28 March 2007

The MTL Instruments Group plc

Preliminary Results for the year ended 31 December 2006

The MTL Instruments Group plc is recognised as a world leader in the development and supply of Intrinsic Safety, Process Control and Surge Protection products aimed at the process control and telecommunications industries. Many of the world's safety-critical processes are monitored, controlled or protected by MTL products and the Group is distinguished by its global network of sales and support centres and by its acknowledged position as a thought leader in this high technology marketplace.

MTL has recently developed solutions which enable process control systems to be devolved from the control room onto the process plant itself giving benefits of improved control, integrity and cost savings. This has involved the combination of the Group's four core technologies – Intrinsic Safety, Surge Protection, Visualisation and Open Control Platforms.

Performance Summary

	Year ended 31 December 2006	Year ended 31 December 2005	Change
Orders	**£87.4m**	£76.6m	+14%
Sales	**£85.3m**	£74.2m	+15%
Profit before tax	**£8.4m**	£7.2m	+17%
Basic EPS	**28.7p**	25.7p	+12%
Dividend per share	**7.5p**	7.0p	+7%

Highlights

- Strong top-line orders and sales, driven by good market conditions
- Solid investment activity in our major markets: oil and gas, petrochemical and pharmaceutical sectors
- All businesses achieved growth in 2006, the highest growth coming from Hazardous Areas and Visualisation
- MOST achieved break-even in the second half of 2006
- Dividend increased

Malcolm Coster, Chairman of The MTL Instruments Group plc, commented: "I am delighted to report a record year for MTL. We saw strong growth across the board and conditions continue to be buoyant, which should ensure that we make further revenue and earnings progress in 2007. This is despite the fact that the US dollar and euro exchange rates to sterling are weaker compared to 2006."

- Ends -

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Chairman's Statement

Introduction

I am delighted, once again, to report another record year for MTL. In 2006 the Group saw further strong growth in its main end-user markets – oil & gas, pharmaceutical and general process control – and across all geographical areas with each of our divisions delivering record sales and orders and with the Group operating margin improving further.

Financial results

Order input increased by 14% to £87.4m, with all our businesses achieving growth in an environment that continued to experience strong levels of investment in our main industrial markets.

Group sales were £85.3m (2005: £74.2m) an increase of 15%. The strength of sterling against the US dollar in particular has caused a dilution in the reported growth for the year, which would otherwise have been 17%.

Despite the continued high level of project business, the gross margin improved in the second half to 48.2% from 46.0% in the first half. This gave a 2006 gross margin of 47.1% (2005: 46.7%). The improvement in the second half was mainly driven by manufacturing cost reductions and increased capacity utilisation in our factories.

We continue to increase investment in the development of our products and services and in expanding the capabilities and strength of our senior management team and our sales channel. These investments and improvements in operational efficiency provide us with an expanding platform upon which to capitalise fully on future growth opportunities.

Despite the increased investment levels the operating margin has improved to 10.3% (2005: 10.0%). Operating profit was £8.762m (2005: £7.445m), an increase of 18%. Profit before tax at £8.391m (2005: £7.146m) was up by 17%. Earnings per share were 28.7p compared with 25.7p in 2005, an increase of 12%.

Business Review

All of our businesses achieved growth in 2006, the highest growth coming from Hazardous Areas and Visualisation divisions.

Hazardous Areas' main markets of oil & gas and petrochemical have experienced another year of strong investment levels although competition has remained intense particularly on large projects in strategically important markets such as India, China and the Middle East.

Our Visualisation business, which was formed following the acquisition of GeCma in March 2005, continued to perform strongly with the pick-up of sales momentum through the MTL sales channel.

A cyclical drop-off in the US Wireless Infrastructure segment of our Surge Technologies business in the second half of 2006 led to a 10% reduction in sales in this business line. This was more than offset by the 19% growth in the Industrial business, which reflects the delivery of the financial benefit from our strategy to internationalise the business by developing our worldwide sales channel.

After a sustained period of investment which has effectively diluted the profits of the Group as a whole, MOST achieved break-even in the second half of 2006. Orders and sales for our Matrix and I/O products grew strongly during the year, despite the weakness of the US dollar, putting us in a strong position for the division to make its first contribution to Group profitability in 2007.

Dividend

In the light of our continued confidence in the Company's future prospects, the Board is proposing a final dividend of 4.6p per share (2005: 4.3p). Together with the interim dividend of 2.9p, this gives a full-year dividend of 7.5p (2005: 7.0p), an increase of 7% whilst increasing dividend cover. Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 11 May 2007 to shareholders on the register at 13 April 2007.

Group Board

Steve Cockrell retired as a non-executive director on 31 December 2006. I would like to thank Steve for his contribution to the development of MTL over many years, first as Group Finance Director and for the last five years as non-executive director and Chairman of the Audit Committee. My fellow directors and I will miss his wise council, depth of knowledge and support. A Nominations Committee has now been set up to find a replacement for Steve. In the meantime, Terry Lazenby has kindly agreed to expand his board duties to include the chairmanship of the Audit Committee.

Outlook

Conditions in our geographic and end-user markets continue to be buoyant which should ensure that we make further revenue and earnings progress in 2007. This is despite the fact that the US dollar and euro exchange rates to sterling are weaker compared to 2006.

Operational and Financial Review

Business overview
MTL is a world leader in connectivity component solutions for the process control industry which are used by end users in the oil & gas, pharmaceutical and chemical industries. We are structured around five major business divisions:

- Hazardous Areas, the original and largest activity supplying intrinsic safety interfaces and Fieldbus physical layer components to the process control industry.
- Surge Technologies, which supplies lightning and over-voltage protection for mains power supplies, signal and data lines and antenna feeds to service the process industries and other markets such as commercial data networks and the wireless infrastructure market.
- Visualisation, MTL's newest division, formed after the acquisition of GeCma in March 2005, supplies industrially hardened operator terminals and embedded PCs to the process industries, especially for oil and gas and pharmaceutical applications.
- MTL Open System Technologies (MOST) supplies open control system components to end users, system integrators and OEMs and addresses the full range of the process industries.
- Gas Analysis, which addresses niche gas analysis applications in process control and manufacturing including modified atmosphere food packaging, flame treatment of material and combustion analysis and control.

MTL supports customers across the world mainly through direct operations. We have five production plants across three continents and multiple sales and support operations in 14 countries. Together with an extensive network of indirect sales offices, this gives coverage of all of our major customers and markets worldwide. We have over 6,000 active customers in total.

Key drivers for the Group's businesses relate to the process control market around the world with demand being generated by new and expanded capacity, upgrades to existing facilities and replacements. This investment is often linked to projects aimed at improving the efficiency, safety and environmental performance of plants. MTL's reputation for quality, worldwide support and technical innovation is crucial to its leadership position in this field. The broad geographic spread of our operations means that we have a large number of repeat customers around the world and no one customer accounts for more than 7% of sales.

Business strategy
The objective of the Group is to increase shareholder value by developing its leadership position in connectivity component solutions for the process control industry. Over the years, MTL has continued to build on its reputation as an innovator in this field and has provided users with increasing levels of functionality, performance and assurance. Recent strategy has focused on opportunities to leverage our leadership position in hazardous areas and surge protection technologies in newly developing areas such as Fieldbus digital plant communications, open system control and ruggedised embedded PCs. Key programmes relate to the development of new products, enhancing the capabilities of the international sales channel, driving cost out of manufacturing and strengthening the senior management team.

Year under review
Investment levels in the process control market continue to benefit from a general positive economic environment and also from the current high oil price. These factors have driven both increased capital investment in the oil & gas and associated industries and investment in operating efficiencies in industries using oil. These buoyant market conditions together with the increasing adoption of new technologies, which we have helped to pioneer, have contributed to making 2006 a record year for MTL.

Whilst our worldwide sourcing and manufacturing operations act to mitigate currency risks, MTL is still exposed to transaction as well as translation currency impacts. Any benefit in the first half of the year was more than offset by the weakening of the US dollar in the second half of the year. The impact of the level of the US dollar is high due, not only to our important North American business, but also to our large Asian markets in countries where currencies closely follow the US dollar.

All of our operating divisions achieved increased levels of order intake and sales revenue. Overall order intake was up by 14% and sales output increased by 15%. The order book increased to £9.2m which is 42% up on the start of the year. Profit before tax was up by 17%. Operating margin, a key performance indicator of the business, increased to 10.3%.

Hazardous Areas

The Hazardous Areas division is MTL's longest standing business and is one of two dominant worldwide companies who design, manufacture and market intrinsic safety interfaces and Fieldbus components. The division benefits primarily from global investments in the Oil, Gas, Petrochemical and Pharmaceutical industries.

The strong investment cycle, especially in oil and gas, again provided the platform for increased orders and sales in 2006, with order intake increasing by 19% to £46.7m and sales up by 14% at £43.3m, orders in hand increased during the year by £3.1m to £6.5m.

Whilst the traditional intrinsic safety interface business continues to perform well, growth in the new technology areas was particularly encouraging with Fieldbus sales growing by 36%. The strong investment cycle has been characterised by a high level of project business, which, particularly in strategic regions, has been fiercely contested with our competitors. We have maintained our market share during the year and manufacturing cost reductions have mitigated the effect on the gross margin percentage which was 48.4% (2005: 49.1%).

Significant investment in sales channels and new products was rewarded with increased orders and sales spread across all geographical regions. Sales in Asia Pacific grew by 17%, boosted by a major refinery contract in India and continued growth in China, the EMEA (Europe, Middle East, Africa) region grew by 16%, with the Americas increasing by 5%, compared with 2005.

To capitalise on the increased business opportunities available to us we continue to expand our sales organisation in all regions with particular emphasis on China, India and the Middle East. Reinforcing our management team in the Americas emphasises the importance placed on this major market. The deployment of new technology and the development of new products remain key drivers for our business. Investments made in 2006 will create new growth opportunities for 2007 and beyond. Continued investment in our sales channels will ensure we are well positioned to take full advantage of these opportunities.

Surge Technologies

Our Surge Technologies division is a specialist in the task of protecting the increasing number of delicate signal, data and control related electronic devices which are directly or indirectly exposed to lightning or over-voltage damage. As control electronics become more sophisticated, their susceptibility to such damage increases and indirect lightning damage can be insidious and cause control problems. These are hard to trace and lead to extended periods of downtime and poor plant availability. MTL is the world leader in the surge protection of process control systems and we also have a significant presence in the protection of wireless installations, such as mobile phone base-stations, traffic control and CCTV infrastructures and emergency service radio systems.

The key drivers of the Surge Technologies business are the growth of our Industrial Surge products in traditional process control markets, the focus on increasing the number of value-added resellers of our industrial networks products and the success MTL is achieving in positioning our products in the growing US market for CCTV camera protection and homeland security systems.

After strong performances in 2004 and 2005, the Surge business continued to grow in 2006 with orders up by 10% to £12.0m and sales output 8% ahead to £11.9m.

The growth in the Surge Technologies business was driven by EMEA, with sales up by 14%, following on from the excellent growth achieved in 2005. Asia-Pacific had another year of consolidation with sales 1% up. Sales in the Americas grew by 8% with the second-half weakness in the wireless business being more than offset by growth in the industrial product line.

Visualisation

The Visualisation division designs, assembles and markets operator terminals and embedded PCs which allow plant operators to view the workings of their processes on the plant floor. These terminals and PCs are industrially hardened and can be located anywhere on the plant, including in hazardous areas. They represent an enabling technology in support of the current trend to minimise the size of control rooms and to move much of the control system functionality out onto the plant, close to the process. This trend began in the pharmaceutical sector and is now gradually being adopted by larger scale processes such as those found in the oil & gas, petrochemical and heavy chemical industries.

When we acquired GeCma in March 2005 it was already one of the market leaders in this growing sector. We are now in the process of increasing the international reach of these products by using our established international sales channel which is already selling hazardous area and surge products to the same customer base.

Orders in 2006 rose by 19% to £6.0m and sales increased by 34% to £6.3m.

The growth in the Visualisation business in 2006 was driven by ASEAN (Association of South East Asian Nations), Japan, France and the UK.

MOST

MTL's Open System Technologies business (MOST) designs, manufactures and markets control system components which are designed to be used by end-users, system integrators and OEMs, to build small control systems. MOST's products are aimed at the "hybrid control" sector of the market where, traditionally, the larger distributed control system (DCS) companies (who are our customers) have found it hard to provide economic solutions. Consequently this sector has tended to be driven to using factory automation technology which often is neither sufficiently robust nor capable of dealing with certain realities of process control applications such as hazardous areas. MTL's Matrix system is a series of rugged control components that are designed specifically for the hybrid sector and have the "look and feel" of a process control system thus making them readily usable by process operators used to DCS systems. Key drivers of this business include the move toward open systems and field mounted control electronics and the increasing sophistication of control systems in this sector to improve efficiencies, comply with new regulations and address the demographic shortage of plant operator skills and knowledge.

In addition to selling our own products, MOST also markets complementary products from other market leading companies in order to be able to supply system integrators with an integrated set of control and monitoring components. By far the largest of these supply partnerships is the relationship we have with Wonderware Inc whose plant visualisation software we sell in the south and west of the US.

MOST sales increased in 2006 by 15% to £21.6m. The overall growth was held back by the termination of our legacy Transport input/output product and I/O95 where sales reduced by 29% to £0.5m and by the second-half weakness of the US dollar against sterling. Matrix sales accounted for £5.5m, an increase of 20%. Wonderware grew by 16% to £15.6m.

As our MOST business develops we are increasingly requested to provide paid-for applications and support services at the time of installation as well as an ongoing level of support that gives us an annuity through support contracts. These services are already established as part of the Wonderware distribution business range where the support revenues grew by 26% to £3.3m in 2006.

The Americas continues to be the main geographic focus of the MOST business with China and the UK also contributing strongly. Sales through other geographies are currently embryonic but plans are in place to develop France, the Netherlands and parts of the Middle East and Eastern Europe during 2007.

Operations

The operational programmes that were reported in last year's report have continued through 2006 and are due to conclude in 2007. These programmes are intended to enhance further MTL's ability to provide a wide range of process control products to our customers whilst differentiating ourselves by reducing overall supply chain costs.

We are well on the way to the total separation of our manufacturing operation from our SOLD division (Sales, Orders, Logistics and Deliveries). This will allow us to be competitive both in the supply of our own products and of products from our supplier partners – generally top three worldwide suppliers which we have chosen to complement the sale of our own products to system integrators in larger project situations and with OEM customers.

An important part of the SOLD project has been the roll-out of our BaaN computer system to all operational units of the Group which has continued throughout 2006 and which is now scheduled for completion in June 2007. This will give greater visibility of stock distributed around the world as well as improving operational efficiency and the timeliness of management information.

In addition to these two important development programmes we also introduced our Sales Channel Development programme during 2006, which is aimed at transforming our existing product sales channel around the world into one which is able to sell and support a wider range of products, as well as provide value-added customer support services. A full-time channel development director was appointed in April 2006 to oversee this work which includes the development of a network of key account managers, product specialists and project directors.

Treasury

The weighted average rates for translation of our two main foreign trading currencies into sterling over the last four years were as follows;

	US dollar	Euro
2003	1.64	1.44
2004	1.84	1.47
2005	1.81	1.47
2006	1.84	1.47

The effect of the movements in exchange rates in 2006 compared with 2005 was to decrease sales and operating profit by £1.7m and £0.2m respectively.

Our conversion of profits into cash is traditionally strong, due largely to our business model that does not require a large capital base to support it. In 2006 the working capital required for the business has increased but this has broadly been in line with growth. Trade and other receivables have increased at a higher rate than the underlying growth due to the increased level of large project business that generally has stage payments over a longer than normal period. The days sales outstanding has increased to 64 days (2005: 55 days). Cash generated from operations was £6.1m (2005: £8.5m) Net cash inflow from operating activities was £1.9m (2005: £5.9m), this being impacted by a one time catch up in tax payments in America and Germany.

Net capital expenditure was £1.4m, which was higher than the level of depreciation due to increased investment in our management information system and the start of a catch up in manufacturing investment following the decision not to contract out our manufacturing operations. This catch up will continue through 2007 with capital investment expected to be at a similar level as in 2006.

Cash and cash equivalents were £1.9m at the end of 2006 (2005: £5.7m), the large decrease being due to the repayment of the bank loan that was set up in 2000 for the acquisition of Standard Automation and Control LP (now MTL Open Systems Technologies LP).

Property
The Group has continued to review options for a new facility in the UK. The options that are being considered are all in the Luton area and a final decision will be made in 2007. This should give the necessary time to have the new facility available in 2008 when the developers will complete on the purchase of our existing facilities.

Pensions
The reported Pension Deficit has increased at the end of 2006 to £8.0m (2005: £6.5m). This increase is mainly attributable to the rise in inflation that has been assumed in the 2006 year end calculation. The Board is continuing a dialogue with the Trustees and a plan for increased contribution will be finalised in 2007 with the expectation that the first additional payment will be made this year.

Tax
MTL is an international business with a significant proportion of the Group's profits being earned outside the UK. A number of these jurisdictions have corporate tax rates higher than in the UK. The effective tax rate in the year was 34.0% (2005: 31.8%). The main reason for the increase in 2006 has been a higher level of profitability in Germany, India and the US. We anticipate that the tax rate in 2007 will be broadly in line with that in 2006.

Employees
Once again this year I would like to conclude by recognising the skill, dedication and customer orientation of the MTL team at all levels and in all geographies. It is their efforts that have secured our record results in 2006 and it is on them that our future success is founded. Every one of them has my personal admiration and thanks. Similarly, I would like to thank our customers, suppliers and distributors for their continued support throughout 2006 and I look forward to continuing our relationships throughout 2007 and beyond.

Consolidated income statement
Year ended 31 December 2006

	2006 £'000	2005 £'000
Continuing Operations		
Revenue	**85,259**	74,223
Cost of Sales	**(45,093)**	(39,527)
Gross profit	**40,166**	34,696
Selling and marketing costs	**(19,132)**	(16,790)
Administrative expenses	**(7,198)**	(5,855)
Research, design and development costs	**(5,074)**	(4,606)
Operating profit	**8,762**	7,445
Financial income	**135**	151
Finance costs	**(400)**	(347)
Financial income and costs relating to pension liability	**(106)**	(103)
Profit before tax	**8,391**	7,146
Tax	**(2,857)**	(2,275)
Profit for the year attributable to equity holders of the parent	**5,534**	4,871
Earnings per share		
From continuing operations		
Basic	**28.7p**	25.7p
Diluted	**27.7p**	25.0p

Consolidated statement of recognised income and expense
Year ended 31 December 2006

	2006 £'000	2005 £'000
Gains/(losses) on cash flow hedges	**136**	(98)
Exchange differences on translation of foreign operations	**(959)**	137
Actuarial losses on defined benefit pension schemes	**(1,284)**	(1,115)
Tax on items taken directly to equity	**384**	334
Transferred to profit and loss on cash flow hedges	**(84)**	26
Net loss recognised directly in equity	**(1,807)**	(716)
Profit for the year	**5,534**	4,871
Total recognised income and expense for the year	**3,727**	4,155

Consolidated balance sheet
Year ended 31 December 2006

	2006 £'000	2005 £'000
Non-current assets		
Goodwill	**18,394**	18,451
Other intangible assets	**564**	233
Property, plant and equipment	**7,651**	7,674
Deferred tax assets	**3,986**	3,175
	30,595	29,533
Current assets		
Inventories	**10,906**	10,235
Trade and other receivables	**22,017**	18,604
Current tax receivables	**987**	665
Cash and cash equivalents	**1,919**	5,719
	35,829	35,223
Total assets	**66,424**	64,756
Current liabilities		
Trade and other payables	**(14,963)**	(13,357)
Current tax liabilities	**(1,258)**	(2,007)
Provisions	**(1,910)**	(335)
Bank overdrafts and loans	**-**	(4,043)
	(18,131)	(19,742)
Net current assets	**17,698**	15,481
Non-current liabilities		
Other non-current payables	**(1,217)**	(1,226)
Deferred tax liabilities	**(1,086)**	(521)
Provisions	**-**	(1,893)
Retirement benefit obligation	**(8,005)**	(6,505)
	(10,308)	(10,145)
Total liabilities	**(28,439)**	(29,887)
Net assets	**37,985**	34,869

	2006 £'000	2005 £'000
Equity		
Share capital	**1,946**	1,923
Share premium account	**3,742**	3,239
Reserves	**(953)**	(46)
Non-distributable reserve	**188**	119
Retained earnings	**33,062**	29,634
Total equity attributable to equity holders of the parent	**37,985**	34,869

The financial statements were approved by the Board of directors on 28 March 2007.

They were signed on its behalf by M D Coster

Consolidated cash flow
Year ended 31 December 2006

	2006 £'000	2005 £'000
Cash flows from operating activities		
Profit before taxation	**8,391**	7,146
Adjustments for:		
Depreciation of property, plant and equipment	**1,123**	1,166
Amortisation of intangible assets	**84**	116
(Gain)/Loss on disposal of property, plant and equipment	**(57)**	3
Financial income	**(135)**	(151)
Finance costs	**400**	347
Net finance costs relating to pension liabilities	**106**	103
Equity settled share-based transactions	**177**	142
	10,089	8,872
Increase in trade and other receivables	**(4,821)**	(1,986)
Increase in inventories	**(1,167)**	(293)
Increase in trade and other payables, pension reserve and provisions	**2,087**	1,873
Fair value of currency exchange contracts	**(62)**	78
Cash generated from operations	**6,126**	8,544
Interest paid	**(427)**	(339)
Income taxes paid	**(3,766)**	(2,309)
Net cash from operating activities	**1,933**	5,896
Cash flows from investing activities		
Interest received	**135**	151
Proceeds on disposal of property, plant and equipment	**235**	–
Receipt for property option	**(9)**	1,226
Purchases of property, plant and equipment	**(1,405)**	(2,214)
Expenditure on product development	**(415)**	(124)
Acquisition of subsidiary	**(102)**	(5,233)
Net cash used in investing activities	**(1,561)**	(6,194)
Cash flows from financing activities		
Dividends paid	**(1,385)**	(1,202)
Issue of share capital	**526**	657
Repayments of borrowings	**(3,699)**	(549)
Net cash used in financing activities	**(4,558)**	(1,094)
Net decrease in cash and cash equivalents	**(4,186)**	(1,392)
Effect of foreign exchange rate changes	**386**	(199)
Cash and cash equivalents at beginning of year	**5,719**	7,310
Cash and cash equivalents at end of year	**1,919**	5,719

The MTL Instruments Group plc
Notes

1. Accounting Policies

The MTL Instruments Group plc is a company incorporated in the United Kingdom under the Companies Act 1985. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

Status of this preliminary announcement

The financial information contained in this preliminary announcement does not constitute the Group's statutory accounts for the years ended 31 December 2006 or 2005. Statutory accounts for the year ended 31 December 2005 have been delivered to the Registrar of Companies, and those for the year ended 31 December 2006 will be delivered following the Company's Annual General Meeting. The statutory accounts for the years ended 31 December 2006 and 2005 have been reported on by the Company's auditors; the reports on these accounts were unqualified and they did not contain any statement under section 237 (2) or (3) of the Companies Act 1985.

The accounts for the year ended 2006 are expected to be posted to shareholders in April and will be delivered to the Registrar of Companies after they have been laid before the Company at the Annual General Meeting on 3 May 2007.

Copies will also be available from the registered office of the Company, Power Court, Luton, Bedfordshire, LU1 3JJ, and on the Company's website www.mtl-group.com.

The registered number of the MTL Instruments Group plc is 1871978.

2. Dividend

The directors recommend the payment of a final dividend of 4.6p net per share payable on 11 May 2007 to shareholders registered on 13 April 2007. When added to the interim dividend of 2.9p already paid, this makes a total dividend for the year of 7.5p per share (2005: 7.0p per share).

3. Earnings per share

The calculation of earnings per share is based on the following earnings:

	2006	2005
	£'000	£'000
Profit attributable to equity holders of the parent	**5,534**	4,871

The calculation of basic earnings per share is based on the weighted average number of ordinary shares in issue during the year of 19,274,033 (2005: 18,988,696). The calculation of the diluted earnings per share is based on the same weighted average number of ordinary shares adjusted by 719,662 (2005: 469,307) being the relevant number of outstanding options. The adjusted weighted average number of shares used is 19,993, 695 (2005: 19,458,003).

4. Approval

These preliminary results were approved by the Board on 28 March 2007.