1.1).

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

Share capital

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

Performance evaluation

A formal process for performance evaluation of the Board, its Committees and individual directors takes place annually. For 2010, the evaluation took the form of an initial questionnaire prepared in conjunction with external consultants covering a wide range of Board related matters. The responses to the questionnaire were then considered by the Chairman, who then conducted individual interviews with the directors taking account of trends in the questionnaire responses as well as individual points. This questionnaire was developed and enhanced following feedback in previous evaluations to focus on those matters that the Chairman considered were of most interest to Board members following previous comment. The results and analysis including the main findings of the evaluation were, following the questionnaire and interviews, reported to the Board by the Chairman. Appropriate action will be taken on the findings during the following year and then re-evaluated at the next annual evaluation. The evaluation to be conducted in 2011 will use an external facilitator complying with the 2010 Code.

Nomination Committee

Responsibilities

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

Composition

The Nomination Committee's members during the year under review were RC Lockwood (who chairs the Committee), A Walker, IG King, JE Nicholas, G Bullard and PI France. A Walker retired from the Committee during the year and G Bullard was appointed to the Committee. The Nomination Committee comprises three independent directors, the Chief Executive and the Chairman. A majority of the members of the Nomination Committee are therefore independent non-executive directors as accepted by the Code (A.4.1).

The Terms of Reference of the Nomination Committee can be accessed on the Company's website www.rotork.com in the Investors section under Corporate Governance Committees (A.4.1).

Activities during the year

A major part of the work of the Committee during the year involved the appointment of a new Group Finance Director to take effect from 1 April 2010. Having identified Jonathan Davis as a suitable internal candidate the Nomination Committee arranged appropriate external assessments to be undertaken of his suitability for the post as well as face-to-face meetings with all members of the Nomination Committee. During the year the Committee also recommended the appointment of Gary Bullard as a non-executive director and Chairman of Remuneration Committee. An external consultant was engaged to search for suitable candidates.

Audit Committee

Main Responsibilities

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

Composition

The Audit Committee ('the Committee') of the Board is currently comprised of three non-executive directors, JE Nicholas, IG King and G Bullard. During the year under review A Walker retired as a member of the Committee and G Bullard was subsequently appointed. JE Nicholas was Chairman of the Committee throughout the year. There were therefore at all times throughout the year three independent non-executive directors who were members of the Audit Committee (C.3.1). The Board is satisfied that at least one member of the Committee, JE Nicholas, has recent and relevant financial experience having recently served as a Finance Director of a large listed company. He is also a member of the Financial Reporting Review Panel of the Financial Reporting Council. The Finance Director, Chief Executive, Chairman and the external auditors normally attend meetings and there is a meeting at least once a year between the Committee and the external auditors at which management is not present.

Activities during the year

The Committee met three 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's responsibilities include monitoring the integrity of the Group's financial statements and reviewing the results announcements. In fulfilling this responsibility the Committee considers significant financial reporting judgements made by management, taking into account the reports received from the Group Finance Director and the external auditors and considers the compliance of the financial statements with International Financial Reporting Standards. It also has responsibility for reviewing the effectiveness of the Group's system of internal controls and risk management systems, details of which can be found on page 33 of this Annual Report. 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.

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. Specific matters reviewed by the Committee during 2010 included:

- Reviewing the integrity of the Rotork Group full-year results and half-yearly results, including reports from the Group Finance Director and the external auditors on those results;
- Reviewing the preliminary and half-year announcements;
- Consideration, and recommendation to the Board, of the implementation of significant accounting policies for the 2010 financial year;
- Reviewing the Annual Report;
- Reviewing external audit findings;
- Reviewing and approving the external audit plan, the proposed fees for the 2010 year end and the engagement letters;
- Reviewing the effectiveness, independence and objectivity of the external auditors and considering their reappointment;
- 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;
- Reviewing the non-audit services policy and the services approved;
- Monitoring and reviewing the effectiveness of internal audit activities, which included: a review of the internal audit charter; audits carried out, the results thereof and management's response and the programmes and resourcing for 2010 and 2011;
- Monitoring health & safety performance data and receiving reports from the Rotork Management Board member responsible for health & safety practice and procedures;
- A review of new regulations and governance regarding the operation and responsibilities of audit committees; and
- A review of the Terms of Reference of the Committee, its performance against those terms and the 2011 work programme for the Committee.

The Committee oversees the relationship with the external auditors; is responsible for their appointment, reappointment and remuneration; reviews the effectiveness of the external audit process; and ensures that the objectivity and independence of the external auditors is maintained. Representatives from the auditor report to the Committee on their independence and objectivity and the mechanisms employed to ensure this is maintained. There are also Group policies in place regarding the employment of ex-audit staff and the provision of non-audit services.

During the review of the auditors independence, the Committee considered whether KPMG had met the agreed audit plan 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 Committee, having considered all relevant matters, has concluded that it is satisfied that auditor independence and objectivity have 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. Following these considerations the Committee made a recommendation which was accepted by the Board that resolutions to reappoint KPMG Audit Plc be proposed at the 2011 AGM.

A policy that formalises the arrangements regarding the provision of non-audit services provided by the auditors of Rotork sets out the procedures for the pre-approval of such services. All non-audit services provided by the auditors are pre-approved by either the Group Finance Director or the Committee Chairman under

Corporate Governance

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 to the financial statements.

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 Group Finance Director is also Head of Internal Audit. This method of internal audit is reviewed annually by the Committee. The Committee remains satisfied with the arrangements which ensure a comprehensive internal audit programme is undertaken across the Group's extensive function at each meeting. The internal audit reports include details of audits carried out, the results and management's response to matters raised during the audits.

The Terms of Reference of the Audit Committee which are reviewed at least annually by the Committee are available to view on the Company's website www.rotork.com in the Investors section under Corporate Governance – Committees (C.3.2 and C.3.3).

There were no changes to the Terms of Reference in the year under review. The Committee considers the appointment of the Auditor (C.3.6) and recommends to the Board, the audit fees for shareholder approval at the AGM.

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

Remuneration Committee

The work of the Remuneration Committee is described in the Remuneration Report on pages 37 to 42. The Chairman and Chief Executive were invited to and did attend all meetings but both were not in attendance when their own remuneration and fees respectively were considered (B.2).

Relations with Shareholders

Communication with shareholders is given high priority. All members of the Board receive copies of all analysts' reports of which the Company is made aware. The Board receives non-attributable comments from analyst meetings and shareholder meetings after both interim and final results (D.1.1) and other updates from its corporate advisers. The Chief Executive reports at each Board meeting upon his meetings with analysts, fund managers and shareholders (D.1.2). The Company Secretary has written on behalf of the Board to the Company's major shareholders offering meetings with the non-executive directors and requesting shareholders to confirm they are content with current Board level contact with the Company and communication to non-executives. The Chairman attends the preliminary and interim announcements in London with the Chief Executive and Finance Director and is available to meet fund managers and analysts on those days.

Individual shareholders have an opportunity to put questions to the Chairman at the AGM and individual shareholder enquiries are dealt with throughout the year by the Company Secretary's department.

At the AGM all proxy votes are counted and (except in the event of a poll being called) the balance for and against the resolution and the number of votes withheld is displayed for shareholders, after it has been dealt with on a show of hands. Prior to the AGM the Company Secretary reports to the Board on the results of the proxy returns and on the comments and analysis undertaken by voting agencies. A separate resolution is prepared on each substantially separate issue (D.2.1). The Chairman of the Audit, Remuneration and Nomination Committees are available to answer questions at the AGM and all directors attend (D.2.3). The Notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting (D.2.4).

Remuneration Report

▲ Audited Information

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

Responsibilities

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

The full Terms of Reference of the Remuneration Committee can be found on the Company's website, www.rotork.com in the Investors Section under Corporate Governance – Committees (B.2.1)

This Report is presented to shareholders by the Board and sets out the Board's remuneration policy and details of the remuneration of each director. The Auditor is required to report on the information concerning directors' emoluments, long term incentive plan and other share awards and pension disclosures.

Committee Membership

The Remuneration Committee ('the Committee') of the Board is currently comprised of three independent non-executive directors, G Bullard, IG King and JE Nicholas (Code provision B.2.1). During the year under review A Walker retired as Chairman and a member of the Committee. G Bullard was subsequently appointed a member of and Chairman of the Committee. The Chairman and Chief Executive are invited to attend the meetings of the Committee, other than when their own remuneration is considered. The Committee makes recommendations as required to the Board on the Company's framework of executive remuneration and its costs and determines on the Board's behalf the individual salaries and other terms and conditions of employment for the executive directors and the Chairman (B.2.2). The Committee determines the terms of any discretionary share schemes in which executive directors may be invited to participate.

Remuneration Policy

The Committee reviews remuneration policy annually. For the year under review, the Board continued to consider that it was critical that the Company had remuneration policies that enabled it to motivate, retain and, when required, recruit high quality management. Levels of remuneration should be sufficient to meet these objectives but should not be excessive. In recommending the level of remuneration for executive directors, the Committee took account of the size and nature of the Company, including, in particular, its market capitalisation, as well as its international scope and revenue and made use of proprietary and other data supplied by its independent remuneration consultant and advisor PricewaterhouseCoopers ('PwC'). PwC's other connections with the Company are limited to the provision of actuarial advice for the Long Term Incentive Plan ('LTIP') calculations, associated LTIP accounting advice and a limited amount of other corporate advice.

The Committee considers it important that a significant proportion of executive directors' potential total remuneration is performance related (B.1.1). This is demonstrated by the percentage of basic salary potentially payable as cash or share awards under the annual cash bonus scheme and LTIP respectively.

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 Chairman. The fees of the Chairman are determined by the Remuneration Committee.

Non-Executive Directors

	Effective date of letter of appointment	Notice period from Company	Notice period from non-executive director
G Bullard	24/6/2010	3 months	3 months
IG King	31/1/2011	3 months	3 months
RC Lockwood	1/1/2011	3 months	3 months
JE Nicholas	19/2/2011	3 months	3 months

Remuneration Report

Executive Directors' Contracts of Employment	Effective 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

Executive Directors' Contracts of Employment

PI France, RH Arnold, GM Ogden and JM Davis all have rolling service contracts with a one year notice period (B.1.6).

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 has any external directorships with the exception of PI France who is a director of Bath Education Trust for which he receives no fee.

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. Salary and benefits including pension, car and fuel, or car and fuel allowance, constitute fixed pay.

In the year under review shareholders approved the Rotork Long Term Share Incentive Plan 2010 ('the 2010 Plan') and awards of 100% of basic salary were made to the directors. 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.

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.

Executive Bonus

The executive annual cash bonus plan applying in 2010 rewards increases in profit, when compared with the average profit over the three immediately preceding years. The plan additionally rewards high levels of free cash generation and growth in earnings per share together with the achievement of budgeted targets. During the year under review the bonus payment for directors other than the Chief Executive was limited to 80% of basic salary. The Chief Executive's bonus was limited to 100% of basic salary by applying the fraction 100/80 to the amount of bonus percentage of basic salary calculated for other executive directors in the year.

For 2011, following recommendations by PwC that maximum executive level bonus opportunities had fallen behind peers, the Committee approved an increase of the maximum bonus payable to the CEO of 125% of basic salary and 100% of salary for other executive directors. In 2011, the profit element of bonus will be calculated in two parts. One half of the profit element remains on the three year average basis used in the prior scheme and the other half will be based on performance against an annual profit target. There will also continue to be targets related to high levels of free cash generation and growth in earnings per share. The final element of bonus payable will be based on non-financial targets where objectives will be set annually. The scheme provides the Remuneration Committee with a discretion to withhold bonus where, in exceptional circumstances, there is evidence of mis-statement or misconduct.

Rotork Long Term Incentive Plan (2000 to 2009 Awards) ▲

From 2000 to 2009 LTIP awards were made under the Rotork Long Term Incentive Plan ('the 2000 Plan'). The 2000 Plan is a performance, share or cash unit plan under which shares or cash units are conditionally allocated to selected members of senior management at the discretion of the Committee on an annual basis. No shares or cash units will normally be released to participants unless they are still in the Group's service following completion of the relevant full performance period and the Company's relative Total Shareholder Return ('TSR') against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the relevant performance period. TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares or cash units transferred will be determined by the number of shares or cash units initially allocated multiplied by a vesting percentage which for Awards granted from 2006 is 30% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.8% to the vesting percentage.

Under the 2000 Plan 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 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.

Rotork Long Term Share Incentive Plan 2010 ▲

In 2010 shareholders approved the Rotork Long Term Share Incentive Plan (2010) (‘the 2010 Plan’). The first awards under the 2010 Plan were made in 2010 and are subject to a three year performance period.

One half of the 2010 award (comprising shares to a maximum initial value of 50% of basic salary) is subject to a relative total shareholder return (‘TSR’) performance condition measured against a designated peer group as the table shows:

There would be proportionate vesting for performance which falls between the 50th and 75th percentile TSR rankings shown above. 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 peer group will be comprised of 19 comparable companies.

The remaining one 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 Retail Prices Index (‘RPI’) as the table shows:

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

It is the intention of the Committee, when considering whether to make awards under the 2010 Plan 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 organizations representing the interests of institutional shareholders or any other relevant guidelines issued from time to time. The maximum award permitted is 150% of the basic annual salary, however there is currently no intention to exceed 100% of basic annual salary for any participant.

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

Rotork Long Term Share Incentive Plan 2010

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%

Comparator group of companies for LTIP awards in 2008, 2009 and 2010

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

Rotork Long Term Share Incentive Plan 2010

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

Rotork Long Term Incentive Awards Outstanding ▲

	Outstanding share or cash unit Awards made to 1 January 2010	Share or cash unit Awards made during 2010[1]	Share or cash unit Awards vesting in 2010[2]	Lapsed in 2010	**Outstanding share or cash unit Awards at 31 December 2010**
RH Arnold[3]	67,494	16,170	(19,756)	0	**63,908**
JM Davis	9,501	14,418	(1,766)	0	**22,153**
PI France	92,855	25,738	(17,925)	0	**100,668**
GM Ogden	58,383	12,870	(19,206)	0	**52,047**
RE Slater[4]	73,766	0	(39,667)	(34,099)	**0**

[1] All awards were granted on 23 April 2010. The market price of shares in the Company used to calculate the award was £13.57.
[2] The 2007 LTIP Awards vested at 100%.
[3] RH Arnold, a United States citizen and resident, was awarded shares in the 2009 and 2010 awards and cash units of a monetary value equivalent to share awards under the LTIP in previous awards.
[4] RE Slater received as a leaver a discretionary award of 15,340 shares under the Rules of the Plan.

Remuneration Report

Directors' emoluments (£000) for directors in office at 31/12/10 ▲	Salary and fees	Bonus	Benefits*	Pension Supplement	2010 Total	2009* Total
Executive directors						
RH Arnold[1]	219	161	17	-	397	392
JM Davis[2,3]	150	110	14	10	284	-
PI France[2]	357	328	17	53	755	766
GM Ogden	179	131	17	-	327	331
RE Slater[4]	56	41	4	-	101	412
Non-executive directors						
IG King	43	-	-	-	43	40
RC Lockwood	100	-	-	-	100	100
JE Nicholas	41	-	-	-	41	38
A Walker	19	-	-	-	19	38
G Bullard	15	-	-	-	15	-
	1,179	771	69	63	2,082	2,117

[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% respectively of that part of their basic salary above the Scheme's specific cap on an annualised basis.
[3] Remuneration stated is that received by JM Davis since appointment as an executive director on 1 April 2010.
[4] On leaving the Company's employment on 31 March 2010 RE Slater received a separate payment of £224,400 in addition to the basic salary remuneration stated above together with continuation of other contractual benefits for 12 months from leaving date including pension benefits details of which are on page 42.
[5] Remuneration stated is that received in fees by G Bullard since appointment as a non-executive director on 24 June 2010.
[6] A Walker retired as a director on 23 April 2010.
* These columns include the cash value on allocation of SIP and OPLSS share Awards as appropriate.

Interests in Shares

The interests of the directors in the ordinary share capital of the Company, at 31 December 2010 are set out in the table.

All interests were beneficial and include directors' directly held and family share interests and in total represent less than 1% (2009: less than 1%) of voting shares of the Company.

Interests in Shares	2010 Number	2009 Number
RH Arnold	18,886	18,659
JM Davis	11,298	-
PI France	43,616	34,635
GM Ogden	28,789	17,249
G Bullard	2,790	-
IG King	5,000	5,000
RC Lockwood	1,000	-
JE Nicholas	500	-

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 opposite. Details of total free share Awards under the SIP and OPLSS and Awards made to executive directors in 2010 and the prior year are set out in the table above. Free shares awarded to all three UK executive directors under the SIP are subject to the HMRC upper limit of £3,000 by value. Additionally, JM Davis has purchased partnership shares under the SIP. His SIP partnership holdings at 31 December 2010 were 470 ordinary shares.

Free SIP and OPLSS Share Awards to Executive Directors ▲

	Awards in		Total Awards held	
	2010	2009	**2010**	2009
RH Arnold	**209**	350	**583**	1,161
JM Davis	**209**	350	**2,034**	1,825
PI France	**209**	350	**3,800**	3,591
GM Ogden	**209**	350	**3,980**	3,771

RH Arnold, in common with other eligible overseas employees, participates in the OPLSS. This scheme is also limited to awards of up to £3,000 per employee. The scheme trustee is based in Jersey, Channel Islands. The figure shown for RH Arnold relates solely to OPLSS.

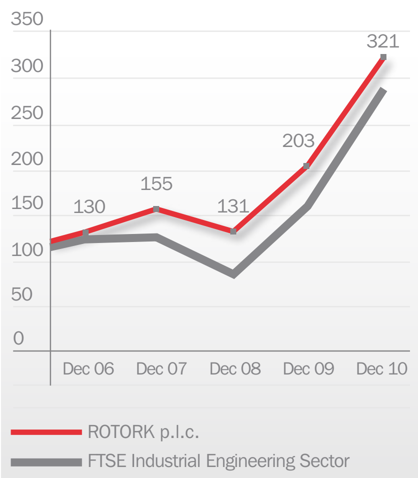
UK based executive directors, in common with other eligible UK employees, have the opportunity to invest in the HMRC approved Rotork Sharesave Scheme. GM Ogden, PI France and JM Davis participate in the Scheme. PI France was granted 3,484 share options on 5 October 2005 at an option price of £4.62 which he exercised on 1 December 2010. On 5 October 2010 PI France was granted 1,179 shares at an option price of £13.10. On 1 December 2007 GM Ogden was granted 2,071 share options under the Rotork Sharesave 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 duration after which the options lapse.

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

Save as disclosed, no director or his family had any interest in the shares of the Company at 31 December 2010.

Total Shareholder Return

The graph shows the value, to 31 December 2010, of £100 invested in Rotork p.l.c. on 1 January 2006 compared with the value of £100 invested in the FTSE Industrial Engineering Sector Index. 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 2010.



Remuneration Report

Pension disclosures required under the Listing Rules of the Financial Services Authority

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

Pension disclosures required under the Companies Act 2006 ▲

	Age at 31.12.2010	Increase in accrued pension over the year (Note 1) £	Accumulated accrued pension at 31.12.2010 (Note 2) £
RH Arnold	59	7,799	108,918
JM Davis	44	1,699	11,592
PI France	42	1,923	44,769
GM Ogden	53	4,735	81,611
RE Slater	59	8,795	146,197

Notes:

1. The figures shown for the increase in accrued pension over the year exclude any increase for inflation.
2. The accumulated accrued pension is that which would be paid annually on retirement from normal pension age, based on service to 31 December 2010.
3. A lump sum death benefit of four times basic annual salary is payable on death in service.
4. A dependant's pension of one-half of prospective pension is payable on death in service, and of one-half of pre-commutation pension on death in retirement.
5. Post-retirement increases are applied at the rate of increase of the Index of Retail Prices up to a maximum of 5% per annum, except that for pension benefits in respect of pensionable service up to 15 May 2000 the minimum inflationary increase is 4.5% per annum.
6. PI France's and JM Davis Pensionable Salaries used to calculate benefits in the defined benefit scheme is restricted to a Scheme specific earnings cap which is currently £123,600.
7. RE Slater retired from the Board of Directors on 31 March 2010.
8. JM Davis joined the Board of Directors on 1 April 2010.
9. 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.

Pension disclosures required under the Companies Act 2006 ▲

	Increase in accrued pension during the year (Note 1) £	Transfer value of accrued pension at 31.12.09 £000	Transfer value of accrued pension at 31.12.10 £000	Increase in transfer value over the year £000
RH Arnold	12,338	1,238	1,422	184
JM Davis	2,143	113	158	45
PI France	3,846	616	776	160
GM Ogden	8,186	1,672	2,057	385
RE Slater	14,963	3,543	4,294	751

Notes:

1. The figures shown for the increase in accrued pension over the year incorporate the increase for inflation.
2. The transfer values have been calculated in accordance with the Actuarial Guidance Note GN 11 published by the Board for Actuarial Standards.
3. The 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 $155,975 pa at 31 December 2009 to $168,344 pa at 31 December 2010 and the transfer value increased from $1,999,000 at 31 December 2009 to $2,198,000 at 31 December 2010. 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.
4. RE Slater retired from the Scheme on 31 March 2010. The increase in accrued pension for RE Slater is based on his pension entitlement at retirement. The transfer value at 31 December 2010 for RE Slater is based on his pension entitlement at retirement and market conditions at retirement.

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 2010 as set out on pages 46 to 89. In compiling this report, the directors have consulted with the management of the Group.

Principal Activities

Rotork p.l.c. is a holding company (registered no. 578327). The principal activities of the Rotork Group are the design, manufacture and support of actuators, systems and related products worldwide.

The Rotork Group provides a range of products, systems and services for the motorisation and manual operation of and adaption to industrial valves and dampers for isolation duty and process control applications. It does this through its Controls, Gears and Fluid Systems divisions. Actuated valves are major control elements in refineries, pipelines, power stations, water distribution systems and effluent treatment plants and in all industries in which liquids or gases are transported through pipes. A summary of the principal subsidiaries and branch offices of the Group are set out on pages 93 to 95.

The Business Review of the Group is set out on pages 6 to 28. It provides a balanced and comprehensive analysis of the development and performance of the business during the year under review and the position at the end of the year, including the future development of the business and information about environmental matters, the Company's employees and social and community issues. The review contains analysis using financial and non-financial key performance indicators.

In May 2010, the Group acquired all the issued share capital of Ralph A. Hiller ('Hiller'). Details of the transaction are provided in note 3 to the Accounts.

On 23 February 2011 the Group signed a contract to acquire all the outstanding issued share capital of Rotork Servo Controles de Mexico S.A. de C.V. ('RSCM'), its Mexican sales and service agent. Formal completion will take place following certain share transfer formalities being finalised. Gross assets acquired are approximately £1.6 million.

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

Dividends

The directors recommend a final dividend of £17,120,000 for the year, payable on 6 May 2011 to shareholders on the register on 8 April 2011. This represents 19.75p per ordinary share (2009:17.25p). An additional dividend of £11.5p was paid on 23 July 2010 and an interim dividend for 2010 of 12.75p per ordinary share (2009: 11.15p) was paid on 24 September 2010.

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 2010 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 other senior employees are required to seek the prior approval of the Company to deal in its shares.

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

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

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

Employee Share Schemes

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

Notification of Major Interest in Shares

Since the 2009 Directors' Report the Company has been notified of major interests and voting rights (held directly and / or indirectly) by the following:

	% of Voting Rights
William Blair Company LLC	4
Aegon UK Group of Companies	5
AXA S.A.	5

Research & Development

Total Group expenditure on research & development in the year was £4,319,000 (2009: £3,557,000) further details of which are contained in the Business Review on page 10.

Donations

The Company made charitable donations of £87,000 (2009: £77,000) which are part of the total Group contribution of £144,000 (2009: £87,000).

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

Directors

The names of the directors in office during the year end and their biographical and other details including the other significant commitments of the Chairman are as shown on pages 30 and 31. The interests of the directors in office at the end of the financial year in the shares of the Company are as shown in the Remuneration Report on pages 37 to 42.

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

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

At the Annual General Meeting ('AGM'), all the directors currently in office being RC Lockwood, PI France, JM Davis, IG King, JE Nicholas, GM Ogden, RH Arnold and G Bullard will offer themselves for re-election or election, it being the first opportunity for G Bullard to do so following his appointment as a director on 24 June 2010.

Report of the Directors

RE Slater resigned as a director on 31 March 2010. A Walker resigned as a director on 23 April 2010.

Financial Instruments

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

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

Directors Statement Pursuant to the Disclosure and Transparency Rules

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

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

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

Going Concern

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

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

Creditor Payment Policy

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

Directors' and Officers' Indemnity Insurance

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

Disclosure of Information to Auditors

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

Auditors

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

Annual General Meeting

The AGM of the Company will be held at the Company's offices at Rotork House, Brassmill Lane, Bath BA1 3JQ on Thursday, 21 April 2011 at 12 noon. A separate circular containing the Notice of the Meeting is sent to shareholders with this Annual Report & Accounts.

On behalf of the Board

Stephen Rhys Jones Secretary

Independent Auditors' Report to the Members of Rotork p.l.c.

We have audited the financial statements of Rotork p.l.c. for the year ended 31 December 2010 set out on pages 46 to 89. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, 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 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

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

KPMG

A Campbell-Orde

AC Campbell-Orde
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

28 February 2011

Financial Statements

Consolidated Income Statement

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Revenue	2	**380,560**	353,521
Cost of sales		**(199,742)**	(187,600)
Gross profit		**180,818**	165,921
Other income	4	**83**	688
Distribution costs		**(3,604)**	(3,428)
Administrative expenses		**(79,513)**	(71,585)
Other expenses	5	**(60)**	(59)
Operating profit before the amortisation of acquired intangible assets and the disposal of property		**99,442**	92,103
Amortisation of acquired intangible assets		**(1,718)**	(1,153)
Disposal of property		**–**	587
Operating profit	2	**97,724**	91,537
Financial income	7	**6,931**	5,784
Financial expenses	7	**(6,800)**	(6,405)
Profit before tax	8	**97,855**	90,916
Income tax expense	9	**(28,334)**	(26,884)
Profit for the year		**69,521**	64,032
		Pence	Pence
Basic earnings per share	17	**80.5**	74.2
Diluted earnings per share	17	**80.2**	73.9

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	2010 £000	2009 £000
Profit for the year	**69,521**	64,032
Other comprehensive income		
Foreign exchange translation differences	**1,119**	(11,928)
Actuarial gain / (loss) in pension scheme	**1,095**	(11,290)
Effective portion of changes in fair value of cash flow hedges	**674**	5,046
Income and expenses recognised directly in equity	**2,888**	(18,172)
Total comprehensive income for the year	**72,409**	45,860

Consolidated Balance Sheet
at 31 December 2010

	Notes	2010 £000	2009 £000
Assets			
Property, plant and equipment	10	**25,780**	23,521
Intangible assets	11	**43,990**	40,780
Deferred tax assets	12	**11,480**	11,631
Other receivables	14	**1,290**	1,119
Total non-current assets		**82,540**	77,051
Inventories	13	**48,241**	46,712
Trade receivables	14	**70,362**	53,791
Current tax	14	**2,398**	1,818
Derivative financial instruments	22	**918**	942
Other receivables	14	**6,684**	6,197
Cash and cash equivalents	15	**97,881**	78,676
Total current assets		**226,484**	188,136
Total assets		**309,024**	265,187
Equity			
Issued equity capital	16	**4,334**	4,330
Share premium		**7,389**	7,033
Reserves		**16,201**	14,406
Retained earnings		**175,927**	140,402
Total equity		**203,851**	166,171
Liabilities			
Interest bearing loans and borrowings	18	**127**	162
Employee benefits	19	**19,752**	22,549
Deferred tax liabilities	12	**3,165**	1,970
Derivative financial instruments	22	–	127
Provisions	20	**1,968**	1,664
Total non-current liabilities		**25,012**	26,472
Interest bearing loans and borrowings	18	**49**	104
Trade payables	21	**30,447**	26,350
Employee benefits	19	**8,220**	7,252
Current tax	21	**10,821**	9,768
Derivative financial instruments	22	**294**	1,130
Other payables	21	**26,334**	24,690
Provisions	20	**3,996**	3,250
Total current liabilities		**80,161**	72,544
Total liabilities		**105,173**	99,016
Total equity and liabilities		**309,024**	265,187

These financial statements were approved by the Board of Directors on 28 February 2011 and were signed on its behalf by:

P France

PI France and **JM Davis**, Directors.

Financial Statements

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 2008	4,325	6,666	24,909	1,642	(5,263)	112,117	144,396
Profit for the year	–	–	–	–	–	64,032	64,032
Other comprehensive income							
Foreign exchange translation differences	–	–	(11,928)	–	–	–	(11,928)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	5,046	–	5,046
Actuarial gains and losses on defined benefit pension plans net of tax	–	–	–	–	–	(11,290)	(11,290)
Total other comprehensive income	–	–	(11,928)	–	5,046	(11,290)	(18,172)
Total comprehensive income	–	–	(11,928)	–	5,046	52,742	45,860
Transactions with owners, recorded directly in equity							
Equity settled share–based payment transactions net of tax	–	–	–	–	–	48	48
Share options exercised by employees	5	367	–	–	–	–	372
Own ordinary shares acquired	–	–	–	–	–	(3,700)	(3,700)
Own ordinary shares awarded under share schemes	–	–	–	–	–	3,297	3,297
Dividends	–	–	–	–	–	(24,102)	(24,102)
Balance at 31 December 2009	4,330	7,033	12,981	1,642	(217)	140,402	166,171
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 gains and losses 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**

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 2010

	Notes	**2010 £000**	**2010 £000**	2009 £000	2009 £000
Cash flows from operating activities					
Profit for the year		**69,521**		64,032	
Adjustments for:					
Amortisation of intangibles		**1,718**		1,153	
Amortisation of development costs		**639**		402	
Depreciation		**3,972**		3,549	
Equity settled share-based payment expense		**1,086**		872	
Profit on sale of property, plant and equipment		**(12)**		(598)	
Financial income		**(6,931)**		(5,784)	
Financial expenses		**6,800**		6,405	
Income tax expense		**28,334**		26,884	
		105,127		96,915	
Decrease in inventories		**489**		9,680	
(Increase) / decrease in trade and other receivables		**(14,503)**		5,967	
Increase / (decrease) in trade and other payables		**3,189**		(4,032)	
Difference between pension charge and cash contribution		**(844)**		(1,350)	
Increase / (decrease) in provisions		**385**		(257)	
Increase in other employee benefits		**507**		272	
		94,350		107,195	
Income taxes paid		**(26,186)**		(27,548)	
Cash flows from operating activities			**68,164**		79,647
Investing activities					
Purchase of property, plant and equipment		**(5,034)**		(4,238)	
Development costs capitalised		**(1,018)**		(768)	
Sale of property, plant and equipment		**154**		908	
Acquisition of businesses	3	**(5,621)**		(4,892)	
Interest received		**483**		270	
Cash flows from investing activities			**(11,036)**		(8,720)
Financing activities					
Issue of ordinary share capital		**360**		372	
Purchase of ordinary share capital		**(2,876)**		(3,700)	
Purchase of preference shares treated as debt		**(4)**		–	
Interest paid		**(88)**		(176)	
Repayment of amounts borrowed		**(464)**		(27)	
Repayment of finance lease liabilities		**(102)**		(94)	
Dividends paid on ordinary shares		**(35,912)**		(24,102)	
Cash flows from financing activities			**(39,086)**		(27,727)
Increase in cash and cash equivalents			**18,042**		43,200
Cash and cash equivalents at 1 January			**78,676**		41,390
Effect of exchange rate fluctuations on cash held			**1,163**		(5,914)
Cash and cash equivalents at 31 December	15		**97,881**		78,676

Financial Statements

Notes to the Group Financial Statements

for the year ended 31 December 2010

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 2010 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 30 all relate to the Group financial statements. The Company balance sheet can be found following note 30. 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 standards and interpretations became effective for the current reporting period:

IFRS3, 'Business combinations (revised)', was adopted from 1 January 2010. The main difference for Rotork is that previously capitalised acquisition costs are now being expensed. The change has not had a material impact on the financial statements.

Amendments to IFRS 2, Group Cash-settled Share-based Payment Transactions, IAS 27 Consolidated and Separate Financial Statements, IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items', and IAS 39 'Reclassification of Financial Assets: Effective Date and Transition' did not have a material impact on the financial statements.

Amendments to IFRS 1, Additional Exemptions for First-time Adopters is not applicable to the Group.

No interpretations which became effective in 2010 were relevant to the Group.

Recent accounting developments

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

Going concern

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

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

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2010. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Foreign currencies

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

1. Accounting policies (continued)

Foreign currencies (continued)

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 from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer in accordance with the contracted shipping terms. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated completion costs, the possible return of goods or continuing management involvement with the goods.

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.

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 are stated at cost less accumulated amortisation and impairment losses. The useful life of each of these assets is assessed based on discussions with the management of the acquired business and takes account of the differing natures of each of the intangibles acquired. The assessed useful lives of intangibles acquired so far range from one year for order backlog at acquisition to 15 years for long-standing customer relationships. Amortisation is charged on a straight-line basis over the estimated useful life of the assets.

Financial Statements

Notes to the Group Financial Statements continued
for the year ended 31 December 2010

1. Accounting policies (continued)
Property, plant and equipment
Freehold land is not depreciated. Long leasehold buildings are amortised over 50 years or the expected useful life of the building where less than 50 years. Other assets are depreciated 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.

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

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

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

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

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

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

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

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

1. Accounting policies (continued)

Employee benefits

(i) Pension plans

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

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

(ii) Share-based payment transactions

The Rotork Share Option Scheme allows certain employees to acquire shares in Rotork p.l.c. This scheme is now closed and the last grant of new options took place in 2004. Details of the scheme are given in note 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 either share 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 to hedge its exposure to foreign exchange risk arising from operational and financing activities. These are the only form of derivative financial instruments used by the Group. In accordance with its Treasury Policy, the Group does not hold or issue forward exchange contracts for trading purposes. However, forward contracts that do not qualify for hedge accounting are accounted for as trading instruments.

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

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

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

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) Defined benefit pension scheme liabilities

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

2. Operating segments

The Group has chosen to organise the management and financial structure by the grouping of related products. The three 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

Unallocated expenses comprise corporate expenses.

Geographic analysis

Rotork has a worldwide presence in all three operating segments through its subsidiary selling offices and through an agency network. A full list of locations can be found at www.rotork.com or on pages 93 to 95 of this report.

Analysis by Operating Segment:

	Controls 2010	**Fluid Systems 2010**	**Gears 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**
Operating profit before amortisation of acquired intangibles	**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**

	Controls 2009	Fluid Systems 2009	Gears 2009	Elimination 2009	Unallocated 2009	Group 2009
Revenue from external customers	227,344	99,726	26,451	–	–	353,521
Inter segment revenue	–	–	10,373	(10,373)	–	–
Total revenue	227,344	99,726	36,824	(10,373)	–	353,521
Operating profit before amortisation of acquired intangibles and disposal of property	72,033	15,313	8,086	–	(3,329)	92,103
Amortisation of acquired intangibles	–	(1,093)	(60)	–	–	(1,153)
Disposal of property	587	–	–	–	–	587
Operating profit	72,620	14,220	8,026	–	(3,329)	91,537
Net financing expense						(621)
Income tax expense						(26,884)
Profit for the year						64,032

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

2. Operating segments (continued)

	Controls 2010	Fluid Systems 2010	Gears 2010	Unallocated 2010	Consolidated 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 income	**–**	**–**	**–**	**131**	**131**
Intangible assets acquired as part of a business combination	**–**	**4,102**	**–**	**–**	**4,102**
Capital expenditure	**3,953**	**940**	**179**	**–**	**5,072**

	Controls 2009	Fluid Systems 2009	Gears 2009	Unallocated 2009	Consolidated 2009
Depreciation	2,262	1,040	247	–	3,549
Amortisation:					
Other intangibles	–	1,093	60	–	1,153
Development costs	402	–	–	–	402
Non-cash items: equity settled share-based payments	458	72	79	263	872
Net financing expense	–	–	–	(621)	(621)
Intangible assets acquired as part of a business combination	–	3,595	–	–	3,595
Capital expenditure	3,083	1,094	135	–	4,312

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 2010	Rest of Europe 2010	USA 2010	Other Americas 2010	Rest of the World 2010	Consolidated 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**

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

3. Acquisitions

2010

On 19 May 2010 the Group acquired 100% of the share capital of Ralph A. Hiller Company Inc. ('Hiller') for £5,453,000. Hiller is a designer and manufacturer of nuclear actuators and a distributor of related products based in Pittsburgh, Pennsylvania, United States. The acquired business will be integrated into the 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	Alignment of 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)
	2,991	(1,640)	1,629	2,980
Goodwill on acquisition				2,473
Consideration paid, satisfied in cash				5,453
Purchase consideration settled in cash				5,453
Overdraft in subsidiary acquired				168
Cash outflow on acquisition				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.

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

3. Acquisitions (continued)

2009

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

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

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

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

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

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

4. Other income

	2010	2009
Gain on disposal of property, plant and equipment	**66**	654
Other	**17**	34
	83	688

Included in gain on disposal of property, plant and equipment in 2009 is a profit of £587,000 in relation to the sale of a Spanish building.

5. Other expenses

	2010	2009
Loss on disposal of property, plant and equipment	**54**	56
Other	**6**	3
	60	59

6. Personnel expenses

	2010	2009
Wages and salaries (including bonus and incentive plans)	**70,452**	64,877
Social security costs	**7,928**	7,197
Pension costs (note 23)	**4,603**	4,217
Share-based payments (note 24)	**1,848**	1,785
Increase in liability for long-term service leave	**42**	60
	84,873	78,136

A total of £1,086,000 (2009: £872,000) of the above share-based payments are equity settled, comprising £154,000 (2009: £124,000) for the Sharesave plan and £932,000 (2009: £748,000) for the Long Term Incentive Plan ('LTIP'). The remaining £762,000 (2009: £913,000) relates to the cash LTIP.

	2010 Number	2009 Number
During the year, the average weekly number of employees, analysed by business segment was:		
Controls	**1,147**	1,089
Fluid Systems	**507**	460
Gears	**215**	215
	1,869	1,764
UK	**510**	499
Overseas	**1,359**	1,265
	1,869	1,764

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

7. Net financing income

	2010	2009
Recognised in the income statement		
Interest income	**540**	226
Expected return on assets in the pension schemes	**6,141**	5,408
Foreign exchange gains	**250**	150
	6,931	5,784
Interest expense	**79**	167
Interest charge on pension scheme liabilities	**6,289**	5,449
Foreign exchange losses	**432**	789
	6,800	6,405
Recognised in equity		
Effective portion of changes in fair value of cash flow hedges	**457**	(217)
Fair value of cash flow hedges transferred to income statement	**217**	5,263
Foreign currency translation differences for foreign operations	**1,119**	(11,928)
	1,793	(6,882)
Recognised in:		
Hedging reserve	**674**	5,046
Translation reserve	**1,119**	(11,928)
	1,793	(6,882)

8. Profit before tax

Profit before tax is stated after charging the following:

	Notes	2010	2009
Depreciation of property, plant and equipment:			
Owned assets	i	**3,881**	3,417
A ssets held under finance lease contracts	i	**91**	132
Amortisation:			
Other intangibles	i	**1,718**	1,153
Development costs	i	**639**	402
Inventory write downs recognised in the year	i	**772**	2,190
Hire of plant and machinery	i	**889**	849
Other operating lease rentals	i	**1,417**	1,382
Research & development expenditure	ii	**3,300**	2,789
Exchange differences realised expense	iii	**182**	639
Auditors - audit fees and expenses paid to:			
KPMG Audit Plc			
- In respect of Company reporting		**62**	60
- In respect of Group reporting of subsidiaries		**196**	180
- In respect of local statutory reporting of subsidiaries		**93**	88
		351	328
Other auditors of Group reporting subsidiaries		**102**	109
Total audit fees and expenses		**453**	437
Other fees paid to KPMG Audit Plc and its associates analysed between:			
Taxation		**40**	111
Other		**5**	–
		45	111

In addition to the above, the Rotork Pension & Life Assurance Scheme paid KPMG LLP £10,000 (2009: £75,000) in respect of investment advice.

These costs can be found under the following headings in the Consolidated Income Statement:
(i) Both within cost of sales and administrative expenses;
(ii) Within administrative expenses;
(iii) Within financing income and expenses.

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

9. Income tax expense

	2010	2010	2009	2009
Current tax:				
UK corporation tax on profits for the year	**8,645**		13,757	
Double tax relief	**–**		(6,074)	
Adjustment in respect of prior years	**(417)**		(146)	
		8,228		7,537
Overseas tax on profits for the year	**18,787**		18,560	
Adjustment in respect of prior years	**42**		(9)	
		18,829		18,551
Total current tax		**27,057**		26,088
Deferred tax:				
Origination and reversal of other temporary differences	**1,477**		704	
Adjustment in respect of prior years	**(200)**		92	
Total deferred tax		**1,277**		796
Total tax charge for year		**28,334**		26,884
Effective tax rate (based on profit before tax)		**29.0%**		29.6%
Profit before tax		**97,855**		90,916
Profit before tax multiplied by standard rate of corporation tax in the UK of 28.0% (2009: 28.0%)		**27,399**		25,456
Effects of:				
Non deductible items		**785**		1,468
Utilisation of overseas tax holidays and losses		**(1,127)**		(898)
Different tax rates on overseas earnings		**1,852**		921
Adjustments to tax charge in respect of prior years		**(575)**		(63)
Total tax charge for year		**28,334**		26,884

A tax credit of £926,000 (2009: credit £670,000) in respect of share-based payments has been recognised directly in equity in the year.

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

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

10. Property, plant and equipment

	Land and buildings 2010	Plant and equipment 2010	Total 2010	Land and buildings 2009	Plant and equipment 2009	Total 2009
Cost						
At 1 January	**19,493**	**33,762**	**53,255**	20,016	32,106	52,122
Exchange differences	**127**	**985**	**1,112**	(1,120)	(1,558)	(2,678)
Additions	**399**	**4,673**	**5,072**	459	3,853	4,312
Disposals	**(89)**	**(903)**	**(992)**	(402)	(649)	(1,051)
Acquired through business combinations	**1,060**	**15**	**1,075**	540	10	550
At 31 December	**20,990**	**38,532**	**59,522**	19,493	33,762	53,255
Depreciation						
At 1 January	**6,029**	**23,705**	**29,734**	5,972	22,282	28,254
Exchange differences	**97**	**786**	**883**	(271)	(1,057)	(1,328)
Charge for year	**614**	**3,358**	**3,972**	501	3,048	3,549
Disposals	**(24)**	**(823)**	**(847)**	(173)	(568)	(741)
At 31 December	**6,716**	**27,026**	**33,742**	6,029	23,705	29,734
Net book value at 31 December	**14,274**	**11,506**	**25,780**	13,464	10,057	23,521
Net book value at 31 December 2008				14,044	9,824	23,868

The net book value of the Group's plant and equipment includes £142,000 (2009: £218,000) in respect of assets held under finance leases.

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

	2010	2009
Land	**1,775**	1,741
Buildings	**12,499**	11,723
Net book value at 31 December	**14,274**	13,464

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.

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

11. Intangible assets

	Goodwill 2010	Development costs 2010	Other intangibles 2010	Total 2010	Goodwill 2009	Development costs 2009	Other intangibles 2009	Total 2009
Cost								
Balance at 1 January	**33,204**	**4,647**	**8,409**	**46,260**	32,792	3,879	6,941	43,612
Exchange differences	**230**	**–**	**468**	**698**	(1,696)	–	(19)	(1,715)
Internally developed during the year	**–**	**1,018**	**–**	**1,018**	–	768	–	768
Acquired through business combinations	**2,473**	**–**	**1,629**	**4,102**	2,108	–	1,487	3,595
Balance at 31 December	**35,907**	**5,665**	**10,506**	**52,078**	33,204	4,647	8,409	46,260
Amortisation								
Balance at 1 January	**–**	**2,555**	**2,925**	**5,480**	–	2,153	1,763	3,916
Exchange differences	**–**	**–**	**251**	**251**	–	–	9	9
Amortisation for the year	**–**	**639**	**1,718**	**2,357**	–	402	1,153	1,555
Balance at 31 December	**–**	**3,194**	**4,894**	**8,088**	–	2,555	2,925	5,480
Net book value at 31 December	**35,907**	**2,471**	**5,612**	**43,990**	33,204	2,092	5,484	40,780
Net book value at 31 December 2008					32,792	1,726	5,178	39,696

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

Impairment tests for goodwill

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

	2010	2009
Controls	**6,828**	6,687
Fluid Systems	**21,436**	18,753
Gears	**7,643**	7,764
	35,907	33,204

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 it is believed to represent a prudent estimate. The discount rate used is 12.1% (2009: 9.8%), this represents a reasonable rate for a market participant in this sector. The discount rate of each business segment is not materially different to 12.1%. For the Goodwill to become impaired in the CGU with the minimum headroom, the discount rate would have to increase by 24%. On this basis each business segment has sufficient headroom and therefore no impairment write downs are required.

12. Recognised deferred tax assets and liabilities

	Assets 2010	Liabilities 2010	Net 2010	Assets 2009	Liabilities 2009	Net 2009
Property, plant and equipment	**183**	**(334)**	**(151)**	185	(272)	(87)
Intangible assets	**–**	**(1,988)**	**(1,988)**	–	(967)	(967)
Employee benefits	**7,742**	**–**	**7,742**	7,320	–	7,320
Provisions	**4,397**	**–**	**4,397**	2,381	–	2,381
Other items	**351**	**(2,036)**	**(1,685)**	2,317	(1,303)	1,014
Net tax assets / (liabilities)	**12,673**	**(4,358)**	**8,315**	12,203	(2,542)	9,661
Set off of tax	**(1,193)**	**1,193**	**–**	(572)	572	–
	11,480	**(3,165)**	**8,315**	11,631	(1,970)	9,661

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

	2010	2009
Balance at 1 January	**9,661**	8,119
Charged to the income statement	**(1,277)**	(796)
Credited directly to equity in respect of share-based payments	**472**	249
Acquired as part of a business combination	**262**	–
(Charged) / credited directly to equity in respect of pension scheme	**(633)**	4,257
Charged directly to hedging reserves in respect of cash flow hedges	**(253)**	(1,962)
Exchange differences	**83**	(206)
Balance at 31 December	**8,315**	9,661

A deferred tax asset of £11,480,000 (2009: £11,631,000) has been recognised at 31 December 2010. The directors are of the opinion, based on recent and forecast trading, that the level of profits in the current and future years make it more likely than not that these assets will be recovered.

A deferred tax asset of £2,033,000 (2009: £2,109,000) 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

	2010	2009
Raw materials and consumables	**30,345**	26,998
Work in progress	**11,411**	13,692
Finished goods	**6,485**	6,022
	48,241	46,712

Included in cost of sales was £147,651,000 (2009: £140,728,000) in respect of inventories consumed in the year.

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

14. Trade and other receivables

	2010	2009
Non-current assets:		
Insurance policy	**1,158**	995
Other	**132**	124
Other receivables	**1,290**	1,119
Current assets:		
Trade receivables	**72,208**	55,384
Less provision for impairment of receivables	**(1,846)**	(1,593)
Trade receivables – net	**70,362**	53,791
Corporation tax	**2,398**	1,818
Current tax	**2,398**	1,818
Other non-trade receivables	**3,943**	3,729
Prepayments and accrued income	**2,741**	2,468
Other receivables	**6,684**	6,197

15. Cash and cash equivalents

	2010	2009
Bank balances	**40,865**	29,704
Cash in hand	**95**	89
Short-term deposits	**56,921**	48,883
Cash and cash equivalents in the Consolidated Statement of Cash Flows	**97,881**	78,676

16. Capital and reserves

Share capital and share premium

	5p Ordinary shares Authorised 2010	5p Ordinary shares issued and fully paid up 2010	£1 Non-redeemable preference shares 2010	5p Ordinary shares Authorised 2009	5p Ordinary shares issued and fully paid up 2009	£1 Non-redeemable preference shares 2009
At 1 January	**5,449**	**4,330**	**42**	5,449	4,325	42
Preference shares redeemed	**–**	**–**	**(2)**	–	–	–
Issued under employee share schemes	**–**	**4**	**–**	–	5	–
At 31 December	**5,449**	**4,334**	**40**	5,449	4,330	42
Number of shares (000)	**108,990**	**86,682**		108,990	86,613	

16. Capital and reserves (continued)

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 £360,000 (2009: £372,000) in respect of the 68,955 (2009: 102,861) ordinary shares issued during the year: £4,000 (2009: £5,000) was credited to share capital and £356,000 (2009: £367,000) 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 262,528 (2009: 363,196) 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:

	2010	2009
17.25p final dividend (2009: 16.75p)	**14,928**	14,470
12.75p interim dividend (2009: 11.15p)	**11,033**	9,632
2010 additional interim dividend 11.5p (2009: nil)	**9,951**	–
	35,912	24,102

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.

	2010	2009
Final proposed dividend per qualifying ordinary share		
19.75p	**17,120**	
17.25p		14,943
Additional interim dividend of 11.5p per qualifying ordinary share proposed for 2011	**10,000**	
Additional interim dividend of 11.5p per qualifying ordinary share proposed for 2010		9,960

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

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 86.4m shares (2009: 86.3m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2010	2009
Net profit attributable to ordinary shareholders	**69,521**	64,032
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**86,250**	86,096
Effect of own shares held	**131**	172
Effect of shares issued under share option schemes / sharesave plans	**24**	13
Weighted average number of ordinary shares for the year	**86,405**	86,281
Basic earnings per share	**80.5p**	74.2p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.7m shares (2009: 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').

	2010	2009
Net profit attributable to ordinary shareholders	**69,521**	64,032
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	**86,405**	86,281
Effect of share options in issue	**9**	11
Effect of Sharesave options in issue	**108**	68
Effect of LTIP shares in issue	**145**	327
Weighted average number of ordinary shares (diluted) for the year	**86,667**	86,687
Diluted earnings per share	**80.2p**	73.9p

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.

	2010	2009
Non-current liabilities		
Preference shares classified as debt	**40**	42
Finance lease liabilities	**87**	120
	127	162

	2010	2009
Current liabilities		
Finance lease liabilities	**49**	104
	49	104

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Interest Rates	Year of maturity	**Face value 2010**	**Carrying amount 2010**	Face value 2009	Carrying amount 2009
Non-redeemable preference shares	Sterling	9.5%	–	**40**	**40**	45	42
Finance lease liabilities	Euro	1.4% - 10.3%	2011-15	**145**	**136**	240	224
				185	**176**	285	266

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2010	**Interest 2010**	**Principal 2010**	Minimum lease payments 2009	Interest 2009	Principal 2009
Less than one year	**54**	**5**	**49**	113	9	104
Between one and five years	**91**	**4**	**87**	127	7	120
	145	**9**	**136**	240	16	224

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

19. Employee benefits

	2010	2009
Recognised liability for defined benefit obligations:		
Present value of funded obligations	**117,737**	108,514
Fair value of plan assets	**(100,466)**	(88,906)
	17,271	19,608
Defined contribution scheme liabilities	**812**	799
Employee bonus and incentive plan	**6,828**	6,290
Long term incentive plan	**1,717**	1,825
Employee indemnity provision	**1,008**	985
Liability for long-term service leave	**336**	294
	27,972	29,801
Non-current	**19,752**	22,549
Current	**8,220**	7,252
	27,972	29,801

Defined benefit pension scheme disclosures are detailed in note 23.

20. Provisions

	Warranty Provision
Balance at 1 January 2010	4,914
Exchange differences	295
Provisions used during the year	(1,078)
Acquired as part of a business combination	664
Charged in the year	1,169
Balance at 31 December 2010	**5,964**
Maturity at 31 December 2010	
Non-current	**1,968**
Current	**3,996**
	5,964
Maturity at 31 December 2009	
Non-current	1,664
Current	3,250
	4,914

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.

21. Trade and other payables

	2010	2009
Trade payables	**30,447**	26,031
Bills of exchange	**–**	319
Trade payables	**30,447**	26,350
Corporation tax	**10,821**	9,768
Current tax	**10,821**	9,768
Other taxes and social security	**4,066**	3,627
Non-trade payables and accrued expenses	**22,268**	21,063
Other payables	**26,334**	24,690

22. Derivative financial instruments

	2010 Assets	2010 Liabilities	2009 Assets	2009 Liabilities
Forward foreign exchange contracts – cash flow hedges				
Current	**918**	**294**	942	1,130
Non-current	**–**	**–**	–	127
	918	**294**	942	1,257

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

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

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates. Gains and losses recognised in the hedging reserve in equity (note 16) on forward foreign exchange contracts at 31 December 2010 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

23. Pension schemes

(i) Defined benefit pension liabilities

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

Movements in the present value of defined benefit obligations

	2010	2009
Liabilities at 1 January	**108,514**	81,994
Current service costs	**2,142**	1,659
Member contributions	**465**	480
Interest cost	**6,289**	5,449
Benefits paid	**(3,189)**	(2,624)
Past service costs	**288**	97
Actuarial loss	**2,759**	22,567
Currency loss / (gain)	**469**	(1,108)
Liabilities at 31 December	**117,737**	108,514

Movements in fair value of plan assets

	2010	2009
Assets at 1 January	**88,906**	76,277
Expected return on scheme assets	**6,141**	5,408
Employer contributions	**3,393**	3,056
Member contributions	**465**	480
Benefits paid	**(3,189)**	(2,624)
Actuarial gain	**4,487**	7,020
Currency gain / (loss)	**263**	(711)
Assets at 31 December	**100,466**	88,906

Expense recognised in the income statement

	2010	2009
Current service costs	**2,142**	1,659
Past service costs	**288**	97
Interest on obligation	**6,289**	5,449
Expected return on plan assets	**(6,141)**	(5,408)
	2,578	1,797

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

	2010	2009
Cost of sales	**593**	525
Administrative expenses	**1,837**	1,231
Net financing expense	**148**	41
	2,578	1,797

23. Pension schemes (continued)

Amounts recognised in the Consolidated Statement of Comprehensive Income

	2010	2009
Actuarial gain on plan assets	**4,487**	7,020
Actuarial loss from liabilities	**(2,759)**	(22,567)
	1,728	(15,547)
Currency (loss) / gain	**(206)**	397
Net gain / (loss)	**1,522**	(15,150)
Cumulative losses recognised in the Consolidated Statement of Comprehensive Income	**(20,329)**	(21,851)

	2010	2009	2008	2007	2006
Defined benefit obligation	**(117,737)**	(108,514)	(81,994)	(93,799)	(87,394)
Scheme assets	**100,466**	88,906	76,277	86,215	80,745
Deficit	**(17,271)**	(19,608)	(5,717)	(7,584)	(6,649)
Experience adjustments on liabilities	**(177)**	(2,760)	(2,006)	(1,953)	6,729
Experience adjustments on assets	**4,487**	7,020	(17,843)	(2,954)	(199)
Experience adjustments on currency	**(206)**	397	(607)	24	213

Liability for defined benefit obligations

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

	UK Scheme (% per annum)		US Scheme (% per annum)		Average (% per annum)	
	2010	2009	**2010**	2009	**2010**	2009
Discount rate	**5.4**	5.7	**5.8**	6.0	**5.4**	5.7
Rate of increase in salaries	**4.1**	4.1	**4.5**	4.5	**4.1**	4.2
Rate of increase in pensions (post May 2000)	**3.6**	3.6	**0.0**	0.0	**3.3**	3.3
Rate of increase in pensions (pre May 2000)	**4.5**	4.5	**0.0**	0.0	**4.1**	4.1
Rate of inflation	**3.6**	3.6	**3.5**	3.5	**3.6**	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:

	%	2010	%	2009
Equities	**7.9**	**51,435**	8.2	43,946
Bonds	**4.8**	**36,431**	5.2	33,241
Property	**7.5**	**6,426**	7.5	5,819
Cash	**3.4**	**44**	3.4	156
US deposit administration contract	**6.0**	**6,130**	6.0	5,744
Total		**100,466**		88,906
Actual return on the schemes' assets		**10,891**		11,717

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

23. Pension schemes (continued)

The individual return assumptions for each asset class are based on market conditions at 31 December 2010 and represent a best estimate of future returns for that class allowing for risk premiums where appropriate. No scheme assets are invested in the Group's own equity.

The Group estimates that contributions to the Group's defined benefit pension schemes payable during 2011 will be approximately £2,900,000.

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 (2009: 1.5%).

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

	2010		2009	
	Life Expectancy at age 65		Life Expectancy at age 65	
	Male	**Female**	Male	Female
Current Age				
65	**22.2**	**24.5**	23.0	25.6
45	**24.5**	**27.0**	26.0	28.5

(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. The total expense relating to these plans in the year was £2,173,000 (2009: £2,461,000).

24. Share-based payments

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

	2010	2009
LTIP – cash settled	**762**	913
LTIP – equity settled	**932**	748
Sharesave plan	**154**	124
Total expense recognised as employee costs (note 6)	**1,848**	1,785

Volatility assumptions for equity-based payments

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

(a) Share option scheme

At 1 January 1995 the Group established a share option programme for employees. The allocation of options was linked to the completion of five years service. In accordance with the programme, once vested the options grant the right to purchase shares at the market price they were at the date of grant. Exercise prices range from £2.78 to £3.87. Options vest after three years and expire ten years after being granted.

Only the 2004 grant occurred after 7 November 2002, the start date for recognition under IFRS 2. Therefore only charges in respect of these grants have been made to the accounts in accordance with IFRS 2 and the relevant disclosures made below. The recognition and measurement principles in IFRS 2 have not been applied to the 2000 and 2001 grants in accordance with the transitional provisions in IFRS 1 and IFRS 2.

24. Share-based payments (continued)
(a) Share option scheme (continued)

Option (exercise price) * exercisable at end of year	Outstanding at start of year	Exercised during year	Lapsed during year	**Outstanding at end of year**
2000 grant (£2.85)*	3,049	(3,049)	–	**–**
2001 grant (£2.98)*	3,799	–	–	**3,799**
2004 grant (£3.87)*	10,695	(2,265)	–	**8,430**
	17,543	(5,314)	–	**12,229**
Weighted average exercise price	£3.50	£3.28	–	**£3.59**
Weighted average contractual life remaining				**2 years**

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

The Group received proceeds of £18,000 (2009: £40,000) in respect of the 5,314 (2009: 12,246) options exercised during the year. The options were exercised throughout the year at £2.85 and £3.87 (2009: between £2.85 and £3.87).

(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**	
	2010	2009	**2010**	2009
Grant date	**1 December**	1 December	**1 December**	1 December
Share price at grant date	**£15.79**	£11.05	**£15.79**	£11.05
Exercise price	**£13.10**	£7.92	**£13.10**	£7.92
Shares granted under scheme	**22,838**	39,492	**29,255**	43,003
Vesting period	**3 years**	3 years	**5 years**	5 years
Expected volatility	**37%**	38%	**34%**	33%
Risk free rate	**1.2%**	1.9%	**2.1%**	2.7%
Expected dividends expressed as a dividend yield	**1.9%**	2.5%	**1.9%**	2.5%
Probability of ceasing employment before vesting	**20%**	20%	**20%**	20%
Fair value	**£4.71**	£3.92	**£5.28**	£4.06

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

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:

	2010 Average exercise price in £ per share	2010 Options	2009 Average exercise price in £ per share	2009 Options
At 1 January	**7.02**	**274,810**	5.75	292,925
Granted	**13.10**	**52,093**	7.92	82,495
Exercised	**5.38**	**(63,641)**	3.67	(90,615)
Lapsed	**7.36**	**(4,851)**	7.42	(9,995)
At 31 December 2010	**8.62**	**258,411**	7.02	274,810

Of the 258,411 outstanding options (2009: 274,810), 37,964 are exercisable (2009: 20,800).

The Group received proceeds of £342,000 in respect of the 63,641 options exercised during the year: £3,000 was credited to share capital and £339,000 to share premium (see note 16). The weighted average share price at date of exercise was £15.48 (2009: £11.19).

The weighted average remaining life of 95,992 (2009: 98,249) awards outstanding under the 3 year plan is two years. The weighted average remaining life of 162,419 (2009: 176,561) 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 and 2010 awards were only made under the share-based scheme.

2007-2009 LTIPs

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 2007 awards ended on 31 December 2009. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 100% vesting of this award as the Company's position relative to the comparator group at the end of the relevant performance period was above the 75th percentile and the Group's earnings per share growth has exceeded the minimum average annual growth in the RPI plus 2% per annum. The awards vested during 2010.

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. The awards will vest during 2011.

2010 LTIP plan

Following shareholder approval of the 2010 LTIP plan at the Company's AGM on 23 April 2010, awards of shares were made to executive and senior managers. 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 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 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%.

24. Share-based payments (continued)

(i) Share-based scheme

	2010	2009
Grant date	**23 April 2010**	4 March 2009
Share price at grant date	**£13.87**	£7.56
Shares granted under scheme	**138,908**	220,302
Vesting period	**3 years**	3 years
Expected volatility	**34%**	35%
Risk free rate	**1.8%**	1.7%
Expected dividends expressed as a dividend yield	**2.1%**	3.5%
Probability of ceasing employment before vesting	**1% p.a.**	1% p.a.
Fair value of awards under TSR performance conditions	**£8.73**	£4.31
Fair value of awards under EPS performance conditions	**£13.13**	n/a

	Outstanding at start of year	Granted during year	Vested during year	Forfeited during year	**Outstanding at end of year**
2007 Award	106,062	–	(106,062)	–	**–**
2008 Award	112,702	–	(15,340)	(5,113)	**92,249**
2009 Award	220,382	–	–	(28,986)	**191,396**
2010 Award	–	138,908	–	–	**138,908**
	439,146	138,908	(121,402)	(34,099)	**422,553**

At the date of vesting the 2007 and 2008 awards were valued at £13.57 and £14.40 respectively. 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 and the end 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. The awards vest in 2011.

Awards of 74,139 relating to the 2007 cash-based award vested in the year. The weighted average value at the date of vesting was £13.62.

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

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 risk, 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 70% to 80% 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	
	2010	2009
Trade receivables	**70,362**	53,791
Other receivables	**7,974**	7,316
Cash and cash equivalents	**97,881**	78,676
Currency swap deposit	–	400
Forward exchange contracts used for hedging:		
Assets	**918**	942
	177,135	141,125

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

	Carrying amount	
	2010	2009
Sterling	**5,107**	6,179
US dollar	**14,183**	13,134
Euro	**37,730**	25,604
Other	**13,342**	8,874
	70,362	53,791

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 2010	Provision 2010	Gross 2009	Provision 2009
Not past due	**49,870**	**(88)**	36,923	(41)
Past due 1-30 days	**11,503**	**(89)**	9,438	(49)
Past due 31-60 days	**5,395**	**(34)**	4,417	(62)
Past due 61-90 days	**2,008**	**(274)**	2,386	(277)
Past due more than 91 days	**3,431**	**(1,360)**	2,220	(1,164)
	72,207	**(1,845)**	55,384	(1,593)

(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 £2m overdraft facility (2009: £2m) on which interest would be payable at LIBOR plus 150 basis points.

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

31 December 2010

			Analysis of contractual cash flow maturities			
	Carrying amount	Contractual cash flows	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**

The forward exchange contracts will be settled on a gross basis and the undiscounted gross outflow in respect of these contracts is £50,428,000 (2009: £59,410,000) and the gross inflow is £51,191,000 (2009: £59,185,000).

31 December 2009

			Analysis of contractual cash flow maturities			
	Carrying amount	Contractual cash flows	Less than 12 months	1-2 years	2-5 years	More than 5 years
Finance lease liabilities	224	240	113	74	53	–
Trade and other payables	51,040	51,040	51,040	–	–	–
Forward exchange contracts	1,257	1,257	1,130	127	–	–
Non-redeemable preference shares	42	42	–	–	–	42
	52,563	52,579	52,283	201	53	42

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

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

The Group classifies its forward exchange contracts that hedge forecast transactions as cash flow hedges and states them at fair value. The net fair value of forward exchange contracts used as hedges at 31 December 2010 was a £624,000 asset (2009: £315,000 liability) comprising an asset of £918,000 (2009: £942,000) and a liability of £294,000 (2009: £1,257,000). Forward exchange contracts in place at 31 December 2010 mature in 2011 and 2012.

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

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 profit before interest and tax for the year ended 31 December 2010 of £300,000 and £250,000 respectively. 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	
	2010	2009	**2010**	2009
US dollar	**1.54**	1.54	**1.57**	1.61
Euro	**1.16**	1.13	**1.17**	1.13

(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, USD and Renminbi deposits, all of which are on a floating rate basis.

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

	2010	2009
Fixed rate financial liabilities	**118**	195
Floating rate financial liabilities	**58**	71
	176	266

The fixed and floating rate financial liabilities comprise finance leases. The floating rate 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 6.4% (2009: 4.1%) per annum. The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 2.5 years.

25. Financial instruments (continued)

(c) Market Risks (continued)

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

	2010	2009
In one year or less	**49**	104
In more than one year but not more than two years	**43**	69
In more than two years but not more than five years	**44**	51
In more than five years	**40**	42
	176	266

(d) Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The Group defines capital as net funds and equity attributable to share holders (see note 16). There are no external imposed restrictions on the Group's capital structure.

The Group's net funds at 31 December were as follows:

	2010	2009
Total borrowings	**(176)**	(266)
Cash and cash equivalents (note 15)	**97,881**	78,676
Group net funds	**97,705**	78,410

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

Financial Statements

Notes to the Group Financial Statements continued

for the year ended 31 December 2010

25. Financial instruments (continued)

(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 2010	**Fair Value 2010**	Carrying Amount 2009	Fair Value 2009
Loans and receivables				
Trade receivables	**70,362**	**70,362**	53,791	53,791
Other receivables	**7,974**	**7,974**	7,316	7,316
Financial assets				
Cash and cash equivalents	**97,881**	**97,881**	78,676	78,676
Currency swap deposit *	**–**	**–**	400	400
Designated cash flow hedges				
Forward exchange contracts:				
Assets	**918**	**918**	942	942
Liabilities	**(294)**	**(294)**	(1,257)	(1,257)
Financial liabilities at amortised cost				
Trade and other payables	**(56,781)**	**(56,781)**	(51,040)	(51,040)
Preference shares	**(40)**	**(40)**	(42)	(42)
Finance lease liabilities	**(136)**	**(136)**	(224)	(224)
Currency swap loan *	**–**	**–**	(400)	(400)
	119,884	**119,884**	88,162	88,162

* As the elements of the currency swap could legally be offset, although the values of the loan and deposit are shown above they have been offset in the consolidated balance sheet.

Basis for determining fair values

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

Designated cash flow hedges

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

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.

26. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2010	2009
Less than one year	**1,830**	1,357
Between one and five years	**5,738**	6,128
More than five years	**315**	1,261
	7,883	8,746

Of the £7,883,000 (2009: £8,746,000), £5,792,000 (2009: £6,804,000) 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:

	2010	2009
Contracted	**465**	714

28. Contingencies

	2010	2009
Performance guarantees and indemnities	**8,522**	8,592

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 in the Directory on pages 93 to 95. 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 £21,000 during the year (2009: £20,000) and no amount was outstanding at 31 December 2010 (2009: £19,000).

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:

	2010	2009
Emoluments including social security costs	**2,990**	2,455
Post employment benefits	**370**	424
Share-based payments	**755**	843
	4,115	3,722

30. Post balance sheet event

On 23 February 2011 the Group signed a contract to acquire all the outstanding issued share capital of Rotork Servo Controles de Mexico S.A. de C.V. ('RSCM'), its Mexican sales and service agent. Formal completion will take place following certain share transfer formalities being finalised. The gross assets of RSCM are approximately £1.6 million.

Financial Statements

Rotork p.l.c. Company Balance Sheet

At 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Tangible assets	c	**1,118**	1,146
Investments	d	**43,205**	43,205
		44,323	44,351
Current assets			
Debtors	f	**44,180**	20,458
Cash at bank and in hand	e	**10,633**	15,351
		54,813	35,809
Creditors:			
Amounts falling due within one year	g	**(3,824)**	(3,888)
Net current assets		**50,989**	31,921
Total assets less current liabilities		**95,312**	76,272
Creditors:			
Amounts falling due after more than one year	h	**(40)**	(42)
Net assets		**95,272**	76,230
Capital and reserves			
Called up share capital	j	**4,334**	4,330
Share premium account	j	**7,389**	7,033
Capital redemption reserve	j	**1,644**	1,642
Profit and loss account	j	**81,905**	63,225
Equity shareholders' funds		**95,272**	76,230

These Company financial statements were approved by the Board of Directors on 28 February 2011 and were signed on its behalf by:

PI France and **JM Davis**, Directors.

Notes to the Company Financial Statements

for the year ended 31 December 2010

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

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

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company continues to account for intragroup cross guarantees under FRS 12.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Investments

Investments are measured at cost less any provision for impairment and adjusted where equity settled share-based payments are made to the subsidiary Company's employees. They comprise investments in subsidiary companies.

Depreciation and amortisation

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

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

Post-retirement benefits

The Company participates in a Group wide pension scheme providing benefits based on final pensionable 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.

Financial Statements

Notes to the Company Financial Statements continued

for the year ended 31 December 2010

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

	2010	2009
Wages and salaries (including bonus and incentive plans)	**1,594**	1,449
Social security costs	**304**	206
Pension costs	**192**	264
Share-based payments	**235**	263
	2,325	2,182

There are seven (2009: seven) employees of Rotork p.l.c. plus the four (2009: four) executive directors. The personnel costs accounted for within the Company include the full costs of the employees and the Group Finance Director but not the full costs of other executive directors. Half of the salary costs of the Group Chief Executive are reported within the Company but the balance of the costs and those of the other two executive directors are reported within the subsidiary where they are based as this approximates to the basis on which their time is split.

Share-based payments

The share-based payment charge relates to employees of the Company participating in the Long Term Incentive Plan ('LTIP'). The disclosures required under FRS 20 can be found in note 24 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	Forfeited during year	**Outstanding at end of year**
2007 Award	42,432	–	(42,432)	–	**–**
2008 Award	42,761	–	(15,340)	(5,113)	**22,308**
2009 Award	64,722	–	–	(28,986)	**35,736**
2010 Award	–	36,319	–	–	**36,319**
	149,915	36,319	(57,772)	(34,099)	**94,363**

At the date of vesting the 2007 awards were valued at £13.57. The weighted average remaining life of awards outstanding at the year end is one year.

c. Tangible assets in the Company Balance Sheet

	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2010 and **31 December 2010**	**1,468**	**13**	**1,481**
Depreciation			
At 1 January 2010	322	13	335
Charge for year	28	–	28
At 31 December 2010	**350**	**13**	**363**
Net book value at 31 December 2010	**1,118**	**–**	**1,118**
At 31 December 2009	1,146	–	1,146

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

	2010	2009
Freehold land	**60**	60
Freehold buildings	**1,058**	1,086
Net book value at 31 December	**1,118**	1,146

d. Investments in the Company Balance Sheet

Shares in Group companies

	2010	2009
At 1 January	**43,205**	2,668
Additions arising from share schemes	**–**	537
Increased investment in subsidiary undertakings	**–**	40,000
At 31 December	**43,205**	43,205

A listing of the principal subsidiaries is included in the Directory on pages 93 to 95.

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

	2010	2009
Bank balances	**633**	340
Short-term deposits	**10,000**	15,011
Cash at bank and in hand	**10,633**	15,351

Financial Statements

Notes to the Company Financial Statements continued

for the year ended 31 December 2010

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

	2010	2009
Amounts owed by Group undertakings	**43,912**	20,184
Other debtors	**110**	32
Prepayments and accrued income	**75**	56
Corporation tax	**–**	49
Deferred taxation	**83**	137
	44,180	20,458

A deferred tax asset of £83,000 (2009: £137,000) has been recognised. This asset principally relates to 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

	2010	2009
Trade creditors	**102**	163
Amounts owed to Group undertakings	**1,052**	1,052
Other taxes and social security	**28**	25
Other creditors	**2,175**	1,985
Accruals and deferred income	**467**	663
	3,824	3,888

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

	2010	2009
Preference shares classified as debt	**40**	42

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.

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 2010	4,330	7,033	1,642	63,225	76,230
Profit for the year	–	–	–	54,697	54,697
Equity settled share-based payment transactions net of tax	–	–	–	(731)	(731)
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
Purchase of preference shares	–	–	2	(4)	(2)
Dividends	–	–	–	(35,912)	(35,912)
Balance at 31 December 2010	**4,334**	**7,389**	**1,644**	**81,905**	**95,272**

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

Profit for the financial year in the accounts of the Company is £54,697,000 (2009: £42,199,000).

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:

	2010	2009
Preference shares	**(40)**	(42)
Cash at bank and in hand	**10,633**	15,351
Company net funds	**10,593**	15,309

Information

Ten Year Trading History

	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	2001 £000 UK GAAP
Continuing operations	**380,560**	353,521	320,207	235,688	206,709	174,839	146,883	135,964	129,677	119,322
Discontinued operations	**–**	–	–	–	–	–	–	–	3,783	4,367
Revenue	**380,560**	353,521	320,207	235,688	206,709	174,839	146,883	135,964	133,460	123,689
Cost of sales	**(199,742)**	(187,600)	(176,046)	(127,748)	(115,603)	(95,358)	(79,097)	(72,046)	(71,875)	(65,877)
Gross profit	**180,818**	165,921	144,161	107,940	91,106	79,481	67,786	63,918	61,585	57,812
Overheads	**(83,094)**	(74,384)	(69,272)	(52,553)	(46,017)	(42,951)	(37,354)	(36,808)	(35,863)	(33,532)
Operating profit	**97,724**	91,537	74,889	55,387	45,089	36,530	30,432	27,110	25,722	24,280
Continuing operations	**99,442**	92,103	76,014	55,461	45,089	36,530	30,432	28,415	26,553	24,733
Discontinued operations	**–**	–	–	–	–	–	–	–	474	574
Adjusted* operating profit	**99,442**	92,103	76,014	55,461	45,089	36,530	30,432	28,415	27,027	25,307
Amortisation of acquired intangible assets	**(1,718)**	(1,153)	(1,125)	(74)	–	–	–	–	–	–
Disposal of property	**–**	587	–	–	–	–	–	–	–	–
Amortisation of goodwill	**–**	–	–	–	–	–	–	(1,305)	(1,305)	(1,027)
Operating profit	**97,724**	91,537	74,889	55,387	45,089	36,530	30,432	27,110	25,722	24,280
Exceptional items	**–**	–	–	–	–	–	–	597	–	–
Net interest	**131**	(621)	862	1,866	972	127	1,074	461	440	563
Profit before taxation	**97,855**	90,916	75,751	57,253	46,061	36,657	31,506	28,168	26,162	24,843
Tax expense	**(28,334)**	(26,884)	(22,331)	(17,957)	(14,728)	(12,043)	(10,508)	(9,469)	(8,868)	(8,539)
Profit for the year	**69,521**	64,032	53,420	39,296	31,333	24,614	20,998	18,699	17,294	16,304
Dividends	**35,912**	24,102	29,970	24,732	24,140	13,437	17,751	12,592	11,959	11,147
Basic earnings per share	**80.5p**	74.2p	62.0p	45.6p	36.4p	28.6p	24.5p	21.8p	20.1p	18.9p
Adjusted* earnings per share	**82.4p**	75.5p	63.3p	45.7p	–	–	–	–	–	–
Diluted earnings per share	**80.2p**	73.9p	61.6p	45.2p	36.1p	28.4p	24.3p	21.7p	20.0p	18.9p

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

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

Share Register Information

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

Ordinary shareholder by type	Number of holdings	%	Number of shares	%
Individuals	1,796	67.1	2,727,421	3.1
Bank or nominees	804	30.1	82,723,013	95.4
Other company	38	1.4	408,339	0.5
Other corporate body	38	1.4	822,890	1.0
	2,676	**100.0**	**86,681,663**	**100.0**

Size of shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	1,432	53.5	523,994	0.6
1,001 – 2,000	401	15.0	604,255	0.7
2,001 – 5,000	331	12.4	1,015,831	1.2
5,001 – 10,000	142	5.3	1,007,603	1.2
10,001 – 50,000	185	6.9	4,395,173	5.1
50,001 – 100,000	68	2.5	4,826,624	5.5
100,001 +	117	4.4	74,308,183	85.7
	2,676	**100.0**	**86,681,663**	**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 dividend (p)	Total dividend (p)
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
2006	6.50	11.65	11.60	29.75

Financial calendar

1 March 2011	Preliminary announcement of annual results for 2010
6 April 2011	Ex-dividend date for final proposed 2010 dividend
8 April 2011	Record date for final proposed 2010 dividend
21 April 2011	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
6 May 2011	Payment date for final proposed 2010 dividend
25 May 2011	Ex-dividend date for additional interim dividend
27 May 2011	Record date for additional interim dividend
24 June 2011	Payment date for additional interim dividend
2 August 2011	Announcement of interim financial results for 2011

Information

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