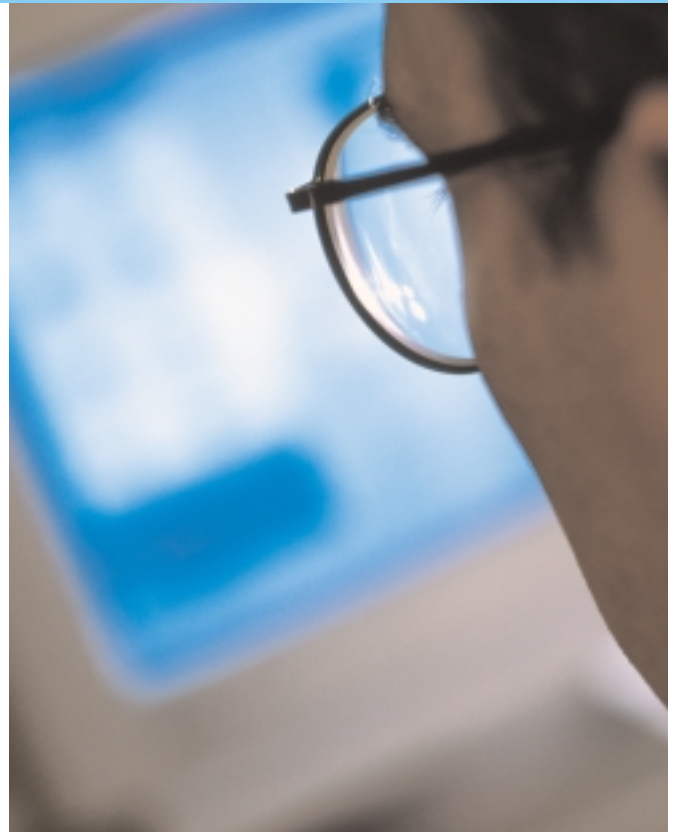


Fairey Group plc

Instrumental to performance

Report and Accounts 2000



Group profile

Fairey Group is a leading supplier of specialist technology-based instrumentation and electronic controls. We drive growth through clearly understanding our customers' requirements and using our intellectual know-how to develop solutions for them which create competitive advantage. Our businesses are leaders in their specialised markets and work with customers in diverse industries on a worldwide basis. Our management philosophy, high-calibre employees and operating culture are the keys to the success of our business.

Instrumental to our customers

Fairey Group uses technology to develop solutions for customers which improve quality, increase productivity, reduce downtime, eliminate waste and enhance throughput.

Front cover

A rowing telemetry system has been developed with the help of an Arcom embedded PC board. The system monitors the force applied over each oar stroke and relays the data to a display in the coaching launch, enabling individual rowers to improve their own performance and work together more efficiently as a team.



Delivering on strategy

- Organic sales growth of 24%
- Product gross margins maintained despite euro and yen weakness
- Continuing strong cash generation
- Spectris acquisition provides an immediate earnings-enhancing contribution

Financial highlights

	2000	1999
Sales	£464.0m	£275.3m
Operating profit *	£58.6m	£35.3m
Normalised earnings per share *	34.6p	22.4p
Dividend per share	11.7p	11.0p

*Before exceptional items and goodwill amortisation

Sales (£m)



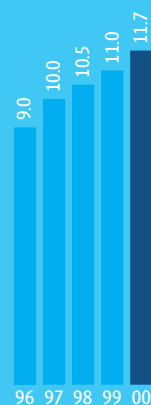
Operating profit* (£m)



Earnings per share* (pence)



Dividends per share (pence)



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We invest heavily in product and process development and have a record of innovation, developing core technologies which are protected by patents. Working closely with customers means that we can apply these technologies to create application-specific solutions tailored to the customer's exact requirements. These solutions are based on standard platforms using customised software which enables real-time monitoring and analysis of data.

Improving the quality of life

Manufacturers in a wide range of industries use Brüel & Kjær's technology to make products sound better or different and give them competitive advantage. In the telecoms industry, Brüel & Kjær's handset positioner simulates the behaviour of a mobile phone user, enabling manufacturers to

test the style and feel of a handset by finding the best position for the mouthpiece and determining the effects of background noise. Sophisticated software enables test data to be captured, analysed and integrated into the customer's own systems.

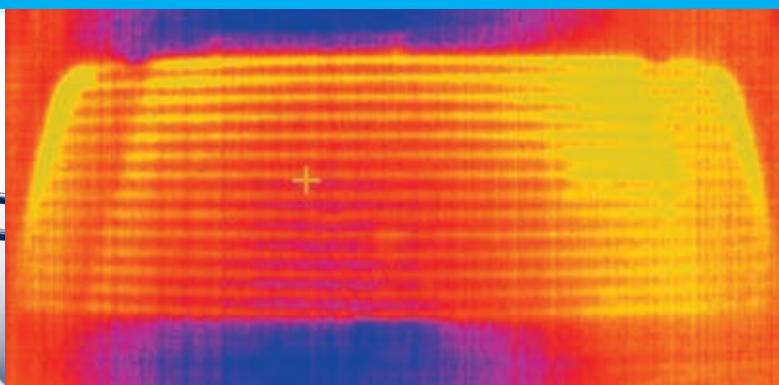
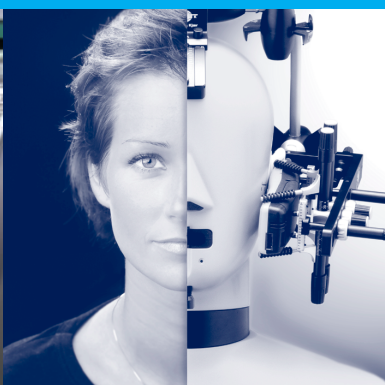
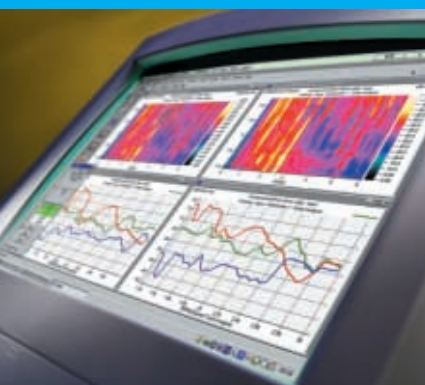
Advanced inspection processes

Using the latest technology, Ircan's thermal imaging system inspects rear windscreen heater elements in just two seconds. A camera gathers infrared radiation data from the embedded heater and transmits it for computer comparison with a master image. The heater is rejected if any hot spots or broken lines are found.



Sound solutions

Increased focus on the environment, in particular noise pollution from road traffic, construction sites and airports, has led to strict legislation in many countries which makes noise monitoring compulsory. Brüel & Kjær's sound and vibration technology is being used to measure and analyse the noise from different types of tyre on a variety of road surfaces, which will lead to quieter motoring.



Instrumental to performance

Visibly better results

Consistent distribution of toner particles is critical in achieving the improved image quality and lower operating costs being demanded by users of colour printers and photocopiers. Malvern's particle size analyser helps toner manufacturers to achieve maximum image resolution whilst minimising product cost and environmental impact.



We increase demand for our products by developing applications that deliver tangible value to customers. The benefits to the customer include better product performance, improved productivity, higher yield, reduced downtime and less waste.



Improving paper quality

With modern paper machines reaching coating speeds of up to 1,750 metres per minute the cost of lost production is prohibitive. BTG's Duroblade is a high-performance, ceramic-tipped coating blade which requires no run-in time and has a longer lifetime, meaning fewer

blade changes and less downtime. The resulting improvements in paper quality and productivity lead to substantial savings for the paper manufacturer.

Consistent material performance

The particle size of the active ingredient in a drug is critical to administering a uniform dose in each tablet. Malvern's on-line analyser ensures that the particle size distribution is correct for the drug formulation, allowing tablets to be dissolved and the drug to be absorbed effectively.



Instrumental to performance



Our instrumentation and electronic control systems can be found in most industries. Many of these are high growth markets, including telecoms, semiconductors and pharmaceuticals. We have been able to grow sales in other markets by developing new applications based on our existing technologies which enable customers to produce new or enhanced products.

A leading player

The use of ultraviolet (UV) curing, in which intense UV light instantly cures or "dries" inks, is growing by more than 10% a year. Fusion's UV process enables brightly-coloured, scratch-resistant coatings to be applied to CDs and DVDs. The UV process is also used for bonding together the two layers of a DVD.



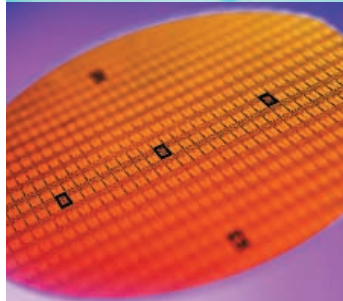
High performance coatings

Automotive parts such as headlamps and reflectors are manufactured using UV curing to produce hard, scratch-resistant coatings. Future opportunities exist to extend this technology to create weather-proof coatings for vehicles.



Preventing contamination

The introduction of new 300mm silicon wafers in the semiconductor industry requires significant investment in new fabrication plants and processes. As the wafers become more complex and expensive, the need to avoid contamination grows. Particle Measuring Systems uses laser devices to detect contaminant particles on the wafer, making the instrumentation essential for every semiconductor manufacturer.



Our interface with customers is key to sustaining leadership and growth. Technology application teams work with the customer to identify the challenges faced and develop solutions. We also offer customer-specific applications support and service, such as instrument calibration, from locations around the world.

Networked solutions

The internet has enabled companies to obtain up-to-the-minute information from various sources. Arcom Control Systems has developed communications processors which are configured to individual customers' requirements, enabling monitoring and diagnostic functions to be carried out remotely using the internet.

High performance measurement

Under pressure to produce large volumes of high performance optical fibre, customers need a dedicated system that will give them accurate, repeatable measurements. Beta LaserMike's engineers have helped a major optical fibre manufacturer to develop a process for measuring

extremely fine samples of a new type of photonic component which improves the signal-carrying capacity of the fibre.



The meeting of minds

As technology advances, so does the demand for innovative manufacturing solutions. Traffic over global telecoms networks is set to grow between 10 and 25 times in the next two years, and the telecoms infrastructure is becoming more complex. Both Beta LaserMike and Arcom are working with customers to help them exploit the opportunities this growth brings and meet the goals of volume, quality and competitive pricing.



The fundamental strengths of our business and the recent substantial investments in technology and marketing were rewarded by a strong increase in trading performance in 2000.



Sir Robin Biggam

As I indicated at the interim stage, the fundamental strengths of our business and the recent substantial investments in technology and marketing were rewarded by a strong increase in trading performance in 2000.

Impressive organic sales growth of 24%, combined with the impact of the mid-year acquisition of Spectris AG, delivered a substantial 66% uplift in operating profits before exceptional items and goodwill amortisation. Normalised earnings per share increased by 54% to 34.6p (22.4p). It is proposed to pay a final dividend of 8.15p, making a total of 11.7p, an increase of 6%.

Cash generation, measured by the proportion of operating profit converted into operating cash after accounting for net capital expenditure, was 103% in the Fairey companies, but lower in Spectris where improvement can be expected in the future.

The acquisition of Spectris AG in July produced an excellent contribution during the first six months of our ownership and significantly improved earnings per share (before goodwill amortisation) in spite of the increase in shares. We expect this benefit from Spectris to be maintained, although profits will continue to be biased towards the second half of the year.

Year end net debt was £153.5m and interest was covered 7.7 times. The peripheral businesses in Spectris referred to in the interim statement have been sold for £18.7m, although the majority of the cash was received only after the year end.

Our main activities performed well, as shown in the attached statements. These are reviewed in detail in the Chief Executive's report. The performance, relative to 1999, of the filtration segment was rather disappointing, reflecting tighter market conditions, particularly in the aerospace market. The units involved have produced consistently good sales and profits over a long period but have become progressively removed from the main focus of the group on the higher growth instrumentation and electronics sectors. It is felt that these businesses will prosper more effectively under owners more comprehensively involved in similar

activities and we expect to dispose of the filtration businesses during the first half of this year.

At the AGM the Board will be submitting a resolution to change the name of the company. Given the long and illustrious history of the business, the Fairey name is inextricably associated by many with UK aviation and engineering. The reshaping of the group makes it an appropriate time to adopt a name which reflects more closely the group's focus on providing innovative technology for the improvement of customers' performance worldwide.

Spectris is the parent company name of the businesses acquired by Fairey last year. The name Spectris already has recognition in many global markets and provides the opportunity to adopt a name which, along with trademarks and website domains, the company already owns.

It is therefore proposed that the company name be changed to Spectris plc, which reflects the transformation into a specialist technology-based instrumentation and electronic controls group which has 90% of its business outside the UK.

Overall, like-for-like orders in January and February were usefully ahead of those in the equivalent period of the prior year, although some specific US markets, particularly in semiconductors and electronics, are slowing down. However, our semiconductor activities now comprise less than 10% of the enlarged group and the acquisition of Spectris has provided a good geographical balance.

In the absence of a prolonged US downturn affecting other economies, the strong momentum in the group, together with the continuing benefits from the Spectris acquisition, leads us to expect a further improvement in performance in 2001.

As announced in December, I shall be retiring from the Chairmanship and the Board after the forthcoming AGM and will be succeeded by John Poulter. Hans Nilsson will succeed him as Chief Executive at the same time.

I have enjoyed my stewardship of Fairey and I leave the group in the hands of a team that has already demonstrated the qualities required for success and which will, I am sure, address the challenges of the future. The group has enjoyed an excellent year and I should like to extend to my Board colleagues and everyone in the group my very best wishes for continuing success.



Sir Robin Biggam
Chairman

Our management teams are well positioned with consistent strategy and tactics to deliver further good performance in 2001.



John Poulter

2000 was a year of better sales and enhanced performance in most geographical areas. Our businesses enjoyed good demand and the benefits of many past initiatives to develop the group.

In aggregate, gross margins were maintained despite the price and margin disadvantages flowing from the currency effects of our US and UK-based businesses exporting into the Euro zone. This performance underlines the strength of the group's market positions. The group benefited in sterling terms from translation of dollar profits which more than compensated for European transaction losses. Cash generation was strong.

Sector Results

Process Instrumentation

The process instrumentation business produced a substantial boost in sales and profits. The improvement in performance was spread across the many application areas of the group and was achieved against a background of dull demand in some customer industries. The efforts in the recent past to develop new products and, of equal importance, to develop new applications, have benefited operations such as Ircon, Beta LaserMike, Malvern and Fusion. The group continues to invest in new products and applications and in marketing and sales in rapidly developing geographical markets, notably in Asia Pacific. The companies exposed to the semiconductor industry benefited from the strong recovery in demand as the cycle moved forward through the year. Our other businesses all made progress and the sector like-for-like growth figure of 23% included organic growth of 18% in the non-semiconductor related business.

Operating margins in process instrumentation improved significantly in the second half to 13.8%.

Servomex, acquired in 1999, delivered an improved result as the petrochemical market started to show signs of life late in the year.

Spectris Companies

Considerable progress was made with the Spectris acquisition and its subsequent reorganisation. The head office has been eliminated and a sense of focus introduced into the four units, all of which enjoyed satisfactory trading in the first period of ownership. Operating margins exceeded 10%, and the cost base will be further improved by shortened lines of communication following the elimination at the beginning of 2001 of the inherited sales matrix organisation. The sale of the peripheral operations, principally a speciality valve business, has been completed since the year end. Working capital utilisation is some way behind that of our existing operations and the restructuring should also improve the working capital to sales ratio.

We are pleased with the progress made in integrating the Spectris businesses although they exhibit a seasonality bias towards the second half of the year. There are continuing opportunities which will be addressed, not only for internal efficiency improvement, but for greater market penetration in areas where the businesses are under-represented. Cumulative exceptional costs are not now expected to exceed £10m by the end of 2001, while expected full year savings are unchanged.

Electronic Controls

Electronic controls did well. Strong growth at Arcom in remote telemetry products, albeit with margins restrained by continued marketing investment, good new product-induced growth at Microscan and another solid performance from Red Lion Controls combined to deliver results consistent with those reported in the first half.

Filtration

The filtration businesses, having suffered less in the 1998/99 downturn, produced a fundamentally creditable performance. As noted in the Chairman's statement, these businesses have served

the company well but, particularly after the Spectris acquisition, are not central to the group's strategy. The decision to divest (barring the nuclear fuel canister business which is approaching a conclusion) is consistent with the overall strategy. The interests of these operations and their managements and employees are likely to be better served under ownerships more specifically focused on the areas and technologies in which they operate.

Following the Spectris acquisition and the anticipated filtration disposals, the group is now clearly focused on instrumentation and controls and with a good balance geographically, both by origin and destination.

Outlook

A full year contribution from the Spectris businesses, together with the strong order books and momentum with which the company entered 2001, provides an encouraging platform for progress. Like-for-like orders overall in the first two months are usefully up on the same period in the prior year. The US shows a weakening of demand from semiconductor and electronics customers but this now represents less than 10% of our enhanced controls and instrumentation sectors. The magnitude of the US economic slowdown and the extent to which it will affect other economies remains to be seen, but our management teams are well positioned with consistent strategy and tactics to deliver further good performance.



John Poulter
Chief Executive



Chairman

Sir Robin Biggam †

Sir Robin Biggam joined the Board in 1995 and was appointed Chairman in 1996. He is also Chairman of the Independent Television Commission and a non-executive director of British Energy plc and BAE Systems plc. Sir Robin will relinquish the role of Chairman in May. Age 62.



Chief Executive

John Poulter

John Poulter, a natural sciences graduate, joined Fairey as Group Managing Director in 1988. He was appointed Chief Executive at the beginning of 1992 and will assume the role of Chairman in May. He is a non-executive director of Kidde plc and Lloyds Smaller Companies Investment Trust plc. Age 58.

Executive directors

Hans Nilsson

Chief Operating Officer

Hans Nilsson joined Fairey in 1997 and is responsible for the operational supervision of a number of the group's trading companies. He will assume the role of Chief Executive in May. He is an electronic engineering graduate, with an MBA from Stanford. He was previously the European managing director of Flextronics International, prior to which he held positions at Hewlett Packard and ABB. Age 45.

Graham Zacharias

Group Finance Director

Graham Zacharias, a modern languages graduate and chartered accountant, joined Fairey in 1995 as Group Finance Director. He was previously with BTR plc where he was finance director of the Aerospace Group. Prior to that he worked with Bousteadco and Schlumberger. Age 50.

Paul Boughton

Business Development Director

Paul Boughton, a business economics graduate and chartered accountant, joined Fairey in 1991. He is responsible for acquisition and business development activities. Previously financial director of a private company, he was before that involved in acquisition work for Thermal Scientific plc. He is a non-executive director of London Bridge Software Holdings plc. Age 45.





Non-executive directors

Ron Williams †*

Ron Williams was appointed to the Board in 1995. His executive career has been mainly with Smiths Industries which he joined in 1959, was appointed to the board in 1988, and retired from in 1996 as Chairman of its Industrial Group. He is non-executive deputy chairman of Northgate plc. Age 67.

Peter Watson OBE

Dr. Peter Watson was appointed to the Board in 1997. Most of his career was with GKN plc, where he was responsible for product development as well as two operating divisions. He spent three years with British Rail as the board member responsible for engineering and is the Chief Executive of AEA Technology plc, a post he has held since 1994. Age 57.

Martin Lamb

Martin Lamb was appointed to the Board in 1999. An engineer, he has considerable business and technical experience both in the UK and North America. Much of his career has been spent with IMI plc, where he is Chief Executive. Age 41.

Company secretary

Jim Webster

Business Group Director

Jim Webster, a metallurgy graduate, joined Fairey in 1993. He is responsible for the operational supervision of a number of the group's trading companies. He was previously general manager of the European Wire and Cable Division of Raychem. He is a non-executive director of Telspec plc. Age 50.

Roger Stephens

Roger Stephens is an economics graduate and chartered company secretary. Prior to joining Fairey in 1997, he worked with Nuclear Electric on commercial and contractual matters, a project management consultancy and, latterly, was director of administration in a firm of lawyers specialising in commercial law. Age 40.

‡ Chairman of the remuneration and nomination committee

† Chairman of the audit committee

* Senior independent director



	2000	1999	1998
Sales (£m)	464.0	275.3	263.7
Operating profit before exceptional items and goodwill amortisation (£m)	58.6	35.3	34.7
Operating margin	12.6%	12.8%	13.2%

Headline sales rose by 69% including a maiden contribution from the Spectris acquisition. Underlying turnover of existing businesses increased by 24%, consolidating the progress achieved in the first half of 2000.

Operating profit (before exceptional items and goodwill amortisation) matched sales and increased 66% while, on a like-for-like basis, profit rose 27%.

Operating margins, which were 12.6% in the first half, improved to 14.3%, excluding Spectris, in the second half. At the same time operating margins at Spectris rose to 10.6% from the 7.6% reported in 1999 as a result of strong sales volumes and cost savings chiefly associated with the elimination of the head office function.

Acquisitions

On 3 July 2000, the group acquired control of Spectris AG in Germany for £169.5 million, funded to the extent of £55.6 million by way of a rights issue, the balance representing debt assumed and new debt taken on.

Disposals

On 30 June 2000, the sale of Imaging Technology was completed for £9.3 million, net of expenses.

As indicated at the time of the Spectris acquisition, two peripheral businesses accounting for approximately 10% of Spectris turnover were earmarked for disposal. The sale of Lewicki for £2.7 million was duly completed just prior to the year end and completion of the BTG Specialty Valves disposal for approximately £16 million took place in February 2001.

Proceeds of these disposals have been used to reduce indebtedness.

Earnings per share

	2000	1999
	p	p
Basic earnings per share	26.3	32.8
Adjustment for exceptional items after tax and amortisation of goodwill	8.3	(10.4)
Normalised earnings per share	34.6	22.4

The second half contribution from the Spectris companies enhanced earnings per share in 2000 by approximately 4.5 pence.

Taxation

The effective tax rate was 29.4% (1999: 28.4%), lower than the underlying rate due to tax-effective goodwill amortisation in the USA, a continuing focus on tax-efficient structures and, in Spectris, the utilisation of tax losses.

Financing and Treasury

The group continues to finance its operations from both retained earnings and third party borrowings at fixed and floating rates of interest, supported, where appropriate, by interest rate swaps in order to manage the group's interest rate exposure. Group policy is to maintain a roughly equal balance between fixed and floating rates of interest. Taking interest rate swaps into account, 43% of the group's borrowings at the year end were at fixed rates.

To ensure stability of long-term funding, group policy is to ensure that at least 50% of borrowings are medium to long-term in tenure. At the year end, 60% of borrowings were due to mature in more than five years.

There is now a broad spread of overseas subsidiaries operating principally in North America, Germany, Denmark, Sweden, Switzerland and Japan. In order to protect the consolidated sterling balance sheet from foreign currency translation risk, the net investment in overseas subsidiaries is financed through foreign currency borrowings.

The debt assumed on the acquisition of Spectris was refinanced by means of a \$75 million private placement of 10-year debt with the same lenders who subscribed to the original placements in 1996. The full amount has been swapped into euros for the term of the loan in order to match the underlying net assets acquired with Spectris.

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

During 2000, the strength of the US dollar with an average sterling/dollar exchange rate of 1.50, compared to 1.61 in 1999, gave rise to translation gains of £2.4 million. Offsetting this, however, was the weakness of the euro during the same period which gave rise to estimated transaction losses of £1.4 million.

Subsequent to the acquisition of Spectris, group indebtedness rose to £172 million. Disposals and positive operating cash flows reduced this to £153.5 million by year end. Additional debt capacity as measured by committed available credit lines was £154 million at year end.

Cash Flow

£m	2000	1999
Net cash inflow from operating activities	53.9	38.3
Capital expenditure	(10.9)	(5.4)
Fixed asset disposals	5.0	1.7
Tax paid	(10.8)	(1.5)
Interest paid (net)	(6.4)	(5.3)
Free cash flow	30.8	27.8
Dividends	(11.1)	(10.0)
Acquisitions/disposals	(156.7)	(18.3)
Shares issued	55.8	0.6
Exchange difference	(7.5)	(1.9)
Other	(0.5)	(0.8)
Movement in net debt	(89.2)	(2.6)

Operating cash flow was £53.9 million and represented a 94% conversion of operating profit into operating cash, after deduction of net capital expenditure.

Capital expenditure and related depreciation were as follows:

£m	Fairey Group	Spectris	Total
Capital expenditure	6.3	4.6	10.9
Depreciation	7.1	3.9	11.0

The majority of the abnormal capital expenditure referred to at the time of the interim statement and relating to catch-up investment at Spectris will be incurred in 2001.

Disposals of fixed assets including the sale of surplus property in Denmark, part of the assets acquired with Spectris, were £5.0 million net of costs.

Tax payments reverted to more normal levels after the significant impact of advanced corporation tax recoveries in 1999.

Gearing expressed as a fraction of total capital employed including cumulative goodwill written off was 37% (1999: 20%).

Interest was covered 7.7 times (1999: 6.8 times).

Trade working capital as a percentage of sales was, in aggregate, 16%. Excluding Spectris, the ratio improved from 16% in 1999 to 13% in 2000. For the Spectris companies it was 21%, indicating a clear opportunity for improved cash generation as the impact of operational rationalisation, notably the elimination of the sales matrix, is fully realised.

Exceptional items

Exceptional gains and losses can be analysed as follows:

	£m
Loss on disposal of Imaging Technology	(2.3)
Gain on a deutschmark hedge	1.9
Restructuring costs – Fairey Group	(0.3)
Spectris	(5.9)

At the time of the interim results, the estimated restructuring costs related to Spectris were £12-15 million with associated savings in a full year of an estimated £6-8 million. In the second half of 2000, actual costs of restructuring and redundancy amounted to £5.9 million. Cumulative exceptional costs are not now expected to exceed £10 million by end 2001 while expected full year savings are unchanged.

Policy on payment of suppliers

The group's policy on payment of suppliers is to ensure that terms of payment accord with contractual and legal obligations. The company had no trade creditors at the year end.



Graham Zacharias

Group Finance Director

The directors present their report and accounts for the year ended 31 December 2000.

Principal activities

Fairey Group's businesses are engaged in the development and marketing of specialist technology-based instrumentation and electronic controls. For reporting purposes, the businesses are currently grouped into four sectors: electronic controls, process instrumentation, filtration systems and the Spectris businesses acquired during the year. Further details of the trading companies can be found in the Chief Executive's review (page 12). Developments in the group's business activities are discussed in the Chairman's statement (page 10), Chief Executive's review (page 12) and financial review (page 16).

Acquisitions

On 3 July 2000 the group acquired control of Spectris AG in Germany for £169.5 million, funded to the extent of £55.6 million by way of a rights issue, the balance representing debt assumed and new debt taken on.

Disposals

On 30 June 2000 the sale of Imaging Technology was completed for £9.3 million net of expenses.

As indicated at the time of the Spectris acquisition, two peripheral businesses accounting for approximately 10% of Spectris turnover were earmarked for disposal. The sale of Lewicki for £2.7 million was duly completed just prior to the year end and completion of the BTG Specialty Valves disposal for approximately £16 million took place in February 2001.

Share capital

The issued share capital at the year end consisted of 111,693,908 5p ordinary shares. A 1 for 6 rights issue during the year increased the issued share capital by 15,949,972 shares.

At the 2001 Annual General Meeting a resolution will be proposed for the renewal of the authority granted to the directors to purchase the company's own shares, within specified limits.

At 12 March 2001 interests notified to the company in accordance with Part VI of the Companies Act 1985 comprised:

Schroder Investment Management Ltd
12,285,512 shares (10.997% total interest)

Prudential Corporation plc
4,938,848 shares (4.42% material interest)

Morley Fund Management Ltd
4,731,352 shares (4.24% material interest)

Royal & Sun Alliance Insurance Group plc
4,402,827 shares (3.94% material interest)

Fidelity International Ltd
4,394,270 shares (3.93% material interest)

Dividends

Results for the group are set out in the profit and loss account on page 28 and in the supporting notes. A final dividend of 8.15p per ordinary share is proposed for the year to 31 December 2000. With the interim dividend, this makes a total for the year of 11.7p. The final dividend will be paid on 15 June 2001 to shareholders on the register on 18 May 2001.

The terms of the Fairey Group plc Qualifying Employee Share Ownership Trust and the Fairey Group plc Employee Benefit Trust provide that dividends payable on shares held within the Trusts are waived to 0.0001p and 0.01p respectively.

Research and development

Expenditure committed to research and development is focused on new product development, applications engineering and process integration. Costs are expensed as incurred.

Fixed assets

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

Donations

No political donations have been made by the group. Charitable donations in the UK amounted to £5,000.

Directors

The directors at 31 December 2000 are named on pages 14 and 15. On 15 December 2000 Fairey Group announced that Sir Robin Biggam will retire from the Board after the 2001 AGM and that he will be succeeded as Chairman by John Poulter. Hans Nilsson will become Chief Executive.

Hans Nilsson, Paul Boughton and Graham Zacharias retire from the Board by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

The interests of the directors in the shares of the company and its subsidiaries at 31 December 2000 are disclosed in the remuneration report on page 22.

Employees

Fairey Group has a policy of encouraging its operating companies to provide information to their employees on a regular basis. This information includes matters relating to their company's performance, its prospects in the markets it serves and the future outlook of its business.

The group publishes a biannual house magazine, 'Fairey in Focus', which keeps employees abreast of group progress.

Financial participation in the group is encouraged through the Savings Related Share Option Scheme.

Fairey is an equal opportunities employer. It is group policy that each of the business units should comply with all relevant discrimination legislation relating to race, religion, sex, age and disability. Disabled persons are recruited, trained and promoted on the basis of aptitude and ability. If employees become disabled, every effort is made to retain them and when necessary re-train them for appropriate posts.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of Annual General Meeting to be held on Tuesday 8 May 2001 is contained in a separate letter from the Chairman accompanying this report.

Corporate Governance

Corporate governance has been and remains the responsibility of the whole Board. The Combined Code – Principles of Good Governance and Code of Best Practice ("the Combined Code") was published by the London Stock Exchange in June 1998. This statement describes how the company applies the principles and complies with the provisions of the Combined Code.

The Board considers that it was throughout the year and continues to be in full compliance with the provisions set out in Section 1 of the Combined Code, save that the Spectris group of businesses did not conform to the group's internal controls and processes when acquired in July 2000.

Board composition and procedures

The Board meets formally each month to consider strategic developments and to review trading results and operational and business issues. In particular it deals with those matters reserved to it for decision, including the acquisition and disposal of businesses and major capital expenditure. All directors receive detailed progress reports one week prior to each Board meeting.

The Board comprises a balance of five executive directors and four independent non-executive directors. The positions of Chairman, Chief Executive and senior independent director are held by separate individuals. The non-executive directors have all had senior executive experience in other companies and offer independent judgement on Board matters. Non-executive directors do not participate in bonus, share option or pension schemes.

There are procedures for individual Board members to receive induction and training as appropriate and to solicit independent professional advice where specific expertise is required in the course of exercising their duties. All Board directors have access to the company secretary, who is responsible for ensuring compliance with appropriate statutes and regulations.

All directors are subject to re-election by shareholders at the first opportunity after their appointment and thereafter at intervals of no more than three years, with one third of directors being required to submit for re-election by rotation each year.

The Board delegates specific responsibilities to Board committees, notably the remuneration and nomination and audit committees.

The remuneration and nomination committee consists of the non-executive directors: Sir Robin Biggam (Chairman), Martin Lamb, Peter Watson and Ron Williams with the Chief Executive, John Poulter, normally in attendance by invitation.

Appointment of all directors involves recommendation by the remuneration and nomination committee, selection by the Board and subsequent confirmation by the shareholders. The remuneration and nomination committee meets as the need arises.

The remuneration and nomination committee is also responsible for recommending to the Board the framework of executive remuneration and then determining individual terms of employment. These responsibilities cover salary and bonus arrangements, benefits, contracts of employment and share option grants.

The audit committee consists of the non-executive directors. It is chaired by Ron Williams and meets at least twice a year to consider the effectiveness of the group's internal controls, policies and procedures and the outcome of the external audit. Its meetings are normally attended by the Chief Executive, the group finance director and the external auditor. There is provision for the committee to confer with the auditors without the attendance of executive directors.

Shareholder relations

Fairey Group conducts regular dialogue with institutional shareholders and divulges such information as is permitted within the guidelines of the Listing Rules. The content of presentations to be made following the preliminary results announcement may be accessed by individual investors on the group website.

All shareholders are invited to participate in the Annual General Meeting, where the chairmen of both the audit and the remuneration and nomination committees will be available to answer questions. The results of proxy votes have been declared at the last three Annual General Meetings after each resolution had been dealt with on a show of hands and this practice will be continued at future General Meetings.

Internal controls

The Board is ultimately responsible for the group's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risk of failure to meet business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Following publication of the guidance for directors on internal control ("Internal Control: Guidance for Directors on the Combined Code"), the Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risks faced by the group, that this has been in place for the year under review and up to the date of approval of the annual report and accounts, that this process has been reviewed by the Board and that the group accords with the guidance.

The Spectris group of businesses did not conform to the group's internal controls and processes when acquired in July 2000. The businesses have been progressively integrated within the reporting and control structure and will be brought into full compliance during the year ending 31 December 2001.

The processes which the Board has applied in reviewing the effectiveness of the group's system of internal controls are summarised below:

- Risk assessment and evaluation for each business unit takes place as an integral part of the annual strategic planning cycle. Having identified the principal risks to achievement of their strategic business objectives, each business unit is required to document the management and mitigating actions in place and proposed.
- The principal risks identified during the annual strategic planning cycle and the effectiveness of the management and mitigating actions in place are reviewed regularly by the executive directors.
- Additionally, the executive directors consider those risks to the group's strategic objectives which are not addressed within the business units and develop appropriate approaches to managing and mitigating these risks.
- Annual financial plans for each business unit, significant capital investments or contractual commitments and major acquisitions or divestments are all subject to review and approval by the Board.
- There is a Group Accounting and Policies Manual which sets out the minimum standards and procedures to be applied in relation to those risk areas which are regarded as significant in a group context.
- A process of self assessment of compliance with the Manual and reporting thereon has been established, providing for a

documented trail of accountability. Planned corrective actions are monitored for timely completion.

- The executive directors report to the Board on changes in the business and external environment which present significant risks. The group finance director provides the Board with monthly financial information which includes key performance and risk indicators. Regular reports on significant legal issues and insurance matters are received from the company secretary.

The group does not maintain a formal internal audit function. The need for internal audit was reviewed during 2000 by the audit committee, which concluded that for the present this would not be appropriate to the group's size and structure. Risk management reviews are undertaken by group financial management at all significant locations twice yearly. The position will be reviewed in 2001 in light of the Spectris acquisition and the increased size of the group.

Remuneration report

The Board, in considering the recommendations of the remuneration and nomination committee, complied throughout the year with the provisions of the Combined Code (including the principles of performance-related remuneration set out in Schedule A and the disclosure guidelines in Schedule B).

It is the objective of the committee to ensure that the high calibre managers required as executive directors at group level are fairly and competitively remunerated. It does this in consultation with the Chief Executive and by reference to salary surveys and employment consultants.

To align terms of remuneration with shareholders' interests, up to one third of executive directors' remuneration is related to corporate performance, via bonuses dependent upon the achievement of normalised earnings per share targets that are set in relation to carefully considered annual business plans. Such bonuses are not pensionable. The bonuses declared later in this report will become payable in relation to the earnings per share growth achieved during the year.

Executive directors are permitted to retain any payments received in respect of external non-executive appointments. Such appointments are subject to the approval of both the remuneration and nomination committee and the Board.

Executive directors participate in the group's executive share option plans, as do 371 other directors and managers within the business units. They also participate in the savings-related scheme along with 478 other employees. In normal circumstances, options are not exercisable within three years from grant. The group's policy is to purchase existing shares into trust in respect of options

granted under the 1996 executive share plan, save grants to employees of UK subsidiaries, so as to limit dilution of existing shareholders' equity.

Share options granted under the 1996 executive share plan or the 1999 approved executive share option scheme, which were approved by shareholders, are subject to a performance criterion requiring compound growth in normalised earnings per share ("EPS") over three years of at least 2% in excess of the increase in the retail prices index ("RPI"). Exercise of matching share options granted under the 1996 plan is contingent upon EPS performance over the three financial years following grant: growth must be between 2% and 10% per annum in excess of the increase in RPI in order to achieve a match of 20% to 100% to options. Such grants are subject additionally to a condition requiring the retention of shares resulting from exercise of the matching options: unless the remuneration and nomination committee otherwise determines, shares acquired (other than those sold to meet the exercise cost, the costs of sale and any liability to income tax or employee national insurance contributions) must be retained whilst the participant remains an employee and/or a director within the group.

Following publication of new ABI guidelines in August 1999, a revised policy for future grants of share options to executive directors was determined. Annual grants having an exercise value equivalent to base salary will now be made, with exercise being subject to achievement of a performance condition of compound EPS growth of RPI +3% during the three financial years after grant. Additionally, the remuneration and nomination committee has authorised a further grant to be made in 2001 equivalent to

approximately 50% of base salary in consideration of the results achieved in 2000. Matching option grants have been discontinued.

Company car and health insurance benefits provided to executive directors are subject to income tax and none of these benefits is pensionable.

One director is in the group's defined benefit pension plan, which can provide a pension of up to two thirds of final salary. The other executive directors have private pension arrangements to which the group contributes.

The Board's intention is that directors' contracts of employment should now incorporate notice periods of no longer than one year. However, the Chief Executive has a two-year rolling contract which was established in 1991. All other directors have rolling contracts subject to twelve months' notice. All executive directors' employment contracts provide for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration) in the event of termination within twelve months of a change in control of the group. Termination payments in other circumstances remain, at the discretion of the committee, subject to mitigation and/or reduction for accelerated payment.

Non-executive directors' fees are agreed by the Board. They do not have service contracts and do not participate in bonus, share option or pension arrangements. All non-executive directors' terms of appointment provide for a six-month period of notice and a maximum term of three years, which may be renewed by mutual agreement for a further three-year period.

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

	Salary	Bonus	Benefits in kind	Fees	2000 Total	1999 Total
Executive directors						
J W Poulter	250	125	13	–	388	274
H D Nilsson	170	85	14	–	269	171
P V Boughton	150	75	12	–	237	160
J C Webster	155	78	12	–	245	172
J G Zacharias	150	75	11	–	236	160
Non-executive directors						
Sir Robin Biggam	–	–	–	50	50	50
M J Lamb	–	–	–	20	20	6
K A V Mackrell	–	–	–	–	–	14
P Watson	–	–	–	20	20	18
R Williams	–	–	–	22	22	20
	875	438	62	112	1,487	1,045

K A V Mackrell retired from the Board on 13 September 1999

b) Directors' pensions

	2000	1999
	£'000	£'000
Company contributions to defined contribution plans:		
H D Nilsson	35	15
P V Boughton	30	15
J C Webster	31	22
J G Zacharias	29	23
Defined pension benefits earned by directors:		
J W Poulter: Increase in accrued pension during the year	23	5
Transfer value of increase in benefits	675	47
Total accrued pension entitlement at year end	105	82

The accrued pension entitlement is the amount that will be paid each year on retirement based on service to the end of the year. The increase in the additional pension earned excludes any effect of inflation. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions and represents a potential liability of the scheme, not a sum paid to the director. The transfer value figure takes account both of the increase in accrued pension during the year and a reduction in J W Poulter's normal retirement age to 60. Members of the scheme have the option of paying Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included above.

c) Directors' total remuneration

	2000	1999
	£'000	£'000
Aggregate emoluments	1,487	1,045
Company pension contributions to defined contribution schemes	125	75
Gains made on exercise of share options	–	72
	1,612	1,192

d) Directors' interests

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

	Shareholdings		Options	
	31 Dec 2000 (or date of retirement)	1 Jan 2000 (or date of appointment)	31 Dec 2000	1 Jan 2000
Sir Robin Biggam	23,332	20,000	–	–
J W Poulter	323,294	312,064	297,030	307,040
H D Nilsson	4,666	4,000	147,863	111,840
P V Boughton	26,595	28,612	215,986	217,040
M J Lamb	3,000	–	–	–
J C Webster	8,772	7,520	257,996	257,040
P Watson	11,666	10,000	–	–
R Williams	3,500	3,000	–	–
J G Zacharias	3,266	2,900	179,874	181,840

No director had during the year or at the end of the year any material interest in any contract of significance to the group's business.

e) Executive directors' interests in options to purchase ordinary shares

	Date granted	Options held 1 Jan 00	Granted	Rights issue adjustment	Exercised	Lapsed	Options held 31 Dec 00	Exercise price (p)	Date exercisable	Expiry date
J W Poulter	Sept 1994	30,000		778			30,778	388.9081	Sept 1997	Sept 2004
	June 1996	40,000		1,037			41,037	661.8261	June 1999	June 2006
	Mar 1997	25,000		648			25,648	538.5256	Mar 2000	Mar 2007
	Oct 1997	40,000		1,037		41,037	–	5.0000		
	Oct 1997	25,000		648		25,648	–	5.0000		
	Mar 1998	15,000		389			15,389	550.7095	Mar 2001	Mar 2008
	Mar 1998	15,000		389			15,389	5.0000	Mar 2002	Mar 2005
	Sept 1998	35,000		908			35,908	238.8032	Sept 2001	Sept 2008
	Sept 1998	35,000		908			35,908	5.0000	Mar 2002	Sept 2005
	Mar 1999	20,000		518			20,518	321.6533	Mar 2002	Mar 2009
	Mar 1999	20,000		518			20,518	5.0000	Mar 2003	Mar 2006
	Mar 2000	–	47,483	1,232			48,715	513.1832	Mar 2003	Mar 2010
	SAYE	Oct 1998	7,040		182			7,222	238.8032	Dec 2003
		307,040	47,483	9,192		66,685	297,030			
H D Nilsson	Mar 1998	29,800		772			30,572	550.7095	Mar 2001	Mar 2008
	Mar 1998	25,000		648			25,648	5.0000	Mar 2002	Mar 2005
	Sept 1998	10,000		259			10,259	238.8032	Sept 2001	Sept 2008
	Sept 1998	10,000		259			10,259	5.0000	Mar 2002	Sept 2005
	Mar 1999	15,000		389			15,389	321.6533	Mar 2002	Mar 2009
	Mar 1999	15,000		389			15,389	5.0000	Mar 2003	Mar 2006
	Mar 2000	–	32,288	837			33,125	513.1832	Mar 2003	Mar 2010
SAYE	Oct 1998	7,040		182			7,222	238.8032	Dec 2003	June 2004
		111,840	32,288	3,735			147,863			
P V Boughton	Sept 1994	20,000		518			20,518	388.9081	Sept 1997	Sept 2004
	Sept 1995	20,000		518			20,518	525.3671	Sept 1998	Sept 2005
	June 1996	20,000		518			20,518	661.8261	June 1999	June 2006
	Mar 1997	15,000		389			15,389	538.5256	Mar 2000	Mar 2007
	Oct 1997	20,000		518		20,518	–	5.0000		
	Oct 1997	15,000		389		15,389	–	5.0000		
	Mar 1998	10,000		259			10,259	550.7095	Mar 2001	Mar 2008
	Mar 1998	10,000		259			10,259	5.0000	Mar 2002	Mar 2005
	Sept 1998	25,000		648			25,648	238.8032	Sept 2001	Sept 2008
	Sept 1998	25,000		648			25,648	5.0000	Mar 2002	Sept 2005
	Mar 1999	15,000		389			15,389	321.6533	Mar 2002	Mar 2009
	Mar 1999	15,000		389			15,389	5.0000	Mar 2003	Mar 2006
	Mar 2000	–	28,490	739			29,229	513.1832	Mar 2003	Mar 2010
SAYE	Oct 1998	7,040		182			7,222	238.8032	Dec 2003	June 2004
		217,040	28,490	6,363		35,907	215,986			

Directors' report continued

	Date granted	Options held 1 Jan 00	Granted	Rights issue adjustment	Exercised	Lapsed	Options held 31 Dec 00	Exercise price (p)	Date exercisable	Expiry date	
J C Webster	Mar 1994	40,000		1,037			41,037	369.6576	Mar 1997	Mar 2004	
	Sept 1994	20,000		518			20,518	388.9081	Sept 1997	Sept 2004	
	Sept 1995	20,000		518			20,518	525.3671	Sept 1998	Sept 2005	
	June 1996	20,000		518			20,518	661.8261	June 1999	June 2006	
	Mar 1997	15,000		389			15,389	538.5256	Mar 2000	Mar 2007	
	Oct 1997	20,000		518		20,518	–	5.0000			
	Oct 1997	15,000		389		15,389	–	5.0000			
	Mar 1998	10,000		259			10,259	550.7095	Mar 2001	Mar 2008	
	Mar 1998	10,000		259			10,259	5.0000	Mar 2002	Mar 2005	
	Sept 1998	25,000		648			25,648	238.8032	Sept 2001	Sept 2008	
	Sept 1998	25,000		648			25,648	5.0000	Mar 2002	Sept 2005	
	Mar 1999	15,000		389			15,389	321.6533	Mar 2002	Mar 2009	
	Mar 1999	15,000		389			15,389	5.0000	Mar 2003	Mar 2006	
	Mar 2000	–	29,439	763			30,202	513.1832	Mar 2003	Mar 2010	
	SAYE	Oct 1998	7,040		182			7,222	238.8032	Dec 2003	June 2004
			257,040	29,439	7,424		35,907	257,996			
J G Zacharias	Mar 1996	4,800		124			4,924	597.4954	Mar 1999	Mar 2006	
	June 1996	20,000		518			20,518	661.8261	June 1999	June 2006	
	Mar 1997	15,000		389			15,389	538.5256	Mar 2000	Mar 2007	
	Oct 1997	20,000		518		20,518	–	5.0000			
	Oct 1997	15,000		389		15,389	–	5.0000			
	Mar 1998	10,000		259			10,259	550.7095	Mar 2001	Mar 2008	
	Mar 1998	10,000		259			10,259	5.0000	Mar 2002	Mar 2005	
	Sept 1998	25,000		648			25,648	238.8032	Sept 2001	Sept 2008	
	Sept 1998	25,000		648			25,648	5.0000	Mar 2002	Sept 2005	
	Mar 1999	15,000		389			15,389	321.6533	Mar 2002	Mar 2009	
	Mar 1999	15,000		389			15,389	5.0000	Mar 2003	Mar 2006	
	Mar 2000	–	28,490	739			29,229	513.1832	Mar 2003	Mar 2010	
	SAYE	Oct 1998	7,040		182			7,222	238.8032	Dec 2003	June 2004
		181,840	28,490	5,451		35,907	179,874				

Shares other than those marked SAYE relate to executive share option grants. Entitlement to exercise grants under the unapproved 1996 Executive Share Option Plan is conditional upon a performance criterion requiring compound growth in normalised earnings per share ("EPS") over three years of at least 2% in excess of the increase in the retail prices index. The performance criterion for options granted in March 2000 requires compound growth in EPS of at least 3% in excess of the increase in the retail prices index during the three financial years after grant. Entitlement to exercise Matching Options (5p) is conditional upon a performance criterion which requires compound growth in EPS over the three consecutive financial years following grant of the qualifying option of between 2% and 10% per annum in excess of growth in the retail prices index in order to achieve a match of 20% to 100%. Matching Options granted in October 1997 therefore lapsed for failure to achieve the performance criterion.

At 29 December 2000 the mid share price on the London Stock Exchange was 567.5p. The highest share price in the year was 592.0p and the lowest was 355.67p. At 31 December 2000 each of the executive directors was deemed to have a non-beneficial interest in 1,890,979 ordinary shares held by the Trustees of the Fairey Group plc Employee Benefit Trust and 36,242 ordinary shares held by the Trustee of the Fairey Group plc Qualifying Employee Share Ownership Trust, of which the directors are among the class of discretionary beneficiaries.

As prefaced within the circular to shareholders, all share option grants were adjusted during the year to allow for the discount inherent to the rights issue in which option holders were unable to participate. Exercise prices were reduced in the ratio 0.975:1 and the number of shares under option were increased in the ratio of 1.026:1. Written confirmation was received from the company's auditors that the adjustments were fair and reasonable and acceptance, in respect of approved schemes, was received from the Inland Revenue.

Environmental Statement

“Fairey – a contributor to a better environment”

Fairey Group’s products are targeted at providing customers with the ability to reduce raw material consumption, waste and energy use or to minimise harmful emissions. The productivity benefits to a wide range of industrial processes are both direct and indirect in saving natural resources.

Examples where the use of our products has a direct beneficial contribution are:

- Fusion UV Systems markets products which use ultraviolet light to instantly cure or “dry” environmentally-friendly inks and coatings, replacing conventional energy-intensive heat treatment of traditional materials which are either toxic or emit solvent vapour. In addition, the UV process delivers energy directly to the point needed: a UV curing station typically occupies around one-tenth of the floor space of a gas-fired oven. Fusion products lead to significant energy savings for the customer and avoid the harmful emissions and waste products produced by earlier technologies.
- Regulations in many countries limit emission levels of harmful gases such as carbon monoxide, nitric oxide and sulphur dioxide, one of the major pollutants responsible for acid rain. Servomex gas analysers provide continuous emissions monitoring, particularly in the power generation and process industries, enabling customers to comply with environmental legislation and achieve progressive reduction in emissions.
- As traffic on the roads and in the air increases, legislation has been introduced which has made noise monitoring compulsory in many countries. Brüel & Kjær’s environmental noise monitoring systems and sound level meters enable customers to measure and analyse noise, as well as predict noise levels, for example at airports. The company also supplies a system for analysing noise and vibration for machinery under the European Machinery Directive, which limits sound and vibration in the workplace.

Fairey is committed to adopting environmentally responsible policies in its internal operations wherever its companies operate around the world. Environmental matters are given attention throughout the group and any commercially viable actions to minimise the impact on the environment are taken. The Board is responsible for developing overall policy on health, safety and the environment. It is then the responsibility of Fairey’s operating units to communicate and apply that policy within the particular business, taking account of local legislation and regulations, and to maintain, review and refine procedures accordingly. Each business unit is required to confirm annually, in writing, its compliance with group policy.

The group’s policy is to:

- invest in new products and applications to further improve customers’ ability to meet or exceed environmental aspirations;
- maintain an awareness of best practice and take steps to minimise material usage, dispose correctly of waste, reduce harmful emissions, conserve energy and promote recyclability;
- initiate procedures to identify and minimise environmental risks inherent in manufacturing and distribution processes and to ensure that such procedures become part of the definition and validation of new products and processes;
- comply with all relevant legislation and co-operate with regulatory authorities.

Fairey products do not require capital intensive manufacturing processes and hence the environmental impact of production operations is minimal. Fairey works closely with suppliers to encourage environmental awareness and performance improvements in the supply chain.

Going concern

Having reviewed the group's plans and available financial facilities, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the group's accounts.

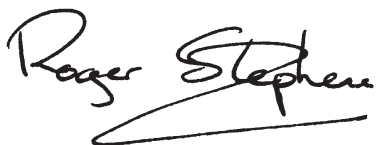
Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

By order of the Board



R J Stephens

Secretary
12 March 2001

Auditors' report

To the members of Fairey Group plc

We have audited the financial statements on pages 28 to 59.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 26 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 19 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor

London, 12 March 2001