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# spectris

report and accounts 2003

Generating returns for our  
investors by delivering tangible  
value for our customers

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**Exceeding expectations**

Nine Servomex continuous emissions gas analysers monitor the extracted air from the ovens and paint shops at the Honda car manufacturing plant in Swindon, UK. The analysers monitor carbon monoxide and oxides of nitrogen, enabling Honda to record data to not only meet environmental legislation, but ensure compliance with their own much more stringent environmental standards.

"We knew the emissions standards we needed to achieve...the Servomex analyser provided the accuracy and reliability to make them possible"

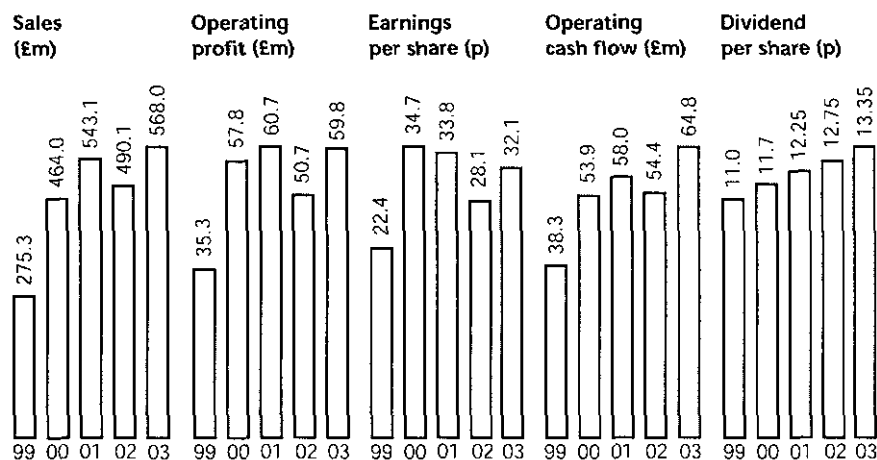
Brian Ryder, Honda UK

# Financial highlights

	2003	2002
Sales	£568.0m	£490.1m
Operating profit	£59.8m	£50.7m
Profit before tax	£48.9m	£42.5m
Profit after tax*	£26.0m	£15.3m
Earnings per share	32.1p	28.1p
Basic earnings per share*	21.6p	13.4p
Dividend	13.35p	12.75p

All profit and earnings per share figures exclude exceptional items and goodwill amortisation unless indicated\*.

- Organic sales growth of 7%
- Improved geographic coverage
- Operating profit increased by 18%
- Double-digit growth in profit before tax and eps
- Record operating cash flow



## Advanced measurement

Beta LaserMike's recent acquisition of a non-contact length measurement product line has expanded its offering for industrial applications such as rolling mills, paper mills, web products and textiles. The proprietary laser sensors use advanced measurement techniques to measure speed and length without contacting the surface.

## Cleaning up

The financial impact of particulate contamination in aerosols, liquids and gases has proved to be significant. Particle Measuring Systems' laser-based monitoring instrumentation provides real-time detection of contaminant particles resulting in increased manufacturing yields, product reliability and equipment uptime.

# Focusing on niche applications which deliver performance improvements for end-user customers

Manufacturers compete in an environment where they need to bring new products to market quickly yet at the lowest possible unit cost.

Our process-critical equipment helps customers to improve their design, quality control and manufacturing processes, reducing costs and speeding up time to market.

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## **Water-tight results**

Lafarge Roofing manufactures the renowned Rosemary clay roofing tile. Moisture measurement is essential for producing clay tiles: if the clay is too wet it will not hold its shape, too dry and the forming process is slowed down. NDC's near-infrared gauge system enables accurate on-line measurement of moisture, and has resulted in improved process control, efficiency and product quality as well as reduced product wastage and downtime.

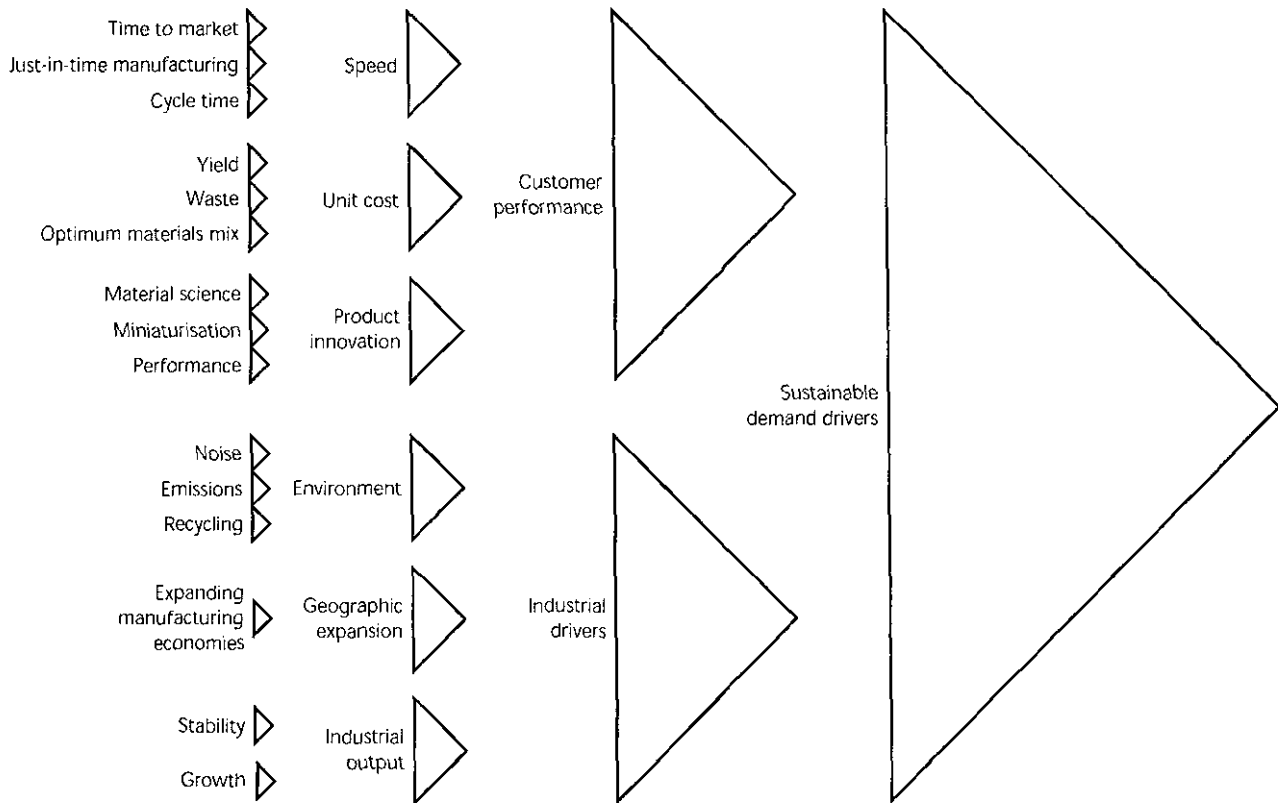
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“The on-line measurement system allows the operator to take decisions almost immediately, making process control more responsive and reducing wastage” David Tinsley, Lafarge Roofing, UK

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**Sustainable demand drivers**

Improving efficiency, reducing wastage and complying with regulatory requirements are just some of the factors which will continue to drive demand for Spectris instrumentation.



**Information at your fingertips**

Stand-alone kiosks are becoming widespread, particularly in retail outlets and public buildings for self-service functions from ticketing to lottery cards and retail promotions. Touchscreen displays enable users to access a wealth of information quickly. Designed specifically for this type of application, Arcom's processor boards include a full range of multimedia features, touchscreen support and network connectivity for remote updating of kiosk applications and promotions.

**Driving progress**

Modern plastics technology enables complex interior components to be designed and also helps to reduce the vehicle's overall weight. A variety of plastics can be manufactured by using additives and stabilisers based on elements such as copper, zinc, iron and titanium. Using PANalytical's X-ray analysis, manufacturers can achieve fast, precise and repeatable measurements of the concentrations of these additives.

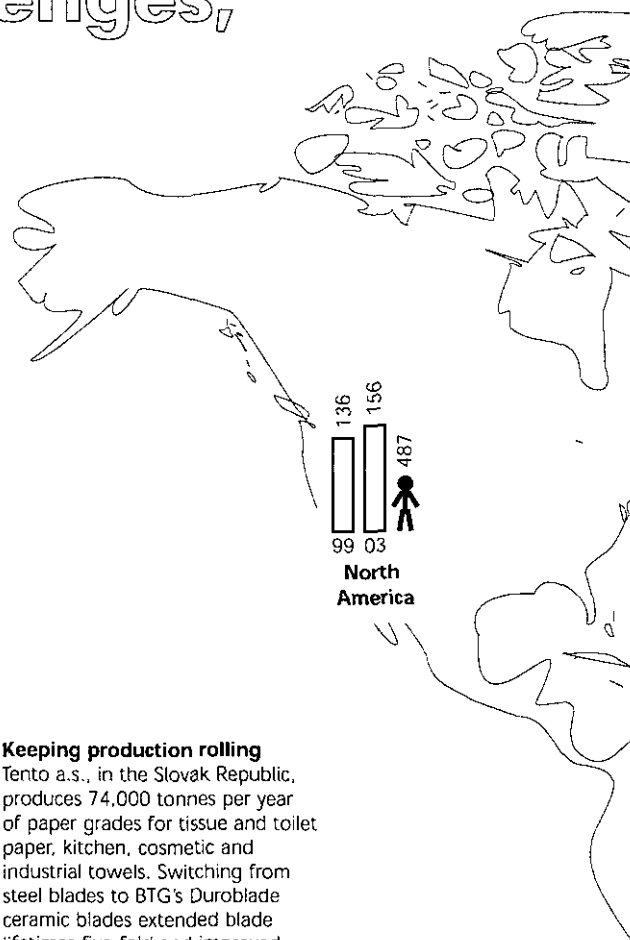
# Helping customers to meet global challenges, wherever they are based

We have increased our presence in the rapidly growing markets of China, eastern Europe, Mexico and India in order to work more closely with our customers.

## After sales revenue % of total sales



Increased focus on after sales, consumables and service is key to improving customer relationships.



## Keeping production rolling



Tento a.s., in the Slovak Republic, produces 74,000 tonnes per year of paper grades for tissue and toilet paper, kitchen, cosmetic and industrial towels. Switching from steel blades to BTG's Duroblade ceramic blades extended blade lifetimes five-fold and improved the quality of products Tento is able to manufacture.

"The switch to ceramic blades saves us about 30 minutes of downtime or 3 tonnes of production a day, and that's money earned"

Matus Kadasi, Tento a.s., Slovak Republic



A change in the staff mix, together with carefully targeted acquisitions over the past 5 years, has enabled us to achieve better geographical balance and work more closely with our customers in response to the trend towards a more global economy.

 Sales by destination £m  
 Number of customer-facing personnel as at December 2003

**Travelling light**

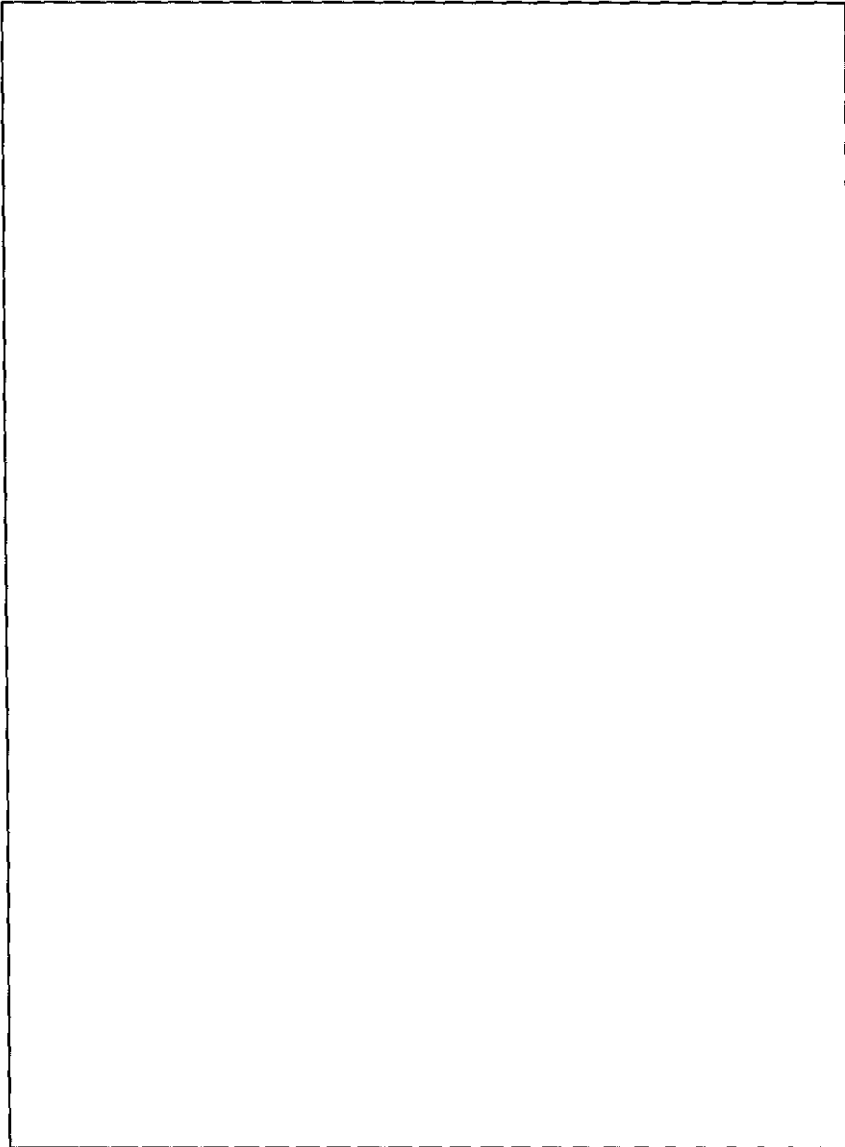
Instead of wheels, Maglev, the world's fastest train, uses powerful magnets to lift it 10mm above the special track, travelling at speeds of up to 500 kph. One train is already in service from Pudong to Shanghai airport in China. Developed in Germany, the high-speed magnetic levitation track was tested with the help of HBM's measuring equipment.

**A growing economy**

Spectris products, with their low capital investment and rapid payback, are key to enabling the manufacturing industry in China to meet or exceed international standards of design and manufacture.

#### **Generating results**

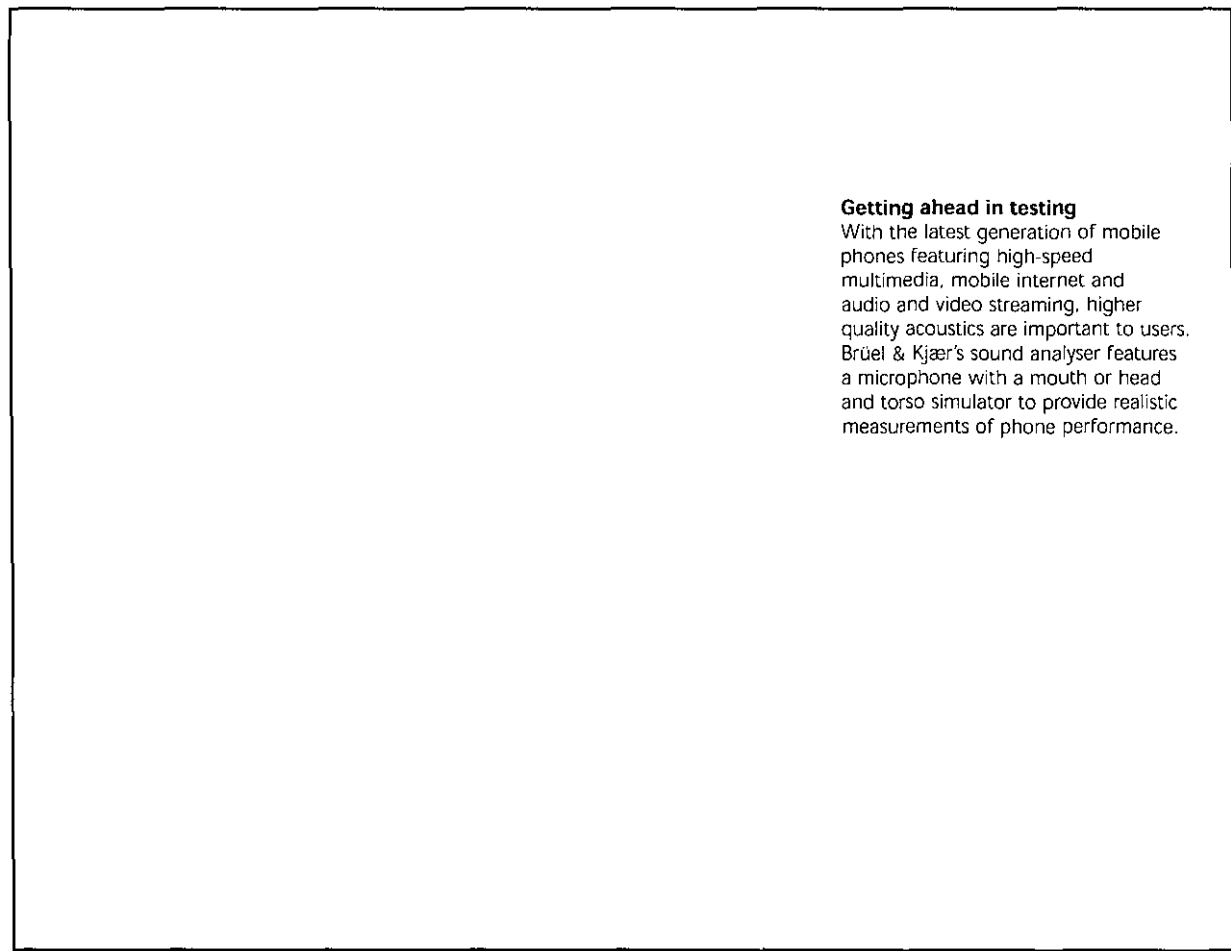
Researchers at ALSTOM Power Service in Switzerland used Malvern's Spraytec particle size analyser to improve the efficiency and reduce the cost of high-fogging, a novel method of increasing power output in gas turbines. The laser-diffraction based system can be used directly on a turbine, rather than in the laboratory, to determine the effect of different droplet size distributions on the power of the turbine, something not previously possible.



“Thanks to our close co-operation with Malvern we were able to analyse droplet size distributions in detail...we now know what other research labs can only estimate” Sasha Savic, ALSTOM Power Service, Switzerland

# Building customer advantages through the application of science

We work closely with customers, applying our core technologies to create specific solutions tailored to the customer's exact requirements. This enables them to develop new products which they would not otherwise be able to bring to market.



### Getting ahead in testing

With the latest generation of mobile phones featuring high-speed multimedia, mobile internet and audio and video streaming, higher quality acoustics are important to users. Brüel & Kjær's sound analyser features a microphone with a mouth or head and torso simulator to provide realistic measurements of phone performance.

### Putting the brakes on cost

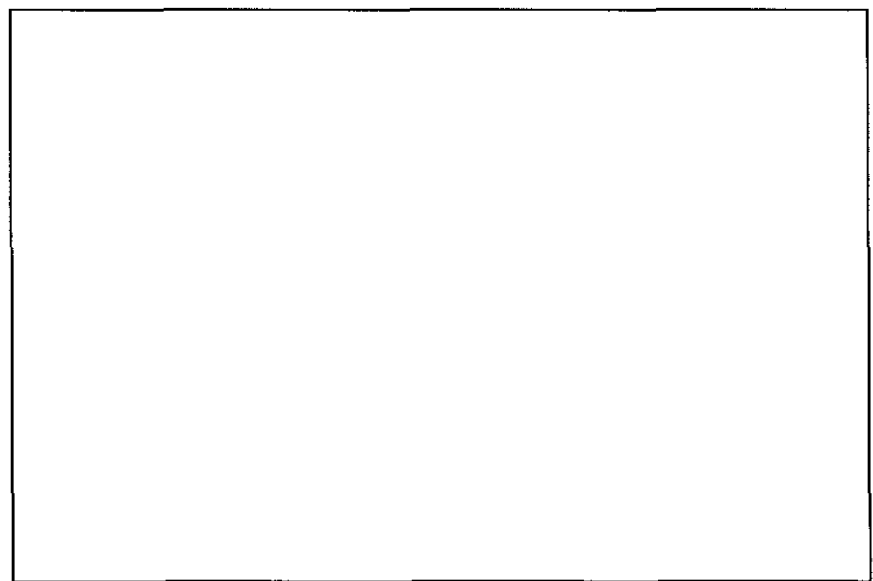
The ability to identify specific vehicles with a faulty part rather than all vehicles of that model greatly reduces the impact of a recall for automotive suppliers. Microscan's smart camera is being used by Delphi Automotive Systems to read 2D bar codes on its parts for a new anti-lock braking system manufactured in Mexico, enabling the components to be tracked through their entire lifecycle.

### Well organised

Manufacturers of communications devices such as personal organisers and mobile phones want their finished products to stay looking good, despite the possibility of accidental scratching. Fusion's ultraviolet (UV) systems are used to cure UV scratch-resistant coatings, applied to the touch pad keys, displays and external cases to improve the product's durability.

## Encouraging progress

Spectris delivered significant increases in all the main performance measures in 2003 compared with the prior year. The results were helped by some improvement in the business environment, but are particularly indicative of the strategy and priorities which have dominated the company's actions.



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**John Poulter** Chairman

Spectris delivered significant increases in all the main performance measures in 2003 compared with the prior year. Sales increased to £568.0m (£490.1m), as a result of encouraging organic growth of 7% as well as the benefit of a full year's contribution from PANalytical. With profit before tax up 15% at £48.9m (£42.5m), earnings per share increased by 14% to 32.1p (28.1p) on a reduced tax rate of 21.0% (24.4%).

These results have been helped by some improvement in the business environment, but are particularly indicative of the strategy and priorities which have dominated, and will continue to dominate, the company's actions. Our customer relationships do not rely only on the products purchased, but on the technical and applications support delivered through direct contact between the businesses and our broad customer base internationally. Given their importance, we have sought to maintain both product development and support activities despite the relentless, and appropriate, attention paid to cost elimination. As markets improve, we believe that these consistent revenue investments will be further rewarded.

Cash generation was maintained, producing operating cash flow at 90% of operating profits. Debt was £163.4m at the year end with interest cover at 5.6 times.

A final dividend of 9.3p (2002: 8.85p), making a total dividend of 13.35p (2002: 12.75p), an increase of 5%, is proposed by the Board. The final dividend will be paid on 11 June 2004 to shareholders on the register on 21 May 2004.

#### **Board changes**

Stephen Harris joined the Board in June 2003 as Business Group Director, having previously been with Powell Duffryn where he was Executive Director responsible for a number of subsidiaries. In March of this year Anthony Reading, until recently a director of Tomkins plc and Chairman of Tomkins Corporation, was appointed to the Board as non-executive director. I welcome them both.

#### **Outlook**

After a lengthy period in which business investments have been subdued, the latter part of 2003 showed increased activity. The resulting improvement in orders has continued into the early weeks of 2004. If the investment trend maintains its direction, the company should benefit, particularly from its high operational gearing. As indicated in January, profit growth will be significantly impacted by the weak US dollar. Despite this, we expect to make further positive progress in 2004.



**John Poulter**  
Chairman

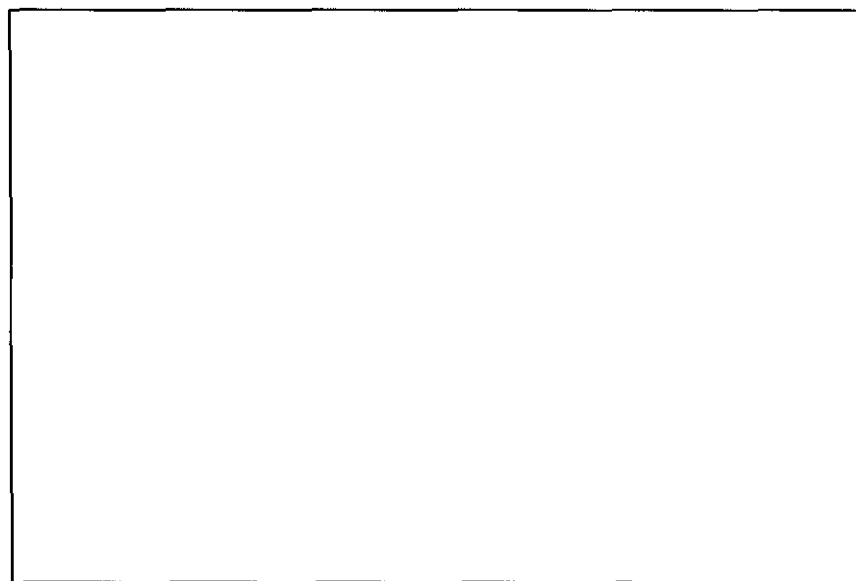
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“Despite the impact of the weak US dollar, we expect to make further progress in 2004”

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## Effective strategy delivers results

Customer confidence improved slowly as the year progressed. Against this background, it was therefore particularly encouraging to have achieved an organic growth rate in sales of 7%.



**Hans Nilsson** Chief Executive

Customer confidence improved slowly as the year progressed. Against this background it was therefore particularly encouraging to have achieved an organic growth rate in sales of 7%. In addition, PANalytical, in its first full year of Spectris ownership, showed a strong performance in sales and profit at constant exchange rates.

Consistent execution of the strategy within the Spectris companies during a period of challenging conditions is the reason for growth greater than that of underlying markets. Management actions to achieve a shift in the staff mix from operations and administration to sales and marketing dovetails with customers' migration of manufacturing to low cost and rapidly developing economies in China, India, eastern Europe and Mexico. Today, Spectris sales and marketing staff make up 41% of the total headcount, up from 33% five years ago. This change has been particularly important in Asia, where the share of total company sales has doubled from 11% in 1999 to 22% in 2003.

**Geographic coverage**

Europe, North America and Asia accounted for 46%, 27% and 22% of sales in 2003 respectively. Taking currency movements into account, year-on-year growth was modest in North America

and Europe, but Asia saw an increase of around 25%, supported by PANalytical with its strong presence in the region, particularly in China.

**Operating margins maintained**

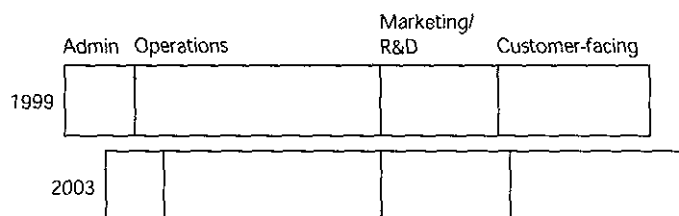
The introduction of innovative products, cost optimisation, a shift of sourcing to lower cost regions and increased volumes largely offset the adverse effect of exchange rates on gross margins. Operating margins were steady at 10.5%. The exchange rate exposure is primarily due to a large proportion of sales in North America and Asia in US dollars, or in currencies linked to the dollar, with operating costs to a large extent denominated in European currencies. This was a significant feature within Process Technology.

**Continuous improvement to ensure competitiveness**

A number of initiatives were pursued during the year to accelerate better business practice. Examples include shortening of sales, development and production cycle times; reduction of administration; expansion of sales coverage, mainly in Asia; and better penetration of targeted industry segments such as pharmaceuticals and cement. Particular focus was placed on

**Employee profile**

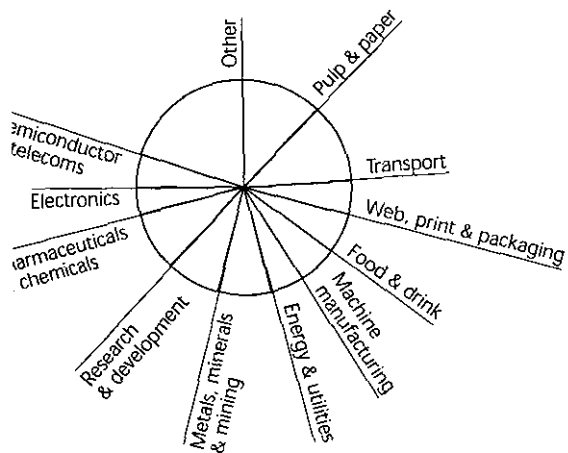
% total headcount



Over the past 5 years a change in the staff mix has resulted in a greater number of customer-facing staff.

### Industry profile

2003 sales by end user industry



The broad balance of end user customers reduces exposure to changes in demand in any single industry.

product and strategy management training in processes to understand customers' needs and convert this knowledge into innovation in products and processes. The key mission continues to be the delivery of increased value to our customers via our 1,800 customer-facing staff.

Another key management process is the translation of customer needs into the sourcing and development of new technologies. In the year, a number of new licensing agreements from universities, other institutions and industry were established and existing ones progressed. Malvern and PANalytical are good examples of companies which have benefited from recent collaboration projects, resulting in new products being introduced.

### Sector performance

Electronic controls reported sales growth of 12% from £117.6m to £132.1m and operating profit growth of 21% from £13.0m to £15.8m. Performance was supported by sales expansion in all four companies, particularly at Arcom and HBM. Arcom and Microscan delivered improved operating profits. HBM's continuing manufacturing expansion in China was supported by a move to new premises and this was completed in the fourth quarter. This will enable HBM to transfer further load cell production from Germany to China. Significant new products were introduced, including setting new standards in miniaturisation of industrial bar code scanners at Microscan and a secure remote telemetry product from Arcom.

In-line instrumentation achieved sales growth of 5% from £172.7m to £182.0m with operating profits up 20% from £18.6m to £22.3m. The growth in sales was achieved primarily by BTG, a particularly notable performance given that pulp and paper producers did not increase their equipment investments due to relatively subdued end user demand. Beta LaserMike suffered a year-on-year decline due to exposure to the telecommunications sector but, as a result of decisive management actions, the business was repositioned towards other growing markets. This realignment included two small

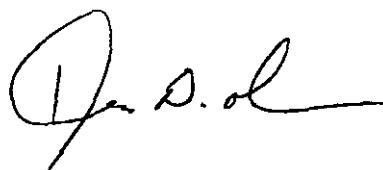
bolt-on acquisitions which were successfully integrated. Servomex and Loma improved their margins and Loma completed a complementary acquisition in January 2004. Brüel & Kjær Vibro suffered disproportionately from adverse exchange rates, but nevertheless improved its market positions. Performance at Ircan, one of the smaller companies, was adversely affected by an increase in sales and marketing costs aimed at better reaching its customer base which is migrating to lower cost regions. New products and applications also featured in this sector, two good examples being a new soft-tipped blade from BTG for high quality paper coating and remote condition monitoring for wind turbines from Brüel & Kjær Vibro.

Process technology grew organic sales marginally. However, a full year's contribution from PANalytical resulted in overall sales growth of 31% from £193.3m to £253.9m. Operating profit grew by 9% from £19.9m to £21.7m. The weakening of the US dollar affected this sector disproportionately, with operating profit growth at 34% in constant currencies. At Fusion UV Systems, the year-on-year decline in demand from the telecommunications sector was a significant feature. The other technology markets that Fusion sells into saw orders recover towards the end of the fourth quarter.

Malvern Instruments, which completed a bolt-on acquisition in the fourth quarter, had a solid year whilst Particle Measuring Systems improved profitability over the previous year despite flat demand from its semiconductor markets. In terms of market penetration, PANalytical had an excellent year and the assimilation into Spectris was completed on schedule. Brüel & Kjær Sound & Vibration made good progress and also negotiated a transition to direct sales in Japan, effective from April 2004, with the acquisition of its long-standing distributor. Examples of new products which have been particularly well received include a range of hand-held sound analysers from Brüel & Kjær Sound & Vibration, a particle characterisation instrument from Malvern, and a high speed X-ray instrument from PANalytical.

#### Well-positioned going forward

Spectris has consistently implemented a strategy which has resulted in improved competitive positions. Further migration of manufacturing and development to lower cost regions and the speed at which technology is deployed in customers' products, provide further opportunities to leverage the leadership positions gained over a long period. Currency fluctuations are likely to continue to influence our customers' investment decisions, but operationally and competitively Spectris is in a good position to manage in this environment. Organic sales growth from a strong product portfolio, geographic coverage and the continued drive to improve operating margins remain key priorities going forward.



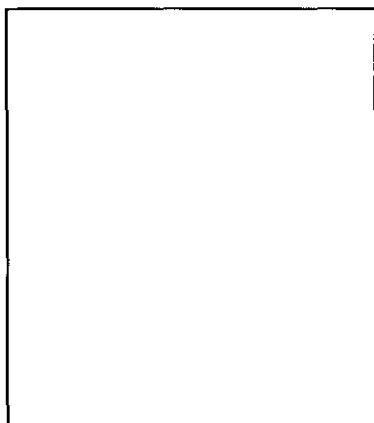
**Hans Nilsson**  
Chief Executive

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"Organic sales growth from a strong product portfolio, geographic coverage and the continued drive to improve operating margins remain key priorities going forward"

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# The broad business experience of the non-executive directors strengthens the expertise of the Spectris Board

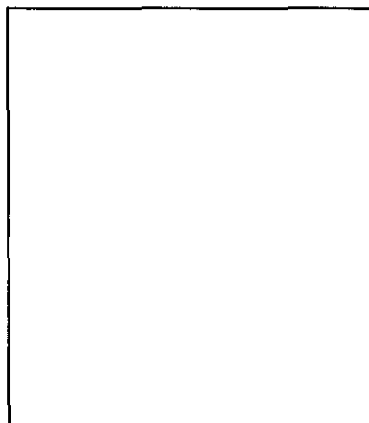


**John Poulter**

Chairman

John Poulter joined Spectris in 1988 and was Chief Executive from 1992 until he became non-executive Chairman in 2001. He is a non-executive director of Kidde plc, RAC plc, Smaller Companies Value Trust plc and The London Metal Exchange. Age 61.

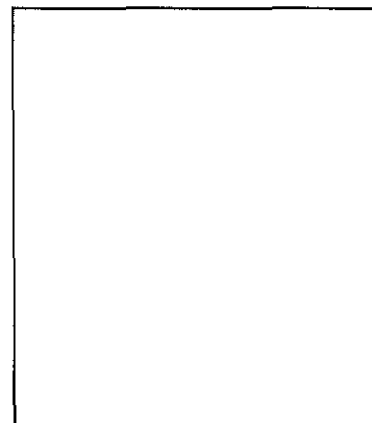
Chairman of the nomination committee



**Hans Nilsson**

Chief Executive

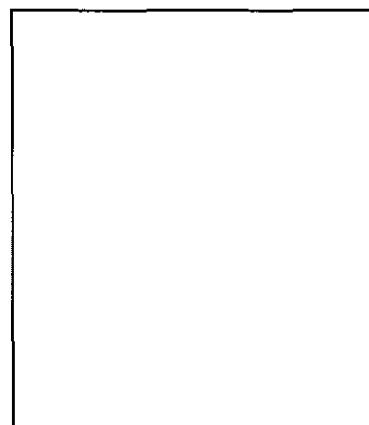
Hans Nilsson joined Spectris in 1997. Previously Chief Operating Officer, he was appointed Chief Executive in 2001. He has a masters degree in electrical engineering and an MBA from Stanford University. He was previously the European managing director of Flextronics, prior to which he held positions at Hewlett Packard and ABB. Age 48.



**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 53.

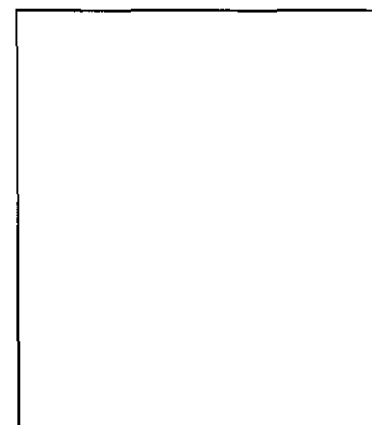


**Andrew Given**

Non-executive Director

Andrew Given was appointed to the Board in 2001. From 1990 to 2002 he was with Logica plc, initially as deputy chief executive. Prior to that he held senior financial positions with Plessey Company plc and with Northern Telecom Limited, mainly in North America. He is a non-executive director of Spirent plc and VT Group plc. Age 56.

Chairman of the audit committee  
Senior independent director

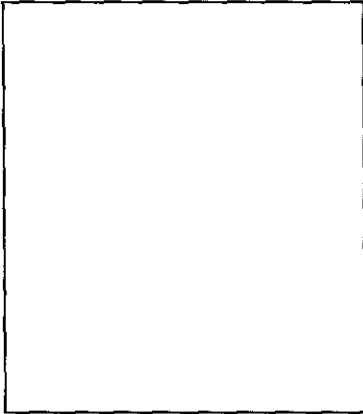


**Martin Lamb**

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 IMI plc, where he is Chief Executive. Age 44.

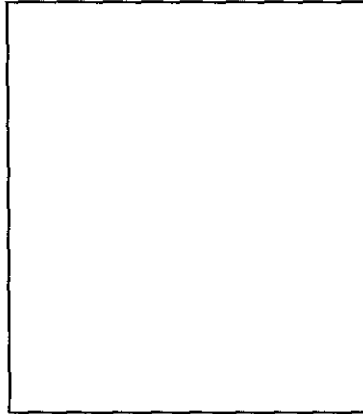
Chairman of the remuneration committee



**Paul Boughton**

Business Development Director

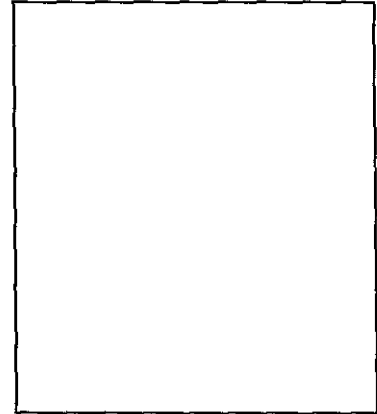
Paul Boughton, a business economics graduate and chartered accountant, joined Spectris in 1991. He is responsible for acquisition and business development activities. Previously financial director of a private company, he was before that involved in acquisition work for Thermal Scientific plc. He is a non-executive director of London Bridge Software Holdings plc. Age 48.



**Stephen Harris**

Business Group Director

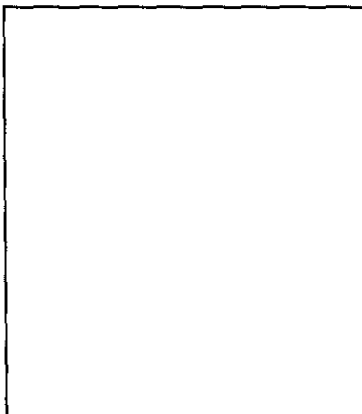
Stephen Harris joined Spectris in 2003. He is responsible for the operational supervision of a number of the group's trading companies. Prior to joining Spectris he was executive director at Powell Duffryn responsible for a number of subsidiaries and, before that, held several positions within APV in North America. He has a degree in engineering from Cambridge and an MBA from the University of Chicago. Age 44.



**Jim Webster**

Business Group Director

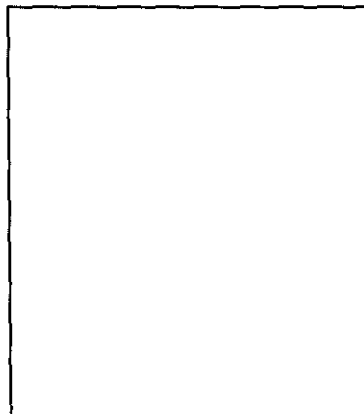
Jim Webster, a metallurgy graduate, joined Spectris in 1993. He is responsible for the operational supervision of a number of the group's trading companies. He was previously general manager of the European Wire and Cable Division of Raychem. Age 53.



**Professor Leo Murray**

Non-executive Director

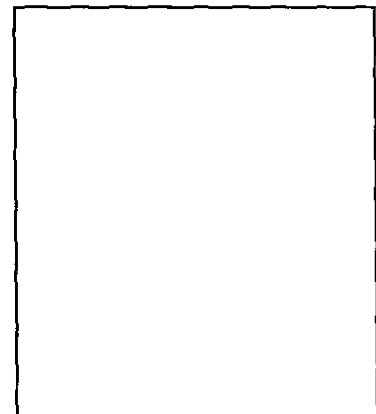
Professor Murray was appointed to the Board in 2003. He is a graduate of Glasgow University and was for 17 years Director of the Cranfield School of Management. Before joining Cranfield, he had a successful international business career including management positions with BP, Courtaulds, AT Kearney Management Consultants and Rothmans International. He is now Chair of the National Centre for Languages and a board member of, and consultant to, a number of organisations. Age 60.



**Anthony Reading**

Non-executive Director

Anthony Reading was appointed to the Board in March 2004. He was a director of Tomkins plc and chairman of Tomkins Corporation for 11 years until he retired at the end of 2003. Prior to that he held senior positions with a number of international companies including group chief executive of the manufacturing and engineering division of BTR plc. Age 60.



**Roger Stephens**

Head of Commercial & Company Secretary

Roger Stephens is an economics graduate and chartered company secretary. Prior to joining Spectris in 1997, he worked in engineering project management, specialising in commercial negotiations and claims resolution and then as director of administration in a commercial law firm. Age 43.

## Financial review

£m	2003	2002
Sales	<b>568.0</b>	490.1
Operating profit	<b>59.8</b>	50.7
Operating margin	<b>10.5%</b>	10.3%

(Unless otherwise stated, all profit and earnings figures are stated before exceptional items and goodwill amortisation)

Headline sales increased by 16% boosted by a full year's contribution from PANalytical, acquired in September 2002 while, organically, underlying sales grew by 7%.

Similarly, operating profit rose by 18% and, organically, by 13%.

### Acquisitions

During the year, a number of small bolt-on acquisitions were made for which the total consideration was £10.8m.

### Earnings per share

	2003	2002
	P	P
Basic earnings per share	<b>21.6</b>	13.4
Adjustment for exceptional items (after tax) and goodwill amortisation	<b>10.5</b>	14.7
Earnings per share, before exceptional items and goodwill amortisation	<b>32.1</b>	28.1

### Taxation

The effective tax rate on operating profit was 21.0% (2002: 24.4%) which continues to be substantially below the weighted average statutory tax rate as a consequence of profit mix (low profits in high tax jurisdictions such as the US and Japan, with correspondingly high profits in low tax countries such as Switzerland and China) and benefits arising from tax planning initiatives.

### Financing and treasury

The group finances its operations from both retained earnings and third party borrowings at both fixed and floating rates of interest. Where appropriate, interest rate swap arrangements are used to optimise the group's interest rate profile. Swap contracts in place for \$50m and €40m generated interest savings of £1.47m during the year, however both arrangements lapsed in July and September 2003 respectively.

Given the fact that the majority of debt is acquisition driven and therefore long term by nature, when the group's £60m medium term bank credit facility expired in August, this was replaced by a further private placement of 10-year fixed rate debt amounting to \$100m and €25m at a composite interest rate of 5.6%. The US dollar notes were swapped into euros to provide a hedge against euro denominated net assets in the group's balance sheet, continuing the practice of financing net investments in overseas subsidiaries through foreign currency borrowings, principally in euros, US dollars and Japanese yen.

At the year end, with the cancellation of the swap arrangements and private placement refinancing, 99% of group borrowings were at fixed rates. Additionally, the ageing profile at the year end showed that 29% of debt was due to mature in two to three years (2002: 43%) and the remaining 71% in more than five years (2002: 25%).

### Currency

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

In terms of operating income currency exposures, the group has a minor positive exposure to the euro given the significant revenues but also significant cost bases in euro or euro-tracking countries; the positive exposure to the Japanese yen is more marked (significant revenues/insignificant costs) while by far the most pronounced exposure is to the US dollar through both North America and Asia Pacific whose currencies, outside Japan, mostly track the US currency.

The strong euro and significantly weaker US dollar towards the back-end of the year gave rise to exchange losses, based on like-for-like exchange rates, of approximately £4.8m (net of hedging gains of £1.6m).

Key exchange rates were as follows:

	2002 (average)	2003 (average)	2003 (year-end rate)
US \$	1.51	1.64	1.78
Euro	1.59	1.44	1.42
Yen	188	189	190

The group's US dollar and euro net translation exposures were hedged in 2003 through zero cost average rate options which, in aggregate, generated net gains of £1.6m.

### Cash flow

	2003 £m	2002 £m
Net cash inflow from operating activities	<b>64.8</b>	54.4
Capital expenditure	<b>(15.7)</b>	(19.9)
Fixed asset disposals	<b>1.3</b>	4.0
Tax paid	<b>(2.5)</b>	(4.5)
Interest paid	<b>(8.9)</b>	(8.7)
<b>Free cash flow</b>	<b>39.0</b>	25.3
Dividends	<b>(15.5)</b>	(14.0)
Acquisitions/disposals	<b>(8.2)</b>	(97.1)
Shares issued	<b>0.8</b>	41.5
Sale/(purchase) of fixed asset investments	<b>0.3</b>	(2.1)
Exchange difference	<b>(2.3)</b>	0.4
<b>Movement in net debt</b>	<b>14.1</b>	(46.0)
Opening net debt	<b>(177.5)</b>	(131.5)
Closing net debt	<b>(163.4)</b>	(177.5)

Operating cash flow was £64.8m and included residual outflows of £2.9m relating to exceptional charges and fair value adjustments from the Spectris AG and PANalytical acquisitions.

Tax paid in the year was decreased by virtue of a £3.2m tax rebate in the US received in December.

Capital expenditure reduced to a more sustainable 2.8% of sales (2002: 3.2%) and, at £15.7m, was 120% of depreciation.

The major capital investments in the year were made in plant and machinery to expand capacity at HBM, including China expansion, PANalytical and Brüel & Kjær Sound and Vibration which, in aggregate, accounted for 73% of total capital expenditure.

Cash conversion of operating profit to operating cash at the headline level was 85% and, excluding the acquisitions-related movement in non-operating provisions, was 90% due chiefly to a working capital outflow of £7.7m, of which £4.8m related to an increase in trade debtors reflecting fourth quarter sales growth.

Net debt fell by £14.1m despite net investment in bolt-on acquisitions of £8.2m.

Gearing, which is defined as net debt as a percentage of total capital employed, including goodwill previously written off, was 33% (2002: 38%).

Interest cost, excluding the financing charge arising from FRS 17, was covered by operating profits 5.6 times (2002: 5.7 times), providing reasonable headroom over and above banking covenants which require a minimum of 3 times cover.

Trade working capital expressed as a percentage of sales was reduced to 16% (2002: 18%), continuing the group's focus on optimal working capital management, against which operating companies' managements are both targeted and bonused.

#### **Fair value adjustments**

Fair value adjustments made in relation to the assets and liabilities acquired with the PANalytical business in 2002 were reduced in the year from £6.6m to £4.4m mostly to reflect an upward revaluation of the freehold properties acquired.

#### **FRS 17**

The reporting standard on retirement benefits, FRS 17, was adopted early by the group in 2001.

The impact in 2003 has been to reduce operating overheads by £0.4m (2002: £0.6m charge) and increase financing costs by £0.2m (2002: £0.7m credit).

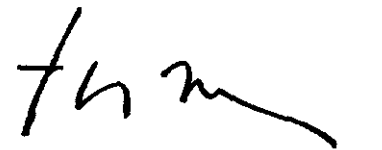
The net pension liability has increased to £12.0m (2002: £9.0m) as a consequence of revised mortality projections, a reduced

discount rate and increased inflationary expectations, mitigated in part by an increase in underlying asset values.

Net company contributions to the two main UK schemes increased to £0.9m in the year (2002: £0.4m) and are anticipated to increase by a further £0.2m to £1.1m in 2004.

#### **IFRS**

Compliance with the new international financial reporting standards will be mandatory from 2005 onwards and the group is confident that this will be achieved within the prescribed timescale.



**Graham Zacharias**  
Group Finance Director

## Directors' report

The directors present their report and accounts for the year ended 31 December 2003.

### Principal activities

The Spectris businesses are engaged in the development and marketing of precision instrumentation and controls. For 2003 reporting purposes, the businesses were grouped into three sectors: electronic controls, in-line instrumentation and process technology. 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).

### Acquisitions

During the year, a number of small, bolt-on acquisitions were made for which the total consideration was £10.8m.

### Disposals

There were no disposals during the year.

### Share capital

The issued share capital at the year end consisted of 124,091,466 5p ordinary shares.

At the 2004 Annual General Meeting resolutions will be proposed for the renewal of the authorities granted to the directors to allot shares, to allot shares on a non pre-emptive basis for cash and to purchase the company's own shares (either to be cancelled or to be held in treasury), all within specified limits.

At 15 March 2004 interests notified to the company in accordance with Part VI of the Companies Act 1985 comprised:

Legal & General Investment Management Limited  
6,253,015 shares (5.04% material interest)

Aegon Asset Management (UK)  
5,234,182 shares (4.22% material interest)

Standard Life Investments Limited  
4,986,571 shares (4.02% material interest)

Liberty Wanger Asset Management LP  
4,910,500 shares (3.96% material interest)

Prudential plc  
4,733,701 shares (3.81% material interest)

Morley Fund Management Limited  
4,564,444 shares (3.68% material interest)

HBOS plc  
4,552,294 shares (3.67% material interest)

### Dividends

Results for the group are set out in the profit and loss account on page 33 and in the supporting notes. A final dividend of 9.3p per ordinary share is proposed for the year to 31 December 2003

(2002: 8.85p). With the interim dividend, this makes a total for the year of 13.35p (2002: 12.75p). The final dividend will be paid on 11 June 2004 to shareholders on the register on 21 May 2004.

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 and, to a lesser extent, applications engineering and process integration. Costs are expensed as incurred (except to the extent funded by customers) and totalled £34.1m in the year to 31 December 2003 (2002: £29.6m).

### Fixed assets

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

### 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.

### Directors

The directors at 31 December 2003 are named on pages 14 and 15. Peter Watson retired from the Board at the AGM on 7 May 2003. Leo Murray was appointed to the Board on 8 January 2003 and Stephen Harris was appointed to the Board on 2 June 2003. Anthony Reading was appointed to the Board subsequent to the year end on 10 March 2004.

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. Stephen Harris and Anthony Reading, 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 directors' total remuneration for the year and their interests in the shares of the company and its subsidiaries at 31 December 2003 are disclosed in the directors' remuneration report on pages 22 to 27.

### 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 at the company's offices on Wednesday 12 May 2004 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 in June 1998. This statement describes how the company applied the principles and complied with the provisions of the Combined Code during 2003.

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 remuneration committee did not consist exclusively of independent non-executive directors. However, the Chairman, John Poulter, ceased to be a member of the committee as from December 2003, ensuring compliance thereafter.

A revised version of the Combined Code was published on 23 July 2003 and is to be applicable to the 2004 financial year and thereafter. The Board has taken the necessary steps to achieve compliance during 2004 with the provisions set out in Section 1 of this revised version, save that:

- at least half the Board, excluding the Chairman, will not comprise independent non-executive directors. Compliance with this provision (A3.2) required at 1 January 2004 recruitment of an additional two non-executive directors, taking the total to five. Whilst Anthony Reading was appointed as an additional non-executive director in March 2004, the Board takes the view that securing the appropriate mix of skills and experience amongst its non-executive directors is more relevant than numerical balance;
- a majority of the members of the nomination committee are not independent non-executive directors, as required by provision A4.1. The committee consists of the Chairman, the senior independent director and the Chief Executive and the Board considers this to be the most appropriate composition for the sensitive issues addressed by the committee; and
- the audit committee does not consist exclusively of independent non-executive directors, as required by provision C3.1. The Chairman, John Poulter, continues to serve as a member of the committee and the Board believes this to be essential both to enable the Chairman to properly discharge his responsibilities and to assist the work of the committee given the Chairman's extensive knowledge of the group's operations.

#### Board composition and procedures

The Board meets formally nine times each year to consider developments in relation to the company's strategy and long-term objectives 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 currently comprises the Chairman, five executive directors and four non-executive directors, all of whom are considered by the Board to be independent. The positions of Chairman, Chief Executive and senior independent director are held by separate individuals and the Board has adopted written profiles for each of the positions of Chairman, Chief Executive and non-executive director. The non-executive directors have all

had senior experience in other organisations and offer independent judgement on Board matters. The Chairman's other significant interests are as a non-executive director of RAC plc, Kidde plc, Macquarie European Infrastructure plc, Smaller Companies Value Trust plc and certain private companies.

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 terms of reference of these committees are published on the company's website and the following additional documents are available to shareholders on application to the company secretary:

- schedule of matters reserved for decision by the Board;
- responsibilities of the Chairman, the Chief Executive and the non-executive directors;
- relations with shareholders;
- performance evaluation;
- procedure for taking independent professional advice.

#### Board and committee meeting attendance 2003

	Remuneration		Audit Nomination	
	Board	Committee	Committee	Committee
Total meetings during year	9	3	3	1
J W Poulter (Chairman)	9	3	3	1
A F Given (Senior independent director)	7	3	3	1
M J Lamb	8	2	2	1
L G Murray	9	3	3	1
P Watson	4	2	2	1
H D Nilsson (Chief Executive)	9	N/A	N/A	1
P V Boughton	9	N/A	N/A	N/A
S C Harris	4	N/A	N/A	N/A
J C Webster	9	N/A	N/A	N/A
J G Zacharias	9	N/A	N/A	N/A

P Watson and S C Harris held office for part of the year only. P Watson attended 4 of the 5 Board meetings which he was eligible to attend and S C Harris attended all meetings which he was eligible to attend. A J Reading was appointed to the Board in March 2004.

## Directors' report continued

### Board appointments and performance evaluation

The nomination committee consists of the Chairman, the senior independent director and the Chief Executive and is chaired by the Chairman. John Poulter, save in the event of discussions relating to his succession when the senior independent director would take the chair.

Following a decision of the Board that the appointment of a new director is appropriate, the duty of the committee is to present for Board consideration suitably qualified candidate(s). In making such recommendations, the committee evaluates the balance of skills, knowledge and experience on the Board and develops a description of the role and required capabilities. Candidates are then identified for interview through the appointment of an external search consultant. The committee also makes recommendations to the Board regarding the re-election and/or reappointment of any director.

The nomination committee meets as the need arises. Its terms of reference can be found on the company's website.

The operation of the Board and its committees is evaluated by the Board as a whole annually. The executive directors' and company secretary's performances are appraised annually against objectives established for the prior year. The contributions of the Chairman and non-executive directors are reviewed, by the senior independent director and the Chairman respectively, each three years prior to their being proposed to shareholders for re-election. Additionally, the Chairman holds periodic meetings with the non-executive directors only and, commencing in 2004, the non-executives will meet at least annually without the Chairman present.

### 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, [www.spectris.com](http://www.spectris.com).

All shareholders are invited to participate in the Annual General Meeting, where the Chairman, the Chief Executive and 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.

The Board is kept informed of the views of major shareholders through periodic reports from the Chief Executive, the company's broker Merrill Lynch and the company's shareholder relations adviser Makinson Cowell. Additionally, the Chairman and non-executive directors have the opportunity to attend the bi-annual analyst presentations.

Shareholders representing in excess of 3% of the company's issued share capital receive a standing invitation to meet with the Chairman, the senior independent director or new non-executive directors. Such meetings would supplement if necessary, but not

replace, the regular meetings with the Chief Executive and group finance director.

### Audit Committee

The audit committee comprises the non-executive directors and the Chairman. It is chaired by Andrew Given and meets at least three times each year to consider the effectiveness of the group's internal controls, policies and procedures, the process of internal audit and the outcome of the external audit. Its meetings are normally attended by the Chief Executive, the group finance director, the company secretary and the external auditor. The committee regularly confers with the auditor without the attendance of executive directors. Its terms of reference can be found on the company's website.

The committee is responsible for making recommendations to the Board in relation to the appointment of the external auditor and then for approving the external auditor's remuneration, terms of engagement and scope of work.

The committee has also adopted procedures governing and restricting the appointment of the external auditor for non-audit services. The following services are precluded:

- Book keeping or other services related to the accounting records or financial statements of Spectris plc.
- Financial information systems design and implementation.
- Appraisal or valuation services, fairness opinions or contribution in kind reports.
- Actuarial services.
- Internal audit outsourcing services.
- Management functions or human resources.
- Broker or dealer, investment adviser or investment banking services.
- Legal services and expert services unrelated to the audit.

A cumulative annual cap of £200,000 is established for all other non-audit services (save for acquisition due diligence and taxation services) above which all engagements are subject to prior approval by the audit committee.

The audit committee concluded in 2002 that the group's growing size justified the appointment of an internal controls and risk manager and the position was filled in February 2003. A rolling programme of audit of all group subsidiaries has been agreed by the audit committee and reports, including an overall assessment of risk and required corrective actions, are produced after each such audit.

### 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 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 during the year and that the group accords with the guidance.

The processes which the Board and the audit committee have 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 and twice yearly by the audit committee.
- 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 from business unit presidents and finance directors to the audit committee. 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.

#### **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.

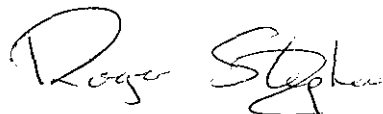
#### **Directors' responsibilities**

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  
16 March 2004

## Directors' remuneration report

The directors present their remuneration report for the year ended 31 December 2003.

### Remuneration committee

The remuneration committee is responsible for recommending to the Board the broad policy for the remuneration of the Chairman, the Chief Executive, the executive directors and the company secretary. The remuneration of non-executive directors is a matter reserved to the Chairman and executive directors.

Within the terms of the agreed policy, the committee determines:

- the total individual remuneration package including, where appropriate, bonuses and share-based incentives;
- the targets for any performance-related incentives;
- the scope of any pension arrangements;
- contractual terms of engagement and any payments to be made on termination; and
- the policy for authorising claims for expenses from the Chairman and Chief Executive.

The committee also monitors the level and structure of remuneration for business unit presidents or managing directors.

The remuneration committee consists of the non-executive directors, these being at the date of this report Martin Lamb (chairman), Andrew Given, Leo Murray and Anthony Reading. John Poulter, Chairman of the Board, ceased to be a member of the committee from December 2003, but remains in attendance at most meetings save during discussions relating to his own remuneration. Hans Nilsson, Chief Executive, is also on occasions in attendance by invitation and the committee takes into consideration his recommendations regarding the remuneration of his executive colleagues.

The committee has appointed New Bridge Street Consultants to advise on various aspects of the Chairman's and executive directors' remuneration. This firm did not provide any other services to the company during the year.

The terms of reference of the committee can be found on the company's website and are available on request.

### Remuneration policy

The Board, in considering the recommendations of the remuneration committee, complied throughout the year with the provisions of the Combined Code (including the principles for performance-related remuneration set out in Schedule A). The policy objective is to ensure that the high calibre managers required at board level are fairly and competitively remunerated and incentivised in a manner consistent with the group's strategic objectives.

Base salaries are established by reference to surveys of the terms offered by comparable UK quoted companies. Additionally, executive directors are permitted to retain any payments received in respect of external non-executive appointments. Such appointments are limited to one per director at any time and are subject to the approval of the Board.

To align remuneration with shareholders' interests, a significant proportion of executive directors' potential total remuneration is related to corporate performance and it is intended that this balance should continue. Bonuses of up to 75% of base salary are achievable dependent upon the attainment of demanding normalised earnings per share and profit before tax targets set in relation to carefully considered business plans. Such bonuses are not pensionable and the executive directors have undertaken that any bonus payment in excess of 50% will, after deduction of tax, be used for the purchase of shares in the company to be held until the individual ceases to be employed within the group. 30% bonuses were earned in respect of 2003 performance.

Executive directors participate in the group's executive share option plans. They may also participate in the savings-related option scheme which is open to all UK employees. In normal circumstances, options are not exercisable within three years from grant. The group's policy since 1996, where regulations permit, has been to purchase existing shares into trust to satisfy grants of executive share options so as to limit dilution of existing shareholders' equity. This policy may be subject to future review following changes in the accounting treatment of both share option grants and shares held in trust.

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 condition, as approved by shareholders, requiring compound growth in earnings per share before exceptional items and amortisation of goodwill ("EPS") over three financial years of at least 2% per annum in excess of the increase in the retail prices index ("RPI"). EPS growth was selected as the appropriate pre-condition to exercise in order to ensure that share option gains would only be received if the company's performance for shareholders had been enhanced. The EPS figures to be used will be as published in the audited accounts for each financial year.

Following publication of new ABI guidelines in August 1999, a revised policy for the grant of share options to executive directors was determined. Consideration is now given to the granting of options twice-yearly and, at the discretion of the committee, grants may be made up to an annual maximum exercise value of two times base salary. More rigorous performance conditions attaching to such grants now apply: exercise of 50% of the grant will require the achievement of EPS growth of at least 3% per annum in excess of the increase in RPI over the three financial years following grant, whilst exercise of the other 50% will require EPS growth of at least 5% per annum in excess of the increase in RPI. If the performance condition is not achieved over the three specified financial years, the option will lapse with no opportunity for retesting. Accordingly, options granted in March

2001 conditional upon EPS growth over the 2001 – 2003 financial years lapsed at the year end on failure to achieve the performance condition.

The company does not operate a deferred bonus plan, long-term incentive plan or share incentive plan. However, the company's approach to share or share option performance incentives is kept under constant review.

Company car and health insurance benefits are subject to income tax and none of these benefits is pensionable. The executive directors have defined contribution pension arrangements to which the company contributes.

In accordance with current corporate governance requirements, all executive directors have rolling contracts subject to twelve months' notice and expiring at 60 years of age. 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.

The Chairman, John Poulter, is retained on a contract of employment subject to 6 months' notice and terminating at the 2007 AGM. Mr Poulter retains share option grants received during his previous service as an executive director, but will not receive any further share option grants and does not now participate in any bonus or pension arrangements.

Non-executive directors' fees are agreed by the Chairman and executive directors. They do not participate in bonus, share option or pension arrangements. All non-executive directors' conditions of appointment provide for a six-month period of notice within an initial term of three years from election by shareholders at the director's first AGM. The appointment may be renewed by mutual agreement for a further three-year period.

### Contracts

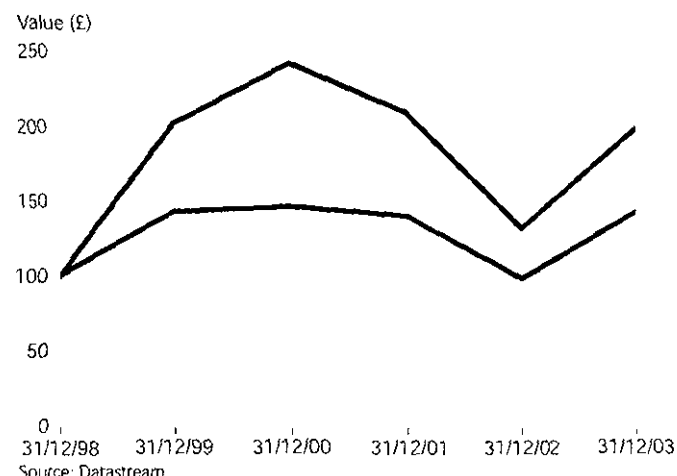
Details of the directors' contracts are as follows:

	Date of contract	Expiry date	Notice period
<b>Executive directors</b>			
H D Nilsson	23.4.01	25.9.15	12 months
P V Boughton	27.3.98	29.9.15	12 months
S C Harris	2.6.03	15.5.19	12 months
J C Webster	27.3.98	21.6.10	12 months
J G Zacharias	27.3.98	11.3.11	12 months
<b>Non-executive directors</b>			
A F Given	5.6.01	11.5.05	6 months
M J Lamb	12.9.99	10.5.06	6 months
L G Murray	8.12.02	10.5.06	6 months
J W Poulter	17.2.02	9.5.07	6 months
A J Reading	10.3.04	9.5.07	6 months

The executive directors' contracts 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.

### Total shareholder return

The following graph indicates the value by the end of 2003 of £100 invested in Spectris plc 5p ordinary shares on 31 December 1998 compared with the value of £100 invested in the FTSE mid-250 index over the same period. The company is a constituent member of the FTSE mid-250 index.



— Spectris  
 - - - FTSE mid-250

## Directors' remuneration report continued

### Directors' remuneration and interests

The auditors are required to report on the information contained in the following sections a) to d).

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

	Salary and/or fees	Bonus	Benefits in kind	Taxable expenses	Termination payments	2003 Total	2002 Total
<b>Executive directors</b>							
H D Nilsson	290	87	3	14	-	394	370
P V Boughton	185	56	11	2	-	254	266
S C Harris	114	34	1	6	-	155	-
J C Webster	195	59	21	-	-	275	268
J G Zacharias	185	56	6	8	-	255	258
J A Otter	-	-	-	-	-	-	228
<b>Non-executive directors</b>							
A F Given	25	-	-	-	-	25	25
M J Lamb	25	-	-	-	-	25	25
L G Murray	25	-	-	-	-	25	-
J W Poulter	80	-	-	-	-	80	80
P Watson	10	-	-	-	-	10	25
	1,134	292	42	30	-	1,498	1,545

Benefits in kind include company cars, private fuel and medical expenses insurance. Taxable expenses relate to allowances paid in lieu of company cars and private fuel.

During the year P V Boughton and J C Webster each received £20,000 in respect of their appointments as non-executive directors of London Bridge Software Holdings plc and Telspec plc respectively.

No compensation payments were made in 2003. In 2002, a post-termination payment of £138,500 before tax was made to J A Otter by way of compensation for loss of office and early termination of employment. This figure reflected negotiated allowances both for mitigation and for accelerated payment. All share option grants lapsed on termination.

A J Reading was appointed to the Board on 10 March 2004.

#### b) Directors' pensions

Company contributions to defined contribution plans:

	2003 £'000	2002 £'000
H D Nilsson	58	52
P V Boughton	37	36
S C Harris	10	-
J C Webster	41	37
J G Zacharias	37	36
J A Otter	-	17

J W Poulter ceased to accrue defined pension benefits in November 2002.

#### c) Directors' total remuneration

	2003 £'000	2002 £'000
Aggregate emoluments	1,498	1,545
Company pension contributions to defined contribution schemes	183	178
Gains made on exercise of share options	440	1,279
	2,121	3,002

d) Directors' interests in options to purchase ordinary shares

	Date granted	Options held 1 Jan 03	Granted	Exercise price (p)	Exercised	Share price at date of exercise (p)	Lapsed	Options held 31 Dec 03	Date exercisable	Expiry date	
<b>J W Poulter</b>	Sept 1994	30,778		388.9081				30,778	Sept 1997	Sept 2004	
	June 1996	41,037		661.8261				41,037	June 1999	June 2006	
	Mar 1997	25,648		538.5256				25,648	Mar 2000	Mar 2007	
	Mar 1998	15,389		550.7095				15,389	Mar 2001	Mar 2008	
	Mar 1999	20,518		321.6533				20,518	Mar 2002	Mar 2009	
	Mar 1999	20,518		5.00	20,518	265			Mar 2003	Mar 2006	
	Mar 2000	48,715		513.1832				48,715	Mar 2003	Mar 2010	
	Mar 2001	90,730		498.50			60,180	30,550	Mar 2004	Mar 2011	
SAYE	Oct 1998	7,222		238.8032	7,222	425.25			Dec 2003	June 2004	
		<b>300,555</b>						<b>212,635</b>			
<b>H D Nilsson</b>	Mar 1998	30,572		550.7095				30,572	Mar 2001	Mar 2008	
	Sept 1998	10,259		238.8032	10,259	430			Sept 2001	Sept 2008	
	Mar 1999	15,389		321.6533				15,389	Mar 2002	Mar 2009	
	Mar 1999	15,389		5.00	15,389	265			Mar 2003	Mar 2006	
	Mar 2000	33,125		513.1832				33,125	Mar 2003	Mar 2010	
	Mar 2001	63,511		498.50			42,126	21,385	Mar 2004	Mar 2011	
	Oct 2001	50,000		357.50				50,000	Oct 2004	Oct 2011	
	Mar 2002	65,000		516.5				65,000	Mar 2005	Mar 2012	
	Sept 2002	67,500		342.5				67,500	Sept 2005	Sept 2012	
	Mar 2003		100,000	279				100,000	Mar 2006	Mar 2013	
	Sept 2003		64,000	468.5				64,000	Sept 2006	Sept 2013	
	SAYE	Oct 1998	7,222		238.8032	7,222	425.25			Dec 2003	June 2004
		Oct 2003		1,969	468.5				1,969	Dec 2006	June 2007
		<b>357,967</b>						<b>448,940</b>			
<b>P V Boughton</b>	Sept 1994	20,518		388.9081				20,518	Sept 1997	Sept 2004	
	Sept 1995	20,518		525.3671				20,518	Sept 1998	Sept 2005	
	June 1996	20,518		661.8261				20,518	June 1999	June 2006	
	Mar 1997	15,389		538.5256				15,389	Mar 2000	Mar 2007	
	Mar 1998	10,259		550.7095				10,259	Mar 2001	Mar 2008	
	Mar 1999	15,389		321.6533				15,389	Mar 2002	Mar 2009	
	Mar 1999	15,389		5.00	15,389	265			Mar 2003	Mar 2006	
	Mar 2000	29,229		513.1832				29,229	Mar 2003	Mar 2010	
	Mar 2001	54,438		498.50			36,108	18,330	Mar 2004	Mar 2011	
	Mar 2002	40,000		516.5				40,000	Mar 2005	Mar 2012	
	Sept 2002	45,000		342.5				45,000	Sept 2005	Sept 2012	
	Mar 2003		60,000	279				60,000	Mar 2006	Mar 2013	
	Sept 2003		42,000	468.5				42,000	Sept 2006	Sept 2013	
	SAYE	Oct 1998	7,222		238.8032	7,222	425.25			Dec 2003	June 2004
	Oct 2003		1,969	468.5				1,969	Dec 2006	June 2007	
		<b>293,869</b>						<b>339,119</b>			
<b>S C Harris</b>	Sept 2003		40,000	468.5				40,000	Sept 2006	Sept 2013	
			<b>40,000</b>					<b>40,000</b>			

## Directors' remuneration report continued

	Date granted	Options held 1 Jan 03	Granted	Exercise price (p)	Share price at date of exercised exercise (p)	Lapsed	Options held 31 Dec 03	Date exercisable	Expiry date
<b>J C Webster</b>	Sept 1995	20,518		525.3671			20,518	Sept 1998	Sept 2005
	June 1996	20,518		661.8261			20,518	June 1999	June 2006
	Mar 1997	15,389		538.5256			15,389	Mar 2000	Mar 2007
	Mar 1998	10,259		550.7095			10,259	Mar 2001	Mar 2008
	Sept 1998	25,648		238.8032	25,648	465		Sept 2001	Sept 2008
	Mar 1999	15,389		321.6533			15,389	Mar 2002	Mar 2009
	Mar 1999	15,389		5.00	15,389	265		Mar 2003	Mar 2006
	Mar 2000	30,202		513.1832			30,202	Mar 2003	Mar 2010
	Mar 2001	55,950		498.50		37,111	18,839	Mar 2004	Mar 2011
	Mar 2002	40,000		516.5			40,000	Mar 2005	Mar 2012
	Sept 2002	50,000		342.5			50,000	Sept 2005	Sept 2012
	Mar 2003		65,000	279			65,000	Mar 2006	Mar 2013
	Sept 2003		44,000	468.5			44,000	Sept 2003	Sept 2013
	SAYE	Oct 1998	7,222		238.8032	7,222	425.25		Dec 2003
Oct 2003			1,969	468.5			1,969	Dec 2006	June 2007
		<b>306,484</b>					<b>332,083</b>		
<b>J G Zacharias</b>	Mar 1996	4,924		597.4954			4,924	Mar 1999	Mar 2006
	June 1996	20,518		661.8261			20,518	June 1999	June 2006
	Mar 1997	15,389		538.5256			15,389	Mar 2000	Mar 2007
	Mar 1998	10,259		550.7095			10,259	Mar 2001	Mar 2008
	Sept 1998	25,648		238.8032	25,648	465		Sept 2001	Sept 2008
	Mar 1999	15,389		321.6533	15,389	465		Mar 2002	Mar 2009
	Mar 1999	15,389		5.00	15,389	279		Mar 2003	Mar 2006
	Mar 2000	29,229		513.1832			29,229	Mar 2003	Mar 2010
	Mar 2001	54,438		498.50		36,108	18,330	Mar 2004	Mar 2011
	Mar 2002	40,000		516.5			40,000	Mar 2005	Mar 2012
	Sept 2002	45,000		342.5			45,000	Sept 2005	Sept 2012
	Mar 2003		60,000	279			60,000	Mar 2006	Mar 2013
	Sept 2003		42,000	468.5			42,000	Sept 2006	Sept 2013
	SAYE	Oct 1998	7,222		238.8032	7,222	425.25		Dec 2003
		<b>283,405</b>					<b>285,649</b>		

Shares other than those marked SAYE relate to executive share option grants. Entitlement to exercise grants under the unapproved 1996 Executive Share Option Plan is conditional upon a performance criterion requiring compound growth in normalised earnings per share ("EPS") over three years of at least 2% and up to 5% per annum in excess of the increase in the retail prices index (refer to the Directors' Remuneration Report on pages 22 and 23 for further explanation). Entitlement to exercise Matching Options (5p) was conditional upon a performance criterion which requires compound growth in EPS over the three consecutive financial years following grant of the qualifying option 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%. The final grant of such Matching Options vested and the options were exercised during 2003. No consideration was paid by any recipient in relation to the grant of an option and there were no changes to the conditions on which any option was granted during the year.

### e) Directors' interests

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

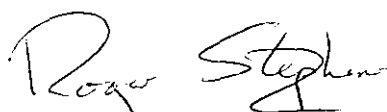
	Shareholdings		Options	
	2003 31 Dec (or date of retirement)	2003 1 Jan (or date of appointment)	2003 31 Dec (or date of retirement)	2003 1 Jan (or date of appointment)
J W Poulter	193,687	206,465	212,635	300,555
H D Nilsson	65,410	38,244	448,940	357,967
P V Boughton	83,080	66,173	339,119	293,869
A F Given	5,000	-	-	-
S C Harris	-	-	40,000	-
M J Lamb	6,000	6,000	-	-
L G Murray	-	-	-	-
P Watson	11,666	11,666	-	-
J C Webster	79,997	55,669	332,083	306,484
J G Zacharias	51,216	26,844	285,649	283,405

There were no changes to the above interests between the year end and the date of this report. A J Reading was appointed to the Board on 10 March 2004 and at the date of appointment held a beneficial interest in 3,500 ordinary shares of the company.

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.

At 31 December 2003 the mid share price on the London Stock Exchange was 425.75p. The highest share price in the year was 500p and the lowest was 266.5p. At 31 December 2003 each of the executive directors was deemed to have a non-beneficial interest in 3,263,000 (2002: 3,379,456) ordinary shares held by the Trustees of the Spectris plc Employee Benefit Trust of which the directors are among the class of discretionary beneficiaries.

By order of the Board



**R J Stephens**  
Secretary  
16 March 2004

## Corporate Social Responsibility statement

Spectris is committed to creating business growth whilst ensuring that impact on the environment is minimised and that all activities are conducted safely by well-trained and qualified employees.

The following review summarises the company's policies and procedures. The full Spectris corporate social responsibility statement is available on the company's website at [www.spectris.com](http://www.spectris.com).

Spectris is the parent of a number of subsidiary companies which operate around the world. Overall responsibility for developing corporate policies on social, ethical and environmental matters and for reviewing their effectiveness lies with the Spectris Board. It is then the responsibility of the individual operating units to communicate and apply that policy within their particular business, taking account of local legislation and potential risks, to ensure compliance with the policy and to maintain, review and refine procedures accordingly.

During the year, group policies and procedures, including those relating to social, environmental, health and safety, employment and ethical matters, were reviewed, and the revised policies communicated to all business units via a new Group Manual. Each business unit is required to confirm annually, in writing, its compliance with group policies.

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, described in the Directors' Report on page 21, which are carried out within each operating business and reviewed regularly by the Business Group Directors and the Audit Committee. From 2003, the review of material environmental risk processes and procedures has been incorporated into the new internal control and risk management function. 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 has been a member of the FTSE4Good UK index of socially responsible companies since its establishment in July 2001.

The three key areas of corporate social responsibility at Spectris comprise environment, health and safety, and employment and ethics.

### Environment

Spectris is addressing concerns for the environment by designing products which provide customers with the ability to minimise their impact on the environment by reducing raw material consumption, waste and energy use or minimising 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 products has a direct beneficial contribution are shown on the inside back cover of this report and on the company's website.

## Environmental policy

The environmental policy is designed to achieve the following objectives:

- To invest in the research and development of new products and applications to enable customers to meet or exceed their environmental aspirations.
- To comply with all relevant environmental laws and implement best practice in all activities.
- To manage resources to minimise raw material usage, dispose correctly of waste, reduce harmful emissions, and promote energy conservation and recycling.
- To require procedures for identifying and minimising any significant environmental risks inherent in manufacturing, distribution and installation processes to be documented, and to ensure that such procedures become part of the definition and validation of new products and processes.
- To raise environmental awareness amongst employees to enable them to carry out their work with due consideration for the environment.
- To work with suppliers and business partners to provide confidence that their environmental impacts are managed to standards acceptable to Spectris.
- To report on environmental policy on a regular basis to employees, shareholders, and other interested parties.

This applies to all Spectris employees.

Spectris products do not require capital-intensive manufacturing processes and hence their manufacture generally has a low overall environmental impact. Nevertheless, Spectris is committed to adopting environmentally responsible policies in its internal operations wherever its companies operate around the world.

#### Environmental management systems

Operating companies representing over one-third of Spectris business by turnover are already certified to ISO14001, the international environmental standard, with other companies working towards accreditation.

#### Risk assessment

Assessment of risk to the business is carried out on a continuous basis to determine any potential effects on the environment resulting both from product manufacture and operation of our products at the customer's site. The scale and severity of the possible impact is assessed, together with the probability of its occurrence. Where a significant risk is identified, procedures for storage, normal operating conditions and emergency situations are documented and regularly monitored for compliance with the relevant regulations. A nominated individual is responsible for safety compliance and all employees are informed and trained in safety procedures, depending upon the extent of their involvement with the product presenting the risk. Documented processes are in place to reduce the likelihood of an occurrence. Material environmental risk processes and procedures are reviewed by the group internal control and risk manager.

Examples of potential risk in Spectris operations include, within the PANalytical business which supplies instrumentation for X-ray analysis, the limited use of beryllium in detector windows and X-ray tubes. Some NDC Infrared Engineering products utilise low-level sealed radioactive sources. In both cases, the legal requirements for the correct handling and labelling of products and hazardous areas are documented and regularly audited for compliance. Procedures also exist for the disposal of contaminated waste and for recovering used products from customers and disposing of them safely.

Servomex supplies gas analysis instrumentation and its testing facility includes the storage of flammable and toxic gases. Operating procedures for the movement and use of cylinders containing such gases are in accordance with the appropriate legal requirements and are inspected annually by an independent authority. Chemical and hazardous waste is disposed of in accordance with written procedures.

During the year no significant environmental incidents were recorded. Investigative studies into contaminated land at Almelo in the Netherlands, resulting from activities prior to ownership by PANalytical, have now been completed. These demonstrate that the contamination does not present a risk to groundwater and recommend that the contamination be permitted to degrade over time through natural processes. The company is awaiting approval from the Dutch authorities for this course of action and the ongoing monitoring regime.

#### Waste minimisation

Environmental awareness is the responsibility of all employees and internal initiatives are in place at many sites to reduce energy usage and minimise wastage. These include recycling of waste paper, cardboard, plastic cups, aluminium cans and mobile phones, reducing energy consumption through the use of timers and sensors to control hot water, air conditioning and lighting, reducing water consumption, and re-use of packaging and filling materials. Spectris complies with the UK Producer Responsibility Obligations (Packaging Waste) Regulations which set targets for the recovery and recycling of packaging waste.

#### Health and Safety

The group's Health and Safety policy is designed to ensure that, so far as is reasonably practicable, every step is taken 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.

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 on a periodic basis at all major locations by external assessors acting on behalf of the group's insurers.

During the year no significant health and safety incidents were recorded.

## Health & Safety policy

The group's Health & Safety policy requires that:

- All relevant health and safety legislation is complied with.
- 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.

## Employment and Ethics

### Employment

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 locations, but Spectris places high 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.

## Employment policy

### Equal opportunities

- It is the group's policy that all operating companies conform to all legislation relating to employment rights and equal opportunities, with particular reference to non-discrimination and non-harassment on the basis of ethnic origin, religion, gender, age, disability or sexual orientation, and to data protection 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.

Spectris products do not require complex 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 monitors compliance with the policy through various processes, including consolidated Equal Employment Opportunities Commission returns which are produced in the US.

The group recognises the value of consultation with employees. Works Councils are established in certain jurisdictions.

### Training and development

Spectris recognises the value that its employees create for the business and its commitment to training and personal development, together with remuneration policies which are designed to reward achievement, emphasises 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.

### Employee communication

The company 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.

### Community involvement

Spectris operating companies worldwide support local charities and participate in a range of community activities. Charitable donations in 2003 totalled £137,000, of which £8,000 were in the UK (2002: £35,000, £4,000 in UK). Examples of community activities are described on our website.

## Ethics

All employees are expected to strive to live up to the following Spectris behavioural principles:

- honesty and integrity
- respect for all fellow employees
- ownership of responsibility
- delivery of commitments

Employees are required to adhere to these principles even when confronted by personal, professional or social conflicts or financial pressures and to observe the following code of ethics:

## Ethics policy

- Prohibition on the giving or receiving of any bribes, extra-contractual gratuities, inducements, facilitation payments or similar, including compliance with the US Foreign Corrupt Practices Act, the US Racketeer Influenced and Corrupt Organizations Act and the UK Anti-Terrorism, Crime and Security Act.
- Prohibition on the giving to customers or business contacts, or the receipt by employees, of any gifts, whether in cash or kind, in excess of £100/€150 in value, unless in the course of normal business entertainment and the subject of prior written approval by local management.
- Prohibition of donations (including sponsorship, subscriptions or provision of employee time or facilities) to any political party or similar organisation.
- Purchase of legal title or licence to all software in use.
- Compliance with all export control regulations.

Spectris operates a confidential "whistleblowing" policy through which employees may report to the business' management team or any Board member any concerns they may have over potentially unethical business practices or conduct, dangers to health and safety, or breach of company policies. Any such disclosures are appropriately investigated.

# Independent auditors' report

to the members of Spectris plc

We have audited the financial statements on pages 33 to 63. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 21, 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 whether the financial statements and the part of the directors' remuneration report to be audited have been 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 regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 18 and 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 the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## 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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

## 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 2003 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

  
KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

16 March 2004

## Consolidated profit and loss account

For the year ended 31 December

	Notes	2003 £m	2002 £m
<b>Turnover</b>	2	<b>568.0</b>	490.1
Cost of sales		<b>(246.2)</b>	(202.5)
<b>Gross profit</b>		<b>321.8</b>	287.6
Operating costs	4	<b>(274.4)</b>	(243.3)
Operating profit before goodwill amortisation and exceptional items		<b>59.8</b>	50.7
Goodwill amortisation		<b>(12.4)</b>	(8.7)
Exceptional items	3	-	2.3
<b>Operating profit</b>		<b>47.4</b>	44.3
Loss on sale or termination of business	22	<b>(0.4)</b>	(12.9)
<b>Profit on ordinary activities before interest</b>	2	<b>47.0</b>	31.4
Other finance (costs)/income	7c)	<b>(0.2)</b>	0.7
Net interest payable	8	<b>(10.7)</b>	(8.9)
<b>Profit on ordinary activities before taxation</b>		<b>36.1</b>	23.2
Taxation	9	<b>(10.1)</b>	(7.9)
<b>Profit for the financial year</b>		<b>26.0</b>	15.3
Dividends	10	<b>(16.1)</b>	(15.3)
<b>Retained profit</b>	25	<b>9.9</b>	-
Basic earnings per share (p)	11	<b>21.6</b>	13.4
Diluted earnings per share (p)	11	<b>21.6</b>	13.3
Earnings per share before exceptional items and goodwill amortisation (p)	11	<b>32.1</b>	28.1
Dividends per ordinary equity share (p)	10	<b>13.35</b>	12.75

The results in the profit and loss account above relate entirely to continuing operations.

Results from acquisitions in the year are not material.

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

	Notes	2003 £m	2002 £m
Profit for the financial year		<b>26.0</b>	15.3
Foreign exchange adjustments		<b>8.6</b>	6.7
Tax attributable to foreign exchange adjustments		<b>(0.5)</b>	(0.3)
Actuarial loss arising on pension schemes	7d)	<b>(4.5)</b>	(14.8)
Tax attributable to actuarial loss		<b>1.4</b>	4.3
<b>Total recognised gains and losses relating to the financial year</b>		<b>31.0</b>	11.2

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

	Notes	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	7d)	<b>2.7</b>	(10.7)
Experience gains and losses arising on scheme liabilities	7d)	<b>(1.0)</b>	(3.9)
Changes in assumption underlying the present value of liabilities	7d)	<b>(6.2)</b>	(0.2)
		<b>(4.5)</b>	(14.8)

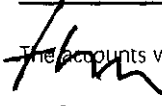
Reconciliation of movements in shareholders' funds is shown in Note 26.

## Balance sheets

At 31 December

	Notes	Group		Company	
		2003 £m	2002 £m	2003 £m	2002 £m
<b>Fixed assets</b>					
Intangible assets	12	227.0	213.6	-	-
Tangible fixed assets	13	92.4	89.1	0.1	0.2
Other investments	14	15.6	15.9	294.8	293.9
		335.0	318.6	294.9	294.1
<b>Current assets</b>					
Stocks	15	83.8	80.9	-	-
Debtors	16	153.4	149.7	391.1	259.0
Cash at bank		31.7	36.9	1.7	4.3
		268.9	267.5	392.8	263.3
<b>Creditors: due within one year</b>					
Short-term borrowing	17/19	(0.8)	(69.2)	-	(56.4)
Other creditors	17	(160.3)	(138.6)	(206.8)	(75.8)
		(161.1)	(207.8)	(206.8)	(132.2)
<b>Net current assets</b>					
		107.8	59.7	186.0	131.1
<b>Total assets less current liabilities</b>					
		442.8	378.3	480.9	425.2
<b>Creditors: due after more than one year</b>					
Medium and long-term borrowing	18/19	(194.3)	(145.2)	(193.4)	(144.1)
Other creditors	18	(1.0)	(3.1)	-	-
		(195.3)	(148.3)	(193.4)	(144.1)
<b>Provisions for liabilities and charges</b>					
	20	(31.1)	(32.3)	-	-
<b>Net assets excluding pension liabilities</b>					
		216.4	197.7	287.5	281.1
Pension liabilities	7a)	(12.0)	(9.0)	-	-
<b>Net assets</b>					
		204.4	188.7	287.5	281.1
<b>Capital and reserves</b>					
Called up share capital	24	6.2	6.2	6.2	6.2
Share premium account	25	227.1	226.3	227.1	226.3
Merger reserve	25	3.1	3.1	3.1	3.1
Capital redemption reserve	25	0.3	0.3	0.3	0.3
Special reserve	25	-	-	34.1	34.1
Profit and loss account	25	(32.3)	(47.2)	16.7	11.1
<b>Equity shareholders' funds</b>					
		204.4	188.7	287.5	281.1

The accounts were approved by the Board of directors on 16 March 2004 and signed on its behalf by:

  
**J G Zacharias**  
 Director

# Consolidated cash flow statement

For the year ended 31 December

	Notes	2003 £m	2002 £m
<b>Net cash inflow from operating activities</b>	27	<b>64.8</b>	54.4
<b>Returns on investment and servicing of finance</b>			
Interest received		0.5	1.7
Interest paid		(9.4)	(10.4)
		<b>(8.9)</b>	(8.7)
<b>Taxation</b>		<b>(2.5)</b>	(4.5)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(15.7)	(19.9)
Sale of tangible fixed assets		1.3	4.0
Purchase of fixed asset investments		-	(2.1)
Sale of fixed asset investments		0.3	-
		<b>(14.1)</b>	(18.0)
<b>Acquisitions and disposals</b>			
Acquisition of subsidiary undertakings	21	(7.8)	(101.8)
Bank overdraft acquired with subsidiary undertakings	21	(0.4)	3.1
Proceeds from sale of subsidiary undertakings	22	-	1.8
Cash disposed with subsidiary undertakings	22	-	(0.2)
		<b>(8.2)</b>	(97.1)
<b>Equity dividends paid</b>		<b>(15.5)</b>	(14.0)
<b>Cash inflow/(outflow) before financing</b>		<b>15.6</b>	(87.9)
<b>Financing</b>			
Issue of shares		0.8	41.5
Repayment of loans		(162.2)	(51.1)
New loans		140.2	97.1
		<b>(21.2)</b>	87.5
<b>Decrease in cash in the year</b>	28	<b>(5.6)</b>	(0.4)

# 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.

### Basis of accounting

The accounts are prepared in accordance with the historical cost convention 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 2003.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

### 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. Should the value of this goodwill become recognised as impaired, an impairment charge would be made against operating profit.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

### Turnover

Turnover comprises sales invoiced (excluding value added tax). For contracts involving the installation and testing by the customer, revenue is recognised at the point of customer acceptance.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost.

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 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 provision for any permanent diminution 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 re-translation 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.

### Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

### Leasing

Annual payments under operating leases are charged to the profit and loss account on an accruals basis.

## Notes to the accounts continued

### 1 Accounting policies continued

#### Research and development

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

#### Post-retirement benefits

##### Defined contribution schemes

The group operates defined contribution pension schemes. The assets of the schemes 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 schemes

The group operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes 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.

## 2 Segmental analyses

### a) Analysis by class of business

	Turnover		Profit before interest and tax		Net assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Ongoing operations:						
Electronic controls	132.1	117.6	15.8	13.0	44.2	48.9
In-line instrumentation	182.0	172.7	22.3	18.6	42.2	51.7
Process technology	253.9	193.3	21.7	19.9	77.6	70.6
Total ongoing operations	568.0	483.6	59.8	51.5	164.0	171.2
Businesses sold or to be sold	-	6.5	-	(0.8)	-	1.0
Total continuing operations	568.0	490.1	59.8	50.7	164.0	172.2
Goodwill amortisation			(12.4)	(8.7)		
Operating exceptional items			-	2.3		
Loss on sale of business			(0.4)	(12.9)		
Net debt					(163.4)	(177.5)
Intangible assets					227.0	213.6
Net pension liability					(12.0)	(9.0)
Other					(11.2)	(10.6)
	568.0	490.1	47.0	31.4	204.4	188.7

The allocation of net assets in 2002 has been restated in order to present the information on a consistent basis.

The operating businesses are grouped as follows:

#### Electronic controls:

Arcorn Control Systems, HBM, Microscan, Red Lion Controls

#### In-line instrumentation:

Beta LaserMike, Brüel & Kjær Vibro, BTG, Ircon, Loma Systems, NDC Infrared Engineering, Servomex

#### Process technology:

Brüel & Kjær Sound & Vibration, Fusion UV Systems, Malvern Instruments, PANalytical, Particle Measuring Systems

## Notes to the accounts continued

### 2 Segmental analyses continued

#### b) Analysis by geographical origin

	Turnover		Profit before interest and tax		Net assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Ongoing operations:						
UK	97.1	88.4	9.9	4.6	14.5	23.3
Continental Europe	374.5	268.4	35.7	31.8	95.9	77.5
North America	205.7	183.9	7.7	11.3	48.1	57.2
Asia Pacific	70.5	41.0	6.2	3.9	5.9	13.5
Rest of the world	2.3	1.3	0.3	(0.1)	(0.4)	(0.3)
Total ongoing operations	750.1	583.0	59.8	51.5	164.0	171.2
Businesses sold or to be sold	-	6.5	-	(0.8)	-	1.0
Intra-group sales	(182.1)	(99.4)				
Total operations	568.0	490.1	59.8	50.7	164.0	172.2
Goodwill amortisation			(12.4)	(8.7)		
Operating exceptional items			-	2.3		
Loss on sale of business			(0.4)	(12.9)		
Net debt					(163.4)	(177.5)
Intangible assets					227.0	213.6
Net pension liability					(12.0)	(9.0)
Other					(11.2)	(10.6)
	568.0	490.1	47.0	31.4	204.4	188.7

The allocation of net assets in 2002 has been restated in order to present the information on a consistent basis.

Goodwill amortisation of £1.1m (2002: £1.2m) arises on acquisitions made within the UK. The remaining amortisation of £11.3m (2002: £7.5m) relates to the acquisition of businesses in Continental Europe.

There are no operating exceptional items for the year (2002: £1.3m credit relating to Continental Europe and £1.0m credit relating to North America).

The entire loss on sale of business of £0.4m arose in the UK (2002: loss of £1.9m in UK; loss of £11.1m in North America; profit of £0.1m in Continental Europe).

Intangible assets of £23.9m (2002: £16.9m) reside in the UK and £6.1m (2002: £3.3m) reside in North America. The remaining £197.0m (2002: £193.4m) resides in Continental Europe.

#### c) Analysis of turnover by geographical destination

	2003 £m	2002 £m
UK	36.1	32.3
Continental Europe	223.5	188.1
North America	156.1	144.8
Japan	40.7	31.0
China	36.0	24.6
Rest of Asia Pacific	48.6	45.6
Rest of the world	27.0	17.2
	568.0	483.6
Businesses sold or to be sold	-	6.5
	568.0	490.1

### 3 Operating exceptional items

	2003 £m	2002 £m
The operating exceptional items comprise:		
Release of fair value provisions no longer required	-	1.3
Compensation from patent infringement case	-	1.0
	-	2.3

### 4 Operating costs

	2003 £m	2002 £m
Distribution costs	78.5	51.1
Administration expenses	195.9	192.2
	274.4	243.3

### 5 Profit before taxation

	2003 £m	2002 £m
Profit before taxation is stated after charging/(crediting):		
Depreciation	13.0	13.9
Amortisation of goodwill	12.4	8.7
Operating lease rentals:		
Plant, machinery and vehicles	2.1	2.7
Property	3.6	3.9
Auditors' remuneration:		
Audit services for the group	0.5	0.5
Audit services for the company	-	0.1
Non-audit services	0.4	0.6
Research and development	34.1	29.6
Profit on disposal of fixed assets	(0.3)	(0.6)

Non-audit fees include £0.2m (2002: £0.5m) in respect of tax compliance and advisory services and £0.2m (2002: £0.1m) in respect of other accounting 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 profit for the year was £21.3m (2002: profit £14.6m).

Details of directors' remuneration and share options are given in the remuneration report on pages 22 to 27.

## Notes to the accounts continued

### 6 Employee costs

	2003 £m	2002 £m
Employee costs, including directors' remuneration, comprise:		
Wages and salaries	161.1	157.5
Social security costs	39.0	37.8
Pension costs:		
Current service cost (see Note 7b)	0.7	0.9
Defined contribution plans	4.8	4.3
	<b>205.6</b>	<b>200.5</b>

	2003 Number	2002 Number
Average number of employees:		
Production and distribution	3,497	3,332
Other	2,199	2,267
	<b>5,696</b>	<b>5,599</b>

### 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, six 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.

#### Defined contribution plans

The total cost to Spectris plc of the defined contribution plans for the year ended 31 December 2003 was £4.8m (2002: £4.3m).

There were no outstanding or prepaid contributions to these plans as at 31 December 2003 (or at 31 December 2002).

#### 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 2002
Servomex Pension and Assurance Scheme	30 June 2002
Brüel & Kjær Vibro GmbH	31 December 2003
Hottinger Baldwin Messtechnik GmbH	31 December 2003
Spectris GmbH Sensoren und Systeme	31 December 2003
BTG Müttek GmbH	31 December 2003
Brüel & Kjær GmbH	31 December 2003
PANalytical GmbH	31 December 2003

The valuations were updated to 31 December 2003 for FRS 17 purposes by qualified independent actuaries.

## 7 Pension costs continued

The total contributions made to the defined benefit plans in the year ended 31 December 2003 were £1.1m (2002: £1.0m). Contributions have been agreed at the following rates for future years:

Plan name	Agreed company future contribution rate
Spectris Pension Plan	11% plus £500,000 pa (2003: 9.5% plus £500,000 pa)
Servomex Pension and Assurance Scheme	16% pa, increasing at 1 February 2004 to 10.5% plus £196,000 pa (2003: 16% pa)

The above contribution rates are subject to review at future valuations and periodical 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.

### a) Plan liabilities and costs

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

UK plans	2003 % pa	2002 % pa
Discount rate	5.50	5.60
Salary increases	4.30	3.80
Pension increases in payment	2.80 for LPI*	2.30 for LPI*
Pension increases in deferment	2.80	2.30
Inflation assumption	2.80	2.30
<b>German plans</b>	<b>2003 % pa</b>	<b>2002 % pa</b>
Discount rate	5.50	5.50
Salary increases	2.50	2.50
Pension increases in payment	1.75	1.75
Pension increases in deferment	-	-
Inflation assumption	2.50	2.50

\*LPI is Limited Price Indexation.

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 2003 and the expected rate of return assumed for each asset class for the year from 1 January 2004 are:

UK plans	2003 Fair value £m	2002 Fair value £m
Equities	26.9	29.3
Bonds	27.2	23.0
Other	1.2	1.3
Total	55.3	53.6

## Notes to the accounts continued

### 7 Pension costs continued

#### UK plans

	2003 Expected return % pa	2002 Expected return % pa
Equities	8.00	8.00
Bonds	5.30	4.60
Other	4.00	4.00
<b>Total</b>	<b>6.60</b>	6.40

#### German plans

	2003 Fair value £m	2002 Fair value £m
Insurance policies	1.1	1.0

	2003 Expected return % pa	2002 Expected return % pa
Insurance policies	5.50	5.50

The plan assets and liabilities at 31 December are summarised as follows:

	2003			2002		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Total market value of assets	55.3	1.1	56.4	53.6	1.0	54.6
Present value of plan liabilities	68.4	5.7	74.1	62.7	5.3	68.0
Deficit in plan	(13.1)	(4.6)	(17.7)	(9.1)	(4.3)	(13.4)
Related deferred tax asset	3.9	1.8	5.7	2.7	1.7	4.4
<b>Net pension liability</b>	<b>(9.2)</b>	<b>(2.8)</b>	<b>(12.0)</b>	(6.4)	(2.6)	(9.0)

#### b) Analysis of the amount charged to operating profit

	2003			2002		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Current service costs	(0.6)	(0.1)	(0.7)	(0.8)	(0.1)	(0.9)
	(0.6)	(0.1)	(0.7)	(0.8)	(0.1)	(0.9)

## 7 Pension costs continued

### c) Analysis of the amount (charged)/credited to other finance (costs)/income

	2003			2002		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Expected return on pension scheme assets	3.4	0.1	3.5	4.1	0.1	4.2
Interest on pension scheme liabilities	(3.4)	(0.3)	(3.7)	(3.3)	(0.2)	(3.5)
	-	(0.2)	(0.2)	0.8	(0.1)	0.7

### d) Analysis of the amount recognised in statement of total recognised gains and losses

	2003			2002		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Actual return less expected return on pension scheme assets	2.7	-	2.7	(10.7)	-	(10.7)
Experience gains and losses arising on scheme liabilities	(0.8)	(0.2)	(1.0)	(3.4)	(0.5)	(3.9)
Changes in assumption underlying the present value of liabilities	(6.2)	-	(6.2)	(0.2)	-	(0.2)
Actuarial loss	(4.3)	(0.2)	(4.5)	(14.3)	(0.5)	(14.8)

### e) Movement in surplus/(deficit)

	2003			2002		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Surplus/(deficit) in scheme at beginning of the year	(9.1)	(4.3)	(13.4)	4.3	(3.5)	0.8
Movement in the year:						
Asset on acquisition	-	-	-	-	(0.2)	(0.2)
Contributions	0.9	0.2	1.1	0.8	0.2	1.0
Current service cost	(0.6)	(0.1)	(0.7)	(0.8)	(0.1)	(0.9)
Other finance income/(expense)	-	(0.2)	(0.2)	0.9	(0.2)	0.7
Actuarial loss	(4.3)	(0.2)	(4.5)	(14.3)	(0.5)	(14.8)
Deficit in scheme at end of the year	(13.1)	(4.6)	(17.7)	(9.1)	(4.3)	(13.4)

### f) History of experience gains and losses

	2003		2002		2001		2000	
	UK plans £m	German plans £m	UK plans £m	German plans £m	UK plans £m	German plans £m	UK plans £m	German plans £m
Actual return less expected return on pension scheme assets	2.7	-	(10.7)	-	(10.8)	-	(4.2)	-
Percentage of plan assets	5%	-	(20%)	-	(17%)	-	(6%)	-
Experience gains and losses arising on the plan liabilities	(0.8)	(0.2)	(3.4)	(0.5)	2.9	0.1	(0.9)	-
Percentage of the present value of the plan liabilities	(1%)	(4%)	(5%)	(10%)	5%	2%	(1%)	-
Changes in assumptions underlying the present value of the plan liabilities	(6.2)	-	(0.2)	-	1.9	-	1.0	(0.3)
Actuarial (loss)/gain	(4.3)	(0.2)	(14.3)	(0.5)	(6.0)	0.1	(4.1)	(0.3)
Percentage of the present value of the plan liabilities	(6%)	(4%)	(23%)	(10%)	10%	2%	(7%)	(11%)

## Notes to the accounts continued

### 7 Pension costs continued

#### g) 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 had a deficit of £7.8m at 31 December 2003 (2002: £5.2m deficit). The actuary certified on the basis of the 1 January 2003 valuation that employer contributions of 9.5% plus £480,000 pa (the latter commencing 1 April 2003) would be made in the financial year ending 31 December 2003. Contributions paid in that year to the Spectris Pension Plan were £602,000 (2002: £27,000) and to defined contribution plans were £232,000 (2002: £229,000).

### 8 Net interest payable

	2003 £m	2002 £m
Interest payable and similar charges:		
On borrowings wholly repayable within five years:		
Bank loans and overdrafts	3.2	2.3
Other loans	3.9	3.8
On borrowings repayable after five years	4.2	3.2
	<b>11.3</b>	9.3
Other interest receivable and similar income	<b>(0.6)</b>	(0.4)
	<b>10.7</b>	8.9

### 9 Taxation

	UK £m	2003 Overseas £m	Total £m	UK £m	2002 Overseas £m	Total £m
Corporation tax for the year	-	9.9	9.9	(0.3)	5.9	5.6
Double tax relief	(0.5)	-	(0.5)	(0.2)	-	(0.2)
Over-provision for prior years	-	-	-	(0.8)	(0.3)	(1.1)
Tax on operating exceptionals and goodwill	-	(0.2)	(0.2)	-	(0.5)	(0.5)
Tax on loss on sale of businesses	-	-	-	(0.1)	(1.9)	(2.0)
Total current tax charge/(credit)	<b>(0.5)</b>	<b>9.7</b>	<b>9.2</b>	<b>(1.4)</b>	<b>3.2</b>	<b>1.8</b>
Deferred tax	<b>(0.4)</b>	<b>1.3</b>	<b>0.9</b>	0.2	5.9	6.1
Total charge/(credit)	<b>(0.9)</b>	<b>11.0</b>	<b>10.1</b>	<b>(1.2)</b>	<b>9.1</b>	<b>7.9</b>

The effective tax rate, excluding operating exceptional items, profit on sale of business and goodwill amortisation was 21% (2002: 24.4%).

## 9 Taxation continued

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the group's profits is 30.4% (2002: 23.0%). The current tax charge for the year is lower (2002: lower) than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	36.1	23.2
Corporation tax at standard rate of 30.4% (2002: 23.0%)	11.0	5.3
Non-taxable income and gains	(9.5)	(4.1)
Non-deductible expenditure	10.5	4.7
Timing differences	(0.7)	(2.8)
Other current year items	(2.1)	(0.2)
Adjustments to prior year tax charges	-	(1.1)
Current tax charge	9.2	1.8

## 10 Dividends

	2003 £m	2002 £m
Interim dividend paid 4.05p per share (2002: 3.90p)	4.9	4.7
Final dividend proposed of 9.3p per share (2002: 8.85p)	11.2	10.6
Total dividend 13.35p per share (2002: 12.75p)	16.1	15.3

## 11 Earnings per share

The calculation of basic earnings per share of 21.6p (2002:13.4p) is based on group profit of £26.0m (2002: £15.3m) and on the weighted average number of ordinary shares in issue during the year of 120.5 million (2002: 114.4 million).

Earnings per share before exceptional items and goodwill amortisation is calculated as follows:

	Earnings		Earnings per share	
	2003 £m	2002 £m	2003 pence	2002 pence
Basic earnings and earnings per share	26.0	15.3	21.6	13.4
Basic earnings per share attributable to:				
Goodwill amortisation	12.4	8.7	10.3	7.6
Operating exceptional items	-	(2.3)	-	(2.0)
Loss on sale or termination of businesses	0.4	12.9	0.4	11.3
Tax credit on operating exceptionals and goodwill	(0.2)	(0.5)	(0.2)	(0.5)
Tax on loss on sale of businesses	-	(2.0)	-	(1.7)
Earnings and earnings per share before exceptional items and goodwill amortisation	38.6	32.1	32.1	28.1

Earnings per share before exceptional items and goodwill amortisation is presented to show more clearly the underlying performance of the group.

The calculation of diluted earnings per share of 21.6p (2002: 13.3p) is based on the group profit of £26.0m (2002: £15.3m) and on the diluted weighted average number of 5p ordinary shares in issue during the year of 120.5 million (2002: 114.7 million).

## Notes to the accounts continued

### 11 Earnings per share continued

The basic weighted average number of 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	
	2003 millions	2002 millions
Basic weighted average number of 5p ordinary shares in issue	120.5	114.4
Weighted average number of dilutive 5p ordinary shares under option	0.6	0.8
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options	(0.6)	(0.5)
	<b>120.5</b>	<b>114.7</b>

### 12 Intangible assets

	Goodwill £m	Patents £m	Total £m
Cost:			
As at 1 January 2003	232.0	3.0	235.0
Additions in the year	10.5	0.4	10.9
Other movements	1.8	-	1.8
Exchange adjustments	15.2	-	15.2
<b>As at 31 December 2003</b>	<b>259.5</b>	<b>3.4</b>	<b>262.9</b>
Amortisation:			
As at 1 January 2003	18.7	2.7	21.4
Charge in the year	12.4	0.1	12.5
Exchange adjustments	2.0	-	2.0
<b>As at 31 December 2003</b>	<b>33.1</b>	<b>2.8</b>	<b>35.9</b>
Net book value:			
<b>As at 31 December 2003</b>	<b>226.4</b>	<b>0.6</b>	<b>227.0</b>
As at 1 January 2003	213.3	0.3	213.6

Additions in the year of £10.5m represents purchased goodwill arising on the acquisition of businesses listed in Note 21.

Other movements represents the finalisation of provisional fair values relating to the acquisition of PANalytical in 2002, as detailed in Note 23, and the correction of a classification error between goodwill and tangible fixed assets.

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.

### 13 Tangible fixed assets

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
<b>Group</b>				
Cost:				
As at 1 January 2003	60.1	5.0	124.3	<b>189.4</b>
Exchange adjustments	2.2	(0.1)	1.7	<b>3.8</b>
Additions	3.4	0.2	13.7	<b>17.3</b>
Acquisition of subsidiary undertakings	-	-	0.5	<b>0.5</b>
Fair value adjustments	2.1	-	-	<b>2.1</b>
Transfer to intangible assets (see Note 12)	-	-	(4.6)	<b>(4.6)</b>
Disposals and write offs	(0.9)	-	(9.0)	<b>(9.9)</b>
<b>As at 31 December 2003</b>	<b>66.9</b>	<b>5.1</b>	<b>126.6</b>	<b>198.6</b>
Depreciation:				
As at 1 January 2003	10.7	3.7	85.9	<b>100.3</b>
Exchange adjustments	0.9	(0.1)	1.6	<b>2.4</b>
Charge for the year	1.7	0.4	10.9	<b>13.0</b>
Acquisition of subsidiary undertakings	-	-	0.4	<b>0.4</b>
Fair value adjustments	0.2	-	-	<b>0.2</b>
Transfer to intangible assets (see Note 12)	-	-	(0.9)	<b>(0.9)</b>
Disposals and write offs	(0.5)	(0.3)	(8.4)	<b>(9.2)</b>
<b>As at 31 December 2003</b>	<b>13.0</b>	<b>3.7</b>	<b>89.5</b>	<b>106.2</b>
Net book value:				
<b>As at 31 December 2003</b>	<b>53.9</b>	<b>1.4</b>	<b>37.1</b>	<b>92.4</b>
As at 1 January 2003	49.4	1.3	38.4	89.1
<b>Company</b>				
Cost:				
<b>As at 1 January 2003 and 31 December 2003</b>	<b>-</b>	<b>0.3</b>	<b>0.5</b>	<b>0.8</b>
Depreciation:				
As at 1 January 2003	-	0.2	0.4	<b>0.6</b>
Charge for the year	-	-	0.1	<b>0.1</b>
<b>As at 31 December 2003</b>	<b>-</b>	<b>0.2</b>	<b>0.5</b>	<b>0.7</b>
Net book value:				
<b>As at 31 December 2003</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>0.1</b>
As at 1 January 2003	-	0.1	0.1	0.2

The book value of non-depreciated land included above is £11.8m (2002: £9.8m).

The adjustment to freehold property relates to the finalisation of provisional fair values relating to the PANalytical acquisition as detailed in Note 23.

## Notes to the accounts continued

### 14 Fixed asset investments

	Own shares £m	Other investments £m	Total £m
<b>Group</b>			
Cost:			
As at 1 January 2003	15.3	1.4	<b>16.7</b>
Disposals	(0.3)	-	<b>(0.3)</b>
<b>As at 31 December 2003</b>	<b>15.0</b>	<b>1.4</b>	<b>16.4</b>
Provision for impairment:			
<b>As at 1 January 2003 and 31 December 2003</b>	-	<b>0.8</b>	<b>0.8</b>
Net book value:			
<b>As at 31 December 2003</b>	<b>15.0</b>	<b>0.6</b>	<b>15.6</b>
As at 1 January 2003	15.3	0.6	15.9

Own shares comprise 3,263,000 (2002: 3,379,456) 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 at 31 December 2003 was £13.9m (2002: £9.7m). No adjustment has been made to the carrying value of own shares, as the Board considers that the difference between market value and carrying value does not represent a permanent diminution.

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.

	Own shares £m	Investments in group undertakings £m	Total £m
<b>Company</b>			
Cost:			
As at 1 January 2003	15.3	295.4	<b>310.7</b>
Additions	-	6.2	<b>6.2</b>
Disposals	(0.3)	-	<b>(0.3)</b>
<b>As at 31 December 2003</b>	<b>15.0</b>	<b>301.6</b>	<b>316.6</b>
Provision for impairment:			
As at 1 January 2003	-	16.8	<b>16.8</b>
Charge for the year	-	5.0	<b>5.0</b>
<b>As at 31 December 2003</b>	-	<b>21.8</b>	<b>21.8</b>
Net book value:			
<b>As at 31 December 2003</b>	<b>15.0</b>	<b>279.8</b>	<b>294.8</b>
As at 1 January 2003	15.3	278.6	293.9

## 15 Stocks

	Group	
	2003 £m	2002 £m
Raw materials	36.0	34.6
Work in progress	16.4	15.8
Finished stock	31.4	30.5
	<b>83.8</b>	80.9

## 16 Debtors

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Amounts falling due within one year:				
Trade debtors	116.6	110.2	-	-
Amounts owed by group undertakings	-	-	388.2	249.2
Other debtors	10.4	9.4	2.1	2.1
Prepayments and accrued income	13.9	20.4	0.8	7.7
Deferred taxation	12.5	9.7	-	-
	<b>153.4</b>	149.7	<b>391.1</b>	259.0

Included within deferred taxation is an amount of £2.4m (2002: £0.3m) which is expected to be recovered after more than one year.

## 17 Creditors: due within one year

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Short-term borrowing:				
Bank loans and overdraft	0.8	69.2	-	56.4
Payments on account	8.5	4.8	-	-
Trade creditors	39.3	38.2	-	-
Amounts owed to group undertakings	-	-	187.2	57.3
Taxation	29.1	17.8	-	0.4
Other taxation and social security	6.3	5.2	-	-
Other creditors	7.1	3.5	-	-
Accruals and deferred income	58.8	58.5	8.4	7.5
Dividends payable	11.2	10.6	11.2	10.6
	<b>160.3</b>	138.6	<b>206.8</b>	75.8
<b>Total</b>	<b>161.1</b>	207.8	<b>206.8</b>	132.2

## Notes to the accounts continued

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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Medium and long-term borrowing:				
Loan notes net of capitalised issue costs	193.4	114.1	193.4	114.1
Bank loans	0.9	31.1	-	30.0
	194.3	145.2	193.4	144.1
Other creditors	1.0	3.1	-	-
<b>Total</b>	<b>195.3</b>	<b>148.3</b>	<b>193.4</b>	<b>144.1</b>

### 19 Borrowing summary

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Gross debt falling due within:				
Less than 1 year	0.8	69.2	-	56.4
1 to 2 years	0.1	0.1	-	-
2 to 5 years	56.3	92.2	56.1	92.0
Over 5 years	137.9	52.9	137.3	52.1
	195.1	214.4	193.4	200.5
Comprising:				
Secured bank loan	1.0	1.2	-	-
Unsecured loan notes - 1996 \$100m	56.1	62.0	56.1	62.0
Unsecured loan notes - 2000 \$75m	56.3	52.1	56.3	52.1
Unsecured loan notes - 2013 \$86m & €25m	81.0	-	81.0	-
Unsecured bank loans	0.7	99.1	-	86.4
	195.1	214.4	193.4	200.5

The group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2003 in respect of which all conditions precedent had been met at that date were as follows:

	2003 £m	2002 £m
Expiring in one year or less	43.5	39.4
Expiring in one to two years	29.5	-
	73.0	39.4

#### Secured bank loan

The security given on the bank loan of £1.0m is a fixed charge over the property at one of the group's subsidiaries. This loan is repayable in instalments until December 2014.

#### Unsecured loan notes

In 1996 the company issued \$100m 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 loan 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%.

## 19 Borrowing summary continued

In September 2000 the company issued \$75m 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 2003 the company issued \$86m and €25m of loan notes repayable on 15 October 2013. The interest rate on these notes is 6.08% and 5.56% respectively. On issue a swap arrangement from US dollars to euros resulted in a combined euro debt of €115.5m with an average rate of 5.62%. The rate remains fixed until redemption.

### 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 0.8 years.

## 20 Provisions for liabilities and charges

	Group	
	2003 £m	2002 £m
Provisions for liabilities and charges comprise:		
Deferred taxation	19.7	18.2
Other provisions	11.4	14.1
	<b>31.1</b>	<b>32.3</b>

### a) Deferred taxation

The total movement in deferred taxation balances (including deferred tax assets and deferred tax on the net pension liability) is shown in the table below:

	Group	
	2003 £m	2002 £m
As at 1 January	4.1	3.7
Exchange adjustments	(0.9)	(0.2)
Acquisition of subsidiary undertakings	(0.1)	(1.1)
Disposal of subsidiary undertakings	-	(0.2)
Transferred from current taxation	(1.2)	-
Amounts released through the statement of recognised gains and losses	(1.3)	(4.2)
Charged to profit and loss account in the year	0.9	6.1
<b>As at 31 December</b>	<b>1.5</b>	<b>4.1</b>
Comprising:		
Deferred tax liability	19.7	18.2
Deferred tax asset (Note 16)	(12.5)	(9.7)
Deferred tax asset on pension funds (Note 7a)	(5.7)	(4.4)
	<b>1.5</b>	<b>4.1</b>

	Amount provided	
	2003 £m	2002 £m
<b>Group</b>		
Deferred taxation liability/(asset) derives from:		
Capital allowances	0.2	0.5
Other timing differences	(10.4)	(7.3)
Goodwill and other intangibles	17.4	15.3
Deferred tax asset on pension funds	(5.7)	(4.4)
	<b>1.5</b>	<b>4.1</b>

## Notes to the accounts continued

### 20 Provisions for liabilities and charges continued

Deferred tax assets estimated at £21.9m (2002: £24.4m) have not been recognised due to the degree of uncertainty over both the amount and utilisation of the underlying tax losses and deductions in certain tax jurisdictions.

Deferred tax assets of £0.5m (2002: £0.7m) have not been recognised in the company due to the degree of uncertainty over the utilisation of the underlying tax deductions.

b) Other	Reorganisation and redundancy £m	Warranty £m	Other £m	Total £m
<b>Group</b>				
As at 1 January 2003	1.8	6.9	5.4	14.1
Exchange adjustments	0.1	(0.1)	0.9	0.9
Acquisition of subsidiary undertakings	0.1	0.1	0.3	0.5
Utilised during the year	(2.0)	(0.5)	(6.1)	(8.6)
Provided during the year	-	1.2	4.8	6.0
Released during the year	-	(0.6)	(0.9)	(1.5)
<b>As at 31 December 2003</b>	<b>-</b>	<b>7.0</b>	<b>4.4</b>	<b>11.4</b>

Warranty provisions include the group's standard terms and conditions which in general apply for a twelve-month period. Other provisions represent the directors' best estimate of settling various potential claims against the group arising in the ordinary course of business. The timing of utilisation of these provisions is uncertain pending the outcome of ongoing negotiations.

### 21 Acquisition of businesses

There were three acquisitions during the year 2003:

	Date of acquisition
Pharma Vision Systems AB	18 May 2003
Process Instruments division of TSI Incorporated	2 June 2003
Bohlin Instruments Limited	31 October 2003

The following table provides an analysis of the assets and liabilities acquired and the related provisional fair value adjustments for all the bolt-on acquisitions.

	Book value £m	Revaluation £m	Accounting policy alignment £m	Fair value £m
Intangible fixed assets	0.4	-	(0.4)	-
Tangible fixed assets	0.2	-	(0.1)	0.1
Stocks	1.7	-	(1.1)	0.6
Debtors	2.1	-	-	2.1
Creditors and provisions	(1.4)	(0.3)	-	(1.7)
Cash	(0.4)	-	-	(0.4)
Net assets acquired	2.6	(0.3)	(1.6)	0.7
Goodwill				10.5
<b>Consideration</b>				<b>11.2</b>

The book values of the net assets acquired have been adjusted in the following respects to arrive at their fair value:

The book value of intangible assets has been adjusted to eliminate purchased goodwill.

## 21 Acquisition of businesses continued

The book values of stocks have been adjusted to reflect group accounting policies and the revaluation of certain stocks to their net realisable value.

Provisions have been revalued to reflect the best estimate of settling warranty and other claims extant at the date of acquisition.

Consideration includes an amount of £0.4m paid in February 2004.

The net cash outflow in relation to the acquisition of subsidiary undertakings comprised:

### Acquisition in the year

Consideration paid in the year	10.4
Expenses	0.4
	<b>10.8</b>

### Prior year acquisitions

Final settlement in relation to PANalytical acquisition	(3.8)
Other cash payments	0.8
	<b>7.8</b>

## 22 Disposal of businesses

	2003 £m	2002 £m
Tangible fixed assets	-	3.0
Stocks	-	3.7
Debtors	0.4	3.5
Creditors	-	(3.0)
Net assets disposed	0.4	7.2
Proceeds net of expenses	-	1.8
Deficit to net assets	(0.4)	(5.4)
Goodwill realised	-	(7.5)
Loss on disposal	(0.4)	(12.9)

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

	2003 £m	2002 £m
Operating cash flow	-	(0.5)
Returns on investment and servicing of finance	-	(0.1)
Taxation	-	0.1
Capital investment and financial investment	-	(0.2)
	-	(0.7)

The £0.4m relates to write off of a debtor balance with Meditrans, which was sold in 2001.

## Notes to the accounts continued

### 23 Acquisition of subsidiary undertaking in 2002

On 25 August 2002 the group acquired the entire share capital of PANalytical BV for a consideration of £96.1 million, after accounting for 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 2002. As noted in those accounts, the fair value adjustments were provisional and subject to amendments. Details of the amendments to the provisional fair values are set out below.

	Provisional fair value £m	Revaluation £m	Accounting policy alignment £m	Fair value £m
Tangible fixed assets	3.7	1.9	(0.8)	4.8
Stocks	16.2	-	1.0	17.2
Debtors	19.5	(0.4)	-	19.1
Creditors and provisions	(28.4)	0.5	-	(27.9)
Cash	3.1	-	-	3.1
Net assets acquired	14.1	2.0	0.2	16.3
Goodwill	82.0	(1.7)	(0.2)	80.1
<b>Consideration paid in cash (including expenses)</b>	<b>96.1</b>	<b>0.3</b>	<b>-</b>	<b>96.4</b>

In January 2003, the group received a refund of £5.9m in relation to the closing balance adjustments. The group also paid £1.8m in relation to duplicate payments received. These amounts were accrued for in the 2002 financial statements. Additional expenses of £0.3m were incurred in the year.

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

#### Fixed assets

An independent valuation of the acquired land and buildings has been conducted. The revaluation adjustment to provisional fair values reflects the results of this exercise. The accounting policy alignment is to adjust the carrying value to reflect the group's depreciation policy.

#### Stocks

The provisional fair value exercise included an assessment of the amount of overheads included in the carrying value of stock at date of acquisition. A detailed review of this has been undertaken during 2003 resulting in a reduction in the fair value originally assessed.

#### Debtors

A detailed review of the carrying value of debtors at date of acquisition has been carried out resulting in provision being made against additional debtors extant at the date of acquisition.

#### Creditors and provisions

Creditors and provisions have been adjusted to reflect liabilities existing at the date of acquisition.

## 24 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 2003	123.7	6.2
Issued under share option schemes	0.4	-
<b>As at 31 December 2003</b>	<b>124.1</b>	<b>6.2</b>

### Share options

Options have been granted to subscribe for ordinary shares of Spectris plc and those outstanding at 31 December 2003 were as follows:

	Granted	Number of shares thousands	Subscription price £	Exercise period
Savings related share option schemes	1998	42	2.39	2004
	1999	59	3.96	2005
	2000	25	5.25	2004
	2001	117	3.58	2005
	2002	73	3.43	2006
	2003	73	4.69	2007
Total shares and weighted average price		389	3.80	
Executive share option schemes	1994	51	3.89	1997-2004
	1995	24	3.79	1998-2005
	1995	8	5.86	1998-2005
	1995	53	5.25	1998-2005
	1996	16	5.97	1999-2006
	1996	17	3.49	1999-2006
	1996	8	7.77	2001-2006
	1997	2	5.39	2000-2007
	1997	26	6.19	2000-2007
	1997	12	6.61	2000-2007
	1997	10	6.61	2000-2004
	1998	50	5.51	2001-2008
	1998	6	0.05	2002-2005
	1998	17	2.39	2001-2008
	1998	38	0.05	2002-2005
	1998	13	3.85	2001-2008
	1998	3	3.85	2001-2005
	1999	9	4.34	2002-2009
	1999	28	3.96	2002-2009
	2000	10	5.13	2003-2010
	2000	221	5.25	2003-2010
	2001	46	4.99	2004-2011
	2001	257	3.58	2004-2011
	2002	226	3.43	2005-2012
	2003	54	4.69	2006-2013
Total shares and weighted average price		1,205	4.20	

## Notes to the accounts continued

### 25 Reserves

	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Total £m
<b>Group</b>						
As at 1 January 2003	226.3	3.1	0.3	–	(47.2)	<b>182.5</b>
Exchange adjustments	–	–	–	–	8.6	<b>8.6</b>
Tax on foreign exchange adjustments	–	–	–	–	(0.5)	<b>(0.5)</b>
Premium on issues of shares	0.8	–	–	–	–	<b>0.8</b>
Retained profit	–	–	–	–	9.9	<b>9.9</b>
Actuarial loss arising on pension schemes	–	–	–	–	(4.5)	<b>(4.5)</b>
Tax attributable to actuarial loss	–	–	–	–	1.4	<b>1.4</b>
<b>As at 31 December 2003</b>	<b>227.1</b>	<b>3.1</b>	<b>0.3</b>	<b>–</b>	<b>(32.3)</b>	<b>198.2</b>
<b>Company</b>						
As at 1 January 2003	226.3	3.1	0.3	34.1	11.1	<b>274.9</b>
Premium on issues of shares	0.8	–	–	–	–	<b>0.8</b>
Other	–	–	–	–	0.4	<b>0.4</b>
Retained profit	–	–	–	–	5.2	<b>5.2</b>
<b>As at 31 December 2003</b>	<b>227.1</b>	<b>3.1</b>	<b>0.3</b>	<b>34.1</b>	<b>16.7</b>	<b>281.3</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 £283.1m (2002: £283.1m).

The profit and loss account includes a deficit of £12.0m (2002: deficit of £9.0m) net of a deferred tax asset of £5.7m (2002: asset of £4.4m) in respect of the group's pension schemes.

### 26 Reconciliation of movements in shareholders' funds

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Profit for the financial year	<b>26.0</b>	15.3	<b>21.3</b>	14.6
Dividends	<b>(16.1)</b>	(15.3)	<b>(16.1)</b>	(15.3)
	<b>9.9</b>	–	<b>5.2</b>	(0.7)
Exchange adjustments	<b>8.1</b>	6.4	–	0.6
New share capital subscribed	<b>0.8</b>	41.5	<b>0.8</b>	41.5
Actuarial revaluation of pension schemes	<b>(3.1)</b>	(10.5)	–	–
Goodwill written back on disposal of subsidiaries	–	7.5	–	–
Other	–	–	<b>0.4</b>	–
Net increase in shareholders' funds	<b>15.7</b>	44.9	<b>6.4</b>	41.4
Opening shareholders' funds	<b>188.7</b>	143.8	<b>281.1</b>	239.7
Closing shareholders' funds	<b>204.4</b>	188.7	<b>287.5</b>	281.1

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

	2003 £m	2002 £m
Operating profit	47.4	44.3
Depreciation	13.0	13.9
Goodwill amortisation	12.4	8.7
Profit on sale of tangible fixed assets	(0.3)	(0.6)
(Increase)/decrease in stocks	(2.1)	5.6
(Increase)/decrease in debtors	(4.8)	7.0
Increase/(decrease) in creditors	3.0	(9.9)
Decrease in provisions	(3.8)	(14.6)
	<b>64.8</b>	54.4

The net cash inflow from operating activities of £64.8m (2002: £54.4m) is stated net of a cash outflow of £2.4m (2002: inflow of £1.0m) relating to operating exceptional items recognised in the year ended 31 December 2002.

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

	2003 £m	2002 £m
Decrease in cash in the year	(5.6)	(0.4)
Cash effect of change in debt	22.0	(46.0)
Change in net debt resulting from cash flows	16.4	(46.4)
Other non-cash items:		
Exchange movements	(2.3)	0.4
Movement in net debt in the year	14.1	(46.0)
Net debt at 1 January	(177.5)	(131.5)
Net debt at 31 December	<b>(163.4)</b>	(177.5)

## Notes to the accounts continued

### 29 Analysis of changes in debt

	Cash at bank £m	Short-term loans and overdraft £m	Long-term loans £m	Total £m
As at 1 January 2003	36.9	(69.2)	(145.2)	<b>(177.5)</b>
Cash flow	(5.6)	72.3	(50.3)	<b>16.4</b>
Other non-cash movements:				
Exchange movements	0.4	(3.9)	1.2	<b>(2.3)</b>
<b>As at 31 December 2003</b>	<b>31.7</b>	<b>(0.8)</b>	<b>(194.3)</b>	<b>(163.4)</b>

### 30 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:

	2003		2002	
	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	<b>(0.8)</b>	<b>(0.8)</b>	(69.2)	(69.2)
Medium and long-term borrowings	<b>(194.3)</b>	<b>(194.3)</b>	(145.2)	(145.2)
Cash deposits	<b>31.7</b>	<b>31.7</b>	36.9	36.9
Derivative financial instruments held to manage the interest rate and currency portfolio:				
Interest rate swaps – fixed to floating	-	-	0.6	1.6
Cross currency interest rate swap	<b>0.1</b>	<b>(14.5)</b>	0.1	(2.1)
Average rate option	-	<b>1.8</b>	-	1.3
	<b>(163.3)</b>	<b>(176.1)</b>	(176.8)	(176.7)

#### 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			2003 Net financial assets/ (liabilities) £m
	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	3.5	0.1	3.6	-	-	-	<b>3.6</b>
Euro	9.4	3.1	12.5	(137.3)	-	(137.3)	<b>(124.8)</b>
US Dollar	2.2	0.1	2.3	(56.1)	(1.2)	(57.3)	<b>(55.0)</b>
Japanese Yen	0.2	1.9	2.1	-	-	-	<b>2.1</b>
Other	10.4	0.8	11.2	-	(0.5)	(0.5)	<b>10.7</b>
	<b>25.7</b>	<b>6.0</b>	<b>31.7</b>	<b>(193.4)</b>	<b>(1.7)</b>	<b>(195.1)</b>	<b>(163.4)</b>

### 30 Financial risk management continued

	Financial assets			Financial liabilities			2002
	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	Net financial assets/ (liabilities) £m
Sterling	2.9	0.1	3.0	–	(35.0)	(35.0)	(32.0)
Euro	8.4	7.7	16.1	(26.1)	(76.2)	(102.3)	(86.2)
US Dollar	7.8	0.5	8.3	(30.9)	(32.2)	(63.1)	(54.8)
Japanese Yen	1.8	–	1.8	–	(3.0)	(3.0)	(1.2)
Other	6.3	1.4	7.7	(5.0)	(6.0)	(11.0)	(3.3)
	<b>27.2</b>	<b>9.7</b>	<b>36.9</b>	<b>(62.0)</b>	<b>(152.4)</b>	<b>(214.4)</b>	<b>(177.5)</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 19.

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

The table below shows the net unhedged assets and liabilities of group companies 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)					2003
	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Total £m
Sterling	–	6.4	(1.2)	1.0	7.9	<b>14.1</b>
Euro	0.3	–	0.4	0.1	–	<b>0.8</b>
US Dollar	0.1	1.5	–	–	0.2	<b>1.8</b>
Japanese Yen	–	(0.1)	(0.3)	–	(0.3)	<b>(0.7)</b>
Danish Krone	1.0	8.4	5.9	0.1	2.0	<b>17.4</b>
Swiss Franc	–	3.5	0.1	–	–	<b>3.6</b>
Swedish Krona	0.2	0.6	0.1	0.1	0.4	<b>1.4</b>
Other	(0.3)	0.6	0.9	–	2.0	<b>3.2</b>
	<b>1.3</b>	<b>20.9</b>	<b>5.9</b>	<b>1.3</b>	<b>12.2</b>	<b>41.6</b>

Functional currency of group operations	Net currency monetary assets/(liabilities)					2002
	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Total £m
Sterling	–	9.1	1.7	0.2	1.1	12.1
Euro	0.1	–	0.7	–	(0.2)	0.6
US Dollar	0.2	0.5	–	–	1.3	2.0
Japanese Yen	–	–	0.3	–	–	0.3
Danish Krone	0.6	10.5	4.6	(0.1)	1.8	17.4
Swiss Franc	–	3.2	–	–	0.1	3.3
Swedish Krona	–	0.6	0.1	–	0.6	1.3
Other	–	(1.8)	0.4	–	0.3	(1.1)
	<b>0.9</b>	<b>22.1</b>	<b>7.8</b>	<b>0.1</b>	<b>5.0</b>	<b>35.9</b>

## Notes to the accounts continued

### 30 Financial risk management continued

#### d) Hedges

	Gains £m	2003 Losses £m	Total £m	Gains £m	2002 Losses £m	Total £m
As at 1 January	2.3	(2.2)	0.1	4.7	(1.0)	3.7
Arising in previous year that were recognised in the year	(2.3)	0.1	(2.2)	(2.2)	(0.5)	(2.7)
Arising in the year that were not recognised in the year	-	(2.1)	(2.1)	2.5	(1.5)	1.0
As at 31 December	1.8	(14.5)	(12.7)	2.3	(2.2)	0.1
Expected to be recognised in one year or less	1.8	-	1.8	1.3	0.1	1.4
Expected to be recognised in more than one year	-	(14.5)	(14.5)	1.0	(2.3)	(1.3)
	1.8	(14.5)	(12.7)	2.3	(2.2)	0.1

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

### 31 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.

### 32 Commitments

	Group		Company	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Annual commitments for operating leases expiring:				
In 2004	0.8	0.7	-	-
In 2005 - 2008	3.4	1.4	-	-
Thereafter	3.0	-	-	-
	7.2	2.1	-	-

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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
	2.0	2.0	-	-

### 33 Contingent liabilities

Group companies have given indemnities to the Royal Bank of Scotland in respect of guarantees, negotiations and foreign exchange facilities of which £5.7m (2002: £7.3m) was outstanding at 31 December 2003.

The group has, in the ordinary course of business, provided indemnities to Bank One NA in respect of outstanding letters of credit of which £1.1m (2002: £1.5m) was outstanding at 31 December 2003.

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

### 34 Subsidiary undertakings

The following are the group's principal subsidiary undertakings. They operate mainly in the countries of incorporation. All the subsidiaries, other than intermediate holding companies, are involved in the manufacture and sale of in-line instrumentation, electronic controls and process technology systems.

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

	Country of incorporation
Arcorn Control Systems Limited	UK
Loma Systems Limited	UK
Malvern Instruments Limited	UK
Servomex Group Limited	UK
Spectris China Limited	China
Brüel & Kjær Sound & Vibration Measurement A/S	Denmark
Brüel & Kjær Vibro A/S	Denmark
Hottinger Baldwin Messtechnik GmbH	Germany
Spectris Company Limited (Japan)	Japan
BTG Eclépens SA	Switzerland
PANalytical BV	The Netherlands
Beta LaserMike Inc	USA
Fusion UV Systems Inc	USA
Ircon Inc	USA
Microscan Systems Inc	USA
NDC Infrared Engineering Inc	USA
Particle Measuring Systems Inc	USA
Red Lion Controls Inc	USA
Spectris Inc	USA

# Shareholder information

## Financial Calendar

Annual General Meeting	12 May 2004
Record date for 2003 final dividend	21 May 2004
2003 Final dividend payable	11 June 2004
2004 Interim results	14 September 2004
2004 Preliminary results	March 2005

## Advisers

### Auditors

KPMG Audit Plc

### Bankers

Royal Bank of Scotland Plc

### Solicitors

Ashurst Morris Crisp

### Brokers

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)

Designed by Tor Pettersen & Partners.  
Printed in England by the colourhouse.

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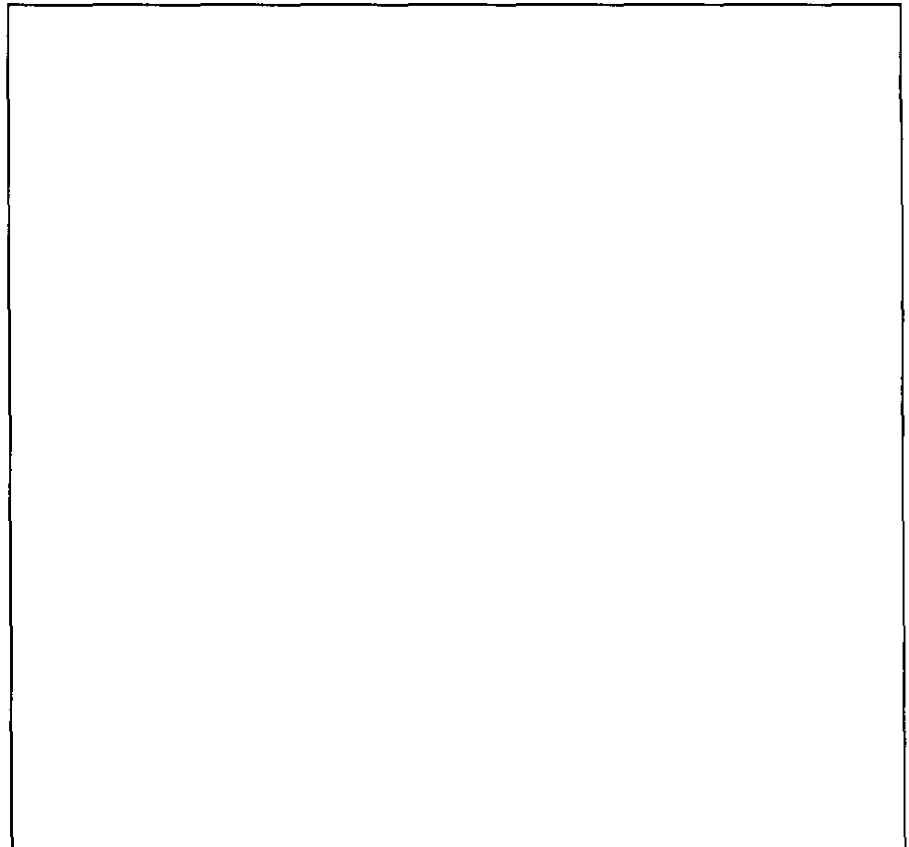
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# Actively contributing to a better environment

Our products help customers to minimise their impact on the environment, either via instrumentation which reduces raw material consumption and waste or energy use or systems which help them to meet legislation by measuring emissions or pollutants.

## Sound results

Exhaust noise from vehicles is a frequent cause of complaint. Brüel & Kjær has developed a portable noise analysis system which enables the police or local authorities to measure exterior exhaust sound levels from road vehicles to ensure they meet new EU directives on noise levels.



## Cleaning up

New legislation requires manufacturers to consider the environmental problems that disposal of their products can cause. Whether it is household refuse, electrical items or the use of fertilizers in agriculture, most problems are caused by a small number of heavy metals. PANalytical's X-ray instrumentation enables even trace amounts of these heavy elements to be detected and analysed.

## Powering ahead

As traditional sources of power become scarcer, the focus is on alternative technologies such as wind. Brüel & Kjær Vibro's on-line condition monitoring systems give early warning of mechanical and electrical defects to prevent component failures. This is particularly important for off-shore wind farms, where bad weather may prevent immediate repair.

## Electronic controls

Arcom Control Systems Ltd  
UK  
Tel: +44 1223 411200  
www.arcom.com

Embedded processors, telemetry products and industrial controls.

HBM GmbH  
Germany  
Tel: + 49 6151 8030  
www.hbm.com

Digital measurement systems, transducers and load cells.

Microscan Systems Inc  
USA  
Tel: +1 425 226 5700  
www.microscan.com

High speed industrial barcode scanning and decoding instruments.

Red Lion Controls Inc  
USA  
Tel: +1 717 767 6961  
www.redlion.net

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

## In-line instrumentation

Beta LaserMike Inc  
USA  
Tel: +1 937 233 9935  
www.betalasermike.com

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

Brüel & Kjær Vibro A/S  
Denmark  
Tel: +45 45 80 05 00  
www.bkvbibro.com

Machine condition monitoring systems and maintenance services.

BTG Group  
Switzerland  
Tel: +41 21 866 0066  
www.btg-group.com

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

Ircon Inc  
USA  
Tel: +1 847 967 5151  
www.ircon.com

Infrared non-contact temperature measuring instruments.

Loma Systems Ltd  
UK  
Tel: +44 1252 893300  
www.loma.com

Contamination detectors and checkweighers.

NDC Infrared Engineering Inc  
USA  
Tel: +1 626 960 3300  
www.ndcinfrared.com

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

Servomex Group Ltd  
UK  
Tel: +44 1892 652181  
www.servomex.com

Gas analysis instrumentation.

## Process technology

Brüel & Kjær Sound & Vibration A/S  
Denmark  
Tel: +45 45 80 05 00  
www.bksv.com

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

Fusion UV Systems Inc  
USA  
Tel: +1 301 527 2660  
www.fusionuv.com

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

Malvern Instruments Ltd  
UK  
Tel: +44 1684 892456  
www.malvern.co.uk

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

PANalytical BV  
The Netherlands  
Tel: +31 546 534 444  
www.panalytical.com

X-ray analytical equipment for industrial and scientific applications.

Particle Measuring Systems Inc  
USA  
Tel: +1 303 443 7100  
www.pmeasuring.com

In-line laser-based particle detection systems for micro-contamination control.

# spectris

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