

# **THE MTL INSTRUMENTS GROUP PLC**

**ACCOUNTS – 31 DECEMBER 2000**

**REGISTERED NUMBER : 1871978**



## Table of contents

Chairman's statement	2
Results at a glance	4
Financial and operational review	5
Five-year summary	13
Directors' report	14
Corporate governance	16
Board report on remuneration	18
Auditors' report	19
Group profit and loss account	20
Group statement of total recognised gains and losses	20
Balance sheets	21
Group cash flow statement	22
Statement of accounting policies	23
Notes to the accounts	25
Notice to meeting	41
Financial calendar	42
Directors and advisers	43
Group operating companies	44

# Enabling

# Open

# Control

# Solutions

The MTL Instrument Group is recognised as a world leader in the development and supply of innovative Safety, Process Control and Surge Protection products aimed at the process control and telecommunications industries. Many of the world's celebrated process manufacturers are protected and served by MTL products and the Group is recognised by the global network of telecommunications companies as the acknowledged world leader in the provision of surge protection solutions.

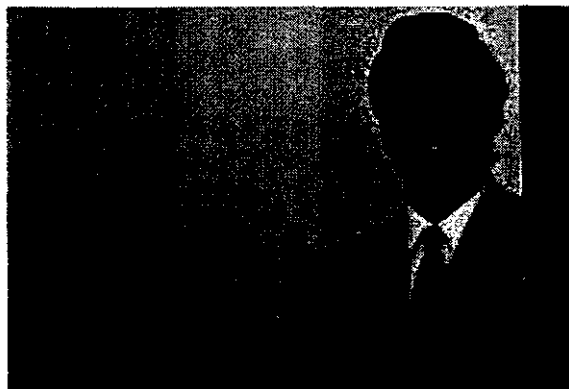
With its reputation for safety and reliability, the process control sector is the backbone of the world's economy and the products from MTL provide essential protection for safety and reliability. This is a complex and demanding area of the process control industry and MTL's surge protection products are the backbone of the industry.

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## Chairman's statement



"MTL is increasingly perceived to be a standard setter in the newly evolving 'Open Control' market and a leader in enabling open control solutions".

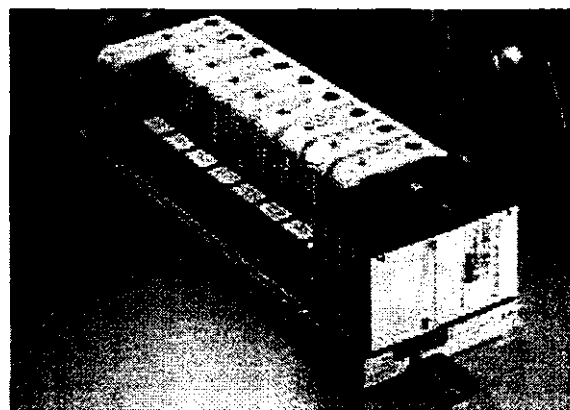
The year 2000 was a critical period for MTL, in which we took major steps forward implementing our strategy to develop the Process Automation and Surge Protection businesses, as outlined in our last Annual Report and Accounts, and in my Interim Report of August 2000.

During the year, we acquired two companies headquartered in the USA, greatly enhancing our capabilities and growth opportunities in the global markets for Process Automation and Surge Protection. Atlantic Scientific Corporation (ASC) was acquired in January 2000 for a consideration of \$6.5 million and Standard Automation in November 2000 for \$13 million, plus a potential earn-out over 3 years of \$7 million.

This has enabled MTL to diversify into a number of related markets, and has reduced its dependence on the oil and gas industry.

These acquisitions are strategically important for MTL. As a result of the acquisition of ASC, the Surge Protection business grew to 17% of Group turnover, and we are now able to offer a range of products for the protection of data transmission and telecommunications networks, as well as for process control signals and industrial mains installations.

MTL is increasingly perceived to be a standard setter in the newly evolving "Open Control" market and a leader in enabling open control solutions. The acquisition of Standard Automation (SA) accelerates our ability to capitalise on this and brings us both a control software product, and an experienced and successful sales force.



The results for 2000 were in line with previously indicated expectations. Pre-tax profits were £2.3 million giving a basic earnings per share of 7.3p. The directors are recommending a final dividend of 3.5p, taking the total to 6.0p.

The IS business suffered a 9.8% fall in revenues to £31.4 million. This was not fully offset by growth of 84% in our Process Automation business to £6 million



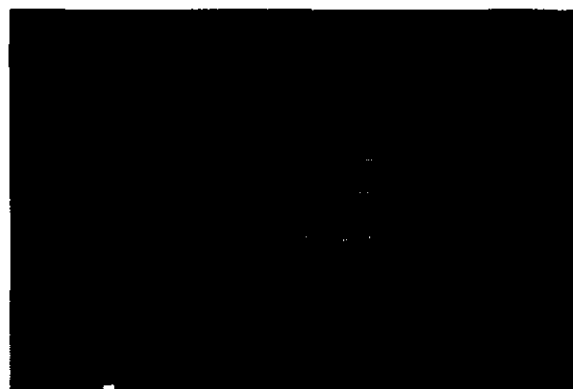
## Chairman's statement (cont.)

and 131% growth in Surge Protection to revenues of £8.1 million. Our Gas Analysis business was flat at £1.2 million. SA, which was part of the Group for the last six weeks of the year, contributed the remaining £1.8 million.

Intrinsic Safety is still our largest business at 65% of turnover, but continuing weakness of investment levels in the oil and gas sector caused the drop in revenues. However, order activity began to pick up at the end of the year, signalling potential recovery in this business.

It is encouraging to note that our continuing high level of investment in product development, at just under 10% of sales, over the last few years is producing growth in our newer businesses.

In particular, the MTL 8000 series, a distributed I/O system, continued its success in the market, and both the Honeywell and GE Fanuc Systems were launched in the autumn.



The Board is determined to continue this success and, with the acquisition of SA, we can now work with Systems Integrators to widen our channels to the market

for the 8000 series, and directly address the needs of end users.

In addition, we are committed to further growth for the Surge Protection business. During 2001 we will be exploiting MTL's international distribution capabilities to bring our wide range of products to global markets.

"It is encouraging to note that our continuing high level of investment in product development, at just under 10% of sales, over the last few years is producing growth in our newer businesses".

With the potential recovery in our IS markets and the continuing exploitation of our new products and capabilities in Process Automation and Surge Protection, the Board is confident that MTL can continue to deliver on the strategy formulated several years ago when I became Chairman. Our management and staff are fully committed to the realisation of this strategy, and I thank them here for all their continuing efforts.

We all look forward to the opportunities of 2001 and the resumption of long term growth in revenues and profits.

**Malcolm Coster**  
**Chairman**

# Results

## At a glance

Turnover

Profit before tax

Basic earnings per share

Dividends per share

Year ended 31 December

2000

1999

£'000

£'000

48,485

42,766

2,280

3,480

7.3p

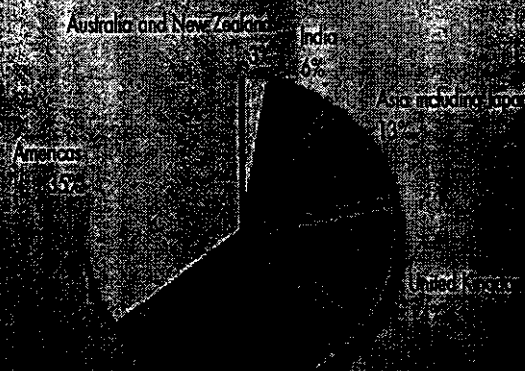
11.7p

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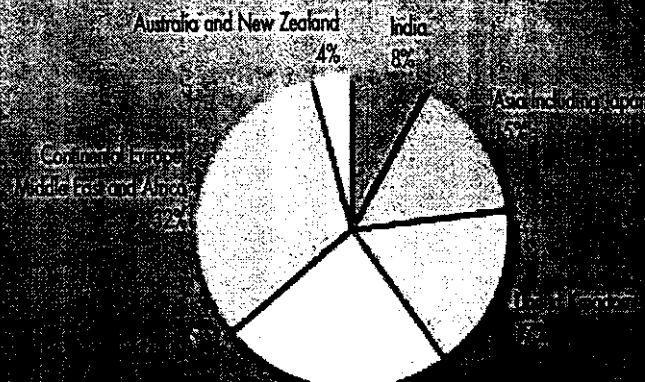
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## Analysis of sales by region

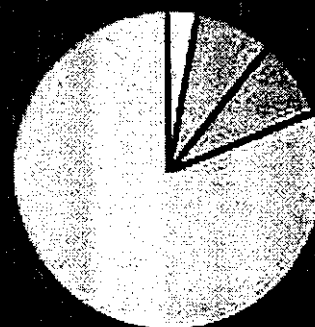
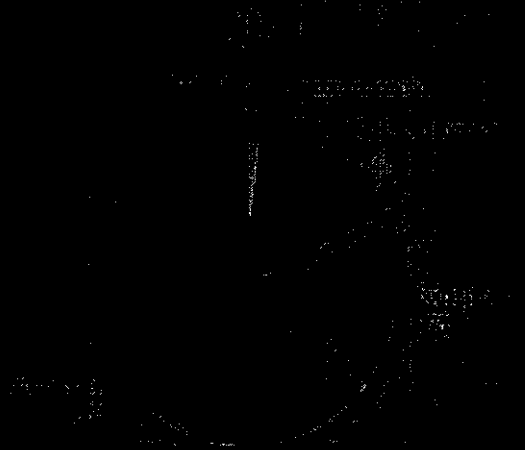
2000



1999

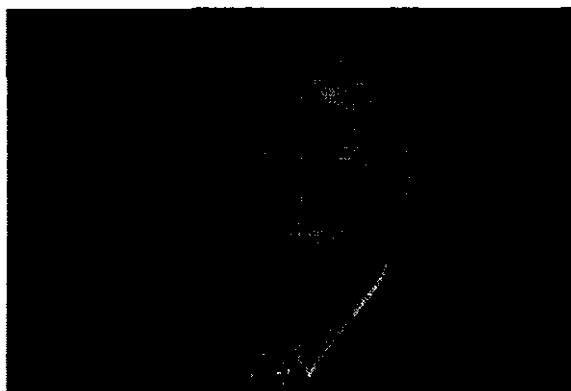


## Analysis of sales by business unit





## Financial and operational review



"The directors believe that our strategy of combining product development activity with strategic acquisitions will secure the Group's position as an innovator in these rapidly developing markets".

### Group Overview

The Process Control industry had another difficult year as investment levels in the oil and gas industry continued to be weak, only showing signs of recovery late in the fourth quarter. In keeping with our strategy, MTL has continued to invest in business areas which broaden the Group's base in industrial automation and extend its reach into the electrical protection of telecommunication and data networks. During the period MTL completed two further acquisitions in pursuit of these goals and saw significant growth in both the Process Automation and Surge Protection businesses. The directors believe that our strategy of combining product development activity with strategic acquisitions will secure the Group's position as an innovator in these rapidly developing markets.

### Group Performance

Group sales grew by 13.4% to £48.5 million, driven by first year contributions from the two acquisitions made in 2000. Total sales in the existing business were down 3.1%. The slowness of our Intrinsic Safety business, down 9.7%, was partly offset by accelerating demand for our Process Automation business, which grew by 84%.

The overall gross margin for the year was 51.4%, compared to the 54.0% achieved in 1999. There were two main reasons for this reduction. Firstly, our manufacturing efficiency was impaired by component shortages, which affected the whole of the technology industry in 2000. Secondly, the mix of business moved towards slightly lower margin product.

Despite weak trading conditions in the Process Control sector, the Board again opted to continue a high level of investment in design and development. The Board also identified suitable acquisitions, which developed a broader base for the company in Surge Protection, and carved out a position in the newly emerging Process I/O market. Nevertheless, design and development costs were reduced by 7%, from an exceptionally high 1999, to £4.7 million. At 9.6% of sales this was in line with our long-term philosophy on design and development investment levels.

Operating expenses were lower in the second half of the year following a fundamental reorganisation of the structure of the Group businesses. This resulted in staff reductions in our UK operations and closure of one site. There was a smaller impact elsewhere in the world. The restructuring has enabled us to align our resources

## Financial and operational review (cont.)

more closely with our strategic vision and growth plan. We were also able to reduce administrative costs generally by taking advantage of the new ERP system, to enable the Group to afford further investment in new areas of product development, enhancements in our IT systems around the world and a strengthening of our front line sales teams. Restructuring costs of £1.0 million were incurred during the year and annualised savings of £1.8 million were achieved. Overall operating expenses for the year, excluding goodwill amortisation, were up by 7% over those in 1999, to £21.2 million. This figure includes the effect of the two acquisitions and compares favourably with the 13% increase in sales.

As a result of the assumption of bank debt to finance acquisitions, the net interest charge for the year was £132k compared with a net income of £99k in 1999.

Taxation charge for the year increased to 38.9%, due partly to higher US profits and partly to unrelieved losses in some overseas subsidiaries.

### Cash Flow

Two cash acquisitions, Atlantic Scientific Corporation (ASC) and Standard Automation (SA), together with the buyout of the remaining minority interests in MTL India and Hitech have moved the Group into a net debt position of £8.2 million from the positive net funds position of £5.9 million at the start of the year.

Acquisition costs including fees were £4.2 million for ASC and £9.5 million for SA. These were both US dollar denominated acquisitions with long-term debt of \$12 million being put in place to fund the SA deal.

During the year we bought out the final minority interests in MTL India and Hitech for £800K and £176K respectively.

### Foreign Currency

An increasing proportion of the Group's turnover is generated in foreign currencies and a significant proportion is sourced from the UK. Our policy is to cover foreign currency exposure on trading balances by the use of forward contracts and currency overdrafts but not generally to hedge future trading exposure.

We are reviewing our policy in the light of our greater exposure to the US dollar following the acquisitions in 2000. We already have a natural hedge in place for a part of the balance sheet exposure through the US\$12 million loan that financed the Standard Automation acquisition.

## Business Units

### Intrinsic Safety

MTL is a world leader in Intrinsic Safety (IS) interfaces which are used to protect instrumentation and control equipment in hazardous (potentially explosive) environments. MTL's equipment is used throughout the process control industry but has particular relevance to the oil and gas and pharmaceutical sectors. Although the reduction of IS sales from 81% to 65% of Group turnover was compensated by solid growth in our other business areas, IS remains our largest and core activity.

As was the case in 1999, sales in the IS business were affected by the lack of project business in the oil and gas sector and the year ended 9.7% down at £31.4 million.



## Financial and operational review (cont.)



Gross margin percentage was down 0.7% on 1999 to 52.8%, the main influence being a worldwide shortage of some types of semiconductor components caused by strong demand in the telecommunications industry. This resulted in component price increases during the year and the parts shortages had an adverse effect on manufacturing efficiency.

There are signs that recovery in investment levels in the oil and gas sector has begun. MTL began to see evidence of this during November and December when order activity, particularly in relation to project business, began to return to close to historical levels. As a result, the IS business finished the year with orders on hand of £3.2 million.

**"Together MTL and Relcom are the dominant force in Foundation Fieldbus power supplies".**

For some time the Intrinsic Safety business unit has been developing power supplies to enable the new generations of industrial data busses to be used in hazardous areas. One of the busses with the most

relevance to the process control industry is Foundation Fieldbus and MTL has developed a range of intrinsically safe power supplies for this emerging bus standard. During the year MTL formed a collaborative partnership with another leader in this area, the US company Relcom. Together MTL and Relcom are the dominant force in Foundation Fieldbus power supplies. We expect to see significant growth in this market over the next two years.

### Process Automation

**"The market is pushing for a more 'open' approach and recent advances in microprocessor technology together with international standards activity to define communications standards (or fieldbuses) have combined to enable manufacturers such as MTL to offer best of breed 'open' system components".**

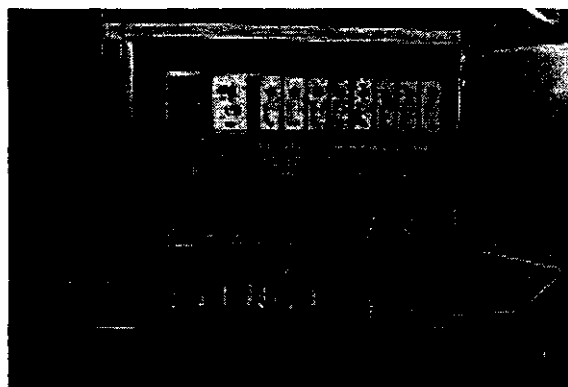
The Process Automation business unit contains our traditional distributed I/O\* products and our new MTL 8000 family. The aim of the business unit is to develop into a major supplier of Open Control products for the process industries. The term "Open Control" describes the emerging trend for solution providers and system integrators to solve customer application problems by using "best of breed" hardware and software products which are designed to work together using open communications protocols and, as near as possible,

\* Distributed I/O (input/output) is a technique for converting measurement signals from an industrial plant into a form which can be understood by the computer doing the plant control and then reconverting the control signals issued by that computer into a form which can drive valves, actuators, motors etc. on the plant. The modern trend is to place this I/O out in the plant environment with data busses connecting it to the remotely mounted control or monitoring computer.



## Financial and operational review (cont.)

complete interoperability. This is to be contrasted with the existing approach of buying process control systems where end-users tend to go to one of the major control system suppliers for all of its hardware, software and system integration requirements. This practice results in much of today's process control equipment being proprietary and non-interoperable, giving end-users little flexibility in their choice of future supplier for plant modifications or upgrades. The market is pushing for a more "open" approach and recent advances in microprocessor technology together with international standards activity to define communications standards (or fieldbuses) have combined to enable manufacturers such as MTL to offer best of breed "open" system components.



MTL's approach to this emerging market has been to develop the MTL 8000 series, a distributed I/O system that is expandable to become a complete distributed control platform. Aimed specifically at the requirements of the process control industry (as distinct from the less onerous factory automation environment), the MTL 8000 has already gained a high level of acceptance in the market and MTL are seen as innovators in this area.

Traditional process control providers are increasingly realising the benefits of buying in the MTL 8000 rather than developing new platforms of their own. The first to become directly involved was Fisher Rosemount in 1996. During 1999 two other majors, Honeywell and Moore Process Automation Solutions (now part of Siemens) also signed contracts with MTL and early in 2000 these were joined by GE Fanuc.

During the year MTL completed the development of the Honeywell and GE Fanuc systems and these were both launched in the autumn of 2000. Overall sales for the year were close to expectations at £6.0 million despite the fact that consolidation activity at Moore, GE and Honeywell had a distracting effect on sales through these channels.

In order to build on the initial foothold MTL have gained through their OEM partners, the next part of the Process I/O strategy involves the design of an open control platform aimed at both the OEM and the end user markets. For smaller scale and less onerous control schemes, where traditional DCS systems are too sophisticated or expensive, and users have begun to turn to PC based control systems put together by system integrators. Whilst PCs are excellent as operator interfaces they are less ideally suited to real time control applications. The MTL 8000 control platform offers system integrators the ability to run their control algorithms inside the 8000 rather than in the PC, freeing the PC for operator interface, configuration and historian duties. This is an exciting and fast growing sector of the market and one for which the MTL 8000 architecture was specifically developed. In order to be



## Financial and operational review (cont.)

successful in this market, however, we needed to find a control software package which would run on the MTL 8000 platform and we also needed to introduce new skills in our sales channels especially in the USA where we sell through an indirect channel. Standard Automation, based in Texas but with offices across the South West of the US was a close to perfect fit, offering an excellent control software product called "ControlPlus" and a sales-force used to selling software and hardware for PC based control systems to system integrators. In November 2000 Standard Automation was acquired by MTL for a cash consideration of \$13 million plus a potential earn-out over the next 3 years of \$7 million. We do not intend to become a supplier of complete control systems. MTL are supplying a control platform which is intended to be used either as the basis of the control systems offered by these companies or to be used by system integrators in conjunction with existing SCADA packages. This acquisition is expected to make a small profit in 2001 before goodwill amortisation and interest charges on the financing, but is planned to make a positive contribution to earnings in the second half of 2002.

### Surge Protection

"MTL has identified Surge Protection as a major technology enabler for industrial field mounted equipment, and has embarked on a growth programme based on a combination of organic growth and acquisitions".

Our Surge Protection business represents the second of our main growth initiatives. As more equipment on process plants and elsewhere is moved out of centralised control rooms and is distributed around the plant, the need for protection against lightning and other induced voltage surges becomes ever greater. MTL has identified Surge Protection as a major technology enabler for industrial field mounted equipment, and has embarked on a growth programme based on a combination of organic growth and acquisitions. Telematic, MTL's UK based Surge Protection company was acquired in 1994 and augmented an existing small MTL business. The acquisition of Florida-based Atlantic Scientific Corporation (ASC), in January 2000, further strengthened the Group's position in this growth market.

As a result of the acquisition of ASC, MTL can now offer a wide range of surge protection products for the protection of process control signals, data transmission networks, telecommunication networks (land-line and wireless) and industrial mains installations. The Surge Protection business unit accounted for 17% of the Group's turnover in 2000 compared with 8% in 1999.

The Telematic surge protection brand is aimed at the process control, utilities and industrial mains protection markets. To date, most of its revenue has come from its process control products. Telematic experienced the same tough market conditions as have the Intrinsic Safety and I/O businesses and sales in 2000 were down 19% to £2.8 million. In common with the other two business units, the order intake rate picked up significantly in November and December as the project

## Financial and operational review (cont.)

business began to return. In October we moved Telematic from its St Albans site onto the same Luton campus as MTL's international headquarters and the central manufacturing operation. This will result in operational efficiencies as well as giving Telematic easier access to the European sales team, who also have their headquarters on this site.



The ASC surge protection brand is targeted towards wireless telecommunication and data networking markets. Wireless and network systems are highly vulnerable to the effects of lightning and surge voltages; equally significant is that these applications are often viewed as mission critical. The need to protect these applications will continue to increase over the coming years, presenting MTL with significant growth potential.

ASC was acquired for a consideration of \$6.5 million. Its products are largely complementary to those of Telematic and extend MTL's coverage to include the Wireless Telecommunications sector. Since joining MTL, ASC's sales have increased by 77% to £5.3 million (from £3.0 million in 1999) due in large part to the success in the USA of its new range of protection equipment for mobile phone base stations. During 2001 it is planned to utilise MTL's international sales

organisation to continue the globalisation of both the Telematic and ASC brands.

### Gas Analysis

Hitech Instruments is MTL's UK-based gas analysis company. Its instruments are used in a variety of applications across the industrial spectrum from combustion control and the heat treatment of metals to quality control for modified atmosphere packaging of foods (a technology in which it is a UK market leader).

Hitech's sales in 2000 were approximately the same as the previous period at £1.2 million. Management effort during the year has focused on putting in place distributor agreements to further internationalise sales. Unlike the rest of the Group, Hitech tends to sell through a channel of third party specialist distributors rather than through the main MTL sales force. A promising channel has now been established in the US, which should begin to deliver results during 2001.

## Markets

MTL markets and sells most of its products through its three regional sales organisations in the Americas, Asia-Pacific and EMEA (Europe, the Middle East and Africa). Sales through these three operations account for 73% of the turnover of the Group, the remaining 27% being accounted for by global key accounts, OEMs and some direct selling by ASC and Hitech.

### The Americas

The Americas are home to some of MTL's largest OEM and key account customers and, although the domestic market for intrinsic safety is challenging due to strong competition from an alternative method of explosion

## Financial and operational review (cont.)

protection known as "explosion-proof" technology, there is a large and important engineering and re-export market. Whilst MTL is the clear market leader in intrinsic safety in the USA there is still scope for growth in Latin America where some of our competitors are quite strong.

The USA is of particular importance to the Surge Protection business unit. ASC's sales have traditionally been US focused and sales of the Telematic product range also grew during the year, still benefiting from the establishment, over two years ago, of a dedicated sales management team in the region

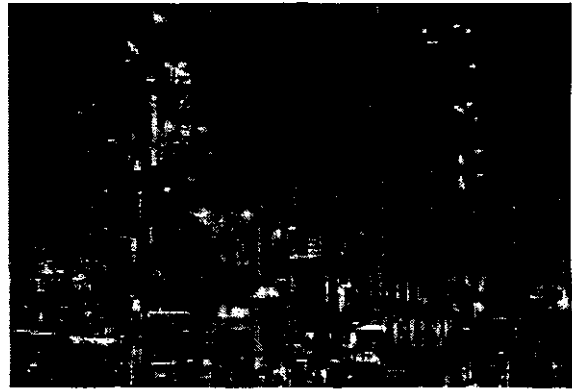
With the inclusion of the business generated by the Standard Automation acquisition our reliance on the Americas has increased in 2000. Overall in 2000 the Americas represented 35% of MTL's worldwide revenue, up from 24% in 1999. This will increase further in 2001 when a full year's contribution from Standard Automation is included.

### Asia-Pacific

"In the last two years the main vehicle of growth in the region has been China which we managed through our Singapore operation. Sales grew a further 10% in 2000".

Asia-Pacific has been a fast growing region for MTL over the past five or so years and despite the weakness in the process control market over the last two years, we expect to see growth recover in 2001. In 2000 the

region represented 22% of MTL's worldwide sales, down from 27% in 1999.



In the last two years the main vehicle of growth in the region has been China which we managed through our Singapore operation. Sales grew a further 10% in 2000. In the period we demonstrated our commitment to China by establishing a Wholly Owned Foreign Trading Company (WOFTC) in Wai Gao Qiao Free Trade Zone near Shanghai. This gives us legal trading status in China and will allow us to develop our business still further in this important country.

Asia-Pacific is one of the few areas of the world where there is still a significant level of "green field" projects as opposed to the more usual existing plant extensions and refurbishments. This makes the region particularly receptive to new technologies like Fieldbus and the MTL 8000. It is also an area of frequent lightning activity and consequently a very promising market for our industrial surge protection products.

### Europe, The Middle East and Africa (EMEA)

Despite the tough trading conditions during the year, MTL sales in EMEA grew by 2%. The lion's share of this growth came from the Middle East, (up 50%) and our

## Financial and operational review (cont.)

systems company in The Netherlands (up 60%). Whilst EMEA is MTL's largest sales region (accounting for 43% of the Group's worldwide revenue), it is still one of the areas of greatest growth potential. This is partly due to developing markets in Eastern Europe and partly because we have traditionally underperformed in some European territories (notably Italy and Germany) due to strong local competition. These areas of under-performance are now actively being addressed.

"We continue to work closely with our major customers to increase MTL's European presence".

In November a new MTL sales office was established in Milan to cover Italy. The Italian market is one of the largest in Europe for process control and up until now, MTL has worked with an excellent local distributor. However, Italy is also the home of one of our international competitors and increasing our market share has become more difficult in the last few years. The establishment of our own company gives us a greater presence in the market and we are already seeing the benefit in terms of customer reaction and order opportunities.

We continue to work closely with our major customers to increase MTL's European presence and we are aiming to strengthen our position in Germany by developing our existing operation and by working closely with German partners.

## Summary and Outlook

"During 2000 MTL took major steps towards its goal of becoming a leading supplier of open control equipment to the process and related industries".

During 2000 MTL took major steps towards its goal of becoming a leading supplier of open control equipment to the process and related industries. The acquisition of ASC has made MTL a major player in the international surge protection market and has added another fast growing good margin business to the Group. Later in the year, the acquisition of Standard Automation has given MTL a first class embedded control software product which has already been adopted by one of our OEM partners and will also give us access with our 8000 system to the system integrator community and to end users.

The MTL 8000 itself continues to grow in line with projections and, in the second half of 2001 will begin to benefit from the launch of the control platform jointly developed with Standard Automation.

The outlook for 2001 is for continued growth in the Surge Protection and Process Automation businesses and for some recovery in the traditional Intrinsic Safety business.

**Graeme Philp**  
Chief Executive

## Five-year summary

	2000	1999	1998	1997	1996
	£'000	£'000	£'000	£'000	£'000
Turnover					
– UK	7,027	7,326	8,396	8,449	7,742
– Overseas	41,458	35,440	37,516	33,711	33,901
	48,485	42,766	45,912	42,160	41,643
Operating profit	3,383	3,217	5,212	4,961	4,640
Exceptional items	(971)	164	–	–	–
Net interest	(132)	99	248	159	(17)
Profit before tax	2,280	3,480	5,460	5,120	4,623
Tax	(888)	(1,148)	(1,829)	(1,740)	(1,603)
Minority interests	(48)	(196)	(292)	(212)	(160)
Dividends	(1,117)	(1,100)	(1,097)	(1,002)	(911)
Retained profit	227	1,036	2,242	2,166	1,949
<b>Assets employed</b>					
Fixed assets	26,036	9,623	10,039	9,768	10,242
Net current assets	16,356	20,438	18,420	16,135	13,397
Creditors due after one year and provisions	(12,580)	(1,999)	(2,019)	(1,977)	(1,806)
	29,812	28,062	26,440	23,926	21,833
<b>Financed by</b>					
Shareholders' funds	29,812	27,349	25,768	23,509	21,596
Minority interests	–	713	672	417	237
	29,812	28,062	26,440	23,926	21,833
Basic earnings per share	7.3p	11.7p	18.3p	17.4p	15.7p
Dividends per share	6.0p	6.0p	6.0p	5.5p	5.0p
Number of employees	900	803	768	738	700

# Directors' report

The directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 2000.

**Principal activity** The principal activities of the Group is the design, manufacture and marketing of electronic explosion-protection instruments and devices for use in the measurement and control of industrial processes carried out in hazardous environments. There has been no significant change in the Group's activity during the year.

**Business review** A review of the development of the Group's business is given in the Chairman's statement on pages 2 and 3 and the Financial and operational review on pages 5 to 12.

**Results and dividends** Turnover for the year was £48,485,000 (1999 – £42,766,000). Profit before taxation was £2,280,000 (1999 – £3,480,000).

An interim dividend of 2.5p net per share was paid on 22 September 2000 and the directors recommend a final dividend of 3.5p net per share payable on 11 May 2001 to shareholders registered on 6 April 2001. The retained profit for the year after allowing for payment of the proposed dividend amounts to £227,000 (1999 – £1,036,000) and this has been transferred to reserves.

**Directors and their interests** The directors serving during the year were as shown below, with their interests in the shares of the company:

	31 December 2000	31 December 1999
M D Coster	20,000	20,000
G S Philp	2,513	700
W S Greenhalgh	5,513	5,513
G B Marson	25,000	25,000
J L Leonard	5,800	5,800

There have been no changes to the above interests between 31 December 2000 and 26 March 2001.

Information relating to directors' share options is given in note 4 to the accounts.

None of the directors had an interest in any significant contract undertaken by the Group during the year.

**Substantial shareholdings** In addition to the shareholdings of certain directors the following interests of 3% or more in the company's share capital have been reported at 26 March 2001:

Name	Ordinary shares of 10p each	Percentage held
Deutsche Asset Management	2,328,817	12.4
I C Hutcheon	1,635,284	8.7
E D Low	1,327,747	7.1
T P H Barrett	1,223,890	6.5
Clerical Medical and General Life Assurance Soc	1,067,500	5.7
I C Towle	976,957	5.2
Montanaro Investment Management Limited	810,000	4.3
S E Straw	752,550	4.0
3i Asset Management	695,000	3.7
Credit Suisse Asset Management	678,300	3.6
C J Burkitt	624,707	3.3
J A Burkitt	624,707	3.3
Rothschild Asset Management Ltd	587,500	3.1

**Fixed assets** In the opinion of the directors the current open market value of the Group's interest in land and buildings exceeds the book value by £1,200,000. The Group's liability to taxation if the land and buildings were sold at that value would be approximately £360,000.

## Director's report (cont.)

**Design and development** Expenditure on product design and development during the year amounted to £4,663,000 (1999 - £5,016,000).

**Employees** The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged.

**Charitable and political contributions** The Group contributed £1,000 to charities during the year (1999 - £1,000). No political contributions were made (1999 - £nil).

**Share capital** During the year additional options under the company's SAYE scheme and 1995 discretionary scheme were granted and some options granted under the SAYE scheme were exercised.

In addition, the senior management team of Standard Automation and Control LLC acquired 329,894 shares in December 2000 at the prevailing market price.

**Disapplication of pre-emption rights** When shares are issued for cash, they normally have to be offered in the first instance to existing shareholders in proportion to their respective shareholdings. A limited disapplication of such pre-emption rights is nonetheless permitted with the approval of shareholders. Accordingly the directors are seeking authority to allot shares for cash (other than by way of rights issue) on such a non pre-emptive basis up to a maximum amount of £93,668 in nominal value of the company's shares. This represents approximately 5% of the issued ordinary share capital of the company. The authority will run until the date of the Annual General Meeting in 2002.

**Purchase of own shares** The directors are seeking to renew the authority for the company to be able to purchase its own shares. The directors have no immediate plans to make such purchases, but would like to be able to act quickly if circumstances arise in which they consider such purchases to be desirable. No purchase will be made unless the effect would be to increase the expected earnings per share of the company and the directors consider the purchase to be in the best interests of shareholders generally. The proposed authority will be limited to a maximum of 936,679 ordinary shares, approximately 5% of the issued share capital. Under the proposed authority the maximum price which the company will pay for the purchase of its own shares will be 5% above the average of the middle market quotation of its shares taken from the London Stock Exchange Official List for the five business days before the purchase is made and the minimum price will be 10p. The authority will expire at the next Annual General Meeting of the company and it is envisaged that the shareholders will be asked to renew it annually.

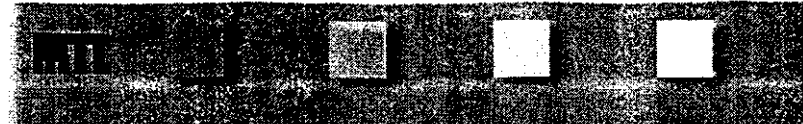
**Supplier payment policy** It is the Group's policy to pay suppliers in accordance with the terms of business agreed with them. The number of days' purchases outstanding for the Group at the end of December 2000 was 44 days (1999 - 49 days). The company had no trade creditors at the end of December 2000 or 1999.

**Auditors** The directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

By order of the board

W S Greenhalgh  
Secretary  
26 March 2001





# Corporate governance

In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and requirements arising from the findings of the Hampel Committee.

## **Statement of compliance with the Code of Best Practice**

The company has complied throughout the year with the Provisions of the Code of Best Practice set out in the Combined Code of the Committee on Corporate Governance (the 'Code'). The only exceptions were that there had been no formal director training and the Audit Committee has included a part-time executive director.

The directors are fully aware of the recent guidance note '*Internal Control – Guidance for Directors on the Combined Code*' (the Turnbull Report) published in September 1999. The directors have considered the risk monitoring process that has been developed by the executive management through the year. The directors have reviewed the systems of internal control across the whole Group and continue to work with the executive management team to ensure that these controls are appropriate for the size, complexity and risk profile of the business. The new risk monitoring process is an enhanced version of the business control process that has been used to identify, monitor and control risk in recent years.

## **Audit committee**

The members of the Audit Committee who served during the year were Mr M D Coster, Mr G B Marson and Mr J L Leonard.

## **Statement about applying the Principles of Good Governance**

The company has applied the Principles of Good Governance set out in section 1 of the Code by complying with the provisions of the Code of Best Practice as reported above. Further explanation is set out below and, in connection with director's remuneration, in the Remuneration report.

## **Board effectiveness**

The Board has met each quarter in the last year to consider matters of strategic direction as well as reviewing operational progress against company plans. They have ensured that all matters discussed are communicated, where applicable, to all relevant parts of the Group. Consideration has been given to the extent that external involvement may be required, and independent professional advice is sought as necessary. Specific powers and authorities are delegated to the General Management Committee.

## **Division of responsibility**

The executive Chairman is responsible for running the Board. The Chief Executive is responsible for running the business of the Group and chairs the General Management Committee. Consequently, there is a clear division of responsibilities at the head of the Group.

## **Board balance**

The company has sought to preserve a balance of executive and non-executive directors, and at the year end had a split of three to two respectively. Mr G B Marson is the senior non-executive director. At the year end both the non-executive directors were considered independent.

## **Timeliness and quality of board information**

The executive directors and the company secretary are responsible for ensuring that necessary and useful information on matters to be considered by the board is circulated one week in advance of meetings. Before decisions are made, consideration is given to the adequacy of information available to the board and, if necessary, decisions are deferred if further information is required.

## **Procedure of board appointments**

Due to the small size of the board, the company has not felt it necessary to establish a Nomination Committee. Nevertheless, a formal and transparent procedure is followed when appointing new directors. External consultants and advisers are used to identify a short list of suitable candidates, and all board members evaluate candidates.

## **Regular re-election of directors**

The Group have a policy of one third of the directors offering themselves for re-election at each AGM. Two of the five directors will offer themselves for re-election at this year's AGM.

## **Dialogue with institutional shareholders**

The directors seek to build on a mutual understanding of objectives between the company and its institutional shareholders. Following the announcement of six monthly results, the company arranges individual meetings with institutional shareholders in order to discuss the implications of the results. The company is always available to participate in meetings with institutional shareholders at their request.

## Corporate governance (cont.)

<b>Constructive use of AGM</b>	All investors are given notice of the Annual General Meeting and details of the matters to be discussed in advance. At the AGM, investors are given the opportunity to ask questions, which may be answered at the meeting by the Chairman of the appropriate committee or, if appropriate, subsequently.
<b>Balanced and understandable assessments</b>	The company strives to give full, timely and realistic assessments of matters that impact on its business and financial position and to present all data in a balanced way, and wherever possible to use plain English to explain technical matters.
<b>Maintenance of a sound system of internal control</b>	In applying the principle that the board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets, the directors recognise that they have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations.
<b>Control environment and Turnbull requirement</b>	<p>The Group maintains a system of internal controls including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and reliability of the financial information used within the business or for publication. The system is intended to provide reasonable assurance that foreseeable financial risks are identified and controlled. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance against loss or material misstatement.</p> <p>The directors have, during the year, set up a Risk Management Committee (RMC), and although this was not in place through the whole year it has already reported to the Board.</p> <p>The RMC is charged with administering the process of identifying, evaluating and managing the significant risk faced by the business. The Board believe that the regular reporting of the RMC will enable it to monitor the appropriate strategic, financial, operational and compliance issues facing the business.</p> <p>In addition, the reports of the RMC will give directors further opportunities to monitor and where necessary, improve the internal controls of the business.</p>
<b>Quality and integrity of staff</b>	The directors have established an organisational structure with clearly drawn lines of accountability and delegation of authority. All Group employees are required to adhere to specific codes of conduct at all times and the Board actively promotes a culture of quality and integrity throughout the organisation.
<b>Financial reporting</b>	Financial results and key operational and financial performance indicators are reported regularly throughout the year and variances from plans and budgets are followed up vigorously. The identification and appraisal of risks is carried out through the annual process of preparing business plans and budgets and through the close monitoring of operations.
<b>Compliance monitoring</b>	The Combined Code requires that the framework of internal control is reviewed on, at least, an annual basis. The directors, through the Audit Committee, have considered the principal business risks of the Group and, in that context, reviewed the effectiveness of the Group's internal controls. As far as the directors are aware, there have been no weaknesses in internal controls that have resulted in any material losses, contingencies or uncertainties requiring disclosure in the accounts. The Audit Committee has had independent access to the Auditors at each reporting period end and between as necessary.
<b>Audit Committee responsibilities and relationships with auditors</b>	The company has, through the Audit Committee, demonstrated formal and transparent arrangements for financial reporting, internal control and external auditing. The scope and results of the audit, including its cost effectiveness and the independence and objectivity of the Auditors, have also been kept under review during the period.

## Corporate governance (cont.)

### **Accounts and adoption of going concern basis**

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit and loss of the Group for the financial year.

The directors consider that in preparing the accounts on pages 20 to 40, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The directors are satisfied that the Group has sufficient resources to continue operations for the foreseeable future. Accordingly, they consider that it is appropriate to adopt the going concern basis in preparing the accounts.

### **Directors' responsibilities**

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

The directors, having prepared the accounts, are required to provide to the Auditors such information and explanation as the Auditors think necessary for the performance of their duties.

## Board report on remuneration

The Remuneration Committee's composition, responsibilities and operation comply with the best practice provisions annexed to the Listing Rules of the London Stock Exchange.

The Committee is responsible for setting remuneration packages to attract, retain and motivate high quality senior executives. In determining its policy the Committee has given full consideration to section B of the best practice provisions annexed to the Listing Rules. Full details of directors' emoluments and share options are set out in note 4 to the accounts.

The remuneration arrangements for executive directors are currently as follows:

<b>Salary</b>	Salary levels are determined taking into account the performance of the individual and rates of salaries for similar sized jobs in comparable organisations.
<b>Annual bonus</b>	<p>Annual bonuses are calculated based on fixed formulae which are determined in advance of each year by the committee.</p> <p>The annual bonuses for Dr G S Philp and Mr W S Greenhalgh is based on earnings per share.</p>
<b>Share options</b>	<p>The company operates approved and unapproved share option schemes. Options are granted under these schemes at the discretion of the committee. Options granted to executive directors since 1996 include a performance requirement of earnings per share growth in excess of 2% above inflation, and in some cases 10% above.</p> <p>Details of options granted to directors during the year are on page 27.</p>
<b>Pensions</b>	Dr G S Philp and Mr W S Greenhalgh are members of the MTL Instruments Group Pension Scheme which is a defined benefit scheme.
<b>Service contracts</b>	Mr M D Coster and Dr G S Philp have service contracts which can be terminated by the company or by themselves by giving twelve months notice. Mr W S Greenhalgh has a service contract which can be terminated by the company or by himself by giving six months notice.

# Auditors' report

## To the Shareholders of The MTL Instruments Group plc:

We have audited the accounts on pages 20 to 40 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 and 24.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 18, preparing the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 company and Group is not disclosed.

We review whether the corporate governance statement on pages 16 to 18 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company'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 accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

## 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the Group, 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 accounts 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 accounts.

## Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the company and the Group at 31 December 2000, and of the Group's profit and cash flows for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

  
Arthur Andersen

Chartered Accountants and Registered Auditors  
Betjeman House  
104 Hills Road  
Cambridge  
CB2 1LH

26 March 2001

# Group profit and loss account

for the year ended 31 December 2000

	Notes	Existing operations	Acquisitions	2000 £'000	1999 £'000
<b>Turnover</b>	1	41,445	7,040	48,485	42,766
Cost of sales		(20,034)	(3,525)	(23,559)	(19,677)
<b>Gross profit</b>		21,411	3,515	24,926	23,089
Selling and marketing costs		(10,212)	(1,613)	(11,825)	(10,341)
Administration expenses		(4,276)	(448)	(4,724)	(4,500)
Goodwill amortisation		(39)	(292)	(331)	(15)
Design and development costs		(4,353)	(310)	(4,663)	(5,016)
<b>Operating profit</b>	2	2,531	852	3,383	3,217
Exceptional items	5			(971)	164
<b>Profit on ordinary activities before interest</b>				2,412	3,381
Net interest (payable)/receivable	6			(132)	99
<b>Profit on ordinary activities before taxation</b>				2,280	3,480
Tax on profit on ordinary activities	7			(888)	(1,148)
<b>Profit on ordinary activities after taxation</b>				1,392	2,332
Minority interests	23			(48)	(196)
<b>Profit for the financial year</b>	8			1,344	2,136
Dividends paid and proposed	9			(1,117)	(1,100)
<b>Retained profit for the financial year</b>	21			227	1,036
<b>Earnings per share</b>					
Basic	10			7.3p	11.7p
Diluted	10			7.2p	11.6p

# Group statement of total recognised gains and losses

for the year ended 31 December 2000

	2000 £'000	1999 £'000
Profit for the financial year	1,344	2,136
Gain on foreign currency translation	990	235
<b>Total recognised gains and losses relating to the year</b>	<b>2,334</b>	<b>2,371</b>

The accompanying notes are an integral part of the Group profit and loss account and the Group statement of total recognised gains and losses

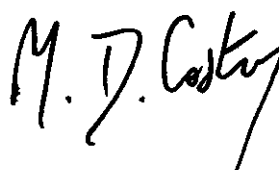
# Balance sheets

as at 31 December 2000

		Group		Company	
	Notes	2000 £'000	1999 £'000	2000 £'000	1999 £'000
<b>Fixed assets</b>					
Intangible assets	11	16,436	125	-	-
Tangible assets	12	9,600	9,498	3,767	3,798
Investments	13	-	-	4,386	3,410
		<u>26,036</u>	<u>9,623</u>	<u>8,153</u>	<u>7,208</u>
<b>Current assets</b>					
Stocks	14	10,274	9,389	-	-
Debtors	15	13,727	10,774	11,945	342
Cash at bank and in hand		1,385	7,457	-	-
		<u>25,386</u>	<u>27,620</u>	<u>11,945</u>	<u>342</u>
<b>Creditors: amounts falling due within one year</b>	16	(9,030)	(7,182)	(3,944)	(1,092)
<b>Net current assets/(liabilities)</b>		<u>16,356</u>	<u>20,438</u>	<u>8,001</u>	<u>(750)</u>
<b>Total assets less current liabilities</b>		42,392	30,061	16,154	6,458
<b>Creditors: amounts falling due after more than one year</b>	17	(8,821)	(1,485)	(7,364)	-
<b>Provisions for liabilities and charges</b>	19	(3,759)	(514)	-	-
<b>Net assets</b>		<u>29,812</u>	<u>28,062</u>	<u>8,790</u>	<u>6,458</u>
<b>Capital and reserves</b>					
Called-up share capital	20	1,873	1,834	1,873	1,834
Share premium account	21	2,333	1,126	2,333	1,126
Revaluation reserve	21	170	170	170	170
Foreign currency investment translation reserve	21	165	(825)	-	-
Profit and loss account	21	25,271	25,044	4,414	3,328
Equity shareholders' funds	22	29,812	27,349	8,790	6,458
Equity minority interests	23	-	713	-	-
<b>Total capital employed</b>		<u>29,812</u>	<u>28,062</u>	<u>8,790</u>	<u>6,458</u>

Signed on behalf of the Board

M D Coster  
26 March 2001



The accompanying notes are an integral part of these Group and company balance sheets.

# Group cash flow statement

for the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
<b>Net cash inflow from operating activities</b>	24	2,698	3,680
<b>Returns on investments and servicing of finance</b>			
Interest received		244	394
Interest paid		(248)	(274)
Interest element of finance lease rental payments		(21)	(21)
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>		(25)	99
<b>Taxation</b>			
UK corporation tax paid		(573)	(1,448)
Foreign tax paid		(1,098)	(499)
<b>Tax paid</b>		(1,671)	(1,947)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(1,598)	(1,515)
Sale of tangible fixed assets		62	524
<b>Net cash outflow from investing activities</b>		(1,536)	(991)
<b>Acquisitions</b>	25	(13,890)	(264)
<b>Equity dividends paid</b>		(1,103)	(1,098)
<b>Cash outflow before use of liquid resources and financing</b>		(15,527)	(521)
<b>Management of liquid resources</b>			
Cash withdrawn from short-term deposits		3,500	2,500
<b>Financing</b>			
Issue of shares		1,246	141
Loan repayment		-	(11)
New unsecured loan		8,033	-
Capital element of finance lease rental payments		(11)	(30)
<b>Net cash inflow from financing</b>		9,268	100
<b>(Decrease)/increase in cash in year</b>	26	(2,759)	2,079

The accompanying notes are an integral part of this consolidated cash flow statement.

## Reconciliation of net cash flow to movement in net funds/(debt)

for the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
(Decrease)/increase in cash in year		(2,759)	2,079
Cash (inflow)/outflow from movement in debt		(8,033)	11
Net inflow from movements in liquid resources		(3,500)	(2,500)
Net payments in respect of finance leases		11	30
Translation difference		187	(18)
<b>Movement in funds in year</b>		(14,094)	(398)
<b>Net funds at beginning of year</b>		5,892	6,290
<b>Net (debt)/funds at end of year</b>	26	(8,202)	5,892

# Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below:

**Basis of accounting** The accounts have been prepared in accordance with applicable accounting standards, under the historical cost convention, modified to include the revaluation of certain fixed assets.

**Basis of consolidation** The Group accounts consolidate the accounts of The MTL Instruments Group plc and its subsidiary undertakings, made up to 31 December each year. The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Acquisitions are accounted for under the acquisition method.

In the company's accounts investments in subsidiary undertakings are stated at cost less any provision for impairment. Only dividends received and receivable are credited to the company's profit and loss account.

The company has taken advantage of the exemption given by Section 230 of the Companies Act 1985 not to present its own profit and loss account.

**Goodwill** Goodwill arising on the acquisition of subsidiary undertakings, representing the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is up to a maximum of twenty years. Goodwill capitalised during the current year is being written off over a period of seven to twenty years. Provision is made for any impairment.

Goodwill arising on acquisitions made in periods up to 31 December 1997 was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated on the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

**Tangible fixed assets** Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation has been provided at rates calculated to write off the cost of all tangible fixed assets except investment properties on a straight-line basis over their estimated useful lives as follows:

Buildings	30 – 50 years
Plant and machinery	3 – 5 years

Investment properties are revalued annually. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, unless a deficit is expected to be permanent, in which case it is charged to the profit and loss account. Depreciation is not provided in respect of investment properties. The directors consider that this accounting policy, which is a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP19.

**Stocks** Stocks are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on:

Raw materials and components	– purchase cost on a first-in, first-out basis, including transport.
Work-in-progress and finished goods	– cost of direct materials and labour plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.



## Statement of accounting policies (cont.)

<b>Warranties</b>	Provision is made against the future estimated costs of repairing or replacing goods which may be returned under warranty.
<b>Taxation</b>	<p>Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.</p> <p>Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.</p>
<b>Turnover</b>	Group turnover comprises the value of sales (excluding VAT and similar taxes, trade discounts and intragroup transactions) of goods and services provided in the normal course of business.
<b>Design and development</b>	Design and development expenditure is written off in the year during which it is incurred.
<b>Pension costs</b>	The amount charged to the profit and loss account for defined benefit schemes is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members. The amount charged to the profit and loss account for defined contribution schemes is the contributions payable in the year.
<b>Foreign currency</b>	<p>In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.</p> <p>For the purposes of consolidation the net investment method is used, under which translation gains or losses are shown as a movement on reserves. Profit and loss accounts of overseas subsidiary undertakings are translated at the average exchange rate.</p>
<b>Leases</b>	<p>Assets held under finance leases are capitalised as tangible fixed assets and are depreciated over the shorter of their lease term and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account to produce a constant rate of charge on the balance of capital repayments outstanding.</p> <p>Rental costs under operating leases are charged, on a straight-line basis, to the profit and loss account over the lease term, even if the payments are not made on such a basis.</p>
<b>Derivative financial instruments</b>	<p>The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes.</p> <p>For a forward foreign currency contract to be treated as a hedge, the instrument must be related to actual foreign currency assets and liabilities. It must involve the same currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account only when the hedged transaction itself has been reflected in the Group's accounts.</p> <p>If an instrument ceases to be accounted for as a hedge, for example, because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.</p>

# Notes to the accounts

## 1 Segmental information

Geographical analysis of turnover is as follows:

	By location of customer		By location of subsidiary	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
United Kingdom	7,027	7,326	26,512	27,782
Rest of Europe, Africa and Middle East	14,091	13,764	8,074	8,169
USA, Canada and Latin America	16,794	10,287	16,912	10,864
Australia and New Zealand	1,437	1,712	1,406	1,687
India	2,919	3,378	3,400	3,834
Asia, including Japan	6,217	6,299	6,000	6,211
	<u>48,485</u>	<u>42,766</u>	<u>62,304</u>	<u>58,547</u>
Inter-territorial sales	-	-	(13,819)	(15,781)
	<u>48,485</u>	<u>42,766</u>	<u>48,485</u>	<u>42,766</u>

Geographical analysis of net assets by location of subsidiary is as follows:

	2000 £'000	1999 £'000
United Kingdom	17,483	15,452
Rest of Europe	(1,632)	(813)
USA and Canada	9,536	2,933
India	2,745	2,536
Rest of world	295	497
	<u>28,427</u>	<u>20,605</u>
Cash	1,385	7,457
	<u>29,812</u>	<u>28,062</u>

## 2 Operating profit

Operating profit is stated after charging:

	2000 £'000	1999 £'000
Depreciation of tangible fixed assets – owned	1,493	1,694
– leased	94	74
Amortisation of goodwill	331	15
Design and development	4,663	5,016
Auditors' remuneration – for audit work	93	81
– for non-audit work	64	67
Operating lease payments – property	515	452
	<u>11,653</u>	<u>12,803</u>

## Notes to the accounts (cont.)

3 Staff costs	Employee costs (including directors) amounted to:	2000	1999
		£'000	£'000
	Wages and salaries	15,639	14,103
	Social security costs	1,640	1,445
	Other pension costs	1,105	1,111
		<u>18,384</u>	<u>16,659</u>

The average monthly number of persons employed by the Group during the year was as follows:

	2000 Number	1999 Number
Production	423	402
Design and development	121	107
Sales and marketing	250	194
Administration	106	100
	<u>900</u>	<u>803</u>

### 4 Directors' remuneration

Directors' remuneration for the year was:

	Salary 2000 £'000	Benefits 2000 £'000	Total 2000 £'000	Total 1999 £'000
<b>Executive</b>				
M D Coster (Chairman)	50	—	50	50
G S Philp	99	10	109	105
W S Greenhalgh	81	4	85	68
L C Towle*	—	—	—	23
S J Cockrell*	—	—	—	14
D M Gillespie*	—	—	—	53
B Tiburtius*	—	—	—	28
<b>Non-executive</b>				
G B Marson	15	—	15	15
J L Leonard	15	—	15	15
I C Hutcheon*	—	—	—	9
J Hutcheon*	—	—	—	3
	<u>260</u>	<u>14</u>	<u>274</u>	<u>383</u>

\*Resigned in 1999.

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors.

None of the directors in office during the year received a bonus.

The report of the Board on remuneration is on page 18.

## Notes to the accounts (cont.)

### 4 Directors' remuneration (cont.)

Directors' interests in options were as follows:

	Start of year	Number of options		End of year	Exercise price	Earliest date for exercise	Latest date for exercise
		Granted	Exercised				
M D Coster							
Discretionary	100,000	-	-	100,000	170p	Oct 01	Oct 08
Discretionary	100,000	-	-	100,000	170p	Oct 03	Oct 08
SAYE	-	5,208	-	5,208	324p	Oct 05	Oct 05
G S Philp							
Discretionary	70,000	-	-	70,000	238p	Oct 94	Oct 01
Discretionary	30,000	-	-	30,000	310p	Nov 99	Nov 03
SAYE	9,270	-	1,813	7,457	207p	Nov 00	Oct 04
W S Greenhalgh							
Discretionary	70,000	-	-	70,000	222p	Mar 02	Mar 06

The exercise price on the SAYE options is a weighted average price.

The gain on exercise of options was £2,955.

There have been no changes to the above interests between 31 December 2000 and 26 March 2001.

The market price for the company's shares at 31 December 2000 was 345p (1999 – 307p) and the range during the year was 297.5p to 420p.

Dr G S Philp and Mr W S Greenhalgh are members of the MTL Instruments Group Pension Scheme, a defined benefit scheme. The following table shows the increase in accrued pension during the year and the accrued pension at the end of the year.

	Increase in accrued pension during year	Transfer value of increase	Accumulated total accrued pension at 31 December	
	£'000	£'000	2000 £'000	1999 £'000
G S Philp	3.5	20.2	15.1	11.5
W S Greenhalgh	1.2	5.7	2.2	0.9

None of the directors were members of a defined contribution scheme.

### 5 Exceptional items

	2000 £'000	1999 £'000
Costs of fundamental restructuring of continuing Group operations	(971)	-
Profit on disposal of property and plant at the Virginian facility of MTL Inc	-	164
	<u>(971)</u>	<u>164</u>

The exceptional item in 2000 relates to a fundamental reorganisation of the Group businesses which resulted in staff reductions in the UK operations and closure of one site.

The effect of the exceptional item reported after operating profit on the amounts charged to the profit and loss account for taxation is a net decrease in the charge of £291,000.

## Notes to the accounts (cont.)

<b>6 Net interest (payable)/receivable</b>		2000 £'000	1999 £'000
	Interest payable on bank loans	(355)	(274)
	Finance charges payable under finance leases	(21)	(21)
	Bank interest receivable	244	394
	Net interest (payable)/receivable	(132)	99
<b>7 Tax on profit on ordinary activities</b>		2000 £'000	1999 £'000
	The tax charge is based on the profit for the year and comprises:		
	UK corporation tax at 30%	395	597
	Foreign tax	480	548
	Deferred tax	13	3
		888	1,148
<b>8 Profit for the financial year</b>	As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts.		
	The profit for the financial year includes £2,203,000 (1999 – £1,460,000) which is dealt with in the accounts of the parent company.		
<b>9 Dividends paid and proposed</b>		2000 £'000	1999 £'000
	Interim paid of 2.5p per share (1999 – 2.5p)	461	458
	Proposed final of 3.5p per share (1999 – 3.5p)	656	642
		1,117	1,100
<b>10 Earnings per share</b>	The calculation of basic earnings per share is based on Group profit for the financial year of £1,344,000 (1999 – £2,136,000) and on the weighted average number of ordinary shares outstanding during the year of 18,385,371 (1999 – 18,301,711). The calculation of the diluted earnings per share is based on the same Group profit but the weighted average number of ordinary shares is increased by the relevant number of outstanding options to give a total diluted share base for 2000 of 18,776,871 (1999 – 18,485,567).		
<b>11 Intangible assets</b>		Goodwill £'000	
	<b>Cost</b>		
	At beginning of year	140	
	Additions	16,642	
	At end of year	16,782	
	<b>Amortisation</b>		
	At beginning of year	15	
	Provided during the year	331	
	At end of year	346	
	<b>Net book value</b>		
	At end of year	16,436	
	At beginning of year	125	

# Notes to the accounts (cont.)

## 12 Tangible fixed assets

The movement in the year was as follows:

### a) Group

	Land and buildings				
	Investment property £'000	Freehold £'000	Long leasehold £'000	Plant and machinery £'000	Total £'000
<b>Cost or valuation</b>					
At beginning of year	1,589	4,937	164	16,124	22,814
Additions	-	-	-	1,598	1,598
Acquisition of subsidiary undertakings	-	-	-	189	189
Disposals	-	(32)	-	(383)	(415)
Exchange adjustment	-	3	6	123	132
At end of year	1,589	4,908	170	17,651	24,318
<b>Depreciation</b>					
At beginning of year	-	1,069	54	12,193	13,316
Charge for the year	-	69	4	1,514	1,587
On disposals	-	-	-	(292)	(292)
Exchange adjustment	-	-	1	106	107
At end of year	-	1,138	59	13,521	14,718
<b>Net book value</b>					
At end of year	1,589	3,770	111	4,130	9,600
At beginning of year	1,589	3,868	110	3,931	9,498

### b) Company

	Land and buildings				
	Investment property £'000	Freehold £'000	Long leasehold £'000	Plant and machinery £'000	Total £'000
<b>Cost or valuation</b>					
At beginning and at end of year	1,589	2,526	137	-	4,252
<b>Depreciation</b>					
At beginning of year	-	399	55	-	454
Charge for the year	-	27	4	-	31
At end of year	-	426	59	-	485
<b>Net book value</b>					
At end of year	1,589	2,100	78	-	3,767
At beginning of year	1,589	2,127	82	-	3,798

The investment property is a building on long leasehold land and is not depreciated. The property was revalued at 31 December 2000, on an existing use basis, by Roger Evans FRICS of Kirkby and Diamond. There was no significant change in market value in 2000. The original cost of this asset was £1,419,000. No other assets have been revalued.

The net book value of leased assets included in plant and machinery at 31 December 2000 was £155,000 (1999 - £165,000).

## Notes to the accounts (cont.)

### 13 Fixed asset investments

Shares in subsidiary undertakings at cost

Company  
£'000

#### Cost and net book value

At beginning of year

3,410

Additions

976

At end of year

4,386

The principal subsidiary undertakings and associated undertaking are as follows:

	Percentage of ordinary shares and voting rights held	Country of incorporation and operation	Principal activity
<b>Subsidiary undertakings:</b>			
Measurement Technology Limited	100%	England	Design, manufacture and marketing of industrial instrumentation equipment
MTL Inc	100%*	USA	"
MTL Instruments GmbH	100%	Germany	"
MTL Instruments Limited	100%	India	"
MTL Instruments Pty Limited	100%	Australia	Distribution of industrial instrumentation equipment
MTL Instruments Pte Limited	100%	Singapore	"
MTL Instruments (Shanghai) Limited	100%	China	"
MTL Instruments srl	100%	France	"
MTL Instruments BV	100%	Netherlands	"
MTL Instruments BVBA	100%	Belgium	"
MTL Instruments KK	100%	Japan	"
MTL Italia srl	100%	Italy	"
MTL Systems BV	100%*	Netherlands	Design and assembly of industrial instrumentation systems
MTL Systems Pvt Limited	100%*	India	"
Hitech Instruments Limited	100%	England	Design, manufacture and marketing of gas analysis equipment
Telematic Limited	100%	England	Design, manufacture and marketing of surge protection equipment
Atlantic Scientific Corporation	100%*	USA	"
Standard Automation & Control LLC	100%*	USA	Design, produce and distribute modular software for industrial automation
MTL Instruments Inc	100%	USA	Holding company
<b>Associated undertaking:</b>			
Escapeline Limited	50%	England	Design and marketing of escape route lighting systems

\*Held by a subsidiary undertaking

On 5 April 2000, the remaining 8% minority interest in Hitech Instruments Limited was acquired for a total cash consideration of £176,000. The goodwill arising on this acquisition was £128,000 and is being amortised over 7 years.

On 19 October 2000, the remaining 26% minority interest in MTL Instruments Limited in India was acquired for a total cash consideration of £800,000. The goodwill arising on this acquisition was £157,000 and is being amortised over 7 years.

## Notes to the accounts (cont.)

### 13 Fixed asset investments (cont.)

On 7 January 2000, MTL Instruments Inc. acquired 100% of the issued share capital of Atlantic Scientific Corporation. The fair value of the total consideration was £4,200,000.

On 22 November 2000, MTL Instruments Inc. acquired the trade and assets of Standard Automation and Control LLC. The fair value of the total consideration was £13,073,000, including an estimated earnout as shown in note 19.

The following table sets out the book values of the identifiable assets and liabilities acquired. For the purposes of calculating the goodwill arising on the acquisition, the fair values of the assets and liabilities acquired have been deemed to be the same as their book values. No fair value adjustments have been made at this stage.

	Atlantic Scientific Book value & fair value £'000	Standard Automation Book value & fair value £'000	Total £'000
<b>Fixed assets</b>			
Tangible	130	59	189
<b>Current assets</b>			
Stocks	385	5	390
Debtors	432	1,383	1,815
Cash	119	635	754
<b>Total assets</b>	<b>1,066</b>	<b>2,082</b>	<b>3,148</b>
<b>Creditors</b>			
Trade creditors	235	1,335	1,570
Other creditors	4	673	677
<b>Provisions</b>			
Taxation	(15)	-	(15)
<b>Total liabilities</b>	<b>224</b>	<b>2,008</b>	<b>2,232</b>
<b>Net assets</b>	<b>842</b>	<b>74</b>	<b>916</b>
<b>Goodwill</b>	<b>3,358</b>	<b>12,999</b>	<b>16,357</b>
	<b>4,200</b>	<b>13,073</b>	<b>17,273</b>
<b>Satisfied by</b>			
Cash	4,162	9,506	13,668
Deferred consideration	38	3,567	3,605
	<b>4,200</b>	<b>13,073</b>	<b>17,273</b>

Net cash outflows in respect of the acquisitions as follows:

Cash consideration	4,043	8,871	12,914
Cash at bank and in hand acquired	119	635	754
	<b>4,162</b>	<b>9,506</b>	<b>13,668</b>

An amount of £184,000 has been charged to the Group profit and loss account in respect of costs incurred in reorganising, restructuring and integrating the acquisitions in the period from the date of acquisition to 31 December 2000.

Atlantic Scientific Corporation earned a profit after taxation of £519,000 in the year ended 31 December 2000 (year ended 31 December 1999 - £98,000), of which a loss of £12,000 arose in the period from 1 January 2000 to 6 January 2000.

Standard Automation and Control earned a profit after taxation of £316,000 in the year ended 31 December 2000 (year ended 31 December 1999 - £116,000), of which £145,000 arose in the period from 1 January 2000 to 21 November 2000.



## Notes to the accounts (cont.)

### 13 Fixed asset investments (cont.)

The summarised profit and loss accounts for the period from 1 January 2000 to the date of acquisition are as follows:

	Atlantic Scientific Corporation to 6 January 2000 £'000	Standard Automation & Control LLC to 21 November 2000 £'000
Turnover	12	8,597
Operating (loss)/profit	(12)	193
Finance charges	-	34
Tax on profit on ordinary activities	-	(82)
Profit for the financial period	(12)	145

There were no recognised gains or losses in the periods other than those shown in the profit and loss accounts above.

### 14 Stocks

	Group	
	2000 £'000	1999 £'000
Raw materials and components	5,986	5,358
Work-in-progress	363	332
Finished goods	3,925	3,699
	<u>10,274</u>	<u>9,389</u>

In the opinion of the directors the replacement cost of stock is not materially different from its balance sheet value.

### 15 Debtors

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Trade debtors	12,174	9,580	-	-
Amounts due from subsidiary undertakings	-	-	11,896	342
Other debtors and prepayments	1,553	1,194	49	-
	<u>13,727</u>	<u>10,774</u>	<u>11,945</u>	<u>342</u>

All amounts fall due within one year as at 31 December 2000.

As at 31 December 1999, an amount of £86,000 included in other debtors was due between one and two years in respect of a loan made by MTL Inc.

### 16 Creditors - amounts falling due within one year

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Finance leases	97	80	-	-
Bank loans	669	-	669	-
Trade creditors	4,580	3,538	-	-
Amounts due to subsidiary undertakings	-	-	2,326	320
Current taxation	170	283	187	80
Other taxation and social security	263	678	-	-
Deferred purchase consideration	38	-	-	-
Other creditors and accruals	2,557	1,961	106	50
Proposed dividend	656	642	656	642
	<u>9,030</u>	<u>7,182</u>	<u>3,944</u>	<u>1,092</u>
Current taxation represents:				
UK corporation tax payable	170	224	187	80
Foreign tax payable	-	59	-	-
	<u>170</u>	<u>283</u>	<u>187</u>	<u>80</u>

## Notes to the accounts (cont.)

### 17 Creditors - amounts falling due after one year

	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Finance leases	57	85	-	-
Unsecured bank loans	8,764	1,400	7,364	-
	<u>8,821</u>	<u>1,485</u>	<u>7,364</u>	<u>-</u>

Borrowing are repayable as follows:

#### Bank loans

Between one and two years	2,069	1,400	669	-
Between two and five years	2,008	-	2,008	-
After five years	4,687	-	4,687	-
	<u>8,764</u>	<u>1,400</u>	<u>7,364</u>	<u>-</u>

#### Finance leases

Between one and two years	37	55	-	-
Between two and five years	20	30	-	-
	<u>57</u>	<u>85</u>	<u>-</u>	<u>-</u>

### 18 Derivatives and other financial instruments

The disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 *Derivatives and Other Financial Instruments: Disclosures* (FRS 13).

As permitted by FRS13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

#### Policy

The Group does not use complex derivative financial instruments. Where it does use financial instruments these are used to manage the currency risks arising through normal operations and its financing.

Operations are financed through retained profits and some bank borrowings. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. The Group is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk.

The Board reviews and agrees policies for managing each of these risks and these policies are summarised below. Policies have remained unchanged since the beginning of the financial year.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

#### Foreign currency risk

As mentioned in the Financial and operational review on page 6, MTL is an international Group and an increasing proportion of the Group's turnover is generated in foreign currency. Group policy is to cover foreign currency exposures on trading balances by the use of forward contracts and currency overdrafts but not to hedge future trading exposure.

The Group which is based in the UK and reports in sterling, has significant investments in overseas operations in the USA, Europe, Far East and India. As a result the Group's balance sheet can be affected by movements in these countries' exchange rates. Currency exposures are regularly reviewed in accordance with Group policy.

# Notes to the accounts (cont.)

## 18 Derivatives and other financial instruments (cont.)

### Finance and interest rate risk

Having taken on floating rate debt in the last quarter of the year, the company is considering financial instruments to mitigate the exposure to interest rate fluctuations on these borrowings.

The Group's policy is to place surplus funds on short-term deposit. These deposits have fixed rates of interest based on the UK Bank Base Rate and thus there is some moderate exposure to interest rate fluctuation.

### Liquidity risk

The Group has banking facilities in excess of amounts utilised. The funds generated by operating companies are managed regionally based on geographic location.

Funds are placed on deposit with local clearing banks. For short-term working capital purposes, most operating companies utilise local bank overdrafts. Because of the nature of their use, the facilities are typically 'on demand' and as such uncommitted. Borrowing facilities are typically reviewed annually.

### Interest rate and currency profile

The Group has no financial assets other than cash at bank and sterling short-term cash deposits which are part of the financing arrangements of the Group. The sterling cash deposits are placed on money markets and earn interest at market rates.

The only financial liabilities which are subject to variations in interest rates are bank loans, bank overdrafts and finance lease arrangements.

The bank loans and overdrafts are subject to floating rates of interest with reference to local base rates and LIBOR rates.

The finance lease interest is fixed over the term of the lease.

The interest rate profile of the Group's financial assets and liabilities was as follows:

	GBP £'000	US\$ £'000	Yen £'000	Rupee £'000	Aus\$ £'000	Sing\$ £'000	Euro £'000	Can\$ £'000	Total £'000
<i>Financial assets</i>									
31 December 2000									
Cash at bank									
- floating rate	374	2,327	300	519	156	1,458	1,729	75	6,938
Deposits									
- fixed rate	-	-	-	-	-	-	-	-	-
	374	2,327	300	519	156	1,458	1,729	75	6,938
31 December 1999									
Cast at bank									
- floating rate	2,239	2,278	162	569	271	528	643	229	6,919
Deposits									
- fixed rate	3,500	-	-	-	-	-	-	-	3,500
	5,739	2,278	162	569	271	528	643	229	10,419

The weighted average rate of interest at 31 December 1999 on fixed term deposits was 5.29% and the weighted average period to maturity was 9 days.

## Notes to the accounts (cont.)

### 18 Derivatives and other financial instruments (cont.)

	GBP £'000	US\$ £'000	Yen £'000	Rupee £'000	Aus\$ £'000	Sing\$ £'000	Euro £'000	Can\$ £'000	Total £'000
<i>Financial liabilities</i>									
31 December 2000									
Bank overdrafts									
– floating rate	(526)	(610)	(953)	–	–	(1,343)	(2,121)	–	(5,553)
Bank borrowings									
– floating rate	(1,400)	(8,033)	–	–	–	–	–	–	(9,433)
Finance leases									
– fixed rate	(57)	–	–	–	–	–	–	–	(57)
Off balance sheet contracts	3,828	–	–	–	(19)	(1,126)	(2,683)	–	–
	1,845	(8,643)	(953)	–	(19)	(2,469)	(4,804)	–	(15,043)
31 December 1999									
Bank overdrafts									
– floating rate	–	(766)	(1,405)	–	–	–	(791)	–	(2,962)
Bank borrowings									
– floating rate	(1,400)	–	–	–	–	–	–	–	(1,400)
Finance leases									
– fixed rate	(85)	–	–	–	–	–	–	–	(85)
Off balance sheet contracts	3,376	–	–	–	–	(1,421)	(1,955)	–	–
	1,891	(766)	(1,405)	–	–	(1,421)	(2,746)	–	(4,447)

The weighted average rate of interest on finance leases is 12% and the weighted average period to maturity is 17 months (1999 – 2 years).

Off balance sheet contracts represent forward contracts in place as currency hedges on transactional currency balances.

### Currency exposures

Gains and losses arising from the Group's investments overseas (in other words, its structural currency exposures) are recognised in the statement of total recognised gains and losses.

The table below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account.

Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved.

As at 31 December 2000, these exposures were as follows:

### Principal net foreign currency monetary assets/(liabilities) in £'000

Functional currency of Group operation	GBP £'000	US\$ £'000	Yen £'000	Sing\$ £'000	Euro £'000	Can\$ £'000	Total £'000
Sterling	■	2,583	12	394	144	–	3,133
US dollars	(8)	■	–	–	–	75	67
Yen	(8)	(29)	■	–	(1)	–	(38)
Singapore dollars	(90)	683	–	■	–	–	593
Euro	(84)	(3)	–	–	■	–	(87)
Rupee	23	4	–	–	–	–	27
Australian dollars	(22)	–	–	(26)	(1)	–	(49)
	(189)	3,238	12	368	142	75	3,646

# Notes to the accounts (cont.)

## 18 Derivatives and other financial instruments (cont.)

As at 31 December 1999, these exposures were as follows:

### Principal net foreign currency monetary assets/(liabilities) in £'000

Functional currency of Group operation	GBP £'000	US\$ £'000	Yen £'000	Sing\$ £'000	Euro £'000	Can\$ £'000	Total £'000
Sterling		100	(134)	207	534	-	707
US dollars	(3)		-	-	(3)	222	216
Yen	16	(28)		-	-	-	(12)
Singapore dollars	(31)	759	-		(1)	-	727
Euro	22	(4)	-	-		-	18
Rupee	103	58	(15)	-	(10)	-	136
Australian dollars	(72)	(30)	-	(10)	-	-	(112)
	35	855	(149)	197	520	222	1,680

The amounts shown in the above tables take into account the effect of forward contracts and other derivatives entered into to manage these currency exposures. These forward contracts are renewed every two months, the last renewal date being against the trading position at 30 November 2000.

### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 2000 was as follows:

	2000 £'000	1999 £'000
In one year or less	766	80
In more than one year but not more than two years	2,106	1,455
In more than two years but not more than five years	2,028	30
In more than five years	4,687	-
	<u>9,587</u>	<u>1,565</u>

### Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2000, in respect of which all conditions precedent had been met, as follows:

	2000 £'000	1999 £'000
Expiring in one year or less, or on demand	<u>1,488</u>	<u>3,500</u>

### Fair values

As at 31 December 2000 and 1999 there was no significant difference between the book value and fair value of the Group's financial assets and liabilities. The fair value was calculated using market rates.

### Gains and losses on hedges

The Group enters into forward currency contracts to eliminate the currency exposures that arise on trading balances in foreign currencies. Changes in the fair value of instruments used as hedges are not recognised in the accounts until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

# Notes to the accounts (cont.)

## 18 Derivatives and other financial instruments (cont.)

	Gains £'000	(Losses) £'000	Total net gains/(losses) £'000
<b>Unrecognised gains and losses on hedges at 1 January 2000</b>	45	(1)	44
Gains and losses arising in previous years that were recognised in 2000	(4)	1	(3)
<b>Gains and losses arising before 1 January 2000 that were not recognised in 2000</b>	41	–	41
Gains and losses arising in 2000 that were not recognised in 2000	9	(116)	(107)
<b>Unrecognised gains and losses on hedges at 31 December 2000</b>	50	(116)	(66)
Gains and losses expected to be recognised in 2001	50	(116)	(66)

## 19 Provisions for liabilities and charges

	Group	
	2000 £'000	1999 £'000
Deferred taxation		
– accelerated capital allowances	166	144
– other timing differences	(166)	(144)
	–	–
Provision for warranties	370	514
Deferred consideration	3,389	–
	3,759	514

The movement on deferred taxation comprises:

	Group	
	2000 £'000	1999 £'000
Balance at beginning of year	–	–
Charged/(credited) to profit and loss account in respect of:		
– capital allowances	22	(33)
– other timing differences	(9)	36
Acquisition of subsidiary undertaking	(15)	–
Exchange adjustment	2	(3)
Balance at end of year	–	–

The movement on provision for warranties comprises:

	Group	
	2000 £'000	1999 £'000
Balance at beginning of year	514	476
Transfer from profit and loss account	(151)	36
Exchange adjustment	7	2
Balance at end of year	370	514

The provision for product warranties relates to expected warranty claims on Group products sold in the last three years. It is expected that most of this expenditure will be incurred within two years of the balance sheet date.

## Notes to the accounts (cont.)

### 19 Provisions for liabilities and charges (cont.)

The movement on provision for deferred consideration comprises:

	2000 £'000	1999 £'000
Balance at beginning of year	-	-
Acquisition of subsidiary undertaking (see note 13)	3,567	-
Exchange adjustment	(178)	-
Balance at end of year	<u>3,389</u>	<u>-</u>

The deferred consideration has arisen on the acquisition of Standard Automation and Control LLC. \$5,050,000 has been provided out of a maximum possible amount of \$7,070,000. This is payable over the next three years on achievement of planned gross margin.

### 20 Called-up share capital

	31 December 2000 Ordinary shares of 10p each		31 December 1999 Ordinary shares of 10p each	
	Number	£'000	Number	£'000
Authorised:	21,000,000	2,100	21,000,000	2,100
Allotted, called-up and fully paid:	<u>18,733,577</u>	<u>1,873</u>	<u>18,342,850</u>	<u>1,834</u>

The movement on the share capital during the year comprises:

	£'000
At beginning of year	1,834
Issued following exercise of share options	<u>39</u>
At end of year	<u>1,873</u>

The company has several share option schemes. At 31 December 2000 options over 1,163,478 shares (including directors' options) had been granted and were outstanding. The exercise price is in the range 146.4p to 330p with a weighted average price of 238.9p and the latest exercise date is October 2008.

### 21 Reserves

	Profit and loss account £'000	Foreign currency reserve £'000	Revaluation reserve £'000	Share premium account £'000	Total £'000
<b>Group</b>					
At beginning of year	25,044	(825)	170	1,126	25,515
Premium on shares issued	-	-	-	1,207	1,207
Foreign currency translation	-	990	-	-	990
Retained profit for year	<u>227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>227</u>
At end of year	<u>25,271</u>	<u>165</u>	<u>170</u>	<u>2,333</u>	<u>27,939</u>
<b>Company</b>					
At beginning of year	3,328	-	170	1,126	4,624
Premium on shares issued	-	-	-	1,207	1,207
Retained profit for year	<u>1,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,086</u>
At end of year	<u>4,414</u>	<u>-</u>	<u>170</u>	<u>2,333</u>	<u>6,917</u>

The cumulative goodwill written off against Group reserves is £2,134,000 (1999 - £2,134,000).

# Notes to the accounts (cont.)

## 22 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Profit for the financial year	1,344	2,136	2,203	1,460
Dividends paid and proposed	(1,117)	(1,100)	(1,117)	(1,100)
	<u>227</u>	<u>1,036</u>	<u>1,086</u>	<u>360</u>
New share capital issued	1,246	141	1,246	141
Write-back of goodwill previously written-off	-	169	-	-
Foreign currency translation	990	235	-	-
	<u>2,463</u>	<u>1,581</u>	<u>2,332</u>	<u>501</u>
Net addition to equity shareholders' funds	2,463	1,581	2,332	501
Opening equity shareholders' funds	27,349	25,768	6,458	5,957
	<u>29,812</u>	<u>27,349</u>	<u>8,790</u>	<u>6,458</u>
Closing equity shareholders' funds	29,812	27,349	8,790	6,458

## 23 Minority interests

	Group	
	2000 £'000	1999 £'000
At beginning of year	713	672
Profit on ordinary activities after taxation	48	196
Increase in investment in subsidiary undertaking	(691)	(124)
Dividends paid and proposed	(70)	(31)
	<u>-</u>	<u>713</u>
At end of year	-	713

## 24 Net cash inflow from operating activities

	2000 £'000	1999 £'000
Operating profit	3,383	3,217
Exceptional item	(851)	164
Depreciation and amortisation	1,918	1,783
Loss/(profit) on sale of fixed assets	26	(213)
Increase in stocks	(495)	(1,667)
(Increase)/decrease in debtors	(471)	829
Decrease in creditors and provisions	(1,582)	(663)
Currency movements	770	230
	<u>2,698</u>	<u>3,680</u>
Net cash inflow from continuing operating activities	2,698	3,680

## 25 Acquisitions

The cash outflow on acquisitions relates to the following companies:

	2000 £'000	1999 £'000
Atlantic Scientific Corporation	4,043	-
Standard Automation & Control LLC	8,871	-
MTL Instruments Limited (India)	800	-
Hitech Instruments Limited	176	264
	<u>13,890</u>	<u>264</u>



# Notes to the accounts (cont.)

## 26 Analysis of net funds/(debt)

	At beginning of year £'000	Cash flow £'000	Exchange movement £'000	At end of year £'000
Cash	6,919	(200)	219	6,938
Bank overdrafts	(2,962)	(2,559)	(32)	(5,553)
	3,957	(2,759)	187	1,385
Debt due after 1 year	(1,400)	(7,364)	-	(8,764)
Debt due within 1 year	-	(669)	-	(669)
Finance leases	(165)	11	-	(154)
Cash on deposit	3,500	(3,500)	-	-
Total net funds/(debt)	5,892	(14,281)	187	(8,202)

Bank overdrafts are taken out for currency hedging purposes. The lending bank has the right to set off these overdrafts against cash balances.

Cash on deposit is included within cash at bank and in hand in the balance sheet, but is not considered to be cash for the purposes of the cash flow statement.

## 27 Commitments

	Group 2000 £'000	1999 £'000
<b>Capital expenditure commitments</b>		
Contracted for but not provided	54	77
<b>Leasing commitments</b>		
Annual commitments under operating leases (all of which relate to land and buildings) expiring -		
Within one year	182	157
Within two to five years	254	295
In over five years	152	144
	588	596

The company has no capital expenditure and leasing commitments at 31 December 2000 (1999 - £nil).

## 28 Pension arrangements

The Group operates a number of pension schemes throughout the world. The major scheme which covers the majority of scheme members is of the defined benefit type with assets held in a separate trustee administered fund. The other schemes are of the defined contribution type.

The pension cost relating to the major scheme is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial assessment of the scheme was at 1 May 1998 and the principal assumption applied in arriving at the valuation was that the annual return on investment was 1% greater than increases in salary. At the date of the latest actuarial valuation the market value of the assets of the scheme was £8,739,000 and the actuarial value of the assets was sufficient to cover 98% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The total pension cost for the Group was £1,105,000 (1999 - £1,111,000) of which £359,000 (1999 - £389,000) relates to overseas schemes. At 31 December 2000 outstanding pension contributions amounted to £51,000 (1999 - £67,000).

# Notice to meeting

Notice is hereby given that the sixteenth annual general meeting of The MTL Instruments Group plc will be held at Power Court, Luton, Bedfordshire, LU1 3JJ on 4 May 2001 at 4.00pm for the following purposes:

## Ordinary business

1. To receive and adopt the directors' report and statement of accounts for the year ended 31 December 2000.
2. To declare a final dividend.
3. To re-elect Mr W S Greenhalgh as a director.
4. To re-elect Mr M D Coster as a director.
5. To re-appoint Arthur Andersen as auditors.
6. To authorise the directors to fix the remuneration of the auditors.

## Special business

To consider, and if thought fit, to pass the following special resolutions:

7. The directors be and are hereby empowered in accordance with Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in Section 94 of the Act), for cash pursuant to the authority conferred on them to allot relevant securities (as defined in Section 80 of the Act) by the previous resolution, passed on 5 May 2000, as if Section 89(1) of the Act did not apply to any such allotment provided that the powers conferred by this resolution shall be limited to the allotment of equity securities up to an aggregate nominal value not exceeding £93,668 and this power shall expire at the end of the annual general meeting of the company to be held in 2002, or if earlier, on 3 August 2002 but shall extend to the making, before such expiry, of an offer or an agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
8. The company be and it is hereby generally and unconditionally authorised for the purpose of Section 166 of the Act to make one or more market purchases (as defined in Section 163 of the Act) of ordinary shares of 10p each in the capital of the company ("ordinary shares") provided that:
  - (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 936,679 (representing approximately 5 per cent of the issued ordinary share capital);
  - (b) the minimum price which may be paid for such shares is 10p per share (exclusive of expenses);
  - (c) the maximum price (exclusive of expenses) which may be paid for such shares shall be 5 per cent above the average of the middle market quotations taken from the London Stock Exchange Daily Official List for the five business days before the purchase is made; and
  - (d) the authority hereby conferred shall (unless previously renewed or revoked) expire at the conclusion of the next annual general meeting of the company or on the date which is 18 months after the date on which this resolution is passed, whichever is the earlier, save that the company may enter into a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the Board

W S Greenhalgh  
Secretary  
Power Court, Luton, Bedfordshire, LU1 3JJ

9 April 2001

## Notice to meeting (cont.)

### Notes

1. Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting is 6.30pm on 3 May 2001. If the meeting is adjourned the time by which a person must be entered on the register of members in order to have the right to attend or vote at the adjourned meeting is 6.30pm on the day preceding the date fixed for the adjourned meeting. Changes to entries on the register of members after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the company. A form of proxy is enclosed. To be valid, the form must be lodged with the company's registrars, Independent Registrars Group, not later than 48 hours before the time fixed for holding the meeting.
3. Explanatory notes regarding certain resolutions are contained in the directors' report on page 15 of the report and accounts.
4. The register of directors' interests in the shares of the company and copies of the directors' service contracts will be available for inspection at the registered office of the company during normal business hours from the date of this notice until the conclusion of the meeting.

## Financial calendar

Half year	30 June
Half year results announced	August
Interim dividend paid	September
Year end	31 December
Annual results announced	March
Annual report and accounts published	April
Annual general meeting	May
Final dividend paid	May

## Directors and advisers

<b>Executive directors</b>	<b>Malcolm David Coster</b> , BSc, CEng.* † Appointed as Executive Chairman in 1998. Age 56. Formerly held senior international positions in both management consultancy and information technology at Coopers & Lybrand and Unisys.
	<b>Graeme Scott Philp</b> , BSc, PhD, CEng, MIEE, MInstMC. Appointed in 1991 as Technical and Marketing Director. Became Managing Director of Measurement Technology in 1992 and Chief Executive in 1995. Age 43.
	<b>William Saxon Greenhalgh</b> , BSc, FCCA. Appointed as Finance Director in 1999. Age 44. Formerly held several senior finance roles at American hi-tech companies, including 3Com and National Semiconductor.
<b>Non-executive directors</b>	<b>George Barrie Marson</b> , BSc, CEng, MIEE, CBIM, OBE.* † Appointed a non-executive director in 1992 and became Chief Executive from 1993 to 1995. Now Deputy Chairman. Formerly Chairman and Chief Executive of Oxford Instruments plc. Senior non-executive director. Age 69.
	<b>Jack Lawrence Leonard</b> , MSc, PhD, MIEE.* † Appointed in 1996. Also Chairman of BTG plc. A founder of Eurotherm Ltd in 1965 and Chairman of Eurotherm plc until 1996. Age 69.
	all of Power Court, Luton, Bedfordshire LU1 3JJ
	* member of the Audit Committee † member of the Remuneration Committee
<b>Secretary and registered office</b>	William Saxon Greenhalgh, BSc, FCCA. Power Court, Luton, Bedfordshire LU1 3JJ Registered number: 1871978
<b>Stockbrokers</b>	Beeson Gregory Limited The Registry, Royal Mint Court, London EC3N 4EY
<b>Auditors</b>	Arthur Andersen Chartered Accountants Beljeman House, 104 Hills Road, Cambridge CB2 1LH
<b>Solicitors</b>	Travers Smith Braithwaite 10 Snow Hill, London EC1A 2AL
<b>Principal bankers</b>	Barclays Bank PLC PO Box 48, 28 George Street, Luton LU1 2AE
<b>Registrars and transfer office</b>	Capita IRG PLC Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU
<b>Holding company</b>	<b>The MTL Instruments Group plc</b> Power Court, Luton, Bedfordshire, England LU1 3JJ Tel: +44 (0)1582 723633 Fax: +44 (0)1582 483180

## Group operating companies

### Design, manufacturing and sales companies

#### **Measurement Technology Limited**

##### **Escapeline Limited**

Power Court, Luton, Bedfordshire, England LU1 3JJ  
Tel: +44 (0)1582 723633 Fax: +44 (0)1582 483180

##### **Hitech Instruments Limited**

20 Titan Court, Laporte Way, Luton, Bedfordshire, England LU4 8EF  
Tel: +44 (0)1582 456900 Fax: +44 (0)1582 400901

##### **Telematic Limited**

Pondwicks Road, Luton, Bedfordshire, England LU1 3LH  
Tel: +44 (0)1582 429464 Fax: +44 (0)1582 459669

##### **MTL Systems BV**

de Houtakker 33, 6681 CW Bommel, The Netherlands  
Tel: +31 (0)481 450250 Fax: +31 (0)481 450260

##### **MTL Inc**

9 Merrill Industrial Drive, Hampton NH 03842, USA  
Tel: +1 603 926 0090 Fax: +1 603 926 1899

8576 Wellington Road, Manassas VA 20109, USA

Tel: +1 703 361 0111 Fax: +1 703 368 1029

##### **Atlantic Scientific Corporation**

4300 Fortune Place, Suite A, West Melbourne, Florida 32904, USA  
Tel: +1 407 725 8000 Fax: +1 407 727 0736

##### **Standard Automation & Control LLC**

2450 South Shore Blvd., Suite 100, League City, Texas 77573, USA  
Tel: +1 281 334 3293 Fax: +1 281 334 4324

##### **MTL Instruments Limited**

##### **MTL Systems Pvt Limited**

No.3 Old Mahabalipuram Road, Sholinganallur, Chennai 600119, India  
Tel: +91 44 496 0552, 7477 Fax: +91 44 496 1657

##### **MTL Instruments GmbH**

An der Gumpgesbrücke 17, 41564 Kaarst, Germany  
Tel: +49 (0)2131 71893-0 Fax: +49 (0)2131 71893-33

### Sales companies

##### **MTL Instruments Pty Limited**

9 Vinnicombe Drive, PO Box 1441, Canning Vale, Western Australia 6155  
Tel: +61 (0)9 455 2994 Fax: +61 (0)9 455 2805

##### **MTL Instruments Pte Limited**

150 Kampong Ampat, #06-01 KA Centre, Singapore 368324  
Tel: +65 487 7887 Fax: +65 487 7997

##### **MTL Instruments sari**

Bâtiment 4, Parc d'Affaires SILC, 69760 Limonest, France  
Tel: +33 (0)4 78 64 98 32 Fax: +33 (0)4 78 35 79 41

##### **MTL Instruments BV**

de Houtakker 33, 6681 CW Bommel, The Netherlands  
Tel: +31 (0)481 450250 Fax: +31 (0)481 450260

##### **MTL Instruments BVBA**

Fruithoflaan 122 Bus 4, B-2600, Antwerpen, Belgium  
Tel: +32 (0)3 236 53 47 Fax: +32 (0)3 236 09 30

##### **MTL Instruments KK**

3rd Floor, Gotanda Masujima Building, 1-8-13 Higashi-Gotanda, Shinagawa-Ku, Tokyo 141-0022  
Tel: +81 (0)3 5420 1281 Fax: +81 (0)3 5420 2405

##### **MTL Instruments (Shanghai)**

Unit A 4/F Building No. 5, Area FW7-3/6, No. 350 Xi Ya Road, Wai Gao Qiao Free Trade Zone, Shanghai, 200131, PR China  
Tel: +86 (0)21 5064 3320 Fax: +86 (0)21 5064 3257

##### **MTL Italia srl**

c/o Omtra srl, Via Manzoni, 44, I-20095, Cusano, Milanino, Italy  
Tel: +39 (0)2 6642 9554 Fax: +39 (0)2 6642 9549