

**rotork**

Rotork p.l.c.

ANNUAL REPORT AND  
FINANCIAL STATEMENTS



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# rotork

Rotork designs, manufactures and markets actuators, systems and related products.

Rotork is an international power.

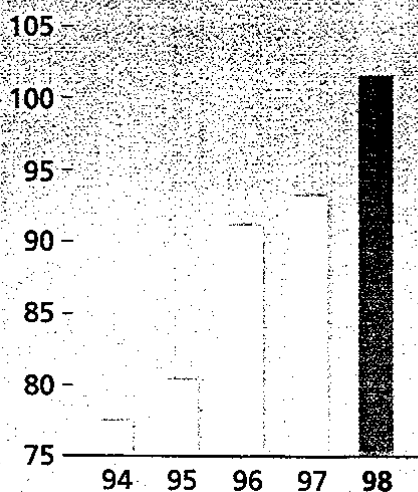
Rotork enjoys an excellent reputation for its products. It has become the world's single supplier of heavy-duty valve actuators in the world and is a growing force in fluid power and manual steel operations.

Rotork's success in these international markets is won by ensuring that its products and every aspect of its organisation are of the finest quality and meet the highest environmental standards. All current Rotork products are year 2000 compliant.

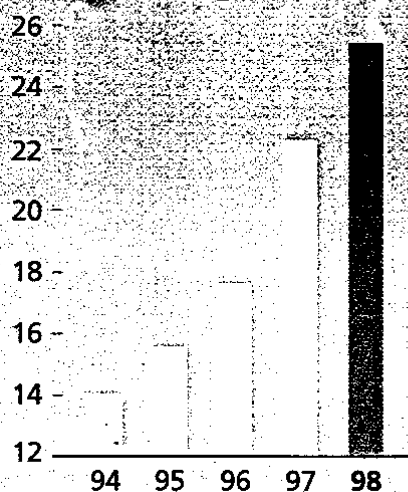
## Financial Highlights

	1998	1997 (restated)
Turnover	£101.44m	£92.85m
Operating profit	£23.56m	£20.20m
Profit before taxation	£25.41m	£22.13m
– before goodwill amortisation	£25.73m	£22.32m
Taxation	£9.07m	£8.11m
Profit after taxation	£16.34m	£14.02m
Basic earnings per ordinary share	18.89p	15.85p
Basic earnings per ordinary share before goodwill amortisation	19.26p	16.06p
Dividends per ordinary share	10.90p	9.30p

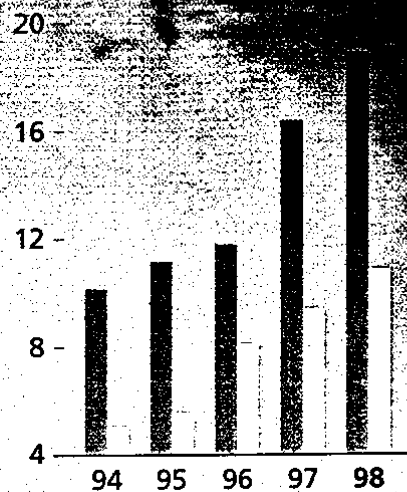
Turnover  
£m



Profit before taxation  
and goodwill amortisation  
£m



Earnings/dividends  
p





*Time Tested*



*Led by Innovation*



## Chairman's Review



**RC Lockwood**

*Chairman*

closely related businesses. Exeeco experienced a substantial increase in its gearbox business whilst Alecto, a Dutch gearbox manufacturer which was acquired at the start of the year, exceeded expectations. The recent acquisition of Valvekits, a supplier of valve adaption and valve accessories adds to the strength of this sector of the business. The development of Rotork Gears is being promoted to expand the sale of these companies' products through existing channels and selected Rotork outlets around the world. Rotork's ambition to increase its share of the fluid power actuator market was realised. Investment continues to be made in widening the product offering and increasing the depth of the company's capabilities in this area. The acquisition of Fluid System Srl in Italy meets an important strategic objective of adding a European production base to the existing fluid power operations based in Rochester, New York.

Increased commitment to research and development during the year was

shares. The company intends to continue to seek further authority at each AGM until that class of shares is extinguished. The company will also continue to seek limited authority at AGMs to repurchase its ordinary shares.

### **Dividend**

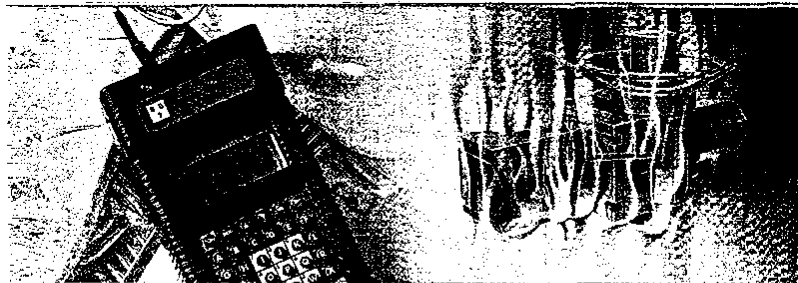
In line with the group's continued growth, the board proposes an increased final dividend of 7.0p (1997: 5.85p) making a total dividend for the year of 10.9p (1997: 9.3p). This is an increase of 17% and maintains dividend cover of 1.7 times post tax earnings.

### **Cash**

Cash balances reduced by £1m to £33m after the acquisition of Alecto Valve Actuators BV and purchase of preference shares.

### **The future**

While economic conditions in some overseas markets remain challenging, management is confident that demand for the company's products coupled with contributions from the two



*The quality and strength of Rotork's business is reflected in the 20% EPS growth.*

### **Trading**

The quality and strength of Rotork's business is reflected in the 20% EPS growth, which was achieved despite difficult economic conditions in some overseas markets.

With the exception of the US dollar, sterling remained strong particularly against the Canadian and Australian dollars and the Indian rupee. The Far East operations, which began the year in an uncertain environment, all exceeded their prior year performances. The US and Canadian companies traded strongly and both ended the year with large order books. The UK market was weak especially compared with its exceptional condition in 1997 whilst, with the exception of Holland, the five European actuator companies performed well.

There was some weakness in markets where oil production has a major economic impact, in particular the Middle East. This was, however, more than offset by progress in developing

aimed at both developing existing products and systems and creating new solutions for new markets. In the latter category the electric fail-safe actuator has won important orders and the first units have been successfully commissioned. There is much interest in this technology from international oil companies and additional resources have been committed to exploit this new concept.

The reorganisation of the Bath assembly operation was completed on time, substantially increasing capacity and delivery flexibility. Input costs were tightly controlled and promising new component sources were developed.

### **Share buy-backs**

Following the approval by shareholders and relevant class members at the last AGM the company has successfully repurchased over 96% of its preference

recently acquired businesses will enable Rotork to maintain further profitable growth in the current year.

Looking further forward, the quality of Rotork's products, its ability to expand business within its areas of competence and its unique role as an independent supplier of equipment to the world's valvemakers give us great confidence in the company's long-term prospects.

### **Chairman**

Recent board changes have seen the appointment of new non-executive and executive directors. As Chairman I look forward to working with my colleagues in achieving our challenging objectives.

**RC Lockwood**

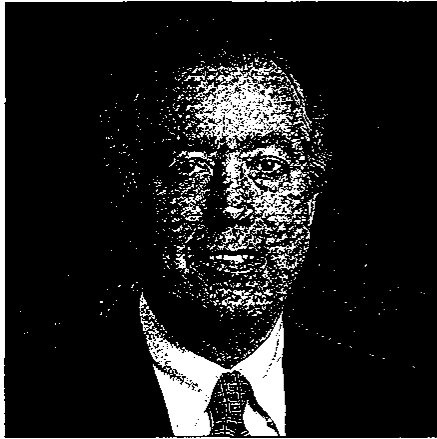
*Chairman*



*International Capacity*

*Local  
Control*

## Chief Executive's Review



**WH Whiteley**  
(Chief Executive)

The combination of a strong pound, a low oil price, and economic difficulties in many important developing markets presented the company with an unusually challenging operating environment. The fact that we achieved good growth levels and ended the year with a record order book was due to the attractiveness of our product offerings, our world-wide sales and support capability, and the success of our strategy of developing businesses which are closely related to our core electric actuator market.

remained under tight control and work in developing new partnerships with high quality cost effective suppliers which took place during the year will bring future benefits.

### **Europe**

With the exception of Holland, the five European sales operations performed well, in spite of sterling's continued strength against the European currencies. Rotork's business in Spain was strong, the German company saw continued growth, whilst France and particularly Italy saw strong



*Considerable investment was made in expanding our capabilities and infrastructure.*

### **UK Operation**

The UK market was weaker in the year under review than the previous year and this impacted upon the production programme. However, the UK water companies were again very significant purchasers of Rotork actuators.

The Bath plant re-organisation was completed on schedule. New production lines were installed incorporating modern manufacturing techniques which have allowed the company to significantly increase the capacity within the existing building. Providing a quicker and more responsive delivery to customers was another key objective of the project. Input costs

recovery of profits compared to the previous year.

### **The Americas**

Good levels of demand for the company's products coupled with a strengthening of our market position were reflected in the US operation ending the year with a very substantial orderbook. Further investment in our sales infrastructure in the US was made during the year including the formation of an extensive direct sales and support operation at the end of the year on the West Coast.

The Canadian company struggled with a weakening domestic dollar, but record





Markets

rotork  
gearse



New  
Products



# Chief Executive's Review

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order intake will allow it to view 1999 with confidence. Sales activity was strong in both the Eastern and Western offices. Business was also generally strong in Latin America. Our Venezuelan operation, however, although generating increased profits, found local demand subdued due to low oil prices and political uncertainty.

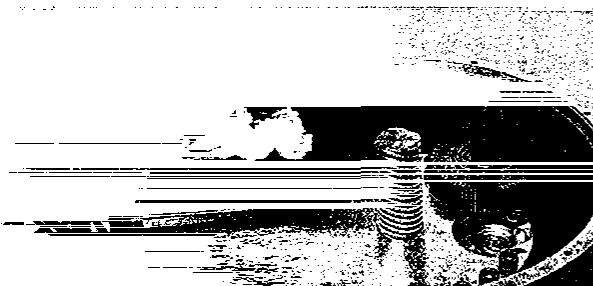
## Far East

We entered the year with concern due to the severe economic difficulties affecting a number of our important markets. It is, therefore, to the

additional sales office was opened. Our 30 year old licence arrangement with Shimadzu was terminated by mutual agreement at the end of March 1999. Rotork Japan is being set up based upon the agreed acquisition of Actuator Systems Corporation, the Japanese agent. Shimadzu will have a continuing supporting role for Rotork in this market.

## Rest of World

India and Australia both exceeded targets and expectations and overcame the weakness of their currencies against



*Gearboxes experienced considerable growth during the year.*

considerable credit of our various companies and operations in the Far East that all of them increased their profits during the year. As reported last year the Pacific rim area was split into Southern and Northern regions. In the Southern region, Singapore exceeded its budget despite a weakening local currency, whilst the new Malaysian company met its target. The company in Thailand, which had started its operation in 1997, considerably exceeded our expectations. In the Northern area, Hong Kong experienced further growth and Korea traded successfully in spite of reduced business levels. China remained an important growth market where an

sterling. The South African company traded successfully despite a difficult economic background.

## Fluid Power Actuators

It was an important year for our Fluid Power actuator interests for which we have ambitious expansion plans. Important projects were won, the product range extended and considerable investment was made in expanding our capabilities and infrastructure. Sales of fluid power products have to date been sourced from our Rochester NY plant and historically the majority of sales have been made to North or South American customers.

# Chief Executive's Review



The recent acquisition of Fluid System Srl in Italy will greatly enhance our ability to pursue business beyond the Americas. Italy is an important centre for this business and Fluid System has experienced strong growth in recent years due to its attractive product range, and its ability to respond to market requirements.

## **Gearboxes and Valve Accessories**

Exeeco and Alecto both of whom are manufacturers of valve gearboxes experienced considerable growth during the year. Exeeco acquired adjacent premises, reorganised their operations and increased the efficiency of their gearbox build section. Demand for their products both from Rotork sources and as a result of their initiatives to pursue third party overseas sales was strong. Alecto also experienced good demand for their products, and their plant in Losser in The Netherlands was also extended and reorganised, facilitating their further expansion.

The Valvekits group was purchased on 3 March 1999. Their main business is the design and supply of valve adaption and ancillary equipment to UK valvemakers and distributors. They also assemble and market Alecto gearboxes in the UK, and manufacture their own range of 'Circa' switchboxes. These activities are a good fit with the gearbox businesses. The concept of Rotork Gears is being developed to expand these companies' sales of the gearbox and valve accessories products through existing channels and selected Rotork outlets around the world.

## **Product Development**

Research and development expenditure increased during the year specifically as a result of committing significant resources to developing the next generation of our ground breaking IQ design. This will be launched towards the end of 1999 with production commencing in early 2000.

Rotork's innovative electric failsafe design generated much interest during the year under review. Two important orders were received and shipments commenced in the fourth quarter. The first products have now been commissioned and are in operation as a 'Technology First' on the BP Amoco Andrew platform in the North Sea.

## **Instruments**

Rotork Instruments, based in Luton, returned to profit after suffering losses in the previous year. This was in large measure due to increased sales of Pakscan, the valve actuator control system, to other members of the group. During the year much interest was shown in the company's safety and combined systems approach.

Improvements in project management and cost control have helped the company to win repeat business and improve its margins. Rotork Instruments has a well defined strategy to develop and expand its niche safety and combined systems approach. The company has a strong order book and further progress is anticipated in 1999.

## **Quality**

A high level of quality assurance is mandatory in the markets that Rotork

serves across the globe. The increasing complexity of new designs and the high levels of reliability expected by customers requires Rotork to constantly develop more sophisticated quality systems. Rotork is also conscious of the opportunities that new products provide to enable it to further enhance reliability and customer satisfaction.

## **Environment**

Rotork has an environmental policy which is communicated to all employees and is under regular review. We are currently encouraging greater environmental awareness within our supplier base and are joining with selected customers in environmental initiatives. Our commitment to environmental issues is reflected in both our business objectives and our commercial practices. It is our policy to develop products which have a beneficial effect on the environment. We monitor our compliance with relevant regulations on environmental standards in all of our locations.

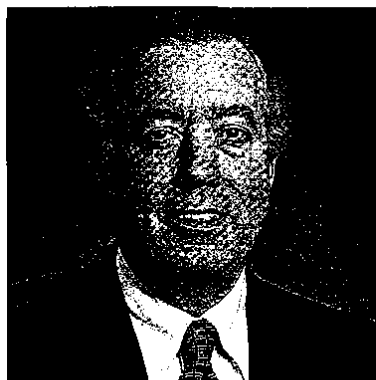
## **Employees**

I would like to thank staff throughout the group for their enthusiasm and hard work during the year. Their loyalty and commitment is our most valuable asset. We encourage all members of the company to develop as individuals to enable them to contribute to the success of the business.

**WH Whiteley**  
Chief executive

# Board of Directors

## Executive



**WH Whiteley (Chief Executive)**

Bill (50) 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. Bill has been a member of the Rotork p.l.c. board since 1984 and was appointed Chief Executive in 1996.



**RE Slater**

Bob (48) joined Rotork in 1989 as Finance Director of the Actuation Division, and joined the board of Rotork p.l.c. as Group Finance Director in July 1998. He has previously held finance positions in mining, building controls and the engineering industry.



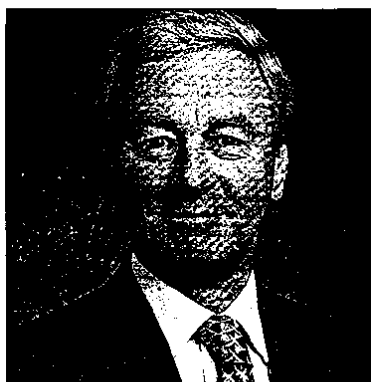
**GE Malcolm**

Since joining Rotork in 1984, George (53) had been Engineering Director of the Actuation Division prior to joining the Rotork p.l.c. board in 1997. He is currently Operations Director of the Actuation Division. His previous appointments were in industrial controls, aerospace and shipbuilding companies.

## DT Smith

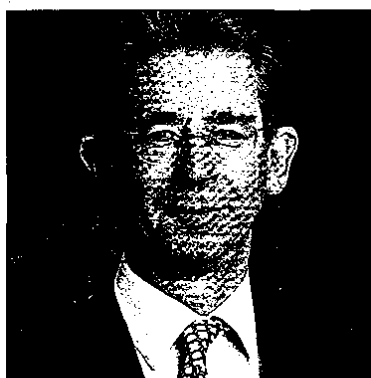
David Smith was Group Finance Director until his retirement on 16 July 1998. The board would like to place on record their appreciation of his significant contribution to the development of the company since he joined the board in 1975.

## Non-Executive



**RC Lockwood (Chairman)**

Roger (53) has been a director of Rotork since 1988 and became Chairman in November 1998. He is a member of the Audit, Remuneration and Nomination Committees. He is Chairman of Colston Engineering Co and has previously held CEO roles in automotive and engineering businesses.



**JW Matthews**

New to Rotork in November 1998, John (54) is Chairman of Crest Nicholson Plc, Deputy Chairman of Perry Group plc, and has previously held senior positions in banking and industrial companies. He is a member of the Audit, Remuneration and Nomination Committees, and is the senior independent non-executive director.



**TW Eassie**

Chief Executive of Rotork from 1984 until his retirement in 1996, Tom (63) was originally appointed to the board in 1972. He has been a non-executive director since 1997. Tom is a member of the Audit Committee.

# Report of the Directors

## Activities

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

Rotork Actuation provides a range of products, systems and services for the motorisation and manual operation of and adaption to industrial valves and dampers. Actuated valves are major control elements in refineries, pipelines, power stations and water distribution systems, sewage and effluent treatment plants and in all industries in which liquids or gases are transported through pipes.

Rotork Instruments designs control and safety systems and also manufactures and markets a wide range of electronic instrumentation for use throughout process control industries.

A review of the group's activities is contained in the Chairman's and Chief Executive's Reports on pages 3 to 8.

## Acquisitions

As reported in the previous year on 3 February 1998 Aleco Valve Actuators BV, incorporated in The Netherlands, was acquired. The consideration was £3,620,495 (NLG 12,200,000), with a further NLG 1,800,000 payable if profit targets were met in the following three years. A payment of NLG 600,000 was made for 1998.

On 3 March 1999 Valvekits Group Limited, incorporated in the UK, was acquired, further details of which are contained in the Chief Executive's report on pages 5 to 8. The maximum consideration is £6,600,000. The initial consideration was £5,600,000, and a further £1,000,000 is payable if profit targets are met in the following two years.

On 18 March 1999 the group acquired Fluid System S.r.l. and its holding company M.P.M. Holding S.r.l. based in Lucca, Italy, further details of which are contained in the Chief Executive's report on pages 5 to 8. The maximum consideration is £7,500,000. The initial consideration was £5,250,000 with the remainder payable as deferred consideration of which £700,000 is payable subject to attainment of profit targets in the following two years.

## Proposed dividend

The directors recommend a final dividend of £6,020,000 for the year, payable on 24 May 1999 to shareholders on the register on 12 April 1999. This represents 7.00p per share (1997: 5.85p) which, with the interim dividend of 3.90p per share (1997: 3.45p), will produce a total dividend per ordinary share of 10.90p (1997: 9.30p).

## Significant shareholdings

At 31 March 1999, the company had been formally notified that the following are interested in 3% or more of the issued ordinary share capital of the company.

	No.	%
Prudential Corporation group of companies	<b>6,315,124</b>	7.33
Fidelity Investments	<b>5,952,195</b>	6.91
The Equitable Life Assurance Society	<b>4,176,744</b>	4.85
Britannic Assurance plc and subsidiaries (2,800,000 excluding Britannic Staff Superannuation Scheme)	<b>3,445,535</b>	4.00
Legal & General group of companies	<b>3,310,214</b>	3.84
Royal & Sun Alliance Group	<b>2,994,750</b>	3.48

# Report of the Directors

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## Shares issued or repurchased

Details of the ordinary shares issued during 1998 are given in note 19 on page 34.

Details of the preference shares purchased during 1998 are given in note 19 on page 34.

## Research and development

Total group expenditure on research and development in the year was £1,889,000 (1997: £1,278,000) further details of which are contained in the Chief Executive's report on pages 5 to 8.

## Charitable donations

During the year the group made charitable donations of £22,231 (1997: £15,554).

## Directors

The names of the directors in office at the date of this report and their biographical details are as shown on page 9. In addition DT Smith served as Finance Director until his retirement on 16 July 1998 and R Hawley served as non-executive Chairman until his resignation in November 1998. The interests of the directors in office at the end of the financial year in the shares of the company are as shown in note 9 to the financial statements on page 25 to 27.

WH Whiteley and GE Malcolm have service agreements with 2 years' notice. RE Slater who joined the board on 16 July 1998 has a service agreement with one year's notice. JW Matthews who joined the board on 16 November 1998 and TW Eassie who joined the board on 20 March 1997 have three-year engagements. RC Lockwood does not have a formal contract.

At the Annual General Meeting, in accordance with the Articles of Association, JW Matthews and RE Slater, both of whom were appointed during the year, will offer themselves for re-election. RC Lockwood will retire by rotation and, being eligible, will offer himself for re-election.

## Corporate governance

During the year the board reviewed all the provisions set out in the Combined Code for Corporate Governance issued by the London Stock Exchange ('the Code'). The board of directors considers that the company has complied with the provisions set out in the Code throughout the year ended 31 December 1998 apart from those relating to the length of directors service contracts which are discussed below. The Code has introduced a new requirement that the directors review the effectiveness of the group's systems of internal controls. This requirement extends the directors' review to cover all controls including operational, compliance and risk management, as well as financial. Formal guidance on the review of non-financial internal control has still to be published by the task force established by the Institute of Chartered Accountants in England and Wales. Consequently the directors consider that they are unable to report that they have undertaken during the year a formal review of the effectiveness of the group's system of non-financial controls.

The board acknowledges that it is ultimately responsible for the group's system of internal control. The internal control systems are designed to meet the group's particular needs and the risks to which it is exposed and by their nature they can only provide reasonable and not absolute assurance against misstatement or loss. During the year the directors have continued to follow existing guidance and the audit committee, on behalf of the board, has reviewed the effectiveness of the group's system of internal financial controls in relation to the criteria for assessing effectiveness described in "Internal control and financial reporting" issued by the Working Group on Internal Control in December 1994.

# Report of the Directors

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The key procedures designed to provide an effective system of internal financial control are as follows:

- a) There is an organisational structure with clearly defined allocations of responsibility and delegation of authority from the board to the operating companies.
- b) The board has established procedures for financial reporting, accounting, risk management, and capital expenditure appraisal.
- c) There is a comprehensive system of financial reporting to the board, based on monthly reporting of results against budget. Annual budgets and quarterly forecasts are prepared for all operating companies. Three-year plans are prepared at Divisional level.
- d) The Audit Committee deals with matters identified by external auditors.

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

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

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

The directors consider that in preparing the financial statements on pages 17 to 37, the company has selected suitable accounting policies which have been consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed subject to any explanations and any material departures disclosed in the notes to the financial statements. The directors are required to use a going concern basis in preparing the financial statements unless this is inappropriate. After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## **Directors' authority to issue and repurchase shares**

The directors are authorised by the shareholders to allot and issue ordinary shares up to 5% of the aggregate issued share capital of the company and to purchase in the market a maximum of 8,500,000 ordinary shares and all the preference shares as is permitted under the Company's Articles of Association. The directors will seek to renew these authorities from its shareholders at the Annual General Meeting.

## **Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution to re-appoint KPMG Audit Plc as auditors is to be proposed at the forthcoming Annual General Meeting.

# Report of the Directors

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## Payment to suppliers

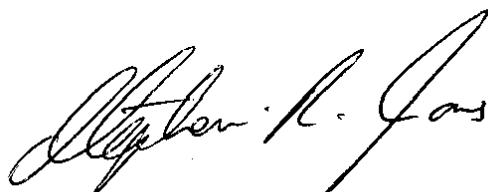
The group agrees terms and conditions for its business operations with suppliers. Payment is then made to these terms subject to the terms and conditions being met by the suppliers. Payment terms can differ in the many markets in which Rotork trades. While there is no formal code or standard, it is company 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.

## Year 2000

Since 1997 there has been a senior management team reviewing the various electronic systems in use in all areas of Rotork group's operations to determine the risk of any problem arising when the date recorded within the software changes to 2000 at the end of the year 1999. Critical group operating system software has been upgraded where necessary. Organisations with whom the group have a major trading relationship have, where appropriate, been requested to confirm that their relevant systems are Year 2000 compliant. This issue is complex and no business can guarantee that there will be no problems. However, the board believe that appropriate resources have been directed to this issue. The cost of compliance is not expected to be material in the context of other normal operating costs.

On behalf of the board

**SR Jones**, *Secretary*



Bath

22 April 1999



# Directors' Remuneration Report

The Remuneration Committee which is comprised wholly of independent non-executive directors, makes recommendations to the board on the company's framework of executive remuneration, and the individual salaries and other terms and conditions of employment for the executive directors. The Committee also determines the terms of any discretionary share schemes in which executive directors may be invited to participate. The board as a whole determines the level of remuneration of the non-executive directors.

In the current challenging environment the board considers that it is critical that the group has remuneration policies which enable it to recruit, retain and motivate high quality management. In recommending the level of remuneration for executive directors, the Remuneration Committee compares the company's pay levels with a broad cross-section of UK-based companies from the electrical, electronics and engineering sectors with financial dimensions broadly similar to those of the company.

## **Executive remuneration**

The remuneration packages of each individual director include basic salary, an annual bonus, benefits in kind (cars, fuel and private medical insurance), membership of The Rotork Profit – Linked Share Scheme and participation in the Rotork Pension and Life Assurance Scheme. Details of all elements of each individual director's remuneration package, including profit linked shares and pension entitlements are set out in Note 9 to the financial statements.

## **Salaries**

In light of the review conducted by the Remuneration Committee and of the current levels of increases awarded to the group's employees generally, executive directors' base salaries have been increased to levels believed by the board to meet the remuneration objectives set out above.

## **Bonuses**

The Remuneration Committee determined that the annual commission plan for executive directors, which pays a non-pensionable bonus in accordance with the percentage increase in profit for the year in question over the highest average annual profit of any prior period of three consecutive years, and which has been in place since 1 January 1983, remained entirely appropriate. The profit used for the calculation of commission was group profit for WH Whiteley, DT Smith and GE Malcolm and Rotork Actuation profit for RE Slater. The Remuneration Committee did not consider it appropriate to pay any other form of bonus to any director other than under the Rotork Controls Limited 1997 and 1998 profit-related pay schemes and under the Rotork p.l.c. 1997 and 1998 profit-related pay schemes. The amounts paid under the profit related pay schemes are deducted from bonuses payable under the 1983 commission scheme.

## **Employee share options**

The Rotork Employee Share Option Scheme, which was introduced in 1985, enabled all UK employees to acquire a one-off grant of options to the value of 50% of their salaries. This has now closed. The Rotork 1995 Employee Share Option Scheme, which is an all-employee scheme and has broadly the same terms as the 1985 scheme, with the addition of corporate performance criteria, was approved by the members on 26 May 1994. No options have been granted to any executive director since 1994. Only relevant options granted to RE Slater remain unexercised. The current policy usually adopted with regard to the grant of share options is that all employees must have completed five calendar years of service before a grant is made and only one grant per employee is normally made throughout his or her employment by the group.

# Directors' Remuneration Report

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## Interests in shares and profit-linked share scheme

The interests of the directors in the ordinary share capital of the company are set out on page 27.

In common with all employees with two complete calendar years of service, all executive directors receive an entitlement to ordinary shares under The Rotork Profit-Linked Share Scheme which was approved by the Inland Revenue in 1979. 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. Details of allocations made in 1998 are set out on page 27.

## Service contracts and directorships

The executive directors are on one year or two-year rolling service contracts. The length of contract was reduced to address concerns expressed over the length of executive directors' contracts and consequent levels of compensation paid on termination, whilst at the same time being designed to enable the group to retain and motivate senior management.

None of the executive directors has any external directorships with the exception of WH Whiteley, who is a director of the British Valve and Actuator Manufacturers Association Ltd.

## Pensions

The executive directors participate in the Rotork Pension and Life Assurance Scheme ('the Scheme').

The Scheme is a defined benefits scheme and provides benefits based on basic salary only, with a maximum of two-thirds of final pensionable salary payable at normal retirement age. The Scheme also provides a lump sum "death in service" benefit and a widow's benefit. All Scheme benefits are within, and subject to, Inland Revenue limits. The company contributes to the Scheme in accordance with the recommendations of the Scheme actuary. None of the executive directors is required to contribute to the Scheme. Further details are given in Note 9 to the financial statements.

## Non-executive directors

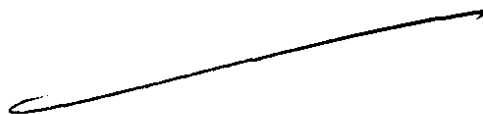
The non-executive directors do not participate in any of the commission, profit related pay, share or pension schemes operated by the group.

On behalf of the board

**RC Lockwood**, *Chairman*  
Remuneration Committee



22 April 1999



# Report of the Auditors

to the members of Rotork p.l.c.



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We have audited the financial statements on pages 17 to 37.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 12 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on page 11 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

**KPMG Audit Plc**

Bristol

*Chartered Accountants*

*Registered Auditor*

22 April 1999

# Group Profit and Loss Account

for the year ended 31 December 1998

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	Notes	1998 £'000	1997 (restated) £'000
<b>Turnover</b>			
Continuing operations		97,722	92,849
Acquisitions		3,718	–
<b>Total turnover</b>		<b>101,440</b>	92,849
Cost of sales		(54,311)	(50,043)
<b>Gross profit</b>		<b>47,129</b>	42,806
Distribution costs		(1,922)	(1,590)
Administrative expenses		(22,465)	(21,475)
Other operating income		820	458
<b>Operating profit</b>			
Continuing operations		22,640	20,199
Acquisitions		922	–
<b>Total operating profit</b>		<b>23,562</b>	20,199
Interest receivable and similar income	2	1,999	2,085
Interest payable and similar charges	3	(154)	(150)
<b>Profit on ordinary activities before taxation</b>	4	<b>25,407</b>	22,134
Taxation on profit on ordinary activities	5	(9,063)	(8,111)
<b>Profit for the financial year</b>	6	<b>16,344</b>	14,023
Preference dividends on non-equity shares		(77)	(147)
Ordinary dividends on equity shares	7	(9,379)	(8,066)
		(9,456)	(8,213)
<b>Retained profit for the financial year</b>	20	<b>6,888</b>	5,810
		pence	pence
<b>Earnings per share – basic</b>	8	<b>18.89</b>	15.85
– diluted	8	<b>18.86</b>	15.82
<b>Earnings per share before goodwill amortisation – basic</b>	8	<b>19.26</b>	16.06

The 1997 results have been restated as set out in note 10.

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# Balance Sheets

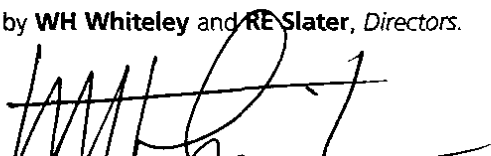
at 31 December 1998

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	Notes	Group 1998 £'000	Group 1997 (restated) £'000	Company 1998 £'000	Company 1997 £'000
<b>Fixed assets</b>					
Intangible assets	10	5,343	2,999	–	–
Tangible assets	11	11,424	9,660	796	865
Investments	12	–	–	1,557	14,724
		<b>16,767</b>	12,659	<b>2,353</b>	15,589
<b>Current assets</b>					
Stocks	13	13,371	14,017	–	–
Debtors falling due within one year	14	26,550	21,382	2,399	1,564
Debtors falling due after more than one year	14	754	1,015	4,250	860
Cash at bank and in hand	15	32,971	34,022	23,606	13,809
		<b>73,646</b>	70,436	<b>30,255</b>	16,233
<b>Creditors:</b>					
Amounts falling due within one year	16	(32,595)	(30,465)	(13,549)	(5,280)
<b>Net current assets</b>		<b>41,051</b>	39,971	<b>16,706</b>	10,953
<b>Total assets less current liabilities</b>		<b>57,818</b>	52,630	<b>19,059</b>	26,542
<b>Creditors:</b>					
Amounts falling due after more than one year	17	(384)	–	–	–
<b>Provisions for liabilities and charges</b>	18	(5,015)	(4,704)	(1,995)	(2,664)
<b>Net assets</b>		<b>52,419</b>	47,926	<b>17,064</b>	23,878
<b>Capital and reserves</b>					
Called up share capital	19	4,371	5,851	4,371	5,851
Share premium account	20	2,988	2,777	2,988	2,777
Capital redemption reserve	20	1,571	85	1,571	85
Revaluation reserve	20	2,405	2,402	–	–
Merger reserve	20	–	–	–	9,254
Profit and loss account	20	41,084	36,811	8,134	5,911
<b>Rotork shareholders' funds</b>		<b>52,419</b>	47,926	<b>17,064</b>	23,878
<b>Equity</b>		<b>52,359</b>	46,375	<b>17,004</b>	22,327
Non-equity		<b>60</b>	1,551	<b>60</b>	1,551
<b>Shareholders' funds</b>		<b>52,419</b>	47,926	<b>17,064</b>	23,878

These financial statements were approved by the board of directors on 22 April 1999 and were signed on its behalf by **WH Whiteley** and **RE Slater**, Directors.

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

	1998	1997 (restated)
	£'000	£'000
Profit for the financial year	16,344	14,023
Revaluation surplus	–	57
Exchange differences	(146)	(1,103)
<b>Total recognised gains and losses for the year</b>	<b>16,198</b>	<b>12,977</b>
Prior year adjustment (as explained in Note 10)	(14,131)	
<b>Total gains and losses recognised since last annual report</b>	<b>2,067</b>	

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

Reported profit on ordinary activities before taxation	25,407	22,134
Realisation of revaluation surplus on sale of property	–	38
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amounts	118	110
<b>Historical cost profit on ordinary activities before taxation</b>	<b>25,525</b>	<b>22,282</b>
<b>Historical cost retained profit for the financial year</b>	<b>7,006</b>	<b>5,958</b>

## Reconciliation of Movements in Rotork Shareholders' Funds

Profit for the financial year	16,344	14,023
Preference dividends on non-equity shares	(77)	(147)
Ordinary dividends on equity shares	(9,379)	(8,066)
Retained profit for the financial year	6,888	5,810
Exchange differences	(146)	(1,103)
New ordinary share capital issued	217	133
Purchase of own preference shares	(2,466)	–
Purchase of own equity ordinary shares	–	(4,571)
Unrealised surplus on revaluation	–	57
Net additions to shareholders' funds	4,493	326
<b>Shareholders' funds at beginning of the year</b> (originally £44,927,000 before prior year adjustment of £2,999,000)	<b>47,926</b>	<b>47,600</b>
<b>Shareholders' funds at end of the year</b>	<b>52,419</b>	<b>47,926</b>

# Statement of Group Cash Flow

for the year ended 31 December 1998

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	Notes	1998 £'000	1997 £'000
<b>Net cash inflow from operating activities</b>	15	<b>21,893</b>	24,762
<b>Returns on investments and servicing of finance</b>			
Interest and similar income received		1,999	2,089
Interest paid		(154)	(148)
Interest element of finance lease payments		–	(2)
Dividends paid on non-equity preference shares		(77)	(147)
		<b>1,768</b>	1,792
<b>Taxation</b>			
UK Corporation tax paid		(4,372)	(3,962)
Overseas tax paid		(3,974)	(4,049)
		<b>(8,346)</b>	(8,011)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(2,450)	(2,241)
Sale of tangible fixed assets		122	412
		<b>(2,328)</b>	(1,829)
<b>Acquisitions and disposals</b>			
Purchase of business		(3,787)	–
Deferred consideration on sale of business		240	247
		<b>(3,547)</b>	247
<b>Dividends paid on equity ordinary shares</b>		<b>(8,391)</b>	(7,408)
<b>Net cash inflow before management of liquid resources and financing</b>		<b>1,049</b>	9,553
<b>Management of liquid resources</b>			
Increase in term deposits		(19,604)	(79)
<b>Financing</b>			
Issue of ordinary share capital		217	133
Purchase of own preference shares		(2,466)	–
Purchase of own equity ordinary shares		–	(4,571)
Repayment of amounts borrowed		(10)	(41)
Capital element of finance lease payments		(9)	(6)
		<b>(2,268)</b>	(4,485)
<b>(Decrease)/increase in cash in the period</b>	15	<b>(20,823)</b>	4,989



# Notes to the Financial Statements

for the year ended 31 December 1998

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

## 1 Accounting policies

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

### *Basis of accounting*

The financial statements have been prepared under the historical cost convention supplemented by the revaluations explained in note 11 to the financial statements and have been prepared in accordance with applicable accounting standards.

### *Consolidation*

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings together with the group's share of the results and net assets of its associated undertakings for the year to 31 December 1998. Goodwill arising on the acquisition of subsidiary undertakings, representing the difference between the fair value of the consideration given and the fair value of the separable net assets acquired, is capitalised and amortised over its estimated economic life. There is a rebuttable presumption that the useful economic life of purchased goodwill is 20 years or less. As more fully explained in note 10, this represents a change in accounting policy, the previous policy being to write off goodwill immediately to reserves on acquisition.

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

### *Foreign exchange*

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

### *Depreciation and amortisation*

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

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

### *Leasing*

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations. Costs in respect of operating leases are charged in arriving at the operating profit.

### *Stocks and work in progress*

Stocks and work in progress are valued at the lower of cost on a 'first in, first out' basis and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses.

### *Deferred taxation*

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future. Advance corporation tax recoverable in future years is deducted in arriving at the balance on the deferred taxation account.

### *Segmental information*

The group has taken advantage of the provisions of the Companies Act 1985 (sch. 4, para. 55(5)) and of SSAP 25 not to disclose segmental or geographical market information on the grounds that, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the group.

### *Turnover*

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

### *Expense classification*

Cost of sales includes all direct manufacturing costs and related overheads including depreciation. Distribution costs consist of transport and marketing costs, but exclude all other overheads. Administrative expenses include costs of product development and all other overheads.

### *Research and development*

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

### *Pensions*

The group operates a number of pension schemes and contributes to these schemes in accordance with qualified actuaries' recommendations. Contributions are charged to the profit and loss account so as to spread the cost over the remaining working lives of the employees within the schemes. Further details are given in note 22 to the financial statements.

### *Changes in presentation of financial information*

FRS9 'Associates and joint ventures' came into effect for these financial statements but has not resulted in any changes in presentation.

FRS10 'Goodwill and intangible fixed assets' and FRS11 'Impairment of fixed assets and goodwill' have been adopted and consequently the balance sheet at 31 December 1997 has been restated under the transitional arrangements in FRS10.

FRS14 'Earnings per share' has been adopted and consequently basic and diluted earnings per share have been calculated in accordance with the new methodology. Comparative basic and diluted earnings per share for 1997 have been recalculated on the same basis.

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# Notes to the Financial Statements

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## 2 Interest receivable and similar income

	Group 1998	Group 1997
Short term deposits	1,999	772
Gains on disposal of investments	—	1,313
	<u>1,999</u>	<u>2,085</u>

## 3 Interest payable and similar charges

Bank overdrafts and loans	27	39
Finance leases	—	2
Term loan	—	2
Discount on bills	11	40
Other	116	67
	<u>154</u>	<u>150</u>

## 4 Profit on ordinary activities before taxation

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

Depreciation and other amounts written off tangible fixed assets:		
Owned assets	1,489	1,359
Assets held under finance lease contracts	5	8
Profit on sale of tangible fixed assets	—	(31)
Amortisation of goodwill	319	185
Research and development expenditure	1,889	1,278
Hire of plant and machinery	612	494
Other operating lease rentals	170	192
Exchange differences realised	(636)	(205)
Auditors:		
Audit fees and expenses	174	140
Taxation and consultancy fees paid to KPMG Audit Plc and its associates in respect of UK companies	20	19

The auditors' remuneration in respect of the company was £28,548 (1997: £24,836)

Taxation and consultancy fees paid to KPMG Audit Plc and its associates in respect of the company were £7,870 (1997: £12,088).

# Notes to the Financial Statements

2

## 5 Taxation on profit on ordinary activities

	Group 1998	Group 1997 (restated)
UK taxes:		
Corporation tax at 31.0% (1997: 31.49%)	6,464	5,499
Deferred taxation	(211)	496
Under provision in prior years	106	72
	<u>6,359</u>	<u>6,067</u>
Double taxation relief	(1,616)	(1,208)
	<u>4,743</u>	<u>4,859</u>
Overseas taxes:		
Current taxation charge	4,101	3,462
Deferred taxation	91	(180)
Under/(over)-provision in prior years	128	(30)
	<u>4,320</u>	<u>3,252</u>
	<u>9,063</u>	<u>8,111</u>

The taxation charge includes £82,565 (1997: £45,234) unrelieved overseas tax arising from the payment of intra group dividends.

## 6 Profit for the financial year

Dealt with in the financial statements of the company	4,885	10,401
Retained by subsidiary undertakings	11,459	3,622
	<u>16,344</u>	<u>14,023</u>

## 7 Ordinary dividends

Interim paid 3.90p per share (1997: 3.45)	3,359	3,023
Final proposed 7.00p per share (1997: 5.85)	6,020	5,043
	<u>9,379</u>	<u>8,066</u>

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# Notes to the Financial Statements

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## 8 Earnings per share

Basic earning per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has only one category of dilutive potential ordinary shares : those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year.

	Earnings	1998 Weighted average number of shares thousands	Per share amount pence	Earnings	1997 Weighted average number of shares thousands	Per share amount pence
Profit attributable to shareholders	16,343	–	–	14,022	–	–
Less: Preference dividends	(77)	–	–	(147)	–	–
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	16,266	86,094	18.89	13,875	87,524	15.85
<b>Effect of dilutive securities</b>						
Options	–	148	–	–	165	–
<b>Diluted EPS</b>						
Adjusted earnings	16,266	86,242	18.86	13,875	87,689	15.82
<b>Supplementary earnings per share to exclude goodwill amortisation</b>						
Basic EPS	16,266	86,094	18.89	13,875	87,524	15.85
Effect of goodwill amortisation	319			185	–	–
<b>Basic EPS excluding goodwill amortisation</b>						
	16,585	86,094	19.26	14,060	87,524	16.06

Supplementary basic EPS has been calculated to exclude the effect of goodwill amortisation. The adjusted numbers provide a more consistent measure of operating performance.

# Notes to the Financial Statements

## 9 Directors and employees

	Group 1998 No.	Group 1997 No.
During the year, the average weekly number of employees, analysed by business activity, was:		
Actuation	795	728
Instruments	76	78
Rotork p.l.c.	6	6
	<u>877</u>	<u>812</u>
UK	441	435
Overseas	436	377
	<u>877</u>	<u>812</u>
	£'000	£'000

Staff costs during the year were:

Wages and salaries	17,034	15,722
Social security costs	1,619	1,540
Pension costs	968	967
	<u>19,621</u>	<u>18,229</u>

### Directors' emoluments

	Salary and fees	Commission	Benefits	1998 Total	1997 Total
Executive directors					
GE Malcolm	80	30	7	117	84
DT Smith to July 1998	51	19	3	73	123
WH Whiteley	145	54	11	210	182
RE Slater from July 1998	37	8	4	49	-
Non-executive directors					
TW Eassie	17	-	-	17	12
R Hawley to November 1998	49	-	-	49	39
RC Lockwood	19	-	-	19	16
JW Matthews from November 1998	2	-	-	2	-
J Lancaster to May 1997	-	-	-	-	7
	<u>400</u>	<u>111</u>	<u>25</u>	<u>536</u>	<u>463</u>

# Notes to the Financial Statements

## 9 Directors and employees (continued)

### Directors' pension entitlements

The following table shows the executive directors' pension entitlements earned during the year and the accumulated entitlement at the year end.

	Age At 31 Dec 1998	Increase in accrued pension over 1998 (Note 1)	Accumulated total accrued pension at 31 Dec 1998 (Note 2)
		£	£
Mr GE Malcolm	53	4,512	31,039
Mr RE Slater (Note 4)	47	342	11,040
Mr DT Smith (Note 5)	60	6,626	57,722
Mr WH Whiteley	50	10,981	61,484

### Notes

1. The increase in accrued pension over the year excludes any increase for inflation.
2. The accrued pension is that which would be paid annually from normal retirement age, based on service to 31 December 1998.
3. Members of the Scheme have the option to pay Additional Voluntary Contributions; these are not included in the table above.
4. The figures for Mr RE Slater relate to the period from 16 July 1998 when he was appointed to the Board of Directors.
5. Mr DT Smith retired on 16 July 1998, and the figures above relate to the period from 1 January 1998 to that date.
- 6a. The Pension Scheme terms for executive directors include a normal retirement age of 60;
- 6b. a capital sum equal to four times basic annual salary is payable in the event of death in service;
- 6c. a dependants pension of one-half of prospective pension is payable in the event of death in service;
- 6d. a dependants pension of one-half of pre-commutation pension is payable on death in retirement;
- 6e. post-retirement increases are applied at the rate of the increase in the Index of Retail Prices up to 5% per annum, subject to a minimum increase of 4.5% per annum.

# Notes to the Financial Statements

## 9 Directors and employees (continued)

### Directors' Interests

#### 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 1998 (compared with interests at 31 December 1997 or at date of appointment) were as follows:

	1998		1997	
	Beneficial	Non Beneficial	Beneficial	Non Beneficial
TW Eassie	86,213	—	86,213	—
RC Lockwood	—	—	—	—
GE Malcolm	11,589	1,339	10,670	1,339
WH Whiteley	78,703	—	76,968	—
RE Slater (appointed July 1998)	21,356	—	—	—
JW Matthews (appointed November 1998)	—	—	—	—

The beneficial interests as at 31 December included the following ordinary shares held under The Rotork Profit-Linked Share Scheme in a trust:

TW Eassie	—	1,842
GE Malcolm	2,433	2,384
RE Slater	1,918	—
WH Whiteley	4,337	3,916

The Rotork Profit-Linked Share Scheme was approved by the Inland Revenue in 1979. Up to 5% of profits are distributed to employees annually, by reference to years of service and salary, in the form of ordinary shares. Allocations to directors in 1998 were:

GE Malcolm	919	798
RE Slater	732	—
WH Whiteley	1,735	1,525

These figures are included in the beneficial interests.

Save as disclosed, no director or his family had any interest in the shares of the company at 31 December 1998.

### Share options

Interests of directors in the company's Employee Share Option Schemes consisted of 12,912 options in ordinary shares of the company held by Mr RE Slater (1997: nil). These options were granted on 13 April 1994 and are exercisable at 182p per share until 12 April 2004.

There have been no changes in the interests in shares or options of the directors listed above between 31 December 1998 and 31 March 1999.



# Notes to the Financial Statements

## 10 Intangible Fixed Assets

	<b>Group Goodwill</b>
Cost	
At 1 January 1998	17,130
Additions	2,663
At 31 December 1998	19,793
Aggregate amortisation	
At 1 January 1998	14,131
Charge for the year	319
At 31 December 1998	14,450
Net book amount at 31 December 1998	5,343
Net book amount at 31 December 1997	2,999

The goodwill arising on the acquisition of Alecto Valve Actuators BV is being amortised on a straight-line basis over 20 years.

On implementation of FRS 10, goodwill of £17,130,000 less amortisation of £14,131,000 arising on the acquisition of subsidiary undertakings, that had previously been eliminated against reserves, but would not have been fully written down under the requirements of the FRS, has been reinstated by way of prior year adjustment. The reinstated goodwill is being amortised over a period of 20 years from the original dates of acquisition.

The effect of change in accounting policy has been to reduce the current year's profit before taxation by the amortisation charge of £319,000.

The comparative figures for 1997 have been restated, the effect being to reduce the profit before taxation by the goodwill amortisation charge of £185,000.

## 11 Tangible Fixed Assets

	<b>Group</b>			<b>Company</b>		
	Land and Buildings	Machinery Plant and Equipment	Total	Land and Buildings	Machinery Plant and Equipment	Total
Cost or valuation						
At 1 January 1998	8,328	13,684	22,012	1,078	71	1,149
Exchange differences	40	22	62	(41)	–	(41)
Additions	731	1,751	2,482	5	15	20
Acquisitions	543	339	882	–	–	–
Disposals	–	(464)	(464)	–	(84)	(84)
Reclassification	65	(65)	–	–	–	–
At 31 December 1998	9,707	15,267	24,974	1,042	2	1,044
Depreciation						
At 1 January 1998	1,771	10,581	12,352	222	62	284
Exchange differences	10	30	40	(1)	–	(1)
Charge for year	318	1,176	1,494	27	4	31
Disposals	(1)	(335)	(336)	–	(66)	(66)
Reclassification	46	(46)	–	–	–	–
At 31 December 1998	2,144	11,406	13,550	248	–	248
Net book value						
At 31 December 1998	7,563	3,861	11,424	794	2	796
At 31 December 1997	6,557	3,103	9,660	856	9	865
Net book value						
Included finance leased assets						
At 31 December 1998		17	17			
At 31 December 1997		66	66			

# Notes to the Financial Statements

## 11 Tangible Fixed Assets (continued)

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

	Group 1998	Group 1997
Cost	7,873	6,505
Depreciation	(1,738)	(1,486)
Net book value at 31 December	6,135	5,019
Net book value included:		
Freehold land (not depreciated)	1,247	1,079
Freehold buildings	4,206	3,518
Long leasehold	2,084	1,923
Short leasehold	26	37
Net book value at 31 December	7,563	6,557

The cost or valuation figure of £9,707,000 (1997: £8,328,000) included the following properties at the revalued amounts shown. The year of revaluation is also given.

London leasehold, 1983	170	170
Bath freehold, 1991	105	105
Bath leasehold, 1991	2,245	2,245
Spain freehold, 1997	284	284
	2,804	2,804

The revaluations of the London and Bath properties were based on the market value for the existing use.

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

## 12 Investments (held as fixed assets)

A listing of the major investments is included in the directory on pages 38 to 39.

	Company
<b>Shares in group companies</b>	
At 1 January 1998	14,724
Provisions	(13,167)
At 31 December 1998	1,557

# Notes to the Financial Statements

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## 13 Stocks and work in progress

	Group 1998	Group 1997
Raw materials and purchased components	8,460	6,335
Work in progress	3,883	6,326
Finished stocks	1,028	1,356
	<u>13,371</u>	<u>14,017</u>

## 14 Debtors

	Group 1998	Group 1997	Company 1998	Company 1997
Amounts falling due within one year:				
Trade debtors	21,576	18,267	–	5
Amounts owed by subsidiary undertakings	–	–	1,058	1,067
Other debtors	1,913	1,038	358	183
Prepayments and accrued income	1,146	933	83	27
Taxation recoverable	361	585	3	4
Deferred taxation	656	281	–	–
Advance corporation tax recoverable	658	38	657	38
Deferred consideration	240	240	240	240
	<u>26,550</u>	<u>21,382</u>	<u>2,399</u>	<u>1,564</u>
Amounts falling due after more than one year:				
Trade debtors	75	100	–	–
Amounts owed by subsidiary undertakings	–	–	3,630	–
Other debtors	59	55	–	–
Deferred consideration	620	860	620	860
	<u>754</u>	<u>1,015</u>	<u>4,250</u>	<u>860</u>
	<u>27,304</u>	<u>22,397</u>	<u>6,649</u>	<u>2,424</u>

# Notes to the Financial Statements

## 15 Cash at bank and in hand

Reconciliation of net cash flow to movement in net funds

	Group 1998	Group 1997	Company 1998	Company 1997
Cash at bank and in hand	6,295	26,965	56	9,755
Term deposits	26,676	7,057	23,550	4,054
	<u>32,971</u>	<u>34,022</u>	<u>23,606</u>	<u>13,809</u>

Term deposits comprise fixed term deposits held in UK banks maturing within one year.

## Cash Flow Analysis

	Group 1998	Group 1997
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	23,562	20,199
Depreciation	1,494	1,336
Goodwill amortisation	319	185
Other	20	(63)
Decrease/(increase) in stocks	1,080	(3,177)
(Increase)/decrease in debtors	(4,425)	304
(Decrease)/increase in creditors and provisions	(157)	5,978
	<u>21,893</u>	<u>24,762</u>
Reconciliation of net cash flow to movement in net funds		
(Decrease)/increase in cash in the period	(20,823)	4,989
Cash outflow to decrease debt	19	47
Cash outflow from change in liquid resources	19,604	79
Change in net funds resulting from cash flows	<u>(1,200)</u>	<u>5,115</u>
Other non-cash items:		
Repayment of finance lease	2	-
New finance leases	-	(20)
Translation difference	149	(38)
Movement in net funds in the period	<u>(1,049)</u>	<u>5,057</u>
Net funds at 1 January 1998	33,849	28,792
Net funds at 31 December 1998	<u>32,800</u>	<u>33,849</u>

## Analysis of net funds

	At 1 Jan 1998	Cash flow	Other non- cash changes	Exchange movement	At 31 Dec 1998
Cash in hand, at bank	26,965	(20,853)	-	183	6,295
Overdrafts	(142)	30	-	(50)	(162)
	<u>26,823</u>	<u>(20,823)</u>	<u>-</u>	<u>133</u>	<u>6,133</u>
Debt due within 1 year	(10)	10	-	-	-
Finance leases	(21)	9	2	1	(9)
Term deposits	7,057	19,604	-	15	26,676
Total	<u>33,849</u>	<u>(1,200)</u>	<u>2</u>	<u>149</u>	<u>32,800</u>

# Notes to the Financial Statements

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## 16 Creditors: amounts falling due within one year

	Group 1998	Group 1997	Company 1998	Company 1997
Industrial Development Revenue Bond	–	10	–	–
Bank loans and overdrafts	162	142	1,518	1
Net obligations under finance leases	9	21	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Borrowings	171	173	1,518	1
Trade creditors	8,889	7,423	16	6
Bills of exchange	332	127	–	–
Amounts owed to subsidiary undertakings	–	–	4,569	–
Corporation tax	6,618	5,320	766	20
Other taxes and Social Security	787	760	16	35
Deferred consideration on acquisition	217	–	–	–
Other creditors	283	220	21	11
Accruals and deferred income	9,278	11,399	623	164
Dividends payable	6,020	5,043	6,020	5,043
	<hr/>	<hr/>	<hr/>	<hr/>
	32,595	30,465	13,549	5,280
<b>Total borrowings comprise:</b>				
Secured:				
Industrial Development Revenue Bond	–	10	–	–
Bank loans and overdrafts	162	142	1,518	1
	<hr/>	<hr/>	<hr/>	<hr/>
	162	152	1,518	1
Unsecured:				
Net obligations under finance leases	9	21	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	171	173	1,518	1
	<hr/>	<hr/>	<hr/>	<hr/>
Analysis for cash flow purposes (see note 15 on page 31)				
Overdrafts and short-term loans	162	142		
Financing	9	31		
	<hr/>	<hr/>		
	171	173		
	<hr/>	<hr/>		

### Industrial Development Revenue Bond

Under an agreement dated 1 December 1982, Rotork Controls Inc. entered into an agreement to finance the purchase of its factory through a US\$1,000,000 Industrial Development Revenue Bond. The term of the agreement was 15 years, with quarterly payments of US\$16,670 which began on 1 April 1983.

### Bank loans and overdrafts

The secured overdraft represents a facility for Rotork Controls (Korea) Co. Limited, secured by accepted letters of credit.

All of the borrowings (including obligations under finance leases) outstanding at 31 December 1998 are repayable within one year or on demand.

# Notes to the Financial Statements

## 17 Creditors: amounts falling due after more than one year

	Group 1998	Group 1997
Deferred consideration for acquisitions	384	—

## 18 Provisions for liabilities and charges

	Group					Company		
	Deferred Taxation	Warranty	Pensions	Other	Total	Deferred Taxation	Other	Total
Balance at 1 January 1998	200	1,337	687	2,480	4,704	132	2,532	2,664
On acquisition	7	—	—	28	35	—	—	—
Exchange differences	8	(6)	(1)	5	6	—	—	—
Utilised during the year	(4)	(586)	(88)	(1,000)	(1,678)	—	(942)	(942)
Charged in the profit and loss account	360	1,308	109	171	1,948	268	5	273
Balance at 31 December 1998	571	2,053	707	1,684	5,015	400	1,595	1,995

The amounts provided for deferred taxation are:

	Group 1998 amount provided	Group 1998 full potential liability	Group 1997 amount provided	Group 1997 full potential asset
Difference between accumulated depreciation and capital allowances	164	174	312	402
Other timing differences	(249)	303	(393)	(792)
UK	28	38	132	217
Overseas	(113)	439	(213)	(607)
	(85)	477	(81)	(390)
Included within debtors	(656)		(281)	
Included within provisions for liabilities and charges	571		200	
	(85)		(81)	
	Group 1998 amount provided	Group 1998 full potential liability	Group 1997 amount provided	Group 1997 full potential liability
Difference between accumulated depreciation and capital allowances	78	78	—	85
Other timing differences	322	322	132	132
	400	400	132	217

No provision for deferred taxation has been made in relation to the surplus on the revaluation of land and buildings included in the revaluation reserve. If these properties were disposed of at their values in the accounts, it is estimated that there would be no taxation liability after relief for available losses.

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

# Notes to the Financial Statements

## 19 Share capital

	Authorised		Issued and fully paid-up	
	1998	1997	1998	1997
Non-equity 9½% cumulative preference shares of £1 each	65	1,551	65	1,551
Equity ordinary shares of 5p each	5,449	5,449	4,306	4,300
	<u>5,514</u>	<u>7,000</u>	<u>4,371</u>	<u>5,851</u>

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

Following ordinary and preference shareholder approval given in May 1998, 1,486,429 preference shares (95.87%) had been bought in at 31 December 1998 at an average price of 162p. In January 1999 a further 3,941 preference shares were bought in at an average price of 180p.

The only ordinary shares issued during the year were: 123,372 (1997: 73,075) under The Rotork Employee Share Option Scheme at prices between 76p and 182p and 9,886 (1997: 11,627) under The Rotork 1995 Employee Share Option Scheme at prices between 192p and 258.5p.

The company repurchased 1,200,000 ordinary shares at 267p on 28 November 1997 and a further 500,000 ordinary shares at 267p on 1 December 1997. There were no such purchases in 1998.

## 20 Equity reserves

	Group				Company			
	Share premium	Capital redemption reserve	Revaluation reserve	Profit and loss account	Share premium	Capital redemption reserve	Merger reserve	Profit and loss account
As at 1 January								
1998 (restated) (Note 1)	2,777	85	2,402	36,811	2,777	85	9,254	5,911
Profit retained	—	—	—	6,888	—	—	—	(4,571)
Transfer	—	—	—	—	—	—	(9,254)	9,254
Premium on new shares issued	211	—	—	—	211	—	—	—
Purchase of own shares	—	1,486	—	(2,466)	—	1,486	—	(2,466)
Exchange differences	—	—	3	(149)	—	—	—	6
As at 31 December 1998	<u>2,988</u>	<u>1,571</u>	<u>2,405</u>	<u>41,084</u>	<u>2,988</u>	<u>1,571</u>	<u>—</u>	<u>8,134</u>

### Notes

- Originally £33,812,000 before prior year adjustment of £2,999,000. See note 10.

# Notes to the Financial Statements



## 21 Commitments

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

	Group 1998	Group 1997
Contracted	457	518
Commitments under operating leases:		
	Land and buildings	Machinery, plant and equipment
Instalments falling due within one year for leases expiring:		
Within one year	52	112
From two to five years	105	363
Over five years	90	—
At 31 December 1998	247	475
Within one year	20	107
From two to five years	88	257
Over five years	134	—
At 31 December 1997	242	364



# Notes to the Financial Statements

## 22 Pensions

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

The total pension cost for the group was £968,000 (1997: £967,000) of which £321,000 (1997: £290,000) related to the overseas schemes.

The pension cost relating to the principal scheme which covers the majority of UK employees is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the principal UK scheme was as at 31 March 1998. The assumptions which have the most significant effect on the valuation are those relating to the rate of return on investments (7.75% per annum), the rate of increase in salaries (6.0% per annum) and the rate of increase in present and future pensions (4.5% per annum).

At the date of the latest actuarial valuation, the market value of the assets of the principal UK scheme was £37,670,000 (excluding members' Additional Voluntary Contributions). The actuarial value of the assets was sufficient to cover 115% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The on-going contribution rates for members and employers have been maintained on the recommendation of the actuary. The pension costs of the other defined benefit scheme which covers US employees have been determined in accordance with advice from an independent qualified actuary.

An amount of £706,000 (1997: £638,561) is included in provisions, which represents the excess of the accumulated pension costs over the payment of contributions to the US fund.

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## 23 Contingent liabilities

	Group 1998	Group 1997	Company 1998	Company 1997
Performance guarantees and indemnities	4,230	2,505	539	—
Guarantees for bank overdrafts of UK subsidiary undertakings	—	—	240	304

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

# Notes to the Financial Statements

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## 24 Acquisitions

On 3 February 1998 the group acquired the whole of the issued share capital of Alecto Valve Actuators BV. Details of the acquisition at the rate of exchange on the date of the acquisition are:

Cash consideration and related deal costs	3,474
Deferred consideration	536
	<hr/>
	4,010
Net assets acquired	(1,347)
	<hr/>
Goodwill arising on acquisition	2,663
	<hr/>

The deferred consideration is payable over three years if certain profit levels are achieved.

The following table analyses the fair value of the net assets acquired. These were the same as the book value at the date of acquisition.

	Fair value of assets acquired
Tangible fixed assets	877
Stock	514
Debtors	643
Creditors and provisions	(665)
Corporation tax	(15)
Deferred tax	(7)
	<hr/>
	1,347
	<hr/>

The results for the year that have been consolidated in the group's accounts are:

Turnover	3,718
Cost of sales	(2,410)
	<hr/>
Gross profit	1,308
Distribution costs	(44)
Administrative expenses	(143)
Other operating expenses	(199)
	<hr/>
Operating profit	922
	<hr/>

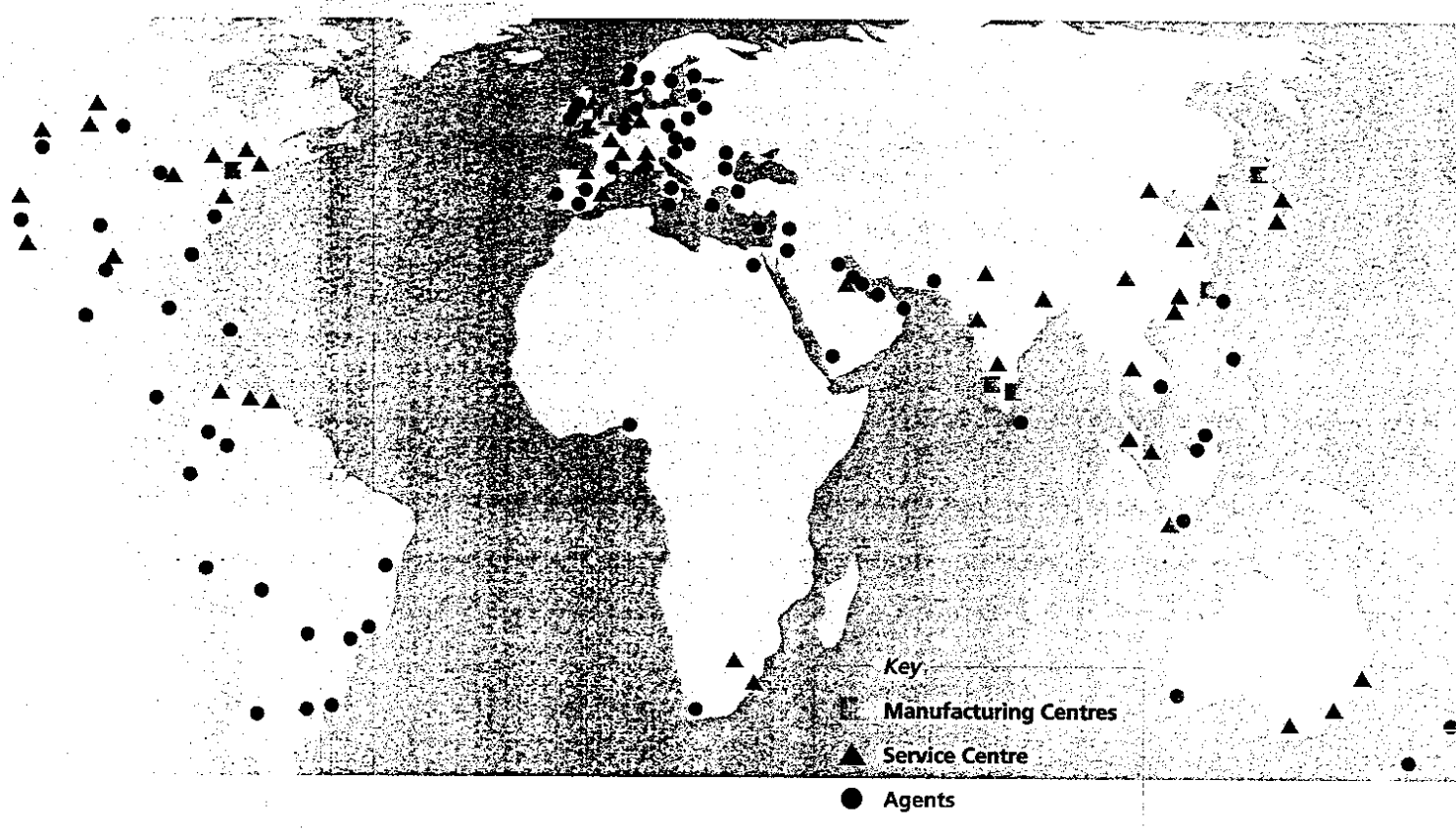
In its last financial year to 31 December 1997, Alecto Valve Actuators BV made a profit after tax of £1,539,000. For the period since that date to the date of acquisition, Alecto Valve Actuators BV management accounts show a profit including all recognised gains and losses as follows:

Turnover	329
Operating profit	95
Profit before tax	95
Taxation	(33)

rotork

# Directory

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**Rotork p.l.c., England**  
Holding company  
Roger Lockwood  
Chairman (non-executive)  
WH Whiteley  
Chief executive  
Tel: 01225 733200  
Fax: 01225 733381

**Rotork Controls Ltd, England**  
100% owned by Rotork p.l.c.  
William Whiteley  
Chief executive  
Tel: 01225 733200  
Fax: 01225 333467

**Exeeco Ltd, England**  
100% owned by Rotork Controls Ltd  
Martin Perkins  
Managing director  
Tel: 0113 256 7922  
Fax: 0113 256 3556

**Valvekits Group Ltd, England**  
100% owned by Rotork Controls Ltd  
Alan Nicolson  
Managing director  
Tel: 01623 440211  
Fax: 01623 440214

**Rotork Controls Inc, USA**  
100% owned by Rotork Inc  
Robert Arnold  
President  
Tel: +1 716 328 1550  
Fax: +1 716 328 5848

**Rotork Controls (Canada) Ltd, Canada**  
100% owned by Rotork Overseas Ltd  
Chris Bone  
Vice president  
Tel: +1 403 569 9455  
Fax: +1 403 569 9414

**Rotork Motorisation SA, France**  
100% owned by Rotork Overseas Ltd  
Bruno Deverly  
Directeur général  
Tel: +331 43 11 15 50  
Fax: +331 48 35 42 54

**Rotork Controls (Italia) Srl, Italy**  
100% owned by Rotork Overseas Ltd  
Cesare Cereghini  
General manager  
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Fax: +392 45703301

**Fluid System Srl, Italy**  
100% owned by Rotork Overseas Ltd  
Carlo Marianetti  
Managing director  
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Fax: +39 0583 403482

**Rotork Controls (Deutschland) GmbH, Germany**  
100% owned by Rotork Overseas Ltd  
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Geschäftsführer  
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**Rotork Controls (España) SL, Spain**  
100% owned by Rotork Overseas Ltd  
Joaquin Pastor-Velasquez  
General manager  
Tel: +34 4 676 6011  
Fax: +34 4 676 6018

# Directory

## Rotork Controls (Singapore) Pte Ltd, Singapore

100% owned by Rotork Overseas Ltd  
Peter France  
General manager  
Tel: +65 4571233  
Fax: +65 4576011

## Rotork Australia Pty Ltd, Australia

100% owned by Rotork Overseas Ltd  
Jeff Quarrell  
General manager  
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Fax: +61 353 381570

## Rotork BV, Netherlands

100% owned by Rotork Overseas Ltd  
Frank Koopmans  
General manager  
Tel: +31 10 4146911  
Fax: +31 10 4144750

## Alecto Valve Actuators BV, Netherlands

100% owned by Rotork BV  
Harry Aalberts  
General manager  
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Fax: +31 53 5383939

## Rotork Arabia Ltd, Saudi Arabia

60% owned by Rotork Overseas Ltd  
Howard Mutters  
General manager  
Tel: +966 3 833 0702  
Fax: +966 3 833 9369

## Rotork Controls (India) Ltd, India

100% owned by Rotork Controls Ltd  
Ashok Jayaram  
President  
Tel: +91 44 6258494  
Fax: +91 44 6257108

## Rotork-Controls de Venezuela SA, Venezuela

100% owned by Rotork Overseas Ltd  
Luis Benedetti  
General manager  
Tel: +58 2 2653536  
Fax: +58 14 9250822

## Rotork Ltd, Hong Kong

100% owned by Rotork Overseas Ltd  
Eric Li  
Manager  
Tel: +852 2 5202390  
Fax: +852 2 5289746

## Rotork Controls (Korea) Co, Ltd, South Korea

100% owned by Rotork Overseas Ltd  
Y K Kim  
General manager  
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Fax: +82 2 565 4802

## Shenzhen Sinopec-Rotork Actuation Co, Ltd, China

35% owned by Rotork Controls Ltd  
Wang Lei  
General manager  
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Fax: +755 6639710

## Rotork Africa (Pty) Ltd, South Africa

100% owned by Rotork Overseas Ltd  
Lee Howard  
Managing director  
Tel: +27 11 4539741  
Fax: +27 11 4539894

## Rotork (Thailand) Ltd, Thailand

100% owned by Rotork Inc.  
Chaitawat Chotikawanish  
Manager  
Tel: +66 2 259 3918  
Fax: +66 2 259 3920

## Rotork (Malaysia) Sdn Bhd, Malaysia

100% owned by Rotork Overseas Ltd  
P K Ow  
General manager  
Tel: +60 3 2446418  
Fax: +60 3 2446416

## Rotork Japan Co Ltd, Japan

Masaru Sakurai  
General Manager  
Tel: +81 3 3294 8551  
Fax: +81 3 3294 6460

## Rotork Instruments Ltd, England

100% owned by Rotork p.l.c.  
Derek Olson  
Managing Director  
Tel: +1582 399499  
Fax: +1582 399444

## Rotork Inc, USA

100% owned by Rotork Overseas Ltd  
Robert Arnold  
Director  
Tel: +1 716 328 1550  
Fax: +1 716 328 5845

## Rotork Overseas Ltd, England

100% owned by Rotork p.l.c.  
Robert Slater  
Director  
Tel: +1225 733200  
Fax: +1225 733381

## Graphics Interface Ltd, England

25% owned by Rotork p.l.c.  
Richard Knowles  
Director  
Tel: +1225 331304  
Fax: +1225 312621

All the shares in subsidiary undertakings are of the equity class. Countries of incorporation are as stated. All principal subsidiary undertakings are shown above.

# Notice of Meeting

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Notice is hereby given that the forty-second annual general meeting of Rotork p.l.c. will be held at Rotork House, Brassmill Lane, Bath BA1 3JQ on 20 May 1999 at 12 noon for the following purposes:

## Ordinary business

To consider and, if thought fit, to pass the following ordinary resolutions:

- Resolution 1* That the directors' report and accounts and the auditors' report thereon for the year ended 31 December 1998 be received and adopted.
- Resolution 2* That a final dividend at the rate of 7.00p per share on the ordinary share capital of the company be declared for the year ended 31 December 1998 payable on 24 May 1999 to shareholders on the register at close of business on 12 April 1999.
- Resolution 3* That Mr. JW Matthews be re-elected a director of the company.
- Resolution 4* That Mr. RE Slater be re-elected a director of the company.
- Resolution 5* That Mr. RC Lockwood be re-elected a director of the company.
- Resolution 6* That KPMG Audit Plc be re-appointed as the company's auditors until the conclusion of the next annual general meeting of the company.
- Resolution 7* That the directors be authorised to fix the auditors' remuneration.

## Special business

To consider and, if thought fit, to pass the following resolution, which will be proposed as an ordinary resolution:

- Resolution 8* 8.1 That the directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") during the period expiring on the date of the next annual general meeting after the passing of this resolution to exercise all powers of the company to allot relevant securities (as defined in section 80(2) of the Act) and to make an offer or agreement which would or might require such relevant securities to be allotted after that date and the directors may allot relevant securities after the expiry of such authority pursuant to such offer or agreement. Securities allotted under this authority shall not exceed the nominal value of the present unissued share capital of the company.
- 8.2 To revoke any previous authorities to the directors to allot shares in the company provided that such revocation shall not have retrospective effect.

Subject to and conditional upon resolution 8 being passed, to consider and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:

- Resolution 9* 9.1 That the directors be and they are hereby empowered for the period from the passing of this resolution until the conclusion of the next annual general meeting of the company to allot equity securities (as defined in section 94 of the Companies Act 1985 ("the Act")) of the company under the authority conferred by resolution 8 above as if section 89(1) of the Act did not apply to such allotment and the directors shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired provided that this power shall be limited:
- 9.1.1 to the allotment of equity securities in connection with any invitation made to the holders of ordinary shares to subscribe by way of rights where the equity securities attributable to the interests of all the holders of ordinary shares are proportionate (as nearly as maybe) to the respective numbers of ordinary shares held by them but subject to any exceptions exclusions or other arrangements which in the opinion of the directors are necessary or expedient for the purpose of dealing with fractional entitlements otherwise arising or legal or practical problems under the laws of any territory or the requirements of any recognised stock exchange or any regulatory body in any territory; and
- 9.1.2 to the allotment (otherwise than pursuant to 8.1.1 above) of equity securities up to an aggregate number of 4,306,915 ordinary shares of 5p each being 5 per cent of the aggregate number of issued ordinary shares of the company as at 31 March 1999.
- 9.2 To revoke all authorities conferred under section 95 of the Act prior to this resolution being passed provided that such revocation shall not have retrospective effect.

# Notice of Meeting

To consider, and if thought fit, to pass the following resolutions which will be proposed as special resolutions:

**Resolution 10** That, subject to the consent of the holders of 9½% cumulative preference shares of £1 each not being withdrawn in accordance with the resolution passed by the holders thereof on 3 August 1995, the company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985 (as amended)) of ordinary shares of 5p each of the company provided that:

- 10.1 the maximum number of ordinary shares hereby authorised to be acquired is 8,500,000 (9.87%);
- 10.2 the minimum price which may be paid for any such share is 5 pence (exclusive of expenses);
- 10.3 the maximum price (exclusive of expenses) which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and
- 10.4 the authority hereby conferred shall expire fifteen months from the date of this resolution or, if earlier, at the conclusion of the annual general meeting of the company in 2000, but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of ordinary shares may be made in pursuance of any such contract.

**Resolution 11** That subject to the consent of the holders of 9½% cumulative Preference Shares of £1 each ("preference shares") not being withdrawn in accordance with the resolution passed by the holders thereof on 22 May 1998, the company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985 (as amended)) of preference shares of the company provided that:

- 11.1 the maximum number of preference shares hereby authorised to be acquired is 64,134 (being all the preference shares remaining in issue at the date of this notice);
- 11.2 the minimum price which may be paid for any such share is £1.00 (exclusive of expenses);
- 11.3 the maximum price (exclusive of expenses) which may be paid for any such share is an amount equal to whichever is the higher of (i) 105% of the average of the middle market quotations for a preference share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased or (ii) £1.50; and
- 11.4 the authority hereby conferred shall expire fifteen months from the date of this resolution or, if earlier, at the conclusion of the annual general meeting of the company in 2000, but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of preference shares may be made in pursuance of any such contract.

A member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, to vote at the meeting. A proxy need not also be a member. Members returning a proxy form will be able to attend and vote in person if they wish to do so.

By Order of the Board

**SR Jones**  
Secretary  
22 April 1999

Rotork House  
Brassmill Lane  
Bath BA1 3JQ

## Notes

1. To be effective, forms of proxy must be duly completed and returned so as to reach Lloyds Bank Registrars, 54 Pershore Road South, Birmingham B30 1BR not less than 48 hours before the time appointed for the meeting, or adjourned meeting, as the case may be.
2. Only those shareholders registered in the register of members of the company as at 6 p.m. on 18 May 1999 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 p.m. on 18 May 1999 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. Contracts of service (unless expiring or determinable within one year without payment of compensation) between the company or its subsidiaries and any director together with a statement of transactions of directors (and of their family interests) in the share capital of the company and any of its subsidiaries are available for inspection at the registered office of the company on any weekday (except Saturdays and public holidays) during normal business hours.

ROTORK

# ROTORK p.l.c.

## Form of Proxy

For use at the Annual General Meeting of the company to be held on 20 May 1999.

I \_\_\_\_\_

of \_\_\_\_\_

*Please use block capitals*

Being (a) member(s) of Rotork p.l.c. hereby appoint\*

or failing him the chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the company to be held on 20 May 1999 and at any adjournment thereof.

\*If no name is inserted the chairman of the meeting will act as proxy.

Date \_\_\_\_\_

Signature(s) \_\_\_\_\_

Please indicate with an X in the appropriate box how you wish your votes to be cast. Unless otherwise directed, the proxy will vote or abstain as he thinks fit.

RESOLUTIONS	FOR	AGAINST
<b>1. Ordinary business –</b> To receive and adopt the directors' report and accounts and the auditors' report thereon for 1998.		
<b>2.</b> To declare a final dividend.		
<b>3.</b> To re-elect JW Matthews as a director (member of the Nomination Committee).		
<b>4.</b> To re-elect RE Slater as a director.		
<b>5.</b> To re-elect RC Lockwood as a director (member of the Nomination Committee).		
<b>6.</b> To re-appoint KPMG Audit Plc as auditors of the company.		
<b>7.</b> To authorise the directors to fix the remuneration of the auditors.		
<b>8. Special business –</b> To authorise the directors to allot shares.		
<b>9. Special resolutions –</b> To empower the directors to make rights and other share issues for cash.		
<b>10.</b> To empower the company to repurchase ordinary shares subject to the consent of the preference shareholders granted on 3 August 1995 not being withdrawn.		
<b>11.</b> To empower the company to repurchase preference shares subject to the consent of the preference shareholders granted on 22 May 1998 not being withdrawn.		

**Notes:**

- In the case of a corporation, this form must either be executed under its common seal or be signed by some agent or officer duly authorised.
- In the case of joint holders only one signature is required.
- This form of proxy (in the case of a form signed by an agent of a member who is not a corporation) together with the authority under which such form is signed or an office copy or duly certified copy thereof must be deposited at the office of the company's registrar, Lloyds Bank Registrars, 54 Pershore Road South, Birmingham B30 1BR not less than 48 hours before the time appointed for the meeting or any adjournment thereof.
- A proxy need not be a member of the company.
- Any alteration made to this form of proxy must be initialled.

ROTORK

SECOND FOLD

**BUSINESS REPLY SERVICE**  
Licence No. BM 2122

1



**Lloyds Bank Registrars  
54 Pershore Road South  
Birmingham  
B30 1BR**

FIRST FOLD

THIRD FOLD, THEN TUCK IN FLAP



# Form for completion by members of the

## **rotork** Profit-Linked Share Scheme

17

I, the undersigned, having shares appropriated to me under The Rotork Profit-Linked Share Scheme, desire

The Trustee of  
**The Rotork Profit-Linked Share Scheme**

to vote as follows at the forthcoming annual general meeting of Rotork p.l.c. on the resolutions set out in the notice of meeting and, if so indicated by me, to seek a poll (i.e. ballot).

Name (block capitals) \_\_\_\_\_

Date \_\_\_\_\_

RESOLUTIONS	VOTE		POLL	
	FOR	AGAINST	YES	NO
<b>1. Ordinary business –</b> To receive and adopt the directors' report and accounts and the auditors' report thereon for 1998.				
<b>2.</b> To declare a final dividend.				
<b>3.</b> To re-elect JW Matthews as a director (member of the Nomination Committee).				
<b>4.</b> To re-elect RE Slater as a director.				
<b>5.</b> To re-elect RC Lockwood as a director (member of the Nomination Committee).				
<b>6.</b> To re-appoint KPMG Audit Plc as auditors of the company.				
<b>7.</b> To authorise the directors to fix the remuneration of the auditors.				
<b>8. Special business –</b> To authorise the directors to allot shares.				
<b>9. Special resolutions –</b> To empower the directors to make rights and other share issues for cash.				
<b>10.</b> To empower the company to repurchase ordinary shares subject to the consent of the preference shareholders granted on 3 August 1995 not being withdrawn.				
<b>11.</b> To empower the company to repurchase preference shares subject to the consent of the preference shareholders granted on 22 May 1998 not being withdrawn.				

**Notes:**

- The Trustee will attend the meeting on behalf of the scheme members.
- The Trustee will only exercise its voting rights in respect of your shares if you complete this form and lodge it with the company's registrars Lloyds Bank Registrars, 54 Pershore Road South, Birmingham B30 1BR, by no later than three days before the date fixed for the meeting.
- In the case of resolutions decided by a show of hands, the Trustee will only vote in accordance with the wishes of a majority of the participants in the scheme.  
In the case of a poll, the Trustee will vote in respect of your shares in accordance with your wishes.

**rotork**

SECOND FOLD

BUSINESS REPLY SERVICE  
Licence No. BM 2122

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**Lloyds Bank Registrars  
54 Pershore Road South  
Birmingham  
B30 1BR**

FIRST FOLD

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