

Consolidated profit and loss account

For the year ended 31 December

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

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

Consolidated statement of total recognised gains and losses

For the year ended 31 December

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

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

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

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

Balance sheets

At 31 December

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

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

J G Zacharias

Director

Consolidated cash flow statement

For the year ended 31 December

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

Notes to the accounts

1 Accounting policies

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

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

The effect of the adoption is explained in Note 26.

Basis of accounting

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

Basis of consolidation

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

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

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

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

Goodwill

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

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

Turnover

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

Tangible fixed assets

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

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

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

Fixed asset investments

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

Stocks and work in progress

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

Foreign currencies

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

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

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

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

Deferred taxation

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

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

Leasing

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

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

Research and development

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

Contributions to pension funds

Defined contribution scheme

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

Defined benefit scheme

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

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

Employee share option schemes

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

Notes to the accounts continued

2 Segmental analyses

a) Analysis by class of business

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

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

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

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

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

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

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

2 Segmental analyses continued

b) Analysis by geographical origin

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

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

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

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

c) Analysis of turnover by geographical destination

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

3 Exceptional items

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

Notes to the accounts continued

4 Operating costs

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

5 Profit before taxation

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

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

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

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

6 Employee costs

	2001 £m	2000 (restated) £m
Employee costs, including directors' remuneration, comprise:		
Wages and salaries	158.3	126.8
Social security costs	38.0	12.9
Pension costs:		
Defined benefit plans (see Note 7)	1.0	1.6
Defined contribution plans	4.5	2.6
Pension receipt in respect of Swedish state defined contribution scheme	(1.2)	–
	200.6	143.9

	2001 Number	2000 Number
Average number of employees:		
Production and distribution	2,861	2,253
Other	1,888	2,208
	4,749	4,461

7 Pension costs

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

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

The total contributions made to the defined benefit plans in the year ended 31 December 2001 were £0.5m (2000: £0.8m).

Contributions have been agreed at the following rates for future years:

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

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

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

Notes to the accounts continued

7 Pension costs continued

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

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

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

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

UK plans	2001 Fair value £m	2000 Fair value £m	1999 Fair value £m
Equities	37.5	41.6	43.8
Bonds	22.5	24.0	22.9
Other	1.9	4.8	4.7
Total	61.9	70.4	71.4
	Expected return % pa	Expected return % pa	Expected return % pa
Equities	8.0	7.4	7.0
Bonds	5.0	4.8	5.0
Other	4.0	6.0	6.0
Total	6.8	6.4	6.3
German plans	2001 Fair value £m	2000 Fair value £m	1999 Fair value £m
Insurance policies	1.1	1.1	N/A
	Expected return % pa	Expected return % pa	Expected return % pa
Insurance policies	5.8	5.8	N/A

7 Pension costs continued

Plan assets and liabilities are summarised as follows:

As at 31 December 2001

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

As at 31 December 2000

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

As at 31 December 1999

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

Movement in surplus/(deficit):

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

Notes to the accounts continued

7 Pension costs continued

History of experience gains and losses

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

Company

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

8 Net interest payable and other finance income

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

9 Taxation

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

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

10 Dividends

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

Notes to the accounts continued

11 Earnings per share

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

Normalised earnings per share is calculated as follows:

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

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

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

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

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

12 Intangible assets

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

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

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

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

Notes to the accounts continued

13 Tangible fixed assets

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

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

14 Fixed asset investments

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

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

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

15 Current asset investments

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

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

16 Stocks

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

Notes to the accounts continued

17 Debtors

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

18 Creditors: due within one year

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

19 Creditors: due after more than one year

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

20 Borrowing summary

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

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

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

Secured bank loan

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

Unsecured loan notes

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

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

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

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

Unsecured bank loans

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

Notes to the accounts continued

21 Provisions for liabilities and charges

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

a) Deferred taxation

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

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

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

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

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

b) Other

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

21 Provisions for liabilities and charges continued

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

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

22 Acquisition of businesses

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

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

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

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

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

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

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

Notes to the accounts continued

23 Disposal of businesses

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

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

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

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

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

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

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

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

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

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

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

24 Acquisition of subsidiary undertaking in 2000

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

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

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

Fixed assets

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

Stock

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

Creditors and provisions

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

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

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

Current asset investments and debtors

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

Notes to the accounts continued

25 Share capital

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

Share options

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

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

25 Share capital continued

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

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

26 Reserves

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

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

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

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

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

Notes to the accounts continued

27 Reconciliation of movements in shareholders' funds

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

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

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

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

29 Reconciliation of net cash flow to movement in net debt

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

30 Analysis of changes in debt

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

31 Financial risk management

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

a) Fair values of financial instruments used for risk management

The fair value of financial instruments at 31 December was:

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

Notes to the accounts continued

31 Financial risk management continued

b) Interest rate exposure of financial assets and liabilities

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

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

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

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

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

31 Financial risk management continued

c) Currency exposure of financial assets and liabilities

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

At 31 December, these exposures were as follows:

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

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

d) Hedges

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

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

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

Notes to the accounts continued

32 Related party disclosures

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

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

33 Commitments

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

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

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
	3.3	6.8	–	–

34 Contingent liabilities

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

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

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

35 Subsidiary undertakings

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

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

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

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

Shareholder information

Financial Calendar

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

Advisers

Auditors

KPMG Audit Plc

Bankers

Royal Bank of Scotland Plc

Solicitors

Ashurst Morris Crisp

Brokers

Cazenove & Co

Merrill Lynch

Corporate finance advisers

Merrill Lynch

Registrars

Lloyds TSB Registrars

The Causeway

Worthing

West Sussex

BN99 7DA

The registrars provide a range of shareholder services on-line at www.shareview.co.uk

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

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

Directory of companies

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Arcom Control Systems

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

Embedded processors, telemetry products and industrial controls.

Beta LaserMike

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

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

Brüel & Kjær Sound & Vibration

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

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

Brüel & Kjær Vibro

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

Machine condition monitoring systems and maintenance services.

BTG Pulp & Paper

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

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

Fusion UV Systems

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

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

HBM

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

Digital measurement systems, transducers and load cells.

Ircon

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

Infrared non-contact temperature measuring instruments.

Loma Systems

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

Contamination detectors and checkweighers.

Luxtron Corporation

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

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

Malvern Instruments

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

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

Microscan Systems

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

High speed industrial barcode scanning and decoding instruments.

NDC Infrared Engineering

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

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

Particle Measuring Systems

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

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

Red Lion Controls

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

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

Servomex

Jarvis Brook, Crowborough
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Fax: +44 1892 662253
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Gas analysis instrumentation.

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