

## Chairman's statement



“Spectris is well positioned to take advantage of growing market opportunities whilst at the same time remaining focused on further improvements to operating margins in 2005 and beyond. Whilst the US dollar continues to have an impact, we are confident of encouraging progress in 2005.”

Spectris delivered a strong performance in 2004. Sales increased by 8% to £614.2 million (2003: £568.0 million), as recovery in many of our markets was accompanied by the results of the company's own management efforts. Operating profit (excluding exceptional items and goodwill amortisation) increased by 9% to £65.2 million (2003: £59.8 million), despite a £7.8 million adverse effect from currency movements. Profit before tax (excluding exceptional items and goodwill amortisation) was £51.1 million, an increase of 4% over 2003 (£48.9 million). Earnings per share were maintained at 32.1p despite an increased tax rate of 24% (2003: 21%).

The strong underlying operational performance reflected well-placed and focused investment over the past few years. Organic growth in sales of 11% at constant currencies was a result of successful new product introductions as well as an increase in customer-facing personnel in Asia. The operating margin improvement at constant currencies of approximately 0.8 percentage points was absorbed by the adverse currency movements, but underscores the continuing emphasis on improving operating margins.

Operating cash conversion was lower than usual at 75%, reflecting the sales growth and a one-off "safety stock" build. Working capital remained at 16% of sales. Debt was £158.9 million at the year end (2003: £163.4 million) with interest cover of 4.7 times (2003: 5.6 times).

A final dividend of 10.25p (2003: 9.3p), making a total of 14.5p (2003: 13.35p), an increase of 9%, is proposed by the Board, reflecting the Board's confidence in the business prospects, providing a healthy dividend cover of 2.2 times (on adjusted eps). The final dividend will be paid on 10 June 2005 to shareholders on the register on 20 May 2005.

#### IFRS

The company will make a full announcement and presentation in respect of the effect of the new IFRS accounting standards, including a new sector breakdown, on 15 June. However, with the potential exception of IAS 39, goodwill and share options, it is anticipated that the standards will have only a modest effect.

#### Board changes

I am pleased to welcome Steve Hare, who joined the Board in December as Group Finance Director. Graham Zacharias, Group Finance Director, and Paul Boughton, Business Development Director, resigned from the Board during the year. On behalf of the Board, I should like to thank them both for their considerable contribution to the development of the company.

#### Outlook

Demand in the first few weeks of 2005 supports another year of healthy organic sales growth. This expectation is, as always, subject to the limited visibility arising from short delivery cycles and order books. It is anticipated that the split between the first and second half will be more evenly balanced. Spectris is well positioned to take advantage of growing market opportunities whilst at the same time remaining focused on further improvements to operating margins in 2005 and beyond. Whilst the US dollar continues to have an impact, we are confident of encouraging progress in 2005.



**John Poulter** Chairman