

## 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. The accounts reflect the adoption of UITF 38, Accounting for ESOP trusts, during the year ended 31 December 2004 and further details regarding this are set out in Note 22.

#### Basis of consolidation

The group accounts include the accounts of the company and all of its subsidiary undertakings made up to 31 December 2004.

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%–33½%

#### 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

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction (or if hedged forward, at the rate of exchange under the related forward currency contract). Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities (and profit and loss accounts) of overseas subsidiary undertakings are translated at the closing rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

#### 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.

#### 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.

## 2 Segmental analyses

### a) Analysis by class of business

	Turnover		Profit before interest and tax		Net assets	
	2004	2003	2004	2003	2004	2003 (restated)
	£m	£m	£m	£m	£m	£m
Electronic controls	139.7	132.1	17.2	15.8	43.2	42.1
In-line instrumentation	198.4	182.0	20.8	22.3	51.3	45.0
Process technology	276.1	253.9	27.2	21.7	70.0	67.6
Total continuing operations	614.2	568.0	65.2	59.8	164.5	154.7
Goodwill amortisation			(13.0)	(12.4)		
Loss on sale or termination of businesses			(1.2)	(0.4)		
Net debt					(158.9)	(163.4)
Intangible assets					224.1	227.0
Net pension liability					(14.0)	(12.0)
Dividends					(12.4)	(11.2)
Other					(7.3)	(5.7)
	614.2	568.0	51.0	47.0	196.0	189.4

The operating businesses are grouped as follows:

#### Electronic controls:

Arcom 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.

Goodwill amortisation of £1.9m (2003: £1.9m) relates to the Electronic controls sector, £4.3m (2003: £4.1m) relates to the In-line instrumentation sector and the remaining £6.8m (2003: £6.4m) relates to the Process technology sector.

Intangible assets of £31.4m (2003: £33.5m) relates to the Electronic controls sector, £70.0m (2003: £69.8m) relates to the In-line instrumentation sector and the remaining £122.7m (2003: £123.7m) relates to the Process technology sector.

Loss on sale or termination of businesses of £1.2m relates to the Electronic controls sector (£0.6m) and corporate activities (£0.6m) (2003: £0.4m relating to Electronic controls).

**2 Segmental analyses** continued**b) Analysis by geographical origin**

	Turnover		Profit before interest and tax		Net assets	
	2004	2003	2004	2003	2004	2003 (restated)
	£m	£m	£m	£m	£m	£m
UK	115.5	97.1	9.0	9.9	9.1	19.9
Continental Europe	391.4	374.5	35.4	35.7	101.6	85.4
North America	215.0	205.7	13.4	7.7	32.8	37.0
Asia Pacific	89.9	70.5	7.2	6.2	19.6	12.6
Rest of the world	5.3	2.3	0.2	0.3	1.4	(0.2)
	<b>817.1</b>	750.1	<b>65.2</b>	59.8	<b>164.5</b>	154.7
Intra-group sales	<b>(202.9)</b>	(182.1)				
Total continuing operations	<b>614.2</b>	568.0	<b>65.2</b>	59.8	<b>164.5</b>	154.7
Goodwill amortisation			<b>(13.0)</b>	(12.4)		
Loss on sale or termination of businesses			<b>(1.2)</b>	(0.4)		
Net debt					<b>(158.9)</b>	(163.4)
Intangible assets					<b>224.1</b>	227.0
Net pension liability					<b>(14.0)</b>	(12.0)
Dividends					<b>(12.4)</b>	(11.2)
Other					<b>(7.3)</b>	(5.7)
	<b>614.2</b>	568.0	<b>51.0</b>	47.0	<b>196.0</b>	189.4

Goodwill amortisation of £1.5m (2003: £1.1m) arises on acquisitions made within the UK and £0.4m (2003: £0.2m) arises in North America. The remaining amortisation of £11.1m (2003: £11.1m) relates to the acquisition of businesses in Continental Europe.

Intangible assets of £29.0m (2003: £23.9m) reside in the UK, £6.4m (2003: £6.1m) reside in North America and £1.8m (2003: £nil) reside in Asia Pacific. The remaining £186.9m (2003: £197.0m) resides in Continental Europe.

Loss on sale or termination of businesses of £1.2m relates to Continental Europe (£0.6m) and the UK (£0.6m) (2003: £0.4m relating to the UK).

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

	2004 £m	2003 £m
UK	39.4	36.1
Continental Europe	242.5	223.5
North America	157.5	156.1
Japan	45.9	40.7
China	40.3	36.0
Rest of Asia Pacific	59.0	48.6
Rest of the world	29.6	27.0
	<b>614.2</b>	568.0

**3 Operating costs**

	2004 £m	2003 £m
Distribution costs	87.2	78.5
Administration expenses	212.4	195.9
	<b>299.6</b>	274.4

**4 Profit before taxation**

	2004 £m	2003 £m
Profit before taxation is stated after charging/(crediting):		
Depreciation	13.4	13.0
Amortisation of goodwill	13.0	12.4
Amortisation of patent	0.1	–
Operating lease rentals:		
Plant, machinery and vehicles	2.5	2.1
Property	4.3	3.6
Auditors' remuneration:		
Audit services for the group	0.7	0.5
Audit services for the company	0.1	0.1
Non-audit services	0.6	0.4
Research and development	34.9	34.1
Loss/(profit) on disposal of fixed assets	0.4	(0.3)

Non-audit fees include £0.5m (2003: £0.2m) in respect of tax compliance and advisory services and £0.1m (2003: £0.2m) 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 before dividends payable was £29.1m (2003: profit £21.3m).

Details of directors' remuneration and share options are given in the remuneration report on pages 30 to 33.

	2004 £m	2003 £m
Profit on ordinary activities before taxation	36.9	36.1
Loss on sale or termination of businesses	1.2	0.4
Goodwill amortisation	13.0	12.4
Profit on ordinary activities before exceptional items, goodwill amortisation and taxation	51.1	48.9

## 5 Employee costs

	2004 £m	2003 £m
Employee costs, including directors' remuneration, comprise:		
Wages and salaries	185.5	161.1
Social security costs	30.3	39.0
Defined benefit pension plans: current service cost (see Note 6b)	0.8	0.7
Defined contribution pension plans (see Note 6)	6.3	4.8
	<b>222.9</b>	<b>205.6</b>
	2004 Number	2003 Number
Average number of employees:		
Production and distribution	3,758	3,497
Other	2,138	2,199
	<b>5,896</b>	<b>5,696</b>

## 6 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 provide 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 2004 was £6.3m (2003: £4.8m).

There were no outstanding or prepaid contributions to these plans as at 31 December 2004 (or at 31 December 2003).

### 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 2004
Hottinger Baldwin Messtechnik GmbH	31 December 2004
Spectris GmbH Sensoren und Systeme	31 December 2004
BTG Müttek GmbH	31 December 2004
Brüel & Kjær GmbH	31 December 2004
PANalytical GmbH	31 December 2004

The valuations were updated to 31 December 2004 for FRS 17 purposes by qualified independent actuaries.

**6 Pension costs** continued

The total contributions made to the defined benefit plans in the year ended 31 December 2004 were £1.5m (2003: £1.1m). Contributions have been agreed at the following rates for future years:

Plan name	Agreed company future contribution rate
Spectris Pension Plan	11% plus £480,000 pa (unchanged from 2004)
Servomex Pension and Assurance Scheme	10.5% pa plus £196,000 pa (unchanged from 2004, but increasing to 10.5% plus £430,000 pa from 1 April 2005)

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:

	2004 % pa	2003 % pa	2002 % pa
<b>UK plans</b>			
Discount rate	5.30	5.50	5.60
Salary increases	4.40	4.30	3.80
Pension increases in payment	2.90 for LPI*	2.80 for LPI*	2.30 for LPI*
Pension increases in deferment	2.90	2.80	2.30
Inflation assumption	2.90	2.80	2.30
<b>German plans</b>			
Discount rate	4.75	5.50	5.50
Salary increases	2.50	2.50	2.50
Pension increases in payment	1.75	1.75	1.75
Pension increases in deferment	–	–	–
Inflation assumption	2.50	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.

**6 Pension costs** continued**a) Plan liabilities and costs** continued

The fair value of the assets held by the defined benefit plans as at 31 December 2004 and the expected rate of return assumed for each asset class for the year from 1 January 2005 are:

	2004 Fair value £m	2003 Fair value £m	2002 Fair value £m
<b>UK plans</b>			
Equities	26.4	26.9	29.3
Bonds	31.3	27.2	23.0
Other	0.6	1.2	1.3
Total	58.3	55.3	53.6

	2004 Expected return % pa	2003 Expected return % pa	2002 Expected return % pa
Equities	8.00	8.00	8.00
Bonds	5.00	5.30	4.60
Other	4.50	4.00	4.00
Total	6.40	6.60	6.40

	2004 Fair value £m	2003 Fair value £m	2002 Fair value £m
<b>German plans</b>			
Insurance policies	1.1	1.1	1.0

	2004 Expected return % pa	2003 Expected return % pa	2002 Expected return % pa
Insurance policies	4.75	5.50	5.50

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

	2004			2003		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Total market value of assets	58.3	1.1	59.4	55.3	1.1	56.4
Present value of plan liabilities	(74.0)	(6.1)	(80.1)	(68.4)	(5.7)	(74.1)
Deficit in plan	(15.7)	(5.0)	(20.7)	(13.1)	(4.6)	(17.7)
Related deferred tax asset	4.7	2.0	6.7	3.9	1.8	5.7
Net pension liability	(11.0)	(3.0)	(14.0)	(9.2)	(2.8)	(12.0)

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

	2004			2003		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Current service costs	(0.7)	(0.1)	(0.8)	(0.6)	(0.1)	(0.7)

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

	2004			2003		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Expected return on pension scheme assets	3.6	0.1	3.7	3.4	0.1	3.5
Interest on pension scheme liabilities	(3.7)	(0.3)	(4.0)	(3.4)	(0.3)	(3.7)
	(0.1)	(0.2)	(0.3)	-	(0.2)	(0.2)

## 6 Pension costs continued

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

	2004			2003		
	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	1.1	–	1.1	2.7	–	2.7
Experience gains and losses arising on scheme liabilities	(0.5)	–	(0.5)	(0.8)	(0.2)	(1.0)
Changes in assumption underlying the present value of liabilities	(3.6)	(0.4)	(4.0)	(6.2)	–	(6.2)
Actuarial loss	(3.0)	(0.4)	(3.4)	(4.3)	(0.2)	(4.5)

### e) Movement in deficit

	2004			2003		
	UK plans £m	German plans £m	Total £m	UK plans £m	German plans £m	Total £m
Deficit in scheme at beginning of the year	(13.1)	(4.6)	(17.7)	(9.1)	(4.3)	(13.4)
Movement in the year:						
Contributions	1.2	0.3	1.5	0.9	0.2	1.1
Current service cost	(0.7)	(0.1)	(0.8)	(0.6)	(0.1)	(0.7)
Other finance expense	(0.1)	(0.2)	(0.3)	–	(0.2)	(0.2)
Actuarial loss	(3.0)	(0.4)	(3.4)	(4.3)	(0.2)	(4.5)
Deficit in scheme at end of the year	(15.7)	(5.0)	(20.7)	(13.1)	(4.6)	(17.7)

### f) History of experience gains and losses

	2004		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	UK plans £m	German plans £m
Actual return less expected return on pension scheme assets	1.1	–	2.7	–	(10.7)	–	(10.8)	–	(4.2)	–
Percentage of plan assets	2%	–	5%	–	(20%)	–	(17%)	–	(6%)	–
Experience gains and losses arising on the plan liabilities	(0.5)	–	(0.8)	(0.2)	(3.4)	(0.5)	2.9	0.1	(0.9)	–
Percentage of the present value of the plan liabilities	1%	–	(1%)	(4%)	(5%)	(10%)	5%	2%	(1%)	–
Changes in assumptions underlying the present value of the plan liabilities	(3.6)	(0.4)	(6.2)	–	(0.2)	–	1.9	–	1.0	(0.3)
Actuarial (loss)/gain	(3.0)	(0.4)	(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	(4%)	(7%)	(6%)	(4%)	(23%)	(10%)	10%	2%	(7%)	(11%)

### 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 £9.6m at 31 December 2004 (2003: £7.8m deficit). The actuary certified on the basis of the 1 January 2004 valuation that employer contributions of 11% plus £480,000 pa would be made in the financial year ending 31 December 2004. Contributions paid in that year to the Spectris Pension Plan were £745,000 (2003: £602,000) and to defined contribution plans were £381,000 (2003: £232,000).

**7 Net interest payable**

	2004 £m	2003 £m
Interest payable and similar charges:		
On borrowings wholly repayable within five years:		
Bank loans and overdrafts	1.5	3.2
Other loans	4.2	3.9
On borrowings repayable after five years – other loans	8.3	4.2
	<b>14.0</b>	11.3
Other interest receivable and similar income	<b>(0.2)</b>	(0.6)
	<b>13.8</b>	10.7

**8 Taxation**

	2004			2003		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Corporation tax for the year on profits before goodwill amortisation and exceptional tax items	–	10.7	10.7	–	9.9	9.9
Tax on goodwill amortisation	–	(0.1)	(0.1)	–	(0.2)	(0.2)
Other exceptional tax charges	9.8	–	9.8	–	–	–
	<b>9.8</b>	<b>10.6</b>	<b>20.4</b>	–	9.7	9.7
Double tax relief	–	–	–	(0.5)	–	(0.5)
Over-provision for prior years	(0.3)	(0.6)	(0.9)	–	–	–
Total current tax charge/(credit)	<b>9.5</b>	<b>10.0</b>	<b>19.5</b>	(0.5)	9.7	9.2
Deferred tax – origination and reversal of timing differences:						
Deferred tax before exceptional item	–	2.5	2.5	(0.4)	1.3	0.9
Net exceptional deferred tax credits	–	(9.8)	(9.8)	–	–	–
Total deferred tax (credit)/charge	–	(7.3)	(7.3)	(0.4)	1.3	0.9
Total charge/(credit)	<b>9.5</b>	<b>2.7</b>	<b>12.2</b>	(0.9)	11.0	10.1

The effective tax rate, excluding loss on sale or termination of businesses and goodwill amortisation, was 24.1% (2003: 21.1%).

Exceptional tax charges and credits have been recognised in respect of tax due on intra-group dividends (£9.8m), the recognition of a deferred tax asset in respect of Danish tax losses brought forward (£12.2m) and the write down of deferred tax assets in the US (£2.4m).

A tax liability has been recognised on dividends received in the UK from EU-based subsidiaries on the basis of current UK tax legislation. This is currently the subject of a group litigation order that is expected to be heard during 2005 and which may be referred to the European Court of Justice. In view of the uncertainties regarding the final outcome of the court proceedings and taking into account current UK tax law, a liability has been recognised. In the event that current UK law is overturned, no tax will be due.

A deferred tax asset has been recognised in respect of brought forward Danish losses following agreement as to their quantum and basis with the tax authorities and in light of the Danish operations' current and expected performance.

**8 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 31.6% (2003: 30.4%). The current tax charge for the year is higher (2003: lower) than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2004 £m	2003 £m
Profit on ordinary activities before taxation	36.9	36.1
Corporation tax at standard rate of 31.6% (2003: 30.4%)	11.7	11.0
Non-taxable income and gains	(1.4)	(9.5)
Non-deductible expenditure	5.1	10.5
Timing differences	(2.6)	(0.7)
Other current year items	(2.2)	(2.1)
Exceptional tax charge – dividends received from EU-based subsidiaries	9.8	–
Adjustments to prior year tax charges	(0.9)	–
Current tax charge	19.5	9.2

The tax charge on profits before goodwill amortisation and exceptional items is expected to increase further towards the weighted average statutory tax rate over the next three years.

**9 Dividends**

	2004 £m	2003 £m
Interim dividend paid 4.25p per ordinary share (2003: 4.05p)	5.1	4.9
Final dividend proposed of 10.25p per ordinary share (2003: 9.3p)	12.4	11.2
Total dividend 14.50p per ordinary share (2003: 13.35p)	17.5	16.1

**10 Earnings per share**

The calculation of basic earnings per share of 20.4p (2003: 21.6p) is based on the group profit of £24.7m (2003: £26.0m) and on the weighted average number of ordinary shares in issue during the year of 120.9 million (2003: 120.5 million).

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

	Earnings		Earnings per share	
	2004 £m	2003 £m	2004 pence	2003 pence
Basic earnings and earnings per share	24.7	26.0	20.4	21.6
Basic earnings per share attributable to:				
Goodwill amortisation	13.0	12.4	10.7	10.3
Loss on sale or termination of businesses	1.2	0.4	1.0	0.4
Tax credit on goodwill amortisation	(0.1)	(0.2)	–	(0.2)
Exceptional tax credit arising from recognition of net deferred tax assets	(9.8)	–	(8.1)	–
Exceptional tax charge arising on intra-group dividends	9.8	–	8.1	–
Earnings and earnings per share before exceptional items and goodwill amortisation	38.8	38.6	32.1	32.1

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 20.4p (2003: 21.6p) is based on the group profit of £24.7m (2003: £26.0m) and on the diluted weighted average number of 5p ordinary shares in issue during the year of 121.1 million (2003: 120.5 million).

**10 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	
	2004 millions	2003 millions
Basic weighted average number of 5p ordinary shares in issue	120.9	120.5
Weighted average number of dilutive 5p ordinary shares under option	0.7	0.6
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options	(0.5)	(0.6)
	121.1	120.5

**11 Intangible assets**

	Goodwill £m	Patents £m	Total £m
Cost:			
As at 1 January 2004	259.5	3.4	262.9
Additions in the year	9.8	0.1	9.9
Exchange adjustments	0.7	–	0.7
As at 31 December 2004	270.0	3.5	273.5
Amortisation:			
As at 1 January 2004	33.1	2.8	35.9
Charge in the year	13.0	0.1	13.1
Exchange adjustments	0.4	–	0.4
As at 31 December 2004	46.5	2.9	49.4
Net book value:			
As at 31 December 2004	223.5	0.6	224.1
As at 1 January 2004	226.4	0.6	227.0

Additions to goodwill in the year of £9.8m represents purchased goodwill arising on the acquisition of businesses listed in Note 20. The useful economic life of this goodwill has been estimated at 20 years. The choice of amortisation period reflects the long-term nature of the group's investment.

**12 Tangible fixed assets**

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
<b>Group</b>				
Cost:				
As at 1 January 2004	68.0	5.0	127.0	<b>200.0</b>
Exchange adjustments	(0.9)	(0.3)	(0.8)	<b>(2.0)</b>
Additions	2.0	0.6	13.9	<b>16.5</b>
Acquisition of subsidiary undertakings	0.4	–	1.2	<b>1.6</b>
Transfers	(0.2)	1.1	(2.8)	<b>(1.9)</b>
Disposals and write offs	(0.4)	–	(7.2)	<b>(7.6)</b>
As at 31 December 2004	<b>68.9</b>	<b>6.4</b>	<b>131.3</b>	<b>206.6</b>
Depreciation:				
As at 1 January 2004	14.1	3.6	89.9	<b>107.6</b>
Exchange adjustments	–	(0.3)	(1.1)	<b>(1.4)</b>
Charge for the year	1.9	0.6	10.9	<b>13.4</b>
Acquisition of subsidiary undertakings	–	–	0.9	<b>0.9</b>
Transfers	0.9	–	(2.0)	<b>(1.1)</b>
Disposals and write offs	–	–	(6.5)	<b>(6.5)</b>
As at 31 December 2004	<b>16.9</b>	<b>3.9</b>	<b>92.1</b>	<b>112.9</b>
Net book value:				
As at 31 December 2004	<b>52.0</b>	<b>2.5</b>	<b>39.2</b>	<b>93.7</b>
As at 1 January 2004	53.9	1.4	37.1	92.4

The book value of non-depreciated land included above is £10.3m (2003: £10.3m).

Transfers include the reclassification of freehold and leasehold property and a net transfer of £0.8m of plant and equipment to stocks.

	Leasehold property £m	Plant and equipment £m	Total £m
<b>Company</b>			
Cost:			
As at 1 January 2004 and 31 December 2004	0.3	0.5	<b>0.8</b>
Depreciation:			
As at 1 January 2004 and 31 December 2004	0.2	0.5	<b>0.7</b>
Net book value:			
As at 1 January 2004 and 31 December 2004	0.1	–	<b>0.1</b>

**13 Fixed asset investments**

	Other investments £m
<b>Group</b>	
Cost:	
As at 1 January 2004	1.4
Disposals	(0.6)
As at 31 December 2004	<b>0.8</b>
Provision for impairment:	
As at 1 January 2004 and 31 December 2004	<b>0.8</b>
Net book value:	
As at 31 December 2004	–
As at 1 January 2004	0.6

The comparative balance sheet at 31 December 2003 has been restated to reflect the adoption of UITF 38, Accounting for ESOP trusts. This has had the effect of presenting the shares held by the Spectris plc Employee Benefit Trust within reserves rather than fixed asset investments. Further details regarding this are set out in Note 22.

	Investments in group undertakings £m
<b>Company</b>	
Cost:	
As at 1 January 2004	301.6
Additions	13.5
Transfer	(21.8)
Disposals	(6.3)
As at 31 December 2004	<b>287.0</b>
Provision for impairment:	
As at 1 January 2004	21.8
Charge for the year	1.4
Transfer	(21.8)
As at 31 December 2004	<b>1.4</b>
Net book value:	
As at 31 December 2004	<b>285.6</b>
As at 1 January 2004	279.8

A list of the group's principal subsidiary undertakings is set out in Note 31.

**14 Stocks**

	Group	
	2004 £m	2003 £m
Raw materials	<b>36.6</b>	36.0
Work in progress	<b>19.1</b>	16.4
Finished stock	<b>38.6</b>	31.4
	<b>94.3</b>	83.8

**15 Debtors**

	Group		Company	
	2004	2003 (restated)	2004	2003
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	126.1	116.6	-	-
Amounts owed by group undertakings	-	-	416.4	388.2
Other debtors	4.3	2.1	-	-
Prepayments and accrued income	15.3	13.9	0.2	0.8
Corporation tax	16.5	9.2	2.3	2.1
Deferred taxation	9.3	10.1	-	-
	<b>171.5</b>	<b>151.9</b>	<b>418.9</b>	<b>391.1</b>

The comparatives have been restated to present a tax debtor of £0.9m within debtors falling due within one year rather than within creditors falling due after one year.

	Group		Company	
	2004	2003 (restated)	2004	2003
	£m	£m	£m	£m
Amounts falling due after one year:				
Deferred taxation	12.1	2.4	-	-

**16 Creditors: due within one year**

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Short-term borrowing:				
Bank loans and overdraft	0.3	0.8	0.4	-
Payments on account	12.3	8.5	-	-
Trade creditors	45.8	39.3	-	-
Amounts owed to group undertakings	-	-	211.4	187.2
Corporation tax	48.7	29.1	-	-
Other taxation and social security	7.2	6.3	-	-
Other creditors	6.6	7.1	-	-
Accruals and deferred income	63.7	58.8	4.6	8.4
Dividends payable	12.4	11.2	12.4	11.2
	<b>196.7</b>	<b>160.3</b>	<b>228.4</b>	<b>206.8</b>
Total	<b>197.0</b>	<b>161.1</b>	<b>228.8</b>	<b>206.8</b>

**17 Creditors: due after more than one year**

	Group		Company	
	2004	2003 (restated)	2004	2003
	£m	£m	£m	£m
Medium and long-term borrowing:				
Loan notes net of capitalised issue costs	190.2	193.4	190.2	193.4
Bank loans	2.8	0.9	-	-
	<b>193.0</b>	<b>194.3</b>	<b>190.2</b>	<b>193.4</b>
Other creditors	1.1	1.9	-	-
Total	<b>194.1</b>	<b>196.2</b>	<b>190.2</b>	<b>193.4</b>

The comparatives have been restated to present a tax debtor of £0.9m within debtors falling due within one year rather than within creditors falling due after one year.

**18 Borrowing summary**

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Gross debt falling due within:				
Less than one year	0.3	0.8	0.4	–
One to two years	52.2	0.1	52.1	–
Two to five years	0.2	56.3	–	56.1
Over five years	140.6	137.9	138.1	137.3
	<b>193.3</b>	195.1	<b>190.6</b>	193.4
Comprising:				
Secured bank loan	2.8	1.0	–	–
Unsecured loan notes – 1996 \$100m	52.0	56.1	52.0	56.1
Unsecured loan notes – 2000 \$75m	56.7	56.3	56.7	56.3
Unsecured loan notes – 2013 \$100m and €25m	81.5	81.0	81.5	81.0
Unsecured bank loans	0.3	0.7	0.4	–
	<b>193.3</b>	195.1	<b>190.6</b>	193.4

The group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2004 in respect of which all conditions precedent had been met at that date were as follows:

	2004 £m	2003 £m
Expiring in one year or less	73.1	43.5
Expiring in one to two years	–	29.5
	<b>73.1</b>	73.0

**Secured bank loan**

Bank loans are secured by a fixed charge over property at two of the group's subsidiaries. Of these £2.0m is repayable by instalments until December 2012 and £0.8m by instalments until December 2014. These loans comprise mainly of two US dollar loans. The interest rate is fixed at 7.5% on one and is based on LIBOR plus a small margin on the other.

**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%.

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 \$100m 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 one year.

**19 Provisions for liabilities and charges**

	Group	
	2004 £m	2003 £m
Provisions for liabilities and charges comprise:		
Deferred taxation	19.5	19.7
Other provisions	9.5	11.4
	<b>29.0</b>	<b>31.1</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	
	2004 £m	2003 £m
As at 1 January	1.5	4.1
Exchange adjustments	(0.8)	(0.9)
Acquisition of subsidiary undertaking	(1.2)	(0.1)
Transferred from current taxation	0.2	(1.2)
Amounts released through the statement of total recognised gains and losses	(1.0)	(1.3)
(Credited)/charged to profit and loss account in the year	(7.3)	0.9
As at 31 December	(8.6)	1.5
Comprising:		
Deferred tax provision	19.5	19.7
Deferred tax asset due within one year (Note 15)	(9.3)	(10.1)
Deferred tax asset due after one year (Note 15)	(12.1)	(2.4)
Deferred tax asset on pension funds (Note 6a)	(6.7)	(5.7)
	<b>(8.6)</b>	<b>1.5</b>

	Amount provided	
	2004 £m	2003 £m
<b>Group</b>		
Deferred taxation liability/(asset) derives from:		
Capital allowances	(5.8)	0.2
Other timing differences	(10.3)	(10.4)
Goodwill and other intangibles	14.2	17.4
Deferred tax asset on pension funds	(6.7)	(5.7)
	<b>(8.6)</b>	<b>1.5</b>

Deferred tax assets estimated at £10.7m (2003: £21.9m) 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 estimated at £1.1m (2003: £0.5m) have not been recognised in the company due to the degree of uncertainty over the utilisation of the underlying tax deductions.

**19 Provisions for liabilities and charges** continued

## b) Other

	Warranty £m	Other £m	Total £m
<b>Group</b>			
As at 1 January 2004	7.0	4.4	<b>11.4</b>
Exchange adjustments	(0.1)	(0.2)	<b>(0.3)</b>
Acquisition of subsidiary undertakings	0.5	0.3	<b>0.8</b>
Provided during the year	2.0	7.1	<b>9.1</b>
Utilised during the year	(0.9)	(9.4)	<b>(10.3)</b>
Released during the year	(0.4)	(0.8)	<b>(1.2)</b>
As at 31 December 2004	<b>8.1</b>	<b>1.4</b>	<b>9.5</b>

Warranty provisions include the group's standard terms and conditions which in general apply for a 12-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.

**20 Acquisition of businesses**

There were four acquisitions during the year 2004.

	Date of acquisition
Cintex Group Limited	30 January 2004
Molecular Analytics	13 February 2004
ALV Lasertriebgesellschaft mbH	18 March 2004
MTT	1 April 2004

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	Other fair value adjustments £m	Fair value £m
Tangible fixed assets	0.7	0.1	(0.1)	–	0.7
Stocks	3.6	(1.3)	(0.3)	–	2.0
Debtors	2.8	(0.6)	–	–	2.2
Creditors and provisions	(3.5)	–	–	(0.8)	(4.3)
Net assets acquired	3.6	(1.8)	(0.4)	(0.8)	0.6
Goodwill					9.8
Total consideration					10.4
Deferred consideration					(0.7)
Net cash consideration paid in the year					<b>9.7</b>

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

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

Debtors have been revalued to take account of the amounts expected to be received.

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

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

	£m
<b>Acquisition in the year</b>	
Consideration paid in the year	8.4
Expenses	1.3
	<b>9.7</b>

**20 Acquisition of businesses** continued

	£m
<b>Prior year acquisitions</b>	
Final settlement in relation to Bohlin acquisition	0.4
Deferred consideration in relation to Lumitron acquisition	0.3
	<b>10.4</b>

The acquisitions made in 2004 contributed £20.5m of turnover and an operating loss of £1.7m in the year ended 31 December 2004.

**21 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 2004	124.1	6.2
Issued under share option schemes	0.2	–
As at 31 December 2004	124.3	6.2

During the year, 0.2 million ordinary shares were issued under share option schemes, giving rise to net proceeds of £0.7m.

**Share options**

Options have been granted to subscribe for ordinary shares of Spectris plc and those outstanding at 31 December 2004 were as follows:

	Granted	Number of shares thousands	Subscription price £	Exercise period
Savings related share option schemes	1999	39	3.96	2005
	2001	32	3.58	2005
	2002	65	3.43	2006
	2003	60	4.69	2007
	2004	123	4.08	2008
Total shares and weighted average price		319	4.00	
Executive share option schemes	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	17	6.19	2000–2007
	1997	9	6.19	2000–2007
	1997	12	6.61	2000–2007
	1998	44	5.51	2001–2008
	1998	6	5.51	2001–2008
	1998	6	0.05	2002–2005
	1998	10	2.39	2001–2008
	1998	5	2.39	2001–2008
1998	23	0.05	2002–2005	
1998	13	3.85	2001–2008	
1999	9	4.34	2002–2009	
1999	26	3.96	2002–2009	

**21 Share capital** continued

	Granted	Number of shares thousands	Subscription price £	Exercise period
	2000	9	5.13	2003–2010
	2000	1	5.13	2003–2010
	2000	114	5.25	2003–2010
	2000	73	5.25	2003–2010
	2001	43	4.99	2004–2011
	2001	126	3.58	2004–2011
	2001	12	3.58	2004–2011
	2001	64	3.58	2004–2011
	2003	41	4.69	2006–2013
	2004	206	4.06	2007–2014
Total shares and weighted average price		997	4.40	

**Options to be satisfied by shares that are held by the Employee Benefit Trust**

	Granted	Number of shares thousands	Subscription price £	Exercise period
	1996	103	6.62	1999–2006
	1996	3	6.38	1999–2006
	1997	117	5.39	2000–2007
	1997	39	6.19	2000–2007
	1998	95	5.51	2001–2008
	1998	5	5.51	2001–2008
	1998	97	2.39	2001–2008
	1998	7	2.39	2001–2008
	1999	82	3.22	2002–2009
	1999	68	3.96	2002–2009
	1999	1	3.96	2002–2009
	2000	224	5.13	2003–2010
	2000	276	5.25	2003–2010
	2000	27	5.25	2003–2010
	2001	243	4.99	2004–2011
	2001	367	3.58	2004–2011
	2001	34	3.58	2004–2011
	2003	162	2.79	2006–2013
	2003	182	2.79	2006–2013
	2003	137	4.69	2006–2013
	2003	127	4.69	2006–2013
	2004	124	4.62	2007–2014
	2004	124	4.62	2007–2014
Total shares and weighted average price		2,644	4.40	

**22 Reserves**

	Share premium account	Merger reserve	Capital redemption reserve	Special reserve	Profit and loss account (restated)	Total
	£m	£m	£m	£m	£m	£m
<b>Group</b>						
As at 1 January 2004	227.1	3.1	0.3	–	(32.3)	<b>198.2</b>
Prior year adjustment (see Note below)	–	–	–	–	(15.0)	<b>(15.0)</b>
As at 1 January 2004 as adjusted	227.1	3.1	0.3	–	(47.3)	<b>183.2</b>
Exchange adjustment	–	–	–	–	0.9	<b>0.9</b>
Premium on issues of shares	0.7	–	–	–	–	<b>0.7</b>
Retained profit	–	–	–	–	7.2	<b>7.2</b>
Disposal of own shares	–	–	–	–	0.1	<b>0.1</b>
Actuarial loss arising on pension schemes	–	–	–	–	(3.4)	<b>(3.4)</b>
Tax attributable to actuarial loss	–	–	–	–	1.1	<b>1.1</b>
As at 31 December 2004	<b>227.8</b>	<b>3.1</b>	<b>0.3</b>	<b>–</b>	<b>(41.4)</b>	<b>189.8</b>
<b>Company</b>						
As at 1 January 2004	227.1	3.1	0.3	34.1	16.7	<b>281.3</b>
Prior year adjustment (see Note below)	–	–	–	–	(15.0)	<b>(15.0)</b>
As at 1 January 2004 as adjusted	227.1	3.1	0.3	34.1	1.7	<b>266.3</b>
Premium on issues of shares	0.7	–	–	–	–	<b>0.7</b>
Disposal of own shares	–	–	–	–	0.1	<b>0.1</b>
Other	–	–	–	–	(0.4)	<b>(0.4)</b>
Retained profit	–	–	–	–	11.6	<b>11.6</b>
As at 31 December 2004	<b>227.8</b>	<b>3.1</b>	<b>0.3</b>	<b>34.1</b>	<b>13.0</b>	<b>278.3</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 (2003: £283.1m).

The profit and loss account includes a deficit of £14.0m (2003: deficit of £12.0m) net of a deferred tax asset of £6.7m (2003: asset of £5.7m) in respect of the group's pension schemes.

The adoption of UITF 38, Accounting for ESOP trusts, in the year ended 31 December 2004 has had the effect of presenting the shares held by the Spectris plc Employee Benefit Trust within reserves rather than fixed asset investments. The comparative balance sheet has been restated and consequently fixed asset investments and the profit and loss account reserve have been adjusted by £15.0m as at 1 January 2004 (1 January 2003: £15.3m). There was no adjustment to the current or prior year results or statement of total recognised gains or losses as a result of adopting UITF 38.

The Spectris plc Employee Benefit Trust ("EBT") holds ordinary 5p shares in Spectris plc for the purpose of satisfying obligations under the 1996 Executive Share Option Plan for the benefit of the group's employees. The EBT held 3.2 million shares at 31 December 2004 (2003: 3.3 million) at a cost of £14.2m (2003: £14.3m). The market value of the EBT's shares at 31 December 2004 was £12.3m (2003: £13.9m).

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.

The net amount of exchange gains on foreign currency borrowings taken directly to reserves was £3.3m (2003: loss of £2.7m).

**23 Reconciliation of movements in equity shareholders' funds**

	2004 £m	2003 £m
<b>Group</b>		
Profit for the financial year	24.7	26.0
Dividends – equity	(17.5)	(16.1)
	7.2	9.9
Exchange adjustments	0.9	8.1
New share capital subscribed	0.7	0.8
Actuarial revaluation of pension funds	(3.4)	(4.5)
Tax attributable to actuarial loss	1.1	1.4
Disposal of own shares	0.1	0.3
Net increase in equity shareholders' funds	6.6	16.0
Opening equity shareholders' funds (originally £204.4m before deducting prior year adjustment of £15.0m – see Note 22)	189.4	173.4
Closing equity shareholders' funds	196.0	189.4
<b>Company</b>		
Profit for the financial year	29.1	21.3
Dividends – equity	(17.5)	(16.1)
	11.6	5.2
New share capital subscribed	0.7	0.8
Disposal of own shares	0.1	0.3
Other	(0.4)	0.4
Net increase in equity shareholders' funds	12.0	6.7
Opening equity shareholders' funds (originally £287.5m before deducting prior year adjustment of £15.0m – see Note 22)	272.5	265.8
Closing equity shareholders' funds	284.5	272.5

**24 Reconciliation of operating profit to net cash inflow from continuing operating activities**

	2004 £m	2003 £m
Operating profit	52.2	47.4
Depreciation	13.4	13.0
Goodwill amortisation	13.0	12.4
Patent amortisation	0.1	–
Loss/(profit) on sale of tangible fixed assets	0.4	(0.3)
Increase in stocks	(9.3)	(2.1)
Increase in debtors	(15.0)	(4.8)
Increase in creditors	11.9	3.0
Decrease in provisions	(2.4)	(3.8)
Net cash inflow from operating activities	64.3	64.8

**25 Reconciliation of net cash flow to movement in net debt**

	2004 £m	2003 £m
Increase/(decrease) in cash in the year	2.6	(5.6)
(Increase)/decrease in loans	(1.5)	22.0
Change in net debt resulting from cash flows	1.1	16.4
Other non-cash items:		
Exchange movements	3.4	(2.3)
Movement in net debt in the year	4.5	14.1
Net debt at 1 January	(163.4)	(177.5)
Net debt at 31 December	(158.9)	(163.4)

**26 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 2004	31.7	(0.8)	(194.3)	(163.4)
Cash flow	2.6	0.5	(2.0)	1.1
Other non-cash movements:				
Exchange movements	0.1	–	3.3	3.4
As at 31 December 2004	34.4	(0.3)	(193.0)	(158.9)

**27 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:

	2004		2003	
	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	(0.3)	(0.3)	(0.8)	(0.8)
Medium and long-term borrowings	(193.0)	(193.0)	(194.3)	(194.3)
Cash deposits	34.4	34.4	31.7	31.7
Derivative financial instruments held to manage the interest rate and currency portfolio:				
Cross currency interest rate swap	(0.3)	(37.5)	0.1	(22.4)
Average rate option	–	1.7	–	1.8
Forward exchange contracts	–	1.1	–	–
	(159.2)	(193.6)	(163.3)	(184.0)

**27 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			2004 Net financial assets/ (liabilities) £m
	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	0.6	0.1	0.7	–	(0.3)	(0.3)	<b>0.4</b>
Euro	24.1	5.5	29.6	(140.2)	–	(140.2)	<b>(110.6)</b>
US dollar	0.1	1.1	1.2	(52.0)	(0.8)	(52.8)	<b>(51.6)</b>
Japanese yen	0.3	1.3	1.6	–	–	–	<b>1.6</b>
Other	0.1	1.2	1.3	–	–	–	<b>1.3</b>
	<b>25.2</b>	<b>9.2</b>	<b>34.4</b>	<b>(192.2)</b>	<b>(1.1)</b>	<b>(193.3)</b>	<b>(158.9)</b>

  

	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	–	–	–	3.6
Euro	9.4	3.1	12.5	(137.3)	–	(137.3)	(124.8)
US dollar	2.2	0.1	2.3	(56.1)	(1.2)	(57.3)	(55.0)
Japanese yen	0.2	1.9	2.1	–	–	–	2.1
Other	10.4	0.8	11.2	–	(0.5)	(0.5)	10.7
	<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>

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, and their maturity profiles, are given in Note 18.

**c) Currency exposure of monetary assets and liabilities**

The table below shows the net unhedged assets and liabilities of group companies at 31 December 2004 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)					2004 Total £m
	Sterling £m	Euro £m	US dollar £m	Japanese yen £m	Other £m	
Sterling	–	2.3	1.6	1.3	7.1	<b>12.3</b>
Euro	6.6	–	0.3	0.1	0.2	<b>7.2</b>
US dollar	0.1	1.1	–	–	9.7	<b>10.9</b>
Japanese yen	–	–	(0.5)	–	(0.3)	<b>(0.8)</b>
Danish krone	0.4	7.2	7.0	1.4	1.9	<b>17.9</b>
Swiss franc	0.2	4.3	0.2	–	0.5	<b>5.2</b>
Swedish krona	0.2	0.6	0.1	–	0.5	<b>1.4</b>
Other	2.0	1.3	1.5	–	4.4	<b>9.2</b>
	<b>9.5</b>	<b>16.8</b>	<b>10.2</b>	<b>2.8</b>	<b>24.0</b>	<b>63.3</b>

**27 Financial risk management** continued**c) Currency exposure of monetary assets and liabilities continued**

Functional currency of group operations	Net currency monetary assets/(liabilities)					2003 Total £m
	Sterling £m	Euro £m	US dollar £m	Japanese yen £m	Other £m	
Sterling	–	6.4	(1.2)	1.0	7.9	14.1
Euro	0.3	–	0.4	0.1	–	0.8
US dollar	0.1	1.5	–	–	0.2	1.8
Japanese yen	–	(0.1)	(0.3)	–	(0.3)	(0.7)
Danish krone	1.0	8.4	5.9	0.1	2.0	17.4
Swiss franc	–	3.5	0.1	–	–	3.6
Swedish krona	0.2	0.6	0.1	0.1	0.4	1.4
Other	(0.3)	0.6	0.9	–	2.0	3.2
	1.3	20.9	5.9	1.3	12.2	41.6

**d) Hedges**

	2004			2003		
	Gains £m	Losses £m	Total £m	Gains £m	Losses £m	Total £m
As at 1 January	1.8	(22.4)	(20.6)	2.3	(2.2)	0.1
Arising in previous year that were recognised in the year	(1.8)	–	(1.8)	(2.3)	0.1	(2.2)
	–	(22.4)	(22.4)	–	(2.1)	(2.1)
Arising in the year that were not recognised in the year	2.8	(15.1)	(12.3)	1.8	(20.3)	(18.5)
As at 31 December	2.8	(37.5)	(34.7)	1.8	(22.4)	(20.6)
Expected to be recognised in one year or less	2.8	–	2.8	1.8	–	1.8
Expected to be recognised in more than one year	–	(37.5)	(37.5)	–	(22.4)	(22.4)
	2.8	(37.5)	(34.7)	1.8	(22.4)	(20.6)

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

**28 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.

**29 Commitments**

	2004		2003	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Annual commitments for operating leases expiring:				
In less than one year	1.1	0.8	0.8	0.7
Between two and five years	2.2	1.8	3.4	1.4
After five years	1.1	–	3.0	–
	4.4	2.6	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	
	2004 £m	2003 £m	2004 £m	2003 £m
Capital commitments	2.2	2.0	–	–

### 30 Contingent liabilities

Group companies have given indemnities to the Royal Bank of Scotland in respect of guarantees, negotiations and foreign exchange facilities of which £4.9m (2003: £5.7m) was outstanding at 31 December 2004.

The group has, in the ordinary course of business, provided indemnities to JP Morgan Chase NA in respect of outstanding letters of credit of which £0.9m (2003: £1.1m) was outstanding at 31 December 2004.

The group has, in the ordinary course of business, provided indemnities to ABN AMRO Bank NV in respect of outstanding trade finance facilities of which £5.1m (2003: Enil) was outstanding at 31 December 2004.

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

### 31 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
Arcom 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