

The background of the cover is a collage of industrial and technological images, including a large industrial tank, a complex piping system, and a close-up of a circuit board. The entire image is overlaid with a red and purple color scheme and a grid pattern. The word 'spectris' is written in a stylized font at the top left, and a larger, semi-transparent version of the same word is centered in the middle. The tagline is positioned in the bottom right corner.

spectris

Interim report 2001

spectris

Enhancing
productivity
through precision
instrumentation
and controls

spectris

At Spectris we enhance productivity for customers through precision instrumentation and controls.

Our focus is on niche applications which have a direct impact on process performance for end-user customers.

Enhancing productivity for customers

Our products and applications enhance productivity and create competitive advantage for our customers. Customer-specific solutions improve product quality and performance, reduce downtime, eliminate wastage and reduce costs.

Developing solutions for diverse markets

Our businesses work with multi-national customers in diverse industries. Many of our customers' markets are growing and we also generate demand for our products by developing new applications based on our existing technologies.

- Largest market no more than 15% of sales
- Largest customer no more than 1% of sales
- Majority of sales come from upgrades not new capacity

Providing worldwide support

We have a good geographical balance of customers around the world, and are taking advantage of the opportunities in Asia Pacific with a growing presence in the region. We also offer customer-specific applications support and service from locations around the world.

- 44% of sales to Europe
- 33% of sales to US
- 19% of sales to Asia Pacific

Continuing investment in R&D

We continue to invest significantly in the development of new products and technologies, resulting in the launch of a number of innovative applications and products. We apply these technologies to create application-specific solutions for our customers, enabling them to produce new or enhanced products.

- 30% of sales are from products which are less than three years old
- Many core technologies are protected by patents and process know-how

process improvement

raw materials

From controlling the consistency of pulp and paper to detecting contaminated products, Spectris provides improvements to production processes.

value added chain

product improvement

Quieter cars and safer drugs are just some of the improvements that Spectris helps customers to achieve.

finished products

Benefits with real pay back

Customer benefit

- Improving production efficiency
- Reducing downtime
- Eliminating wastage
- Improving product quality and performance
- Reducing costs
- Helping customers to bring new products to market

Typical applications

- UV curing of automotive coatings
- Consistency measurement in pulp & paper
- Particle contamination control in cleanrooms
- Sound & vibration analysis for mobile phone acoustics
- Diameter gauging of cable
- Particle size distribution in pharmaceuticals

Highlights

	Half year 2001	Half year 2000	Change
Sales	£276.9m	£164.2m	+69%
Operating profit*	£31.2m	£20.7m	+51%
Profit before tax*	£25.2m	£18.3m	+38%
Normalised earnings per share*	16.1p	13.2p	+22%
Dividend	3.75p	3.55p	+6%

* before exceptional items and goodwill amortisation

- Sales, profits and e.p.s. substantially up on first half 2000
- Like for like sales up 7%
- Gross margins maintained
- Broad spread of markets provides downside protection
- Integration of Spectris AG acquisition progressing well



Commenting on the results, Hans Nilsson, Chief Executive said:

“First half e.p.s. growth of 22% reflects a strong performance in tough market conditions. Our broad spread of customers and products combined with wide geographical coverage have served us well and will continue to be important given an uncertain macro-economic outlook.”



Overview

Sales, profits and earnings per share increased substantially compared with the equivalent prior year period. The results benefited from an earnings-enhancing contribution from Spectris AG acquired in mid 2000. In the context of the US economic slowdown, the wide spread of markets served enabled the continuing businesses to perform creditably, if unevenly, to produce a robust performance and an increase in profits.

Results

Sales increased by 69%. The acquired businesses generated sales of £113.7m. On a like for like basis the continuing businesses, excluding Filtration Systems, generated sales growth of 7%. Currency effects were helpful but small. Gross margins were maintained.

Operating profit before exceptional items and goodwill amortisation increased by 51% although underlying organic profit growth of 2% was essentially a function of the different fortunes of businesses exposed to the telecommunications and semiconductor collapse on the one hand and units exposed to the wider international economy on the other. Geographically, sales were weaker in the US with better performances from other territories.

Capital expenditure amounted to £16m, of which £9m was due to non-recurring items inherited with the Spectris AG acquisition. Adjusting for these items, conversion of operating profit to operating cash was 54%. This was comparable with the first half of the previous year and we expect the historical pattern of improved cash generation to repeat itself at the year end. In the second half, capital expenditure, excluding the non-recurring items referred to above, is likely to return to past levels and to be close to depreciation.

The working capital to sales ratio improved slightly compared with the prior year end, but there are opportunities to improve performance, particularly in some of the new companies.

Net borrowings at the half year were £140m compared with £153.5m at year end. Disposals raised £42.8m and acquisitions consumed £3m.

The Board intends to pay an interim dividend of 3.75p, a 6% increase on the previous year. The dividend will be paid on 16 November 2001 to shareholders on the register at 19 October 2001.

Operating Review

Electronic Controls

As foreshadowed at the AGM, the electronic controls segment, with significant exposure to the telecommunications equipment and electronics industries, experienced a contraction in sales. This, allied with margin pressures and measures to reduce costs, saw a near halving of operating profits. Although an early improvement in demand appears unlikely, the position has not further deteriorated.

Process Instrumentation

Process instrumentation performed well with sales and profit growth of nearly 14% and 19% respectively compared with the equivalent period of the prior year. However there was considerable variation in the performance of the individual units. The two businesses dependent upon the semiconductor industry – Luxtron and Particle Measuring Systems – broke even in the period. Profit recovery will, in the short term, depend more on the benefits of cost reduction measures, which have already been implemented, than on improved demand.

A good performance was achieved at Fusion UV Systems, where the positive developments are expected to continue, albeit attenuated by the likely near term reduction of orders from the optical fibre industry. Servomex benefited from improved demand as confidence returned to the oil and gas industry after the consolidation of recent years and from the advantage of improved prices for oil and petrochemicals. The actions taken since acquisition to revamp the product portfolio and streamline operating processes are beginning to deliver better results.

Elsewhere in our instrumentation businesses the diversity of markets served and the inherent strength in providing products which deliver productivity benefits to customers proved their worth and produced a flat, but creditable, result.

Spectris AG

The Spectris AG units enjoyed strong order intake. There were particularly encouraging results at BTG, and at HBM where the manufacturing activities in China are being expanded. The companies collectively delivered an operating profit contribution of £11.4m on £113.7m of sales. The Brüel & Kjær, Schenck Condition Monitoring Systems unit made major progress following rationalisation of two previously separate activities. The larger Brüel & Kjær Sound & Vibration business has taken longer to integrate, but the elimination of the sales matrix under which the businesses previously operated is close to completion. Given the seasonality referred to in earlier reports, the progress towards operating margins in the mid-teens is, subject to reasonable continuity of demand, on track.

Filtration Systems

Disposals of our filtration businesses proceeded according to plan, with a total realisation of £30.5m in the period. One business remains to be sold and the process is well advanced. The nuclear fuel canister business will be closed on the completion of customer commitments shortly after the year end. The closure will not impact profitability.

The Board

Shareholders will be aware that I succeeded Sir Robin Biggam as non-executive Chairman after the AGM in May. Ron Williams retired in August after completing six years as a non-executive director and Chairman of the Audit Committee. To both of them I offer my personal thanks, as well as those of the Board, for their help and support over six eventful years, during which the company progressed decisively towards its goal of making the transition from a mechanical engineering group to the strategically focused instrumentation and controls business that it is today. Their contributions have been invaluable.

Andrew Given, appointed to the Board in June, has replaced Ron Williams as Chairman of the Audit Committee. He is Finance Director of Logica plc and has much experience in technology-based industry in the UK and North America.


Hans Nilsson succeeded me as Chief Executive and, following that move, James Otter was appointed to the Board in June as a Business Group Director and a member of the executive team. A natural sciences graduate and MBA, he has experience of managing businesses in chemicals and instrumentation in several European countries.

I welcome both new members to the Board.

Outlook

The overall economic situation will be the main ingredient in shaping the second half results. The first quarter slow-down in activity in the technology and electronic sectors has continued and has negatively influenced investment in US industry generally. Although North American orders in recent months have been dull, they appear to be stable whereas the position elsewhere is more uncertain. Spectris, with short lead times and order books, is no stranger to managing in circumstances of poor visibility of demand and operationally, management is focused on cost containment and the realisation of further benefits from the Spectris AG acquisition.

Taking all these factors into account, the Board's current view is that the company will deliver an improved performance for the year as a whole.



John Poulter, Chairman 10 September 2001

Group results

FOR THE HALF YEAR TO 30 JUNE 2001

	Notes	2001 Half year £'000	2000 Half year £'000	2000 Full year £'000
Turnover				
Existing businesses		267,930	158,332	458,086
Operations disposed		8,922	5,899	5,899
Continuing operations	2	276,852	164,231	463,985
Operating profit before goodwill amortisation and exceptional items				
Existing businesses		29,931	19,968	57,961
Operations disposed		1,277	686	686
Continuing operations	2	31,208	20,654	58,647
Goodwill amortisation		(2,948)	(513)	(3,289)
Operating exceptional items	3	(1,915)	1,888	(4,296)
Operating profit		26,345	22,029	51,062
Profit/(loss) on sale of businesses	4	20,712	(2,802)	(2,256)
Profit before interest and taxation		47,057	19,227	48,806
Net interest payable		(6,051)	(2,368)	(7,630)
Profit before taxation		41,006	16,859	41,176
Taxation on operating profit	5	(7,547)	(5,230)	(15,021)
Exceptional taxation (charge)/credit	5	(3,810)	(566)	1,162
Profit after taxation		29,649	11,063	27,317
Dividends		(4,103)	(3,903)	(12,832)
Retained profit		25,546	7,160	14,485
Average number of shares in issue (millions)		109.5	98.8	103.9
Earnings per ordinary share	6	27.1p	11.2p	26.3p
Fully diluted earnings per share	6	26.8p	11.1p	26.1p
Normalised earnings per share	6	16.1p	13.2p	34.6p
Dividends per ordinary share		3.75p	3.55p	11.7p

Balance sheet summary

	30 June 2001 £'000	1 July 2000 £'000	31 December 2000 £'000
Intangible assets	109,669	19,775	104,700
Fixed assets	80,948	33,736	77,122
Fixed asset investments	11,463	6,474	9,451
Current asset investments	–	–	12,061
Working capital	102,278	65,847	101,160
Tax payable	(21,987)	(12,064)	(19,167)
Dividends payable	(4,103)	(3,917)	(8,949)
Provisions	(5,059)	(3,095)	(11,348)
	273,209	106,756	265,030
Net borrowing	(139,894)	(8,453)	(153,528)
Net assets	133,315	98,303	111,502
Share capital	5,585	5,582	5,584
Reserves	127,730	92,721	105,918
Equity shareholders' funds	133,315	98,303	111,502
Reconciliation of movements in shareholders' funds			
Retained profit	25,546	7,160	14,485
Foreign exchange adjustments	(3,855)	(31)	5,631
New share capital subscribed	122	55,586	55,794
Goodwill realised	–	9,546	9,550
Net increase	21,813	72,261	85,460
Opening shareholders' funds	111,502	26,042	26,042
Closing shareholders' funds	133,315	98,303	111,502

Cash flow summary

	2001 Half year £'000	2000 Half year £'000	2000 Full year £'000
Cash inflow from operating activities	15,774	13,329	53,894
Net capital expenditure	(13,099)	(2,350)	(5,849)
Net interest paid	(6,051)	(2,301)	(6,821)
Tax paid	(8,597)	(5,631)	(10,843)
Free cash flow	(11,973)	3,047	30,381
Dividends paid	(8,948)	(7,205)	(11,102)
Share issues	122	55,586	55,794
Purchase of fixed asset investments	(2,442)	(900)	(3,300)
Cash generated by company held for resale	–	–	3,788
Purchase of subsidiaries	(2,958)	(1,485)	(169,521)
Sale of subsidiaries	42,811	9,592	12,275
Exchange adjustment	(2,978)	(2,773)	(7,528)
Movement in net debt in the period	13,634	55,862	(89,213)
Net debt at the beginning of the period	(153,528)	(64,315)	(64,315)
Net debt at the end of the period	(139,894)	(8,453)	(153,528)
Reconciliation of operating profit to cash inflow from operating activities			
Operating profit	26,345	22,029	51,062
Depreciation	6,696	3,574	10,967
Goodwill amortisation	2,948	513	3,289
Increase in working capital	(14,800)	(12,787)	(11,558)
(Utilisation)/increase in provisions	(5,415)	–	134
	15,774	13,329	53,894

Notes to the accounts

1 Principal accounting policies and basis of preparation

The interim report has been prepared on the basis of the accounting policies set out in the Group's 2000 statutory accounts and approved by the Board on 10 September 2001. This report does not constitute statutory accounts for the company. The interim figures for 30 June 2001 and 1 July 2000 are unaudited. The results for 2000 are not the statutory accounts but an abridged version of the full accounts which have received an unqualified report by the auditors and have been filed with the Registrar of Companies.

2 Business sector analysis

	2001 Half year £'000	2000 Half year £'000	2000 Full year £'000
Turnover			
Electronic Controls	24,526	27,479	56,261
Process Instrumentation	123,239	112,641	237,469
Spectris AG	113,691	–	129,444
Filtration Systems	6,474	18,212	34,912
Existing businesses	267,930	158,332	458,086
Operations disposed	8,922	5,899	5,899
Total continuing operations	276,852	164,231	463,985
Operating profit			
Electronic Controls	2,599	4,498	8,710
Process Instrumentation	14,653	12,482	29,770
Spectris AG	11,424	–	13,706
Filtration Systems	1,255	2,988	5,775
Existing businesses	29,931	19,968	57,961
Operations disposed	1,277	686	686
Total continuing operations	31,208	20,654	58,647
Goodwill amortisation	(2,948)	(513)	(3,289)
Operating exceptional items	(1,915)	1,888	(4,296)
Operating profit	26,345	22,029	51,062

3 Operating exceptional items

The operating exceptional items comprise redundancy and restructuring costs incurred by the Spectris AG businesses acquired in 2000.

4 Profit on disposal of businesses

A surplus to net assets of £20.7m was generated following the disposal of three businesses: the Arlon group of companies, Fairey Microfiltrex and Fusion Aetek. There is no goodwill associated with any of these businesses.

Notes to the accounts

5 Tax on profit on ordinary activities

The taxation charge for the six months to 30 June 2001 is based on an estimate of the effective rate of taxation for the current year (excluding exceptional items and goodwill amortisation) of 30%. The effective rate of tax for the year to 31 December 2000 was 29.4%.

The tax charge/(credit) is analysed as follows:

	2001 £'000	2000 £'000
UK	750	199
Overseas	6,797	5,031
	7,547	5,230
Tax (credit)/charge on operating exceptional items	(252)	566
Tax charge on sale of businesses	4,062	–
	11,357	5,796

6 Earnings per share

	Earnings		Earnings per share	
	2001 Half year £'000	2000 Half year £'000	2001 Half year pence	2000 Half year pence
Basic earnings and earnings per share	29,649	11,063	27.1	11.2
Basic earnings and earnings per share attributable to:				
Operating exceptional items	1,915	(1,888)	1.7	(1.9)
Goodwill amortisation	2,948	513	2.7	0.5
Profit on sale of businesses	(20,712)	2,802	(18.9)	2.8
Tax (credit)/charge on operating exceptional items	(252)	566	(0.2)	0.6
Tax charge on profit on sale of businesses	4,062	–	3.7	–
Normalised earnings and earnings per share	17,610	13,056	16.1	13.2

The weighted average number of 5p ordinary shares in issue during the period was 109.5 million (2000: 98.8 million), after adjusting for the effects of the rights issue in 2000.

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

The calculation of diluted earnings per share is based on the group profit of £29,649,000 and on the diluted weighted average number of shares in issue during the period of 110.8 million.

Shareholder information

Financial calendar

2001 Interim results	10 September 2001
Record date for 2001 Interim dividend	19 October 2001
2001 Interim dividend payable	16 November 2001
2001 Preliminary results	March 2002

Registrars

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

Share price information

The latest Spectris plc share price is available via the company's website at www.spectris.com.

E-mail alert service

Register with the e-mail alert service on the Spectris website to receive details of press releases and other announcements as they are issued. Visit the site for more details at www.spectris.com/news.

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