

# Chairman's and Chief Executive's review



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The following paragraphs describe the operational performance of the group's business segments.

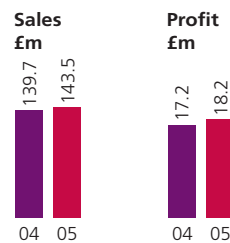
### Sector performance

**Electronic controls** achieved sales growth of 3% from £139.7 million in 2004 to £143.5 million, with profit up 6% from £17.2 million to £18.2 million. Operating margins improved from 12.3% to 12.7%. Microscan launched two new bar code readers during the year which made a positive contribution to a good growth performance. Red Lion Controls enjoyed particular success, with human/machine interface products increasing sales in the US by more than 40% compared with the prior year. At HBM, sales in the second half were attenuated both by a lack of large projects and the elimination of some low margin business, largely for Chinese customers, however profitability improved. A conditional agreement for the disposal of Arcom was signed in February 2006 for a total consideration of US\$26 million. This business is being divested as it is not core to Spectris' strategy and will have greater opportunities as part of a specialist embedded computer technology company.

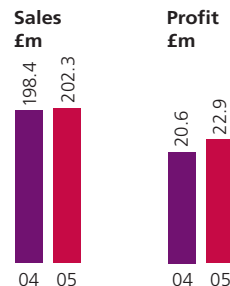
**In-line instrumentation** achieved sales growth of 2% from £198.4 million to £202.3 million with profit growing by 11% from £20.6 million to £22.9 million. Operating margins improved from 10.4% to 11.3%. Sales of BTG's Duroblade product recovered in the second half with the ending of the lock-out at paper mills in Finland. However, delayed capital spending by paper manufacturers in the light of increases in energy and transport costs, caused sales at the instrumentation side of BTG's business to be subdued. Servomex reported record sales and operating profits, with strong demand in the second half for gas analysis systems on the back of increased spending by companies in the hydrocarbon industries.

Operating profits were up at Brüel & Kjær Vibro on relatively flat sales due primarily to an improved product mix.

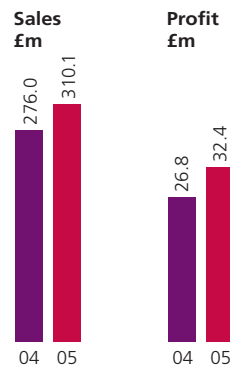
### Electronic controls



### In-line instrumentation



### Process technology



## Chairman's and Chief Executive's review continued

The company is expected to benefit as oil refiners invest in new capacity, with increased demand for safety and condition monitoring systems. At Ircon trading margins and profits moved ahead. NDC made good progress, particularly with the sales of sensors for measuring equipment, with strong growth in Asia. Although the Chinese plastics market suffered from the high oil price and overcapacity, greater penetration of other industries, such as non-wovens, compensated. Beta LaserMike made good progress with its restructuring and returned to trading profitability in the year. The restructuring at Loma and Cintex returned the business to profitability in the second half, as management focused on product margins and the benefits of the move to a manufacturing unit in the Czech Republic were realised. The company has been renamed Spectrum Inspection Systems.

**Process technology** achieved sales growth of 12% from £276.0 million to £310.1 million with profit growing by 21% from £26.8 million to £32.4 million. Operating margins improved from 9.7% to 10.4%. In a year in which semiconductor equipment investment was flat, Particle Measuring Systems did well, primarily due to market share gains in the flat panel display, optical display and pharmaceutical industries. Continued investment by the automotive and electronics industries in Japan benefited Fusion UV Systems, particularly in flat panel displays, where demand for UV-coated functionalised film products is strong, with Asia expected to satisfy around 90% of world demand. Malvern produced a good performance both from the laboratory business, where nanomaterial and biotechnology research markets are attractive, and in the process business globally. Malvern's newly-opened applications laboratory in China underpinned a strong Asian performance.

Sales at Brüel & Kjær Sound & Vibration increased. The company won strategic environmental contracts in China for both Beijing city and airport, giving Brüel & Kjær a strong position in the growing Chinese environmental noise management market. Underlying profits increased but were impacted by a one-off cost for centralising back-office functions. PANalytical enjoyed double-digit growth in both sales and operating profit, with particular success in Asia. The European directives on restricting hazardous substances and waste electrical and electronic equipment have already been beneficial. The measurement of traces of heavy metals in foods and asbestos in waste presents good opportunities. PANalytical also entered into an agreement with Lafarge, making it the preferred supplier of X-ray analysis systems for the entire cement division, comprising 150 plants worldwide.

### Outlook

Levels of demand in the first two months of the year provide encouragement that the company will show further good progress in 2006. Spectris has a strong business portfolio, with market-leading brands and good technology positions, exposure to a number of attractive end-user industries, and high calibre people. Continued focus on the emerging markets of Asia Pacific, Eastern Europe and Latin America, together with growing emphasis by customers on the value of after-sales service, present good opportunities for the company. Several of our operations are well positioned to take advantage of increasing investment in petrochemical, mining and metals industries as a consequence of high oil and commodity demand.

Our priority going forward is to continue to pursue the strategy of managing cost, pricing and overheads tightly. Actions such as transferring component sourcing, manufacturing and assembly to lower-cost regions, productivity and process improvements, and a maintained focus on cash generation, reinforce our ability to deliver improved profitability and operating margins. In addition we will continue to drive organic sales growth and to strengthen our portfolio of businesses by considering external opportunities for growth where appropriate.



John Poulter  
Chairman



John O'Higgins  
Chief Executive