spectris

enhancing productivity

through precision instrumentation and controls

report and accounts 2001

enhancing product for

through precision instrumentation

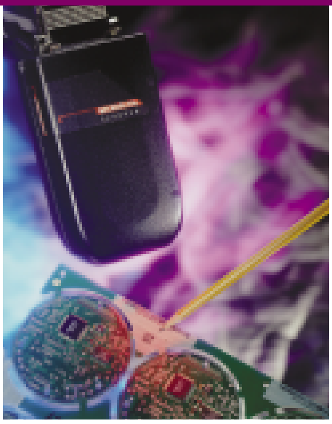
on niche applications which have

Automotive manufacturers seek to develop exterior coatings with superior scratch and weather resistance. In a test project, large, complex body parts of a race car were coated with Variochrome paint followed by a UV-curable clear coating which was cured using Fusion's UV lamp systems.

product performance for end use

Particle size characterisation is critical to the formulation of a drug. A new analyser from Malvern enables both particle size and shape to be determined, producing consistent and repeatable performance of the ingredients in each tablet.

tivity
customers



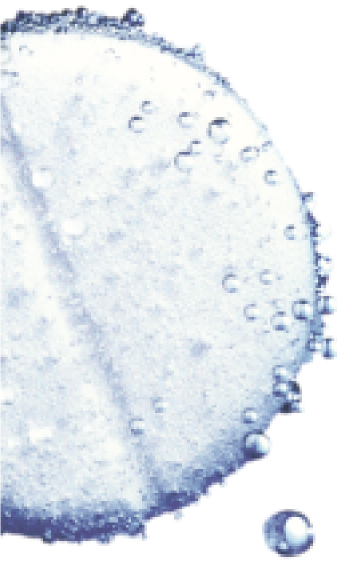
n and controls, focusing

Microscan's 2D bar code readers can read data matrix codes which measure less than 2mm square, enabling products such as printed circuit boards and components to be tracked and verified throughout the production process.

a direct impact on process and

r customers.

In heavy process applications, Servomex on-line gas analysers ensure precise, continuous monitoring of gas concentrations, improving plant efficiency as well as complying with safety and environmental legislation.



2001 was a difficult year but delivered earnings similar to that of 2000. Anticipating market demand, timely management actions were taken which, combined with the strong fundamentals of the business, position us well for the future.

commendable performance

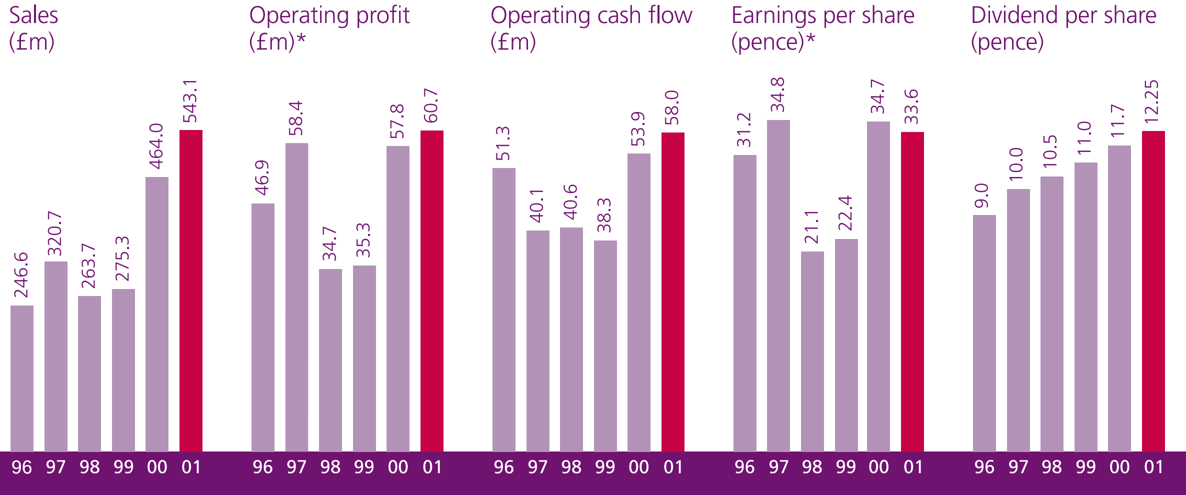
Contents

In May 2001 the company changed its name from Fairey Group plc to Spectris plc, reflecting the transformation to a company now entirely focused on precision instrumentation and controls.

Financial highlights

	2001	2000
Sales	**£543.1m**	£464.0m
Operating profit *	**£60.7m**	£57.8m
Normalised earnings per share *	**33.6p**	34.7p
Dividend per share	**12.25p**	11.7p

* Before exceptional items and goodwill amortisation
2000 figures have been restated following adoption of FRS 17. Figures prior to 2000 have not been restated



- **Sales and operating profit increased, despite challenging conditions**
- **E.p.s. reduction contained to 3%**
- **Gross margins maintained**
- **Management actions:**
  - Timely reduction of cost base resulted in exceptional restructuring charges of £12m
  - Continued emphasis on new product and market development, with Asia strong
  - Spectris AG businesses met expectations in the first full year

Our process-critical equipment has a significant impact on the efficiency of our customers' manufacturing processes and, for a relatively small capital investment, can result in rapid and substantial cost savings. Improved product performance, higher productivity and yield and reduced downtime and wastage are just some of the benefits achieved.

improving processes

Improving quality
Avoiding contamination in cleanrooms is essential during the manufacture of products such as pharmaceuticals and semiconductors. Particle Measuring Systems' technology enables even the smallest contaminant particles in the cleanroom environment to be detected before the product integrity is affected.

Increasing performance
Demand for higher quality paper and increased yields, together with environmental pressures, drives manufacturers to improve every stage of the papermaking process. BTG's consistency transmitters enable accurate control of pulp consistency, preventing breaks in the web which would lead to costly wastage.

Reducing downtime
Increasing production volumes by speeding up papermaking machines means that monitoring the condition of critical machinery is essential to prevent expensive downtime and production losses. Brüel & Kjær Vibro's vibration-based condition monitoring systems use sophisticated software to diagnose and predict faults, reducing the likelihood of machine failure.

improving products

Product differentiation is increasingly important in today's competitive marketplace as consumers seek a better but quieter environment. We work with our customers to help them to achieve competitive advantage by developing new applications based on our existing technologies.

Safer medicines
The particle size and shape of the active ingredients in a drug are critical to its absorption and effectiveness in the body. Malvern's particle characterisation instruments ensure that the particle size is correct for the appropriate pharmaceutical application, whether as a liquid, spray or tablet.

Quieter products
Noise reduction plays a significant role in product development, both to satisfy noise emission regulations and directives, but also as a customer requirement when choosing, for example, household appliances. Brüel & Kjær Sound & Vibration's systems analyse noise sources and the effects of noise on the consumer, resulting in the development of quieter products.

Better performance
Fusion's ultraviolet curing technology enables the tight tolerances required in the manufacture of DVDs to be met. UV technology is used for the critical process of bonding together the two layers of the DVD, producing an instant result without the use of heat or emission of organic solvents.

We have a record of innovation, developing core technologies, many of which are protected by patents, and tailoring our solutions to individual customers' requirements. The resulting applications are based on standard technology platforms but involve developing sophisticated customer-specific configurations.

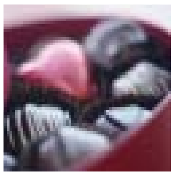
continuous innovation

Research and development
Over the past four years we have consistently allocated an annual spend of between 5% and 7% of sales to the development of new products and technologies, and approximately 30% of sales are from products which are less than 3 years old. The chart below shows annual expenditure on research and development, illustrated by a selection of our recent products and applications.

Ircon infrared line scanner for temperature control

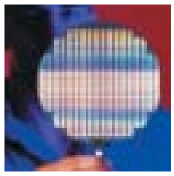
NDC Infrared Engineering intelligent near infrared gauges

1998 – £16m



Loma X-ray inspection system

Red Lion Controls Paradigm graphic operator terminals

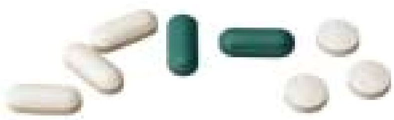


Beta LaserMike Wirescan laser diameter gauge

Microscan Quadrus 2D data matrix bar code reader

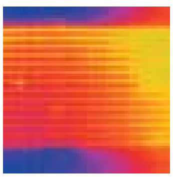
1999 – £17m

We continue to invest in the development of new products and applications to ensure our businesses maintain their leading market positions.



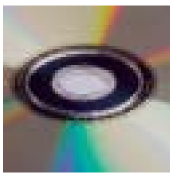
Luxtron Optima 9000 endpoint control for flat panel display manufacture

Brüel & Kjær Sound & Vibration portable Pulse multi-channel analyser



Ircon process control using thermal imaging technology

HBM torque transducers

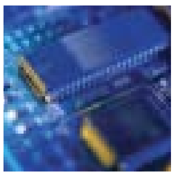


Fusion UV technology for bonding two layers of a DVD

BTG microwave consistency transmitter

Brüel & Kjær Vibro Compass machine monitoring software

2000 – £26m

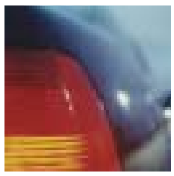


Malvern first system to measure particle size and shape

Servomex process oxygen transmitter for oxidation control

BTG acquires Mütek wet-end laboratory analysis products

Beta LaserMike Flawscan 360° wire flaw detection system



Fusion UV curing tested on automotive coatings

Particle Measuring Systems first tool for monitoring performance in mini-environments

Arcom embedded development kits for all major operating systems

NDC Infrared Engineering near infrared technology for measuring ultra-thin film products

HBM intelligent measuring amplifier

Brüel & Kjær Sound & Vibration advanced sound holography system

2001 – £30m

After an exceptionally strong prior year, 2001 presented Spectris with testing challenges.

Chairman's statement

After an exceptionally strong prior year, 2001 presented Spectris with testing challenges. The economic climate in the United States, our most important geographic market, progressively worsened and few of our customer industries were unaffected.

Sales and operating profit in the year increased by 17% and 5% respectively which included a full year contribution from the mid-2000 acquisition of Spectris AG. Sales in the non-AG businesses fell back by nearly 11% and operating margins at 11.2% were slightly reduced compared with the prior year. Pre-tax profit was £50.4m and earnings per share were 33.6p compared with a 2000 figure of 34.7p (all before goodwill amortisation). Despite these reduced headline figures, considerable credit should be given to our managements in adapting to unpredictable and volatile circumstances.

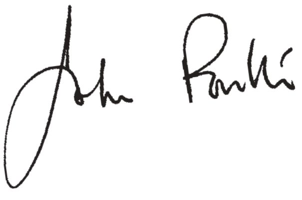
Cash conversion, measured by the proportion of operating profit converted into operating cash after accounting for net capital expenditure, was 71%. This was slightly below the company's traditional target, reflecting a higher than normal level of capital investment, particularly in the newly acquired businesses. Net indebtedness was £131.5m compared with £153.5m at the previous year end and interest was covered 5.5 times. It is proposed to pay a final dividend of 8.5p, making a total of 12.25p, an increase of 4.7%. The final dividend will be paid on 14 June 2002 to shareholders on the register at 17 May 2002.

The sales trend during the year was foreshadowed in our previous reports and statements. Early in the year the shake out from the technology and telecommunications collapse impacted our businesses operating in the semiconductor and electronics manufacturing markets. Other US industrial markets softened as the year progressed and the second half was, uncharacteristically, weaker than the first half.

solid performance

In addition to my assuming the Chairmanship, and Hans Nilsson being appointed Chief Executive, Andrew Given, Finance Director and now Deputy Chief Executive of Logica, joined the Board as non-executive Director and Chairman of the Audit Committee. James Otter, who has experience of managing businesses in chemicals and instrumentation in several European countries, joined the Board as Business Group Director.
I welcome them both and reiterate my earlier thanks to Sir Robin Biggam and Ron Williams who retired during the year.

Looking forward, some signs of improvement in the US economy as a result of recent substantial stimuli are to be welcomed. The critical issue for Spectris is the extent to which, and when, these economic moves produce a recovery in industrial business confidence. Demand levels are not deteriorating further and may be improving, but it seems imprudent to draw overly positive conclusions in an environment where our customers remain cautious. If activity improves as the year progresses, the company's normal seasonal bias towards the second half of the year will be more pronounced. Visibility remains low but Spectris is in an excellent position to benefit from the eventual cyclical upturn.



John Poulter
Chairman

The focus on operational improvements served us well in uncertain conditions and at the same time enabled us to strengthen our market positions.

Chief Executive's review

During a challenging year of dramatic external events and uncertainty the company coped well. From a management point of view, the focus on operational improvements served to accelerate initiatives already under way and several new restructuring opportunities were undertaken.

Operating review

The Spectris management structure yet again proved its worth as customer focused business units with clear lines of command and simple control systems speeded up response times.

The company's focus is on products that involve a relatively small capital outlay but provide a quick and real payback. However, demand suffers when the economic situation weakens to the extent that the world, and North America in particular, experienced in 2001. This was largely due to customers postponing purchases as their priorities switched towards conserving cash. Demand varied greatly with pharmaceutical, oil, gas and petrochemicals, and pulp and paper seeing strong demand whereas demand was weak in electronics and semiconductors. The company's strategy and exposure to diverse markets and customers served the company particularly well. Although data is hard to verify, we believe our businesses have strengthened their relative positions and gained market share in the year. Asia showed volume increases due to greater market penetration.

FRS 17, Retirement Benefits, has been adopted early for the 2001 accounts resulting in a net benefit of £0.4m.

operationally improved

The Spectris AG businesses progressed well and margins achieved the targets for the end of 2001 set at the time of acquisition. The process of removing the inefficient sales matrix structure in the Spectris AG businesses was completed and the result is a streamlined structure with clear ownership by the individual businesses. Amongst other things, this has led to improved control of pricing, discounts and project management. A number of senior management changes have been made and the businesses are now operating in line with the Spectris controls and operating culture.

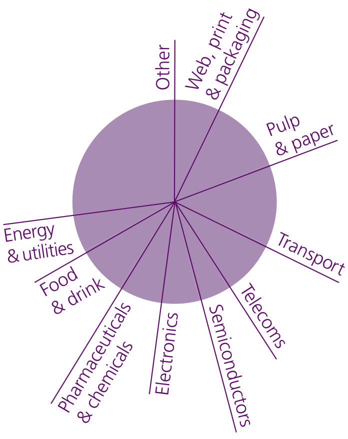
Management took timely action to contain costs and implemented a number of initiatives to improve performance. Sales structures were reorganised to facilitate simplified trading in Europe, with fully integrated IT systems resulting in more cost-efficient sales administration functions. Fusion and Red Lion are examples of companies benefiting from the centralisation of sales administration. These changes, and the consequent reduction in headcount, were instituted without materially impacting the sales and marketing process. Outsourcing initiatives continued to reduce the level of fixed costs and there remain further opportunities in the Spectris AG companies. Disposal of certain non-core product lines was also undertaken. Tighter cost controls resulted in a gradual reduction in headcount across the businesses from the beginning of the year, with Electronic Controls seeing a reduction in staff of 13%, Process Instrumentation 10% and the Spectris AG businesses 4%. This excludes China, where headcount increased as a result of the expansion of HBM's manufacturing activities. The exceptional restructuring cost of £12.0m is estimated to generate incremental savings of £4m in 2002.

Investment in the development of new products and applications was maintained at the previous year's level and a number of new products were launched during the year. HBM and Malvern most notably made competitive inroads through new products. Over the past five years Spectris has invested continuously in developing new products, and approximately thirty per cent of sales are from products which are less than three years old. Sales and marketing initiatives were maintained and resources transferred from administrative support to direct sales, with particular emphasis placed on growing sales to countries with developing manufacturing economies such as China and Mexico. In China, Fusion, Particle Measuring Systems, Microscan and Servomex have converted to direct sales representation, with the majority of Spectris sales now being direct. This reflects the increasing requirement for precision instrumentation and controls in this growing region. The result has been a significant increase in sales into China in 2001.

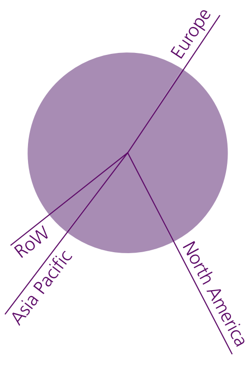
Sector performance

Electronic controls performed acceptably in difficult markets. Exposure to the telecommunications equipment and electronics industries, as well as a disproportionately large exposure to North America, resulted in a significant drop in demand in the first quarter, which then continued at low levels throughout the year.

Sales by industry



Sales by destination



Chief Executive's review continued

Sales declined from £54.7m to £45.8m, with operating profit down from £9.3m to £4.6m, and margins were 10%. A number of innovative new products were launched during the year. Red Lion, with a broader spread of markets, was less affected by the adverse market conditions, and sales of its industrial control products increased. At Arcom, the launch of embedded hardware and software development kits to cover the major operating systems means that the company now offers a comprehensive range of solutions. Microscan's highly successful barcode readers continue to find new applications, particularly in the light manufacturing sector.

Process instrumentation had a respectable year with sales up 3% at £223.4m although operating profits were slightly down from £27.3m to £26.9m. Operating margins were 12% (these figures exclude Luxtron in 2000 and 2001). Malvern and Servomex enjoyed strong order intake from pharmaceutical and petrochemical customers respectively. Conditions in the semiconductor industry, which experienced a sharp downturn in the first half, remained challenging with low levels of demand throughout the rest of the year. Particle Measuring Systems responded well and produced a profit but the collapse in demand in equipment for front-end semiconductor manufacture pushed Luxtron into loss. Luxtron was put up for disposal in the year and is no longer included in process instrumentation. The anticipated downturn in the optical fibre industry impacted the performance of Fusion UV Systems and Beta LaserMike in the second half, although Fusion performed exceptionally well in the year. Elsewhere, the diversity of markets served helped the remaining process instrumentation businesses to produce a sound performance.

geared for the future

A number of new products and applications were launched during the year. Malvern and Ircon successfully integrated technologies acquired into their product range and Fusion introduced its ultraviolet (UV) curing technology into the area of digital printing. New products were also launched at NDC Infrared Engineering based on near infrared technology and at Servomex for the petrochemical and pharmaceutical industries. Particle Measuring Systems had continued success in adapting their semiconductor products to measure contamination in pharmaceutical cleanrooms.

Performance of the ***Spectris AG businesses*** collectively met expectations, with sales of £240.4m and operating profits of £26.2m in the first full year of ownership. Like-for-like sales growth was 4%. Operating margins were 10.9%. HBM delivered a strong performance, partly as a result of market share gains due to the launch of a number of new products and applications into its diverse markets, but also following expansion of its manufacturing activities in China. The facility, based in Suzhou, produces strain gauges for the weighing industry in response to increased worldwide demand for these products. BTG, which sells principally into the pulp and paper industry, had an excellent year. BTG introduced new products and integrated the Mütek product line. Brüel & Kjær Sound & Vibration underperformed, with stable demand for environmental products such as noise analysis systems counteracted by declining demand from the electronics and telecommunications equipment industries. The Brüel & Kjær Vibro business (formerly Brüel & Kjær, Schenck Condition Monitoring), delivered a solid performance from its primary markets of oil and gas and other process industries and successfully integrated the Brüel & Kjær and the Vibro units.

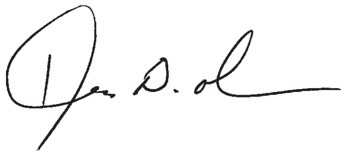
Other operations

Disposal of two of the filtration businesses, Fairey Arlon and Fairey Microfiltrex, was completed during the year and the sale of the remaining filtration business, Fairey Industrial Ceramics, was completed in March 2002. Fairey Nuclear was closed in the fourth quarter following completion of customer commitments. Disposal of BTG's coating systems division and Luxtron Corporation is under way.

Strategy

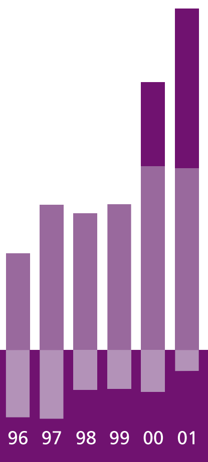
Over the past few years Spectris has been transformed into a company which is now entirely focused on precision instrumentation and controls, delivering enhanced productivity for a wide range of manufacturing industries. This strategy has served us well in both good and more challenging times, and continues to be appropriate. There is a strong business and cultural platform from which to exploit the opportunities in our chosen markets.

Although macro-economic conditions deteriorated in 2001, our priorities remain unchanged: we will continue to invest in developing new products and applications, in leveraging our sales channels and in considering product line add-ons or stand-alone acquisitions where these fit our strategic goals.



Hans Nilsson
Chief Executive

Turnover



The graph illustrates how the business mix has changed over the past six years as non-core businesses have gradually been sold, with the result that the ongoing operations now reflect the strategic focus.

- Spectris AG businesses acquired in June 2000
- Non-Spectris AG businesses
- Businesses sold or to be sold

experienced management

John Poulter
Chairman
John Poulter joined Spectris in 1988, initially as Group Managing Director, and was Chief Executive until he became non-executive Chairman in May 2001, during which time the company was transformed from a small, predominantly UK-based mechanical engineer, into an international instrumentation and controls business. He is non-executive director of Kidde plc and Lloyds Smaller Companies Investment Trust plc. Age 59.

Hans Nilsson
Chief Executive
Hans Nilsson joined Spectris in 1997. Previously Chief Operating Officer, he was appointed Chief Executive in May 2001. He has a masters degree in electrical engineering and an MBA from Stanford University. He was previously the European managing director of Flextronics, prior to which he held positions at Hewlett Packard and ABB. Age 46.

James Otter
Business Group Director
James Otter joined Spectris in May 2001. He is responsible for the operational supervision of a number of the group's trading companies. His previous career has included taking a range of science-based products to market with ICI/Zeneca, Enviros and Tetronics. He is a Natural Sciences graduate of Cambridge University and has an MBA from INSEAD. Age 44.

Jim Webster
Business Group Director
Jim Webster, a metallurgy graduate, joined Spectris 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 51.

Dr. Peter Watson OBE
Non-executive Director
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. From 1991 to 1994 he was the board member for engineering with British Rail. Dr Watson was appointed Chief Executive of AEA Technology plc in 1994 and became Chairman in 2002. Age 58.

Chairman of the nomination committee and Senior Independent Director.

The non-executive directors bring a wealth of invaluable experience in technology-based industry around the world to add to the strength of the Spectris Board.

Martin Lamb
Non-executive Director
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 42.

Chairman of the remuneration committee.

Paul Boughton
Business Development Director
Paul Boughton, a business economics graduate and chartered accountant, joined Spectris 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 46.

Graham Zacharias
Group Finance Director
Graham Zacharias, a modern languages graduate and chartered accountant, joined Spectris 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 51.

Andrew Given
Non-executive Director
Andrew Given was appointed to the Board in June 2001. He became deputy chief executive of Logica plc in February 2002 having previously been group finance director since joining the company in 1990. Prior to that he held senior financial positions with Plessey Company plc and with Northern Telecom Limited, mainly in North America. Age 54.

Chairman of the audit committee.

Roger Stephens
Head of Commercial and Company Secretary
Roger Stephens is an economics graduate and chartered company secretary. Prior to joining Spectris 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 41.

Financial review

£m	2001	2000 (restated)
Sales	**543.1**	464.0
Operating profit before exceptional items and goodwill amortisation	**60.7**	57.8
Operating margin	**11.2%**	12.5%

Headline sales rose by 17% while the underlying turnover of ongoing operations increased by 28% due chiefly to a full year contribution from the Spectris AG businesses acquired mid-way through 2000.

Operating profit (before exceptional items and goodwill amortisation) rose by 5% and by 15% in the continuing businesses.

Acquisitions

During the year, the acquisitions of the Mütek, Lumitron and IST businesses were completed for a total consideration of £11.7m. In aggregate, these entities' sales and operating profit contributions in the period were not material to the group results.

Disposals

Further to the strategic decision to divest the Filtration division, Fairey Arlon and Fairey Microfiltrex were disposed of. Additionally, as presaged at the time of the Spectris AG acquisition, the BTG Specialty Valves business was sold. The aggregate consideration received for these businesses, and two other minor businesses, net of costs, was £36.4m. At the year end, the remaining filtration business, Fairey Industrial Ceramics, was in the process of being divested, along with Luxtron and BTG's Coating Systems division.

Earnings per share	2001 p	2000 (restated) p
Basic earnings per share	**37.8**	26.4
Adjustment for exceptional items after tax and goodwill amortisation	**(4.2)**	8.3
Normalised earnings per share	**33.6**	34.7

Taxation

The effective tax rate on operating profit was 27.1% (2000: 29.4%). This is lower than the underlying rate as a consequence of the geographic mix of profit earned, the benefits derived from increasingly tax-effective structures, goodwill amortisation in the USA and the utilisation of tax losses, notably in the Spectris AG businesses.

The implementation of the new accounting standard on deferred tax (FRS 19) will be mandatory from 2002. It is estimated that its impact will be to increase the effective tax rate in 2002 and beyond by approximately two percentage points.

Financing and treasury

The group finances its operations from both retained earnings and third party borrowings at fixed and floating rates of interest. Where appropriate, interest rate swaps are used to manage the group's interest rate exposure. Taking account of interest rate swaps, 38% (2000: 43%) of the group's borrowings at the year end were at fixed rates, reflecting the attractiveness and availability of low variable interest rates.

In recognition of the fact that the majority of funding is acquisition driven, group policy is to ensure that at least 50% of borrowings are medium to long term in tenure. At the year end, 86% of borrowings were due to mature in more than three years and 30% in more than five years. The average cost of borrowing throughout the year was approximately 6.5%. The group operates globally, the principal overseas subsidiaries being in North America, Germany, Denmark, Switzerland, Sweden, Japan and China. In order to hedge the consolidated sterling balance sheet variations arising on foreign currency translation, net investments in overseas subsidiaries are financed through foreign currency borrowings.

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.

The relative strength of the US dollar with an average sterling/dollar exchange rate in 2001 of 1.44 (2000: 1.50) gave rise to translation gains of approximately £1m. Continuing weakness of the Euro and Yen, principally, had an immaterial impact overall on group results.

Cash flow	2001 £m	2000 £m
Net cash inflow from operating activities	**58.0**	53.9
Capital expenditure	**(29.8)**	(10.9)
Fixed asset disposals	**1.4**	5.0
Tax paid	**(12.8)**	(10.8)
Interest paid	**(11.4)**	(6.4)
Free cash flow	**5.4**	30.8
Dividends	**(11.5)**	(11.1)
Acquisitions/disposals	**31.1**	(153.5)
Shares issued	**0.4**	55.8
Purchase of fixed asset investments	**(4.3)**	(3.3)
Exchange difference	**1.0**	(7.6)
Other	**(0.1)**	(0.3)
Movement in net debt	**22.0**	(89.2)
Opening net debt	**(153.5)**	(64.3)
Closing net debt	**(131.5)**	(153.5)

Operating cash flow was £58.0m which, due to a higher than normal level of capital expenditure and the cash impact of exceptional costs and certain fair value adjustments, represented a cash conversion ratio of 71%.

Net debt fell by £22.0m in the year to £131.5m. Additional debt capacity available under committed credit lines was £68.1m at the year end.

Capital expenditure and related depreciation can be analysed as follows:

		2001		2000
£m	**Gross**	**Abnormal**	**Net**	
Spectris AG businesses	**22.3**	**(11.2)**	**11.1**	4.6
Non-Spectris AG businesses	**7.5**	**–**	**7.5**	6.3
Group total	**29.8**	**(11.2)**	**18.6**	10.9
As % of sales			**3.4%**	2.3%
Depreciation			**13.6**	11.0

Abnormal capital expenditure in the acquired Spectris businesses, as referred to in the interim statement, related to necessary catch-up investment and the buy-out of an onerous sale and leaseback arrangement in Denmark. It is anticipated that a residual amount of abnormal expenditure amounting to an estimated £3.4m will impact 2002, primarily relating to the redevelopment of the Darmstadt site for HBM.

Gearing, expressed as a fraction of total capital employed after adding back historical goodwill written off, was 29% (2000: 37%).

Interest cost was covered by operating profit 5.5 times (2000: 7.7 times) excluding the finance credit arising on adoption of FRS 17.

The trade working capital to sales ratio, excluding the impact of exceptional cost provisions and certain fair value adjustments, was 18%. This represented a slight deterioration in the non-Spectris AG businesses as a result of lower sales, higher demonstration stocks and some inventory last time buy issues. Conversely, the Spectris AG businesses improved, albeit modestly, with further gains anticipated in 2002.

Return on capital employed after adding back cumulative goodwill written off was 11.3% (2000: 12.5%).

Exceptional items

Exceptional gains of £19.8m were generated by the disposal of businesses described earlier in this report. Exceptional costs were incurred as follows:

£m	**2001**	2000	Total
Spectris AG businesses:			
Restructuring	**7.6**	5.9	13.5
Non-Spectris AG businesses:			
Restructuring	**4.4**	0.3	4.7
Legal costs	**1.2**	–	1.2
Gains on forward currency contract	**–**	(1.9)	(1.9)
Group total	**13.2**	4.3	17.5

At the time of the interim statement, the expectation that exceptional charges relating to the Spectris AG acquisition would not exceed £10m was reiterated. In light of the poor macro-economic environment, further initiatives were identified to reduce overheads and substantially restructure not only the acquired businesses, but also certain existing businesses. These opportunities gave rise to additional exceptional costs lifting the total in the acquired group to £13.5m and establishing other restructuring provisions principally at Fusion, Particle Measuring Systems, Servomex and Red Lion Controls, amounting in aggregate to £4.4m. The incremental savings impact in 2002 of these initiatives is expected to be no less than £4m.

Fair value adjustments

During the year, additional fair value adjustments were made in relation to the assets and liabilities acquired with the Spectris AG businesses. These referred principally to onerous contracts, contingent liabilities, fixed asset write-offs and additional net asset write-downs, the majority of which arose in the Brüel and Kjær Sound and Vibration business. The net impact of these adjustments was to increase goodwill by £18.3m.

FRS 17

In order to avoid complex, parallel reporting during the transitional period, and to demonstrate the adequacy of funding within the group's pension plans, Financial Reporting Standard 17, Retirement Benefits, has been adopted early and in full for the 2001 accounts. The figures for 2000 have been restated accordingly.

The impact of FRS 17 implementation has been to increase operating overheads by £0.4m (2000: £0.8m) and decrease interest expense by £0.8m (2000: £1.0m). Similarly, the group balance sheet in 2001 carries a net pension asset of £0.9m (2000: £4.8m).

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

Directors' report

The directors present their report and accounts for the year ended 31 December 2001.

Principal activities
The Spectris businesses are engaged in the development and marketing of precision instrumentation and controls. For 2001 reporting purposes, the businesses were grouped into four sectors: electronic controls, process instrumentation, the Spectris AG businesses acquired during 2000 and businesses sold or to be sold. Further details of the trading companies can be found in the Chief Executive's review (page 10). Developments in the group's business activities are discussed in the Chairman's statement (page 8), Chief Executive's review (page 10) and financial review (page 16).

The company's name was changed to Spectris plc from Fairey Group plc on 8 May 2001.

Acquisitions
During the year, the acquisitions of the Mütek, Lumitron and IST businesses were completed for a total consideration of £11.7m.

Disposals
The BTG Specialty Valves, Fairey Arlon, Fairey Microfiltrex and two other minor businesses were sold during the year. Total disposal proceeds were £36.4m net of expenses. Fairey Nuclear ceased trading at the year end and the Fairey Industrial Ceramics, Luxtron and BTG Coating Systems businesses were intended for disposal.

Share capital
The issued share capital at the year end consisted of 111,842,510 5p ordinary shares.

At the 2002 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 11 March 2002 interests notified to the company in accordance with Part VI of the Companies Act 1985 comprised:

Prudential plc
6,173,469 shares (5.52% material interest)

Morley Fund Management Ltd
5,444,146 shares (4.87% material interest)

Legal & General Investment Management Ltd
4,643,505 shares (4.15% material interest)

Royal & Sun Alliance Group plc
3,620,337 shares (3.24% material interest)

HBOS Group plc
3,475,373 shares (3.11% 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 8.5p per ordinary share is proposed for the year to 31 December 2001 (2000: 8.15p). With the interim dividend, this makes a total for the year of 12.25p (2000: 11.7p). The final dividend will be paid on 14 June 2002 to shareholders on the register on 17 May 2002.

The terms of the Spectris plc Qualifying Employee Share Ownership Trust and the Spectris 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.

Directors
The directors at 31 December 2001 are named on pages 14 and 15. During the year, Sir Robin Biggam retired from the Board after the AGM on 8 May 2001 and was succeeded as Chairman by John Poulter. Hans Nilsson became Chief Executive at that time. Andrew Given and James Otter were appointed to the Board on 5 June 2001 and Ron Williams retired from the Board on 10 July 2001.

John Poulter, Martin Lamb and Jim Webster retire from the Board by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Andrew Given and James Otter, having been appointed since the last AGM, retire from the Board under the terms of the Articles of Association and, being eligible, offer themselves for election.

The interests of the directors in the shares of the company and its subsidiaries at 31 December 2001 are disclosed in the remuneration report on page 22.

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 Wednesday 8 May 2002 at 11.30 a.m. 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 AG businesses acquired in July 2000 were progressively brought into compliance with the group's internal controls and processes during the year; and

- the remuneration committee does not consist exclusively of independent non-executive directors given John Poulter's previous service as an executive director.

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 non-executive directors, all non-executive directors save Mr Poulter being considered by the Board to be independent. 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.

There are procedures for individual Board members to receive induction and training as appropriate and to solicit independent professional advice at the group's expense 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 nomination, remuneration and audit committees. The nomination committee consists of the non-executive directors: Peter Watson (chairman), Andrew Given, Martin Lamb and John Poulter with the Chief Executive, Hans Nilsson, normally in attendance by invitation.

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

The remuneration committee is 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 composition of the committee is identical to that of the nomination committee, but it is chaired by Martin Lamb. Although the Combined Code recommends that remuneration committees should consist exclusively of independent non-executive directors, the Board considers it essential that John Poulter should serve on the committee in view of his position as Chairman of the Board and of his unique knowledge of the business and its people.

The audit committee again consists of the non-executive directors. It is chaired by Andrew Given 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

Spectris conducts regular dialogue with institutional shareholders and divulges such information as is permitted within the guidelines of the Listing Rules. The content of presentations made after results announcements 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 the audit, remuneration and nomination committees will be available to answer questions. The results of proxy votes are declared at the Annual General Meeting after each resolution has been dealt with on a show of hands.

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 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 separate internal audit function. The responsibilities which would otherwise fall to internal audit form an integral part of the group's control processes. Accounting reviews are undertaken by group financial management at all significant locations twice yearly and the group risk management function undertakes surveys of selected businesses on a regular basis to review their control processes. The need for a separate internal audit function is reviewed annually by the audit committee, which has concluded that for the present this would not be appropriate to the group's size and structure.

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

Remuneration report

The Board, in considering the recommendations of the remuneration 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' total 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. No bonuses will be earned in respect of 2001 performance.

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 nomination committee and the Board.

Executive directors participate in the group's executive share option plans, as do 201 other directors and managers within the business units. They also participate in the savings-related scheme along with 463 other employees. In normal circumstances, options are not exercisable within three years from grant. The group's policy, where regulations permit, is to purchase existing shares into trust in respect of options granted under the 1996 executive share plan, so as to limit dilution of existing shareholders' equity.

Exercise of share options granted under the 1996 executive share plan or the 1999 approved executive share option scheme are subject to prior achievement of a performance criterion, as approved by shareholders, requiring compound growth in normalised earnings per share ("EPS") over three financial 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 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 director within the group.

Following publication of new ABI guidelines in August 1999, a revised policy for grants of share options to executive directors was determined. Annual grants having an exercise value equivalent to base salary were made in March 2000 and March 2001, with the right to exercise being conditional upon achievement of a performance condition of compound EPS growth of RPI +3% during the three financial years after grant. Additionally, the remuneration committee authorised a further grant (subject to a similar performance criterion) in March 2001 equivalent to approximately 50% of base salary in recognition of the financial results achieved in 2000. Matching option grants were discontinued.

Company car and health insurance benefits 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 defined contribution arrangements to which the group contributes.

All executive directors have rolling contracts subject to twelve months' notice. These 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. With the exception of Mr Poulter, they do not have service contracts and do not participate in bonus, share option or pension arrangements. Mr Poulter retains share option grants received during his service as an executive director and will continue to accrue service on a part-time basis within the group defined benefit pension plan until November 2002. Mr Poulter will not receive any further share option grants and does not participate in any bonus arrangements. All non-executive directors' terms of appointment (including Mr Poulter's) provide for a six-month period of notice. All non-executive directors' terms of appointment further provide for a term of three years, which may be renewed by mutual agreement for a further three-year period. Mr Poulter's appointment embraces both terms.

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

	Salary	Bonus	Benefits in kind	Fees	**2001 Total**	2000 Total
Executive directors						
H D Nilsson	237	–	15	–	**252**	269
P V Boughton	180	–	13	–	**193**	237
J A Otter	98	–	6	–	**104**	–
J C Webster	185	–	12	–	**197**	245
J G Zacharias	180	–	12	–	**192**	236
Non-executive directors						
Sir Robin Biggam	–	–	–	21	**21**	50
A F Given	–	–	–	15	**15**	–
M J Lamb	–	–	–	25	**25**	20
J W Poulter	125	–	11	58	**194**	388
P Watson	–	–	–	25	**25**	20
R Williams	–	–	–	15	**15**	22
	1,005	–	69	159	**1,233**	1,487

Sir Robin Biggam and R Williams retired from the Board on 8 May 2001 and 10 July 2001 respectively. A F Given and J A Otter were appointed to the Board on 5 June 2001. J W Poulter became a non-executive director with effect from 9 May 2001.

b) Directors' pensions

	2001 £'000	2000 £'000
Company contributions to defined contribution plans:		
H D Nilsson	**47**	35
P V Boughton	**36**	30
J A Otter	**8**	–
J C Webster	**37**	31
J G Zacharias	**36**	29
Defined pension benefits earned by directors:		
J W Poulter: Increase in accrued pension during the year	**24**	23
Transfer value of increase in benefits	**363**	675
Total accrued pension entitlement at year end	**133**	105

The accrued pension entitlement is the amount that will be paid each year on retirement at age 60 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. 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

	2001 £'000	2000 £'000
Aggregate emoluments	**1,233**	1,487
Company pension contributions to defined contribution schemes	**164**	125
Gains made on exercise of share options	**–**	–
	1,397	1,612

d) Directors' interests

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

	Shareholdings		Options	
	2001 31 December (or date of retirement)	2001 1 January (or date of appointment)	2001 31 December (or date of retirement)	2001 1 January (or date of appointment)
Sir Robin Biggam	23,332	23,332	–	–
J W Poulter	208,965	323,294	387,760	297,030
H D Nilsson	4,666	4,666	261,374	147,863
P V Boughton	26,595	26,595	270,424	215,986
A F Given	–	–	–	–
M J Lamb	3,000	3,000	–	–
J A Otter	–	–	21,594	–
P Watson	11,666	11,666	–	–
J C Webster	8,772	8,772	313,946	257,996
R Williams	3,500	3,500	–	–
J G Zacharias	3,266	3,266	234,312	179,874

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) Directors' interests in options to purchase ordinary shares

	Date granted	Options held 1 January 01	Granted	Exercised	Lapsed	Options held 31 December 01	Exercise price (p)	Date exercisable	Expiry date
J W Poulter	Sept 1994	30,778				30,778	388.9081	Sept 1997	Sept 2004
	June 1996	41,037				41,037	661.8261	June 1999	June 2006
	Mar 1997	25,648				25,648	538.5256	Mar 2000	Mar 2007
	Mar 1998	15,389				15,389	550.7095	Mar 2001	Mar 2008
	Mar 1998	15,389				15,389	5.00	Mar 2002	Mar 2005
	Sept 1998	35,908				35,908	238.8032	Sept 2001	Sept 2008
	Sept 1998	35,908				35,908	5.00	Mar 2002	Sept 2005
	Mar 1999	20,518				20,518	321.6533	Mar 2002	Mar 2009
	Mar 1999	20,518				20,518	5.00	Mar 2003	Mar 2006
	Mar 2000	48,715				48,715	513.1832	Mar 2003	Mar 2010
	Mar 2001		90,730			90,730	498.50	Mar 2004	Mar 2011
SAYE	Oct 1998	7,222				7,222	238.8032	Dec 2003	June 2004
		297,030	**90,730**			**387,760**			
H D Nilsson	Mar 1998	30,572				30,572	550.7095	Mar 2001	Mar 2008
	Mar 1998	25,648				25,648	5.00	Mar 2002	Mar 2005
	Sept 1998	10,259				10,259	238.8032	Sept 2001	Sept 2008
	Sept 1998	10,259				10,259	5.00	Mar 2002	Sept 2005
	Mar 1999	15,389				15,389	321.6533	Mar 2002	Mar 2009
	Mar 1999	15,389				15,389	5.00	Mar 2003	Mar 2006
	Mar 2000	33,125				33,125	513.1832	Mar 2003	Mar 2010
	Mar 2001		63,511			63,511	498.50	Mar 2004	Mar 2011
	Oct 2001		50,000			50,000	357.50	Oct 2004	Oct 2011
SAYE	Oct 1998	7,222				7,222	238.8032	Dec 2003	June 2004
		147,863	**113,511**			**261,374**			
P V Boughton	Sept 1994	20,518				20,518	388.9081	Sept 1997	Sept 2004
	Sept 1995	20,518				20,518	525.3671	Sept 1998	Sept 2005
	June 1996	20,518				20,518	661.8261	June 1999	June 2006
	Mar 1997	15,389				15,389	538.5256	Mar 2000	Mar 2007
	Mar 1998	10,259				10,259	550.7095	Mar 2001	Mar 2008
	Mar 1998	10,259				10,259	5.00	Mar 2002	Mar 2005
	Sept 1998	25,648				25,648	238.8032	Sept 2001	Sept 2008
	Sept 1998	25,648				25,648	5.00	Mar 2002	Sept 2005
	Mar 1999	15,389				15,389	321.6533	Mar 2002	Mar 2009
	Mar 1999	15,389				15,389	5.00	Mar 2003	Mar 2006
	Mar 2000	29,229				29,229	513.1832	Mar 2003	Mar 2010
	Mar 2001		54,438			54,438	498.50	Mar 2004	Mar 2011
SAYE	Oct 1998	7,222				7,222	238.8032	Dec 2003	June 2004
		215,986	**54,438**			**270,424**			
J A Otter	Oct 2001		20,000			20,000	357.50	Oct 2004	Oct 2011
SAYE	Oct 2001		1,594			1,594	357.50	Dec 2004	June 2005
			21,594			**21,594**			

	Date granted	Options held 1 January 01	Granted	Exercised	Lapsed	Options held 31 December 01	Exercise price (p)	Date exercisable	Expiry date
J C Webster	Mar 1994	41,037				41,037	369.6576	Mar 1997	Mar 2004
	Sept 1994	20,518				20,518	388.9081	Sept 1997	Sept 2004
	Sept 1995	20,518				20,518	525.3671	Sept 1998	Sept 2005
	June 1996	20,518				20,518	661.8261	June 1999	June 2006
	Mar 1997	15,389				15,389	538.5256	Mar 2000	Mar 2007
	Mar 1998	10,259				10,259	550.7095	Mar 2001	Mar 2008
	Mar 1998	10,259				10,259	5.00	Mar 2002	Mar 2005
	Sept 1998	25,648				25,648	238.8032	Sept 2001	Sept 2008
	Sept 1998	25,648				25,648	5.00	Mar 2002	Sept 2005
	Mar 1999	15,389				15,389	321.6533	Mar 2002	Mar 2009
	Mar 1999	15,389				15,389	5.00	Mar 2003	Mar 2006
	Mar 2000	30,202				30,202	513.1832	Mar 2003	Mar 2010
	Mar 2001		55,950			55,950	498.50	Mar 2004	Mar 2011
SAYE	Oct 1998	7,222				7,222	238.8032	Dec 2003	June 2004
		257,996	**55,950**			**313,946**			
J G Zacharias	Mar 1996	4,924				4,924	597.4954	Mar 1999	Mar 2006
	June 1996	20,518				20,518	661.8261	June 1999	June 2006
	Mar 1997	15,389				15,389	538.5256	Mar 2000	Mar 2007
	Mar 1998	10,259				10,259	550.7095	Mar 2001	Mar 2008
	Mar 1998	10,259				10,259	5.00	Mar 2002	Mar 2005
	Sept 1998	25,648				25,648	238.8032	Sept 2001	Sept 2008
	Sept 1998	25,648				25,648	5.00	Mar 2002	Sept 2005
	Mar 1999	15,389				15,389	321.6533	Mar 2002	Mar 2009
	Mar 1999	15,389				15,389	5.00	Mar 2003	Mar 2006
	Mar 2000	29,229				29,229	513.1832	Mar 2003	Mar 2010
	Mar 2001		54,438			54,438	498.50	Mar 2004	Mar 2011
SAYE	Oct 1998	7,222				7,222	238.8032	Dec 2003	June 2004
		179,874	**54,438**			**234,312**			

Shares other than those marked SAYE relate to executive share option grants. Entitlement to exercise such grants is conditional upon a performance criterion requiring compound growth in normalised earnings per share ("EPS") over the three financial years after grant of at least 2% per annum (3% for grants on or after March 2000) in excess of the increase in the retail prices index. 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 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%.

At 31 December 2001 the mid share price on the London Stock Exchange was 481p. The highest share price in the year was 605p and the lowest was 333.5p. At 31 December 2001 each of the executive directors was deemed to have a non-beneficial interest in 2,851,891 ordinary shares held by the Trustee of the Spectris plc Employee Benefit Trust and 27,822 ordinary shares held by the Trustee of the Spectris plc Qualifying Employee Share Ownership Trust, the directors being amongst the class of discretionary beneficiaries.

Social, ethical and environmental statement

"Spectris – a contributor to a better environment"

Responsibility for developing overall policy on social, ethical and environmental matters and for reviewing its effectiveness lies with the Board. It is then the responsibility of Spectris operating units to communicate and apply that policy within their 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. In addition, the Board confirms there is an ongoing process for identifying, evaluating and managing any significant risks, including those arising from social, ethical and environmental matters. This process forms part of the group's system of internal controls and is carried out within each operating business and reviewed regularly by the business group directors and the audit committee. Additionally, the executive directors report to the Board on any changes in the business and external environment which present significant risk, whilst regular reports on legal exposure and insurance matters are received from the company secretary.

Spectris was designated a member of the FTSE4Good UK index of socially responsible companies on its establishment in July 2001.

Environment

Spectris is committed to adopting environmentally responsible policies in its internal operations wherever its companies operate around the world. The group's policy is to:

- invest in new products and applications to enable our customers to meet or exceed their environmental aspirations;
- maintain an awareness of best practice and take steps to minimise raw 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.

Spectris products do not require capital-intensive manufacturing processes and hence their manufacture generally has a low overall environmental impact. However, the group is committed to improving its environmental performance and any commercially viable actions to minimise the impact on the environment are taken. Brüel & Kjær Sound & Vibration received an award for the clean-up at its site in Nærum, Denmark, of soil which had been contaminated many years ago.

Spectris complies with the UK Producer Responsibility Obligations (Packaging Waste) Regulations which set targets for the recovery and recycling of packaging waste. The company provides packaging data as evidence of compliance with the scheme. In addition, the company has specified recycled paper for the production of this Report and Accounts. The front section of the Report is printed on Mega Matt which is made from 50% recycled and 50% chlorine-free pulp. The Accounts section is printed on Revive Silk which is made from 75% chlorine-free, de-inked post-consumer waste and 25% mill waste and virgin fibres.

Most Spectris products provide 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. Some current examples where the use of our products has a direct beneficial contribution are shown on the company's website at www.spectris.com.

Health and Safety

The group's policy ensures that, so far as is reasonably practicable, every step is taken to ensure the health and safety at work of all employees of all Spectris companies. Operating management are required to do everything reasonably practicable to provide and maintain plant and equipment, all service installations, systems of work, a workplace and a working environment which are safe and without risk to health. There is a similar responsibility insofar as the use and transport of articles and substances is concerned.

The group's Health and Safety at Work policy requires that:

- all information, instruction, training and supervision necessary to ensure the health and safety at work of all employees is provided;
- the necessary organisation and line of responsibility for health and safety is established and maintained;
- the necessary safety devices and protective clothing are available;
- the co-operation of all employees is encouraged by discussions and consultation with them and their representatives with a view to promoting and developing measures to ensure health and safety at work;
- the effectiveness of such measures is checked on a regular basis.

Directors' report continued

All companies (and where appropriate, each location) issue and bring to the notice of their employees a written statement of their policy with respect to health and safety at work. Audits of health and safety policies and procedures are undertaken at all major locations by external assessors acting on behalf of the group's insurers on a periodic basis.

Social and ethical policy

Spectris businesses operate mainly in Europe and the US, but with a growing presence in the Asia Pacific region. Inevitably, different social and employment conditions exist in different operations, but Spectris places the highest priority on compliance with legislative and ethical requirements within all jurisdictions in which business is conducted, particularly with respect to employment practices, labour rights and equal opportunities. The responsibility for implementing the policy is delegated to individual business units, with operational policies tailored to suit local needs.

Spectris products do not require capital-intensive manufacturing processes and hence the labour impact of production operations is minimal. Operations based in Asia Pacific, predominantly in China, comprise modern facilities located in business parks and adopt employment conditions consistent with best local practice.

The group's policy requires all operating companies to conform to the following requirements:

- adherence to all legislation relating to employment rights and equal opportunities, with particular reference to ethnic origin, religion, gender, age, disability, sexual orientation and harassment;
- prohibition of any extra contractual gratuities, inducements or similar, including compliance with the US Foreign Corrupt Practises Act;
- prohibition of donations to any political party or similar organisation;
- purchase of legal title or licence to all software in use;
- compliance with all export control regulations.

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. In addition, the group has specific policies relating to child labour which prevent workers under the school-leaving age of the country of employment from being employed in any Spectris operations. Other policies exist in relation to working time regulations and data protection. The group recognises the value of consultation with employees and Works Councils represent employees in those areas where these are applicable.

The group monitors compliance with the policy through various processes, including consolidated Equal Employment Opportunities Commission returns which are produced in the US.

A commitment to employee training and development, together with remuneration policies which are designed to reward achievement, emphasise the importance of retaining staff throughout the group. Local policies, based on overall group guidelines, are set by individual managements according to the needs of their business and local conditions.

Spectris operating companies worldwide support and participate in various local community activities. Charitable donations in 2001 totalled £18,000 (£5,000 in the UK). No political donations were made.

Spectris 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. In addition, the group distributes a quarterly electronic newsletter, Perspectives, which keeps employees abreast of group progress (and is also available to shareholders at www.spectris.com). Financial participation in the group is encouraged through the Savings Related Share Option Scheme in the UK and executive share options are granted to all senior management and to key staff at all levels worldwide.

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

Roger Stephens

R J Stephens
Secretary, 11 March 2002

Independent auditors' report to the members of Spectris 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 above 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 1985. 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 Listing Rules, 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 2001 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, 11 March 2002