

# spectris

## **ENHANCING PRODUCTIVITY THROUGH PRECISION INSTRUMENTATION AND CONTROLS**

Report and Accounts 2001



2001 was a difficult year but delivered earnings similar to that of 2000. Anticipating market demand, timely management actions were taken which, combined with the strong fundamentals of the business, position us well for the future.

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In May 2001 the company changed its name from Fairey Group plc to Spectris plc, reflecting the transformation to a company now entirely focused on precision instrumentation and controls.

## Financial highlights

	2001	2000
Sales	<b>£543.1m</b>	£464.0m
Operating profit *	<b>£60.7m</b>	£57.8m
Normalised earnings per share *	<b>33.6p</b>	34.7p
Dividend per share	<b>12.25p</b>	11.7p

\* Before exceptional items and goodwill amortisation

2000 figures have been restated following adoption of FRS 17. Figures prior to 2000 have not been restated

- **Sales and operating profit increased, despite challenging conditions**
- **E.p.s. reduction contained to 3%**
- **Gross margins maintained**
- **Management actions:**
  - Timely reduction of cost base resulted in exceptional restructuring charges of £12m
  - Continued emphasis on new product and market development, with Asia strong
  - Spectris AG businesses met expectations in the first full year

After an exceptionally strong prior year, 2001 presented Spectris with testing challenges.

## Chairman's statement

After an exceptionally strong prior year, 2001 presented Spectris with testing challenges. The economic climate in the United States, our most important geographic market, progressively worsened and few of our customer industries were unaffected.

Sales and operating profit in the year increased by 17% and 5% respectively which included a full year contribution from the mid-2000 acquisition of Spectris AG. Sales in the non-AG businesses fell back by nearly 11% and operating margins at 11.2% were slightly reduced compared with the prior year. Pre-tax profit was £50.4m and earnings per share were 33.6p compared with a 2000 figure of 34.7p (all before goodwill amortisation). Despite these reduced headline figures, considerable credit should be given to our managements in adapting to unpredictable and volatile circumstances.

Cash conversion, measured by the proportion of operating profit converted into operating cash after accounting for net capital expenditure, was 71%. This was slightly below the company's traditional target, reflecting a higher than normal level of capital investment, particularly in the newly acquired businesses. Net indebtedness was £131.5m compared with £153.5m at the previous year end and interest was covered 5.5 times. It is proposed to pay a final dividend of 8.5p, making a total of 12.25p, an increase of 4.7%. The final dividend will be paid on 14 June 2002 to shareholders on the register at 17 May 2002.

The sales trend during the year was foreshadowed in our previous reports and statements. Early in the year the shake out from the technology and telecommunications collapse impacted our businesses operating in the semiconductor and electronics manufacturing markets. Other US industrial markets softened as the year progressed and the second half was, uncharacteristically, weaker than the first half.

In addition to my assuming the Chairmanship, and Hans Nilsson being appointed Chief Executive, Andrew Given, Finance Director and now Deputy Chief Executive of Logica, joined the Board as non-executive Director and Chairman of the Audit Committee. James Otter, who has experience of managing businesses in chemicals and instrumentation in several European countries, joined the Board as Business Group Director. I welcome them both and reiterate my earlier thanks to Sir Robin Biggam and Ron Williams who retired during the year.

Looking forward, some signs of improvement in the US economy as a result of recent substantial stimuli are to be welcomed. The critical issue for Spectris is the extent to which, and when, these economic moves produce a recovery in industrial business confidence. Demand levels are not deteriorating further and may be improving, but it seems imprudent to draw overly positive conclusions in an environment where our customers remain cautious. If activity improves as the year progresses, the company's normal seasonal bias towards the second half of the year will be more pronounced. Visibility remains low but Spectris is in an excellent position to benefit from the eventual cyclical upturn.

A handwritten signature in black ink, appearing to read "John Poulter". The signature is fluid and cursive, with the first name "John" written in a larger, more prominent script than the last name "Poulter".

**John Poulter**  
Chairman

The focus on operational improvements served us well in uncertain conditions and at the same time enabled us to strengthen our market positions.

## Chief Executive's review

During a challenging year of dramatic external events and uncertainty the company coped well. From a management point of view, the focus on operational improvements served to accelerate initiatives already under way and several new restructuring opportunities were undertaken.

### Operating review

The Spectris management structure yet again proved its worth as customer focused business units with clear lines of command and simple control systems speeded up response times.

The company's focus is on products that involve a relatively small capital outlay but provide a quick and real payback. However, demand suffers when the economic situation weakens to the extent that the world, and North America in particular, experienced in 2001. This was largely due to customers postponing purchases as their priorities switched towards conserving cash. Demand varied greatly with pharmaceutical, oil, gas and petrochemicals, and pulp and paper seeing strong demand whereas demand was weak in electronics and semiconductors. The company's strategy and exposure to diverse markets and customers served the company particularly well. Although data is hard to verify, we believe our businesses have strengthened their relative positions and gained market share in the year. Asia showed volume increases due to greater market penetration.

FRS 17, Retirement Benefits, has been adopted early for the 2001 accounts resulting in a net benefit of £0.4m.

The Spectris AG businesses progressed well and margins achieved the targets for the end of 2001 set at the time of acquisition. The process of removing the inefficient sales matrix structure in the Spectris AG businesses was completed and the result is a streamlined structure with clear ownership by the individual businesses. Amongst other things, this has led to improved control of pricing, discounts and project management. A number of senior management changes have been made and the businesses are now operating in line with the Spectris controls and operating culture.

Management took timely action to contain costs and implemented a number of initiatives to improve performance. Sales structures were reorganised to facilitate simplified trading in Europe, with fully integrated IT systems resulting in more cost-efficient sales administration functions. Fusion and Red Lion are examples of companies benefiting from the centralisation of sales administration. These changes, and the consequent reduction in headcount, were instituted without materially impacting the sales and marketing process. Outsourcing initiatives continued to reduce the level of fixed costs and there remain further opportunities in the Spectris AG companies. Disposal of certain non-core product lines was also undertaken. Tighter cost controls resulted in a gradual reduction in headcount across the businesses from the beginning of the year, with Electronic Controls seeing a reduction in staff of 13%, Process Instrumentation 10% and the Spectris AG businesses 4%. This excludes China, where headcount increased as a result

of the expansion of HBM's manufacturing activities. The exceptional restructuring cost of £12.0m is estimated to generate incremental savings of £4m in 2002.

Investment in the development of new products and applications was maintained at the previous year's level and a number of new products were launched during the year. HBM and Malvern most notably made competitive inroads through new products. Over the past five years Spectris has invested continuously in developing new products, and approximately thirty per cent of sales are from products which are less than three years old. Sales and marketing initiatives were maintained and resources transferred from administrative support to direct sales, with particular emphasis placed on growing sales to countries with developing manufacturing economies such as China and Mexico. In China, Fusion, Particle Measuring Systems, Microscan and Servomex have converted to direct sales representation, with the majority of Spectris sales now being direct. This reflects the increasing requirement for precision instrumentation and controls in this growing region. The result has been a significant increase in sales into China in 2001.

#### **Sector performance**

**Electronic controls** performed acceptably in difficult markets. Exposure to the telecommunications equipment and electronics industries, as well as a disproportionately large exposure to North America, resulted in a significant drop in demand in the first quarter, which then continued at low levels throughout the year.

## Chief Executive's review continued

Sales declined from £54.7m to £45.8m, with operating profit down from £9.3m to £4.6m, and margins were 10%.

A number of innovative new products were launched during the year. Red Lion, with a broader spread of markets, was less affected by the adverse market conditions, and sales of its industrial control products increased. At Arcom, the launch of embedded hardware and software development kits to cover *the major operating systems* means that the company now offers a comprehensive range of solutions. Microscan's highly successful barcode readers continue to find new applications, particularly in the light manufacturing sector.

**Process instrumentation** had a respectable year with sales up 3% at £223.4m although operating profits were slightly down from £27.3m to £26.9m. Operating margins were 12% (these figures exclude Luxtron in 2000 and 2001). Malvern and Servomex enjoyed strong order intake from pharmaceutical and petrochemical customers respectively. Conditions in the semiconductor industry, which experienced *a sharp downturn in the first half, remained challenging* with low levels of demand throughout the rest of the year. Particle Measuring Systems responded well and produced a profit but the collapse in demand in equipment for front-end semiconductor manufacture pushed Luxtron into loss. Luxtron was put up for disposal in the year and is no longer included in process instrumentation. The anticipated downturn in the optical fibre industry impacted the performance of Fusion UV Systems and Beta LaserMike in the second half, although Fusion performed exceptionally well in the year. Elsewhere, the diversity of markets served helped the remaining process instrumentation businesses to produce a sound performance.

A number of new products and applications were launched during the year. Malvern and Ircon successfully integrated technologies acquired into their product range and Fusion introduced its ultraviolet (UV) curing technology into the area of digital printing. New products were also launched at NDC Infrared Engineering based on near infrared technology and at Servomex for the petrochemical and pharmaceutical industries. Particle Measuring Systems had continued success in adapting their semiconductor products to measure contamination in pharmaceutical cleanrooms.

Performance of the **Spectris AG businesses** collectively met expectations, with sales of £240.4m and operating profits of £26.2m in the first full year of ownership. Like-for-like sales growth was 4%. Operating margins were 10.9%. HBM delivered a strong performance, partly as a result of market share gains due to the launch of a number of new products and applications into its diverse markets, but also following expansion of its manufacturing activities in China. The facility, based in Suzhou, produces strain gauges for the weighing industry in response to increased worldwide demand for these products. BTG, which sells principally into the pulp and paper industry, had an excellent year. BTG introduced new products and integrated the Mutek product line. Brüel & Kjær Sound & Vibration underperformed, with stable demand for environmental products such as noise analysis systems counteracted by declining demand from the electronics and telecommunications equipment industries. The Brüel & Kjær Vibro business (formerly Brüel & Kjær, Schenck Condition Monitoring), delivered a solid performance from its primary markets of oil and gas and other process industries and successfully integrated the Brüel & Kjær and the Vibro units.

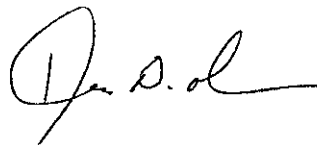
#### **Other operations**

Disposal of two of the filtration businesses, Fairey Arlon and Fairey Microfiltrex, was completed during the year and the sale of the remaining filtration business, Fairey Industrial Ceramics, was completed in March 2002. Fairey Nuclear was closed in the fourth quarter following completion of customer commitments. Disposal of BTG's coating systems division and Luxtron Corporation is under way.

#### **Strategy**

Over the past few years Spectris has been transformed into a company which is now entirely focused on precision instrumentation and controls, delivering enhanced productivity for a wide range of manufacturing industries. This strategy has served us well in both good and more challenging times, and continues to be appropriate. There is a strong business and cultural platform from which to exploit the opportunities in our chosen markets.

Although macro-economic conditions deteriorated in 2001, our priorities remain unchanged: we will continue to invest in developing new products and applications, in leveraging our sales channels and in considering product line add-ons or stand-alone acquisitions where these fit our strategic goals.



**Hans Nilsson**

Chief Executive

**John Poulter**

Chairman  
John Poulter joined Spectris in 1988, initially as Group Managing Director, and was Chief Executive until he became non-executive Chairman in May 2001, during which time the company was transformed from a small, predominantly UK-based mechanical engineer, into an international instrumentation and controls business. He is non-executive director of Kidde plc and Lloyds Smaller Companies Investment Trust plc. Age 59.

**Hans Nilsson**

Chief Executive  
Hans Nilsson joined Spectris in 1997. Previously Chief Operating Officer, he was appointed Chief Executive in May 2001. He has a masters degree in electrical engineering and an MBA from Stanford University. He was previously the European managing director of Flextronics, prior to which he held positions at Hewlett Packard and ABB. Age 46.

**James Otter**

Business Group Director  
James Otter joined Spectris in May 2001. He is responsible for the operational supervision of a number of the group's trading companies. His previous career has included taking a range of science-based products to market with ICI/Zeneca, Enviros and Tetronics. He is a Natural Sciences graduate of Cambridge University and has an MBA from INSEAD. Age 44.

**Jim Webster**

Business Group Director  
Jim Webster, a metallurgy graduate, joined Spectris in 1993. He is responsible for the operational supervision of a number of the group's trading companies. He was previously general manager of the European Wire and Cable Division of Raychem. He is a non-executive director of Telspec plc. Age 51.

**Dr. Peter Watson** MBE

Non-executive Director  
Dr. Peter Watson was appointed to the Board in 1997. Most of his career was with GKN plc, where he was responsible for product development as well as two operating divisions. From 1991 to 1994 he was the board member for engineering with British Rail. Dr Watson was appointed Chief Executive of AEA Technology plc in 1994 and became Chairman in 2002. Age 58.

Chairman of the nomination committee and Senior Independent Director.

**Martin Lamb**

Non-executive Director  
Martin Lamb was appointed to the Board in 1999. An engineer, he has considerable business and technical experience both in the UK and North America. Much of his career has been spent with IIML plc, where he is Chief Executive. Age 42.

Chairman of the remuneration committee.

**Paul Boughton**

Business Development Director  
Paul Boughton, a business economics graduate and chartered accountant, joined Spectris in 1991. He is responsible for acquisition and business development activities. Previously financial director of a private company, he was before that involved in acquisition work for Thermal Scientific plc. He is a non-executive director of London Bridge Software Holdings plc. Age 46.

**Graham Zacharias**

Group Finance Director  
Graham Zacharias, a modern languages graduate and chartered accountant, joined Spectris in 1995 as Group Finance Director. He was previously with BTR plc where he was finance director of the Aerospace Group. Prior to that he worked with Bousteadco and Schlumberger. Age 51.

**Andrew Given**

Non-executive Director  
Andrew Given was appointed to the Board in June 2001. He became deputy chief executive of Logica plc in February 2002 having previously been group finance director since joining the company in 1990. Prior to that he held senior financial positions with Plessey Company plc and with Northern Telecom Limited, mainly in North America. Age 54.

Chairman of the audit committee.

**Roger Stephens**

Head of Commercial and Company Secretary  
Roger Stephens is an economics graduate and chartered company secretary. Prior to joining Spectris in 1997, he worked with Nuclear Electric on commercial and contractual matters, a project management consultancy and, latterly, was director of administration in a firm of lawyers specialising in commercial law. Age 41.

## Financial review

£m	2001	2000 (restated)
Sales	<b>543.1</b>	464.0
Operating profit before exceptional items and goodwill amortisation	<b>60.7</b>	57.8
Operating margin	<b>11.2%</b>	12.5%

Headline sales rose by 17% while the underlying turnover of ongoing operations increased by 28% due chiefly to a full year contribution from the Spectris AG businesses acquired mid-way through 2000.

Operating profit (before exceptional items and goodwill amortisation) rose by 5% and by 15% in the continuing businesses.

### Acquisitions

During the year, the acquisitions of the Müttek, Lumitron and IST businesses were completed for a total consideration of £11.7m. In aggregate, these entities' sales and operating profit contributions in the period were not material to the group results.

### Disposals

Further to the strategic decision to divest the Filtration division, Fairey Arlon and Fairey Microfiltrex were disposed of. Additionally, as presaged at the time of the Spectris AG acquisition, the BTG Specialty Valves business was sold. The aggregate consideration received for these businesses, and two other minor businesses, net of costs, was £36.4m. At the year end, the remaining filtration business, Fairey Industrial Ceramics, was in the process of being divested, along with Luxtron and BTG's Coating Systems division.

Earnings per share	2001	2000 (restated)
	p	p
Basic earnings per share	<b>37.8</b>	26.4
Adjustment for exceptional items after tax and goodwill amortisation	<b>(4.2)</b>	8.3
Normalised earnings per share	<b>33.6</b>	34.7

### Taxation

The effective tax rate on operating profit was 27.1% (2000: 29.4%). This is lower than the underlying rate as a consequence of the geographic mix of profit earned, the benefits derived from increasingly tax-effective structures, goodwill amortisation in the USA and the utilisation of tax losses, notably in the Spectris AG businesses.

The implementation of the new accounting standard on deferred tax (FRS 19) will be mandatory from 2002. It is estimated that its impact will be to increase the effective tax rate in 2002 and beyond by approximately two percentage points.

### Financing and treasury

The group finances its operations from both retained earnings and third party borrowings at fixed and floating rates of interest. Where appropriate, interest rate swaps are used to manage the group's interest rate exposure. Taking account of interest rate swaps, 38% (2000: 43%) of the group's borrowings at the year end were at fixed rates, reflecting the attractiveness and availability of low variable interest rates.

In recognition of the fact that the majority of funding is acquisition driven, group policy is to ensure that at least 50% of borrowings are medium to long term in tenure. At the year end, 86% of borrowings were due to mature in more than three years and 30% in more than five years. The average cost of borrowing throughout the year was approximately 6.5%. The group operates globally, the principal overseas subsidiaries being in North America, Germany, Denmark, Switzerland, Sweden, Japan and China. In order to hedge the consolidated sterling balance sheet variations arising on foreign currency translation, net investments in overseas subsidiaries are financed through foreign currency borrowings.

The results of overseas operations are translated into sterling at average exchange rates throughout the year. Balance sheets are translated at the rates ruling at the year end.

The relative strength of the US dollar with an average sterling/dollar exchange rate in 2001 of 1.44 (2000: 1.50) gave rise to translation gains of approximately £1m. Continuing weakness of the Euro and Yen, principally, had an immaterial impact overall on group results.

Cash flow	2001 £m	2000 £m
Net cash inflow from operating activities	<b>58.0</b>	53.9
Capital expenditure	<b>(29.8)</b>	(10.9)
Fixed asset disposals	<b>1.4</b>	5.0
Tax paid	<b>(12.8)</b>	(10.8)
Interest paid	<b>(11.4)</b>	(6.4)
<b>Free cash flow</b>	<b>5.4</b>	30.8
Dividends	<b>(11.5)</b>	(11.1)
Acquisitions/disposals	<b>31.1</b>	(153.5)
Shares issued	<b>0.4</b>	55.8
Purchase of fixed asset investments	<b>(4.3)</b>	(3.3)
Exchange difference	<b>1.0</b>	(7.6)
Other	<b>(0.1)</b>	(0.3)
<b>Movement in net debt</b>	<b>22.0</b>	(89.2)
Opening net debt	<b>(153.5)</b>	(64.3)
Closing net debt	<b>(131.5)</b>	(153.5)

Operating cash flow was £58.0m which, due to a higher than normal level of capital expenditure and the cash impact of exceptional costs and certain fair value adjustments, represented a cash conversion ratio of 71%.

Net debt fell by £22.0m in the year to £131.5m. Additional debt capacity available under committed credit lines was £68.1m at the year end.

Capital expenditure and related depreciation can be analysed as follows:

£m	2001			2000
	Gross	Abnormal	Net	
Spectris AG businesses	22.3	(11.2)	11.1	4.6
Non-Spectris AG businesses	7.5	-	7.5	6.3
Group total	29.8	(11.2)	18.6	10.9
As % of sales			3.4%	2.3%
Depreciation			13.6	11.0

Abnormal capital expenditure in the acquired Spectris businesses, as referred to in the interim statement, related to necessary catch-up investment and the buy-out of an onerous sale and leaseback arrangement in Denmark. It is anticipated that a residual amount of abnormal expenditure amounting to an estimated £3.4m will impact 2002, primarily relating to the redevelopment of the Darmstadt site for HBM.

Gearing, expressed as a fraction of total capital employed after adding back historical goodwill written off, was 29% (2000: 37%).

Interest cost was covered by operating profit 5.5 times (2000: 7.7 times) excluding the finance credit arising on adoption of FRS 17.

The trade working capital to sales ratio, excluding the impact of exceptional cost provisions and certain fair value adjustments, was 18%. This represented a slight deterioration in the non-Spectris AG businesses as a result of lower sales, higher demonstration stocks and some inventory last time buy issues. Conversely, the Spectris AG businesses improved, albeit modestly, with further gains anticipated in 2002.

Return on capital employed after adding back cumulative goodwill written off was 11.3% (2000: 12.5%).

#### Exceptional items

Exceptional gains of £19.8m were generated by the disposal of businesses described earlier in this report. Exceptional costs were incurred as follows:

£m	2001	2000	Total
Spectris AG businesses:			
Restructuring	7.6	5.9	13.5
Non-Spectris AG businesses:			
Restructuring	4.4	0.3	4.7
Legal costs	1.2	-	1.2
Gains on forward currency contract	-	(1.9)	(1.9)
Group total	13.2	4.3	17.5

At the time of the interim statement, the expectation that exceptional charges relating to the Spectris AG acquisition

would not exceed £10m was reiterated. In light of the poor macro-economic environment, further initiatives were identified to reduce overheads and substantially restructure not only the acquired businesses, but also certain existing businesses. These opportunities gave rise to additional exceptional costs lifting the total in the acquired group to £13.5m and establishing other restructuring provisions principally at Fusion, Particle Measuring Systems, Servomex and Red Lion Controls, amounting in aggregate to £4.4m. The incremental savings impact in 2002 of these initiatives is expected to be no less than £4m.

#### Fair value adjustments

During the year, additional fair value adjustments were made in relation to the assets and liabilities acquired with the Spectris AG businesses. These referred principally to onerous contracts, contingent liabilities, fixed asset write-offs and additional net asset write-downs, the majority of which arose in the Brüel and Kjaer Sound and Vibration business. The net impact of these adjustments was to increase goodwill by £18.3m.

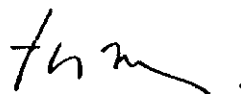
#### FRS 17

In order to avoid complex, parallel reporting during the transitional period, and to demonstrate the adequacy of funding within the group's pension plans, Financial Reporting Standard 17, Retirement Benefits, has been adopted early and in full for the 2001 accounts. The figures for 2000 have been restated accordingly.

The impact of FRS 17 implementation has been to increase operating overheads by £0.4m (2000: £0.8m) and decrease interest expense by £0.8m (2000: £1.0m). Similarly, the group balance sheet in 2001 carries a net pension asset of £0.9m (2000: £4.8m).

#### Policy on payment of suppliers

The group's policy on payment of suppliers is to ensure that terms of payment accord with contractual and legal obligations. The company had no trade creditors at the year end.



**Graham Zacharias**  
Group Finance Director

## Directors' report

The directors present their report and accounts for the year ended 31 December 2001.

### Principal activities

The Spectris businesses are engaged in the development and marketing of precision instrumentation and controls. For 2001 reporting purposes, the businesses were grouped into four sectors: electronic controls, process instrumentation, the Spectris AG businesses acquired during 2000 and businesses sold or to be sold. Further details of the trading companies can be found in the Chief Executive's review (page 10). Developments in the group's business activities are discussed in the Chairman's statement (page 8), Chief Executive's review (page 10) and financial review (page 16).

The company's name was changed to Spectris plc from Fairey Group plc on 8 May 2001.

### Acquisitions

During the year, the acquisitions of the Müttek, Lumitron and IST businesses were completed for a total consideration of £11.7m.

### Disposals

The BTG Specialty Valves, Fairey Arlon, Fairey Microfiltrex and two other minor businesses were sold during the year. Total disposal proceeds were £36.4m net of expenses. Fairey Nuclear ceased trading at the year end and the Fairey Industrial Ceramics, Luxtron and BTG Coating Systems businesses were intended for disposal.

### Share capital

The issued share capital at the year end consisted of 111,842,510 5p ordinary shares.

At the 2002 Annual General Meeting a resolution will be proposed for the renewal of the authority granted to the directors to purchase the company's own shares, within specified limits.

At 11 March 2002 interests notified to the company in accordance with Part VI of the Companies Act 1985 comprised:

Prudential plc

*6,173,469 shares (5.52% material interest)*

Morley Fund Management Ltd

*5,444,146 shares (4.87% material interest)*

Legal & General Investment Management Ltd

*4,643,505 shares (4.15% material interest)*

Royal & Sun Alliance Group plc

*3,620,337 shares (3.24% material interest)*

HBOS Group plc

*3,475,373 shares (3.11% material interest)*

### Dividends

Results for the group are set out in the profit and loss account on page 28 and in the supporting notes. A final dividend of 8.5p per ordinary share is proposed for the year to 31 December 2001 (2000: 8.15p). With the interim dividend, this makes a total for the year of 12.25p (2000: 11.7p). The final dividend will be paid on 14 June 2002 to shareholders on the register on 17 May 2002.

The terms of the Spectris plc Qualifying Employee Share Ownership Trust and the Spectris plc Employee Benefit Trust provide that dividends payable on shares held within the Trusts are waived to 0.0001p and 0.01p respectively.

### Research and development

Expenditure committed to research and development is focused on new product development, applications engineering and process integration. Costs are expensed as incurred.

### Fixed assets

Whilst the market values of some properties differ from book values, the directors believe that the differences are not material.

### Directors

The directors at 31 December 2001 are named on pages 14 and 15. During the year, Sir Robin Biggam retired from the Board after the AGM on 8 May 2001 and was succeeded as Chairman by John Poulter. Hans Nilsson became Chief Executive at that time. Andrew Given and James Otter were appointed to the Board on 5 June 2001 and Ron Williams retired from the Board on 10 July 2001.

John Poulter, Martin Lamb and Jim Webster retire from the Board by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Andrew Given and James Otter, having been appointed since the last AGM, retire from the Board under the terms of the Articles of Association and, being eligible, offer themselves for election.

The interests of the directors in the shares of the company and its subsidiaries at 31 December 2001 are disclosed in the remuneration report on page 22.

### Auditors

A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

### Annual General Meeting

The Notice of Annual General Meeting to be held on Wednesday 8 May 2002 at 11.30 a.m. is contained in a separate letter from the Chairman accompanying this report.

### **Corporate Governance**

Corporate governance has been and remains the responsibility of the whole Board. The Combined Code – Principles of Good Governance and Code of Best Practice (“the Combined Code”) was published by the London Stock Exchange in June 1998. This statement describes how the company applies the principles and complies with the provisions of the Combined Code.

The Board considers that it was throughout the year and continues to be in full compliance with the provisions set out in Section 1 of the Combined Code, save that:

- the Spectris AG businesses acquired in July 2000 were progressively brought into compliance with the group’s internal controls and processes during the year; and
- the remuneration committee does not consist exclusively of independent non-executive directors given John Poulter’s previous service as an executive director.

### **Board composition and procedures**

The Board meets formally each month to consider strategic developments and to review trading results and operational and business issues. In particular it deals with those matters reserved to it for decision, including the acquisition and disposal of businesses and major capital expenditure. All directors receive detailed progress reports one week prior to each Board meeting.

The Board comprises a balance of five executive directors and four non-executive directors, all non-executive directors save Mr Poulter being considered by the Board to be independent. The positions of *Chairman, Chief Executive and senior independent director* are held by separate individuals. The non-executive directors have all had senior executive experience in other companies and offer independent judgement on Board matters.

There are procedures for individual Board members to receive induction and training as appropriate and to solicit independent professional advice at the group’s expense where specific expertise is required in the course of exercising their duties. All Board directors have access to the company secretary, who is responsible for ensuring compliance with appropriate statutes and regulations.

All directors are subject to re-election by shareholders at the first opportunity after their appointment and thereafter at intervals of no more than three years, with one third of directors being required to submit for re-election by rotation each year.

The Board delegates specific responsibilities to Board committees,

notably the nomination, remuneration and audit committees.

The nomination committee consists of the non-executive directors: Peter Watson (chairman), Andrew Given, Martin Lamb and John Poulter with the Chief Executive, Hans Nilsson, normally in attendance by invitation.

Appointment of all directors involves recommendation by the nomination committee, selection by the Board and subsequent confirmation by the shareholders. The nomination committee meets as the need arises.

The remuneration committee is responsible for recommending to the Board the framework of executive remuneration and then determining individual terms of employment. These responsibilities cover salary and bonus arrangements, benefits, contracts of employment and share option grants. *The composition of the committee is identical to that of the nomination committee, but it is chaired by Martin Lamb.* Although the Combined Code recommends that remuneration committees should consist exclusively of independent non-executive directors, the Board considers it essential that John Poulter should serve on the committee in view of his position as Chairman of the Board and of his unique knowledge of the business and its people.

The audit committee again consists of the non-executive directors. It is chaired by Andrew Given and meets at least twice a year to consider the effectiveness of the group’s internal controls, policies and procedures and the outcome of the external audit. Its meetings are normally attended by the Chief Executive, the group finance director and the external auditor. There is provision for the committee to confer with the auditors without the attendance of executive directors.

### **Shareholder relations**

Spectris conducts regular dialogue with institutional shareholders and divulges such information as is permitted within the guidelines of the Listing Rules. The content of presentations made after results announcements may be accessed by individual investors on the group website.

All shareholders are invited to participate in the Annual General Meeting, where the chairmen of the audit, remuneration and nomination committees will be available to answer questions. The results of proxy votes are declared at the Annual General Meeting after each resolution has been dealt with on a show of hands.

### **Internal controls**

The Board is ultimately responsible for the group’s system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risk

## Directors' report continued

of failure to meet business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Following publication of the guidance for directors on internal control ("Internal Control: Guidance for Directors on the Combined Code"), the Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risks faced by the group, that this has been in place for the year under review and up to the date of approval of the annual report and accounts, that this process has been reviewed by the Board and that the group accords with the guidance.

The processes which the Board has applied in reviewing the effectiveness of the group's system of internal controls are summarised below:

- Risk assessment and evaluation for each business unit takes place as an integral part of the annual strategic planning cycle. Having identified the principal risks to achievement of their strategic business objectives, each business unit is required to document the management and mitigating actions in place and proposed.
- The principal risks identified during the annual strategic planning cycle and the effectiveness of the management and mitigating actions in place are reviewed regularly by the executive directors.
- Additionally, the executive directors consider those risks to the group's strategic objectives which are not addressed within the business units and develop appropriate approaches to managing and mitigating these risks.
- Annual financial plans for each business unit, significant capital investments or contractual commitments and major acquisitions or divestments are all subject to review and approval by the Board.
- There is a Group Accounting and Policies Manual which sets out the minimum standards and procedures to be applied in relation to those risk areas which are regarded as significant in a group context.
- A process of self assessment of compliance with the Manual and reporting thereon has been established, providing for a documented trail of accountability. Planned corrective actions are monitored for timely completion.
- The executive directors report to the Board on changes in the business and external environment which present significant risks. The group finance director provides the Board with monthly financial information which includes key performance and risk indicators. Regular reports on significant legal issues and insurance matters are received from the company secretary.

The group does not maintain a separate internal audit

function. The responsibilities which would otherwise fall to internal audit form an integral part of the group's control processes. Accounting reviews are undertaken by group financial management at all significant locations twice yearly and the group risk management function undertakes surveys of selected businesses on a regular basis to review their control processes. The need for a separate internal audit function is reviewed annually by the audit committee, which has concluded that for the present this would not be appropriate to the group's size and structure.

The Spectris AG businesses, which did not conform to the group's internal controls and processes when acquired in July 2000, have been progressively integrated within the reporting and control structure and brought into compliance during the year ending 31 December 2001.

### Remuneration report

The Board, in considering the recommendations of the remuneration committee, complied throughout the year with the provisions of the Combined Code (including the principles of performance-related remuneration set out in Schedule A and the disclosure guidelines in Schedule B).

It is the objective of the committee to ensure that the high calibre managers required as executive directors at group level are fairly and competitively remunerated. It does this in consultation with the Chief Executive and by reference to salary surveys and employment consultants.

To align terms of remuneration with shareholders' interests, up to one third of executive directors' total remuneration is related to corporate performance, via bonuses dependent upon the achievement of normalised earnings per share targets that are set in relation to carefully considered annual business plans. Such bonuses are not pensionable. No bonuses will be earned in respect of 2001 performance.

Executive directors are permitted to retain any payments received in respect of external non-executive appointments. Such appointments are subject to the approval of both the nomination committee and the Board.

Executive directors participate in the group's executive share option plans, as do 201 other directors and managers within the business units. They also participate in the savings-related scheme along with 463 other employees. In normal circumstances, options are not exercisable within three years from grant. The group's policy, where regulations permit, is to purchase existing shares into trust in respect of options granted under the 1996 executive share plan, so as to limit dilution of existing shareholders' equity.

Exercise of share options granted under the 1996 executive share plan or the 1999 approved executive share option scheme are subject to prior achievement of a performance criterion, as approved by shareholders, requiring compound growth in normalised earnings per share ("EPS") over three financial years of at least 2% in excess of the increase in the retail prices index ("RPI"). Exercise of matching share options granted under the 1996 plan is contingent upon EPS performance over the three financial years following grant: growth must be between 2% and 10% per annum in excess of the increase in RPI in order to achieve a match of 20% to 100% to options. Such grants are subject additionally to a condition requiring the retention of shares resulting from exercise of the matching options: unless the remuneration committee otherwise determines, shares acquired (other than those sold to meet the exercise cost, the costs of sale and any liability to income tax or employee national insurance contributions) must be retained whilst the participant remains an employee and/or director within the group.

Following publication of new ABI guidelines in August 1999, a revised policy for grants of share options to executive directors was determined. Annual grants having an exercise value equivalent to base salary were made in March 2000 and March 2001, with the right to exercise being conditional upon achievement of a performance condition of compound EPS growth of RPI +3% during the three financial years after grant. Additionally, the remuneration committee authorised a further grant (subject to a similar performance criterion) in March 2001 equivalent to approximately 50% of base salary in recognition of the financial results achieved in 2000. Matching option grants were discontinued.

Company car and health insurance benefits are subject to income tax and none of these benefits is pensionable.

One director is in the group's defined benefit pension plan, which can provide a pension of up to two thirds of final salary. The other executive directors have defined contribution arrangements to which the group contributes.

All executive directors have rolling contracts subject to twelve months' notice. These provide for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration) in the event of termination within twelve months of a change in control of the group. Termination payments in other circumstances remain, at the discretion of the committee, subject to mitigation and/or reduction for accelerated payment.

Non-executive directors' fees are agreed by the Board. With the exception of Mr Poulter, they do not have service contracts and do not participate in bonus, share option or pension arrangements. Mr Poulter retains share option grants received during his service as an executive director and will continue to accrue service on a part-time basis within the group defined benefit pension plan until November 2002. Mr Poulter will not receive any further share option grants and does not participate in any bonus arrangements. All non-executive directors' terms of appointment (including Mr Poulter's) provide for a six-month period of notice. All non-executive directors' terms of appointment further provide for a term of three years, which may be renewed by mutual agreement for a further three-year period. Mr Poulter's appointment embraces both terms.

#### a) Emoluments of directors excluding pension contributions (£'000)

	Salary	Bonus	Benefits in kind	Fees	2001 Total	2000 Total
<b>Executive directors</b>						
H D Nilsson	237	–	15	–	<b>252</b>	269
P V Boughton	180	–	13	–	<b>193</b>	237
J A Otter	98	–	6	–	<b>104</b>	–
J C Webster	185	–	12	–	<b>197</b>	245
J G Zacharias	180	–	12	–	<b>192</b>	236
<b>Non-executive directors</b>						
Sir Robin Biggam	–	–	–	21	<b>21</b>	50
A F Given	–	–	–	15	<b>15</b>	–
M J Lamb	–	–	–	25	<b>25</b>	20
J W Poulter	125	–	11	58	<b>194</b>	388
P Watson	–	–	–	25	<b>25</b>	20
R Williams	–	–	–	15	<b>15</b>	22
	<b>1,005</b>	<b>–</b>	<b>69</b>	<b>159</b>	<b>1,233</b>	<b>1,487</b>

Sir Robin Biggam and R Williams retired from the Board on 8 May 2001 and 10 July 2001 respectively. A F Given and J A Otter were appointed to the Board on 5 June 2001. J W Poulter became a non-executive director with effect from 9 May 2001.

## Directors' report continued

### b) Directors' pensions

	2001 £'000	2000 £'000
Company contributions to defined contribution plans:		
H D Nilsson	47	35
P V Boughton	36	30
J A Otter	8	–
J C Webster	37	31
J G Zacharias	36	29
Defined pension benefits earned by directors:		
J W Poulter: Increase in accrued pension during the year	24	23
Transfer value of increase in benefits	363	675
Total accrued pension entitlement at year end	133	105

The accrued pension entitlement is the amount that will be paid each year on retirement at age 60 based on service to the end of the year. The increase in the additional pension earned excludes any effect of inflation. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions and represents a potential liability of the scheme, not a sum paid to the director. Members of the scheme have the option of paying Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included above.

### c) Directors' total remuneration

	2001 £'000	2000 £'000
Aggregate emoluments	1,233	1,487
Company pension contributions to defined contribution schemes	164	125
Gains made on exercise of share options	–	–
	<b>1,397</b>	<b>1,612</b>

### d) Directors' interests

The following directors or their families had beneficial interests in the ordinary shares of the company:

	Shareholdings		Options	
	2001 31 December (or date of retirement)	2001 1 January (or date of appointment)	2001 31 December (or date of retirement)	2001 1 January (or date of appointment)
Sir Robin Biggam	23,332	23,332	–	–
J W Poulter	208,965	323,294	387,760	297,030
H D Nilsson	4,666	4,666	261,374	147,863
P V Boughton	26,595	26,595	270,424	215,986
A F Given	–	–	–	–
M J Lamb	3,000	3,000	–	–
J A Otter	–	–	21,594	–
P Watson	11,666	11,666	–	–
J C Webster	8,772	8,772	313,946	257,996
R Williams	3,500	3,500	–	–
J G Zacharias	3,266	3,266	234,312	179,874

No director had during the year or at the end of the year any material interest in any contract of significance to the group's business.

e) Directors' interests in options to purchase ordinary shares

	Date granted	Options held 1 January 01	Granted	Exercised	Lapsed	Options held 31 December 01	Exercise price (p)	Date exercisable	Expiry date	
<b>J W Poulter</b>	Sept 1994	30,778				30,778	388.9081	Sept 1997	Sept 2004	
	June 1996	41,037				41,037	661.8261	June 1999	June 2006	
	Mar 1997	25,648				25,648	538.5256	Mar 2000	Mar 2007	
	Mar 1998	15,389				15,389	550.7095	Mar 2001	Mar 2008	
	Mar 1998	15,389				15,389	5.00	Mar 2002	Mar 2005	
	Sept 1998	35,908				35,908	238.8032	Sept 2001	Sept 2008	
	Sept 1998	35,908				35,908	5.00	Mar 2002	Sept 2005	
	Mar 1999	20,518				20,518	321.6533	Mar 2002	Mar 2009	
	Mar 1999	20,518				20,518	5.00	Mar 2003	Mar 2006	
	Mar 2000	48,715				48,715	513.1832	Mar 2003	Mar 2010	
	Mar 2001		90,730			90,730	498.50	Mar 2004	Mar 2011	
	SAYE	Oct 1998	7,222			7,222	238.8032	Dec 2003	June 2004	
			<b>297,030</b>	<b>90,730</b>			<b>387,760</b>			
	<b>H D Nilsson</b>	Mar 1998	30,572				30,572	550.7095	Mar 2001	Mar 2008
Mar 1998		25,648				25,648	5.00	Mar 2002	Mar 2005	
Sept 1998		10,259				10,259	238.8032	Sept 2001	Sept 2008	
Sept 1998		10,259				10,259	5.00	Mar 2002	Sept 2005	
Mar 1999		15,389				15,389	321.6533	Mar 2002	Mar 2009	
Mar 1999		15,389				15,389	5.00	Mar 2003	Mar 2006	
Mar 2000		33,125				33,125	513.1832	Mar 2003	Mar 2010	
Mar 2001			63,511			63,511	498.50	Mar 2004	Mar 2011	
Oct 2001			50,000			50,000	357.50	Oct 2004	Oct 2011	
SAYE		Oct 1998	7,222			7,222	238.8032	Dec 2003	June 2004	
		<b>147,863</b>	<b>113,511</b>			<b>261,374</b>				
<b>P V Boughton</b>	Sept 1994	20,518				20,518	388.9081	Sept 1997	Sept 2004	
	Sept 1995	20,518				20,518	525.3671	Sept 1998	Sept 2005	
	June 1996	20,518				20,518	661.8261	June 1999	June 2006	
	Mar 1997	15,389				15,389	538.5256	Mar 2000	Mar 2007	
	Mar 1998	10,259				10,259	550.7095	Mar 2001	Mar 2008	
	Mar 1998	10,259				10,259	5.00	Mar 2002	Mar 2005	
	Sept 1998	25,648				25,648	238.8032	Sept 2001	Sept 2008	
	Sept 1998	25,648				25,648	5.00	Mar 2002	Sept 2005	
	Mar 1999	15,389				15,389	321.6533	Mar 2002	Mar 2009	
	Mar 1999	15,389				15,389	5.00	Mar 2003	Mar 2006	
	Mar 2000	29,229				29,229	513.1832	Mar 2003	Mar 2010	
	Mar 2001		54,438			54,438	498.50	Mar 2004	Mar 2011	
	SAYE	Oct 1998	7,222			7,222	238.8032	Dec 2003	June 2004	
			<b>215,986</b>	<b>54,438</b>			<b>270,424</b>			
<b>J A Otter</b>	Oct 2001		20,000			20,000	357.50	Oct 2004	Oct 2011	
	SAYE	Oct 2001	1,594			1,594	357.50	Dec 2004	June 2005	
			<b>21,594</b>			<b>21,594</b>				

## Directors' report continued

	Date granted	Options held 1 January 01	Granted	Exercised	Lapsed	Options held 31 December 01	Exercise price (p)	Date exercisable	Expiry date
<b>J C Webster</b>	Mar 1994	41,037				41,037	369.6576	Mar 1997	Mar 2004
	Sept 1994	20,518				20,518	388.9081	Sept 1997	Sept 2004
	Sept 1995	20,518				20,518	525.3671	Sept 1998	Sept 2005
	June 1996	20,518				20,518	661.8261	June 1999	June 2006
	Mar 1997	15,389				15,389	538.5256	Mar 2000	Mar 2007
	Mar 1998	10,259				10,259	550.7095	Mar 2001	Mar 2008
	Mar 1998	10,259				10,259	5.00	Mar 2002	Mar 2005
	Sept 1998	25,648				25,648	238.8032	Sept 2001	Sept 2008
	Sept 1998	25,648				25,648	5.00	Mar 2002	Sept 2005
	Mar 1999	15,389				15,389	321.6533	Mar 2002	Mar 2009
	Mar 1999	15,389				15,389	5.00	Mar 2003	Mar 2006
	Mar 2000	30,202				30,202	513.1832	Mar 2003	Mar 2010
	Mar 2001		55,950			55,950	498.50	Mar 2004	Mar 2011
	SAYE	Oct 1998	7,222			7,222	238.8032	Dec 2003	June 2004
		<b>257,996</b>	<b>55,950</b>			<b>313,946</b>			
<b>J G Zacharias</b>	Mar 1996	4,924				4,924	597.4954	Mar 1999	Mar 2006
	June 1996	20,518				20,518	661.8261	June 1999	June 2006
	Mar 1997	15,389				15,389	538.5256	Mar 2000	Mar 2007
	Mar 1998	10,259				10,259	550.7095	Mar 2001	Mar 2008
	Mar 1998	10,259				10,259	5.00	Mar 2002	Mar 2005
	Sept 1998	25,648				25,648	238.8032	Sept 2001	Sept 2008
	Sept 1998	25,648				25,648	5.00	Mar 2002	Sept 2005
	Mar 1999	15,389				15,389	321.6533	Mar 2002	Mar 2009
	Mar 1999	15,389				15,389	5.00	Mar 2003	Mar 2006
	Mar 2000	29,229				29,229	513.1832	Mar 2003	Mar 2010
	Mar 2001		54,438			54,438	498.50	Mar 2004	Mar 2011
SAYE	Oct 1998	7,222			7,222	238.8032	Dec 2003	June 2004	
		<b>179,874</b>	<b>54,438</b>			<b>234,312</b>			

Shares other than those marked SAYE relate to executive share option grants. Entitlement to exercise such grants is conditional upon a performance criterion requiring compound growth in normalised earnings per share ("EPS") over the three financial years after grant of at least 2% per annum (3% for grants on or after March 2000) in excess of the increase in the retail prices index. Entitlement to exercise Matching Options (5p) is conditional upon a performance criterion which requires compound growth in EPS over the three consecutive financial years following grant of between 2% and 10% per annum in excess of growth in the retail prices index in order to achieve a match of 20% to 100%.

At 31 December 2001 the mid share price on the London Stock Exchange was 481p. The highest share price in the year was 605p and the lowest was 333.5p. At 31 December 2001 each of the executive directors was deemed to have a non-beneficial interest in 2,851,891 ordinary shares held by the Trustee of the Spectris plc Employee Benefit Trust and 27,822 ordinary shares held by the Trustee of the Spectris plc Qualifying Employee Share Ownership Trust, the directors being amongst the class of discretionary beneficiaries.

## Social, ethical and environmental statement

*"Spectris – a contributor to a better environment"*

Responsibility for developing overall policy on social, ethical and environmental matters and for reviewing its effectiveness lies with the Board. It is then the responsibility of Spectris operating units to communicate and apply that policy within their particular business, taking account of local legislation and regulations, and to maintain, review and refine procedures accordingly.

Each business unit is required to confirm annually, in writing, its compliance with group policy. In addition, the Board confirms there is an ongoing process for identifying, evaluating and managing any significant risks, including those arising from social, ethical and environmental matters. This process forms part of the group's system of internal controls and is carried out within each operating business and reviewed regularly by the business group directors and the audit committee. Additionally, the executive directors report to the Board on any changes in the business and external environment which present significant risk, whilst regular reports on legal exposure and insurance matters are received from the company secretary.

Spectris was designated a member of the FTSE4Good UK index of socially responsible companies on its establishment in July 2001.

### Environment

Spectris is committed to adopting environmentally responsible policies in its internal operations wherever its companies operate around the world. The group's policy is to:

- invest in new products and applications to enable our customers to meet or exceed their environmental aspirations;
- maintain an awareness of best practice and take steps to minimise raw material usage, dispose correctly of waste, reduce harmful emissions, conserve energy and *promote recyclability*;
- initiate procedures to identify and minimise environmental risks inherent in manufacturing and distribution processes and to ensure that such procedures become part of the definition and validation of new products and processes;
- comply with all relevant legislation and co-operate with regulatory authorities.

Spectris products do not require capital-intensive manufacturing processes and hence their manufacture generally has a low overall environmental impact. However, the group is committed to improving its environmental performance and any commercially viable actions to *minimise the impact on the environment* are

taken. Brüel & Kjær Sound & Vibration received an award for the clean-up at its site in Nærum, Denmark, of soil which had been contaminated many years ago.

Spectris complies with the UK Producer Responsibility Obligations (Packaging Waste) Regulations which set targets for the recovery and recycling of packaging waste. The company provides packaging data as evidence of compliance with the scheme. In addition, the company has specified recycled paper for the production of this Report and Accounts. The front section of the Report is printed on Mega Matt which is made from 50% recycled and 50% chlorine-free pulp. The Accounts section is printed on Revive Silk which is made from 75% chlorine-free, de-inked post-consumer waste and 25% mill waste and virgin fibres.

Most Spectris products provide customers with the ability to reduce raw material consumption, waste and energy use or to minimise harmful emissions. The productivity benefits to a wide range of industrial processes are both direct and indirect in saving natural resources. Some current examples where the use of our products has a direct beneficial contribution are shown on the company's website at [www.spectris.com](http://www.spectris.com).

### Health and Safety

The group's policy ensures that, so far as is reasonably practicable, every step is taken to ensure the health and safety at work of all employees of all Spectris companies. Operating management are required to do everything reasonably practicable to provide and maintain plant and equipment, all service installations, systems of work, a workplace and a working environment which are safe and without risk to health. There is a similar responsibility insofar as the use and transport of articles and substances is concerned.

The group's Health and Safety at Work policy requires that:

- all information, instruction, training and supervision necessary to ensure the health and safety at work of *all employees is provided*;
- the necessary organisation and line of responsibility for health and safety is established and maintained;
- the necessary safety devices and protective clothing are available;
- the co-operation of all employees is encouraged by discussions and consultation with them and their representatives with a view to promoting and developing measures to ensure health and safety at work;
- the effectiveness of such measures is checked on a *regular basis*.

## Directors' report continued

All companies (and where appropriate, each location) issue and bring to the notice of their employees a written statement of their policy with respect to health and safety at work. Audits of health and safety policies and procedures are undertaken at all major locations by external assessors acting on behalf of the group's insurers on a periodic basis.

### Social and ethical policy

Spectris businesses operate mainly in Europe and the US, but with a growing presence in the Asia Pacific region. Inevitably, different social and employment conditions exist in different operations, but Spectris places the highest priority on compliance with legislative and ethical requirements within all jurisdictions in which business is conducted, particularly with respect to employment practices, labour rights and equal opportunities. The responsibility for implementing the policy is delegated to individual business units, with operational policies tailored to suit local needs.

Spectris products do not require capital-intensive manufacturing processes and hence the labour impact of production operations is minimal. Operations based in Asia Pacific, predominantly in China, comprise modern facilities located in business parks and adopt employment conditions consistent with best local practice.

The group's policy requires all operating companies to conform to the following requirements:

- adherence to all legislation relating to employment rights and equal opportunities, with particular reference to ethnic origin, religion, gender, age, disability, sexual orientation and harassment;
- prohibition of any extra contractual gratuities, inducements or similar, including compliance with the US Foreign Corrupt Practices Act;
- prohibition of donations to any political party or similar organisation;
- purchase of legal title or licence to all software in use;
- compliance with all export control regulations.

Disabled persons are recruited, trained and promoted on the basis of aptitude and ability. If employees become disabled, every effort is made to retain them and when necessary re-train them for appropriate posts. In addition, the group has specific policies relating to child labour which prevent workers under the school-leaving age of the country of employment from being employed in any Spectris operations. Other policies

exist in relation to working time regulations and data protection. The group recognises the value of consultation with employees and Works Councils represent employees in those areas where these are applicable.

The group monitors compliance with the policy through various processes, including consolidated Equal Employment Opportunities Commission returns which are produced in the US.

A commitment to employee training and development, together with remuneration policies which are designed to reward achievement, emphasise the importance of retaining staff throughout the group. Local policies, based on overall group guidelines, are set by individual managements according to the needs of their business and local conditions.

Spectris operating companies worldwide support and participate in various local community activities. Charitable donations in 2001 totalled £18,000 (£5,000 in the UK). No political donations were made.

Spectris has a policy of encouraging its operating companies to provide information to their employees on a regular basis. This information includes matters relating to their company's performance, its prospects in the markets it serves and the future outlook of its business. In addition, the group distributes a quarterly electronic newsletter, Perspectives, which keeps employees abreast of group progress (and is also available to shareholders at [www.spectris.com](http://www.spectris.com)). Financial participation in the group is encouraged through the Savings Related Share Option Scheme in the UK and executive share options are granted to all senior management and to key staff at all levels worldwide.

### Going concern

Having reviewed the group's plans and available financial facilities, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the group's accounts.

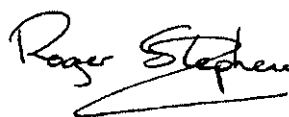
### Directors' responsibilities

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 of the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

By order of the Board



**R J Stephens**  
Secretary, 11 March 2002

### Independent auditors' report to the members of Spectris plc

We have audited the financial statements on pages 28 to 59.

#### Respective responsibilities of directors and auditors

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

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

We review whether the statement on page 19 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and 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 as at 31 December 2001 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**, Chartered Accountants, Registered Auditor  
London, 11 March 2002

## Consolidated profit and loss account

For the year ended 31 December

	Notes	Continuing operations					Total 2001 £m	Total 2000 (restated) £m
		Existing businesses 2001	Acquisitions 2001	Ongoing operations total 2001	Businesses sold or to be sold 2001			
		£m	£m	£m	£m	£m		
<b>Turnover</b>	2	<b>506.5</b>	<b>3.1</b>	<b>509.6</b>	<b>33.5</b>	<b>543.1</b>	464.0	
Cost of sales		<b>(211.4)</b>	<b>(1.2)</b>	<b>(212.6)</b>	<b>(21.1)</b>	<b>(233.7)</b>	(213.0)	
<b>Gross profit</b>		<b>295.1</b>	<b>1.9</b>	<b>297.0</b>	<b>12.4</b>	<b>309.4</b>	251.0	
Operating costs	4	<b>(257.5)</b>	<b>(1.1)</b>	<b>(258.6)</b>	<b>(9.4)</b>	<b>(268.0)</b>	(200.8)	
Operating profit before goodwill amortisation and exceptional items		56.9	0.8	57.7	3.0	<b>60.7</b>	57.8	
Goodwill amortisation		(6.1)	-	(6.1)	-	<b>(6.1)</b>	(3.3)	
Exceptional items	3	(13.2)	-	(13.2)	-	<b>(13.2)</b>	(4.3)	
<b>Operating profit</b>		<b>37.6</b>	<b>0.8</b>	<b>38.4</b>	<b>3.0</b>	<b>41.4</b>	50.2	
Profit/(loss) on sale or termination of business	23				<b>19.8</b>	<b>19.8</b>	(2.3)	
<b>Profit on ordinary activities before interest</b>	2					<b>61.2</b>	47.9	
Net interest payable	8					<b>(11.1)</b>	(7.6)	
Other finance income	7/8					<b>0.8</b>	1.0	
<b>Profit on ordinary activities before taxation</b>						<b>50.9</b>	41.3	
Taxation	9					<b>(9.6)</b>	(13.9)	
<b>Profit for the financial year</b>						<b>41.3</b>	27.4	
Dividends	10					<b>(13.3)</b>	(12.8)	
<b>Retained profit for the financial year</b>	26					<b>28.0</b>	14.6	
Basic earnings per share (p)	11					<b>37.8</b>	26.4	
Diluted earnings per share (p)	11					<b>37.5</b>	26.2	
Normalised earnings per share (p)	11					<b>33.6</b>	34.7	
Dividends per ordinary equity share (p)	10					<b>12.25</b>	11.7	

The 2000 comparative figures have been restated following the adoption of FRS 17, Retirement Benefits, in 2001. There is no material difference between the reported profit and historical cost profit.

## Consolidated statement of total recognised gains and losses

For the year ended 31 December

	2001 £m	2000 (restated) £m
Profit for the financial year	41.3	27.4
Foreign exchange adjustments	1.6	7.9
Tax attributable to foreign exchange adjustments	–	(2.3)
Actuarial loss arising on pension schemes	(5.9)	(4.4)
Tax attributable to actuarial loss	1.7	2.7
Total recognised gains and losses relating to the financial year	38.7	31.3
Prior year adjustment (see Note 26)	8.2	–
<b>Total recognised gains and losses since the last annual report</b>	<b>46.9</b>	<b>31.3</b>

## Analysis of actuarial losses recognised in the statement of recognised gains and losses

	2001 £m	2000 £m
Actual return less expected return on pension scheme assets	(10.8)	(4.2)
Experience gains and losses arising on scheme liabilities	3.0	(0.9)
Changes in assumption underlying the present value of liabilities	1.9	0.7
	(5.9)	(4.4)

Reconciliation of movements in shareholders' funds is shown in Note 27.

## Balance sheets

At 31 December

	Notes	Group		Company	
		2001 £m	2000 (restated) £m	2001 £m	2000 £m
<b>Fixed assets</b>					
Intangible assets	12	136.6	104.7	–	–
Tangible fixed assets	13	83.2	77.2	0.5	0.4
Other investments	14	13.8	9.5	345.9	329.7
		<b>233.6</b>	191.4	<b>346.4</b>	330.1
<b>Current assets</b>					
Current asset investments	15	–	12.1	–	–
Stocks	16	74.2	74.7	–	–
Debtors	17	119.7	139.5	120.4	123.8
Cash at bank		36.7	44.5	3.2	10.0
		<b>230.6</b>	270.8	<b>123.6</b>	133.8
<b>Creditors: due within one year</b>					
Short term borrowing	18/20	(12.3)	(42.5)	(0.8)	(2.1)
Other creditors	18	(124.9)	(137.7)	(50.4)	(32.2)
		<b>(137.2)</b>	(180.2)	<b>(51.2)</b>	(34.3)
<b>Net current assets</b>		<b>93.4</b>	90.6	<b>72.4</b>	99.5
<b>Total assets less current liabilities</b>		<b>327.0</b>	282.0	<b>418.8</b>	429.6
<b>Creditors: due after more than one year</b>					
Medium and long term borrowing	19/20	(155.9)	(155.5)	(146.4)	(150.0)
Other creditors	19	(1.4)	(0.1)	–	–
Amounts owed to group undertakings	19	–	–	(32.7)	(18.8)
		<b>(157.3)</b>	(155.6)	<b>(179.1)</b>	(168.8)
<b>Provisions for liabilities and charges</b>	21	<b>(25.0)</b>	(11.4)	–	–
<b>Net assets excluding pension assets/(liabilities)</b>		<b>144.7</b>	115.0	<b>239.7</b>	260.8
Pension assets	7	3.0	7.0	–	–
Pension liabilities	7	(2.1)	(2.2)	–	–
<b>Net assets</b>		<b>145.6</b>	119.8	<b>239.7</b>	260.8
Called up share capital	25	5.6	5.6	5.6	5.6
Share premium account	26	185.4	185.0	185.4	185.0
Merger reserve	26	3.1	3.1	3.1	3.1
Revaluation reserve	26	–	1.2	–	–
Capital redemption reserve	26	0.3	0.3	0.3	0.3
Special reserve	26	–	–	34.1	34.1
Profit and loss account	26	(48.8)	(75.4)	11.2	32.7
<b>Equity shareholders' funds</b>	27	<b>145.6</b>	119.8	<b>239.7</b>	260.8

The 2000 comparative figures have been restated following the adoption of FRS 17, Retirement Benefits, in 2001. The accounts were approved by the Board of directors on 11 March 2002 and signed on its behalf by:

**J G Zacharias**

Director



## Consolidated cash flow statement

For the year ended 31 December

	Notes	2001 £m	2000 £m
<b>Net cash inflow from operating activities</b>	28	<b>58.0</b>	53.9
<b>Returns on investment and servicing of finance</b>			
Cash generated by company held for resale		-	3.8
Interest received		2.6	1.7
Interest paid		(14.0)	(8.1)
Issue costs incurred on new loans		-	(0.3)
		<b>(11.4)</b>	(2.9)
<b>Taxation paid</b>		<b>(12.8)</b>	(10.8)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(29.8)	(10.9)
Sale of tangible fixed assets		1.4	5.0
Purchase of fixed asset investments		(4.3)	(3.3)
		<b>(32.7)</b>	(9.2)
<b>Acquisitions and disposals</b>			
Acquisition of subsidiary undertakings	22/24	(5.4)	(125.1)
Bank overdraft acquired with subsidiary undertakings	22/24	(0.1)	(44.5)
Proceeds from the sale of subsidiary undertakings	23	28.6	7.0
(Cash)/bank overdraft disposed with subsidiary undertakings	23	(0.2)	2.1
Proceeds from the disposal of investments		8.2	3.2
		<b>31.1</b>	(157.3)
<b>Equity dividends paid</b>		<b>(11.5)</b>	(11.1)
<b>Cash inflow/(outflow) before financing</b>		<b>20.7</b>	(137.4)
<b>Financing</b>			
Issue of shares		0.4	55.8
Repayment of loans		(28.4)	(23.2)
New loans		-	78.3
		<b>(28.0)</b>	110.9
<b>Decrease in cash in the year</b>	29	<b>(7.3)</b>	(26.5)

## Notes to the accounts

### 1 Accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's accounts.

FRS 17, Retirement Benefits, and FRS 18, Accounting Policies, have been adopted for the first time in preparing these accounts.

The effect of the adoption is explained in Note 26.

#### Basis of accounting

The accounts are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable accounting standards in the United Kingdom.

#### Basis of consolidation

The group accounts include the accounts of the company and all of its subsidiary undertakings made up to 31 December 2001.

Subsidiaries acquired during the year are accounted for under the acquisition method of accounting and are consolidated from the date of acquisition.

Subsidiaries disposed of during the year are consolidated up to the date of disposal.

Intra-group sales and profits are eliminated fully on consolidation.

#### Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on the acquisition of subsidiary undertakings before 1 January 1998, when FRS 10, Goodwill and Intangible Assets, was adopted, has been written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill arising on the acquisition of subsidiary undertakings since 1 January 1998 is capitalised and amortised by equal annual instalments over its estimated useful life up to a maximum of 20 years.

#### Turnover

Turnover comprises sales invoiced (excluding value added tax) at fixed prices and the estimated sales value of goods delivered and accepted under contract which have not been the subject of price settlement.

#### Tangible fixed assets

Tangible fixed assets are stated at historic cost with the exception of certain freehold properties which were revalued in 1993. These valuations will not be updated (in accordance with the transitional arrangements of FRS 15, Tangible Fixed Assets).

Depreciation is calculated to write off the difference between the cost or valuation of fixed assets and their residual value over their estimated useful lives on a straight line basis at the following rates per annum:

Freehold and long leasehold buildings	2½–5%
Short leasehold property	over the remaining period of the lease
Plant, machinery and other equipment	5–20%
Motor vehicles	25%
Tooling, computer hardware and software	20–33⅓%

#### Fixed asset investments

Investments in subsidiaries and other investments are stated at cost, less amounts written off where there has been an impairment in value.

#### Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost represents direct cost incurred and, where applicable, a proportion of attributable overheads. Provision is made for slow moving and obsolete items based on an assessment of technological and market developments and on an analysis of historic and projected usage. Stock is accounted for on a first in first out basis.

#### Foreign currencies

Assets and liabilities recorded in foreign currencies are translated into sterling at the rates ruling at 31 December. Profit and loss accounts in foreign currencies are translated into sterling at the average rates applicable during the year or, where applicable, at the estimated sterling equivalent, taking account of future foreign exchange contracts.

Exchange adjustments arising from the retranslation of opening net investments and from the translation of profits and losses are taken to reserves.

Exchange movements relating to borrowings which have been used to finance or provide a hedge against foreign equity investments are taken to reserves to the extent that they are matched by exchange movements on those investments, together with the taxation thereon.

Realised exchange differences arising on trading transactions are taken to the profit and loss account.

#### Deferred taxation

Provision is made under the liability method, at the expected applicable rates, for taxation deferred in respect of all material timing differences between accounting and taxation treatment, except when it is thought reasonably probable that the tax effects of such deferrals will continue for the foreseeable future.

No provision is made for any additional taxation, less double taxation relief, which would arise on the remittance of profits retained by overseas subsidiaries.

**Leasing**

Assets financed by leasing agreements which give rights approximating to ownership (finance leases) have been capitalised at amounts equal to the original cost of the assets to the lessors and depreciation provided on the basis of the group depreciation policy. The capital elements of future obligations under finance leases are included as liabilities in the balance sheet and the current year's interest element, having been allocated to accounting periods to give a constant periodic rate of charge on the outstanding balance, is charged to the profit and loss account.

The annual payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account on an accruals basis.

**Research and development**

Research and development expenditure is written off as it is incurred, except to the extent that it is funded by customers.

**Contributions to pension funds****Defined contribution scheme**

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amounts charged against profits represent the contributions payable to the scheme in respect of the accounting period.

**Defined benefit scheme**

The group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent it is considered recoverable) or deficit is recognised in full and presented on the face of the balance sheet. The movement in the scheme surplus/deficit is split between operating charges, financing items and, in the statement of total recognised gains and losses, actuarial gains and losses.

**Employee share option schemes**

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

## Notes to the accounts continued

### 2 Segmental analyses

#### a) Analysis by class of business

	Turnover		Profit before interest and tax		Net assets	
	2001	2000	2001	2000 (restated)	2001	2000 (restated)
	£m	£m	£m	£m	£m	£m
Ongoing operations:						
Electronic Controls	<b>45.8</b>	54.7	<b>4.6</b>	9.3	<b>7.2</b>	11.0
Process Instrumentation	<b>223.4</b>	216.7	<b>26.9</b>	27.3	<b>76.5</b>	64.0
Spectris AG businesses	<b>240.4</b>	126.8	<b>26.2</b>	13.4	<b>62.4</b>	86.4
Total ongoing operations	<b>509.6</b>	398.2	<b>57.7</b>	50.0	<b>146.1</b>	161.4
Businesses sold or to be sold	<b>33.5</b>	65.8	<b>3.0</b>	7.8	<b>4.6</b>	10.2
Total continuing operations	<b>543.1</b>	464.0	<b>60.7</b>	57.8	<b>150.7</b>	171.6
Goodwill amortisation			<b>(6.1)</b>	(3.3)		
Operating exceptional items			<b>(13.2)</b>	(4.3)		
Profit/(loss) on sale of business			<b>19.8</b>	(2.3)		
Net debt					<b>(131.5)</b>	(153.5)
Intangible assets					<b>136.6</b>	104.7
Net pension assets					<b>0.9</b>	4.8
Other					<b>(11.1)</b>	(7.8)
<b>Total</b>	<b>543.1</b>	464.0	<b>61.2</b>	47.9	<b>145.6</b>	119.8

Goodwill amortisation of £1.2m relates to companies acquired within the Process Instrumentation sector. The remainder relates entirely to the acquisition of the Spectris AG businesses.

A net operating exceptional charge of £5.0m arose in Process Instrumentation and a charge of £0.6m arose in Electronic Controls. The remaining exceptional charges of £7.6m arose within the Spectris AG businesses.

The profit on sale of businesses in 2001 arises as follows:

- Loss of £0.6m on sale of Meditrans SAS, which was previously reported in Electronic Controls.
- Loss of £0.9m on sale of Fusion Aetek Inc, which was previously reported in Process Instrumentation.
- Profit of £12.3m on sale of Fairey Arlon, which was previously reported in Filtration Systems.
- Profit of £9.0m on sale of Fairey Microfiltrex Ltd, which was previously reported in Filtration Systems.

Intangible assets of £19.3m (2000: £20.5m) is attributable to Process Instrumentation and the remaining £117.3m (2000: £84.2m) is attributable to the Spectris AG businesses.

The loss on sale of business in 2000 of £2.3m relates to the disposal of Imaging Technology Inc, a company previously reported within Electronic Controls.

## 2 Segmental analyses continued

### b) Analysis by geographical origin

	Turnover		Profit before interest and tax		Net assets	
	2001	2000	2001	2000 (restated)	2001	2000 (restated)
	£m	£m	£m	£m	£m	£m
UK	122.4	119.3	11.1	9.1	38.5	27.3
Continental Europe	237.2	141.2	24.2	15.1	61.5	94.6
North America	176.6	201.5	22.5	32.9	49.6	48.7
China	6.9	2.0	2.9	0.7	1.1	1.0
Total continuing operations	543.1	464.0	60.7	57.8	150.7	171.6
Goodwill amortisation			(6.1)	(3.3)		
Operating exceptional items			(13.2)	(4.3)		
Profit/(loss) on sale of business			19.8	(2.3)		
Net debt					(131.5)	(153.5)
Intangible assets					136.6	104.7
Net pension assets					0.9	4.8
Other					(11.1)	(7.8)
Total	543.1	464.0	61.2	47.9	145.6	119.8

Goodwill amortisation of £1.2m (2000: £1.1m) arises on acquisitions made within the UK. The remaining amortisation of £4.9m (2000: £2.2m) relates to the acquisition of the Spectris AG businesses in Continental Europe. Exceptional charges of £1.7m (2000: credit of £1.6m) arose in the UK, £7.3m (2000: £2.9m) in Continental Europe and £4.2m (2000: £3.0m) in North America.

Intangible assets of £19.3m (2000: £20.5m) reside in the UK. The remaining £117.3m (2000: £84.2m) resides in Continental Europe.

Of the profit on sale of business of £19.8m, £14.3m arose in the UK, £2.0m in Continental Europe and £3.5m in North America.

### c) Analysis of turnover by geographical destination

	2001 £m	2000 £m
UK	44.5	45.8
Continental Europe	199.4	134.5
North America	181.3	192.1
Japan	37.3	28.5
China	26.1	17.9
Rest of Asia Pacific	34.3	25.9
Rest of the world	20.2	19.3
Total	543.1	464.0

## 3 Exceptional items

	2001 £m	2000 £m
The operating exceptional items comprise:		
Redundancy and restructuring costs in existing businesses	12.0	6.2
Legal costs	1.2	-
Gain on forward currency contract	-	(1.9)
	13.2	4.3

## Notes to the accounts continued

### 4 Operating costs

	Existing businesses	Acquisitions	Businesses sold or to be sold	2001 Total	2000 Total (restated)
	£m	£m	£m	£m	£m
Distribution costs	56.5	0.2	0.3	57.0	14.8
Administration expenses	201.0	0.9	9.1	211.0	186.0
	257.5	1.1	9.4	268.0	200.8

### 5 Profit before taxation

	2001 £m	2000 £m
Profit before taxation is stated after charging/(crediting):		
Depreciation	13.6	11.0
Amortisation of intangibles	6.1	3.3
Operating lease rentals:		
Plant, machinery and vehicles	2.8	3.2
Property	4.4	4.5
Auditors' remuneration:		
Audit services for the group	0.6	0.8
Audit services for the company	0.1	0.1
Non-audit services	0.9	1.3
Research and development	30.2	25.7
Loss/(profit) on disposal of fixed assets	0.4	(0.7)

Non-audit fees include £0.8m (2000: £0.3m) in respect of tax compliance and advisory services, £0.1m (2000: £0.3m) in respect of other accounting services and £nil (2000: £0.7m) in respect of acquisition advisory services.

As permitted by Section 230 of the Companies Act 1985, only the group's profit and loss account has been presented. The company's loss for the year was £8.2m (2000: loss £1.2m).

Details of directors' remuneration and share options are given in the remuneration report on pages 20 to 24.

### 6 Employee costs

	2001 £m	2000 (restated) £m
Employee costs, including directors' remuneration, comprise:		
Wages and salaries	158.3	126.8
Social security costs	38.0	12.9
Pension costs:		
Defined benefit plans (see Note 7)	1.0	1.6
Defined contribution plans	4.5	2.6
Pension receipt in respect of Swedish state defined contribution scheme	(1.2)	-
	200.6	143.9
	2001 Number	2000 Number
Average number of employees:		
Production and distribution	2,861	2,253
Other	1,888	2,208
	4,749	4,461

## 7 Pension costs

Spectris plc operates funded defined benefit and defined contribution pension plans for the group's qualifying employees in the UK. In addition, five overseas subsidiaries participate in defined benefit plans. Other UK and overseas subsidiaries have their own defined contribution plans invested in independent funds, and the group operates a defined contribution plan in the USA for those subsidiaries which do not have separate company plans.

The group has adopted the FRS 17, Retirement Benefits, accounting standard in respect of the year ended 31 December 2001.

### Defined contribution plans

The total cost to Spectris plc of the defined contribution plans for the year ended 31 December 2001 was £4.5m (2000: £2.6m).

There were no outstanding or prepaid contributions to these plans as at 31 December 2001 (or at 31 December 2000).

### Defined benefit plans

The last full actuarial valuations were carried out as at the following dates:

Plan name	Date of last full actuarial valuation
Spectris Pension Plan	31 December 1999
Servomex Pension and Assurance Scheme	1 July 1999
Brüel & Kjær Vibro GmbH	31 December 2000
Hottinger Baldwin Messtechnik GmbH	31 December 2000
Spectris GmbH Sensoren und Systeme	31 December 2000
BTG Northern Europe GmbH	31 December 2000
Brüel & Kjær GmbH	31 December 2000

The valuations were updated to 31 December 2001 for FRS 17 purposes by qualified independent actuaries.

The total contributions made to the defined benefit plans in the year ended 31 December 2001 were £0.5m (2000: £0.8m). Contributions have been agreed at the following rates for future years:

Plan name	Agreed company future contribution rate
Spectris Pension Plan	0.6% pa (increasing to 1.0% pa at 6 April 2002)
Servomex Pension and Assurance Scheme	9.8% pa

The above contribution rates are subject to review at future valuations and periodic certifications of the Schedule of Contributions. No committed contribution rate from the company applies for the German plans.

The Spectris Pension Plan and the Servomex Pension and Assurance Scheme are closed schemes and hence under the Projected Unit Method, used to calculate the service cost under FRS 17, the current service cost will increase as the members of the plans approach retirement.

## Notes to the accounts continued

### 7 Pension costs continued

The major assumptions used by the actuary to value the liabilities of the defined benefit plans were:

<b>UK plans</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
Discount rate	<b>5.80</b>	5.90	6.00
Salary increases	<b>4.00</b>	4.30	4.50
Pension increases in payment	<b>2.50</b>	2.80	3.00
Pension increases in deferment	<b>2.50</b>	2.80	3.00
Inflation assumption	<b>2.50</b>	2.80	3.00
<b>German plans</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
Discount rate	<b>5.75</b>	5.75	N/A
Salary increases	<b>3.00</b>	3.00	N/A
Pension increases in payment	<b>1.75</b>	1.75	N/A
Pension increases in deferment	–	–	N/A
Inflation assumption	<b>2.00</b>	2.00	N/A

Different rates of pension increases apply to some members of the Spectris Pension Plan and the Servomex Pension and Assurance Scheme; the liabilities have been valued at the appropriate rates.

The fair value of the assets held by the defined benefit plans as at 31 December 2001 and the expected rate of return assumed for each asset class for the forthcoming year from 1 January 2002 are:

<b>UK plans</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Equities	<b>37.5</b>	41.6	43.8
Bonds	<b>22.5</b>	24.0	22.9
Other	<b>1.9</b>	4.8	4.7
<b>Total</b>	<b>61.9</b>	<b>70.4</b>	<b>71.4</b>

	<b>Expected return</b>	<b>Expected return</b>	<b>Expected return</b>
	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
Equities	<b>8.0</b>	7.4	7.0
Bonds	<b>5.0</b>	4.8	5.0
Other	<b>4.0</b>	6.0	6.0
<b>Total</b>	<b>6.8</b>	<b>6.4</b>	<b>6.3</b>

<b>German plans</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>Fair value</b>	<b>Fair value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Insurance policies	<b>1.1</b>	1.1	N/A

	<b>Expected return</b>	<b>Expected return</b>	<b>Expected return</b>
	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
Insurance policies	<b>5.8</b>	5.8	N/A

## 7 Pension costs continued

Plan assets and liabilities are summarised as follows:

### As at 31 December 2001

	UK plans £m	German plans £m	Total £m
Total market value of assets	61.9	1.1	63.0
Present value of plan liabilities	57.6	4.6	62.2
Surplus/(deficit) in plan	4.3	(3.5)	0.8
Related deferred tax (liability)/asset	(1.3)	1.4	0.1
<b>Net pension asset/(liability)</b>	<b>3.0</b>	<b>(2.1)</b>	<b>0.9</b>

### As at 31 December 2000

	UK plans £m	German plans £m	Total £m
Total market value of assets	70.4	1.1	71.5
Present value of plan liabilities	60.4	4.7	65.1
Surplus/(deficit) in plan	10.0	(3.6)	6.4
Related deferred tax (liability)/asset	(3.0)	1.4	(1.6)
Net pension asset/(liability)	7.0	(2.2)	4.8

### As at 31 December 1999

	UK plans £m	German plans £m	Total £m
Total market value of assets	71.4	N/A	71.4
Present value of plan liabilities	57.5	N/A	57.5
Surplus in plan	13.9	N/A	13.9
Related deferred tax liability	(1.6)	N/A	(1.6)
Net pension asset	12.3	N/A	12.3

### Movement in surplus/(deficit):

	UK plans £m	German plans £m	Total £m
Surplus at 1 January 2000	13.9	–	13.9
Liability on acquisition	–	(3.3)	(3.3)
Contributions	0.7	0.1	0.8
Current service cost	(1.3)	–	(1.3)
Past service cost	(0.3)	–	(0.3)
Other finance income/(expense)	1.1	(0.1)	1.0
Actuarial loss	(4.1)	(0.3)	(4.4)
Surplus/(deficit) at 31 December 2000	10.0	(3.6)	6.4
Contributions	0.2	0.3	0.5
Current service cost	(0.9)	(0.1)	(1.0)
Other finance income/(expense)	1.0	(0.2)	0.8
Actuarial (loss)/gain	(6.0)	0.1	(5.9)
<b>Surplus/(deficit) at 31 December 2001</b>	<b>4.3</b>	<b>(3.5)</b>	<b>0.8</b>

## Notes to the accounts continued

### 7 Pension costs continued

#### History of experience gains and losses

	2001		2000	
	UK plans £m	German plans £m	UK plans £m	German plans £m
Actual return less expected return on pension scheme assets	<b>(10.8)</b>	–	(4.2)	–
Percentage of plan assets	<b>(17%)</b>	–	(6%)	–
Experience gains and losses arising on the plan liabilities	<b>2.9</b>	<b>0.1</b>	(0.9)	–
Percentage of the present value of the plan liabilities	<b>5%</b>	<b>2%</b>	(1%)	–
Changes in assumptions underlying the present value of the plan liabilities	<b>1.9</b>	–	1.0	(0.3)
Actuarial gain/(loss)	<b>(6.0)</b>	<b>0.1</b>	(4.1)	(0.3)
Percentage of the present value of the plan liabilities	<b>(10%)</b>	<b>2%</b>	(7%)	11%

#### Company

Certain of Spectris plc's employees participate in the Spectris Pension Plan, a UK multi-employer defined benefit scheme. The company is unable to identify its share of the Plan's underlying assets and liabilities and therefore accounts for it as a defined contribution scheme. The Plan enjoyed a surplus of £5.6m at 31 December 2001 (2000: £9.1m) and consequently the actuary has certified that reduced employer contributions of 0.6% (increasing to 1.0% at 6 April 2002) may be made. Contributions paid in the year to the Spectris Pension Plan were £28,000 (2000: £43,000) and to defined contribution plans were £201,000 (2000: £154,000).

### 8 Net interest payable and other finance income

	2001 £m	2000 £m
Interest payable and similar charges:		
On borrowing repayable wholly within five years:		
Bank loans and overdrafts	<b>3.5</b>	3.4
Other loans	<b>5.5</b>	–
On borrowing repayable after five years	<b>3.8</b>	5.9
	<b>12.8</b>	9.3
Other interest receivable and similar income	<b>(1.7)</b>	(1.7)
	<b>11.1</b>	7.6
	<b>2001</b>	2000
	<b>£m</b>	(restated) £m
Other finance income:		
Expected return on pension fund assets	<b>4.6</b>	4.5
Interest on pension fund liabilities	<b>(3.8)</b>	(3.5)
	<b>0.8</b>	1.0

## 9 Taxation

	UK £m	2001 Overseas £m	Total £m	UK £m	2000 Overseas £m	Total £m
Corporation tax for the year	7.6	13.9	21.5	10.0	14.6	24.6
Double tax relief	(6.0)	–	(6.0)	(7.8)	–	(7.8)
(Over)/under-provision for prior years	(0.3)	0.3	–	(0.3)	(0.6)	(0.9)
Tax on operating exceptional costs	(0.3)	(2.6)	(2.9)	0.6	(1.8)	(1.2)
Tax on profit on sale of businesses	(2.5)	1.3	(1.2)	–	–	–
Total current tax charge/(credit)	(1.5)	12.9	11.4	2.5	12.2	14.7
Deferred tax	–	(1.8)	(1.8)	0.1	(0.9)	(0.8)
Total charge/(credit)	(1.5)	11.1	9.6	2.6	11.3	13.9

The effective tax rate, excluding operating exceptional items, profit on sale of businesses and goodwill amortisation, was 27.1% (2000: 29.4%). While a significant proportion of profits are earned in high tax jurisdictions, such as the USA and Germany, the effect of this has been offset by the tax benefits arising from the deductibility of goodwill amortisation in the USA not chargeable to the group profit and loss account and tax losses brought forward in Germany not previously recognised.

## 10 Dividends

	2001 £m	2000 £m
Interim dividend paid 3.75p per share (2000: 3.55p)	4.1	3.9
Final dividend proposed of 8.5p per share (2000: 8.15p)	9.2	8.9
Total dividend 12.25p per share (2000: 11.7p)	13.3	12.8

## Notes to the accounts continued

### 11 Earnings per share

The calculation of basic earnings per share of 37.8p (2000 restated: 26.4p) is based on the group profit of £41.3m (2000 restated: £27.4m) and on the weighted average number of 5p ordinary shares in issue during the year of 109.4 million (2000: 103.9 million).

Normalised earnings per share is calculated as follows:

	Earnings		Earnings per share	
	2001	2000 (restated)	2001	2000 (restated)
	£m	£m	pence	pence
Basic earnings and earnings per share	<b>41.3</b>	27.4	<b>37.8</b>	26.4
Basic earnings and earnings per share attributable to:				
Goodwill amortisation	<b>6.1</b>	3.3	<b>5.6</b>	3.2
Operating exceptional items	<b>13.2</b>	4.3	<b>12.1</b>	4.1
(Profit)/loss on sale or termination of businesses	<b>(19.8)</b>	2.3	<b>(18.1)</b>	2.1
Tax credit on operating exceptional items	<b>(2.9)</b>	(1.2)	<b>(2.7)</b>	(1.1)
Tax release on profit on sale of businesses	<b>(1.2)</b>	–	<b>(1.1)</b>	–
Normalised earnings and earnings per share	<b>36.7</b>	36.1	<b>33.6</b>	34.7

Normalised earnings per share is presented to show more clearly the underlying performance of the group.

The calculation of diluted earnings per share of 37.5p (2000 restated: 26.2p) is based on the group profit of £41.3m (2000 restated: £27.4m) and on the diluted weighted average number of 5p ordinary shares in issue during the year of 110.2 million (2000: 104.6 million).

The basic weighted average number of 5p ordinary shares in issue is reconciled to the diluted weighted average number of shares in issue in the following table:

	Weighted average number of 5p ordinary shares	
	2001 millions	2000 millions
Basic weighted average number of 5p ordinary shares in issue	<b>109.4</b>	103.9
Weighted average number of dilutive 5p ordinary shares under option	<b>3.2</b>	3.0
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options	<b>(2.4)</b>	(2.3)
Diluted weighted average number of 5p ordinary shares	<b>110.2</b>	104.6

## 12 Intangible assets

	Goodwill £m	Patents £m	Total £m
Cost:			
As at 1 January 2001	108.1	3.0	111.1
Additions in the year	11.4	–	11.4
Other movements	26.5	–	26.5
Exchange adjustments	0.1	–	0.1
<b>As at 31 December 2001</b>	<b>146.1</b>	<b>3.0</b>	<b>149.1</b>
Amortisation:			
As at 1 January 2001	3.8	2.6	6.4
Charge in the year	6.0	0.1	6.1
Exchange adjustments	–	–	–
<b>As at 31 December 2001</b>	<b>9.8</b>	<b>2.7</b>	<b>12.5</b>
Net book value:			
<b>As at 31 December 2001</b>	<b>136.3</b>	<b>0.3</b>	<b>136.6</b>
<i>As at 1 January 2001</i>	<i>104.3</i>	<i>0.4</i>	<i>104.7</i>

The addition for the year of £11.4m represents purchased goodwill arising on the acquisition of companies listed in Note 22. The useful economic life of this goodwill has been estimated at twenty years.

The choice of amortisation period reflects the long term nature of the group's investment.

Other movements consist of amendments to the fair value adjustments made provisionally at the previous year end. This is reflected in Note 24.

## Notes to the accounts continued

### 13 Tangible fixed assets

	Freehold property £m	Short leasehold property £m	Plant and equipment £m	Total £m
<b>Group</b>				
<i>Cost or valuation:</i>				
As at 1 January 2001	60.7	5.9	140.3	<b>206.9</b>
Exchange adjustments	(0.3)	0.1	(0.5)	<b>(0.7)</b>
Fair value adjustments	(0.7)	–	(2.0)	<b>(2.7)</b>
Additions	8.5	0.3	20.8	<b>29.6</b>
Acquisition of subsidiary undertakings	–	–	0.1	<b>0.1</b>
Reclassifications	4.0	0.2	(4.2)	<b>–</b>
Disposal of subsidiary undertakings	(1.6)	(0.9)	(6.5)	<b>(9.0)</b>
Disposals	(19.4)	(0.2)	(25.3)	<b>(44.9)</b>
<b>As at 31 December 2001</b>	<b>51.2</b>	<b>5.4</b>	<b>122.7</b>	<b>179.3</b>
<i>Depreciation:</i>				
As at 1 January 2001	24.4	3.5	101.8	<b>129.7</b>
Exchange adjustments	–	–	(0.2)	<b>(0.2)</b>
Charge for the year	1.4	0.5	11.7	<b>13.6</b>
Disposal of subsidiary undertakings	(0.8)	(0.5)	(4.7)	<b>(6.0)</b>
Disposals	(18.6)	–	(22.4)	<b>(41.0)</b>
<b>As at 31 December 2001</b>	<b>6.4</b>	<b>3.5</b>	<b>86.2</b>	<b>96.1</b>
<i>Net book value:</i>				
<b>As at 31 December 2001</b>	<b>44.8</b>	<b>1.9</b>	<b>36.5</b>	<b>83.2</b>
As at 1 January 2001	36.3	2.4	38.5	77.2
<b>Company</b>				
<i>Cost:</i>				
As at 1 January 2001	0.5	0.3	0.3	<b>1.1</b>
Additions	–	–	0.1	<b>0.1</b>
<b>As at 31 December 2001</b>	<b>0.5</b>	<b>0.3</b>	<b>0.4</b>	<b>1.2</b>
<i>Depreciation:</i>				
As at 1 January 2001	0.2	0.2	0.3	<b>0.7</b>
Charge for the year	–	–	–	<b>–</b>
<b>As at 31 December 2001</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.7</b>
<i>Net book value:</i>				
<b>As at 31 December 2001</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.5</b>
As at 1 January 2001	0.3	0.1	–	0.4

The net book value of land included above is £9.6m (2000: £9.6m).

## 14 Fixed asset investments

	Own shares £m	Other investments £m	Total £m
<b>Group</b>			
Cost and net book value as at 1 January 2001	8.9	0.6	<b>9.5</b>
Additions	4.3	--	<b>4.3</b>
<b>Cost and net book value as at 31 December 2001</b>	<b>13.2</b>	<b>0.6</b>	<b>13.8</b>

	Own shares £m	Investments in group undertakings £m	Loans to group undertakings £m	Total £m
<b>Company</b>				
Cost and net book value as at 1 January 2001	8.9	285.3	35.5	<b>329.7</b>
Additions	4.3	--	11.9	<b>16.2</b>
<b>Cost and net book value as at 31 December 2001</b>	<b>13.2</b>	<b>285.3</b>	<b>47.4</b>	<b>345.9</b>

Own shares comprise 2,851,891 (2000: 1,890,979) ordinary 5p shares in Spectris plc held at cost by the Spectris plc Employee Benefit Trust ("EBT") for the purpose of satisfying obligations under the 1996 Executive Share Option Plan for the benefit of the group's employees. The market value of the EBT's shares as at 31 December 2001 was £13.7m (2000: £10.7m). The purchase of the shares on the open market is funded by loans directly from Spectris plc. Dividend income in excess of 0.01p per share on the shares held by the EBT has been waived by the Trust and is therefore not included in the group's profit and loss account. Interest and administration costs of the EBT are charged to the profit and loss account of the company for the year.

## 15 Current asset investments

	2001 £m	Group 2000 £m
Businesses held for resale	--	12.1

The investment of £12.1m represented the group's investment in BTG Specialty Valves AB, which was sold on 28 February 2001.

## 16 Stocks

	2001 £m	Group 2000 £m
Raw materials	<b>38.2</b>	39.9
Work in progress	<b>14.8</b>	13.7
Finished stock	<b>21.2</b>	21.1
	<b>74.2</b>	74.7

## Notes to the accounts continued

### 17 Debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year:				
Trade debtors	98.2	116.2	–	–
Amounts owed by group undertakings	–	–	117.9	119.8
Other debtors	15.9	18.5	2.4	2.2
Prepayments and accrued income	5.6	4.8	0.1	0.1
Dividends receivable	–	–	–	1.7
	<b>119.7</b>	139.5	<b>120.4</b>	123.8

### 18 Creditors: due within one year

	Group		Company	
	2001 £m	2000 (restated) £m	2001 £m	2000 £m
Short term borrowing:				
Bank loans and overdrafts	12.3	40.4	0.8	–
Bank loan to EBT guaranteed by company	–	2.1	–	2.1
	<b>12.3</b>	42.5	<b>0.8</b>	2.1
Payments on account	1.1	1.6	–	–
Trade creditors	28.8	40.2	–	–
Amounts owed to group undertakings	–	–	31.8	12.6
Taxation	12.3	19.2	(0.4)	0.3
Other taxation and social security	4.7	4.5	–	0.1
Other creditors	27.2	29.6	3.7	4.3
Accruals and deferred income	41.6	33.7	6.1	6.0
Dividends payable	9.2	8.9	9.2	8.9
	<b>124.9</b>	137.7	<b>50.4</b>	32.2
Total	<b>137.2</b>	180.2	<b>51.2</b>	34.3

### 19 Creditors: due after more than one year

	Group		Company	
	2001 £m	2000 (restated) £m	2001 £m	2000 £m
Medium and long term borrowing:				
Loan notes net of capitalised issue costs	117.4	117.1	117.4	117.1
Bank loans and overdrafts	38.5	38.4	29.0	32.9
	<b>155.9</b>	155.5	<b>146.4</b>	150.0
Other creditors	1.4	0.1	–	–
Amounts owed to group undertakings	–	–	32.7	18.8
	<b>1.4</b>	0.1	<b>32.7</b>	18.8
Total	<b>157.3</b>	155.6	<b>179.1</b>	168.8

## 20 Borrowing summary

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Gross debt falling due within:				
Less than 1 year	12.3	42.5	0.8	2.1
1 to 2 years	10.7	0.4	2.4	5.6
2 to 5 years	95.4	37.1	95.1	27.4
Over 5 years	49.8	118.0	48.9	117.0
	<b>168.2</b>	198.0	<b>147.2</b>	152.1
Comprising:				
Secured bank loan	1.5	1.5	-	-
Unsecured loan notes	117.4	117.2	117.4	117.1
Unsecured bank loans	49.3	79.3	29.8	35.0
	<b>168.2</b>	198.0	<b>147.2</b>	152.1

The group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2001 in respect of which all conditions precedent had been met at that date were as follows:

	2001 £m	2000 £m
Expiring in one year or less	40.2	130.6
Expiring in more than two years	27.9	23.4
	<b>68.1</b>	154.0

### Secured bank loan

The security given on the bank loan of £1.5m is a fixed charge over the property at one of the group's subsidiaries. This facility matures in 13 years.

### Unsecured loan notes

In 1996 the company issued \$100m (£64m) of loan notes repayable on 15 July 2006 at par. The loan notes bear interest at an average rate of 7.72%, which is fixed until redemption.

In 1996 the company entered into treasury locks to underwrite the interest rate at which the notes were issued. This produced net proceeds of \$1.4m. These proceeds are amortised over the period of the loan notes in the profit and loss account. After taking these proceeds into account, the average net rate of interest on the loan notes is 7.5%.

In August 2001 the company entered into an interest rate swap in respect of \$50m of the loan notes, thereby exchanging the fixed interest rate for a floating rate. The floating rate is based on US dollar LIBOR plus a small margin.

In September 2000 the company issued \$75m (£49.2m) of loan notes repayable on 13 September 2010 at par. The interest rate on these notes is 8.23%. On issue, a swap arrangement from US dollars to euros resulted in a euro debt of €80.4m at 6.89%, which is fixed until redemption of the loan notes. In October 2001 the company entered into an interest rate swap in respect of €40m of the loan notes, thereby exchanging the fixed interest rate for a floating rate until redemption of the loan notes. The floating rate is based on EURIBOR plus a small margin.

### Unsecured bank loans

These loans comprise mainly multi-currency revolving credit facilities and interest is based on LIBOR plus a small margin. The weighted average period to maturity of these facilities is 2.6 years.

## Notes to the accounts continued

### 21 Provisions for liabilities and charges

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Provisions for liabilities and charges comprise:				
Deferred taxation	2.0	3.2	–	–
Other provisions	23.0	8.2	–	–
	<b>25.0</b>	11.4	–	–

#### a) Deferred taxation

	Group £m
As at 1 January 2001	3.2
Prior year adjustment	1.6
Exchange adjustments	0.5
Disposal of subsidiary undertakings	0.1
Amounts released through the statement of recognised gains and losses	(1.7)
Credited to profit and loss account in the year	(1.8)
<b>As at 31 December 2001</b>	<b>1.9</b>

The prior year adjustment of £1.6m has arisen from the adoption of FRS 17, Retirement Benefits, as described in Note 26.

	Amount provided		Total potential	
	2001 £m	2000 (restated) £m	2001 £m	2000 (restated) £m
<b>Group</b>				
Deferred taxation liability/(asset) derives from:				
Capital allowances	0.3	0.4	0.3	0.4
Short term timing differences	1.7	2.8	1.7	2.9
Shown within provisions	2.0	3.2	2.0	3.3
Deferred tax (asset)/liability on pension funds	(0.1)	1.6	(0.1)	1.6
<b>Total deferred tax at 31 December</b>	<b>1.9</b>	<b>4.8</b>	<b>1.9</b>	<b>4.9</b>

If any of the revalued properties were realised at the amounts included in the balance sheet, in view of the group's policy of expansion and continued ownership of its assets, it would be necessary to replace them by purchasing similar property, and rollover relief would therefore be available. Accordingly, the revalued amounts included in the group balance sheet do not constitute timing differences on which provisions are required as defined by SSAP15.

The company had no material deferred tax liability or potential deferred tax liability at the year end.

#### b) Other

	Reorganisation and redundancy £m	Warranty £m	Maintenance £m	Other £m	Total £m
<b>Group</b>					
As at 1 January 2001	1.0	4.2	0.2	2.8	8.2
Exchange adjustments	(0.1)	–	–	0.3	0.2
Fair value adjustments	–	1.5	–	7.4	8.9
Disposal of subsidiary undertakings	–	(0.4)	–	(0.1)	(0.5)
Utilised during the year	(0.9)	(0.8)	–	(0.4)	(2.1)
Provided during the year	8.7	1.2	–	0.2	10.1
Released during the year	(0.5)	(1.1)	(0.1)	(0.1)	(1.8)
<b>As at 31 December 2001</b>	<b>8.2</b>	<b>4.6</b>	<b>0.1</b>	<b>10.1</b>	<b>23.0</b>

## 21 Provisions for liabilities and charges continued

Reorganisation and redundancy provisions principally relate to headcount reductions announced prior to 31 December 2001 and are expected to be utilised within twelve months. Warranty provisions include the group's standard terms and conditions which in general apply for a twelve month period. Other provisions include an estimate of settling various potential claims against the Spectris AG businesses extant at the date of acquisition. The timing of utilisation of these provisions is uncertain pending the outcome of ongoing negotiations. Other provisions also reflect provisions for onerous contracts relating to the Spectris AG businesses on acquisition. These are expected to be utilised within twelve months.

Details of the fair value adjustments are set out in Note 24.

## 22 Acquisition of businesses

On 16 January 2001 the group acquired the entire share capital of Mütek Analytic GmbH, a company incorporated in Germany, together with its wholly-owned subsidiary Mütek Inc, a company incorporated in the USA.

On 31 January 2001 the group acquired the trade and assets of IST, a business operating in the USA.

On 9 July 2001 the group acquired the trade and assets of Lumitron, a business operating in the USA.

The aggregate values of the consideration paid and assets acquired are as follows:

	Book value and fair value £m
<i>Tangible fixed assets</i>	0.1
Stocks	0.8
Debtors	1.2
Creditors and provisions	(1.7)
Bank overdraft	(0.1)
<b>Net assets acquired</b>	<b>0.3</b>
Goodwill	11.4
<b>Consideration paid (including expenses)</b>	<b>11.7</b>
<b>Satisfied by:</b>	
Cash	5.4
Deferred consideration	6.3
	<b>11.7</b>
<b>The net cash outflow in relation to the acquisition comprised:</b>	
Consideration	5.4
Bank overdraft assumed	0.1
	<b>5.5</b>

There was no material difference between the book value of net assets acquired and their finalised fair values.

*Deferred consideration of £6.3m represents an estimate of additional amounts to be paid to the former owners of Lumitron. These are conditional upon the achievement of agreed sales targets over the next four years.*

## Notes to the accounts continued

### 23 Disposal of businesses

On 26 March 2001 the group disposed of the entire share capital of its subsidiary undertaking Fairey Microfiltrex Ltd.

On 2 April 2001 the group disposed of the entire share capital of its subsidiary undertakings Fairey Arlon Ltd and Fairey Arlon BV, together with the trade and assets of Fairey Arlon Inc.

On 29 June 2001 the group disposed of the trade and assets of its subsidiary undertaking Fusion Aetek Inc.

On 14 November 2001 the group disposed of 81% of the share capital of its subsidiary undertaking Meditrans SAS.

A summary of the net assets disposed, and the consideration received, is set out below:

	Fusion Aetek £m	Fairey Arlon £m	Meditrans £m	Fairey Microfiltrex £m	Total 2001 £m	Total 2000 £m
Tangible fixed assets	0.5	1.6	0.1	0.8	<b>3.0</b>	0.5
Stocks	0.9	2.3	0.7	1.7	<b>5.6</b>	1.0
Debtors	0.6	2.2	0.1	1.9	<b>4.8</b>	2.6
Net debt	–	0.1	–	0.1	<b>0.2</b>	(2.1)
Creditors	(0.9)	(2.0)	(0.3)	(1.8)	<b>(5.0)</b>	(1.9)
Net assets disposed	1.1	4.2	0.6	2.7	<b>8.6</b>	0.1
Proceeds received, net of expenses	0.2	16.5	–	11.7	<b>28.4</b>	7.2
Surplus to net assets	(0.9)	12.3	(0.6)	9.0	<b>19.8</b>	7.3
Goodwill realised	–	–	–	–	–	(9.6)
Profit/(loss) on disposal	(0.9)	12.3	(0.6)	9.0	<b>19.8</b>	(2.3)

No goodwill has been realised upon the disposal of the above businesses. In the case of Fairey Arlon, Fairey Microfiltrex and Fusion Aetek, no goodwill arose upon their acquisition and therefore no realisable goodwill exists. No goodwill is attributable to Meditrans as it has been owned since its incorporation.

The 2000 figures relate to the disposal of Imaging Technology Inc. Proceeds of £0.2m were received in the current year in respect of this disposal.

The cash flow for the businesses prior to disposal is set out below:

	Fusion Aetek £m	Fairey Arlon £m	Meditrans £m	Fairey Microfiltrex £m	Total 2001 £m	Total 2000 £m
Operating cash flow	–	0.8	(0.5)	(0.5)	<b>(0.2)</b>	(0.1)
Returns on investment and servicing of finance	–	0.1	–	–	<b>0.1</b>	(0.1)
Taxation	–	(0.3)	–	–	<b>(0.3)</b>	(0.1)
Capital expenditure and financial investment	–	(0.1)	–	–	<b>(0.1)</b>	(0.1)
	–	0.5	(0.5)	(0.5)	<b>(0.5)</b>	(0.4)

During the year, the Board decided to divest Luxtron, BTG Coating Systems and Fairey Industrial Ceramics. At the year end, these disposals had not been completed, although in each case the process was well advanced and it is anticipated that completion will take place by mid year 2002. The total sales and operating profit relating to these operations of £21.7m and £1.1m respectively are included under the heading of businesses sold or to be sold within the profit and loss account.

## 24 Acquisition of subsidiary undertaking in 2000

On 3 July 2000 the group acquired the whole of the issued share capital of Spectris AG for a consideration of £169.6m, after accounting for debt assumed and expenses. The book value of the assets and liabilities acquired and the related fair value adjustments were disclosed in the accounts for the year ended 31 December 2000. As noted in those accounts, the fair value adjustments were provisional and subject to amendment. Details of the amendments to the provisional fair values are set out below:

	Provisional fair value £m	Revaluation £m	Accounting policy alignment £m	Other adjustments £m	Adjusted fair value £m
Intangible fixed assets	1.4	–	–	–	1.4
Tangible fixed assets	42.2	(2.7)	–	–	39.5
Other investments	0.5	–	–	–	0.5
Current asset investments	13.7	(3.6)	–	–	10.1
Stocks	29.5	(3.2)	–	–	26.3
Debtors	54.5	(0.3)	–	(4.6)	49.6
Creditors	(49.0)	(3.2)	–	–	(52.2)
Provisions	(3.9)	(7.4)	(1.5)	–	(12.8)
Deferred tax	(3.3)	–	–	–	(3.3)
Bank overdraft	(44.5)	–	–	–	(44.5)
Net assets acquired	41.1	(20.4)	(1.5)	(4.6)	14.6
Goodwill	84.0	20.4	1.5	4.6	110.5
Consideration paid (including expenses)	125.1	–	–	–	125.1

Details of the amendments to the provisional fair values are as follows:

### Fixed assets

An independent valuation of the acquired tangible fixed assets has been conducted. The provisional fair values reflected the initial results of this exercise. Adjustments have been made on the basis of the finalised analysis.

### Stock

Provisional fair value adjustments were made to align accounting policies and revalue certain items to their net realisable value. The extensive network of sales outlets made this a complex exercise. Integration of the acquired sales operations has revealed the need for further revaluation adjustments in respect of stocks held at the acquisition date which remained on hand at 31 December 2000.

### Creditors and provisions

Creditors and provisions have been adjusted for a number of issues which were not identified at the time the provisional fair values were established relating to:

- An assessment of the costs of settling a dispute with a supplier relating to the price of goods supplied prior to acquisition.
- An assessment of potential liabilities associated with pre-acquisition export sales.
- An assessment of the cost of settling disputes with certain customers relating to alleged quality issues associated with goods supplied prior to the date of acquisition.

Adjustments have also been made to the provisions established in respect of rents on vacant properties to reflect the periods which these are now expected to remain unoccupied.

### Current asset investments and debtors

A number of companies within the Spectris AG businesses were acquired with the intention of immediate resale and were therefore recorded as current asset investments at their expected realisable value. Adjustments have been made to reflect the assets disposed and actual proceeds received.

## Notes to the accounts continued

### 25 Share capital

	Number of shares millions	£m
Ordinary shares of 5p each:		
Authorised	210.0	10.5
Issued and fully paid:		
As at 1 January 2001	111.7	5.6
Issued under share option schemes	0.1	–
<b>As at 31 December 2001</b>	<b>111.8</b>	<b>5.6</b>

### Share options

Options have been granted to subscribe for ordinary shares of Spectris plc and those outstanding as at 31 December 2001 were as follows:

	Granted	Number of shares thousands	Subscription price £	Exercise period
Savings related share option schemes	1997	9	6.19	2003
	1998	469	2.39	2004
	1999	87	3.96	2005
	2000	35	5.25	2004
	2001	145	3.58	2005
Total shares and weighted average price		745	2.99	
Executive share option schemes	1992	10	1.84	1995-2002
	1992	34	1.92	1995-2002
	1992	4	3.92	1995-2002
	1993	26	2.87	1996-2003
	1993	15	6.08	1996-2003
	1993	7	6.08	1998-2003
	1994	51	3.70	1997-2004
	1994	76	3.89	1997-2004
	1994	8	5.20	1999-2004
	1995	44	3.79	1998-2005
	1995	61	5.25	1998-2005
	1995	8	5.86	1998-2005
	1995	4	7.24	2000-2005
	1996	32	5.97	1999-2006
	1996	17	3.49	1999-2006
	1996	8	7.77	2001-2006
	1997	18	6.61	2000-2004
	1997	7	5.39	2000-2007
	1997	17	6.19	2000-2007
	1997	12	6.19	2000-2007
	1997	29	6.61	2000-2007
	1998	52	5.51	2001-2008
	1998	51	2.39	2001-2008
	1998	6	5.51	2001-2008
	1998	137	2.39	2001-2008
	1998	354	0.05	2002-2005
	1998	4	8.02	2001-2008
	1998	14	3.85	2001-2008
	1998	3	3.85	2001-2005
	1999	12	4.34	2002-2009
	1999	43	3.96	2002-2009
	1999	138	3.96	2002-2009

## 25 Share capital continued

	Granted	Number of shares thousands	Subscription price £	Exercise period
Executive share option schemes continued	1999	92	0.05	2003-2006
	1999	3	8.02	2001-2005
	2000	2	5.13	2003-2010
	2000	92	5.25	2003-2010
	2000	10	5.13	2003-2010
	2000	142	5.25	2003-2010
	2001	74	4.99	2004-2011
	2001	126	3.58	2004-2011
	2001	13	3.58	2004-2011
	2001	50	3.58	2004-2011
	2001	80	3.58	2004-2011
<b>Total shares and weighted average price</b>		<b>1,986</b>	<b>3.29</b>	

Where applicable, the number of options granted and their subscription price have been adjusted to take into account the effects of the rights issue in May 2000.

## 26 Reserves

	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Total £m
<b>Group</b>							
As at 1 January 2001 as previously stated	185.0	3.1	1.2	0.3	–	(83.6)	<b>106.0</b>
Prior year adjustment (see below)	–	–	–	–	–	8.2	<b>8.2</b>
As at 1 January 2001 as restated	185.0	3.1	1.2	0.3	–	(75.4)	<b>114.2</b>
Exchange adjustments to net investment in overseas companies	–	–	–	–	–	2.7	<b>2.7</b>
Exchange adjustments to matched net borrowings	–	–	–	–	–	(1.1)	<b>(1.1)</b>
Premium on issues of shares	0.4	–	–	–	–	–	<b>0.4</b>
Retained profit for the financial year	–	–	–	–	–	28.0	<b>28.0</b>
Transfer to profit and loss reserve	–	–	(1.2)	–	–	1.2	<b>–</b>
Actuarial revaluation of pension funds	–	–	–	–	–	(4.2)	<b>(4.2)</b>
<b>As at 31 December 2001</b>	<b>185.4</b>	<b>3.1</b>	<b>–</b>	<b>0.3</b>	<b>–</b>	<b>(48.8)</b>	<b>140.0</b>
<b>Company</b>							
As at 1 January 2001	185.0	3.1	–	0.3	34.1	32.7	<b>255.2</b>
Premium on issues of shares	0.4	–	–	–	–	–	<b>0.4</b>
Retained loss for the financial year	–	–	–	–	–	(21.5)	<b>(21.5)</b>
<b>As at 31 December 2001</b>	<b>185.4</b>	<b>3.1</b>	<b>–</b>	<b>0.3</b>	<b>34.1</b>	<b>11.2</b>	<b>234.1</b>

The cumulative amount of goodwill resulting from acquisitions (adjusted for disposals) prior to 1 January 1998 which has been written off to reserves is £291.2m (2000: £291.2m).

The prior year adjustment relates to the implementation of FRS 17. The adoption of FRS 17 has resulted in an increase in the reported profit before taxation for 2000 of £0.2m. In addition the profit before taxation for 2001 is £0.4m higher than would have been the case had FRS 17 not been adopted during the year.

The profit and loss account includes a surplus of £0.9m (2000: surplus of £4.8m) net of a deferred tax asset of £0.1m (2000: liability of £1.6m) in respect of pension fund deficits or surpluses of the group's pension policies.

No prior year adjustment has resulted from the adoption of FRS 18, Accounting Policies.

## Notes to the accounts continued

### 27 Reconciliation of movements in shareholders' funds

	2001 £m	2000 (restated) £m
<b>Group</b>		
Profit for the financial year	41.3	27.4
Dividends	(13.3)	(12.8)
	28.0	14.6
Other recognised gains and losses relating to the year:		
Exchange adjustments	1.6	5.6
New share capital subscribed	0.4	55.8
Actuarial revaluation of pension funds	(4.2)	(1.7)
Goodwill written back on disposal of subsidiaries	-	9.6
Net increase in shareholders' funds	25.8	83.9
Opening shareholders' funds (originally £111.6m before prior year adjustment of £8.2m)	119.8	35.9
Closing shareholders' funds	145.6	119.8
	2001 £m	2000 £m
<b>Company</b>		
Loss for the financial year	(8.2)	(1.2)
Dividends	(13.3)	(12.8)
	(21.5)	(14.0)
New share capital subscribed	0.4	55.8
Net (decrease)/increase in shareholders' funds	(21.1)	41.8
Opening shareholders' funds	260.8	219.0
Closing shareholders' funds	239.7	260.8

### 28 Reconciliation of operating profit to net cash inflow from continuing operating activities

	2001 £m	2000 (restated) £m
Operating profit	41.4	50.2
Adjustment to pension costs	0.5	0.8
Depreciation of tangible fixed assets	13.6	11.0
Amortisation of intangible assets	6.1	3.3
Loss/(profit) on sale of tangible fixed assets	0.4	(0.7)
Increase in stocks	(7.7)	(3.7)
Decrease/(increase) in debtors	14.7	(1.9)
Decrease in creditors	(17.2)	(5.3)
Increase in provisions	6.2	0.2
Net cash inflow from continuing operating activities	58.0	53.9

The net cash inflow from operating activities of £58.0m (2000: £53.9m) is stated net of cash outflows of £5.0m (2000: £1.7m) relating to the operating exceptional items incurred in the year of £13.2m (2000: £4.3m).

## 29 Reconciliation of net cash flow to movement in net debt

	2001 £m	2000 £m
Decrease in cash in the year	(7.3)	(26.5)
Cash effect of change in debt	28.4	(55.1)
Change in net debt resulting from cash flows	21.1	(81.6)
Other non-cash items:		
Exchange movements	1.0	(7.6)
Amortisation of issue costs	(0.1)	-
Movement in net debt in the year	22.0	(89.2)
Net debt as at 1 January	(153.5)	(64.3)
Net debt as at 31 December	(131.5)	(153.5)

## 30 Analysis of changes in debt

	Cash at bank £m	Short term loans and overdraft £m	Long term loans £m	Sub-total £m	EBT loan £m	Total £m
As at 1 January 2001	44.5	(40.4)	(155.5)	(151.4)	(2.1)	(153.5)
Cash flow	(7.3)	26.3	-	19.0	2.1	21.1
Other non-cash movements	-	(0.1)	-	(0.1)	-	(0.1)
Exchange movements	(0.5)	1.9	(0.4)	1.0	-	1.0
<b>As at 31 December 2001</b>	<b>36.7</b>	<b>(12.3)</b>	<b>(155.9)</b>	<b>(131.5)</b>	<b>-</b>	<b>(131.5)</b>

## 31 Financial risk management

Short term debtors and creditors that meet the definition of a financial asset or liability under FRS 13 have been excluded from all numerical disclosures in this note except for the analysis of net currency exposure.

### a) Fair values of financial instruments used for risk management

The fair value of financial instruments at 31 December was:

	2001		2000	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Prime financial instruments held or issued to finance the group's operations:				
Short term borrowings and current portion of long term borrowings	(12.3)	(12.3)	(42.5)	(42.5)
Medium and long term borrowings	(155.9)	(155.9)	(155.5)	(155.5)
Cash deposits	36.7	36.7	44.5	44.5
Derivative financial instruments held to manage the interest rate and currency portfolio:				
Interest rate swaps – fixed to floating	0.6	(0.4)	-	0.1
Cross currency interest rate swap	0.2	4.8	-	1.6
Average rate option	-	0.1	-	-
	(130.7)	(127.0)	(153.5)	(151.8)

## Notes to the accounts continued

### 31 Financial risk management continued

#### b) Interest rate exposure of financial assets and liabilities

The currency and interest rate exposure of the financial assets and liabilities of the group as at 31 December was:

	Financial assets			Financial liabilities			2001 Net financial assets/ (liabilities) £m
	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	–	–	–	–	–	–	–
Euro	8.1	2.7	10.8	(24.4)	(54.8)	(79.2)	<b>(68.4)</b>
US Dollar	11.0	0.7	11.7	(34.2)	(35.8)	(70.0)	<b>(58.3)</b>
Japanese Yen	2.6	1.0	3.6	–	(4.9)	(4.9)	<b>(1.3)</b>
Other	9.2	1.4	10.6	(5.2)	(8.9)	(14.1)	<b>(3.5)</b>
	<b>30.9</b>	<b>5.8</b>	<b>36.7</b>	<b>(63.8)</b>	<b>(104.4)</b>	<b>(168.2)</b>	<b>(131.5)</b>

	Financial assets			Financial liabilities			2000 Net financial assets/ (liabilities) £m
	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	7.6	0.2	7.8	–	(2.2)	(2.2)	5.6
Euro	7.7	2.0	9.7	(50.2)	(62.1)	(112.3)	(102.6)
US Dollar	15.4	0.2	15.6	(35.1)	(36.0)	(71.1)	(55.5)
Japanese Yen	3.1	0.5	3.6	–	(5.5)	(5.5)	(1.9)
Other	7.8	–	7.8	–	(6.9)	(6.9)	0.9
	<b>41.6</b>	<b>2.9</b>	<b>44.5</b>	<b>(85.3)</b>	<b>(112.7)</b>	<b>(198.0)</b>	<b>(153.5)</b>

Floating rate financial assets attract interest on the relevant LIBID equivalent. The period until maturity for financial assets on which interest is received is under one year. Cash deposits include deposits on money market at daily rates.

Details of the average interest rates applicable to the fixed rate financial liabilities are given in Note 20.

### 31 Financial risk management continued

#### c) Currency exposure of financial assets and liabilities

The table below shows the net unhedged assets and liabilities of group companies at 31 December 2001 that are not denominated in their functional currency and therefore give rise to exchange rate gains and losses which are recognised in the profit and loss account.

At 31 December, these exposures were as follows:

Functional currency of group operations	Net currency monetary assets/(liabilities)					2001 Total £m
	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	
Sterling	–	3.2	–	0.4	0.6	<b>4.2</b>
Euro	(0.2)	–	0.1	–	0.2	<b>0.1</b>
US Dollar	–	–	–	–	2.0	<b>2.0</b>
Japanese Yen	–	–	0.1	–	–	<b>0.1</b>
Danish Krone	0.3	8.0	1.3	0.1	1.8	<b>11.5</b>
Other	(0.3)	1.1	2.8	1.5	2.3	<b>7.4</b>
	<b>(0.2)</b>	<b>12.3</b>	<b>4.3</b>	<b>2.0</b>	<b>6.9</b>	<b>25.3</b>

Functional currency of group operations	Net currency monetary assets/(liabilities)					2000 Total £m
	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	
Sterling	–	1.6	4.1	0.1	2.0	7.8
Euro	(1.4)	–	0.6	(3.2)	(0.7)	(4.7)
US Dollar	0.9	0.5	–	–	0.1	1.5
Japanese Yen	–	–	0.5	–	(0.9)	(0.4)
Danish Krone	0.4	6.1	0.2	–	1.4	8.1
Other	0.3	0.5	1.2	0.3	(0.6)	1.7
	0.2	8.7	6.6	(2.8)	1.3	14.0

#### d) Hedges

	Gains £m	2001 Losses £m	Total £m	Gains £m	2000 Losses £m	Total £m
As at 1 January	–	–	–	0.1	–	0.1
Arising in previous year that were recognised in the year	–	–	–	0.1	–	0.1
Arising in the year that were not recognised in the year	<b>4.7</b>	<b>(1.0)</b>	<b>3.7</b>	–	–	–
As at 31 December	<b>4.7</b>	<b>(1.0)</b>	<b>3.7</b>	–	–	–
Expected to be recognised in one year or less	<b>0.9</b>	<b>1.3</b>	<b>2.2</b>	–	–	–
Expected to be recognised in more than one year	<b>3.8</b>	<b>(2.3)</b>	<b>1.5</b>	–	–	–
	<b>4.7</b>	<b>(1.0)</b>	<b>3.7</b>	–	–	–

The instruments used for hedging group exposure to interest rates are detailed in the Financial Review on pages 16 and 17. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

The disclosure also includes forward contracts taken out to hedge expected future foreign currency purchases.

## Notes to the accounts continued

### 32 Related party disclosures

The company has taken advantage of the exemption under FRS 8, Related Party Disclosures, not to disclose related party transactions between subsidiaries.

There are no material transactions with directors and other related parties of the company except those relating to remuneration and share dealing disclosed in the remuneration report.

### 33 Commitments

	Group		Company	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Annual commitments for operating leases expiring:				
In 2002	1.8	0.8	–	–
In 2003 – 2006	2.9	2.0	–	0.1
Thereafter	1.2	–	0.2	–
	<b>5.9</b>	<b>2.8</b>	<b>0.2</b>	<b>0.1</b>

At the balance sheet date the group and the company had the following capital commitments for which provision has not been made:

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
	<b>3.3</b>	6.8	–	–

### 34 Contingent liabilities

Group companies have given indemnities to the Royal Bank of Scotland plc in respect of guarantees, negotiations and foreign exchange facilities of which £5.7m (2000: £2.2m) was outstanding at 31 December 2001.

The group has, in the ordinary course of business, provided indemnities to Bank One NA in respect of outstanding letters of credit of which £2.2m (2000: £1.6m) was outstanding at 31 December 2001.

Spectris plc has issued guarantees in respect of certain of its subsidiary companies' operations in the normal course of business.

### 35 Subsidiary undertakings

The following are the group's principal subsidiary undertakings which are incorporated in the UK except where stated. They operate mainly in the countries of incorporation. All the subsidiaries, other than intermediate holding companies, are involved in the manufacture and sale of precision instrumentation, electronic controls and filtration systems.

Spectris plc holds 100% of the share capital of the subsidiaries incorporated in the UK, with the exception of certain UK incorporated Spectris subsidiaries. Subsidiaries incorporated overseas are 100% owned through intermediate holding companies.

	Country of incorporation
Fairey Industrial Ceramics Limited	–
Arcom Control Systems Limited	–
NDC Infrared Engineering Limited	–
Loma Systems Limited	–
Malvern Instruments Limited	–
Beta LaserMike Limited	–
Servomex Group Limited	–
Fairey Overseas Developments Limited	–
Fusion UV Systems Japan KK	Japan
Spectris Inc	USA
Red Lion Controls Inc	USA
Beta LaserMike Inc	USA
Ircon Inc	USA
Luxtron Corporation	USA
Microscan Systems Inc	USA
Particle Measuring Systems Inc	USA
Fusion UV Systems Inc	USA
NDC Infrared Engineering Inc	USA
Spectris GmbH (formerly Spectris AG Sensoren und Systeme)	Germany
BTG Pulp & Paper Technology AB	Sweden
Spectris China Limited	China
Brüel & Kjær Sound & Vibration Measurement A/S	Denmark
BTG Americas Inc	USA
BTG Eclépens S.A.	Switzerland
Hottinger Baldwin Messtechnik GmbH	Germany
Brüel & Kjær Vibro A/S	Denmark

A full list of subsidiary undertakings will be appended to the company's next annual return.

## Shareholder information

### Financial Calendar

Annual General Meeting	8 May 2002
2001 Final dividend payable	14 June 2002
2002 Interim results	9 September 2002
2002 Interim dividend payable	15 November 2002
2002 Preliminary results	March 2003

### Advisers

#### Auditors

KPMG Audit Plc

#### Bankers

Royal Bank of Scotland Plc

#### Solicitors

Ashurst Morris Crisp

#### Brokers

Cazenove & Co  
Merrill Lynch

#### Corporate finance advisers

Merrill Lynch

#### Registrars

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 7DA

The registrars provide a range of shareholder services on-line at [www.shareview.co.uk](http://www.shareview.co.uk)

#### Share price information

The company's ordinary shares are listed on the London Stock Exchange.

The latest share price is available via the company's website at [www.spectris.com/investor](http://www.spectris.com/investor)

#### E-mail news service

To receive details of press releases and other announcements as they are issued, register with the e-mail alert service on the company's website at [www.spectris.com/news](http://www.spectris.com/news)

## Directory of companies

### **Spectris plc**

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### **Spectris China Limited**

Kowloon, Hong Kong  
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Fax: +852 28581168  
www.spectris.com

### **Arcom Control Systems**

Unit 8, Clifton Road  
Cambridge CB1 7EA, UK  
Tel: +44 1223 411200  
Fax: +44 1223 410457  
www.arcomcontrols.com

Embedded processors, telemetry products and industrial controls.

### **Beta LaserMike**

8001 Technology Blvd  
Dayton, OH 45424, USA  
Tel: +1 937 233 9935  
Fax: +1 937 233 7284  
www.betalasermike.com

Non-contact, laser-based gauging, diameter measuring systems and ultrasonic testing.

### **Brüel & Kjær Sound & Vibration**

Skodsborgvej 307  
DK-2850 Nærum, Denmark  
Tel: +45 45 80 05 00  
Fax: +45 45 80 14 05  
www.bksv.com

Transducers, sound level meters and analysers for sound and vibration measurement.

### **Brüel & Kjær Vibro**

Linde Alle SA  
DK-2850 Nærum, Denmark  
Tel: +45 45 80 05 00  
Fax: +45 45 80 29 37  
www.bkvibro.com

Machine condition monitoring systems and maintenance services.

### **BTG Pulp & Paper**

ZI Village  
CH-1312 Eclépens, Switzerland  
Tel: +41 21 866 0066  
Fax: +41 21 866 0060  
www.btgppt.com

Sensors, instrumentation and coating technology for the pulp and paper industry.

### **Fusion UV Systems**

910 Clopper Road  
Gaithersburg, MD 20878-1357, USA  
Tel: +1 301 527 2660  
Fax: +1 301 527 2661  
www.fusionuv.com

Ultraviolet light processing technology for curing photosensitive inks, coatings and adhesives.

### **HBM**

Im Tiefen See 45  
D-64293 Darmstadt, Germany  
Tel: +49 6151 8030  
Fax: +49 6151 8039100  
www.hbm.com

Digital measurement systems, transducers and load cells.

### **Ircon**

7300 N Natchez Avenue  
Niles, IL 60714, USA  
Tel: +1 847 967 5151  
Fax: +1 847 647 0948  
www.ircon.com

Infrared non-contact temperature measuring instruments.

### **Loma Systems**

Southwood, Farnborough  
Hants GU14 0NY, UK  
Tel: +44 1252 893300  
Fax: +44 1252 513322  
www.loma.com

Contamination detectors and checkweighers.

### **Luxtron Corporation**

2775 Northwestern Parkway  
Santa Clara, CA 95051-0941, USA  
Tel: +1 408 727 1600  
Fax: +1 408 727 1677  
www.luxtron.com

Semiconductor process endpoint controllers and optically-based contact and non-contact temperature sensing instruments.

### **Malvern Instruments**

Enigma Business Park  
Groewood Road, Malvern  
Worcs WR14 1XZ, UK  
Tel: +44 1684 892456  
Fax: +44 1684 892789  
www.malvern.co.uk

Particle size and dispersion stability instrumentation, based on laser light scattering and acoustic techniques.

### **Microscan Systems**

1201 SW 7th Street  
Renton, WA 98055, USA  
Tel: +1 425 226 5700  
Fax: +1 425 226 8250  
www.microscan.com

High speed industrial barcode scanning and decoding instruments.

### **NDC Infrared Engineering**

5314 North Irwindale Avenue  
Irwindale, CA 91706, USA  
Tel: +1 626 960 3300  
Fax: +1 626 939 3870  
www.ndcinfrared.com

Isotopic and infrared sensors for in-line measurement and control of moisture, composition and web variables.

### **Particle Measuring Systems**

5475 Airport Boulevard  
Boulder, CO 80301, USA  
Tel: +1 303 443 7100  
Fax: +1 303 449 6870  
www.pmeasuring.com

In-line laser-based particle detection systems for microcontamination control.

### **Red Lion Controls**

20 Willow Springs Circle  
York, PA 17402, USA  
Tel: +1 717 767 6961  
Fax: +1 717 764 0839  
www.redlion-controls.com

Operator interfaces, signal conditioners, temperature controllers, counters, rate indicators and panel meters.

### **Servomex**

Jarvis Brook, Crowborough  
East Sussex TN6 3DU, UK  
Tel: +44 1892 652181  
Fax: +44 1892 662253  
www.servomex.com

Gas analysis instrumentation.