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rotork®

**ANNUAL REPORT
& ACCOUNTS 2007**

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FINANCIAL & OPERATIONAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

ORDER BOOK £98M ↑29%

REVENUE £236M ↑14%

PROFIT BEFORE TAX £57M ↑24%

EARNINGS PER SHARE 45.6P ↑25%

**RECOMMENDED FINAL
DIVIDEND OF** 14.0P ↑20%

**ADDITIONAL INTERIM DIVIDEND
DURING 2008** £10M, 11.5P PER SHARE

OUR PRODUCTS REFLECT THE
100% COMMITMENT, DEDICATION
AND PRIDE, WHICH HAS
ENABLED ROTORK GROUP
TO ENJOY ANOTHER
SUCCESSFUL YEAR

OPERATIONAL HIGHLIGHTS

≥ RECORD PERFORMANCES IN REVENUE
AND PROFITS IN ALL THREE DIVISIONS

≥ ROTORK CONTROLS OPERATING
PROFIT UP 18%

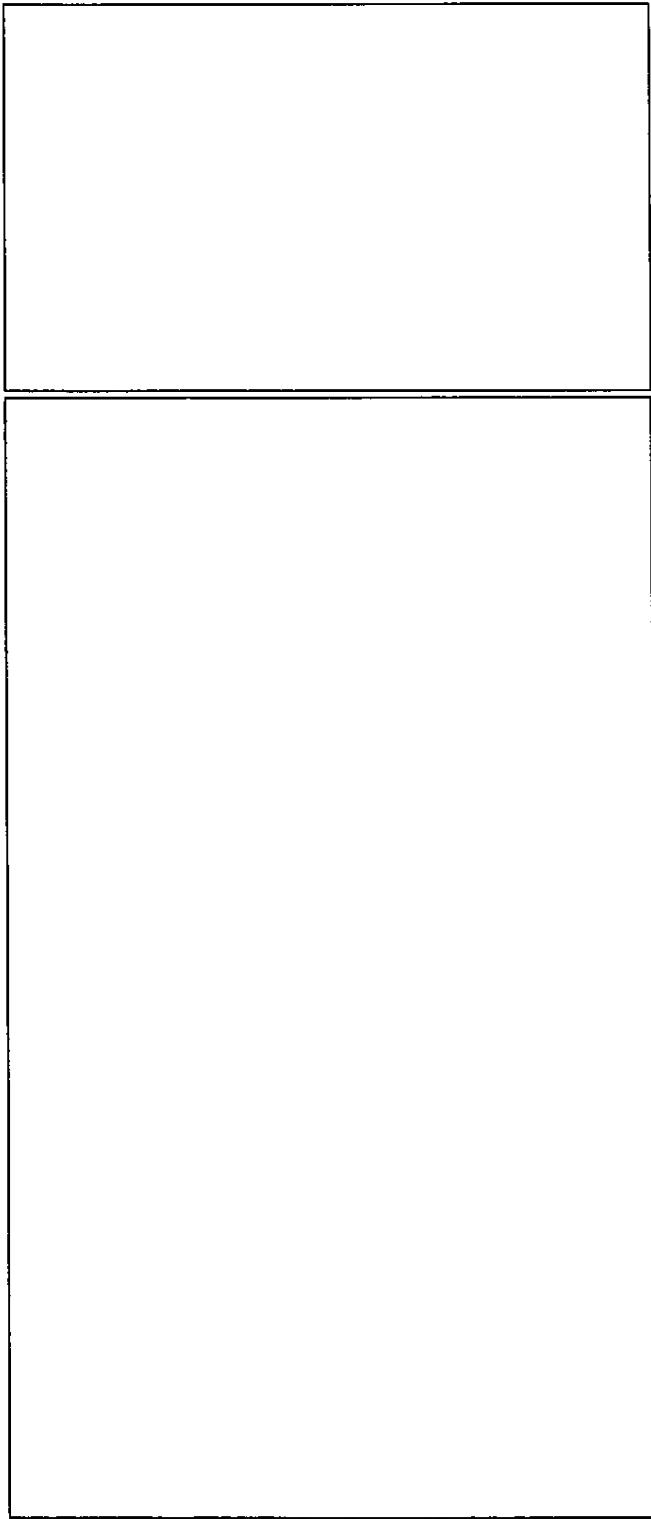
≥ ROTORK FLUID SYSTEMS ACHIEVED
15% RETURN ON SALES AND 33%
GROWTH IN OPERATING PROFIT

≥ STRONG GROWTH ACHIEVED BY
ROTORK GEARS, OPERATING PROFIT
UP 57%

≥ MARGIN IMPROVEMENT ACROSS
ALL THREE DIVISIONS

≥ CHINESE MARKET STILL BUOYANT

GROUP AT A GLANCE ROTORK IS THE ONLY UK LISTED COMPANY 100% COMMITTED TO DEVELOPING, SELLING AND SUPPORTING THE BEST VALVE ACTUATORS TO RAPIDLY GROWING MARKETS ACROSS 22 COUNTRIES.



NORTH AMERICA AND CANADA

We have two assembly plants in the US and eight distribution and marketing locations in this large, complex and sophisticated market. Our business here supports the Group's three main sectors of water, oil & gas, and power.

SOUTH AMERICA

Each of the three divisional businesses is active in this region, supported by direct presences in both Venezuela and Brazil and our production facilities in the US. In addition, our strong network of agents across South America gives us total coverage of this area of major potential for infrastructure growth.

REVENUE £56.3M
EMPLOYEES 299

EUROPE

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

AFRICA

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

ASIA

Rotork has traditionally been strong throughout Asia and now counts mainland China as the biggest market for Rotork electric valve actuators. We are making progress in bringing these and the Rotork Gears products into the wider and more price competitive areas of infrastructure development in this important market. India has long been core to Rotork's strategy with two production plants and a further three sales offices.

AUSTRALASIA

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

REVENUE £110.7M
EMPLOYEES 809

REVENUE £68.7M
EMPLOYEES 307

CHAIRMAN'S STATEMENT THE PAST YEAR HAS SEEN ROTORK CELEBRATE ITS 50TH ANNIVERSARY IN A PERIOD WHEN STRONG TRADING HAS ENABLED US TO ACHIEVE RECORD RESULTS AND A SOUND POSITION FROM WHICH TO ENTER 2008.

FINANCIAL HIGHLIGHTS

The past year has seen Rotork celebrate its 50th anniversary in a period when strong trading in each of our underlying markets has enabled us to achieve record results and a sound position from which to enter 2008. We have passed a number of milestones including record performances in terms of revenue and profits from each of the three operating divisions and finished the year with our highest ever reported order book, up 29% at £98m. Total sales revenue was £236m, up 14% on 2006, and profit before tax increased by 24% to £57.3m. The trading figures are after the negative impact of currency in a year where the weakening US dollar reduced the value of part of our earnings. However, in spite of this currency headwind, we were still able to improve operating profit margin from 21.8% to 23.5% due to operational gearing and the robustness of Rotork's business model. At constant currency, sales revenue and profit before tax increased by 18% and 31% respectively.

DIVISIONAL HIGHLIGHTS

Rotork Controls

The oil & gas, power and water markets, which the Controls Division serves, continued to be active in the year particularly in Asia and Europe. The new production facility in Shanghai had a successful first full year in operation and met all of its goals. This facility will be of increasing significance in supporting the important Chinese market in the future.

The division increased revenue to £164m, up 11% on the prior year with operating profit at £44m, up 18%. We now believe that the mix of facilities that we have in the Controls Division across the world gives us the capacity to support our customer base in each of our markets for the foreseeable future. New marketing initiatives took place in the year and we opened our first direct presence in Brazil.

Rotork Fluid Systems

Rotork Fluid Systems continued its pattern of strong growth established over the last few years, and expanded its share of the available market as well as capitalising on the significant investment currently being seen worldwide in the markets for its products. Sales revenue grew 18% to £48m and operating margin achieved our 15% target. We are increasingly being seen as providing the actuator of choice by leading industry participants. This has been helped by our exacting approach to product quality, constant investment in facilities and products, and our drive to bring technology originally developed for our electric actuator products into our Fluid Systems product offering.

Rotork Gears

Rotork Gears produced strong results in the year, with sales revenue up 31% at £32m and operating profit up 57% to £7m. We are now the largest manufacturer of products of our type, and have production facilities in five countries in Europe, the US and Asia. We can effectively offer a local service to customers wherever they are based from our global facilities. We are continually improving products and services, and developing new products for use on standard and specialist applications. The net margins in this business have increased as we continue to improve efficiency and reduce costs.

CASH

Cash generation in the year has been strong due to the buoyant trading position and good control of working capital. In addition, except for a £2m additional contribution to the UK final salary pension scheme, there have been no unusual cash outflows in the year with the result that cash balances increased at the year end to over £38m. Subsequent to the year end, we announced two acquisitions. The acquisition of Remote Controls Sweden was completed on 30 January 2008 for a consideration of £13m. Much smaller, but strategically important, was the acquisition of the intellectual property and business of the Drallim SVM product on 13 February 2008, for £630,000. Both of these transactions were settled for cash.

DIVIDEND

The Board is recommending an increase in the final dividend for 2007 and the payment of an additional interim dividend for 2008. The final dividend for 2007 of 14.0p per share (an increase of 20% year on year) will be paid on 9 May 2008 to shareholders on the register on 18 April 2008. A one off additional dividend of £10m (11.5p per share) will be paid on 18 July 2008 to shareholders on the register on 27 June 2008.

PERFORMANCE AND RISK

In his Business Review, the Chief Executive discusses the application of the Group's approach to performance measurement through KPIs, our approach to the assessment and mitigation of risk, and how

we ensure that we have correct health & safety procedures, and environmental policies. We take great care to deal with these matters responsibly, ensuring that controls and processes are embedded in working practices where possible and that reporting is prompt and transparent. Our increased disclosure this year underscores the importance which we attach to these matters.

BOARD CHANGES

John Matthews has been the Senior Independent Director since joining the Board in 1998 and for much of this time has chaired both Audit and Remuneration Committees. Having now completed nine years on the Board, John will retire at the forthcoming AGM. He leaves with our best wishes and appreciation for his much valued advice and support.

I am pleased to welcome John Nicholas to the Board as a non-executive director. John is currently Group Finance Director of Tate & Lyle plc prior to which he held the same position at Kidde plc. He will chair the Audit Committee and be a member of both the Nomination and Remuneration Committees.

BILL WHITELEY

Bill Whiteley, who will retire at this year's Annual General Meeting, has been a director of Rotork plc for twenty-four years, the last twelve of which he has served as Chief Executive. During his tenure as Chief Executive, Bill has led the Group to outstanding success and, consequently, its world leadership position in its specialised sector and its position as a highly rated constituent of the FTSE 250. He leaves a strong and experienced executive team who under the leadership of his successor, Peter France, are well placed to deliver further growth. On behalf of the Board I extend to Bill our appreciation and gratitude for his enormous contribution and wish him well for the future.

OUTLOOK

Projects across nearly all of our geographic and end user markets remain active. Order intake at the start of the year has been particularly buoyant, including a strong start from our North American and Chinese operations. In contrast with recent years, it would appear that our trading results are likely to be enhanced by a more favourable currency environment in 2008.

ROGER LOCKWOOD
CHAIRMAN
29 FEBRUARY 2008

CHIEF EXECUTIVE'S BUSINESS REVIEW FOR OVER 10 YEARS ROTORK HAS BEEN THE WORLD LEADER IN ACTUATION SOLUTIONS FOR THE OIL & GAS, POWER AND WATER & WASTE WATER TREATMENT SECTORS OF THE CAPITAL GOODS MARKET.

BUSINESS OVERVIEW

For over 10 years Rotork has been the world leader in actuation solutions for the oil & gas, power and water & waste water treatment sectors of the capital goods market. Our products are also used in a wide range of applications in a variety of industries, including shipboard control systems, ventilation and air handling control. Rotork is a genuinely global business, with both marketing and production operations across the world. We are known for our ability to support customers in the field at very short notice from our own resources. Rotork has a reputation for innovative solutions to complex problems and our product development history has shown a pattern of improving the efficiency, quality and cost effectiveness of the product through the application of technology. This, and a constant drive to improve customer support, has led to us being the number one heavy duty actuator group in the world. We are structured around three divisions:

- Rotork Controls, the original and largest division supplying high quality, state of the art electric actuator products for controlling industrial valves,
- Rotork Fluid Systems, which supplies heavy duty pneumatic and hydraulic valve actuators for operation in plant control, emergency shut down and other critical applications, primarily for the oil & gas sector,
- Rotork Gears, a world leader in the supply of gearboxes, adaptors and ancillaries for the valve industry

Rotork supports customers across the world mainly through directly owned operations. We have 14 production plants internationally and multiple direct sales and support operations in 22 countries. This, together with an extensive network of indirect sales offices, gives total coverage of our customers and markets globally. We have around 12,000 active customers.

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

BUSINESS STRATEGY

The objective of Rotork plc is to increase shareholder value by developing its leadership position in worldwide valve actuator activities. The Group's businesses are focused on the specialist area of valve automation. The origins of the Company go back to the 1950s and over its 50 years in this business Rotork has continued to build on its reputation as an innovator of new concepts in this field and has provided users with increasing levels of functionality, performance and assurance. Our strategy of providing modern innovative products that leverage technology, while remaining focussed on the technical applications that our customers need, has enabled us to provide quality solutions to the industries that we serve. We have been able to do this partly as a result of our methodology of selling directly to our end user customers and their technical advisers. This ensures that, where possible, plant specifications have the correct products for the application and support the customer's need for plant efficiency and control.

<p>ROTORK'S FOCUS ON TECHNICAL APPLICATIONS THAT OUR CUSTOMERS NEED HAS ENABLED US TO PROVIDE QUALITY SOLUTIONS TO THE INDUSTRIES WE SERVE LOCATION HEADQUARTERS BATH, UK</p>

ROTORK HAS HAD STRONG
GROWTH IN ITS MAIN END USER
MARKETS – OIL & GAS, POWER
AND WATER AS WELL AS ACROSS
ALL GEOGRAPHICAL AREAS.
ORDERS WERE UP AND EACH
DIVISION PERFORMED WELL.



BILL WHITELEY
CHIEF EXECUTIVE
29 FEBRUARY 2008

CHIEF EXECUTIVE'S BUSINESS REVIEW CONTINUED

The Group's recent strategy has focused on opportunities to leverage our leadership position in heavy duty electric actuation into other closely associated areas of valve automation. Key programmes relate to the development of products and control systems, marketing initiatives, creating service revenue opportunities and driving cost reductions relating to these businesses. The most important current product initiative relates to the development of our range of actuators aimed at the process control market, which is referred to further in the research & development section.

YEAR UNDER REVIEW

In 2007, Rotork celebrated its 50th Anniversary in style with end user and geographic markets very active throughout the year. The rate of investment in infrastructure in energy and water projects continued to increase which benefited all three of our operating divisions. Overall order intake was up 12.6% and revenue up 14.0%. The order book increased to £97.6m which is 28.5% up on the start of 2007. Profit before tax was up 24.3%. Return on sales (as defined on page 11), a key performance indicator of the business, increased to 24.3% from 22.3% last year.

ROTORK CONTROLS

Revenue from our electric actuator division, Rotork Controls, increased by 11.1% to £164.2m while operating profit rose by 17.6% to £43.5m. At constant currencies these increases would have been 15.4% and 23.7% respectively. As a percentage of unit actuator order input, the principal markets for electric actuators were: oil & gas 39% (2006: 40%), water 22% (19%), power 31% (32%) and miscellaneous 8% (9%). As can be seen the end user markets were similar to the prior year but with an above average increase in the number of actuators going into the water market. This was driven by growth in the markets worldwide and improved penetration in some key markets.

UK Operations

We continued to see good levels of business emanate from the UK, with the water market benefiting from AMP4 investment requirements laid down by the regulator and the power market from the large Combustion Plant Directive.

There was a strong sales and profit performance from the main electric actuator assembly plant in Bath, which was assisted by continuing sourcing initiatives limiting the cost of component increases. We are looking for additional initiatives in 2008 to continue to mitigate cost pressures.

Europe

The European sales and support companies all increased profits from the prior year, with particularly strong performances in Italy and Germany. Europe accounted for 16% of the total input units against 13% in 2006. Work on existing oil & gas installations was active throughout the region, in particular we benefited from increased investment in oil and product storage facilities. Our business in the water market in continental Europe also continued to grow, with our French subsidiary making encouraging progress. Elsewhere our relatively new Russian sales company continued to develop its business while the Dutch company doubled the size of its facility to enable it to expand its factory fit and site service capabilities. The European businesses also benefited from increased business from valvemakers in their territories. The Italian valvemakers, in particular, had extensive order books built on the high level of worldwide energy projects, particularly those being built in the Middle East.

The Americas

Rotork Controls Inc had a number of challenges entering 2007, which included a high hurdle set by its prior year profit performance, a softening US\$ and an economy which was displaying weaknesses in some areas. Against this background, the company performed well and continued to benefit from investment in water & waste water treatment facilities. It also benefited from the US valve industry's competitiveness on international projects. US Process Controls saw a good recovery of its business, mainly based on improved sales to the power companies.

The Canadian company had a disappointing year, due to slower than expected project activity, especially in the West. The Venezuelan subsidiary continued to face difficult challenges in what is potentially a promising market for our products.

For the Americas, order input in units increased in total but reduced to 16% from 17% of the Group.

Asia Pacific and the Rest of the World

Asia continued to be a major engine for growth for the business. Asia Pacific accounted for 50% of the input of electric actuators up from 49% last year. China continued to be the most important contributor with increased levels of business. The Indian market maintained the high levels of business seen in 2006, driven by investment in power generation and large refinery projects. Our electric actuator manufacturing plants in Kuala Lumpur, Shanghai, Chennai and Bangalore all performed well and achieved increases in profits.

Elsewhere, the Singaporean, Malaysian and Thai sales companies all saw increased levels of business as did those in Japan and Korea. The latter did well to overcome some local difficulties and ended the year with a stronger operation.

The Australian operation continued to perform well while the turnaround in the fortunes of our South African company, which made a loss in the prior year, was also most encouraging.

ROTORK FLUID SYSTEMS

Rotork Fluid Systems, which designs, assembles and markets pneumatic and hydraulic valve actuators continued to achieve exceptional growth. The main markets served by our products are oil & gas related and unlike electric actuators the majority are used on upstream applications, transmission and LNG plants & terminals. These markets continue to benefit from high levels of investment. A notable success was winning substantial orders on the very large Shell GTL ('Gas to Liquids') Pearl project in Qatar. The principal assembly plant is based in Lucca, Italy, with products also assembled in Rochester, N Y and Melle in Germany. The division had two long-term key performance goals. Firstly to achieve 20% of Group revenue and secondly a 15% return on sales. It just achieved both of these objectives this year, having narrowly missed the revenue target in 2006 (19%) and increased return on sales from 13.3% to 15.0% in 2007. This is despite its main cost base being in euros and the euro/dollar rate having averaged \$1.38 against a prior year of \$1.26.

Order input was 34.6% up on the prior year, while revenue increased by 18.3% to £47.9m and operating profit was up 33.3% to £7.2m.

CHIEF EXECUTIVE'S BUSINESS REVIEW CONTINUED

The Italian operation performed very well and we increased our investment in the facility, improving the office area and installing an upgraded ERP system both there and in the plant in Melle

The product range was extended and improved, while further progress was made in gaining additional customer and market approvals. The division had increasing success on projects requiring engineered solutions particularly in the electro-hydraulic ('EH'), gas over oil, linear and subsea product areas. A notable success was the large EH order for the Aramco Khurais project in Saudi Arabia. The US operation also benefited from the upsurge in engineered solutions business.

The division's global capabilities continued to be enhanced, mainly through the development of the Group's worldwide sales companies and offices. Among these, the UK based operation in Leeds and the Spanish office had excellent results.

The acquisition of Remote Controls Sweden was completed on 30 January 2008 for a consideration of £13m. This company, which is based in Falun, Sweden, was established in 1961 and has a worldwide reputation for supplying high quality lower torque actuators to a wide array of markets. These products complement the mainly heavy duty products of the existing RFS ranges and will be sold through Rotork's worldwide network of sales offices.

The acquisition of the Drallim SVM partial stroke and valve monitoring patented product for £630k on 13 February 2008 provides the division with a platform to further develop products for safety critical applications. Rotork has sold the SVM product for some years and sees the demand for this type of diagnostic system increasing due to its ability to improve plant safety and productivity while also reducing plant capital costs.

ROTORK GEARS

Rotork Gears manufactures gearboxes, adaptors and other ancillary devices for industrial valvemakers worldwide. Through these valvemakers it serves a wide variety of end user industries.

Rotork Gears achieved growth well above our plans and benefited from an active worldwide valve market, especially in Europe and America, and investment in its worldwide operations and supply chain. Revenue was up 31.3% to £31.9m and operating profit was up 56.5% to £7.3m. The star performers were the two main plants in Leeds and Losser in The Netherlands. Both achieved significant growth in revenue and profits.

Much work and investment was centred on the new Chinese facility which met an ambitious production target and achieved a number of important milestones, including the assembly of the updated 232 aluminium range of units and further progress was made in opening up the Asian market.

The engineering team was re-organised to create a dedicated R&D resource and progress was made with a number of important product initiatives. New or improved product ranges will be launched in 2008.

One of the key objectives for the coming year will be to develop the existing operations, those already mentioned plus the operation in Italy, firstly to ensure that the business continues to increase capacity to improve service levels to our customers, secondly to make sure that opportunities to rationalise production and reduce costs are delivered.

KEY PERFORMANCE INDICATORS (KPIs)

Rotork has a culture of customer service and support and this ethos is reflected in the way that the business is controlled on a day to day basis. We manage the operations through targets primarily related to trading activities and have well established systems and procedures to support this. KPIs have long been used to aid management in monitoring progress in achieving its objectives. Most targets are financial KPIs but more recently we have developed a similar approach to non financial issues connected with areas such as environmental matters and health & safety.

Rotork's philosophy of product assembly only, using sub contractors to manufacture components, gives significant flexibility in the production model and KPIs assist in monitoring the efficiency of this model. Management's focus is on what we regard as the high added value activities of design, marketing and management control. This means that our approach to measuring performance is oriented towards success in penetrating the markets in which we operate, the development and profitability of our products, a desire for a high return on capital, and strong cash generation. We have produced consistent improvement in performance in these measures through the year under review.

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The Group uses a range of indicators to assess performance at individual company, divisional and Group level. The following are the main key performance indicators at Group level showing four years performance and explanation where appropriate of issues underlying some of the measures

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. Revenue growth is a simple but effective measure of our performance against our objectives in this area and, supported by the relationship of our net profit to sales and the growth in earnings per share, provides a small but powerful range of ratios that enable management to quickly view the performance of the business and drill down to divisional level and below to view returns. With an asset light business model, we have a target of growth in return on capital which provides an effective view of balance sheet performance and each of the divisional businesses review this. Conversion of profit into cash has a high priority within the Group and is embedded within reward schemes at divisional management as well as Group level.

Sales revenue growth

This is reported in detail for all operating businesses and is a key driver in the business. These measures enable us to track our success in specific project activity and our progress in increasing our market share by products and region. This also is an important driver in our product development programme.

Return on sales

This is calculated as profit before tax (after financing and interest) shown as a percentage of sales revenue. This measure brings together the combined effects of procurement costs and pricing as well as the leverage of our operating assets. Our overall aim is for continuous improvement over time, notwithstanding the impact of currency.

Cash generation

The conversion of profit into cash is an important measure for Rotork. This is calculated as the ratio of operating cash flow to operating profit. Operating cash flow is defined as the movement in cash and cash equivalents, adjusted to add back cash flows from financing activities, the acquisition of subsidiaries, income taxes paid, exceptional cash outflows and less interest received. It is used internally 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 reward system where management is incentivised to achieve a performance beyond this level.

Return on capital employed

Rotork has an asset light business model by design, and reporting this ratio internally helps management at Group level to monitor our adherence to this philosophy. The calculation shows profit before tax as a percentage of capital employed. Capital employed is defined as shareholders' funds less net cash held, and the pension deficit net of related deferred tax is added back.

CHIEF EXECUTIVE'S BUSINESS REVIEW CONTINUED

EPS growth

The measurement of earnings per share reflects all aspects of the income statement including management of the Group's tax rate. We aim to increase EPS each 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.

Waste recycling

This KPI measures the proportion of total waste produced which is recycled. We have an active programme aimed at reducing our environmental footprint throughout the organisation. We collect this information through regular submissions through our extranet site.

DIVIDENDS

Rotork is a cash generative business and has a policy of returning funds to shareholders where they are not required for reinvestment in the business in the foreseeable future. The Board's policy is one of increasing dividends generally in line with earnings. In recent years where there has been excess cash in the business this has been distributed back to shareholders in the form of additional dividends. In the year under review cash generation has been good and the Board is recommending to shareholders that the final dividend for 2007

be 14.0p per share which is an increase of 20% over the prior year. In addition, the Board is intending to pay an additional interim dividend for 2008 of 11.5p per share, representing the distribution of £10m of excess cash. This will be paid to shareholders on 18 July 2008, to shareholders on the register on 27 June 2008.

TREASURY

The Group's treasury function in Bath manages financial risk relating to foreign currency exposure, debtor risk and cash movements within the Group.

Rotork is affected by movements in world currencies and aims to mitigate the effect of this through the diversity of location of production units as well as taking action through derivative instruments. The main currency exposure results from trading transactions between our production plants and trading companies and customers around the world. This exposure is covered by simple forward cover derivative instruments aimed at protecting known income streams: no speculative or non trading hedging takes place within the Group.

The impact of currency on the results of the Group can best be seen by converting the 2007 results to the effective exchange rates for 2006, so comparing results at constant currency, see table below.

Overall we believe that profit for the year would have been approximately £2.8m higher if the 2006 exchange rates had prevailed. The increase in operating profit, reported as 22.8%, would have shown an increase of 29.0% at constant currency. Weighted average rates for translation of our two main trading currencies for the last few years are shown in the table below.

Receivables management is done at each operating business unit but controlled centrally in Bath. There is commonality in our customer base across many of the geographic units and debts outside the UK are insured centrally on a limit per customer basis, and this operates across the operating divisions. Overall we believe a level of 65 days sales outstanding for receivables is appropriate for our mix of business. At the year end this figure was 60 days, an improvement of 2 days compared with 2006.

OPERATING PROFIT AT CONSTANT CURRENCY

	2007 £m	2006 £m
Operating profit as reported	55.4	45.1
Translation impact	0.5	—
Transaction impact	2.3	—
Operating profit at 2006 rates	58.2	45.1

WEIGHTED AVERAGE RATES

	US DOLLAR	EURO
2002	1.52	1.58
2003	1.66	1.44
2004	1.83	1.46
2005	1.80	1.46
2006	1.84	1.47
2007	2.01	1.45

PENSION SCHEMES

Over the last few years there has been a lot of focus on pension schemes, particularly company liabilities relating to under funded legacy defined benefit schemes. Rotork's UK final salary scheme was closed to new entrants in 2002, when a defined contribution scheme was opened for employees joining from the beginning of 2003. The Group has made additional contributions into the UK final salary scheme between 2004 and 2007 and the scheme had its latest actuarial valuation review during 2007. The results of this showed it was 98% funded on an actuarial basis, which is precisely the position that the additional contributions were aiming to achieve, and it is now felt that the scheme is back in equilibrium. The main issue for schemes of this type in recent years has been the effect of longer life expectancy, the fact that pensions in payment will have to be paid for longer as people expect to live longer. This issue could continue to affect schemes as mortality assumptions evolve further over the next few years.

However, management and the pension scheme trustees, with the advice of the scheme actuary, consider that the potential for adverse mortality assumptions to impact the scheme further is controllable within the current range of contributions.

The impact of improved mortality is not presently anticipated to have an impact on cash contributions beyond normally expected funding levels. In terms of the charge to the income statement under IFRS these assumptions will have an impact as a result of the last actuarial valuation by increasing the charge against profit. The charge against profit before tax will increase to around £1.6m in 2008, compared with the charge of £0.7m in 2007.

ROTORK COMMUNITY

Rotork celebrated its 50th year of incorporation with a number of marvellous events which were attended by both past and present employees as well as others who have had much to do with the Group's success. We also celebrated this milestone with a publication which drew very positive comments from a wide group of stakeholders. The events demonstrated the commitment and affection that everyone has for the organisation which makes it such a formidable presence in its field.

I have enormously enjoyed every aspect of my involvement with Rotork over the past thirty-four years and feel very privileged to have led it over the past twelve. Rotork has always had a unique spirit which I feel confident under the talented leadership of Peter France will propel it to even greater success. I would like to thank all of our employees around the world for their dedication, skill, good humour and friendship and it is them that I will miss most when I retire on 2 May.

CHIEF EXECUTIVE'S BUSINESS REVIEW CONTINUED

ROTORK SITE SERVICES PROVIDES SUPPORT AT PLANT LEVEL ON ALL APPLICATIONS WHERE OUR PRODUCTS ARE USED.

Rotork has been a leading actuator manufacturer for over 50 years and its valve actuators and gearboxes are designed to provide a significant service life, often in arduous conditions. Long-term cost of ownership is an important factor to our customers along with reliability, and these issues drive the choice of Rotork over any alternative. With Rotork providing the after sales support, customers know that the equipment will be maintained to its original specification and operational efficiency, which is particularly beneficial where the product is certified.

Rotork Site Services ('RSS'), the new projects, service and retrofit arm of the Group which supports all three divisions, is active in 47 service centres in over 20 countries around the world, with agents providing support services in another 55 countries. This brings the total number of expert technicians supporting Rotork customers to well over 1,000.

RSS provides support at plant level on all applications where our products are used. Embedded within the site structure, and often within the customer's operating team, our engineers can provide total support to ensure that the plant operator gets maximum advantage from its investment. In addition, we are able to aid the customer when investment programmes are being considered by providing technical input to the expansion and upgrading of equipment and to ensure that the correct equipment is considered and commissioned appropriately.

Within RSS, our aim is to make the application and utilisation of our products and services easy whether it is by

- Delivering small turnkey projects to actuate existing manual valves for customers,
- Refurbishing aging actuators (typically 25+ years old) to give them another lifetime of utility,
- Project managing the upgrading of site's entire actuation assets and associated equipment,
- Connecting actuators to valves for new build projects for valve makers and end customers to facilitate easier installation on site,
- Delivering preventative maintenance programmes,
- Availability of our engineers on a call out basis to support the customer's own maintenance programme.

Through delivering added value services across the world we continue to differentiate our business, strengthen relationships with our customers and contribute to the growth in the Group's revenue and profits.

One significant area of growth in 2007 has been the uptake of multi-year preventative maintenance contracts, particularly by the petrochemical sector where uptime is of critical importance. We now have over 100 maintenance contracts covering over 50,000 actuators worldwide. Through combining technology built into our actuators, expert service engineers and data evaluation processes, we are able to identify deterioration within a valve early. This enables unnecessary outages to be minimised whilst focusing maintenance expenditure where it is needed.

2008 will see RSS grow further in terms of the service centres we operate from, the scope of the services we provide and the value we bring our customers.

IQ PRO MULTI TURN ACTUATOR
FOR LOW TEMPERATURE
OPERATION ON NATURAL
GAS PIPELINES
STANDARD 1P68 TEMPERATURE
RANGE AND EXPLOSION PROOF
ENCLOSURE

ONCE INSTALLED,
OUR PRODUCT IS
PRACTICALLY
IGNORED BY OUR
CUSTOMER.

JUST AS WE INTENDED

CHIEF EXECUTIVE'S BUSINESS REVIEW CONTINUED RESEARCH & DEVELOPMENT CONTINUAL INVESTMENT IN OUR PRODUCT PORTFOLIO IS AN IMPORTANT PART OF ROTORK'S SUCCESS.

With a significant proportion of our income derived from products introduced within the last five years, investment in our product portfolio is an important part of Rotork's success. In addition to continuous improvement of our main electric and fluid power actuator ranges, we have continued to invest in our proprietary Pakscan networking system with further development of the master station to extend its functionality and enable it to be installed outside the protected environment of the control room. Development of a mesh based wireless system has now reached a stage where the initial technical hurdles have been overcome and field trials are anticipated during 2008. This is an important development, which will enable our customers to extend their plant visibility and control systems at very reasonable cost and with minimal disruption. The continued development of, and improvement to, plant control and monitoring systems is an important part of the drive towards more energy efficient intelligent plant processes, and Rotork has established a market leadership role in valve actuator control systems.

The release of an optional module that enables the IQ series of products to be used within safety instrumented systems signalled the successful conclusion of this development. Initial market response indicates that the addition has been well received and will assist users in complying with regulatory requirements. Other IQ related research has focused on the use of alternate materials as a means of reducing costs.

Work continues on the development of a variant of the IQT product for naval applications with first shipments expected during the last quarter of 2008.

Following the extensive feasibility exercise reported last year, work commenced at the beginning of 2007 on the detailed design of a family of actuators for the process control market. This is an important area of development for Rotork. It is expected that initial sizes of this product will commence production in the second half of 2008. A marketing structure has been defined and is being built up. Test products have been giving excellent performances at a number of Beta sites and the launch of this new product line for Rotork is eagerly awaited.

The Fluid Systems division has continued to work closely with its key customers resulting in the approval of fast acting spring return actuators suitable for use within high integrity pressure protection systems ('HIPPS'). Such actuators are an essential component of the safety instrumented systems required to mitigate over pressure events.

The HIPPS approach can provide environmental benefits in the form of reduced venting to atmosphere and in some cases may eliminate the need for flaring. Other developments have included increasing the torque capability of the pipeline solutions to enable their use in severe service mining applications, where the latest autoclave valves require in excess of 5 million Nm.

Development work has also been undertaken in a combined effort between the Fluid Systems and Gears divisions to provide a sea bed solution for the hydraulic automation of subsea valves with independent manual override.

Within the Gears division a project commenced to develop a new range of manual quarter-turn gearboxes for valve operation. The aim is to increase flexibility as well as performance, making the product suitable for stocking and modification at customisation centres around the world. This project is expected to continue throughout 2008 with design and testing of a number of prototype units already well underway.

PIPELINE APPLICATION OPERATIONAL AMBIENT TO -50°C SPECIAL LUBRICATION REQUIRED

CHIEF EXECUTIVE'S BUSINESS REVIEW CONTINUED

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PIPELINE APPLICATION OPERATIONAL AMBIENT TO -50°C SPECIAL LUBRICATION REQUIRED

RELIABILITY COUNTS.

WHATEVER THE
CONDITIONS, OUR
ACTUATORS ARE
DESIGNED TO
WORK EFFECTIVELY
FOR A LIFETIME.

CHIEF EXECUTIVE'S BUSINESS REVIEW CONTINUED

STATEMENT OF PRINCIPAL RISKS & UNCERTAINTIES THE GROUP HAS AN ESTABLISHED RISK MANAGEMENT PROCESS WHICH WORKS WITHIN THE CORPORATE GOVERNANCE FRAMEWORK.

The Group has an established risk management process which works within the corporate governance framework set out in our corporate governance statement. The major risks affecting the Group are identified by senior management in association with the Board and with the support of the external auditor. This involves regular risk assessment and a process for ensuring that the Group's approach to dealing with individual risks is robust and timely. These risks are categorised by likely impact on the business and the likelihood of the event occurring. They can be seen to fall into three main risk areas:

- Risks affecting the strategic aims of the business, or those issues that affect the strategic objectives faced by the Group,
- Financial risks – issues that could affect the finances of the business both externally and from a perspective of internal controls,
- Operational risks – matters arising out of the operational activities of the Group relating to areas such as procurement, product development and interaction with commercial partners

PRINCIPAL STRATEGIC RISKS

As an international business, Rotork operates in all markets across the world mainly through a direct presence but in the smaller territories through agents. Implicit in this is the benevolent trading environment that comes with stable regimes across the globe, and disruptions to this stability regionally could affect our ability to trade effectively. It is not possible to fully mitigate this as a risk but our truly global spread of business and visibility of potential risk areas enables us to contain our exposure.

Product and control systems development which threatens our market leadership position is a significant risk. This is an important factor driving us to maintain technological leadership with our actuators and systems. We aim to give customers increasingly greater control over their applications and value for money as we enhance diagnostics, functionality and control. We also recognise the need for global manufacturing by sourcing components across the world and have created production facilities in lower cost areas which are often closer to end user markets. Our successful expansion into Asia has been as a result of recognising this. Our business model is less vertically integrated than our competitors and we are able to take strategic sourcing and build decisions quickly.

PRINCIPAL FINANCIAL RISKS

Foreign currency management is an important area for Rotork and the potential for significant movements in world markets for the currencies in which we operate present significant risks for us. There are a number of ways in which we can approach these risks. Short-term movements are addressed using forward exchange contracts to ensure that when we have contractual liabilities we can effectively mitigate and fix the exposure. This does not of itself avoid the impact of long-term trends, which are ultimately best handled through a spread of vendor programmes across the geographical areas over which we operate. This, plus the development of local production facilities, provides natural hedging where it is needed.

Internal control within the businesses is supported by a strong ethos of financial internal audit which Rotork has developed over a number of years utilising the skills of accountants from across the businesses. This methodology ensures that we have auditors who are aware of the business issues and risks involved in them. Independence is maintained by ensuring that any auditor with divisional responsibility only audits companies outside their own division.

Further financial risk areas have been identified in cash control and credit management. Both functions are centrally controlled within the Group and are monitored through the audit process for compliance, and are reported on to the Audit Committee.

While these are the principal risks, the risk assessment process goes far beyond this to identify medium grade and relatively minor risks and provide a process for their regular review aiming to give action plans to create, wherever possible, an embedded approach to the containment and management of risks in the businesses.

PRINCIPAL OPERATIONAL RISKS

Having the right people in the right place at the right time is key for a business like Rotork. We devote a lot of effort to developing our employees and giving opportunities for those who want to develop their skills and experience across our operational landscape. This approach to succession planning has enabled us to identify candidates for promotion within the businesses, ensure that the necessary training and career development programmes are open to them and to secure a good flow of potential future management as the Group develops.

In our risk assessment and review programme the issue of quality is a constant theme. Quality in design, quality in component supply, and quality in production are all under continual review. The need to maintain our deserved reputation for the highest quality standards and customer facing approach to our markets is fundamental to Rotork. Quality is a core part of the Rotork culture, and quality management programmes are embedded within all of our operating procedures. We have an active quality management function which includes regular supplier visits and audits. This process is connected to our product development programme for existing and proposed products ensuring that all areas of operational experience are fed back into the design process.

As the manufacture of our components is outsourced, the relationship and support from vendors is crucial to our business. Design of components is done recognising the manufacturing issues involved and our vendor involvement in the design and quality processes is an important part of how the product comes into production and maintains its integrity. There are a number of inherent risks in not managing these processes properly and significant effort is expended in the Group in ensuring that this is done well. The current dual sourcing programme for key components is an example of how we have responded to these matters and we have introduced this seamlessly and with the support of our suppliers.

CHIEF EXECUTIVE'S BUSINESS REVIEW CONTINUED

QUALITY AND ENVIRONMENTAL ROTORK'S ACTIVE QUALITY MANAGEMENT PROGRAMME IS CENTRED ON PROCESS CONTROL.

QUALITY

Rotork's active quality management programme is centred on process control. Throughout each product's life cycle, from initial concept to volume production, every business and production process is subject to robust scrutiny. The three key processes are product development, component procurement and final assembly.

As customer sites become more sophisticated, their plant automation requirements change. Rotork's Research & Development teams seek innovative means of offering customers the enhancements they demand. Representatives from all departments examine new designs at every stage and from every perspective, compliance with customer requirements, ease of assembly and cost optimisation.

Control of the component procurement process is crucial. Rotork purchases complex components to exacting quality standards, through global supply chains. The purchasing and Supplier Quality Assurance ('SQA')

functions are increasingly international in makeup, sourcing products in the country most appropriate for each particular commodity. A mutually supportive worldwide supply network is being established, with local purchasing and SQA teams representing the whole Group for component supply. SQA teams work closely with suppliers from product inception onwards, to ensure suppliers' processes are properly controlled, resulting in consistent and compliant parts.

The assembly process is the culmination of all the development and supplier controls. Operator training programmes, 'mistake-proof' assembly methods, clear instructions and world class performance monitoring tools combine to control the build process. These controls are well established at the main manufacturing sites and are now being rolled out to newer divisions and more recent acquisitions.

ENVIRONMENTAL

The principal manufacturing site in Bath maintains an Environment Management System ('EMS'), which is independently verified as compliant with the requirements of ISO 14001:2004. The EMS was developed to identify, manage and reduce the significant environmental aspects and ensure compliance with environmental legislation. The Bath site is now assisting subsidiaries in raising awareness of environmental issues and implementation of essential controls. During 2007, Rotork Gears in Leeds implemented an EMS in accordance with the requirements of ISO 14001.

Due to the nature of the Rotork business, one of the most significant aspects is packaging waste. To address the impact and to minimise waste to landfill, Rotork made recycling a reportable KPI in 2006. The last year has shown continual improvement. Group recycling totals increased to 57% in 2007 from 46% in 2006 and 38% in 2005.

Rotork sites that generate high levels of waste are being targeted for improvement. In the second half of 2007, Rotork Gears installed recycling systems for cardboard, wood and plastic and expect to recycle 75% of total waste generated in 2008. Work is also in progress to reduce the waste generated at the factory in Rochester N.Y., in conjunction with initiatives to increase re-use and recycling. These two sites each generate over 200 tonnes of packaging waste per annum.

Rotork remains committed to meeting the requirements for continued inclusion in the FTSE4Good Index. Rotork is very conscious of the need for improved environmental awareness and the need to minimise the Group's environmental impacts. In 2006, Rotork reported environmental KPI data for 29 subsidiaries. The 2007 environmental report will include KPI data from 33 subsidiaries.

Environmental reports can be found on the Rotork web site www.rotork.com

EH ACTUATOR
OIL PRODUCTION PLANT
ISOLATION DUTY ON RISERS
LOW POWER CONSUMPTION
REQUIRED

OUR PRODUCTS
ARE BUILT TO WORK
IN THE MOST HOSTILE
AND CHALLENGING
ENVIRONMENTS IN
THE WORLD.

FORTUNATELY, OUR PEOPLE ARE TOO

GROWTH OPPORTUNITIES ROTORK HAS LONG-TERM RELATIONSHIPS WITH ITS CUSTOMER BASE AND THIS IS A KEY FEATURE OF OUR BUSINESS MODEL.

Rotork is a collection of strong businesses organised within a divisional structure to provide the best line of support to our customers. We have pro-active management teams following common goals, allowing independent but co-ordinated product development programmes to give the best solutions to our customers' problems. We help guide customers through the technological advancements that we offer to improve their processes, enhance efficiency and reduce the environmental impact of their operations. Our products have differing technical issues to overcome in achieving the required functionality. However, through co-ordinating our collective offering to the industries that we serve, we are able to provide an homogenous integrated set of solutions that make Rotork the provider of choice for the world leaders in the oil & gas, power and water & waste water markets.

We have begun the process of refining the divisional structure and are now refocusing our efforts to maximise penetration of our markets, and to develop offerings for newer markets and those where we are not traditionally strong. This involves re-examining parts of our product portfolio and how it integrates, where and how we produce our products and importantly how we offer ongoing support to customers after the initial sale is completed. Rotork has long-term relationships with its customer base and this is a key feature of our business model. It is the trust built up within these relationships that is fundamental to the successful development of new and existing products.

We have for some time strengthened our offering to customers by enhancing the range with niche products through business acquisitions. These have then been brought into mainstream use through our product development and marketing programmes. This has been a successful strategy for Rotork and there are clear benefits in pursuing this where we are able to find quality businesses that fit Rotork's product philosophy and where we can bring added value.

Our underlying markets, oil & gas, the power industry and water & waste water, are all looking positive at the moment and we have confidence in our prospects for growth in all of these areas during the coming year and beyond. Investment in infrastructure development across the world in pipelines, new refineries, liquefied natural gas and the constant need for improvements in energy supply, water availability and the need generally to move product through valves, will continue to demand high quality valve actuators. Our drive for improvements in technology in our approach to processes and systems, makes us well placed to take advantage of these developments.

PETER FRANCE
CHIEF OPERATING OFFICER
29 FEBRUARY 2008

PAKSCAN DIGITAL CONTROL
240 ADDRESSES ON
20 KILOMETER LOOP
FAULT TOLERANT LOOP
REQUIRED WITH WEB ACCESS

OUR PEOPLE AND
PRODUCTS STAND
AT THE FOREFRONT
OF ACTUATION
TECHNOLOGY.

BOARD OF DIRECTORS

Ian (51) joined the Board in February 2005 as a non-executive director. He is an executive director of BAE Systems plc and its Chief Operating Officer UK and Rest of World. Ian has previously held senior financial and general management positions at Marconi. He is a member of the Audit, Remuneration and Nomination Committees.

Bob (56), who became a member of the Rotork plc Board in 2001, is a graduate engineer. Previously with Westinghouse in the USA, he joined Rotork Controls Inc as Engineering Manager subsequently becoming Vice President, Engineering and since 1988 President of Rotork Controls Inc. Bob has responsibility for all Rotork's interests in the Americas.

Roger (62) 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 The Colston Manufacturing (Engineering) Company Ltd and Hydro International plc and has previously held CEO roles in automotive and engineering businesses.

Bob (56) joined Rotork in 1989 as Finance Director of the Actuation Division, and was appointed to the Board of Rotork plc as Group Finance Director in 1998. He has previously held finance positions in mining, building controls and the engineering industry.

Alex (61) joined the Board as a non-executive director in January 2001. He was previously Chief Executive of Yule Catto & Co plc until 2006. He is also a non-executive director of Spirent Communications plc and Wagon plc. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

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NON-EXECUTIVE
DIRECTOR

BOB ARNOLD
PRESIDENT OF ROTORK
CONTROLS INC

ROGER LOCKWOOD
CHAIRMAN

BOB SLATER
FINANCE DIRECTOR

ALEX WALKER
NON-EXECUTIVE
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PRESIDENT OF ROTORK
CONTROLS INC

ROGER LOCKWOOD
CHAIRMAN

BOB SLATER
FINANCE DIRECTOR

ALEX WALKER
NON-EXECUTIVE
DIRECTOR

John (51) was appointed to the Board on 28 February 2008 as a non-executive director. He is Group Finance Director of Tate & Lyle plc, having previously held the same position at Kidde plc. He is a member of the Audit, Remuneration and Nomination Committees and will Chair the Audit Committee from 1 March 2008.

Graham (51) holds a PhD and 1st class honours degree in electronic engineering from Bristol University and has been with Rotork since 1985. Since joining Graham has been closely involved in product development including our award winning IQ series. He was appointed to the Actuation division operating board in 1997 as Research & Development Director and joined the Board of Rotork plc in January 2005.

Bill (59) joined Rotork in 1974 and was President of Rotork's North American operations from 1979 until he became Managing Director of Rotork Actuation in 1988. He has been a member of the Rotork plc Board since 1984 and was appointed Group Chief Executive in 1996. He is a member of the Nomination Committee. Bill is a non-executive director of Dialight plc and Spirax-Sarco Engineering plc.

Peter (39) joined Rotork in 1989. In 2007 he was appointed Chief Operating Officer of Rotork plc. Prior to that appointment Peter has had roles within Rotork as Managing Director of Rotork Fluid Systems and as Director of Rotork's Singapore company with responsibility for South East Asia and in International Sales.

John (63) has been a non-executive director of Rotork since joining the Board in November 1998. He is Chairman of Regus plc. He has previously held senior positions in banking and industrial companies. He is Chairman of the Audit Committee until 29 February 2008 and is the Senior Independent non-executive Director.

JOHN NICHOLAS
NON-EXECUTIVE
DIRECTOR

GRAHAM OGDEN
RESEARCH &
DEVELOPMENT
DIRECTOR

BILL WHITELEY
CHIEF EXECUTIVE

PETER FRANCE
CHIEF OPERATING
OFFICER

JOHN MATTHEWS
NON-EXECUTIVE
DIRECTOR

REPORT OF THE DIRECTORS

The directors submit their report and the audited accounts for the year ended 31 December 2007 as set out on pages 42 to 77

PRINCIPAL ACTIVITIES

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

The Rotork Group provides a range of products, systems and services for the motosation 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.

The Business Review of the Group is set out on pages 6 to 21. 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 future development of the business and research & development activities. To enable a full understanding of the analysis of the Group's business, financial and other key performance indicators are included in the Business Review.

In January 2008 the Group acquired Remote Control Sweden AB. Details of the transaction are provided in note 27.

The principal risks and uncertainties facing the Group and the Group's approach to mitigating those risks are set out on pages 18 to 19.

DIVIDENDS

The directors recommend a final dividend of £12,116,000 for the year, payable on 9 May 2008 to shareholders on the register on 18 April 2008. This represents 14.0p per ordinary share (2006 11.65p) which with the interim dividend of 7.7p (2006 6.5p) paid on 28 September 2007 and the additional interim dividend of 9.3p (2006 11.6p) paid on 21 June 2007 will produce a total dividend per ordinary share of 31.0p (2006 29.75p).

SHARE CAPITAL

Details of the ordinary shares issued during 2007 are given in note 16. Details of the Company's share capital including rights and obligations attaching to each class of share are set out in note 16 of the financial statements. 5p ordinary shares represent over 99.9% of the Company's total share capital. £1 preference shares represent less than 0.1% of the Company's total share capital.

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 2006 Directors' Report the Company has been notified of major interests and voting rights (held directly and/or indirectly) by the following:

	% OF VOTING RIGHTS
Axa	8.7
Legal & General	5.2
Prudential	3.3

RESEARCH & DEVELOPMENT

Total Group expenditure on research & development in the year was £3,375,000 (2006 £2,759,000). Further details of which are contained in the Business Review on pages 16 to 17.

CHARITABLE DONATIONS

During the year the Group made charitable donations of £48,000 (2006 £44,000).

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

DIRECTORS

The names of the directors in office at the year end and their biographical and other details including the other significant commitments of the Chairman are as shown on pages 24 to 25. 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 34 to 40.

On 28 February 2008 JE Nicholas was appointed as a non-executive director.

WH Whiteley, RE Slater, RH Arnold, GM Ogden and PI France have service agreements and details of these are contained in the Remuneration Report on pages 34 to 40.

The Company's procedure with regard to the appointment and replacement of directors and those powers reserved for the Board is described in the Corporate Governance Report on pages 28 to 30.

At the Annual General Meeting ('AGM'), in accordance with the Articles of Association, IG King, RE Slater and GM Ogden will retire by rotation and, being eligible, will offer themselves for re-election. JE Nicholas will also offer himself for re-election at the AGM, it being his first opportunity to do so since appointment.

FINANCIAL INSTRUMENTS

An explanation of the Group policies on the use of financial instruments and financial risk management objectives are contained in note 22 of these financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

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

Statement of Directors' Responsibilities in Respect of the Annual Report & Accounts
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 IFRS as adopted by the EU and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

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 judgements and estimates that are reasonable and prudent,
- For the Group financial statements, state whether they have been prepared in accordance with IFRS 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,
- 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 proper accounting records that 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 1985. 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, Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

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 309(A) of the Companies Act 1985.

DISCLOSURE OF INFORMATION TO AUDITORS


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

AUDITORS

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

ANNUAL GENERAL MEETING

The AGM of the Company will be held at the Company's offices at Rotork House, Brassmill Lane, Bath BA1 3JQ on Friday, 2 May 2008 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
COMPANY SECRETARY
29 FEBRUARY 2008

CORPORATE GOVERNANCE

Set out within this section is a commentary on how the Company applies the main and supporting principles of the Combined Code on Corporate Governance ('the Code'). Specific disclosures required within the provisions of the Code are also made within this section.

CODE COMPLIANCE STATEMENT

All current serving executive directors now have a one year notice period or less in their service contracts. By November 2007 JW Matthews, a non-executive director, had served 9 years on the Board. By the end of February 2008 he will resign as a member of Audit, Remuneration and Nomination Committees and as Chairman of Audit and Remuneration Committees. Following the appointment of JE Nicholas as a director in February 2008, currently there are three independent non-executives as accepted by the Code on the Board and the Board Committees. As Rotork plc is considered a large company by the Code it is recognised that for full compliance, Code provision A 3.2 currently would require further independent non-executives to be appointed so that half the Board excluding the Chairman comprise independent non-executive directors. The recent appointment of JE Nicholas is considered by the Board to be a further significant step towards full compliance in respect of the relevant Code provisions, concerning Board composition in addition to facilitating full compliance for Committee membership and composition particularly given that following the retirement of WH Whiteley in May 2008 there will then be four executive directors remaining on the Board. 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

During the year the Group has operated procedures necessary to comply with the guidance issued in the 'Turnbull Report', and reported in accordance with that guidance.

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

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

A continuous process for identifying, evaluating and managing the significant risks faced by the Group continued to be applied and developed during the year under review and operated up to the date of approval of the Annual Report & Accounts. Senior managers with responsibility across all functions participate in the risk management process that identifies and evaluates the key risks (including consideration of social and environmental risks) facing the Group's businesses. Their deliberations are reported to the Audit Committee and Board. This process is based on senior managers' detailed knowledge and understanding of key risks within and external to the business

based on formal management information and reports and their interaction and daily dealings with those reporting directly to them, their colleagues and external parties. The principal risks and uncertainties facing the Group are commented on in the Business Review section of this Annual Report & Accounts.

Internal financial audits are undertaken on a regular basis by a selected group of accountants drawn from head office and across the divisional businesses and geographic centres. All these accountants have received relevant and specific training in internal audit, best practice and control procedures, including health & safety. 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 including consideration of social and environmental risks.

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

During the year the Audit Committee

- Monitored and reviewed the effectiveness of internal audit activities,
- Reviewed and monitored external auditor independence and objectivity and the effectiveness of the audit process,
- Considered reports from management, internal and external audit on the system of internal financial control and any material control weaknesses,
- Received reports on health & safety and environmental issues,

- Discussed with management the range of actions taken on problem areas for the business identified by Board members or in the internal and external audit reports.

Additionally

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

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

THE BOARD

The Board currently has ten members comprising the Chairman, the three independent non-executive directors as accepted by the Code, JW Matthews a non-executive director, and five executive directors. The Company's Articles of Association provide that one third of the directors shall retire from office by rotation at each Annual General Meeting ('AGM'). Additionally new directors are subject to election by shareholders at the first opportunity after their appointment. 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. On appointment directors receive a suitable and tailored induction. There is a clear division of responsibility approved by the Board in writing between the

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

	BOARD MEETING	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
RH Arnold	9	–	–	–
PI France	9	–	–	–
GM Ogden	9	–	–	–
RE Slater	9	3*	–	–
WH Whiteley	9	3*	4*	5
IG King	9	3	4	5
RC Lockwood	9	3*	4*	5
JW Matthews	9	3	4	5
A Walker	9	3	4	5

* by invitation

Chairman, RC Lockwood, and the current Chief Executive, WH Whiteley, 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. JW Matthews will continue to act in the role of the Senior Independent non-executive Director until his retirement from the Board on 2 May 2008 when a replacement independent non-executive director will be appointed to that position.

Attendance at Board and committee meetings is shown above.

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 a Board meeting at its manufacturing site in Milwaukee, Wisconsin, USA.

The Chairman ensures through the Company Secretary that the Board Agenda and all relevant information is provided to the Board sufficiently in advance of meetings. The Chairman and Company Secretary discuss the Agenda ahead of every meeting. At meetings the Chairman ensures that all directors are able to make an effective contribution throughout meetings and every director is encouraged to participate and provide opinions for each Agenda item. The Chairman always seeks to achieve unanimous decisions of the Board following due discussion of Agenda items. The Schedule of Reserved Matters details those matters specifically reserved for Board decision. The types of decision which are reserved for Board decision relate to matters which cannot, or the Board considers should not, be delegated to the Chief Executive and executive management. They include approval of Group commercial strategy and succession planning, approval of Group annual operating and capital expenditure budgets and recommendations for payment of the final proposed dividend and decisions for interim dividends and dividend policy, approval of the Annual Report & Accounts and

announcements of final and interim results, ensuring sound internal control and risk management, executive director remuneration, corporate governance matters including Board and Committee performance appraisals and Board and Committee membership. The directors also have powers to issue and buy back the Company's shares conferred annually by the shareholders at the AGM. The Board regularly considers and discusses future strategy, following submissions by management, at Board meetings and, on occasion, separate strategy meetings. The non-executive directors constructively challenge and help develop proposals on strategy at those meetings. The decisions which are left to management are all those related to the successful operation and management of the Company's business and in implementing the commercial strategy within the limits set by the Board annually for overall operational budgets and capital expenditure.

The Chairman ensures that meetings of non-executives without the executives present are held. The Company maintains appropriate directors' and officers' insurance cover.

PERFORMANCE EVALUATION

A formal process for performance evaluation of the Board, its Committees and individual directors takes place annually. For 2007 the evaluation took the form of a questionnaire prepared in conjunction with external consultants covering a wide range of Board related matters. JW Matthews, the Senior Independent non-executive Director led the performance evaluation of the Chairman.

NOMINATION COMMITTEE

The Nomination Committee's five members during the year under review were RC Lockwood (who chairs the Committee), JW Matthews, A Walker, IG King and WH Whiteley.

Following the appointment of the third independent non-executive director, JE Nicholas, the Nomination Committee now comprises the 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. The Terms of Reference of the Nomination Committee can be accessed on the Company's website in the Investors' section.

A major part of the work of the Committee during the year was to identify and recommend to the Board a successor to WH Whiteley as Chief Executive. This task was duly completed following a comprehensive internal selection process conducted by and on behalf of the Nomination Committee and PI France was duly recommended by the Committee to the Board as the next Chief Executive.

AUDIT COMMITTEE

The Audit Committee was, during the year under review, comprised of the three independent non-executive directors, JW Matthews (Chairman), A Walker and IG King. JW Matthews will step down as Chairman and as a member of the Committee on 29 February 2008. JE Nicholas has now joined the Committee as the third independent non-executive director and will be its Chairman from 1 March 2008. The Committee usually meets three

CORPORATE GOVERNANCE CONTINUED

times a year to review published financial information, the effectiveness of both external and internal audit and internal financial and other controls. The Finance Director, 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.

The matter of auditor independence is considered by the Committee. The Auditor does provide non-audit services. The Audit Committee has approved a written policy for non-audit work conducted by the Auditor. Whenever a non-audit work instruction (excluding tax advice) exceeds £10,000 in fee value the Finance Director must clear the instruction in advance with the Audit Committee Chairman. If non-audit instructions in aggregate exceed £40,000 in any year then the excess must be approved on an item by item basis by the Audit Committee Chairman. For significant general consulting projects more than one service delivery provider is normally considered. Categories of non-audit work provided by the Auditor are set out in note 8. Tax advice provided by the Auditor substantially relates to compliance matters. Within the Audit Committee's Terms of Reference is a requirement for the Committee to assess the independence of the external auditor ensuring key partners are rotated at appropriate intervals and to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. This assessment was undertaken by the Committee during the year. The Terms of Reference of the Audit

Committee are available to view on the Company's website www.rotork.com in the Investors' section.

The internal audit function is undertaken by members of the Group's finance departments who all have other distinct posts. The Finance Director is also Head of Internal Audit. The work undertaken by the Committee in discharging its internal control responsibilities is described under the Internal Control section above. During the year the Committee actively reviews the actions and judgements of management in relation to the Group's financial statements, Business Review, interim reports and preliminary announcements before their submission to the Board with the Committee's recommendations for approval or otherwise. The Committee considers the appointment of the Auditor and recommends the audit fees to the Board.

The Committee discusses with the external auditor before the audit commences the nature and scope of the audit and reviews steps taken by the Auditor to respond to regulatory requirements.

REMUNERATION COMMITTEE

The work of the Remuneration Committee is described in the Remuneration Report on pages 34 to 40. The Chairman and Chief Executive were invited to and did attend all meetings but the Chief Executive was not in attendance when his own remuneration and benefits were considered.

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 analyst comments from analyst meetings and shareholder meetings after both interim and final results. The Chief Executive reports at each Board meeting upon his meetings with analysts, fund managers and shareholders. 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. For the AGM all proxy votes are counted and (except in the event of a poll being called) at the AGM the balance for and against the resolution and the number of abstentions 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.

CORPORATE SOCIAL RESPONSIBILITY

The Company has considered the guidelines on Social Responsibility published by the Association of British Insurers and 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 fully committed to the principles laid down for its inclusion in the FTSE4Good Index and the 10 Principles of the UN Global Compact of which it is a signatory.

ENVIRONMENTAL

The Group environmental policy includes commitments to the prevention of pollution, compliance with all relevant legal and other regulatory requirements and to the continuous improvement of environmental performance. The environmental policy applies to all manufacturing sites in the Group worldwide. The complete policy can be found at www.rotork.com under 'Environment'.

The Group's 2007 Environmental Report ('the Report') can be accessed in full at www.rotork.com under 'Environment'. Envolve Partnership ('Envolve') were engaged to provide an independent assessment of the Report and this assessment is included within it. Environmental performance data is included within the Report from all Rotork's major sales and service facilities around the world in addition to manufacturing sites. The Report also includes qualitative information about environmental improvement programmes, achievements and initiatives.

The Group has identified its key negative environmental impacts to include the use of energy, water and packaging and the disposal of waste. The Group is continually developing policies and procedures on these issues to minimise its impact on the environment, for example, the Leeds manufacturing site recently introduced new waste recycling systems.

Rotork considers its positive environmental impacts include its contribution to sustainable development and environmental improvement through the products and services it sells. The Group's products are used around the world to operate industrial valves in all environments, including those which are hazardous, and in many types of industries, including water purification, sewage, food processing, marine, irrigation, power generation and oil & gas.

Rotork products help reduce human error and thus potential environmental disasters, whilst saving energy and resource.

Rotork is continuing to develop and produce energy efficient products with improved performance.

Wherever possible, new products and components are marked with the appropriate EU recycling symbols or labels. Information has also been included in product handbooks about the materials the products contain and any specific advice about disposal.

ENVIRONMENTAL MANAGEMENT SYSTEM

A major milestone was reached in the development of the environment management system when the main Bath site achieved independent verification of compliance with ISO 14001:2004. Independent assessor Envolve now annually audits the system. As a result of complying with this standard waste sent to landfill from Bath is reduced substantially. This reduction is achieved by minimising waste generation and by increased recycling especially of wood and cardboard. The number of subsidiaries reporting their environmental data had increased from 29 to 33 when it was independently audited by Envolve for sustainability. Rotork will, through its Environmental Management System:

- 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, where necessary, provide 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.

Within the 2007 Environmental Report at www.rotork.com information and data can be accessed about how Rotork managed its key environmental impacts. The data includes information on gas and electricity consumption, CO₂ emissions, water consumption and waste including recycling of waste.

ETHICS AND VALUES

Rotork is a signatory to the United Nations Global Compact and its 10 Universal Principles around human rights, labour, environment, bribery and corruption. These Principles are derived from the Universal Declaration of Human Rights, which the Group supports 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.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Rotork's Ethics and Values Statement can be accessed at Rotork's website www.rotork.com under the Investors' section, sub-section 'Responsibilities and Ethics'. Additionally, at that part of the website, the Rotork 'Doing the Right Thing' document, which describes some of the benefits Rotork provides for employees and the wider community, can be accessed.

SUPPLIERS

Business integrity and fair dealing is key to the Group's relationships with suppliers and contractors. Many of the Group's suppliers have long-term relationships with the Group. 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.

EMPLOYEES

Employees in the UK and many overseas subsidiary companies enjoy participation in long standing Rotork profit sharing and share schemes.

At the Bath plant, an Employee Committee sits regularly to discuss staff issues and suggests improvements in working conditions and practices. All issues are reviewed by directors and acted on as appropriate.

An Equal Opportunities policy is applied throughout the Group and in almost all cases, it is nationals from those 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. There are two full time training officers at the Bath site who co-ordinate product training initiatives for employees and customers. Four year apprenticeship programmes underline the commitment to staff development for the long-term.

HEALTH & SAFETY

The Group actively promotes the health, safety and welfare of employees, site visitors and related parties and utilises a number of policies and procedures to ensure best practice.

During 2007 we continued to roll out our health & safety audit programme throughout the Group and completed a total of forty audits, equating to 83% of our key sites. Our increased focus has enabled more sites to be audited and audited to a more detailed level. We have seen some significant improvements being achieved particularly within the manufacturing facilities. Our focus on health & safety will continue and we expect further improvements across all facilities during 2008.

COMMUNITY INVOLVEMENT

Rotork considers it important to contribute and engage positively in the communities in which it operates and particularly where it has substantial sites with relatively large numbers of employees, for example its Bath site. Rotork's objectives include being a good community neighbour as well as a responsible corporate entity.

For many years Rotork has pursued a policy of community involvement through financial support and fostering partnership with local charitable and voluntary organisations, trusts and local support groups. A Charity Committee made up of employees at all levels considers local community charitable and similar requests at the Bath site. Projects are then followed through with visits and reports by employees and feedback to the Charity Committee. Sponsorship is also given to local youth and sporting clubs and to cultural and social events. There is also direct engagement in community issues for example, providing transport for charitable events in the area. In Bath a representative of the Company sits on a local group supporting local initiatives for cultural, social and economic development. During the year the Company became a participating member of an initiative of the Engineering Development Trust and will be sponsoring a relevant project being undertaken by pupils in the sixth form of a local Bath school studying science subjects.

Individual employees or groups of employees also engage in community activities and the Charity Committee normally matches monies raised by employees who undertake appropriate charitable events personally. During the year the Charity Committee paid the entry fee for employees participating in the Bath half marathon and matched sponsorship sums raised by employees for their selected charities.

The Charity Committee has agreed to a grant of £35,000 to the Research Institute for the Care of the Elderly to provide a Rotork room in a new research facility now built at the Royal United Hospital in Bath. Half of the award was paid in 2006 as the project progressed and the balance in 2007. The Rotork room will be one of four examination rooms that will be used on a daily basis for the Institute's research projects and memory clinics. The memory clinics provide a much valued service to people in the Bath area. Like Rotork, the Institute is committed to research as a means of progress in finding solutions to practical problems. With the aging of the population, research to improve the care of older people is of growing importance and Rotork is pleased to be involved with this initiative.

OTHER CHARITABLE ORGANISATIONS TO BENEFIT FROM ROTORK'S CHARITY COMMITTEE DURING THE YEAR INCLUDED

Dorothy House	St John Ambulance
Chernobyl Children's Lifeline	ME Research
Three Ways School	Diabetes UK
The Eve Appeal	Meningitis UK
The Harbour	Independent Living Centre
Royal United Hospital Bath CT Scanner Campaign	Children's Hospice South West
Stepping Stones	The Grand Appeal
Cancer Research UK	Royal United Hospital Chantable Fund
MS Society	St Peter's Hospice
Make-a-Wish Foundation	Bliss
Noah's Ark Preschool	WaterAid 6 Peaks Challenge
Special Care Baby Unit Bristol Maternity Hospital	Hop Skip & Jump
Friends of Peasedown St John Primary School	Little Sisters of the Poor
Bath Junior Gateway Club	Macmillan Cancer Support
Home Farm Trust	Trinity Church of England Primary PTFA
Weston Hospice	The Mayor's Christmas Party for children with special needs in Bath
Smile 4rich Appeal	Royal United Hospital Annual Patients' Handbook
Genesis Trust	Dolphin Society
Weston Day Club for the Elderly	The SPACE Trust
Teenage Cancer Trust	Christian Lewis Trust
heartLine	Bath Cats & Dogs Home
Percy Community Centre	Bath Area Play Project
Bath Institute of Mechanical Engineering	Kampala School for the Physically Handicapped

REMUNERATION REPORT

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

The Remuneration Committee ('the Committee') of the Board is currently comprised of three independent non-executive directors, A Walker, IG King and JE Nicholas. During the year under review JW Matthews chaired the Committee until December 2007 when A Walker became Chairman. The Chairman and Chief Executive are invited to attend the meetings of the Committee. The Company Secretary participates in the Committee discussions and advises the Committee. The Committee makes recommendations as required to the Board on the Company's framework of executive remuneration and its costs and determines on the Board's behalf the individual salaries and other terms and conditions of employment for the executive directors and the Chairman. The Committee determines the terms of any discretionary share schemes in which executive directors may be invited to participate. The Committee's Terms of Reference are available on the Company's website.

NAME OF EXECUTIVE DIRECTOR	DATE OF SERVICE CONTRACT	NOTICE PERIOD FROM COMPANY	NOTICE PERIOD FROM DIRECTOR	CONTRACTUAL RETIREMENT DATE
RH Arnold	28 5 2002	1 year	1 year	18 8 2016
PI France	26 6 2006	1 year	1 year	6 4 2028
GM Ogden	1 1 2005	1 year	1 year	9 1 2017
RE Slater	1 6 1998	1 year	1 year	10 4 2011
WH Whiteley	1 2 1996	1 year	6 months	25 10 2008

NAME OF NON EXECUTIVE DIRECTOR	DATE OF LETTER OF APPOINTMENT	NOTICE PERIOD FROM COMPANY	NOTICE PERIOD FROM NON EXECUTIVE DIRECTOR
IG King	14 2 2005	3 months	3 months
RC Lockwood	1 1 2006	3 months	3 months
JW Matthews	14 10 2004	3 months	3 months
JE Nicholas	28 2 2008	3 months	3 months
A Walker	6 1 2006	3 months	3 months

During the year the Committee received salary and remuneration advice from their appointed adviser, Towers Perrin, for executive directors and senior management. The Chief Executive also provides comment and recommendations on the remuneration of the other executive directors and senior managers.

For the year under review, the Board continued to consider that it was critical that the Company had remuneration policies that enabled it to retain, motivate and, when required, recruit high quality management. In recommending the level of remuneration for executive directors, the 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 using data from a number of sources including Towers Perrin's

own survey and proprietary data. The Committee considers it important that a significant proportion of executive directors' potential total remuneration is performance related. This is demonstrated by the maximum percentage of basic salary potentially payable as cash or share awards under the annual cash bonus scheme and long-term incentive plan. The Committee confirms that Towers Perrin do not have any other connection with the Company. For 2008 and subsequent years the directors' current intention is to continue with the remuneration policy referred to above.

The Company accepted WH Whiteley's request to retire on 2 May 2008 being some 6 months ahead of his contractual retirement age of 60 years. No special compensation payment becomes payable on this retirement.

RE Slater, RH Arnold, GM Ogden and PI France's service contracts are all rolling service contracts with a one year notice period. For future executive director appointments, the Board's intention will be to continue to limit service contracts to one year on a rolling basis.

The fees of the non-executive directors, other than the Chairman, are determined by a Board Committee which includes the Chief Executive and Chairman. Non executive directors are offered engagement agreements of three years duration, subject to earlier termination by either party on three months notice, with no provision for any compensation payment on termination.

None of the executive directors has any external directorships with the exception of WH Whiteley, who is a non-executive director of Dialight plc (fees for this directorship, which are £25,000 per annum, are payable to Rotork plc), Spirax-Sarco Engineering plc (fees for this directorship, which are £46,000 per annum, are payable to Mr Whiteley) and is also a director of the British Valve and Actuator Manufacturers Association Limited for which no fee is paid

The remuneration packages of each individual director currently include basic salary, an annual bonus, benefits in kind (car and fuel, or car and fuel allowance, and private medical insurance for employee only), membership of the all employee Rotork Share Incentive Plan ('SIP') or Overseas Profit-Linked Share Scheme ('OPLSS'), discretionary Rotork Long-Term Incentive Plan ('LTIP') and participation in a Rotork Group pension scheme. Further details of all elements of each individual director's remuneration package are set out elsewhere in this report. Salary and benefits including pension and car and fuel, or car and fuel allowance, constitute fixed pay

From 2004 LTIP Awards to executive directors have been 100% of basic salary being the maximum level of award under the plan rules as approved by shareholders in May 2000. Following a review by the Committee, for LTIP Awards from 2006 onwards shareholders agreed a reduction in the median vesting percentage of the LTIP to 30% of the Award value. For previous Awards the scheme pays 40% at median performance. A 100% vesting of the Award remains for performance at or above the 75th percentile with a pro-rata vesting scale down to the median. Additionally, and to bring the LTIP incentive performance period in line with market norms, shareholder approval was obtained to introduce a three year performance period for Awards granted from 2006.

The Committee has recommended and the Board approved an executive share retention policy. The policy 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 50% of their basic salary. Executives are required to make use of vesting LTIP shares to meet this minimum target.

The Committee considered that the comparator group of companies continued to be the appropriate primary measurement of performance as supported by the Association of British Insurers in its latest 'Principles and Guidelines on Remuneration' document.

In 2007 the Committee reviewed the constituents of the comparator group and brought in additional companies to bring the number back up to twenty for future grants as the number had reduced to seventeen. Certain companies were also replaced with more suitable companies where the nature of those companies' businesses had changed over time so as to no longer make them suitable comparators. The comparator groups used up to the 2006 grant and following the review described above for the 2007 grant and onwards are set out on page 38.

The Committee has given consideration to the implications of the legislative changes to pensions in the UK which came fully into effect from April 2006. The Committee has agreed to pay reasonable professional fees for the UK executive directors who will be affected by these changes to obtain individual advice. The Committee has decided, that potential alternative offers to current pension provision for executive directors affected by the legislative changes referred to above and who may request such alternative provision, would only be considered on the basis that they do not increase the benefit cost to the employer.

The Committee approved a revised annual cash bonus plan from 2005 which rewards increases in profit, when compared with the average profit over the three immediately preceding years. The plan additionally rewards high levels of free cash generation and growth in earnings per share together with the achievement of budgeted targets. For 2007 the total annual bonus payment was capped at 60% of basic salary for executive directors.

REMUNERATION REPORT CONTINUED

For 2007, for the profit element of bonus, a sum equal to 1% of basic salary will be paid as bonus for each 1% by which adjusted profit exceeds the average adjusted profit of the three prior years, save that in any year where growth in profit equals or exceeds 30% of that average profit, the profit figure to be used in respect of that year as part of any future year's average profit calculation shall be 130% of the average profit used to determine that year's bonus, i.e. the figure equivalent to achieving the profit element bonus maximum for that year. Adjustments to profit comprise exceptional items, non-recurring profits/losses and excluding interest receivable/payable. This element of bonus pays up to a maximum of 30% of salary.

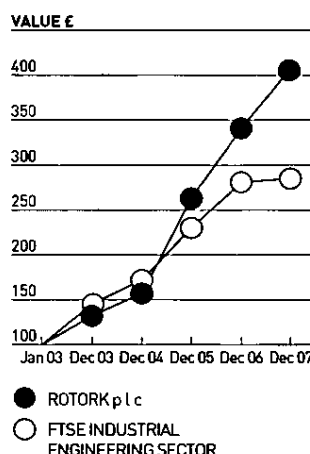
The earnings per share ('EPS') element of bonus pays 1% of basic salary for each 1% growth in basic EPS to a maximum payment of 20% of basic salary. Where EPS growth equals or exceeds 20% in a year, the EPS figure equal to 20% growth shall be termed 'the EPS maximum' and the base point for comparison of the next year's EPS bonus shall be the prior year's EPS maximum.

A further maximum 10% of basic salary is payable as bonus based on free cash generation as a percentage of earnings before interest and tax ('EBIT'). Free cash generation being net increase in cash and cash equivalents, excluding adjustments for interest or tax receipts or payments, acquisitions or disposals of businesses, cash flows from financing activities or exceptional cash payments. These cash adjustments, where relevant, are disclosed in the Consolidated Statement of Cash Flows at page 44. The maximum 10% bonus is achieved where free cash generation equals 110% of EBIT.

Up to a maximum 10% of basic salary will be payable on achievement of Group budget EBIT. This reduces by 1% for each 1% less than budget EBIT is achieved down to 90% of budget EBIT from when there is a nil payment.

TOTAL SHAREHOLDER RETURN

This graph shows the value, by 31 December 2007, of £100 invested in Rotork plc on 1 January 2003 compared with the value of £100 invested in the FTSE Industrial Engineering Sector Index. The other points plotted are the 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 total shareholder return ('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 2007.

INTERESTS IN SHARES

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

All interests were beneficial and include directors' directly held and family share interests and in total represent less than 1% (2006: less than 1%) of voting shares of the Company.

INTERESTS IN SHARES

	2007 NUMBER	2006 NUMBER
RH Arnold	17,460	16,361
PI France	13,134	6,736
GM Ogden	16,613	16,261
RE Slater	42,575	36,720
WH Whiteley	119,356	119,004
IG King	-	-
RC Lockwood	-	-
JW Matthews	10,600	10,600
A Walker	5,000	5,000

The Auditor is required to report on the information contained in the following sections of this report

DIRECTORS' EMOLUMENTS (£000)

	SALARY AND FEES	BONUS	BENEFITS*	2007* TOTAL	2006 TOTAL
Executive directors					
RH Arnold ¹	149	89	16	254	245
PI France ²	150	90	16	256	96
GM Ogden	150	90	16	256	229
RE Slater	190	114	16	320	288
WH Whiteley	310	186	16	512	453
Non-executive directors					
IG King	27	–	–	27	27
RC Lockwood	75	–	–	75	60
JW Matthews	33	–	–	33	33
A Walker	27	–	–	27	27
	1,111	569	80	1,760	1,458

¹ RH Arnold is paid in US dollars

² PI France was promoted to Chief Operating Officer, Rotork plc, during the year and part of his salary relates to this position and the remainder to his previous position as Managing Director of Rotork Fluid Systems Division

* These columns include the cash value on allocation of SIP and OPLSS share Awards as appropriate. For further details see pages 38 and 39

ROTORK LONG-TERM INCENTIVE PLANS ('LTIP')

	OUTSTANDING SHARE OR CASH UNIT AWARDS MADE TO 1 JANUARY 2007	SHARE OR CASH UNIT AWARDS MADE DURING 2007 ¹	SHARE OR CASH UNIT AWARDS VESTING IN 2007 ²	LAPSED IN 2007	OUTSTANDING SHARE OR CASH UNIT AWARDS AT 31 DECEMBER 2007
RH Arnold ³	109,189	19,756	26,477	–	102,468
PI France	49,019	17,925	10,263	–	56,681
GM Ogden	72,338	19,206	10,657	–	80,887
RE Slater	124,240	24,327	26,315	–	122,252
WH Whiteley	195,739	39,692	40,601	–	194,830

¹ The market price of shares in the Company at the date of Award was £8.05

² The 2003 LTIP Award vested 100%. The market price at the vesting date was £8.05

³ RH Arnold, a United States citizen and resident, is awarded cash units of a monetary value equivalent to share Awards under the LTIP

ROTORK LONG-TERM INCENTIVE PLANS ('LTIP')

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 every year from 2000. Those LTIP Awards still outstanding at the time of publication of this report made to executive directors are set out on the left.

The LTIP is a performance, share or cash unit plan under which shares or cash units are conditionally allocated to selected members of senior management at the discretion of the Committee on an annual basis. No shares or cash units will normally be released to participants unless they are still in the Group's service following completion of the relevant full performance period and the Company's relative 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 up to and including the year 2005 will be 40% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.4% to the vesting

REMUNERATION REPORT CONTINUED

percentage. From 2006 grants the relevant vesting percentages are 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 EPS is also monitored during the relevant performance period to ensure it meets a minimum average annual growth equal to the rise in the Retail Price Index ('RPI') plus 2% per annum. Failure to meet this RPI plus 2% per annum requirement will result in nil vesting. The relative TSR against a comparator group performance measure was chosen as it enabled the Committee to select a comparator group considered to be sufficiently challenging given the historic performance of the Company.

The comparator companies used for the LTIP up to and including grants in 2006 were:

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

For the 2007 LTIP grant the comparator companies used were:

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

SHARE AWARDS TO EXECUTIVE DIRECTORS

	AWARDS IN		TOTAL AWARDS HELD	
	2007	2006	2007	2006
RH Arnold	939	894	1,924	1,909
PI France	352	426	2,955	2,603
GM Ogden	352	426	3,135	2,783
RE Slater	352	426	3,297	4,207
WH Whiteley	352	426	3,297	3,729

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 salary subject, for the SIP, to HMRC limits.

The beneficial interests at 31 December included ordinary shares held under the SIP and the OPLSS in trust as shown in the table above.

Details of total free share Awards under the SIP and OPLSS and Awards made to executive directors in 2007 and the prior year are set out above.

Free shares awarded to all four UK executive directors under the SIP are subject to the HMRC upper limit of £3,000 by value.

Additionally Mr Slater and Mr Whiteley have purchased 'partnership' shares under the SIP. Their current SIP partnership total holdings are 1,424 ordinary shares and 784 ordinary shares respectively.

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

UK based executive directors, in common with other eligible UK employees, have the opportunity to invest in the Rotork Sharesave Scheme. RE Slater, GM Ogden and PI France participate in the Scheme. Mr Slater was granted 5,170 share options on 8 October 2004 at an option price of £3.196 under the Scheme, Mr Ogden was granted 2,964 share options on that date at the same option price. Mr France was granted 3,484 share options on 5 October 2005 at an option price of £4.62. These options are exercisable five years from grant for Mr Slater and Mr France and three

years from grant for Mr Ogden. The exercise period is 6 months duration after which the options lapse. Post year end GM Ogden exercised his rights to the above mentioned share options. On 1 December 2007 GM Ogden was granted 2,071 share options under the Rotork Sharesave Scheme at an option price of £8.11. These options are exercisable 5 years from grant.

Mr Whiteley sold 41,360 5p ordinary shares of Rotork plc which were removed from the register on 2 January 2008. The only other changes in the directors' interests post year end relate to shares purchased by the UK based directors monthly under the Rotork SIP partnership plan to a maximum £125 per month.

Save as disclosed, no director or his family had any interest in the shares of the Company at 31 December 2007.

**PENSION DISCLOSURES
REQUIRED UNDER THE LISTING
RULES OF THE UK LISTING
AUTHORITY**

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

	AGE AT 31 DECEMBER 2007	INCREASE IN ACCRUED PENSION OVER THE YEAR (NOTE 1) £	ACCUMULATED ACCRUED PENSION AT 31 DECEMBER 2007 (NOTE 2) £
RH Arnold	56	3,789	63,298
PI France	39	(542)	31,848
GM Ogden	50	9,551	55,887
RE Slater	56	8,564	101,719
WH Whiteley	59	3,912	193,973

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 2007.
- 3 A lump sum death benefit of 4 times basic annual salary is payable on death in service.
- 4 A dependant's pension of 50% of prospective pension is payable on death in service, and of 50% 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 WH Whiteley was entitled to an immediate pension from age 55 of two-thirds of his final pensionable salary. He has now passed age 55 and on his eventual retirement his pension will be uplifted to reflect its later commencement date.
- 7 PI France became a Category 3 member in the Scheme on 23 February 2007. As a result his Normal Retirement Age for all benefits was changed from 65 to 60. PI France's benefits include a fixed pension in respect of a transfer in. This pension has been reduced from £8,539 to £5,123 to reflect earlier payment from age 60.
- 8 PI France's Pensionable Salary used to calculate benefits in the defined benefit scheme is restricted to a Scheme specific earnings cap which is currently £112,800. In addition PI France will receive a cash payment of 22.5% of salary above the earnings cap.
- 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.

REMUNERATION REPORT CONTINUED

PENSION DISCLOSURES REQUIRED UNDER THE DIRECTORS' REMUNERATION REPORT REGULATIONS 2002

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

	INCREASE IN ACCRUED PENSION DURING THE YEAR (NOTE 1) £	TRANSFER VALUE OF ACCRUED PENSION AT 31 DECEMBER 2006 £000	ACCRUED PENSION AT 31 DECEMBER 2007 £000	INCREASE IN TRANSFER VALUE OVER THE YEAR £000
RH Arnold	6,242	754	825	71
PI France	792	444	630	186
GM Ogden	11,461	1,049	1,366	317
RE Slater	12,404	2,243	2,617	374
WH Whiteley	11,747	5,206	5,381	175

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 Institute of Actuaries and the Faculty of Actuaries. The increases in transfer values over the year are net of directors' contributions (if any)
- 3 The transfer value of accrued pension for RH Arnold reflects the benefits provided by the US schemes together with a US valuation of these benefits and is therefore not directly comparable with the transfer values for directors in the UK scheme

ALEX WALKER
CHAIRMAN
REMUNERATION COMMITTEE
29 FEBRUARY 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROTORK P.L.C.

We have audited the Group and parent company financial statements (the 'financial statements') of Rotork plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and for preparing the parent company financial statements and the Remuneration Report in accordance with applicable law and UK Accounting Standards (United Kingdom Generally

Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Principal activities section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether

the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by

fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007,
- the parent company financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit UK
KPMG AUDIT PLC
 CHARTERED ACCOUNTANTS
 REGISTERED AUDITOR
 BRISTOL
 29 FEBRUARY 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 £000	2006 £000
Revenue	2	235,688	206,709
Cost of sales		(127,748)	(115,603)
Gross profit		107,940	91,106
Other income	4	227	98
Distribution costs		(2,954)	(2,287)
Administrative expenses		(49,811)	(43,735)
Other expenses	5	(15)	(93)
Operating profit	2	55,387	45,089
Financial income	7	6,607	5,568
Financial expenses	7	(4,741)	(4,596)
Profit before tax	8	57,253	46,061
Income tax expense	9	(17,957)	(14,728)
Profit for the year		39,296	31,333
		PENCE	PENCE
Basic earnings per share	17	45 6	36 4
Diluted earnings per share	17	45 2	36 1

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 £000	2006 £000
Foreign exchange translation differences	3,855	(3,748)
Actuarial (loss) / gain in pension scheme	(4,883)	6,743
Movement on deferred tax relating to actuarial loss / (gain)	1,241	(2,023)
Effective portion of changes in fair value of cash flow hedges	(254)	(80)
Income and expenses recognised directly in equity	(41)	892
Profit for the year	39,296	31,333
Total recognised income for the year	39,255	32,225

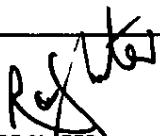
CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	NOTES	2007 £000	2006 £000
Assets			
Property, plant and equipment	10	17,549	16,616
Intangible assets	11	23,141	22,225
Deferred tax assets	12	6,614	5,739
Other receivables	14	850	735
Total non-current assets		48,154	45,315
Inventories	13	35,993	29,027
Trade receivables	14	44,262	37,385
Current tax	14	1,330	1,219
Other receivables	14	4,745	4,104
Cash and cash equivalents	15	38,253	28,460
Total current assets		124,583	100,195
Total assets		172,737	145,510
Equity			
Issued equity capital		4,323	4,314
Share premium		6,519	5,857
Reserves		2,180	(1,421)
Retained earnings		89,430	80,386
Total equity	16	102,452	89,136
Liabilities			
Interest bearing loans and borrowings	18	209	180
Employee benefits	19	11,047	8,186
Deferred tax liabilities	12	906	1,225
Provisions	20	1,157	941
Total non-current liabilities		13,319	10,532
Bank overdraft	15	—	62
Interest bearing loans and borrowings	18	118	526
Trade payables	21	21,567	16,835
Employee benefits	19	4,890	3,941
Current tax	21	8,791	6,236
Other payables	21	19,138	15,923
Provisions	20	2,462	2,319
Total current liabilities		56,966	45,842
Total liabilities		70,285	56,374
Total equity and liabilities		172,737	145,510

These financial statements were approved by the Board of Directors on 29 February 2008 and were signed on its behalf by


WH WHITELEY
 DIRECTOR


RE SLATER
 DIRECTOR

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 £000	2007 £000	2006 £000	2006 £000
Cash flows from operating activities					
Profit for the year		39,296		31,333	
Adjustments for					
Amortisation of intangibles		74		98	
Amortisation of development costs		309		259	
Depreciation		2,630		2,554	
Equity settled share based payment expense		680		496	
Profit on sale of property, plant and equipment		(159)		(33)	
Financial income		(6,607)		(5,568)	
Financial expenses		4,741		4,596	
Income tax expense		17,957		14,728	
		58,921		48,463	
Increase in inventories		(5,580)		(3,610)	
Increase in trade and other receivables		(4,873)		(3,786)	
Increase in trade and other payables		7,001		6,691	
Difference between pension charge and cash contribution		(2,938)		(6,801)	
Increase in provisions		713		731	
Increase in other employee benefits		2,875		776	
		56,119		42,464	
Income taxes paid		(15,071)		(11,247)	
Cash flows from operating activities			41,048		31,217
Investing activities					
Purchase of property, plant and equipment		(2,762)		(2,425)	
Development costs capitalised		(687)		(372)	
Sale of property, plant and equipment		228		116	
Acquisition of subsidiary net of cash acquired		(8)		(1,589)	
Interest received		932		876	
Cash flows from investing activities			(2,297)		(3,394)
Financing activities					
Issue of ordinary share capital		671		252	
Purchase of ordinary share capital		(4,249)		(2,047)	
Purchase of preference shares treated as debt		–		(4)	
Interest paid		(112)		(147)	
Repayment of amounts borrowed		(456)		(467)	
Repayment of finance lease liabilities		(95)		(212)	
Dividends paid on ordinary shares		(24,732)		(24,140)	
Cash flows from financing activities			(28,973)		(26,765)
Net increase in cash and cash equivalents			9,778		1,058
Cash and cash equivalents at 1 January			28,398		27,180
Effect of exchange rate fluctuations on cash held			77		160
Cash and cash equivalents at 31 December	15		38,253		28,398

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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

Rotork plc is a Company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the 'Group'). The accounting policies contained below in note 1 and the disclosure in notes 2 to 27 all relate to the Group statements. The Company balance sheet can be found following note 27. 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

BASIS OF PREPARATION

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs').

IFRS 8 – Operating Segments, IFRIC 9 – Reassessment of Embedded Derivatives, IFRIC 10 – Interim Reporting and Impairment, IFRIC 11 – IFRS 2 Group and Treasury Share Transactions, IFRIC 12 – Service concession arrangements, IFRIC 13 – Customer loyalty programmes and IFRIC 14 – Recognition of a Defined Benefit Pension Scheme Surplus, together with the amendments to IAS 23, IAS 27, IFRS 2 and IFRS 3 which are adopted by the European Union but not effective as at 31 December 2007 will be applied in 2008, 2009 or 2010 as applicable. They are not expected to have a material effect on the reported results or financial position of the Group.

BASIS OF ACCOUNTING

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. The accounting policies set out below have been consistently applied by the Group in preparing the 2006 and 2007 financial information within its consolidated financial statements except for the first time application of IFRS 7 – Financial Instruments disclosures, the complementary amendment to IAS 1 – Presentation and Financial Statements and IFRIC 8 – Scope of IFRS 2. They have not had a material effect on the reported results or financial position of the Group for 2007 or 2006. The accounting policies have been applied consistently in respect of Group entities.

CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2007. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

FOREIGN CURRENCIES

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

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

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

REVENUE

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

1 Accounting policies (continued)

INTANGIBLE ASSETS

i) Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries. In respect of acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Negative goodwill arising on acquisitions would be recognised directly in the income statement.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP on transition. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

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

ii) Research & 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 5 years and is written off on a straight-line basis.

iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. The useful life of each of these assets is assessed 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 1 year for order back log 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.

PROPERTY, PLANT AND EQUIPMENT

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

Freehold buildings	2% to 4%
Short leasehold buildings	period of lease
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.

1 Accounting policies (continued)**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.

EMPLOYEE BENEFITS**i) Pension plans**

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

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

ii) Share-based payment transactions

The Rotork Share Option Scheme allows certain employees to acquire shares in Rotork plc. This scheme is now closed and the last grant of new options took place in 2004. Details of the scheme are given in note 19. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Rotork Sharesave Plan, introduced in 2004, offers certain employees the opportunity to purchase shares in Rotork plc at a discounted price compared with the market price at the time of grant. Details of the scheme are given in note 19. The fair value of the right/option is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant and maturity. The right/option reaches maturity when the employee becomes unconditionally entitled. The fair value of the grant is measured using a Black-Scholes model, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

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

All grants under these schemes made after 7 November 2002 have been accounted for under IFRS 2. Those made before this date are accounted for under UK GAAP and any accruals in respect of these schemes are held in employee benefits.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

1 Accounting policies (continued)

EMPLOYEE BENEFITS (CONTINUED)

iii) Long-term service leave

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

iv) Other employee incentive schemes

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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.

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 JUDGEMENTS

In the process of applying the Group's accounting policies the Board has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

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 19.

2 Analysis of revenue, profit and net assets

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

BUSINESS SEGMENTS

The Group comprises the following business segments:

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

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

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

GEOGRAPHIC SEGMENTS

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

ANALYSIS BY OPERATION

	CONTROLS 2007	FLUID SYSTEMS 2007	GEARS 2007	ELIMINATIONS 2007	CONSOLIDATED 2007
Revenue from external customers	164,226	47,919	23,543	–	235,688
Inter segment revenue	–	–	8,347	(8,347)	–
Total revenue	164,226	47,919	31,890	(8,347)	235,688
Segment result	43,536	7,164	7,259	–	57,959
Unallocated expenses					(2,572)
Operating profit					55,387
Net financing income					1,866
Income tax expense					(17,957)
Profit for the year					39,296

	CONTROLS 2006	FLUID SYSTEMS 2006	GEARS 2006	ELIMINATIONS 2006	CONSOLIDATED 2006
Revenue from external customers	147,795	40,504	18,410	–	206,709
Inter segment revenue	–	–	5,872	(5,872)	–
Total revenue	147,795	40,504	24,282	(5,872)	206,709
Segment result	37,024	5,374	4,638	–	47,036
Unallocated expenses					(1,947)
Operating profit					45,089
Net financing income					972
Income tax expense					(14,728)
Profit for the year					31,333

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

2 Analysis of revenue, profit and net assets (continued)

	CONTROLS 2007	FLUID SYSTEMS 2007	GEARS 2007	UNALLOCATED 2007	CONSOLIDATED 2007
Segment assets	72,937	37,420	16,183	46,197	172,737
Segment liabilities	40,728	14,002	5,322	10,233	70,285
Depreciation	1,839	553	238	—	2,630
Amortisation	309	27	47	—	383
Non-cash items equity settled share based payments	378	45	25	232	680
Capital expenditure	2,052	689	253	—	2,994

	CONTROLS 2006	FLUID SYSTEMS 2006	GEARS 2006	UNALLOCATED 2006	CONSOLIDATED 2006
Segment assets	67,969	29,796	12,325	35,420	145,510
Segment liabilities	34,557	9,442	4,146	8,229	56,374
Depreciation	1,776	536	242	—	2,554
Amortisation	259	27	71	—	357
Non-cash items equity settled share based payments	366	58	16	56	496
Capital expenditure	1,949	496	161	—	2,606

ANALYSIS BY GEOGRAPHICAL SEGMENT

	EUROPE 2007	AMERICAS 2007	REST OF THE WORLD 2007	UNALLOCATED 2007	CONSOLIDATED 2007
Revenue from external customers by location of customer	110,679	56,298	68,711	—	235,688
Segment assets by location of assets	86,538	22,307	17,695	46,197	172,737
Capital expenditure by location of assets	2,197	275	522	—	2,994

	EUROPE 2006	AMERICAS 2006	REST OF THE WORLD 2006	UNALLOCATED 2006	CONSOLIDATED 2006
Revenue from external customers by location of customer	89,992	58,398	58,319	—	206,709
Segment assets by location of assets	72,810	21,849	15,431	35,420	145,510
Capital expenditure by location of assets	1,500	268	838	—	2,606

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

3 Acquisition of subsidiaries

On 13 January 2006 Rotork Italia Srl acquired all of the business and assets of Omag Snc when it acquired a newly set up company for up to £1,061,000. £924,000 was paid on completion and a further £137,000 was paid during 2006. The company manufactures and sells heavy duty quarter-turn and multi-turn gearboxes. The acquisition was accounted for using the purchase method of consolidation. In the 11 months to 31 December 2006 the subsidiary contributed £2,439,000 to Group revenue and £320,000 to the consolidated net profit for the year before the £71,000 amortisation of intangible charge. Goodwill has arisen on this acquisition as a result of the value attributed to staff expertise and the assembled workforce which did not meet the recognition criteria for an intangible asset and post acquisition synergies within the Gears division. Due to a lack of reliable information for the part month prior to acquiring the assets, full year proforma financial results are not given in these financial statements although they would not be expected to differ significantly from the results post acquisition.

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	101	–	101
Intangible assets	–	258	258
Inventories	284	–	284
Trade and other receivables	1,045	–	1,045
Trade and other payables	(668)	–	(668)
Provisions	(102)	–	(102)
Borrowings	(464)	–	(464)
	196	258	454
Goodwill on acquisition			671
Consideration paid, satisfied in cash (including £64,000 expenses)			1,125

4 Other income

	2007	2006
Gain on disposal of property, plant and equipment	171	41
Non-executive fees receivable	25	25
Other	31	32
	227	98

5 Other expenses

	2007	2006
Loss on disposal of property, plant and equipment	12	8
Other	3	85
	15	93

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

6 Personnel expenses

	2007	2006
Wages and salaries (including bonus and incentive plans)	43,473	37,174
Social security costs	4,426	4,022
Pension costs – for defined benefit plans	1,728	2,117
Pension costs – for defined contribution plans	1,030	1,135
Share based payments (note 19)	2,054	1,535
Increase in liability for long service leave	30	12
	52,741	45,995

A total of £680,000 (2006 £439,000) of the above share based payments are equity settled, comprising £22,000 (2006 £51,000) for the share option scheme, £80,000 (2006 £56,000) for the Sharesave plan and £578,000 (2006 £332,000) for the Long-term incentive plan. The cash settled portion £1,374,000 (2006 £1,096,000) all related to the Long-term incentive plan.

	2007 NUMBER	2006 NUMBER
During the year, the average weekly number of employees, analysed by business segment, was		
Controls	983	920
Fluid Systems	267	243
Gears	165	140
	1,415	1,303
UK	447	417
Overseas	968	886
	1,415	1,303

7 Net financing income

	2007	2006
Recognised in the income statement		
Interest income	958	982
Expected return on assets in the pension schemes	5,574	4,518
Foreign exchange gains	75	68
	6,607	5,568
Interest expense	112	121
Interest charge on pension scheme liabilities	4,541	4,309
Foreign exchange losses	88	166
	4,741	4,596
Recognised in equity		
Effective portion of changes in fair value of cash flow hedges	(544)	(290)
Fair value of cash flow hedges transferred to profit or loss	290	210
Foreign currency translation differences for foreign operations	3,855	(3,748)
	3,601	(3,828)
Recognised in		
Hedging reserve	(254)	(80)
Translation reserve	3,855	(3,748)
	3,601	(3,828)

8 Profit before tax

	NOTES	2007	2006
Profit before tax is stated after charging the following			
Depreciation of property, plant and equipment			
owned assets	i	2,534	2,445
assets held under finance lease contracts	j	96	109
Amortisation of intangibles	k	383	357
Inventory write downs recognised in the year	l	875	1 115
Hire of plant and machinery	m	677	584
Other operating lease rentals	n	664	669
Research & development expenditure	o	2,997	2 646
Exchange differences realised	p	13	98
Auditors – audit fees and expenses paid to	q		
KPMG in respect of Company reporting		69	53
KPMG in respect of Group reporting of subsidiaries		170	149
KPMG in respect of local statutory reporting of subsidiaries		40	43
Other auditors		73	64
Total audit fees and expenses		352	309
Other fees paid to KPMG Audit Plc and its associates analysed between			
taxation		134	105
litigation support/advice		–	–
pension scheme fees		–	–
other		5	2
		139	107

In addition to the above, the Rotork Pension & Life Assurance Scheme paid KPMG LLP £32,000 (2006 £20,000) 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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

9 Income tax expense

	2007	2007	2006	2006
Current tax				
UK Corporation tax on profits for the year	12,670		10,486	
Double tax relief	(5,122)		(6,023)	
Adjustment in respect of prior years	(187)		(182)	
		7,361		4,281
Overseas tax on profits for the year	10,487		8,787	
Adjustment in respect of prior years	(24)		41	
		10,463		8,828
Total current tax		17,824		13,109
Deferred tax				
Origination and reversal of other temporary differences	115		1,585	
Adjustment in respect of prior years	18		34	
Total deferred tax		133		1,619
Total tax charge for year		17,957		14,728
Effective tax rate (based on profit before tax)		31.4%		32.0%
Profit before tax		57,253		46,061
Profit before tax multiplied by standard rate of corporation tax in the UK of 30%		17,176		13,818
Effects of				
Non deductible expenses		349		267
Unrelieved losses		-		(45)
Higher tax rates on overseas earnings		625		795
Adjustments to tax charge in respect of prior years		(193)		(107)
Total tax charge for year		17,957		14,728

A tax credit of £577,000 (2006: £551,000) in respect of share based payments has been recognised directly in equity in the year.

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

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

10 Property, plant and equipment

	LAND AND BUILDINGS 2007	PLANT AND EQUIPMENT 2007	TOTAL 2007	LAND AND BUILDINGS 2006	PLANT AND EQUIPMENT 2006	TOTAL 2006
Cost						
At 1 January	15,003	21,424	36,427	15,495	20,367	35,862
Exchange differences	599	676	1,275	(507)	(745)	(1,252)
Additions	37	2,957	2,994	15	2,501	2,516
Disposals	–	(979)	(979)	–	(800)	(800)
Acquisition through business combinations	–	–	–	–	101	101
At 31 December	15,639	24,078	39,717	15,003	21,424	36,427
Depreciation						
At 1 January	4,152	15,659	19,811	3,803	14,845	18,648
Exchange differences	118	519	637	(95)	(577)	(672)
Charge for year	432	2,198	2,630	444	2,110	2,554
Disposals	–	(910)	(910)	–	(719)	(719)
At 31 December	4,702	17,466	22,168	4,152	15,659	19,811
Net book value at 31 December	10,937	6,612	17,549	10,851	5,765	16,616

Net book value at 31 December 2005	11,692	5,522	17,214
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The net book value of the Group's plant and equipment includes £255,000 (2006 £198,000) in respect of assets held under finance leases

Net book value of land and buildings can be analysed between

	2007	2006
Land	1,509	1,441
Buildings	9,428	9,410
Net book value at 31 December	10,937	10,851

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

11 Intangible assets

	GOODWILL 2007	DEVELOPMENT COSTS 2007	ACQUIRED INTANGIBLES 2007	TOTAL 2007	GOODWILL 2006	DEVELOPMENT COSTS 2006	ACQUIRED INTANGIBLES 2006	TOTAL 2006
Cost								
Balance at 1 January	20,947	2,375	737	24,059	21,016	2,003	506	23,525
Exchange differences	901	-	68	969	(740)	-	(27)	(767)
Internally developed during the year	-	687	-	687	-	372	-	372
Reduction in deferred consideration	(321)	-	-	(321)	-	-	-	-
Acquisition through business combinations	-	-	-	-	671	-	258	929
Balance at 31 December	21,527	3,062	805	25,394	20,947	2,375	737	24,059
Amortisation								
Balance at 1 January	-	1,492	342	1,834	-	1,233	254	1,487
Exchange differences	-	-	36	36	-	-	(10)	(10)
Amortisation for the year	-	309	74	383	-	259	98	357
Balance at 31 December	-	1,801	452	2,253	-	1,492	342	1,834
Net book value at 31 December	21,527	1,261	353	23,141	20,947	883	395	22,225
Net book value at 31 December 2005					21,016	770	252	22,038

The amortisation charge in both years is recognised within administrative expenses in the income statement. Acquired intangibles include customer relationships, order books, 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.

	2007	2006
Controls	5,839	5,717
Fluid Systems	8,513	8,102
Gears	7,175	7,128
	21,527	20,947

The recoverable amounts of all CGUs are based on value in use calculations. These calculations use cash flow projections and are based on actual operating results and the latest Group three year plan. The three year plan is based on management's view of the future and experience of past performance. Cash flows for the remainder of the next twenty years are extrapolated using a 2% growth rate which reflects the long-term nature of many of the markets the Group serves. This rate has been consistently bettered in the past so is believed to represent a prudent estimate. A pre-tax discount rate of 9%, being the Group's weighted average cost of capital, has been used in discounting the projected cash flows. On this basis no impairment write downs are required.

12 Recognised deferred tax assets and liabilities

	ASSETS 2007	LIABILITIES 2007	NET 2007	ASSETS 2006	LIABILITIES 2006	NET 2006
Property, plant and equipment	170	(300)	(130)	206	(472)	(266)
Intangible assets	-	-	-	-	(265)	(265)
Employee benefits	4,794	-	4,794	4,200	-	4,200
Provisions	1,226	-	1,226	1,103	-	1,103
Other items	916	(1,098)	(182)	492	(750)	(258)
Net tax assets/(liabilities)	7,106	(1,398)	5,708	6,001	(1,487)	4,514
Set off of tax	(492)	492	-	(262)	262	-
	6,614	(906)	5,708	5,739	(1,225)	4,514

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

	2007	2006
Balance at 1 January	4,514	7,951
Charged to the income statement	(133)	(1,619)
Credited/(charged) to equity in the statement of recognised income and expense	1,241	(2,023)
Credited directly to equity in respect of share based payments	111	285
Exchange differences	(25)	(80)
Balance at 31 December	5,708	4,514

A deferred tax asset of £6,614,000 (2006 £5,739,000) has been recognised at 31 December 2007. This asset principally relates to other temporary differences in the defined benefit pension schemes. 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 the asset will be recovered.

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

	2007	2006
Tax losses	2,254	2,915
Tax credits	494	326
	2,748	3,241

A deferred tax asset of £2,748,000 (2006 £3,241,000) 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

	2007	2006
Raw materials and consumables	20,419	16,815
Work in progress	10,521	8,366
Finished goods	5,053	3,846
	35,993	29,027

Included in cost of sales was £97,055,000 (2006 £84,713,000) in respect of inventories consumed in the year.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

14 Trade and other receivables

	2007	2006
Non-current assets		
Insurance policy	754	632
Other	96	103
Other receivables	850	735
Current assets		
Trade receivables	44,870	37,933
Less provision for impairment of receivables	(608)	(548)
Trade receivables – net	44,262	37,385
Corporation tax	1,330	1,219
Current tax	1,330	1,219
Other non-trade receivables	3,306	2,738
Prepayments and accrued income	1,439	1,366
Other receivables	4,745	4,104

15 Cash and cash equivalents

	2007	2006
Bank balances	14,125	7,986
Cash in hand	70	39
Short-term deposits	24,058	20,435
Cash and cash equivalents	38,253	28,460
Bank overdrafts	–	(62)
Cash and cash equivalents in the consolidated statement of cash flows	38,253	28,398

16 Capital and reserves

	ISSUED EQUITY CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	CAPITAL REDEMPTION RESERVE	HEDGING RESERVE	RETAINED EARNINGS	TOTAL
Balance at 31 December 2005	4,310	5,609	978	1,637	(210)	68,241	80,565
Profit for the year	–	–	–	–	–	31,333	31,333
Other items in the statement of recognised income and expense	–	–	(3,748)	–	(80)	4,720	892
Equity settled transactions net of tax	–	–	–	–	–	915	915
Share options exercised by employees	4	248	–	–	–	–	252
Own ordinary shares acquired	–	–	–	–	–	(2,047)	(2,047)
Own ordinary shares awarded under share schemes	–	–	–	–	–	1,368	1,368
Purchase of preference shares	–	–	–	2	–	(4)	(2)
Dividends	–	–	–	–	–	(24,140)	(24,140)
Balance at 31 December 2006	4,314	5,857	(2,770)	1,639	(290)	80,386	89,136
Profit for the year	–	–	–	–	–	39,296	39,296
Other items in the statement of recognised income and expense	–	–	3,855	–	(254)	(3,642)	(41)
Equity settled transactions net of tax	–	–	–	–	–	364	364
Share options exercised by employees	9	662	–	–	–	–	671
Own ordinary shares acquired	–	–	–	–	–	(4,249)	(4,249)
Own ordinary shares awarded under share schemes	–	–	–	–	–	2,007	2,007
Dividends	–	–	–	–	–	(24,732)	(24,732)
Balance at 31 December 2007	4,323	6,519	1,085	1,639	(544)	89,430	102,452

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

	5P ORDINARY SHARES AUTHORISED 2007	5P ORDINARY SHARES ISSUED AND FULLY PAID UP 2007	£1 NON- REDEEMABLE PREFERENCE SHARES 2007	5P ORDINARY SHARES AUTHORISED 2006	5P ORDINARY SHARES ISSUED AND FULLY PAID UP 2006	£1 NON- REDEEMABLE PREFERENCE SHARES 2006
At 1 January	5,449	4,314	45	5,449	4,310	47
Purchased for cash and cancelled	–	–	–	–	–	(2)
Issued under employee share schemes	–	9	–	–	4	–
At 31 December	5,449	4,323	45	5,449	4,314	45
Number of shares (000)	108,990	86,469		108,990	86,282	

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

Ordinary shares issued during the year were 142,173 (2006: 88,261) under the Share option scheme, at prices between 285p and 387p (2006: 278p and 298p) and 44,905 (2006: 1,465) under the Sharesave plan at 320p (2006: 320p). No new shares were issued under the Share Incentive Plan or under the Overseas Profit Linked Share Scheme during 2007 or 2006.

No new options were issued under the Share option scheme during 2007 or 2006. On 1 December 2007 (2006: 6 October 2006) options over 42,405 (2006: 58,025) shares were granted under the Sharesave plan at 811p (2006: 592p). Of these options, 28,499 (2006: 21,402) were exercisable after 3 years and 13,906 (2006: 36,623) after 5 years.

There were 46,557 (2006: 200,973) outstanding options under the Share option scheme at 31 December, exercisable at various prices between 278p and 387p per ordinary share between 2008 and 2014. There were 241,487 (2006: 250,452) outstanding options under the Sharesave plan at 31 December, exercisable at various prices between 320p and 811p per ordinary share between 2008 and 2012.

Within the retained earnings reserve are own shares held. The investment in own shares represents 445,396 (2006: 283,045) 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:

	2007	2006
11.65p final dividend (2006: 9.9p)	10,051	8,537
7.7p interim dividend (2006: 6.5p)	6,645	5,601
2007 additional interim dividend 9.3p	8,036	–
2006 first additional interim dividend 5.8p	–	5,004
2006 second additional interim dividend 5.8p	–	4,998
	24,732	24,140

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

16 Capital and reserves (continued)

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

	2007	2006
Final proposed dividend per qualifying ordinary share		
14 00p	12,116	
11 65p		10,019
Additional interim dividends per qualifying ordinary share proposed for 2008		
11 5p	10,000	
9 3p		8,000

17 Earnings per share

Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.1m shares (2006: 86.1m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2007	2006
Net profit attributable to ordinary shareholders	39,296	31,333
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	85,999	85,952
Effect of own shares held	54	91
Effect of shares issued under Share option schemes/Sharesave plans	93	58
Weighted average number of ordinary shares for the year ended 31 December	86,146	86,101

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.9m shares (2006: 86.9m 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.

	2007	2006
Net profit attributable to ordinary shareholders	39,296	31,333
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year ended 31 December	86,146	86,101
Effect of share options in issue	30	102
Effect of Sharesave options in issue	113	111
Effect of LTIP shares in issue	604	552
Weighted average number of ordinary shares (diluted) for the year ended 31 December	86,893	86,866

18 Interest bearing loans and borrowings

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

	2007	2006
Non-current liabilities		
Preference shares classified as debt	45	45
Bank loans	27	54
Finance lease liabilities	137	81
	209	180
	2007	2006
Current liabilities		
Bank overdraft	-	62
Bank loans	27	447
Finance lease liabilities	91	79
	118	526

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

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	CURRENCY	INTEREST RATES	YEAR OF MATURITY	FACE VALUE 2007	CARRYING AMOUNT 2007	FACE VALUE 2006	CARRYING AMOUNT 2006
Overdraft	Euro	2.6% – 3.1%	2007	-	-	62	62
Secured loan	Euro	3.1%	2007	-	-	295	288
Secured loan	Yen	1.9% – 2.5%	2007	-	-	142	133
Secured loan	Other	9.5% – 11.0%	2009	63	54	99	80
Non-redeemable preference shares	Sterling	9.5%	-	45	45	45	45
Finance lease liabilities	Euro	2.6% – 10.0%	2007-10	246	228	173	160
				354	327	816	768

Finance lease liabilities

	MINIMUM LEASE PAYMENTS 2007	INTEREST 2007	PRINCIPAL 2007	MINIMUM LEASE PAYMENTS 2006	INTEREST 2006	PRINCIPAL 2006
Less than one year	100	9	91	87	8	79
Between one and five years	146	9	137	86	5	81
	246	18	228	173	13	160

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

19 Employee benefits

	2007	2006
Recognised liability for defined benefit obligations		
Present value of funded obligations	93,799	87,394
Fair value of plan assets	(86,215)	(80,745)
	7,584	6,649
Defined contribution scheme liabilities	544	507
Employee bonus and incentive plan	3,731	2,744
Long-term incentive plan	3,039	1,868
Employee indemnity provision	846	196
Liability for long service leave	193	163
	15,937	12,127
Non-current	11,047	8,186
Current	4,890	3,941
	15,937	12,127

(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 Holland upon retirement

Movements in the present value of defined benefit obligations

	2007	2006
Liabilities at 1 January	87,394	89,501
Current service costs	1,708	1,817
Member contributions	481	484
Interest cost	4,541	4,309
Benefits paid	(2,214)	(1,691)
Past service costs	20	300
Actuarial losses/(gains)	1,953	(6,729)
Currency gains	(84)	(597)
Liabilities at 31 December	93,799	87,394

Movements in fair value of plan assets

	2007	2006
Assets at 1 January	80,745	69,125
Expected return on scheme assets	5,574	4,518
Employer contributions	4,643	8,892
Member contributions	481	484
Benefits paid	(2,214)	(1,691)
Actuarial losses	(2,954)	(199)
Currency losses	(60)	(384)
Assets at 31 December	86,215	80,745

Expense recognised in the income statement

	2007	2006
Current service costs	1,708	1,817
Past service costs	20	300
Interest on obligation	4,541	4,309
Expected return on plan assets	(5,574)	(4,518)
	695	1,908

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

	2007	2006
Cost of sales	556	663
Administrative expenses	1,172	1,454
Net financing income	(1,033)	(209)
	695	1,908

19 Employee benefits (continued)**Amounts recognised in the Consolidated Statement of Recognised Income and Expense**

	2007	2006
Actuarial losses on plan assets	(2,954)	(199)
Actuarial (losses)/gains from liabilities	(1,953)	6,729
Currency gains	24	213
Net actuarial (losses)/gains recognised in Consolidated Statement of Recognised Income and Expense	(4,883)	6,743
Cumulative actuarial losses recognised in Consolidated Statement of Recognised Income and Expense	(7,384)	(2,501)

	2007	2006	2005	2004	2003
Defined benefit obligation	(93,799)	(87,394)	(89,501)	(74,486)	(64,203)
Scheme assets	86,215	80,745	69,125	54,650	44,700
Deficit	(7,584)	(6,649)	(20,376)	(19,836)	(19,503)
Experience adjustments on liabilities	(1,953)	6,729	(9,930)	(6,783)	(6,750)
Experience adjustments on assets	(2,954)	(199)	6,693	884	3,700
Experience adjustments on currency	24	213	(215)	107	50

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)	
	2007	2006	2007	2006	2007	2006
Discount rate	5.8	5.1	5.9	5.7	5.8	5.1
Rate of increase in salaries	4.8	4.0	4.5	4.5	4.8	4.0
Rate of increase in pensions (post May 2000)	3.3	3.0	0.0	0.0	3.2	2.9
Rate of increase in pensions (pre May 2000)	4.5	4.5	0.0	0.0	4.3	4.3
Rate of price inflation	3.3	3.0	3.5	3.5	3.3	3.0

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

	2007 %	2007	2006 %	2006
Equities	7.8	47,016	7.8	42,973
Bonds	5.1	29,092	4.8	23,639
Property	7.5	6,977	7.5	7,767
Cash	3.4	73	3.4	3,588
US deposit administration contract	6.0	3,057	6.0	2,778
Total		86,215		80,745

Actual return on the schemes' assets	2,560	3,935
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The individual return assumptions for each asset class are based on market conditions at 31 December 2007 and represent a best estimate of future returns for that class allowing for risk premiums where appropriate. The Group estimates that contributions to the Group's defined benefit pension schemes payable during 2008 will be approximately £2,300,000.

The mortality assumptions used are the PNXA00 year of birth tables with future improvements in mortality based on the CMI medium cohort projections subject to a minimum improvement of 1.5% per annum (2006 PA92 c2004 with an adjustment to the discount rate of -0.1% per annum to allow for future improvements in mortality).

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

CURRENT AGE	2007 LIFE EXPECTANCY AT AGE 65		2006 LIFE EXPECTANCY AT AGE 65	
	MALE	FEMALE	MALE	FEMALE
65	22.7	25.3	18.6	21.6
45	25.7	28.2	19.0	22.0

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

19 Employee benefits (continued)

Defined contribution pension liabilities

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £1,030,000 (2006: £1,135,000).

(III) SHARE BASED PAYMENTS

Volatility assumptions for equity based payments

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

a) Share option scheme

At 1 January 1995 the Group established a share option programme for employees. The allocation of options was linked to the completion of 5 years service. In accordance with the programme, once vested the options grant the right to purchase shares at the market price they were at the date of grant. Exercise prices range from 278p to 387p. Options vest after three years and expire ten years after being granted.

Only the 2003 and 2004 grants 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. Additionally, four share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in IFRS 2 have not been applied to these grants in accordance with the transitional provisions in IFRS 1 and IFRS 2.

OPTION (EXERCISE PRICE)	OUTSTANDING AT START OF YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	OUTSTANDING AT END OF YEAR
1999 grant (£3.62)*	1,653	(1,653)	–	–
2000 grant (£2.85)*	40,450	(20,799)	–	19,651
2001 grant (£2.98)*	3,799	–	–	3,799
2002 grant (£3.72)*	3,947	(1,794)	(2,153)	–
2003 grant (£2.78)*	5,733	–	(3,200)	2,533
2004 grant (£3.87)*	145,391	(117,927)	(6,890)	20,574
	200,973	(142,173)	(12,243)	46,557
Weighted average exercise price	£3.61	£3.72	£3.56	£3.31
Weighted average contractual life remaining				4 years

* exercisable at end of year

The 2004 grant vested during the year. The intrinsic value of shares vested as at 31 December 2007 is £296,000 (2006: £163,000).

The Group received proceeds of £528,000 in respect of the 142,173 options exercised during the year. £7,000 was credited to share capital and £521,000 to share premium (see note 16). The options were exercised throughout the year at prices between 285p and 387p.

19 Employee benefits (continued)**b) Sharesave plan**

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

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

	3 YEAR SCHEME		5 YEAR SCHEME	
	2007	2006	2007	2006
Grant date	1 December 2007	6 October 2006	1 December 2007	6 October 2006
Share price at grant date	£9 83	£7 72	£9 83	£7 72
Exercise price	£8 11	£5 92	£8 11	£5 92
Shares/Share equivalents under scheme	28,499	21,402	13,906	36,623
Vesting period	3 years	3 years	5 years	5 years
Expected volatility	25%	19%	24%	17%
Risk free rate	4.5%	4.8%	4.6%	4.7%
Expected dividends expressed as a dividend yield	1.8%	2.1%	1.8%	2.1%
Probability of ceasing employment before vesting	20%	20%	20%	20%
Fair value	£2 79	£2 27	£3 20	£2 44

3 year scheme

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	VESTED DURING YEAR	LAPSED DURING YEAR	OUTSTANDING AT END OF YEAR
2004 Award	55,097	–	(44,905)	(888)	9,304
2005 Award	17,496	–	–	(1,699)	15,797
2006 Award	21,402	–	–	(1,659)	19,743
2007 Award	–	28,499	–	–	28,499
	93,995	28,499	(44,905)	(4,246)	73,343

The 2004 awards vested in the year at a cost of £3 20 each and on that day the market value of each award was £9 96. The weighted average remaining life of awards outstanding at the year end is 2 years. The Group received proceeds of £143,000 in respect of the 44,905 options exercised during the year. £2,000 was credited to share capital and £141,000 to share premium (see note 16).

5 year scheme

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	VESTED DURING YEAR	LAPSED DURING YEAR	OUTSTANDING AT END OF YEAR
2004 Award	93,438	–	–	(826)	92,612
2005 Award	26,396	–	–	(1,393)	25,003
2006 Award	36,623	–	–	–	36,623
2007 Award	–	13,906	–	–	13,906
	156,457	13,906	–	(2,219)	168,144

No awards vested in the year. The weighted average remaining life of awards outstanding at the year end is 3 years.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

19 Employee benefits (continued)

c) Long-term incentive plan

The Long-term incentive plan ('LTIP') is a performance share or cash unit plan under which shares or cash units are conditionally allocated to selected members of senior management at the discretion of the Remuneration Committee on an annual basis. No shares or cash units will normally be released to participants unless they are still in the Group's service following completion of four year performance periods for awards made up to and including 2005 and the Company's relative total shareholder return ('TSR') against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the relevant performance period. The performance period for 2006 and future awards under the plan has been reduced to three years. TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares or cash units transferred will be determined by the number of shares or cash units initially allocated multiplied by a vesting percentage. For the awards made up to and including 2005 this will be 40% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.4% to the vesting percentage. From the 2006 award onwards, the actual number of shares or cash units transferred will be 30% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.8% to the vesting percentage. The Company's earnings per share is also monitored during the relevant performance period to ensure it meets a minimum average annual growth equal to the rise in the Retail Price Index ('RPI') plus 2% per annum. Failure to meet the RPI requirement will result in nil vesting.

Following shareholder approval of the LTIP at the Company's AGM on 18 May 2000, awards over shares were made to executive directors and senior managers in each year from 2000 to 2007.

The performance period for the 2003 award ended at 31 December 2006. Messrs Hewitt Bacon and Woodrow as independent actuaries have certified to the Remuneration Committee that there was a 100% vesting of this award as the Company's position relative to the comparator group at the end of the relevant performance period was on the 88th percentile position 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 2007.

The performance period for the 2004 award ended at 31 December 2007. Messrs PricewaterhouseCoopers LLP as independent actuaries have certified to the Remuneration Committee that there was a 100% vesting of this award as the Company's position relative to the comparator group at the end of the relevant performance period was above the 75th percentile and the Group's earnings per share growth has exceeded the minimum average annual growth in the RPI plus 2% per annum. The awards will vest during 2008.

	SHARE SCHEME	
	2007	2006
Grant date	2 March 2007	4 May 2006
Share price at grant date	£8.05	£7.40
Shares/Share equivalents under scheme	145,754	122,998
Vesting period	3 years	3 years
Expected volatility	21%	23%
Risk free rate	5.1%	4.7%
Expected dividends expressed as a dividend yield	2.3%	3.7%
Probability of ceasing employment before vesting	3% p.a.	3% p.a.
Fair value	£4.34	£4.07

	CASH SCHEME	
	2007	2006
Grant date	2 March 2007	4 May 2006
Share price at grant date	£8.05	£7.40
Shares/Share equivalents under scheme	84,961	83,139
Vesting period	3 years	3 years
Expected volatility	28%	23%
Risk free rate	4.3%	5.1%
Expected dividends expressed as a dividend yield	2.0%	3.4%
Probability of ceasing employment before vesting	3% p.a.	3% p.a.
Fair value	£6.59	£5.11

19 Employee benefits (continued)**Share based scheme**

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	VESTED DURING YEAR	FORFEITED DURING YEAR	OUTSTANDING AT END OF YEAR
2003 Award	108,690	–	(108,690)	–	–
2004 Award	166,075	–	–	–	166,075
2005 Award	169,547	–	–	–	169,547
2006 Award	122,998	–	–	–	122,998
2007 Award	–	145,754	–	–	145,754
	567,310	145,754	(108,690)	–	604,374

Cash based scheme

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	VESTED DURING YEAR	FORFEITED DURING YEAR	OUTSTANDING AT END OF YEAR
2003 Award	91,244	–	(90,531)	(713)	–
2004 Award	123,091	–	(1,984)	(1,984)	119,123
2005 Award	128,846	–	(1,031)	(3,092)	124,723
2006 Award	83,139	–	–	–	83,139
2007 Award	–	84,961	–	–	84,961
	426,320	84,961	(93,546)	(5,789)	411,946

At the date of vesting the 2003 awards were valued at £8.05. The weighted average remaining life of awards outstanding at the year end is one year.

d) Employee expenses

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

	2007	2006
Share options granted 2003	–	10
Share options granted 2004	22	41
Long-term incentive plan – cash settled	1,374	1,096
Long-term incentive plan – equity settled	578	332
Sharesave plan – three years	40	28
Sharesave plan – five years	40	28
Total expense recognised as employee costs (note 6)	2,054	1,535

20 Provisions

	WARRANTY 2007	DEFERRED CONSIDERATION 2007	TOTAL 2007
Balance at 1 January 2007	2,822	438	3,260
Exchange differences	103	38	141
Provisions used during the year	(1,159)	(8)	(1,167)
Charged/(credited) in the year	1,706	(321)	1,385
Balance at 31 December 2007	3,472	147	3,619
Maturity at 31 December 2007			
Non-current	1,157	–	1,157
Current	2,315	147	2,462
	3,472	147	3,619
Maturity at 31 December 2006			
Non-current	941	–	941
Current	1,881	438	2,319
	2,822	438	3,260

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 twelve months, the typical warranty period is now eighteen months.

The deferred consideration arose on the acquisition of PC Intertechnik during 2005. The penultimate tranche was settled in 2007 resulting in a payment to the vendor of £8,000 and a release of the provision of £321,000 (see Goodwill – note 11). Payment or release of the final tranche of this provision is still subject to negotiation and is expected to be settled in 2008.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

21 Trade and other payables

	2007	2006
Trade payables	21,448	16,467
Bills of exchange	119	368
Trade payables	21,567	16,835
Corporation tax	8,791	6,236
Current tax	8,791	6,236
Other taxes and social security	2,767	2,410
Non-trade payables and accrued expenses	16,371	13,513
Other payables	19,138	15,923

22 Financial instruments

Financial risk and treasury policies

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

The Group has clearly defined policies for the management of foreign exchange and interest rate risk. 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 by the use of forward exchange contracts.

(i) CREDIT RISK

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

Management has a credit policy in place and exposure to credit risk is both monitored on an ongoing basis and reduced through the use of credit insurance covering 60-75% of trade receivables at any time. Credit evaluations are carried out on all customers requiring credit above a certain threshold, with varying approval levels set above this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk.

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

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

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	
	2007	2006
Trade receivables	44,262	37,385
Other receivables	5,595	4,839
Cash and cash equivalents	38,253	28,460
Currency swap deposit	2,975	3,638
Forward exchange contracts used for hedging		
Assets	95	291
Liability	(639)	(1)
Total	90,541	74,612

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

	CARRYING AMOUNT	
	2007	2006
Sterling	4,658	4,505
US dollar	7,408	7,721
Euro	24,444	18,213
Other	7,752	6,946
Total	44,262	37,385

22 Financial instruments (continued)**Provisions against trade receivables**

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

	GROSS 2007	PROVISION 2007	GROSS 2006	PROVISION 2006
Not past due	31,366	(13)	28,050	(47)
Past due 0-30 days	9,296	(48)	5,915	(21)
Past due 31-60 days	2,520	(47)	2,381	(92)
Past due 61-90 days	889	(25)	806	(126)
Past due more than 91 days	799	(475)	781	(262)
	44,870	(608)	37,933	(548)

(iii) LIQUIDITY RISK

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

The Group is highly cash generative, and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on investments. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses, but it maintains a £2m overdraft facility on which interest would be payable at LIBOR plus 100 basis points.

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

31 DECEMBER 2007	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	ANALYSIS OF CONTRACTUAL CASH FLOW MATURITIES			
			LESS THAN 12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Secured bank loans	54	63	33	30	-	-
Finance lease liabilities	228	246	100	74	72	-
Trade and other payables	40,705	40,705	40,705	-	-	-
Non-redeemable preference shares	45	45	-	-	-	45
Forward exchange contracts used for hedging						
Outflow	639	19,796	19,796	-	-	-
Inflow	(95)	8,542	8,542	-	-	-
	41,576	69,397	69,176	104	72	45

31 DECEMBER 2006	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	ANALYSIS OF CONTRACTUAL CASH FLOW MATURITIES			
			LESS THAN 12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Secured bank loans	501	536	472	32	32	-
Overdraft	62	62	62	-	-	-
Finance lease liabilities	160	173	87	45	41	-
Trade and other payables	32,758	32,758	32,758	-	-	-
Non-redeemable preference shares	45	45	-	-	-	45
Forward exchange contracts used for hedging						
Outflow	1	202	202	-	-	-
Inflow	(291)	6,995	6,995	-	-	-
	33,236	40,771	40,576	77	73	45

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

22 Financial instruments (continued)

(iii) MARKET RISKS

Market risk is the risk that changes in market prices, such as currency rates and interest rates, will affect the Group's results. The objective of market risk management is to manage and control market risk within suitable parameters.

a) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. The currencies giving rise to this risk primarily are US dollar and related currencies and the euro. The Group hedges up to 80% of forecast US dollar or euro foreign currency exposures using forward exchange contracts. In respect of other monetary assets and liabilities held in currencies other than sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The net fair value of forward exchange contracts used as hedges at 31 December 2007 was a £544,000 liability (2006: £290,000 asset) comprising an asset of £95,000 (2006: £291,000) and a liability of £639,000 (2006: £1,000).

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.

All forward exchange contracts in place at 31 December 2007 mature within one year.

The Group entered into a currency swap in February 2005 when €9.0m was borrowed to finance the acquisition of PC Inter Technik, linked to a deposit of £6.2m, at an exchange rate of €1.444/£1.000. The €9m was paid to Rotork Controls (Deutschland) GmbH in a form of redeemable equity as this company purchased the assets of PC Inter Technik. This swap was entered into to protect the Group from currency movements on the repayment of equity from Germany.

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of one cent in the value of the US dollar against sterling would have had a £200,000 impact on the Group's profit before tax and a one euro cent movement against sterling would have had a £200,000 impact on the Group's profit before tax for the year ended 31 December 2007. 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	
	2007	2006	2007	2006
US dollar	2.01	1.84	1.99	1.96
Euro	1.45	1.47	1.36	1.48

b) Interest rate risk

The Group does not undertake any hedging activity in this area. All foreign currency cash deposits are made at prevailing interest rates and where rates are fixed the period of the fix is generally no more than 1 month. The main element of interest rate risk concerns sterling deposits which are made on a floating LIBOR based rate and short-term overdrafts in foreign currencies which are also on a floating rate.

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

The weighted average interest rate of the fixed rate financial liabilities is 3.9% per annum.

The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is one year.

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

	2007	2006
In one year or less	118	589
In more than one year but not more than two years	98	68
In more than two years but not more than five years	66	66
In more than five years	45	45
Total	327	768

22 Financial instruments (continued)

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was as follows

Fixed rate instruments

	CARRYING AMOUNT	
	2007	2006
Financial assets	24,058	20,435
Financial liabilities	(228)	(295)
	23,830	20,140

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

(iv) CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure

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

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

	2007	2006
Total borrowings	(327)	(706)
Cash and cash equivalents (note 15)	38,253	28,398
Group net funds	37,926	27,692

(v) FAIR VALUES

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows

	CARRYING AMOUNT 2007	FAIR VALUE 2007	CARRYING AMOUNT 2006	FAIR VALUE 2006
Trade receivables	44,262	44,262	37,385	37,385
Other receivables	5,595	5,595	4,839	4,839
Cash and cash equivalents	38,253	38,253	28,460	28,460
Currency swap deposit*	2,975	2,975	3,638	3,638
Forward exchange contracts				
Assets	95	95	291	291
Liabilities	(639)	(639)	(1)	(1)
Currency swap loan*	(2,975)	(2,975)	(3,638)	(3,638)
Secured loans	(54)	(54)	(501)	(501)
Preference shares	(45)	(45)	(45)	(45)
Finance lease liabilities	(228)	(228)	(160)	(160)
Trade and other payables	(40,705)	(40,705)	(32,758)	(32,758)
Bank overdrafts	—	—	(62)	(62)
	46,534	46,534	37,448	37,448

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

The forward exchange contracts are designated hedges, the assets are held at fair value through profit and loss and the liabilities at amortised cost

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

Derivatives

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. No contract's value date is greater than one year from the year end

Secured loans

As the loans have a flexible repayment schedule, and may be paid down in less than one year, the notional amount is deemed to reflect the fair value

Trade and other receivables/payables

As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

23 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2007	2006
Less than one year	326	316
Between one and five years	2,110	2,075
More than five years	147	136
	2,583	2,527

Of the £2.6m (2006: £2.5m), £1.5m (2006: £1.7m) relates to property and the balance to plant and equipment. The largest single lease commitment is for less than £0.5m (2006: £0.5m).

24 Capital commitments

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

	2007	2006
Contracted	323	542

25 Contingencies

	2007	2006
Performance guarantees and indemnities	4,680	3,580

The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

26 Related parties

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown on pages 80 to 81 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent for management charges are priced on an arms length basis.

Sales to subsidiaries and associates of BAE Systems plc, a related party by virtue of non-executive director IG King's directorship of that company, totalled £20,000 during the year (2006: £15,000) and there are no amounts outstanding at 31 December 2007 (2006: £nil).

Key management emoluments

The emoluments of those members of the management team, including directors, who are responsible for planning, directing and controlling the activities of the Group are

	2007	2006
Emoluments including social security costs	2,331	2,068
Post employment benefits	316	214
Share based payments	898	610
	3,545	2,892

27 Post balance sheet events

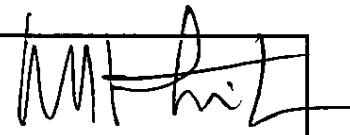
On 30 January 2008 the Group completed the acquisition of Remote Controls Sweden AB ('RCS'), a designer and manufacturer of valve actuators based in Falun, Sweden. The total consideration for the acquisition of the entire issued share capital of RCS was SEK 165m (£13m), payable in cash. SEK 25m of the consideration is deferred and payable later in 2008 and in 2009. RCS's audited accounts for the year ended 30 April 2007 show gross assets of SEK 87m, turnover of SEK 182m and profit before tax of SEK 10.5m.

ROTORK P.L.C. COMPANY BALANCE SHEET

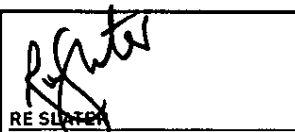
AT 31 DECEMBER 2007

	NOTES	2007 £000	2006 £000
Fixed assets			
Tangible assets	c	1,202	1,231
Investments	d	2,311	1,835
		3,513	3,066
Current assets			
Debtors	e	37,730	37,695
Cash at bank and in hand	f	20,753	16,548
		58,483	54,243
Creditors			
Amounts falling due within one year	g	(7,853)	(5,056)
Net current assets		50,630	49,187
Total assets less current liabilities		54,143	52,253
Creditors			
Amounts falling due after more than one year	h	(45)	(45)
Net assets		54,098	52,208
Capital and reserves			
Called up share capital	i	4,323	4,314
Share premium account	i	6,519	5,857
Translation reserve	i	(2)	(2)
Capital redemption reserve	i	1,639	1,639
Profit and loss account	i	41,619	40,400
Equity shareholders' funds		54,098	52,208

These Company financial statements were approved by the Board of Directors on 29 February 2008 and were signed on its behalf by



WH WHITELEY
DIRECTOR



RE SLATER
DIRECTOR

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

a Accounting policies

The following accounting policies have been applied consistently (except for the adoption of FRS 29 – Financial Instruments – disclosure) in dealing with items which are considered material in relation to the financial statements. Notes a to k relate to the Company rather than the Group.

Basis of accounting

The financial statements have been prepared under the historical cost convention and have been prepared in accordance with applicable accounting standards. Under section 230(4) of the Companies Act 1985 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.

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 intra-group 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 fifty years or the expected useful life of the building where less than fifty years. Other assets are depreciated by equal annual instalments by reference to their estimated useful lives and residual values at the following annual rates:

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

Post retirement benefits

The Company participates in a Group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Classification of preference shares

Following the adoption of the presentation elements of FRS 25, Financial instruments, the cumulative redeemable preference shares issued by the Company are classified as long-term debt. The preference dividends are charged within interest payable.

Share based payments

The Company has adopted FRS 20 and the accounting policies followed are in all material respects the same as the Group's policy under IFRS 2. This policy is shown in note 1 to the Group financial statements.

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

	2007	2006
Wages and salaries (including bonus and incentive plans)	1,662	719
Social security costs	194	60
Pension costs	138	434
Share based payments	209	127
	2,203	1,340

There are 4 (2006: 4) employees of Rotork plc plus the 5 (2006: 5) executive directors. The personnel costs accounted for within the Company include the full costs of the employees but not the full costs of the executive directors. Half of the salary costs, bonus and benefits of the Group Chief Executive, Group Chief Operating Officer and Group Finance Director are reported within the Company but the balance of their costs and those of the other two executive directors are reported within the subsidiary where they are based as this approximates the basis on which their time is split.

c Tangible assets in the Company Balance Sheet

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	TOTAL
Cost			
At 1 January 2007 and 31 December 2007	1,468	13	1,481
Depreciation			
At 1 January 2007	237	13	250
Charge for year	29	–	29
At 31 December 2007	266	13	279
Net book value			
at 31 December 2007	1,202	–	1,202
at 31 December 2006	1,231	–	1,231

Net book value of land and buildings can be analysed between

	2007	2006
Freehold land	60	60
Freehold buildings	1,142	1,171
Net book value at 31 December	1,202	1,231

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

d Investments in the Company Balance Sheet

Shares in Group companies

	2007	2006
At 1 January	1,835	1,484
Additions arising from share schemes	476	351
At 31 December	2,311	1,835

A listing of the principal subsidiaries is included in the directory on pages 80 to 81

e Debtors due within one year in the Company Balance Sheet

	2007	2006
Amounts owed by Group undertakings	37,213	36,882
Other debtors	98	367
Prepayments and accrued income	44	29
Corporation tax	298	381
Deferred taxation	77	36
	37,730	37,695

A deferred tax asset of £77,000 (2006: £36,000) has been recognised. This asset principally relates to other timing differences. 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.

f Cash at bank and in hand in the Company Balance Sheet

	2007	2006
Bank balances	41	36
Short-term deposits	20,712	16,512
Cash at bank and in hand	20,753	16,548

g Creditors amounts falling due within one year in the Company Balance Sheet

	2007	2006
Bank loans and overdrafts	5,412	2,849
Trade creditors	39	79
Amounts owed to Group undertakings	1,053	1,053
Other taxes and social security	11	11
Other creditors	1,050	868
Accruals and deferred income	288	196
	7,853	5,056

h Creditors amounts falling due after more than one year in the Company Balance Sheet

	2007	2006
Preference shares classified as debt	45	45

This debt is not redeemable at any fixed future date

i Capital and reserves in the Company Balance Sheet

	SHARE CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	EQUITY SHAREHOLDERS FUNDS
Balance at 1 January 2007	4,314	5,857	(2)	1,639	40,400	52,208
Profit for the year	-	-	-	-	27,514	27,514
Equity settled transactions net of tax	-	-	-	-	679	679
Share options exercised by employees	9	662	-	-	-	671
Own ordinary shares acquired	-	-	-	-	(4,249)	(4,249)
Own ordinary shares awarded under share schemes	-	-	-	-	2,007	2,007
Dividends	-	-	-	-	(24,732)	(24,732)
Balance at 31 December 2007	4,323	6,519	(2)	1,639	41,619	54,098

Details of the number of ordinary shares authorised and in issue and dividends paid in the year are given in note 16. The disclosures required under FRS 20 relating to share based payments can be found in note 19.

Profit for the financial year in the accounts of the Company is £27,514,000 (2006: £21,032,000).

j Contingencies in the Company

	2007	2006
Guarantees for bank overdrafts of UK subsidiary undertakings	-	-

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

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:

	2007	2006
Total borrowings	(5,457)	(2,894)
Cash and cash equivalents	20,753	16,548
Company net funds	15,296	13,654

TEN YEAR TRADING HISTORY

	2007 £000 IFRS	2006 £000 IFRS	2005 £000 IFRS	2004 £000 IFRS	2004 £000 UK GAAP	2003 £000 UK GAAP	2002 £000 UK GAAP	2001 £000 UK GAAP	2000 £000 UK GAAP	1999 £000 UK GAAP	1998 £000 UK GAAP
Continuing operations	235,688	206,709	174,839	146,883	146,883	135,964	129,677	119,322	103,945	112,937	98,103
Discontinued operations	-	-	-	-	-	-	3,783	4,367	3,935	4,598	3,337
Revenue	235,688	206,709	174,839	146,883	146,883	135,964	133,460	123,689	107,880	117,535	101,440
Cost of sales	(127,748)	(115,603)	(95,358)	(79,097)	(79,030)	(72,046)	(71,875)	(65,877)	(59,021)	(63,626)	(54,311)
Gross profit	107,940	91,106	79,481	67,786	67,853	63,918	61,585	57,812	48,859	53,909	47,129
Overheads	(52,553)	(46,017)	(42,951)	(37,354)	(37,996)	(36,808)	(35,863)	(33,532)	(29,108)	(27,949)	(23,567)
Operating profit	55,387	45,089	36,530	30,432	29,857	27,110	25,722	24,280	19,751	25,960	23,562
Continuing operations	55,387	45,089	36,530	30,432	31,150	28,415	26,553	24,733	20,478	26,358	23,822
Discontinued operations	-	-	-	-	-	-	474	574	309	497	59
Operating profit before amortisation of goodwill	55,387	45,089	36,530	30,432	31,150	28,415	27,027	25,307	20,787	26,855	23,881
Amortisation of goodwill	-	-	-	-	(1,293)	(1,305)	(1,305)	(1,027)	(1,036)	(895)	(319)
Operating profit	55,387	45,089	36,530	30,432	29,857	27,110	25,722	24,280	19,751	25,960	23,562
Exceptional items	-	-	-	-	-	597	-	-	-	-	-
Net interest receivable	1,866	972	127	1,074	634	461	440	563	831	987	1,845
Profit before taxation	57,253	46,061	36,657	31,506	30,491	28,168	26,162	24,843	20,582	26,947	25,407
Tax expense	(17,957)	(14,728)	(12,043)	(10,508)	(10,591)	(9,469)	(8,868)	(8,539)	(7,110)	(9,477)	(9,063)
Profit for the year	39,296	31,333	24,614	20,998	19,900	18,699	17,294	16,304	13,472	17,470	16,344
Dividends	(24,732)	(24,140)	(13,437)	(17,751)	(17,955)	(12,592)	(11,959)	(11,147)	(10,504)	(10,546)	(9,456)
Basic earnings per share	45 6p	36 4p	28 6p	24 5p	23 2p	21 8p	20 1p	18 9p	15 6p	20 3p	18 9p
Basic earnings per share before goodwill amortisation	-	-	-	-	24 7p	23 3p	21 6p	20 1p	16 8p	21 3p	19 3p
Diluted earnings per share	45 2p	36 1p	28 4p	24 3p	23 0p	21 7p	20 0p	18 9p	15 6p	20 3p	18 9p

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.

SHAREHOLDER INFORMATION

SHARE REGISTER INFORMATION

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

RANGE	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1-1,000	1,154	47.8	480,870	0.5
1,001-2,000	400	16.6	597,004	0.7
2,001-5,000	379	15.7	1,200,461	1.4
5,001-10,000	142	5.9	1,011,923	1.2
10,001-50,000	175	7.2	3,700,937	4.3
50,001-100,000	59	2.4	4,144,412	4.8
100,001 +	107	4.4	75,335,667	87.1

HOLDER	NUMBER OF HOLDINGS	%	NUMBER OF SHARES	%
Individuals	1,685	69.7	3,290,750	3.8
Bank or nominees	660	27.3	81,787,163	94.6
Pension fund	1	0.1	3,256	0.1
Other company	51	2.1	1,109,698	1.2
Other corporate body	19	0.8	280,407	0.3

Source: Equiniti

CORPORATE DIRECTORY

Company Secretary

Stephen Rhys Jones

Registered Office

Rotork plc
Brassmill Lane
Bath BA1 3JQ

Company Number

578327

Registrars

Equiniti
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Worthing
West Sussex BN99 6DA

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London EC2M 2PP

Financial Advisers

UBS Investment Bank
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London EC2M 2PP

Auditors

KPMG Audit Plc
100 Temple Street
Bristol BS1 6AG

Financial Public Relations

Financial Dynamics Limited
Holborn Gate
26 Southampton Buildings
London EC2A 1PB

Solicitors

Messrs Osborne Clarke
No 2 Temple Back East
Temple Quay
Bristol BS1 6EG

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)
2007	7.70	14.00	9.30	31.00
2006	6.50	11.65	11.60	29.75
2005	5.90	9.90	-	15.80
2004	5.35	9.70	5.85	20.90
2003	5.25	9.50	-	14.75

FINANCIAL CALENDAR

3 March 2008

Preliminary announcement of annual results for 2007

16 April 2008

Ex-dividend date for final proposed 2007 dividend

18 April 2008

Record date for final proposed 2007 dividend

2 May 2008

Annual General Meeting held at Rotork House,
Brassmill Lane, Bath, BA1 3JQ

9 May 2008

Payment date for final proposed 2007 dividend

25 June 2008

Ex-dividend date for 2008 additional interim dividend

27 June 2008

Record date for 2008 additional interim dividend

18 July 2008

Payment date for 2008 additional interim dividend

5 August 2008

Announcement of interim financial results for 2008

DIRECTORY

UNITED KINGDOM

Rotork plc, England

Holding company
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AMERICAS

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