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Productivity-enhancing instrumentation and controls

Spec

2002 Preliminary Results

Hans Nilsson - Chief Executive

Graham Zacharias - Finance Director

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2002 highlights

Hans Nilsson

2002 financial results

Graham Zacharias

Performance and markets

Hans Nilsson

Outlook

Hans Nilsson

- Robust trading performance: year-on-year H2 profits up (18% incl. PANalytical, 4% excl. PANalytical)
- Strong operating cash generation
- Successful PANalytical acquisition
- Gross margins maintained
- Year-on-year cost savings of £13m
- Dividend increased by 4%

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Financial Results

Graham Zacharias
Finance Director

£m	2002	2001
Sales	490.1	543.1
Operating profit*	50.7	60.7
Profit before tax*	42.5	50.4
Earnings per share*	28.1p	33.8p
Dividend	12.75p	12.25p

**before exceptional items and goodwill amortisation
2001 eps has been restated following adoption of FRS19*

Performance by sector

£m	2002			2001		
	Sales	Profit*	Operating margin (%)	Sales	Profit*	Operating margin (%)
Electronic controls	117.6	13.0	11.1	119.8	13.4	11.2
In-line instrumentation	172.7	18.6	10.8	193.8	21.2	11.0
Process technology, excl. PANalytical	160.7	15.8	9.8	196.0	23.1	11.8
PANalytical	32.6	4.1	12.6			
Total ongoing operations	483.6	51.5	10.6	509.6	57.7	11.2
Businesses sold	6.5	(0.8)		33.5	3.0	
Total	490.1	50.7		543.1	60.7	

**before exceptional items and goodwill amortisation*

- Taxation
 - FRS 19, Deferred Taxation, implemented
 - Lower effective tax rate:
 - Income mix weighted towards lower tax jurisdictions, eg Switzerland, China
 - Tax optimisation initiatives

- FRS 17
 - Adopted in full from 2001
 - Operating overhead charge £0.6m (2001: £0.4m) offset by financing credit of £0.7m (2001: £0.8m)
 - Net pension liability of £9m (2001: £0.9m net asset)
 - Cash cost to increase by approx £0.7m to £1.0m in 2003

- PANalytical fair value adjustments
 - £6.6m primarily to align with Spectris accounting policies on stocks - cash impact expected to be ≤£0.2m

- Operating exceptional items:

£m	2002	2001
Restructuring	-	(12.0)
Compensation received/legal costs relating to patent infringement	1.0	(1.2)
Release of fair value provisions	<u>1.3</u>	<u>-</u>
	2.3	(13.2)

- Non-operating exceptional items:

Profit/(loss) on disposal of businesses	(12.9)	19.8
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£m	Headline	2002 Abnormal	Underlying	2001
Net cash inflow from operating activities	54.4	10.3	64.7	58.0
Capital expenditure	(19.9)	4.3	(15.6)	(29.8)
Fixed asset disposals	4.0		4.0	1.4
Tax	(4.5)		(4.5)	(12.8)
Interest	(8.7)		(8.7)	(11.4)
Free cash flow	<u>25.3</u>	<u>14.6</u>	<u>39.9</u>	<u>5.4</u>
Dividends			(14.0)	(11.5)
Acquisitions/disposals			(97.1)	31.1
Shares issued			41.5	0.4
Purchase of fixed asset investments			(2.1)	(4.3)
Exchange/other			(0.4)	<u>0.9</u>
Movement in net debt			<u>(46.0)</u>	<u>22.0</u>
Cash conversion			105%	93%

(Underlying operating cash flow after net capital expenditure as a % of operating profit)

(£m)	2002	2001
Net debt	177.5	131.5
Interest cover	5.7x	5.5x
Capital expenditure as % of sales		
▪ Underlying	3.2	3.4
▪ Abnormal	0.9	2.1

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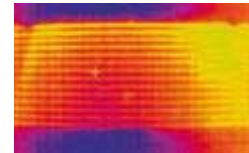
Performance and Markets

Hans Nilsson
Chief Executive

We deliver...

- Production efficiency
- Reduced downtime
- Less wastage
- Optimised product performance
- Reduced costs
- Accelerated new product development cycles

enhanced productivity...

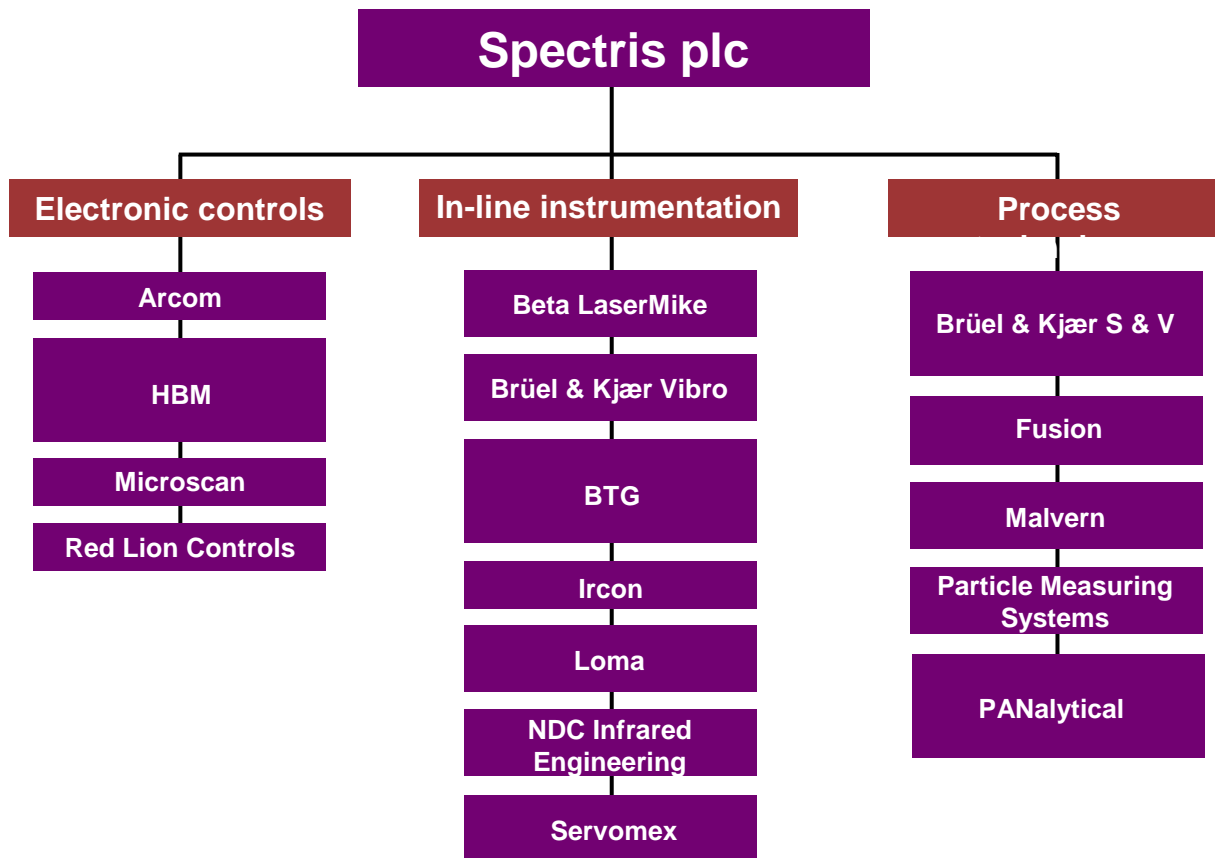


with rapid payback

through precision instrumentation and controls:

- In situ measurement:
 - thickness
 - moisture
 - consistency
 - diameter
 - weight
- Particle characterisation
- Contamination detection
- X-ray analysis
- UV curing
- Electronic controls
- Sound & vibration analysis

Customer-centred structure and processes



Each unit serves its own distinct customer base

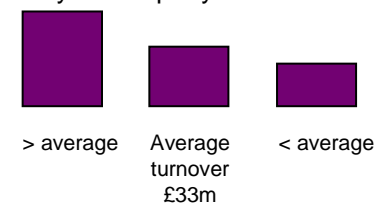
Group

- Behaviour and incentives
- Best practice transfer
- Financial leverage and security

Operating company

- Strong ownership and accountability
- Fast and clear decision making
- Build and preserve customers':
 - applications knowledge
 - loyalty
 - confidence

Key to company size



Strong competitive positions

- #1 or 2 for 80% of sales
- Strong brands
- Strong global access, mostly direct
- Customer-centred structure and processes



Applications know-how

- Applications and process expertise
- Proprietary technology on standard platforms
- High degree of repeat business

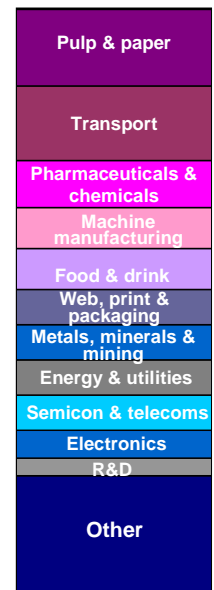
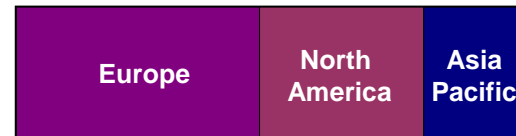


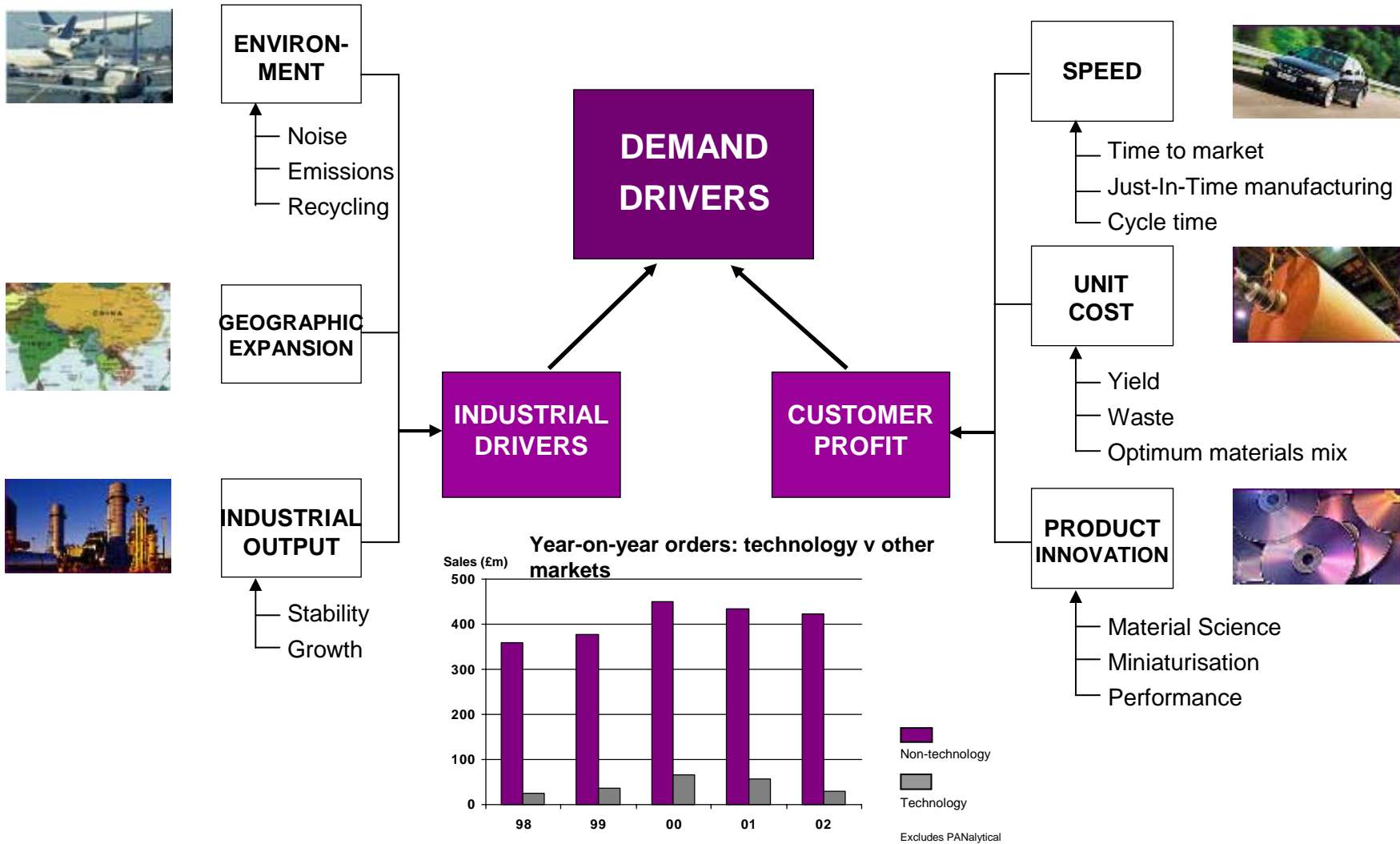
Real value to customers...

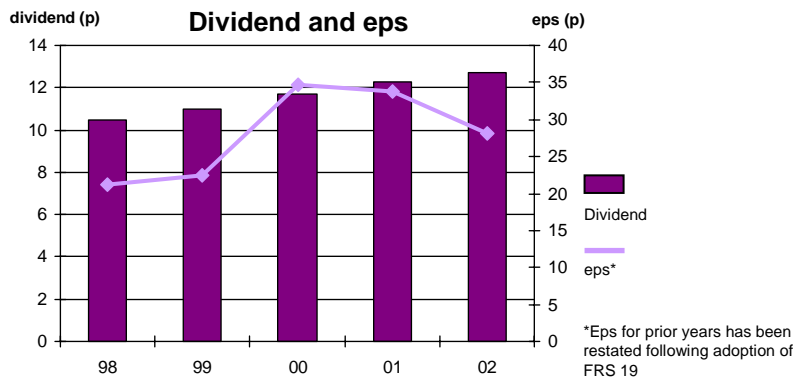
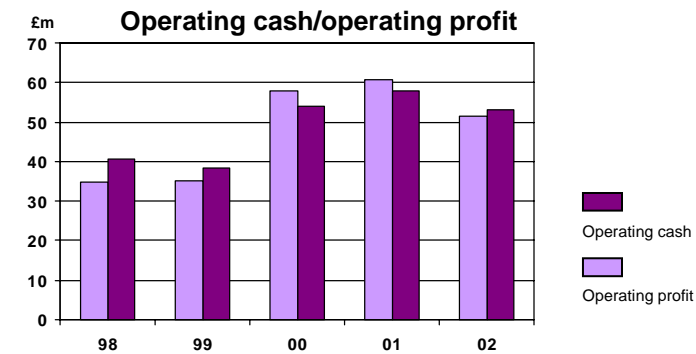
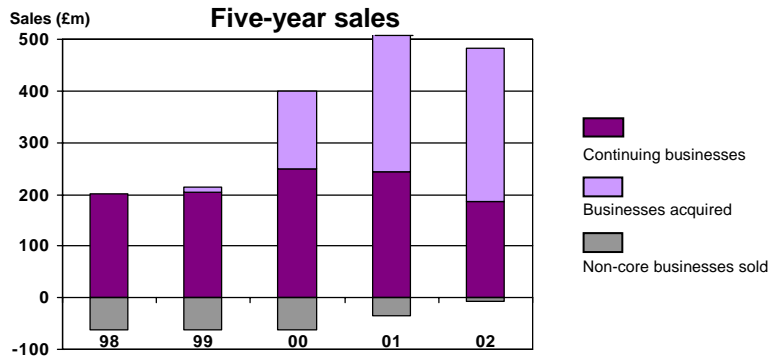
- Small capex, rapid payback to end users
- Tailored applications

... with diversity

- ~80% of sales to existing capacity
- No market sector >15%, no customer >1%
- Good geographical balance



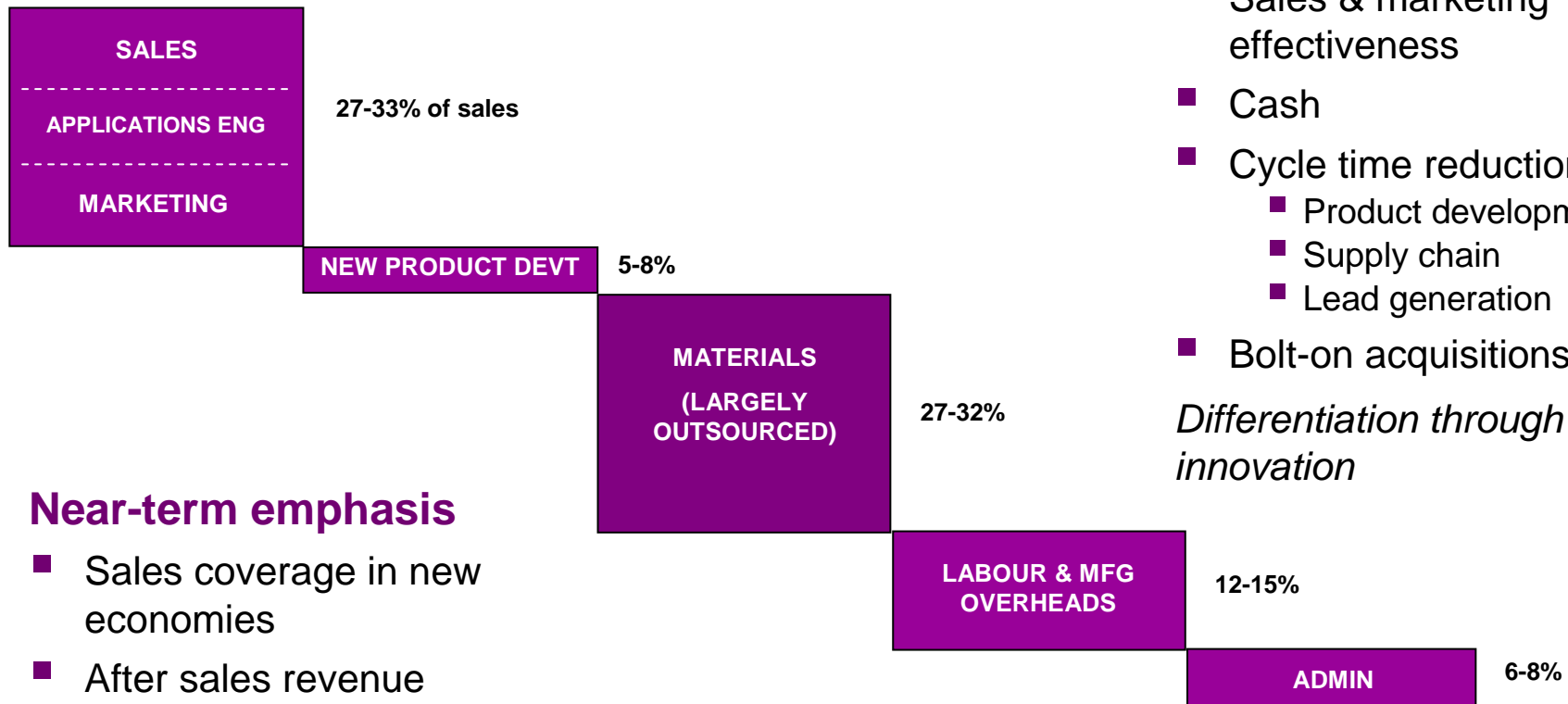




Key parameters for continuing operations

	98	99	00	01	02
Gross margin %	Gross margins maintained in mid-fifties				
R&D expenditure (£m)	16	17	26	30	30
Sales by destination: (% total sales)					
North America	50	50	41	33	31
Europe	35	34	39	45	46
Asia	11	12	16	18	20
Aftersales, service & consumables (% total sales)	15	17	16	20	22
Average size of operating units (£m)	16	17	28	31	33
Acquisitions		Servomex	Brüel & Kjær S&V Brüel & Kjær Vibro BTG HBM		PANalytical

Operationally geared



Permanent focus

- Sales & marketing effectiveness
- Cash
- Cycle time reduction:
 - Product development
 - Supply chain
 - Lead generation
- Bolt-on acquisitions

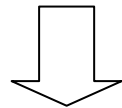
Differentiation through innovation

Near-term emphasis

- Sales coverage in new economies
- After sales revenue
- Material cost

% range refers to operating companies

- Improved order book going into 2003 compared with 2002
- No visible inflection points at the moment, but North America hesitant
- Some overhead inflation
- Full year contribution from PANalytical



- Performance to improve in 2003

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Productivity-enhancing instrumentation and controls