SURFACE TECHNOLOGY SYSTEMS plc.

PRELIMINARY ANNOUNCEMENT OF RESULTS

Surface Technology Systems plc (“STS”), a world leader in the manufacture of wafer etch and deposition machines used in the production of semiconductor-related devices, announces its financial results for the year ended 31 December 2002.

“ The business continues to head in the right direction for a return to profitability and growth….the progress being made is rapid, wide-ranging and will be enduring. “
Nigel Randall, Chairman, STS.

Highlights

- **£33.8 million of sales despite a deep and prolonged industry recession**
- **Losses reduced in the second half of the year through rapid cost reduction measures**
- **Borrowings £3 million below market expectations at year end**
- **Company-wide restructuring implemented for further efficiency savings and greater customer focus**
- **Largest-ever Micro Electro-Mechanical Systems (“MEMS”) equipment order just received (see separate announcement today).**

Introduction

2002 was a very challenging year for the Group. Following one and a half years of rapid growth, a severe downturn in our markets was signalled towards the end of 2001. That downturn accelerated and then persisted throughout 2002.

Summary

Sales revenue at £33.8 million was 40% lower than 2001. This decline is attributable to both volume of machines sold and sales price per machine. Whilst it is disappointing to report this result, the reduction in sales volume is mostly due to the extremely rapid decline in sales of machines for Photonics (opto-electronics) applications, a global industry downturn which has been well-publicised. It is, therefore, pleasing to report that the volume of machine sales for Micro Electro-Mechanical Systems (“MEMS”), which is the Group’s core business sector, Compound Semiconductor applications and the emerging niche sector of ‘chip-scale packaging’ have all held steady despite the deep and prolonged cut-backs in customers’ capital expenditure patterns. The average sales price per machine sold has, however, fallen across all market sectors.

Losses before exceptional items amounted to £4.3 million in 2002 compared with a profit of £5.3 million in 2001, a stark measure of the sales volume and price pressure faced by the Group. In addition, as a result of the industry downturn in the first half of the year, a reassessment of the value of component and work-in-progress inventory on hand was completed. As reported at the half year, an exceptional provision of £5.4 million was taken, predominately, against that inventory. Accordingly, the total pre-tax loss for the year, including the exceptional costs incurred in the first half of the year, amounts to £9.9 million. No dividend is proposed for 2002.

Outlook

Trading conditions in 2003 are expected to remain very difficult. Nevertheless, as stated in the Trading Update announcement on 6 February 2003, interest in STS' products is strong, as evidenced by the new order announced today, and with the substantial cost reduction measures already taken it is anticipated that 2003 will show an improvement on 2002. The Board continues to believe that the prolonged downturn in the Group's market sectors has only delayed the demand for STS machines. The need remains for new technology enabling products within the aerospace, defence, automotive, information technology, healthcare, leisure, public utilities and telecommunications markets, driven by both the competitive pressures to improve product offerings and profitability. Today, STS is one of the leading equipment suppliers in the MEMS, Photonics and Wireless Communications industries, with a significant number of machines installed around the world and is well placed to benefit from an economic upturn in any of the geographic and technology markets served.

Contacts

Ian Smith – Chief Executive, STS plc	01633 652400
Barrie Newton - Rowan Dartington & Co., Ltd	0117 9330011
Ken Rees – Winningtons	0117 3179477
STS Web site: www.stsystems.co.uk	

Chairman's Statement

The Chairman's statement to be published in the forthcoming Annual Report is as follows:

Introduction

2002 was a very challenging year for the Group, as the financial results accompanying this statement for the year ended 31 December 2002 show. Following one and a half years of rapid growth, a severe downturn in our markets was signalled towards the end of 2001. That downturn accelerated and then persisted throughout 2002, which caused losses to arise and exceptional costs to be incurred in the first half of the year. The management team acted decisively to address these challenges and, as a result of stronger internal control of the business in the second half of 2002, I am pleased to report that both losses and borrowings were lower than earlier expectations.

Results

Sales revenue at £33.8 million was 40% lower than 2001. This decline is attributable to both volume of machines sold and sales price per machine. Whilst it is disappointing to report this result, the reduction in sales volume is mostly due to the extremely rapid decline in sales of machines for Photonics (opto-electronics) applications, a global industry downturn which has been well-publicised. It is, therefore, pleasing to report that the volume of machine sales for Micro Electro-Mechanical Systems ("MEMS"), which is the Group's core business sector, Compound Semiconductor applications and the emerging niche sector of 'chip-scale packaging' have all held despite deep and prolonged cut-backs in customers' capital expenditure patterns. The average sales price per machine sold has, however, fallen across all market sectors.

Losses before exceptional items amounted to £4.3 million in 2002 compared with a profit of £5.3 million in 2001, a stark measure of the sales volume and price pressure faced by the Group. In addition, as a result of the industry downturn in the first half of the year, a reassessment of the value of component and work-in-progress inventory on hand was completed. As reported at the half year, an exceptional provision of £5.4 million was taken, predominately, against that inventory. Accordingly, the total pre-tax loss for the year, including the exceptional costs incurred in the first half of the year, amounts to £9.9 million. No dividend is proposed for 2002.

The net cash outflow before financing was £4.1 million for 2002 compared with an outflow of £2.4 million in 2001, resulting in bank borrowing increasing to £17.9 million. This level of borrowing, together with the impact of the losses, resulted in the Group's debt to equity gearing increasing to 207% at the year-end, compared with 86% at the end of 2001.

Review of the year

General trading conditions and, in particular, margin pressure have required the Group to take tough action to reduce operating costs. Where this action has included a reduction in the number of employees, it has clearly been regrettable, but necessary, both for the short-term recovery and the long-term strength of the business. The total number of employees is now 197, reduced from 297 at the start of 2002. In taking this action, the aim throughout has been to strike a balance between reducing operating costs and improving operating efficiency, whilst, at the same time, protecting the longer-term investments in research and new product development. Whilst operating costs remain under review, I believe the Group has made major progress towards this balance and with the internal restructuring of operations announced in the Trading Update on 6 February 2003, the Group is now better organised for a return to profitability.

The shortfall in gross margin and the need for inventory provisions were identified in the first half of the year, as reported in the Group's interim accounts. The management team has focussed attention on control of the margin and inventory management in the second half of the year. It is pleasing to report that the underlying gross margin has improved by some 10 percentage points in the second half against a background of continuing sales price pressure. In addition, close cash control resulted in borrowings at 31 December 2002 being approximately £3 million lower than earlier market expectations.

Investment in new products and research and development has continued. The new High Rate Machine, introduced in late 2001, has been successful and further product developments will be introduced during 2003. Competition in our markets has increased and a major element of STS's strategy is to continue the innovative advances in its products to provide the essential product differentiation and to win new business. Two-thirds of machines sold in 2002 were to new customers.

In March 2002, Andrew Chambers was appointed to the Board as Technology Director, having previously been responsible for the Engineering and Process functions in the Group and is successfully leading the Group's continuing business-critical research and product development programmes. In May 2002, Paul Webb, who is now Finance Director, was appointed and is making a significant contribution to the improvement in the internal financial disciplines required in these challenging times. Subsequent to the year-end, Andy McQuarrie, who is based in the USA and who has delivered significant growth from the North American market in recent years, has taken on the essential role of Business Development Director to spearhead the Group's efforts in generating new revenue streams. A search is underway for a Sales and Marketing Director to join the Board to complete the Executive Team. Under Ian Smith's leadership as Chief Executive, the entire Executive team has responded to the challenges presented in 2002 with speed, resolve and commitment. The business continues to be steered in the right direction for a return to profitability and growth. On behalf of the Board, I want to thank all of the STS team for their continuing enthusiasm and dedication during this period of unprecedented challenge.

I stated in my Chairman's Statement one year ago that STS operates in a world of constant and rapid change and the ability of the business to react quickly, re-organise and adapt to new environments is a key element of its long-term strength. One year on, the abilities of the business in these areas have been severely challenged, but I am pleased to report that the progress being made is rapid, robust, wide-ranging and will be enduring.

Outlook

Trading conditions in 2003 are expected to remain very difficult. Nevertheless, as stated in the Trading Update announcement on 6 February 2003, interest in STS' products is strong and with the substantial cost reduction measures already taken it is anticipated that 2003 will show an improvement on 2002. The Board continues to believe that the prolonged downturn in the Group's market sectors has only delayed the demand for STS machines. The need remains for new technology enabling products within the aerospace, defence, automotive, information technology, healthcare, leisure, public utilities and telecommunications markets, driven by both the competitive pressures to improve product offerings and profitability. Today, STS is one of the leading equipment suppliers in the MEMS, Photonics and Wireless Communications industries, with machines installed around the world and is well placed to benefit from economic upturn in any of the geographic and technology markets served.

Nigel Randall

Chairman

Operating and Financial Review

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Extracts from the Operating and Financial Review to be published in the
forthcoming Annual Reports are as follows:
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Sales and Markets

The number of machines sold reduced by 19% in 2002 compared with the previous year. This reduction in volume was compounded by a 27% fall in the average selling price per machine sold. This fall is due partly to competitive activity and partly to a change in the mix of machine configuration. In connection with configuration, in 2002 the number of machines sold for mass production applications, as opposed to lower margin Research and Development ("R&D") applications, was 25% less than in 2001. In particular, this change reflects the fall in the number of customers needing equipment for Photonics, or opto-electronics, device manufacture.

- **MEMS**

The Micro Electro-Mechanical Systems ("MEMS"), industry continues to show signs of significant growth with more customers designing and manufacturing devices in both research and mass production volumes for a wide range of end-user applications. These applications span industry sectors such as Automotive, Information Technology, Telecommunications, Medical and Bio-medical, Environmental, Aeronautics, Space, Military, Domestic and Leisure.

The characteristics of "MEMS" devices, being highly specialised integrated circuits and micro-machines, mean that each device is high value, in contrast to products in the 'mainstream' semiconductor industry. The fundamentals of the "MEMS" industry, being highly fragmented due to the wide range of applications, mean that capital equipment supplied is complex and is configured to each individual customer's process requirements, again in contrast to products in the mainstream semiconductor industry. Therefore, each individual "MEMS" application is a 'niche' market in itself and there are relatively few opportunities for selling large quantities of identical machines. The market penetration of STS' Advanced Silicon Etch equipment, the world-class process engineering expertise at STS and the strategy of working with "R&D" customers during their transition into mass production, all place the Group in a prime position to win such repeat business as the "MEMS" industry grows and matures.

In 2002, the number of machines sold for "MEMS" applications was identical to 2001. Due to the decline of the Photonics sector, however, machines for "MEMS" applications accounted for 53% of total sales, compared with 43% in the previous year.

The joint marketing agreement with Xactix, Inc., who provide machines for MEMS etching using the gas, Xenon Difluoride, which was announced in July 2002, has progressed well. A product range incorporating STS and Xactix process capabilities has been defined and discussions continue in order to integrate more closely the technology and infrastructure of both companies.

- **Photonics**

The demand for telecoms operators to upgrade or build next generation networks, using optical components for high-speed communication, driven primarily by increased use of the internet and data transmission, is expected to provide strong growth in the Photonics sector in the future. The trend towards 'all-optical' networks has led to the development of key devices such as optical, or 'planar' waveguides, the commercial manufacture of which was made possible using the Group's etching and deposition products. As a result of enabling this technology, the Group secured a significant market share in the supply of equipment for the manufacture of these devices when this industry grew rapidly in 2000 and 2001.

The rapid expansion in industry capacity and over-supply of Photonics components led, however, to a major correction in the third quarter of 2001. Consequently, equipment sales to the Photonics industry in 2002 were significantly reduced, being 56% lower than 2001 and 63% lower than the year 2000. As a proportion of total sales, machines for Photonics applications accounted for 16% in 2002, compared with 29% in 2001.

The Group continues to supply equipment to those customers who are likely to benefit when this industry recovers and, therefore, this market position gives cause for optimism for a return to higher sales levels in the future.

- **Wireless Communications**

The Group sells equipment incorporating etch and deposition processes used in the production of Compound Semiconductor integrated circuits for LEDs and power amplifiers and transmit/receive components in mobile phone handsets. Compound Semiconductor devices play a crucial role in mobile communications in that they operate at low power consumption and with high functionality, which are key requisites for next generation handsets. Sales of machines for Compound Semiconductor applications accounted for 19% of total machine sales in 2002 compared with 18% in 2001.

- **Advanced Chip-scale Packaging**

Sales revenue in 2002 and the previous year has included machines sold for etch applications in 'chip-scale packaging'. This essentially enables device manufacturers to package each chip on a wafer scale before dicing the wafer, as opposed to packaging each chip after the wafer has been diced into individual components. The process has the potential to increase the overall application and exploitation of microelectronic systems via further miniaturisation. Revenues from this etch application are relatively low at present, accounting for 4% of total sales in 2002, compared with 3% in 2001, but are anticipated to be higher in the near future.

- **Geographical and customer spread**

The Group generated revenues in 18 countries in 2002 (14 in 2001), maintaining its global reach. Exports from the UK amounted to 93% of total machine sales. The analysis of global machine sales is as follows:

% of total	**2002**	**2001**
UK and Europe	23	28
USA	35	45
Japan	17	10
Rest of World	25	17

The Group sold a similar number of machines to new customers in 2002 as it did in 2001, but that total accounted for 66% of total machine sales in 2002 compared with 49% in 2001. This shows that there has been a lower level of repeat business in 2002, a further reflection of the reduction in sales of machines for volume production applications.

In 2002, 37% of machines sold were to universities and research institutions, with 63% sold to industrial companies, but overall 82% of all machines sold were for "R&D" applications. This gives an indication of the amount of "R&D" activity in industrial companies, the purpose of which is to develop devices for volume production in due course. The search for new MEMS applications and the education of industry to the potential of the technology continues.

STS' strong position in growing technology markets, its geographic reach, the customer spread and its product range, applicable to both "R&D" and production environments, all mean that the Group's revenue risks continue to be well spread and will help it to emerge successfully from currently depressed market conditions.

Research and Development

During 2002, £4.3 million was incurred in respect of "R&D" activity, the same level of expenditure as in 2001. All such expenditure is written off as it is incurred. Two of the Group's principal core competencies are the innovative development of process solutions for customers' device fabrication requirements and the development of new equipment. Even in the market conditions experienced throughout 2002, it is considered vital to maintain the level of competence in these two areas of development in order for the Group to benefit from any market upturn in the future. Specific new product development projects continued throughout 2002 and will be completed in the current year.

Financial Performance

The gross margin for 2002, which is stated after "R&D" costs, was 4.5% compared with 33.8% for 2001. During the first half of 2002, an exceptional charge of £5.2 million, relating principally to non-recurring, non-cash inventory provisions, was incurred. The gross margin for 2002, prior to making the exceptional charge was 19.8%.

The operating loss of £8.9 million resulted in a much lower cash outflow from operating activities of £2.5 million for the year as a result of the non-cash exceptional profit and loss charges and the reduction in working capital.

Capital expenditure was £1.4 million for 2002 compared with £6.7 million the previous year, which included the factory extension project. Taxation refunded in 2002 amounted to £1.2 million compared to £1.9 million paid in the previous year. The net cash outflow before financing was £4.1 million for 2002 compared to £2.4 million for 2001.

Current trading and outlook

Trading conditions are expected to be very difficult in the first half of 2003, since forward order visibility is low at present, with firm orders representing approximately three months revenue. Some improvement is anticipated in the second half of the year. The focus for 2003 is to manage at this level of activity and, at the same time, shape and structure the business for a return to profitability.

Whilst the short term outlook is challenging, interest in STS' products remains strong, as evidenced by a lengthening list of enquiries and there are further signs that more customers, particularly in MEMS, are beginning to move from the research and development stage of device manufacture through to volume production. This confirms the Board's belief that the strategy adopted by the Group in serving "R&D" customers and working with them during their transition into production will prove to be effective when markets return to growth.

Longer term, the Group also needs to consider opportunities to benefit from the anticipated growth of the markets in which it operates. The strategic aim of the business is to consolidate its position in the R&D and production markets it currently serves, in particular, in the MEMS industry. To this end, the executive team continues to consider a range of options by which this may be achieved.

Summary

The technology markets in which the Group operates continue to have potential for significant long-term growth. The challenge is to ensure the business is strengthened in order to manage short-term fluctuations in demand patterns, to react to changes in the competitive landscape and to continue to provide innovative solutions to customers when their end-user markets develop. This challenge continues to be tackled robustly by a talented and dedicated team committed to return the business to profitable growth.

Ian Smith

Chief Executive

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002

	Note	2002 £'000	2002 £'000	2001 £'000
TURNOVER: continuing operations	2		33,818	56,669
Cost of sales				
Exceptional	4	(5,181)		-
Other		(27,117)		-
			(32,298)	(37,529)
Gross profit			1,520	19,140
Distribution costs			(5,892)	(7,615)
Administrative expenses				
Exceptional	4	(432)		(404)
Other		(4,135)		(5,350)
			(4,567)	(5,754)
Other operating income			-	342
OPERATING (LOSS) PROFIT: continuing operations	3		(8,939)	6,113
Interest receivable and similar income			24	107
Interest payable and similar charges			(963)	(888)
(LOSS) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			(9,878)	5,332
Tax credit (charge) on (loss) profit on ordinary activities	6		2,478	(1,862)
(LOSS) PROFIT FOR THE FINANCIAL YEAR			(7,400)	3,470
Dividends paid and proposed			-	(694)
(LOSS TRANSFERRED TO RESERVES) PROFIT RETAINED FOR THE FINANCIAL YEAR			(7,400)	2,776
Earnings per share (pence)				
Basic	7		(23.58p)	11.19p
Diluted	7		(23.58p)	10.94p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2002

	2002 £'000	2001 £'000
Loss (profit) for the financial year	(7,400)	3,470
Currency translation differences on foreign currency net investments	(127)	-
Total recognised (losses) gains in the year	(7,527)	3,470

CONSOLIDATED BALANCE SHEETS
As at 31 December 2002

	Note	The Group 2002 £'000	The Group 2001 £'000	The Company 2002 £'000	The Company 2001 £'000
FIXED ASSETS					
Tangible fixed assets		14,576	14,530	14,547	14,491
Investments		14	14	491	491
		14,590	14,544	15,038	14,982
CURRENT ASSETS					
Stocks	8	8,246	16,815	7,778	15,452
Debtors		10,279	11,046	10,574	11,509
Cash at bank and in hand		3,482	3,859	3,310	3,658
		22,007	31,720	21,662	30,619
CREDITORS: amounts falling due within one year		(22,953)	(22,329)	(23,652)	(22,968)
NET CURRENT (LIABILITIES) ASSETS		(946)	9,391	(1,990)	7,651
TOTAL ASSETS LESS CURRENT LIABILITIES		13,644	23,935	13,048	22,633
CREDITORS: amounts falling due after more than one year		(4,701)	(6,298)	(4,701)	(6,298)
PROVISIONS FOR LIABILITIES AND CHARGES		(296)	(1,460)	(296)	(1,460)
NET ASSETS		8,647	16,177	8,051	14,875
CAPITAL AND RESERVES					
Called up share capital		628	627	628	627
Share premium account		6,029	6,015	6,029	6,015
Other reserves		-	18	-	18
Profit and loss account		1,990	9,517	1,394	8,215
TOTAL EQUITY SHAREHOLDERS' FUNDS		8,647	16,177	8,051	14,875

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Net cash (outflow) inflow from operating activities	9		(2,507)		7,210
Returns on investments and servicing of finance					
Interest received		24		108	
Interest paid		(963)		(929)	
Net cash outflow from returns on investments and servicing of finance			(939)		(821)
Taxation					
UK corporation tax refunded (paid)		829		(1,031)	
Overseas tax refunded (paid)		402		(822)	
Tax refunded (paid)			1,231		(1,853)
Capital expenditure					
Payments to acquire tangible fixed assets		(1,394)		(6,749)	
Disposal of tangible fixed assets		-		8	
Net cash outflow from investing activities			(1,394)		(6,741)
Equity dividends paid			(475)		(219)
Net cash outflow before use of liquid resources and financing			(4,084)		(2,424)
Management of liquid resources			619		(1,924)
Financing					
Proceeds from new borrowings		5,712		5,000	
Repayment of borrowings		(1,108)		(136)	
Proceeds from new finance leases		-		709	
Repayment of finance leases		(461)		(510)	
Issue of ordinary share capital		15		432	
Net cash inflow from financing			4,158		5,495
Increase in cash	10		693		1,147

1. ACCOUNTING POLICIES

The financial information is prepared in accordance with applicable accounting standards. A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is as follows:

Accounting convention

The financial information is prepared under the historical cost convention.

Basis of consolidation

The consolidated information incorporates the company and its subsidiary undertakings.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation. Depreciation has been computed to write off the cost of tangible fixed assets on a straight-line basis over their expected useful lives using the following rates:

Freehold land and buildings	-	2% per annum
Demonstration machines	-	20% per annum
Plant and machinery	-	10% per annum
Fixtures, fittings and furniture	-	10% per annum
Office and computer equipment	-	25% per annum
Motor vehicles	-	25% per annum

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Stocks

Stocks are valued at the lower of cost and net realisable value. The cost of finished goods includes materials, labour and a relevant proportion of production overheads. Provision has been made for excess and slow-moving items where appropriate.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Research and development expenditure

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

Turnover

The group's turnover represents amounts receivable, excluding value added tax and trade discounts, in respect of goods and services provided in the normal course of business. Revenue on sales of machines is recognised on shipment.

1. ACCOUNTING POLICIES (continued)

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is dealt with in the profit and loss account.

The results of foreign subsidiaries are translated into sterling at the average rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date. The difference arising from the translation of the opening net investment in subsidiaries, the results of operations, and matched long-term foreign currency borrowings are taken direct to reserves.

Financial instruments

Derivative instruments utilised by the group are an interest rate swap, an interest rate collar and forward exchange contracts. The group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the group in line with the group's risk management policies.

Amounts payable or receivable in respect of the interest rate swap and collar are recognised as adjustments to interest expense over the period of the contracts.

The group is subject to currency exposures on trading transactions undertaken in foreign currencies (transactional exposure) and on the translation of net assets and profits earned in overseas subsidiaries (balance sheet and profit translation exposure).

The group hedges approximately 90% of its transactional exposure through the use of forward exchange contracts of up to one year forward against known sales.

The group does not specifically hedge its profit and balance sheet translation exposure, but does partially match currency assets with currency borrowings.

Leasing

The group has entered into certain sale and leaseback transactions. In accordance with SSAP 21 and FRS 5, the assets subject to these sale and leaseback transactions have been retained in the group's balance sheet and the proceeds of sale have been included as a liability and categorised as appropriate under creditors due within and after more than one year.

The fixed assets subject to the sale and leaseback arrangements are depreciated on a straight-line basis over the period of the lease term.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of the capital repayments outstanding.

Government grants

The revenue element of grants is credited to the profit and loss account as the related expenditure is incurred. The capital element of grants is credited to the profit and loss account over the expected useful life of the related assets.

Pension costs

The amount of pension contributions payable in the year is charged to the profit and loss account as incurred.

Share options

In accordance with UITF 17, the group accounts for the difference between the market price of shares at the date of granting options and the exercise price of those options by a charge to the profit and loss account and credit to other reserves. The charge is a non-cash item.

2. TURNOVER

By destination	2002 £'000	2001 £'000
United Kingdom	2,713	6,936
Other European countries	5,373	9,346
United States of America	11,620	23,979
Japan	6,516	5,837
Rest of world	7,596	10,571
	33,818	56,669

The turnover, which predominately originates in the UK, pre-tax (loss) profit and net assets, are attributable to one activity, which is continuing.

3. OPERATING (LOSS) PROFIT

The operating (loss) profit is stated after charging (crediting) the following:			**2002 £'000**	**2001 £'000**
Research and development	- staff costs		3,699	3,722
	- materials		623	573
Auditors' remuneration	- audit fees		67	54
	- grant application assistance		-	28
	- tax services		35	45
	- other services		8	-
Depreciation	- owned assets		809	650
	- leased assets		539	645
Hire of other assets	- operating leases		109	122
Net loss (gain) from foreign currency translation		- unrealised	304	(68)
		- realised	(261)	(136)
Grant income			78	(171)

4. EXCEPTIONAL ITEMS

	2002 £'000	**2001 £'000**
Exceptional cost of sales		
Exceptional stock provisions and adjustments of certain accruals	5,181	-
	5,181	-
Exceptional administrative expenses		
Restructuring costs	432	-
Severance payments to former directors	-	386
Difference between exercise price and fair value of option awards at the date of grant	-	18
	432	404

5. STAFF COSTS

The average number of persons employed by the group, including directors, during the year was 284 (2001 – 359) and at 31 December 2002 was 240 (2001- 297). The aggregate payroll costs of these persons were as follows:

	2002 £'000	2001 £'000
Wages and salaries	8,955	10,624
Social security costs	797	968
Pension costs	242	307
	9,994	11,899

6. TAXATION

	2002 £'000	2001 £'000
(a) Analysis of the tax (credit) charge in the year		
Current tax		
- current year	(668)	962
- prior year	(408)	(40)
Overseas taxation	(402)	806
Total current tax	(1,478)	1,728
Deferred tax – origination and reversal of timing differences	(1,000)	134
	(2,478)	1,862

(b) Factors affecting the tax (credit) charge in the year

The tax (credit) charge assessed for the year and the prior year is different to the standard rate of corporation tax in the UK. The differences are explained below:	2002 £'000	2001 £'000
(Loss) profit on ordinary activities before tax	(9,878)	5,332
(Loss) profit on ordinary activities multiplied by the standard rate of corporation tax (30%)	(2,963)	1,600
Effects of:		
Expenses not deductible for tax purposes	27	23
Capital allowances in excess of depreciation	(239)	(152)
Increase in tax losses	1,950	-
Movement in short-term timing differences	121	43
Other deferred tax movements	141	-
Overseas tax rate	(107)	254
Prior period adjustments	(408)	(40)
	(1,478)	1,728

(c) Factors that may affect future tax charges

The Group's overseas tax rates are higher than those in the UK primarily because the majority of overseas results are earned in the USA which are taxed at an average rate of 43%. The Group also has UK tax losses of £6,000,000 which are available to offset future UK taxable profits when they arise.

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares.

	2002 £'000	2001 £'000
(Loss) profit for the financial year	(7,400)	3,470
Weighted average number of ordinary shares	31,384,164	31,005,210
Effect of dilutive share options	-	736,152
	31,384,164	31,741,362
Earnings per share – basic (p)	(23.58)	11.19
Earnings per share – diluted (p)	(23.58)	10.94

8. STOCKS

	The Group 2002 £'000	The Group 2001 £'000	The Company 2002 £'000	The Company 2001 £'000
Raw materials and consumables	2,754	5,485	2,754	5,485
Work in progress	4,531	8,894	4,531	8,894
Spare parts	961	2,436	493	1,073
	8,246	16,815	7,778	15,452

9. RECONCILIATION OF OPERATING LOSS PROFIT AND NET CASH OUTFLOW INFLOW FROM OPERATING ACTIVITIES

	2002 £'000	2001 £'000
Operating (loss) profit	(8,939)	6,113
Depreciation	1,348	1,295
Decrease in stocks (including exceptional item)	8,569	659
Decrease in debtors	767	8,596
Decrease in creditors	(3,943)	(9,584)
(Decrease) increase in provisions	(164)	113
Other non cash items	(145)	18
Net cash (outflow) inflow from operating activities	(2,507)	7,210

10. ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2002 £'000	Cash flow £'000	Other non-cash changes £'000	At 31 December 2002 £'000
Cash at bank and in hand	1,411	242	-	1,653
Overdrafts	(451)	451	-	-
	960	693	-	1,653
Debt due within one year	(10,441)	(4,604)	(1,136)	(16,181)
Debt due after one year	(4,817)	-	1,136	(3,681)
Lease purchase obligations	(2,039)	461	-	(1,578)
	(17,297)	(4,143)	-	(21,440)
Cash at bank accessible between one and seven days	2,448	(619)	-	1,829
	(13,889)	(4,069)	-	(17,958)

11. RECONCILIATION OF NET CASH FLOW TO NET DEBT

	2002 £'000	2001 £'000
Increase in cash in the year	693	1,147
Cash (outflow) inflow from (decrease) increase in liquid resources	(619)	1924
Cash inflow from increase in net debt	(4,143)	(5,063)
Movement in net debt in the year	(4,069)	(1,992)
Net debt at 1 January	(13,889)	(11,897)
Net debt at 31 December	(17,958)	(13,889)

Statutory Accounts

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2002 or 2001. The financial information for the year ended 31 December 2001 is derived from the statutory accounts for the year ended 31 December 2001, which have been delivered to the Registrar of Companies and on which the auditors reported. Their report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985. The statutory accounts for the financial year 31 December 2002 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's annual general meeting.

The Directors approved this announcement on 27th March 2003. Further copies of this announcement are available from the Company's registered office at Imperial Park, Newport, NP10 8UJ.

Background on STS

STS' equipment is one of the enablers of change as new 21st century products are adopted. Its machines enable customers to manufacture micro-technology devices to carry out tasks previously considered not practical, such as miniature gyroscopes for stability control and accelerometers for air-bag triggers in cars, or tiny switches for optical fibre data transmission in the Internet, or power amplifiers microchips for mobile phones. Many of these devices are already part of our daily lives and will increasingly be so.