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Press release

## 2008 PRELIMINARY RESULTS

Spectris plc, the productivity-enhancing instrumentation and controls company, announces preliminary results for the year ended 31 December 2008.

Key operational indicators	2008	2007	Change	Change at CER**
Sales from continuing businesses (£m) #	<b>787.1</b>	659.8	+19%	+7%
Adjusted operating profit from continuing businesses (£m) # *	<b>118.3</b>	104.3	+13%	+2%
Adjusted profit before tax (£m) *	<b>110.1</b>	98.0	+12%	
Adjusted earnings per share (pence) *	<b>72.8</b>	58.1	+25%	
Dividend (pence)	<b>23.4</b>	21.0	+11%	
<b>Statutory</b>				
Total group sales (£m)	<b>787.1</b>	668.4	+18%	
Total group operating profit (£m)	<b>113.7</b>	102.9	+10%	
Profit before tax (£m) *	<b>106.1</b>	118.1	-10%	
Basic earnings per share (pence)	<b>70.3</b>	70.9	-1%	

# Continuing businesses exclude businesses divested

\* Adjusted figures exclude certain non-operational items as defined in Note 2

\*\* Constant exchange rates

\* Profit before tax in 2007 included a gain of £19m from the businesses divested

### Highlights

- All major regions grew sales at constant currencies
- Good progress on delivery of strategy
- Acquisitions increase presence in key markets
- Strong balance sheet; interest covered 14 times
- Dividend increased by 11%

### Commenting on the results, John O'Higgins, Chief Executive, said:

*"Spectris achieved a good performance in 2008, in spite of an economic environment which deteriorated during the second half of the year. The current market conditions continue to be challenging and offer very limited visibility. We have taken, and continue to take, timely actions to reduce operating costs and, should the outlook deteriorate further, we will not hesitate to take additional steps. As a result of the phasing of restructuring costs and their associated benefits, the balance between first and second half year profitability is expected to be materially different from past years. The group is in a strong financial and strategic position and we consider that the actions we are taking are appropriate in the near-term whilst retaining in our businesses the resources to support growth as market demand recovers."*

## **Chairman's statement**

### **Introduction**

Spectris achieved a good performance in 2008, in spite of an economic environment which deteriorated during the second half of the year. Sales for the full year increased by 19% to £787.1 million compared with £659.8 million in 2007\*. On a constant currency basis, sales increased by 7%, of which approximately 4% was from acquisitions.

Operating profit increased by 13% to £118.3 million (2007: £104.3 million). On a constant currency basis, operating profit increased by 2%, of which approximately 3% was from acquisitions. Operating margins were 15.0%, compared with 15.8% in the prior year.

Increased expenditure on research and development led to a reduction of 0.4 percentage points (pp) in operating margins, acquisitions resulted in a reduction of 0.2pp and the dilutive effect of foreign exchange reduced margins by 0.1pp. Profit before tax increased by 12% to £110.1 million (2007: £98.0 million) and earnings per share increased by 25% to 72.8 pence (2007: 58.1 pence). The effective tax rate reduced by four percentage points to 24%, as a result of a tax-efficient inter-company financing structure and the recognition of tax losses brought forward in the UK.

Cash conversion was strong, with 86% of operating profit converted to operating cash. Capital investment was in excess of depreciation due to investment in a new technical centre for one of our businesses in the UK and investment in IT system upgrades. Net debt at the end of the period was £162.1 million, compared with £77.3 million at the end of December 2007. The increase is due to the cost of acquisitions, capital expenditure and the weakening of sterling. Net interest costs were £8.2 million, giving an annualised cover of 14.4 times.

The group's financial position is strong. At 31 December 2008, the group had cash of £64 million, committed facilities of £257 million (of which £217 million was utilised), and uncommitted facilities of £41 million (of which £10 million was utilised). Since the year end, an additional £50 million, five-year loan facility has been secured.

The Board proposes to pay a final dividend of 17.0p which, combined with the interim dividend of 6.4p, gives a total of 23.4p (2007: 21.0p), an increase of 11%. The dividend will be paid on 26 June 2009 to shareholders on the register on 5 June 2009.

## **Outlook**

The current market conditions continue to be challenging and offer very limited visibility. We have taken, and continue to take, timely actions to reduce operating costs and, should the outlook deteriorate further, we will not hesitate to take additional steps. As a result of the phasing of restructuring costs and their associated benefits, the balance between first and second half year profitability is expected to be materially different from past years. The group is in a strong financial and strategic position and we consider that the actions we are taking are appropriate in the near-term whilst retaining in our businesses the resources to support growth as market demand recovers.

John Hughes

Chairman

*\* Two businesses were divested in 2007. In order to aid understanding of the results for the ongoing business, references in the Chairman's statement, Chief Executive's statement, Operating review and Financial review to the sales and operating profit results in the 2007 comparatives exclude the results of these two businesses. Unless otherwise stated, figures for operating profit, profit before tax and earnings per share are adjusted measures – for explanation of adjusted figures and reconciliation to the statutory reported figures see Note 2.*

## **Chief Executive's statement**

### **Introduction**

Spectris delivered a good performance in 2008, with sales and profits from continuing businesses improving compared with the prior year. At constant currencies, sales increased by 7%, and operating profit increased by 2%. Sales growth in the second half of the year was slower than in the first half as tougher economic conditions led to demand reducing in some of our markets. However, this weakening was offset to some extent by the contribution from acquisitions made in the year and by continuing good demand in markets such as energy and pharmaceuticals.

### **Strategy**

We continued to deliver against our strategy:

- Strengthening market positions through innovation
- Increasing regional expansion with a focus on emerging markets

- Growing existing businesses through acquisition
- Focusing on operational excellence
- Building our presence in key strategic growth areas, both organically and through acquisition.

#### *Strengthening market positions through innovation*

In late 2007, we took the decision to make strategic growth investments in research and development and during 2008 we increased expenditure on R&D by over £12 million to £57 million, or 7.2% of sales (2007: 6.8%). The increased investment was targeted primarily at speeding up time to market for selective product development programmes, particularly in the Materials Analysis segment. Examples of the new products and applications launched during the year are described in the Operating review which follows.

#### *Increasing regional expansion with a focus on emerging markets*

Total group sales at constant currencies increased in all major regions. Sales in Asia grew by 8%, with China continuing to see good growth of 14%, however, sales in Japan declined by 7% due to a slowdown in the electronics, automotive and semiconductor industries. Sales in North America increased by 8%. In Europe, sales increased by 3%, with Germany up 10%. Sales in industrialising markets such as Latin America, Russia, the Middle East and Africa increased by 24%, reflecting the continuing growth in these regions. Asia and the other industrialising countries now comprise 35% of total group sales.

We continued to invest in initiatives to expand our direct sales presence in key markets. In January 2008, HBM acquired its distributors in the Nordic countries. In May, PANalytical and Malvern Instruments opened a new joint headquarters in North America, extending their applications laboratories and training facilities. In August, Particle Measuring Systems acquired its distributor in China, increasing its direct sales presence in the key market of electronics in Asia. Service and consumables account for around 24% of sales, reflecting the importance of the aftermarket business, particularly as customers look to outsource this area of their business in order to reduce their own costs.

#### *Growing existing businesses through acquisition*

During the year, we invested a total of £88.8 million in acquisitions to strengthen our existing businesses. In addition to the distributors described above, we acquired Viscotek Corporation,

a leading provider of chromatography solutions, during the first quarter. During the third quarter, we acquired nCode, a leading supplier of durability test and analysis software and data acquisition instruments, and the Siemens Machine Vision Business, an industry leader in automatic identification and data capture. In December, the acquisition of LDS Test & Measurement was completed. LDS is a leading provider of data acquisition and instrumentation products and vibration test systems and is an excellent fit with the existing businesses in the Test and Measurement segment. Since the year end, we have completed a further acquisition for the Test and Measurement segment to strengthen our position in the global noise management market. The companies acquired and their strategic fit to our businesses are described in more detail in the Operating review which follows.

#### *Focusing on operational excellence*

The emphasis on operational excellence continued. Our focus on improving purchasing efficiency resulted in growth of 22% in the volume of components purchased in Asia and Eastern Europe. Our gas analysis business completed the relocation of its system build activities to Shanghai, China, in order to be closer to its key customers in Asia and develop a more competitive cost base in this region. Many of our operating companies are investing in lean manufacturing initiatives aimed at increasing quality, reducing inventories and improving supply chain efficiencies.

### **Operating review**

#### *Materials Analysis*

##### *Overview*

Materials Analysis provides a wide range of analytical instrumentation and systems for material characterisation to the metals and mining, pharmaceutical and life sciences, and semiconductor industries. Our products help customers to improve accuracy and speed of materials analysis in the laboratory and in process manufacturing applications. The operating companies in this segment are Malvern Instruments, PANalytical and Particle Measuring Systems.

##### *Market drivers*

In addition to the need to improve process manufacturing productivity, a key factor in the demand for this segment's products is the requirement for certification to comply with

regulation, for example for quality control in the manufacture of drugs in the pharmaceutical industry and detection of materials such as lead and cadmium to meet legislation on the use of hazardous substances. Another driver for materials analysis instrumentation is the growth in new molecular and material sciences, where our equipment is used to analyse and characterise materials and structures in the development of new products.

### *Segment performance*

Sales in Materials Analysis increased by 18% (8% at constant currencies) to £253.2 million. Operating profit increased by 8% to £37.5 million. Operating margins declined from 16.3% to 14.8%. Approximately 0.9 percentage points of this reduction was due to a 34% increase in research and development expenditure in this segment from 7.5% to 8.4% of sales, and 0.6 percentage points was due to the dilutive effects of foreign exchange rates.

Malvern launched a number of new products aimed at the pharmaceutical and life sciences industry, with particular emphasis on the characterisation of proteins. These included two additions to the highly successful Zetasizer family: the Zetasizer APS and the Zetasizer  $\mu$ V, both of which are used for measuring the particle size and distribution of proteins and nano-particles in drug development. These products utilise technology developed by Viscotek, the business Malvern acquired in January. Particle Measuring Systems continued to focus on contamination monitoring products for the pharmaceutical industry and extended its capabilities for counting aerosol particle concentrations in the nano-particulate range (down to one nanometre of diameter) through the acquisition of a 31.2% investment in Naneum Limited, a company supplying instruments for nano-technology applications.

PANalytical saw continuing demand from the metals, minerals and mining industry, despite the sector slowing in the second half of the year, as the need for greater efficiency and cost reduction sustained demand for analytical instruments. The company extended its range of products specifically designed for materials applications. One example is the MiniPal 4 Sulfur, based on the highly successful MiniPal compact spectrometer. Designed for petrochemical analysis, this product helps industrial customers demonstrate, amongst other things, compliance with new European legislation on sulphur in fuel. X-ray fluorescence spectroscopy has also emerged as an optimal solution for the screening of toxic heavy metals regulated by the EU directives RoHS (Restriction of Hazardous Substances) and WEEE

(Waste Electronic and Electrical Equipment) and PANalytical's equipment is helping customers to ensure their products meet these standards.

In the semiconductor industry, with a few notable exceptions, there was a decline in investment in capital equipment and the industry is beginning to see some consolidation. The reduction in demand for production-related equipment was offset to some extent by continued demand from universities and government-funded institutions for research and development solutions for the analysis of new materials and complex structures, particularly in the fields of material sciences, which benefited PANalytical.

### *Outlook*

We expect that consolidation in the pharmaceutical sector will continue to be a feature of the industry, however our operating companies, with the new products and applications they have recently introduced, together with those they have acquired, are well placed to capture the opportunities in this sector, particularly in the increasingly important fields of life sciences and biotechnology. Demand in the metals, minerals and mining industry fell sharply towards the end of 2008 as capital expenditure was reined in, however service and consumables are a major feature in this sector and we expect the demand for these to continue. Although demand in the semiconductor industry is not expected to improve in 2009, this market represents less than five per cent of revenues in this segment and is thus not expected to have a significant impact.

## ***Test and Measurement***

### *Overview*

Test and Measurement supplies test and measuring equipment for research and development, principally to the aerospace and automotive industries. For customers in these industries, our products and applications help them to design safer, more fuel-efficient, environmentally-friendly vehicle platforms whilst reducing time to market. Further applications are in consumer electronics and the environmental monitoring market. The operating companies in this segment are Brüel & Kjær Sound and Vibration and HBM.

### *Market drivers*

Product testing and quality control are the principal drivers of demand in the test and measurement sector. Prototype testing is a costly, but unavoidable, stage in the development

of many consumer durable products. R&D engineers must ensure not only that consumer requirements are met within shorter development cycle times, but also compliance with ever-increasing environmental, safety and efficiency targets. In addition to product development, increasing legislation and regulation on noise levels, for example EU directives on noise regulation for airports, cities and workplace noise, is also driving demand for our test and measurement applications.

#### *Segment performance*

Sales in Test and Measurement increased by 23% (8% at constant currencies) to £254.9 million. Operating profit increased by 13% to £29.7 million. An increase in R&D expenditure from 7.2% of sales to 7.8% led to operating margins, at 11.7%, being lower than the prior year figure of 12.6%.

Automotive industry investment is focused on research and development of new models, with the emphasis on bringing smaller, more fuel-efficient, vehicles to market as quickly as possible. Shorter development cycles result in higher volumes of data requiring rapid analysis and manufacturers are now using software modelling to assess new vehicle designs before the prototype is built. This reduces the number of tests required and thus shortens the development time, helping to cut costs and reduce time to market. The acquisition of nCode extends our software capabilities in this area, providing customers with the technology to carry out fatigue and durability testing and life prediction, as well as noise and vibration analysis and accelerated testing. The acquisition of the LDS Test & Measurement business broadens our portfolio of data acquisition instruments and adds world-leading capability in vibration testing, enabling us to provide customers with complete test systems.

Materials testing is increasingly being used in applications such as construction, mechanical engineering, and the energy industry. Orders were received for a number of new projects in the field of renewable energies, including supplying and installing test and measurement equipment for a research project in Germany to minimise material usage in the main stem of wind turbines, which are made of expensive steel and commonly weigh around 350 tonnes. The research focuses on materials, assembly processes and new manufacturing methods for these critical support structures. HBM's systems are being used in onshore research to test the stresses which would result from the wind, waves and salt water to which the materials will

be subjected when used offshore. We also received significant orders from leading commercial aircraft manufacturers for testing applications on new development programmes.

As regulation increases, particularly in the area of noise pollution from airports and cities, demand for environmental monitoring is growing. This has benefited Brüel & Kjær, who supply noise monitoring and analysis solutions to customers around the world. In February 2009, we extended our capabilities in environmental monitoring systems to offer customers an increased range of products, including a suite of noise management solutions and innovative web-based services.

### *Outlook*

The automotive industry is facing a challenging year. The focus for new vehicle development will continue to be on building smaller, more fuel-efficient cars which meet increasingly stringent legislation on noise emissions and pollution control, and the products acquired in 2008 give our companies greater capabilities to capture the opportunities available. In the aerospace industry, ongoing programmes for new aircraft offer good prospects for this segment. Additionally, good demand is expected for data acquisition and measurement applications in environmental monitoring.

### ***In-line Instrumentation***

#### *Overview*

In-line Instrumentation provides process analytical measurement, asset monitoring and on-line controls for both primary processing and the converting industries. Our products and applications provide precision measurement in challenging operating environments, ensuring process quality, asset uptime, safety, and improved yield. The operating companies in this segment are Beta LaserMike, Brüel & Kjær Vibro, BTG Group, Fusion UV Systems, NDC Infrared Engineering and Servomex.

#### *Market drivers*

The growing requirement to improve process manufacturing productivity and drive down costs in an increasingly competitive global environment has led to greater demand for process instrumentation. End user markets are facilities with critical plant assets such as paper mills and converting plants where downtime and lost production are costly. Environmental issues are also key drivers for process instrumentation in these industries. The oil and gas industry

continues to focus on enhancing productivity and is seeing growing demand from the industrialising economies. Increasing power costs have led energy-intensive industries such as pulp and paper to install new instrumentation as they seek production efficiencies. Investment in infrastructure is also driving demand for process control solutions worldwide. The growth in demand for renewable resources, for example alternative energy sources such as hydro-electric and wind power, as well as the need to meet regulations on reducing emissions, has led to an increase in demand for process control solutions. Safety is also a priority in these industries, where it is a requirement to monitor gas emissions and other harmful substances in order to comply with increased health and safety regulation.

### *Segment performance*

Sales in In-line Instrumentation increased by 17% (5% at constant currencies) to £233.3 million. Operating profit increased by 23% to £42.7 million and operating margins increased by one percentage point to 18.3%. The favourable effects of foreign exchange rates and R&D expenditure growing at a slower rate than sales contributed to the increase in operating margins.

The high price of oil in the first half of 2008 led to rapid development of natural gas production and transportation and process efficiencies in existing plants, resulting in good growth for Servomex in this sector, particularly in the Americas. The company also saw strong growth in the industrial gas business and in June signed a global supply agreement with Air Liquide to supply industrial gas analysers to their operations worldwide. The aftermarket business is also showing good growth as customers look to outsource their service and maintenance work. In November, Servomex opened a new technical centre in Crowborough, England, merging the production, management and R&D facilities under one roof for the first time. In the last quarter, the company launched two new gas analysers: the Servotough-Oxy and Servopro-MultiExact, which set new industry benchmarks in flexible, accurate and reliable gas measurement. Brüel & Kjær Vibro continued to see good demand for its condition monitoring products for oil and gas installations and for remote monitoring systems for wind turbines.

In the pulp and paper industry, although some capacity was taken out of the industry over the summer, the falling price of energy in the second half of the year helped paper manufacturers to improve margins, however temporary shutdowns were implemented at many mills at the

end of the year to reduce inventories. Certain grades of paper have remained unaffected, with the market for tissue products growing in all regions of the world. This benefited BTG who saw increased demand for high performance creping blades as a replacement for traditional steel blades. In addition, the company secured an order to supply its new blades to a major tissue manufacturer for production of a new product. During the year BTG launched a number of new products which help to reduce pulp and papermaking costs, including a drainage rate transmitter which provides improved control during refining of the pulp and reduces energy consumption.

Customer investment in alternative energy sources continued to create demand for products from NDC and Fusion. NDC received orders for the on-line measurement of proprietary coatings used in solar panel production and Fusion also saw increasing demand for its UV curing equipment from the solar energy market. Fusion's equipment is used for the curing of adhesives, layers and coatings on a variety of solar energy-generating platforms.

Demand from the converting industry was strong in the first half of the year but orders slowed towards the end of the year as the difficult economic environment became evident. At NDC, speciality markets such as lithium ion battery production continue to generate good demand. The company introduced a new on-line web measurement and control system, the Pro.Net TDI, which features a "Total Distributed Intelligence" architecture, breaking down complex gauging tasks to their simplest components. The system uses operator interfaces supplied by another Spectris operating company, Red Lion Controls. Red Lion's operator interfaces are also being used on NDC's newly-launched 710e series of ethernet-enabled on-line gauging systems for process control. These systems measure critical parameters such as coat weight and moisture in the converting and papermaking industries, as well as moisture, fat and protein for a wide range of applications in the food industry. Beta LaserMike saw good sales of its products to the metals industry, which is now the company's second largest market, after cable, with increasing sales into new applications rather than cold mill operations. The company also launched the LaserSpeed 4000 gauge which provides non-contact length and speed measurement in non-metals applications such as plastics and film.

Demand for optical fibre continued to grow, driven by oceanic undersea cables and for fibre-to-the-home applications, particularly in the Asia Pacific region. This has resulted in fibre producers recommissioning "mothballed" production equipment and/or adding new

equipment to increase volumes and production speeds. This has benefited Beta LaserMike, who supply a variety of process control systems to address the different stages in the manufacture and quality control of optical fibre, and Fusion whose equipment is used to cure the barrier coatings that are required to protect the glass fibre prior to its incorporation into the transmission cables.

### *Outlook*

Customer investment in the energy market is expected to continue, despite the falling oil price. The focus on alternative energy sources continues, in particular the use of wind turbines, where Spectris has a growing presence in both development of new materials for the turbine structures and in remote monitoring of power generation. The outlook for the pulp and paper market remains uncertain in the short term, although demand for tissue is expected to continue to grow. The converting industry is slowing in some areas, particularly in China, but speciality markets in converting and high technology, especially lithium ion battery production, are still doing well in this region.

### ***Industrial Controls***

#### *Overview*

Industrial Controls supplies automation and control products for the discrete manufacturing industries. Our products provide identification and tracking solutions during the manufacturing process, displays for process monitoring and control, and data interfaces for a broad range of manufacturing industries. Sales are indirectly to end users via distributors as well as directly to original equipment manufacturers, with a significant proportion of repeat business. The operating companies in this segment are Microscan and Red Lion Controls.

#### *Market drivers*

Manufacturing automation is growing in importance as customers compete in an increasingly global environment where improving efficiency and reducing unit costs are key to survival. Another significant factor driving automation and control equipment is the demand for increased operational data regarding product manufacture, and the need to improve processes to reduce rework and scrap, for example by tracking products through the manufacturing process and beyond so that they can be traced in the event of a product recall. In some industries, such as the aerospace and pharmaceutical industries, product tracking by means of bar codes is a regulatory requirement.

### *Segment performance*

Sales in Industrial Controls increased by 19% (9% at constant currencies) to £45.7 million. Operating profit was £8.4 million compared with £8.6 million in the prior year. Operating margins were 18.4% (2007: 22.5%). Changes in the product mix, an increase in research and development expenditure, and acquisition integration costs resulted in margins being lower than in the previous year.

The acquisition of the Siemens Machine Vision Business expands Microscan's range of vision and smart camera products for tracking and traceability applications, from basic barcode reading to complex inspection and measurement. The acquisition has added 10 product lines and over 60 technology patents. Microscan saw good success for its products in the life sciences and electronics manufacturing sectors, particularly for the Quadrus MINI Velocity mini imager for general factory automation, and launched the QX-830, the first in a series of products with the new QX platform technology. This compact laser scanner combines the "Quick Connect" system of cabling and easy networking with "X-Mode" symbol technologies to deliver high performance bar code reading with simplified connectivity and networking in industrial automation environments.

Red Lion Controls continued to expand sales of its human machine interface and data station products internationally, particularly in China and India. A number of new products were launched in the second half of the year, including large plant floor marquee displays for factory floors, the G3 Kadet series of operator interface panels with touchscreen displays for process machinery, and universal signal conditioners with detachable LCD display and programming modules.

### *Outlook*

Whilst the longer-term demand drivers for general automation continue to be positive, this segment is particularly sensitive to general manufacturing and industrial output. The acquisition of the Siemens Machine Vision business has enabled us to increase the served market within the broader industrial controls space, estimated to be in the region of £10 billion, particularly in the area of product tracking.

## Conclusion

In summary, we are pleased with the strategic and operational progress we made in 2008. We have grown sales and profits and have made good progress on delivering against our strategy, as evidenced by the increased investment in both acquisitions and research and development to accelerate our new product development programmes, which lay the foundations for future growth. The current market conditions continue to be challenging and offer very limited visibility. We consider that the actions we are taking to reduce operating costs are appropriate in the near-term whilst retaining in our businesses the resources to support growth as market demand recovers.

John O'Higgins

Chief Executive

## Financial review

### Introduction

Spectris uses adjusted figures as key performance measures in addition to those reported under IFRS. Adjusted figures exclude certain non-operational items which management has defined as amortisation of acquisition-related intangible assets, goodwill impairment charges, profits or losses on the termination or disposal of businesses or major fixed assets, unrealised changes in the fair value of financial instruments, net gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate. Unless otherwise stated, all profit and earnings figures referred to below are adjusted measures – for explanation of adjusted figures and reconciliation to the statutory reported figures see Note 2.

### Operating Performance

	<u>2008</u>	<u>2007</u>	<u>Increase/ decrease</u>
Continuing businesses			
Sales (£m)	<b>787.1</b>	659.8	19%
Operating profit (£m)	<b>118.3</b>	104.3	13%
Operating margin	<b>15.0%</b>	15.8%	(0.8)pp

Statutory basis			
Sales (£m)	<b>787.1</b>	668.4	18%
Operating profit (£m)	<b>113.7</b>	102.9	10%
Operating margin	<b>14.4%</b>	15.4%	(1.0)pp

Reported sales in continuing businesses increased by 19% to £787.1 million. Favourable movements in foreign currency exchange rates had an impact of approximately £81.7 million or 12% on sales, meaning that sales in continuing businesses increased by approximately 7% on a constant currency basis. The year-on-year impact on sales from acquisitions was approximately £28.1 million or 4% of sales in continuing businesses.

Adjusted operating profit rose by 13% in continuing businesses to £118.3 million, with operating margins declining from 15.8% to 15.0%. The decrease in margins can largely be explained by an increase in research and development expenditure (0.4pp) and the dilutive effect of foreign exchange (0.1pp) and acquisitions (0.2pp). Favourable movements in foreign currency exchange rates had an impact of approximately £12.1 million or 12% on operating profits, and profits in continuing businesses increased by approximately 2% on a constant currency basis. The year-on-year impact on profits from acquisitions was approximately £3.4 million or 3% of profits in continuing businesses.

The year-on-year increase in interest costs is £1.4 million (from £6.8 million to £8.2 million). This includes £1.0 million relating to foreign exchange and the balance is due to the extra cost of additional borrowing in the year. Adjusted profit before tax increased by 12% from £98.0 million to £110.1 million.

Statutory operating profit, after including acquisition-related intangible asset amortisation of £4.6 million (2007: £1.9 million), increased by 10% from £102.9 million to £113.7 million.

Statutory profit before tax decreased by 10% from £118.1 million to £106.1 million.

The differences between statutory and adjusted profit before tax are shown in the table below.

	<b>2008</b>	2007
	<b><u>(£m)</u></b>	<u>(£m)</u>
Statutory profit before tax	<b>106.1</b>	118.1
Profit on disposal of businesses	<b>(0.3)</b>	(19.0)
Goodwill charges and acquisition-related intangible asset amortisation	<b>4.6</b>	1.9

Unrealised changes in fair value of financial instruments	<b>(0.9)</b>	(3.0)
Net losses on retranslation of short-term inter-company loan balances	<u><b>0.6</b></u>	<u>—</u>
Adjusted profit before tax	<u><b>110.1</b></u>	<u>98.0</u>

### **Acquisitions**

The total cost of acquisitions made in the year was £88.8 million, including acquisition expenses as well as a small amount of deferred and contingent consideration expected to be paid in future years, and excluding cash acquired. The largest of these acquisitions took place close to the end of 2008. These acquisitions contributed £28.1 million of sales and £3.4 million of profits during the year.

### **Taxation**

The effective tax rate on profits was 23.7% (2007: 28.0%), a decrease of 4.3 percentage points. The effective tax rate continues to be below the weighted average statutory tax rate of 29.7% (2007: 32.3%), primarily as a consequence of the tax effects of a tax efficient inter-company financing structure and the recognition of tax assets from tax losses arising in prior years in the UK.

The underlying tax charge is expected to remain approximately three percentage points below the weighted average statutory tax rate for the foreseeable future.

### **Earnings per share**

Adjusted earnings per share increased by 25% from 58.1p to 72.8p, reflecting the net impact of a 12% increase in profit before tax, a reduction in the average number of shares in issue, and the reducing tax charge.

Basic earnings per share decreased by 1% from 70.9p to 70.3p. The differences between the two measures are shown in the table below.

	<b><u>2008</u></b> <b><u>Pence</u></b>	2007 <b><u>Pence</u></b>
Basic earnings per share	<b>70.3</b>	70.9
Goodwill charges and acquisition-related intangible asset amortisation	<b>4.0</b>	1.6
Profit on disposal of businesses	<b>(0.3)</b>	(15.6)

Unrealised changes in fair value of financial instruments	<b>(0.8)</b>	(2.4)
Net losses on retranslation of short-term inter-company loan balances	<b>0.5</b>	-
Tax effect of the above and other tax items that do not form part of the underlying tax rate	<b><u>(0.9)</u></b>	<u>3.6</u>
Adjusted earnings per share	<b><u>72.8</u></b>	<u>58.1</u>

The weighted average number of shares outstanding during the year decreased from 121.6 million to 115.4 million. This decrease arose as a result of the share buy-back programme that was completed in February 2008, partially offset by the exercise of share options in the year.

### Cash flow

	<b>2008</b>	2007
	<b><u>£m</u></b>	<u>£m</u>
Operating cash flow		
Adjusted operating profit	<b>118.3</b>	104.8
Add back: depreciation and software amortisation	<b>13.5</b>	13.1
Working capital movement/other	<b><u>(7.8)</u></b>	<u>(1.5)</u>
Net cash flow from operating activities before capital expenditure	<b>124.0</b>	116.4
Capital expenditure	<b><u>(21.9)</u></b>	<u>(12.7)</u>
Operating cash flow	<b>102.1</b>	103.7
Cash conversion	<b>86%</b>	99%
Non-operating cash flow		
Tax paid	<b>(24.0)</b>	(23.8)
Interest paid	<b>(8.5)</b>	(6.3)
Dividends paid	<b>(25.0)</b>	(22.2)
Acquisitions	<b>(87.8)</b>	(6.0)
Disposals	<b>1.5</b>	29.8
Share buy-back	<b>(9.3)</b>	(79.2)
Exercise of share options	<b>0.3</b>	4.1
Purchase/sale of own shares by Employee Benefit Trust	<b>(0.2)</b>	(1.6)
Exchange	<b><u>(33.9)</u></b>	<u>(4.1)</u>
Total non-operating cash flow	<b>(186.9)</b>	(109.3)
Operating cash flow	<b><u>102.1</u></b>	<u>103.7</u>
Movement in net debt	<b><u>(84.8)</u></b>	<u>(5.6)</u>

Cash conversion of operating profit to operating cash was 86% (2007: 99%). The lower cash conversion was a result of a combination of capital expenditure (£21.9 million), net of disposals (£0.9 million), being £7.5 million higher than depreciation, and a build in working capital towards the second half of the year.

Average working capital expressed as a percentage of sales reduced to 13.4% whereas year-end working capital expressed as a percentage of sales increased from 14.4% to 18.4%. 2.9 percentage points of this increase is attributable to the year-end on year-end foreign exchange rate movement with the US dollar strengthening by 28% against sterling and the euro appreciating by 24%. At constant exchange rates, the year-end working capital ratio would have been 15.5%, still 1.1pp higher than the prior year, reflecting the build up of working capital towards the end of the year.

Capital expenditure during the year equated to 2.7% of sales (2007: 1.9%) and, at £21.9 million (2007: £12.7 million), was 162% of depreciation (2007: 97%).

Overall, net debt increased by £84.8 million (2007: increase of £5.6 million) from £77.3 million to £162.1 million. Interest cost, excluding the financing charge arising from IAS 19, was covered by adjusted operating profit 14.4 times (2007: 15.6 times), providing significant headroom over and above banking covenants which require a minimum of 3.75 times cover.

### **Financing and Treasury**

The group finances its operations from both retained earnings and third-party borrowings, the majority of which are currently at fixed rates of interest.

As at 31 December 2008, the group had £257 million of committed facilities, which consists of £164 million of private placements maturing between September 2010 and October 2013, £90 million of revolving credit facilities, of which £50 million matures on 31 December 2009, and £3 million of bank loans secured on property of three of our businesses. £40 million of revolving credit facilities were undrawn at the year end. In addition, the group had a cash balance of £64.4 million and has £40.5 million of uncommitted facilities, mainly in the form of overdraft facilities for our local operations. £9.6 million of these facilities were drawn at the year end.

At the year end, 73% of group borrowings were at fixed interest rates (2007: 96%). The ageing profile at the year end showed that 15% of debt is due to mature within one year (2007: 3%) and 85% of debt is due to mature in between one and five years (2007: 31%).

Since the year end, an additional £50 million, five-year term facility was secured in January 2009 under covenant conditions in line with existing facilities.

**Currency**

The group has both translational and transactional currency exposures. Translational exposures arise on the consolidation of overseas company results into sterling. Transactional exposures arise where the currency of sale or purchase invoices differs from the functional currency in which each company prepares its local accounts. The transactional exposures include situations where foreign currency denominated trade debtor, trade creditor and cash balances are held.

The largest transactional exposures are to the US dollar and, to a lesser extent, the euro and the Japanese yen. The largest translational exposures are to the US dollar, euro and Danish krone. The table below shows the key average exchange rates during 2008 and 2007.

	<b>2008 (average)</b>	2007 (average)
US \$	<b>1.85</b>	2.00
Euro	<b>1.26</b>	1.46
Yen	<b>192</b>	236

Translational currency exposures are not hedged.

Forward exchange contracts are used to hedge forecast sale transactions where there is reasonable certainty of an exposure. At 31 December 2008, approximately 65% of the estimated US dollar and Japanese yen exposures for 2009 were hedged using forward exchange contracts.

To demonstrate the currency exposure faced by the group, the table below shows the differences between the group’s consolidated revenues and costs for each of the major currencies in 2008 before reflecting the effect of transactional hedges taken out in the year.

## Revenue and cost by major currency

	<u>\$*</u>	<u>€*</u>	<u>£</u>	<u>Yen</u>	<u>Other</u>	<u>Total</u>
Total sales (£m)	273	322	63	56	73	787
% of sales	35%	41%	8%	7%	9%	
Total costs (£m)**	<u>(195)</u>	<u>(295)</u>	<u>(70)</u>	<u>(26)</u>	<u>(91)</u>	<u>(677)</u>
PBT by currency (£m)	<u>78</u>	<u>27</u>	<u>(7)</u>	<u>30</u>	<u>(18)</u>	<u>110</u>
% of PBT	71%	24%	-6%	27%	-16%	

\* Dollar/euro categories include tracking currencies

\*\* Costs include interest of £3.3m in \$, £5.2m in € and income of £(0.3)m in GBP

In 2009, the currency exposure is expected to change significantly following the decision to change the currency of invoicing in certain countries in Asia from US dollars to euros in order to better balance our euro cost base. If this decision had been fully effective at the beginning of 2008, the US dollar sales revenues would have been reduced by approximately £30 million and the euro sales revenues increased by a corresponding amount.

### Defined benefit pension schemes

Operating profit includes a defined benefit pension scheme current service charge of £1.7 million (2007: £0.9 million). The net pension liability in the balance sheet (before taking account of the related deferred tax asset) has reduced to £8.5 million (2007: £11.1 million), largely as a consequence of the buy-out of the liability on the Brüel & Kjør pension scheme in full in the USA during the year and actuarial gains on the scheme liabilities.

During 2008, the group made cash contributions into the defined benefit pension scheme amounting to £5.4 million (2007: £3.1 million).

### Principal risks and uncertainties

The group has identified the key potential strategic, operational and financial risks and uncertainties which could have a material impact on the group's long-term performance. These potential risks, and the actions to manage and mitigate them, are described in detail on pages 21-23 of the 2007 report and accounts. Since the date of the report and accounts there

has been no change in the approach to financial risk management, nor material impairments or fair value losses. The directors do not foresee any further specific risks in 2009.

Clive Watson  
Group Finance Director

Contact: John O'Higgins, Chief Executive, Spectris plc	Tel: 01784 470470
Clive Watson, Group Finance Director, Spectris plc	Tel: 01784 470470
Richard Mountain, Financial Dynamics	Tel: 020 7269 7186

A table of results is attached.

The meeting with analysts will be available as a live webcast on the company's website at [www.spectris.com](http://www.spectris.com), commencing at 08.15, and a recording will be posted on the website shortly after the meeting.

Copies of this notice are available to the public from the registered office at Station Road, Egham, Surrey TW20 9NP, and on the company's website at [www.spectris.com](http://www.spectris.com).

### **About Spectris**

Spectris plc is a leading supplier of productivity-enhancing instrumentation and controls. The company's products and technologies help customers to improve product quality and performance, improve manufacturing processes, reduce downtime and wastage and reduce time to market. Its global customer base spans a diverse range of end user markets.

Spectris operates across four business segments which reflect the applications and industries it serves: Materials Analysis, Test and Measurement, In-line Instrumentation and Industrial Controls. Headquartered in Egham, Surrey, the company employs approximately 6,000 people, with offices in 29 countries.

For more information, visit [www.spectris.com](http://www.spectris.com)

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

Note	2008 £m	2007 £m
<b>Continuing operations</b>		
3 Revenue	<b>787.1</b>	668.4
Cost of sales	<b>(334.5)</b>	<u>(283.8)</u>
<b>Gross profit</b>	<b>452.6</b>	384.6
Indirect production and engineering expenses	<b>(71.1)</b>	(57.4)
Sales and marketing expenses	<b>(191.7)</b>	(158.0)
Administrative expenses	<b>(76.1)</b>	<u>(66.3)</u>
<b>3 Operating profit</b>	<b>113.7</b>	102.9
Profit on disposal of businesses	<b>0.3</b>	19.0
4 Financial income	<b>7.8</b>	9.6
4 Finance costs	<b>(15.7)</b>	<u>(13.4)</u>
<b>Profit before tax</b>	<b>106.1</b>	118.1
5 Taxation - UK	<b>1.5</b>	(2.6)
5 Taxation - Overseas	<b>(26.5)</b>	<u>(29.3)</u>
Total taxation	<b>(25.0)</b>	<u>(31.9)</u>
<b>Profit after tax for the year from continuing operations attributable to equity shareholders</b>	<b><u>81.1</u></b>	<u>86.2</u>
7 Basic earnings per share	<b>70.3p</b>	70.9p
7 Diluted earnings per share	<b>69.8p</b>	70.6p
6 Interim dividends paid and final dividends proposed for the year (per share)	<b>23.4p</b>	21.0p
6 Dividends paid during the year (per share)	<b>21.7p</b>	18.3p

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures are stated before amortisation of acquisition-related intangible assets, goodwill impairment charges, profits or losses on termination or disposal of businesses or major fixed assets, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate.

Reconciliations showing how the adjusted performance measures are derived from those reported under adopted IFRS are set out in Note 2.

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2008

	<b>2008</b>	2007
	<b>£m</b>	£m
Net loss on effective portion of changes in fair value of forward exchange contracts	<b>(8.2)</b>	(1.1)
Foreign exchange movements on translation of overseas operations	<b>136.5</b>	26.0
Net loss on changes in fair value of effective portion of hedges of net investment in overseas operations	<b>(41.4)</b>	(6.3)
Actuarial gains arising on pension schemes	<b>2.3</b>	5.9
Inclusion of Swiss pension plan	<b>(0.5)</b>	-
Tax on items recognised directly in equity	<b><u>3.0</u></b>	<u>(4.0)</u>
Net income recognised in equity in respect of year	<b>91.7</b>	20.5
Profit for the year	<b><u>81.1</u></b>	<u>86.2</u>
<b>Total recognised income and expense for the year attributable to equity shareholders</b>	<b><u>172.8</u></b>	<u>106.7</u>

## CONSOLIDATED BALANCE SHEET

At 31 December 2008

	2008 £m	2007 £m
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	342.6	223.1
Other intangible assets	43.9	12.2
Property, plant & equipment	118.2	87.7
Equity-accounted investment	0.6	-
Deferred tax asset	<u>30.7</u>	<u>25.7</u>
	<b><u>536.0</u></b>	<b><u>348.7</u></b>
<b>Current assets</b>		
Inventories	148.0	92.8
Taxation recoverable	1.4	-
Trade and other receivables	207.8	153.7
Derivative financial instruments	-	0.1
Cash and cash equivalents	64.4	51.4
Assets held for sale	<u>-</u>	<u>1.2</u>
	<b><u>421.6</u></b>	<b><u>299.2</u></b>
<b>Total assets</b>	<b><u>957.6</u></b>	<b><u>647.9</u></b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short-term borrowings	(35.0)	(4.4)
Derivative financial instruments	(9.2)	-
Trade and other payables	(197.9)	(141.7)
Current tax liabilities	(38.4)	(32.8)
Provisions	<u>(23.1)</u>	<u>(21.5)</u>
	<b><u>(303.6)</u></b>	<b><u>(200.4)</u></b>
<b>Net current assets</b>	<b><u>118.0</u></b>	<b><u>98.8</u></b>
<b>Non-current liabilities</b>		
Medium and long-term borrowings	(173.6)	(108.1)
Derivative financial instruments	(16.9)	(16.1)
Other payables	(10.1)	(8.4)
Retirement benefit obligations	(8.5)	(11.1)
Deferred tax liability	<u>(1.7)</u>	<u>(1.0)</u>
	<b><u>(210.8)</u></b>	<b><u>(144.7)</u></b>
<b>Total liabilities</b>	<b><u>(514.4)</u></b>	<b><u>(345.1)</u></b>
<b>Net assets</b>	<b><u>443.2</u></b>	<b><u>302.8</u></b>
<b>Equity</b>		
Issued share capital	6.2	6.2
Share premium	231.4	231.4
Retained earnings	117.3	63.8
Translation reserve	93.0	(2.1)
Hedging reserve	(8.1)	0.1
Merger reserve	3.1	3.1
Capital redemption reserve	<u>0.3</u>	<u>0.3</u>
<b>Equity shareholders' funds</b>	<b><u>443.2</u></b>	<b><u>302.8</u></b>
<b>Total equity and liabilities</b>	<b><u>957.6</u></b>	<b><u>647.9</u></b>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

Note	2008 £m	2007 £m
<b>Cash flows from operating activities</b>		
	81.1	86.2
5	25.0	31.9
	(0.3)	(19.0)
4	15.7	13.4
4	(7.8)	(9.6)
	10.4	13.1
	7.7	2.0
	0.1	(0.6)
	1.8	0.9
	<b>133.7</b>	<b>118.3</b>
	7.8	(2.0)
	(10.1)	(6.9)
	(1.4)	10.1
	(6.9)	(4.5)
	(24.0)	(23.8)
	<b>99.1</b>	<b>91.2</b>
<b>Cash flows from investing activities</b>		
	(21.9)	(12.7)
	0.9	1.4
	(87.2)	(6.0)
	(0.6)	-
	1.5	29.8
	1.6	1.9
	<b>(105.7)</b>	<b>14.4</b>
<b>Cash flows from financing activities</b>		
	(10.1)	(8.2)
6	(25.0)	(22.2)
	-	0.2
	0.1	1.0
	0.2	2.9
	(0.2)	(1.6)
	(9.3)	(79.2)
	50.0	-
	-	(0.1)
	<b>5.7</b>	<b>(107.2)</b>
	<b>(0.9)</b>	<b>(1.6)</b>
	47.4	47.0
	8.3	2.0
	<b>54.8</b>	<b>47.4</b>

## Reconciliation of changes in cash and cash equivalents to movements in net debt

	2008	2007
	£m	£m
Net decrease in cash and cash equivalents	(0.9)	(1.6)
Decrease in finance lease liabilities	-	0.1
Proceeds from borrowings	(50.0)	-
Effect of foreign exchange rate changes	<u>(33.9)</u>	<u>(4.1)</u>
Movement in net debt	(84.8)	(5.6)
Net debt at start of year	<u>(77.3)</u>	<u>(71.7)</u>
Net debt at end of year	<u>(162.1)</u>	<u>(77.3)</u>

## RECONCILIATION OF MOVEMENT IN CAPITAL AND RESERVES

For the year ended 31 December 2008

	Share capital	Share premium	Retained earnings	Translation reserve	Hedging reserve	Merger reserve	Capital redemption reserve	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Equity at 1 January 2007	6.2	231.1	74.0	(21.8)	1.2	3.1	0.3	294.1
Gains and losses – year ended 31 December 2007:								
Total recognised income and expense	-	-	88.1	19.7	(1.1)	-	-	106.7
Distributions to and transactions with shareholders:								
Equity dividends paid	-	-	(22.2)	-	-	-	-	(22.2)
Share-based payments	-	-	0.9	-	-	-	-	0.9
Own shares (treasury) purchased	-	-	(79.2)	-	-	-	-	(79.2)
Own shares (Employee Benefit Trust) purchased	-	-	(1.6)	-	-	-	-	(1.6)
Share options exercised from own shares (treasury) purchased	-	-	2.9	-	-	-	-	2.9
Share options exercised by issue of share capital	-	0.3	(0.1)	-	-	-	-	0.2
Share options exercised from shares held by Employee Benefit Trust	-	-	1.0	-	-	-	-	1.0
Equity at 31 December 2007	6.2	231.4	63.8	(2.1)	0.1	3.1	0.3	302.8
Gains and losses – year ended 31 December 2008:								
Total recognised income and expense	-	-	85.9	95.1	(8.2)	-	-	172.8
Distributions to and transactions with shareholders:								
Equity dividends paid	-	-	(25.0)	-	-	-	-	(25.0)
Share-based payments	-	-	1.8	-	-	-	-	1.8
Own shares (treasury) purchased	-	-	(9.3)	-	-	-	-	(9.3)
Own shares (Employee Benefit Trust) purchased	-	-	(0.2)	-	-	-	-	(0.2)
Share options exercised from own shares (treasury) purchased	-	-	0.2	-	-	-	-	0.2
Share options exercised from shares held by Employee Benefit Trust	-	-	0.1	-	-	-	-	0.1
<b>Equity at 31 December 2008</b>	<b>6.2</b>	<b>231.4</b>	<b>117.3</b>	<b>93.0</b>	<b>(8.1)</b>	<b>3.1</b>	<b>0.3</b>	<b>443.2</b>

## **NOTES TO THE ACCOUNTS**

### **1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION**

Spectris plc is a limited company incorporated and domiciled in the United Kingdom under the Companies Act 1985, whose shares are publicly traded on the London Stock Exchange.

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS).

The financial statements are prepared rounded to the nearest hundred thousand on the historical cost basis except that derivative financial instruments are stated at fair value.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are continually evaluated and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have a significant effect on the carrying amount of assets and liabilities are noted within specific accounting policies. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been applied consistently by group entities to all periods presented in these financial statements.

The financial statements were authorised for issue by the directors on 24 February 2009.

## 2. ADJUSTED PERFORMANCE MEASURES

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures are stated before amortisation of acquisition-related intangible assets, goodwill impairment charges, profits or losses on termination or disposal of businesses or major fixed assets, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 5).

The adjusted performance measures are derived from the reported figures under adopted IFRS as follows:

<b>Adjusted sales</b>	<b>2008</b>	2007
	<b>£m</b>	£m
Sales as reported under adopted IFRS	<b>787.1</b>	668.4
Divested businesses	<u>-</u>	<u>(8.6)</u>
Adjusted sales for continuing businesses	<b><u>787.1</u></b>	<b><u>659.8</u></b>

### Adjusted sales by segment - 2008

	Materials Analysis	Test & Measurement	In-line Instrumentation	Industrial Controls	<b>2008 Total</b>
	£m	£m	£m	£m	£m
Sales as reported under adopted IFRS	<b>253.2</b>	<b>254.9</b>	<b>233.3</b>	<b>45.7</b>	<b>787.1</b>
Divested businesses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted sales for continuing businesses	<b><u>253.2</u></b>	<b><u>254.9</u></b>	<b><u>233.3</u></b>	<b><u>45.7</u></b>	<b><u>787.1</u></b>

### Adjusted sales by segment – 2007

	Materials Analysis	Test & Measurement	In-line Instrumentation	Industrial Controls	2007 Total
	£m	£m	£m	£m	£m
Sales as reported under adopted IFRS	213.8	207.5	208.8	38.3	668.4
Divested businesses	<u>-</u>	<u>-</u>	<u>(8.6)</u>	<u>-</u>	<u>(8.6)</u>
Adjusted sales for continuing businesses	<b><u>213.8</u></b>	<b><u>207.5</u></b>	<b><u>200.2</u></b>	<b><u>38.3</u></b>	<b><u>659.8</u></b>

### Adjusted operating profit

	<b>2008</b>	2007
	<b>£m</b>	£m
Operating profit as reported under adopted IFRS	<b>113.7</b>	102.9
Amortisation of acquisition-related intangible assets	<u>4.6</u>	<u>1.9</u>
Adjusted operating profit	<b>118.3</b>	104.8
Divested businesses	<u>-</u>	<u>(0.5)</u>
Adjusted operating profit for continuing businesses	<b><u>118.3</u></b>	<b><u>104.3</u></b>

<b>Adjusted operating profit by segment - 2008</b>	Materials Analysis	Test & Measurement	In-line Instrumentation	Industrial Controls	<b>2008 Total</b>
	£m	£m	£m	£m	£m
Segment result under adopted IFRS	<b>34.9</b>	<b>28.6</b>	<b>42.0</b>	<b>8.2</b>	<b>113.7</b>
Amortisation of acquisition-related intangible assets	<u>2.6</u>	<u>1.1</u>	<u>0.7</u>	<u>0.2</u>	<u>4.6</u>
Adjusted operating profit	<b>37.5</b>	<b>29.7</b>	<b>42.7</b>	<b>8.4</b>	<b>118.3</b>
Divested businesses	—	—	—	—	—
Adjusted operating profit for continuing businesses	<u><b>37.5</b></u>	<u><b>29.7</b></u>	<u><b>42.7</b></u>	<u><b>8.4</b></u>	<u><b>118.3</b></u>

<b>Adjusted operating profit by segment - 2007</b>	Materials Analysis	Test & Measurement	In-line Instrumentation	Industrial Controls	2007 Total
	£m	£m	£m	£m	£m
Segment result under adopted IFRS	33.5	26.0	34.8	8.6	102.9
Amortisation of acquisition-related intangible assets	<u>1.3</u>	<u>0.2</u>	<u>0.4</u>	—	<u>1.9</u>
Adjusted operating profit	34.8	26.2	35.2	8.6	104.8
Divested businesses	—	—	<u>(0.5)</u>	—	<u>(0.5)</u>
Adjusted operating profit for continuing businesses	<u>34.8</u>	<u>26.2</u>	<u>34.7</u>	<u>8.6</u>	<u>104.3</u>

<b>Adjusted profit before tax</b>	<b>2008</b>	2007
	£m	£m
Profit before tax as reported under adopted IFRS	<b>106.1</b>	118.1
Amortisation of acquisition-related intangible assets	<b>4.6</b>	1.9
Net losses on retranslation of short-term inter-company loans	<b>0.6</b>	-
Profit on disposal of businesses	<b>(0.3)</b>	(19.0)
Unrealised change in fair value of cross-currency interest rate swaps	<b>(0.9)</b>	(3.0)
Adjusted profit before tax	<u><b>110.1</b></u>	<u>98.0</u>

<b>Operating cash flow</b>	<b>2008</b>	2007
	£m	£m
Net cash from operating activities under adopted IFRS	<b>99.1</b>	91.2
Corporation tax paid	<b>24.0</b>	23.8
Purchase of property, plant & equipment	<b>(21.9)</b>	(12.7)
Proceeds from sale of property, plant & equipment	<u><b>0.9</b></u>	<u>1.4</u>
Operating cash flow for management purposes	<u><b>102.1</b></u>	<u>103.7</u>

<b>Adjusted earnings per share</b>	<b>2008</b>	2007
	<b>£m</b>	£m
Profit after tax as reported under adopted IFRS	<b>81.1</b>	86.2
<i>Adjusted for:</i>		
Amortisation of acquisition-related intangible assets	<b>4.6</b>	1.9
Profit on disposal of businesses	<b>(0.3)</b>	(19.0)
Unrealised change in fair value of cross-currency interest rate swaps	<b>(0.9)</b>	(3.0)
Net losses on retranslation of short-term inter-company loans	<b>0.6</b>	-
Tax effect of the above	<b>(1.1)</b>	<u>4.5</u>
Adjusted earnings	<b>84.0</b>	70.6
Weighted average number of shares outstanding (millions)	<b>115.4</b>	<u>121.6</u>
Adjusted earnings per share (pence)	<b><u>72.8</u></b>	<u>58.1</u>
<b>Adjusted diluted earnings per share</b>	<b>2008</b>	2007
Adjusted earnings (as above) (£m)	<b>84.0</b>	70.6
Diluted weighted average number of shares outstanding (millions)	<b>116.2</b>	<u>122.1</u>
Adjusted diluted earnings per share (pence)	<b><u>72.2</u></b>	<u>57.8</u>
<b>Analysis of net debt for management purposes</b>	<b>2008</b>	2007
	<b>£m</b>	£m
Bank overdrafts	<b>9.6</b>	4.0
Bank loans - secured	<b>3.1</b>	2.5
Bank loans - unsecured	<b>50.0</b>	-
Unsecured loan notes	<b>145.9</b>	106.0
Cross-currency interest rate swaps – currency portion	<b>17.9</b>	<u>16.2</u>
Total borrowings	<b>226.5</b>	128.7
Cash balances	<b>(64.4)</b>	<u>(51.4)</u>
Net debt	<b><u>162.1</u></b>	<u>77.3</u>
<b>Analysis of revenue by geographical destination</b>	<b>2008</b>	2007
	<b>£m</b>	£m
UK	<b>30.3</b>	28.5
Continental Europe	<b>301.9</b>	254.6
North America	<b>178.0</b>	152.5
Japan	<b>60.1</b>	53.6
China	<b>68.8</b>	55.0
Rest of Asia Pacific	<b>90.3</b>	73.1
Rest of the world	<b>57.7</b>	<u>42.5</u>
Total continuing businesses	<b>787.1</b>	659.8
Divested businesses	<b>-</b>	<u>8.6</u>
Group total	<b><u>787.1</u></b>	<u>668.4</u>

### 3. SEGMENTAL INFORMATION

The group's primary reporting format is business segments and its secondary format is geographical segments. The companies within each business segment are detailed in the Operating Review section of the preliminary statement.

#### a) Business segments

	Segment revenue		Inter-segment revenue		External customer revenue		Segment result	
	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m
Materials Analysis	253.5	214.1	(0.3)	(0.3)	253.2	213.8	34.9	33.5
Test & Measurement	255.8	208.1	(0.9)	(0.6)	254.9	207.5	28.6	26.0
In-line Instrumentation	233.9	209.3	(0.6)	(0.5)	233.3	208.8	42.0	34.8
Industrial Controls	45.9	38.3	(0.2)	-	45.7	38.3	8.2	8.6
Eliminate inter-segment sales	(2.0)	(1.4)	2.0	1.4	-	-	-	-
<b>Total continuing operations</b>	<b>787.1</b>	<b>668.4</b>	<b>-</b>	<b>-</b>	<b>787.1</b>	<b>668.4</b>	<b>113.7</b>	<b>102.9</b>
Profit on disposal of businesses							0.3	19.0
Financial income							7.8	9.6
Finance costs							(15.7)	(13.4)
Profit before tax							106.1	118.1
Tax							(25.0)	(31.9)
<b>Profit after tax</b>							<b>81.1</b>	<b>86.2</b>

Inter-segment pricing is on an arm's length basis. Segments are presented on the basis of actual inter-segment charges made. Profit on disposal of business of £0.3m (2007: £19.0m) relates to the In-line Instrumentation segment.

	Carrying amount of segment assets		Carrying amount of segment liabilities	
	2008	2007	2008	2007
	£m	£m	£m	£m
Materials Analysis	253.1	199.8	(89.7)	(67.8)
Test & Measurement	354.0	191.9	(87.9)	(53.6)
In-line Instrumentation	232.2	169.2	(46.7)	(46.1)
Industrial Controls	21.8	9.8	(6.8)	(4.1)
<b>Total segment assets and liabilities</b>	<b>861.1</b>	<b>570.7</b>	<b>(231.1)</b>	<b>(171.6)</b>
Cash and borrowings	64.4	51.4	(208.6)	(112.5)
Derivative financial instruments	-	0.1	(26.1)	(16.1)
Net pension liability	-	-	(8.5)	(11.1)
Taxation	32.1	25.7	(40.1)	(33.8)
<b>Consolidated total assets and liabilities</b>	<b>957.6</b>	<b>647.9</b>	<b>(514.4)</b>	<b>(345.1)</b>

	Additions to non-current assets		Depreciation and amortisation		Impairment charges	
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m
Materials Analysis	12.2	4.2	5.7	4.3	-	-
Test & Measurement	24.5	3.5	7.6	6.3	-	-
In-line Instrumentation	9.6	10.8	4.3	4.2	-	-
Industrial Controls	4.4	0.4	0.5	0.3	-	-
	<b>50.7</b>	<b>18.9</b>	<b>18.1</b>	<b>15.1</b>	<b>-</b>	<b>-</b>

## b) Geographical segments

The group's business operations are each located in several geographical locations and sell on to external customers in all parts of the world.

The following is an analysis of revenue by geographical destination:

	Materials Analysis	Test & Measurement	In-line Instrumentation	Industrial Controls	Total 2008	Total 2007
	£m	£m	£m	£m	£m	£m
UK	11.4	9.7	7.6	1.6	30.3	29.7
Continental Europe	78.8	138.7	76.4	8.0	301.9	256.5
North America	56.9	31.4	61.7	28.0	178.0	156.6
Japan	16.4	21.1	22.2	0.4	60.1	53.7
China	23.1	15.9	26.5	3.3	68.8	55.4
Rest of Asia Pacific	42.2	23.0	21.5	3.6	90.3	73.6
Rest of the world	24.4	15.1	17.4	0.8	57.7	42.9
	<u>253.2</u>	<u>254.9</u>	<u>233.3</u>	<u>45.7</u>	<u>787.1</u>	<u>668.4</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Additions to non-current assets	
	2008	2007	2008	2007
	£m	£m	£m	£m
UK	119.3	58.4	22.3	3.9
Continental Europe	501.1	385.6	9.6	5.5
North America	174.1	84.5	16.7	7.8
Japan	22.7	15.0	0.2	0.1
China	17.8	10.5	1.5	0.6
Rest of Asia Pacific	17.2	12.0	0.2	0.9
Rest of the world	8.9	4.7	0.2	0.1
	<u>861.1</u>	<u>570.7</u>	<u>50.7</u>	<u>18.9</u>

## 4. FINANCE COSTS AND FINANCIAL INCOME

	2008	2007
	£m	£m
<b>Financial income</b>		
Bank interest receivable	1.6	1.8
Change in fair value of cross-currency interest rate swaps	0.9	3.0
Expected return on pension scheme assets	<u>5.3</u>	<u>4.8</u>
	<u>7.8</u>	<u>9.6</u>

	<b>2008</b>	2007
	<b>£m</b>	£m
<b>Finance costs</b>		
Interest payable on bank loans and overdrafts	<b>9.7</b>	8.2
Interest payable on other loans	<b><u>0.1</u></b>	<u>0.3</u>
Total interest payable	<b>9.8</b>	8.5
Net losses on retranslation of short-term inter-company loan balances	<b>0.6</b>	-
Interest cost on pension scheme liabilities	<b><u>5.3</u></b>	<u>4.9</u>
	<b><u>15.7</u></b>	<u>13.4</u>

Net interest costs of £8.2m (2007: £6.7m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £1.6m (2007: £1.8m) and interest payable on bank and other loans and overdrafts of £9.8m (2006: £8.5m).

## 5. TAXATION

	<b>UK</b>	<b>Overseas</b>	<b>2008</b>	UK	Overseas	2007
	<b>£m</b>	<b>£m</b>	<b>Total</b>	£m	£m	Total
	<b>£m</b>	<b>£m</b>	<b>£m</b>	£m	£m	£m
Current tax charge	<b>1.0</b>	<b>24.2</b>	<b>25.2</b>	-	27.8	27.8
Adjustments in respect of current tax of prior years	<b>(0.1)</b>	<b>(0.9)</b>	<b>(1.0)</b>	(0.3)	(3.6)	(3.9)
Deferred tax – origination and reversal of temporary differences	<b><u>(2.4)</u></b>	<b><u>3.2</u></b>	<b><u>0.8</u></b>	<u>2.9</u>	<u>5.1</u>	<u>8.0</u>
	<b><u>(1.5)</u></b>	<b><u>26.5</u></b>	<b><u>25.0</u></b>	<u>2.6</u>	<u>29.3</u>	<u>31.9</u>

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the group's profits, is 29.7% (2007: 32.3%). The tax charge for the year is lower than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	<b>2008</b>	2007
	<b>£m</b>	£m
Profit before taxation	<b><u>106.1</u></b>	<u>118.1</u>
Corporation tax at standard rate of 29.7% (2007: 32.3%)	<b>31.5</b>	38.2
Non-taxable income and gains	<b>(3.1)</b>	(4.1)
Non-deductible expenditure	<b>1.1</b>	1.7
Movements on unrecognised deferred tax assets	<b>(0.1)</b>	-
Other current year tax items	<b>0.3</b>	(0.1)
Taxation on other dividend flows	-	0.1
Change in tax rates	<b>(0.1)</b>	0.5
Revision of recognition of opening deferred tax assets	<b>(3.0)</b>	-
Other adjustments to prior year current and deferred tax charges	<b><u>(1.6)</u></b>	<u>(4.4)</u>
Total taxation	<b><u>25.0</u></b>	<u>31.9</u>

	<b>2008</b>	2007
	<b>£m</b>	£m
Aggregate current and deferred tax credit/(charge) relating to items that are charged directly to equity	<b><u>3.0</u></b>	<u>(4.0)</u>

The following tax charges relate to items of income and expense that are excluded from the group's adjusted performance measures.

<b>Tax on items of income and expense that are excluded from the group's adjusted profit before tax</b>	<b>2008 £m</b>	<b>2007 £m</b>
Tax charge on unrealised change in fair value of cross-currency interest rate swaps	<b>0.3</b>	0.9
Tax credit on amortisation of intangible assets and goodwill impairment charge	<b>(1.4)</b>	(0.5)
Tax charge on disposal of businesses	<b>0.1</b>	4.1
Tax credit on retranslation of short-term inter-company loan balances	<b>(0.1)</b>	-
Total tax (credit)/charge	<b><u>(1.1)</u></b>	<u>4.5</u>

The effective adjusted tax rate for the period was 23.7% (2007: 28.0%) as set out in the reconciliation below:

<b>Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge</b>	<b>2008 £m</b>	<b>2007 £m</b>
Total tax charge on adopted IFRS basis	<b>25.0</b>	31.9
Tax charge on items of income and expense that are excluded from the group's adjusted profit before tax	<b><u>1.1</u></b>	<u>(4.5)</u>
Adjusted tax charge	<b><u>26.1</u></b>	<u>27.4</u>
Adjusted profit before tax	<b><u>110.1</u></b>	<u>98.0</u>
Adjusted effective tax rate	<b><u>23.7%</u></b>	<u>28.0%</u>

## 6. DIVIDENDS

<b>Amounts recognised and paid as distributions to equity holders in the year</b>	<b>2008 £m</b>	<b>2007 £m</b>
Final dividend for the year ended 31 December 2007 of 15.25p (2006: 12.5p) per share	<b>17.6</b>	15.4
Interim dividend for the year ended 31 December 2008 of 6.4p (2007: 5.75p) per share	<b><u>7.4</u></b>	<u>6.8</u>
	<b><u>25.0</u></b>	<u>22.2</u>
<b>Amounts arising in respect of the year</b>	<b>2008 £m</b>	<b>2007 £m</b>
Interim dividend for the year ended 31 December 2008 of 6.4p (2007: 5.75p) per share	<b>7.4</b>	6.8
Proposed final dividend for the year ended 31 December 2008 of 17.0p (2007: 15.25p) per share	<b><u>19.6</u></b>	<u>17.5</u>
	<b><u>27.0</u></b>	<u>24.3</u>

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 7. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity shareholders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year but adjusted for the effects of dilutive options.

<b>Basic earnings per share</b>	<b>2008</b>	2007
Profit after tax (£m)	<b>81.1</b>	86.2
Weighted average number of shares outstanding (millions)	<b>115.4</b>	<u>121.6</u>
Basic earnings per share (pence)	<b><u>70.3</u></b>	<u>70.9</u>
<b>Diluted earnings per share</b>	<b>2008</b>	2007
Profit after tax per income statement (£m)	<b>81.1</b>	86.2
Basic weighted average number of shares outstanding (millions)	<b>115.4</b>	121.6
Weighted average number of dilutive 5p ordinary shares under option (millions)	<b>1.2</b>	1.0
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions)	<b><u>(0.4)</u></b>	<u>(0.5)</u>
Diluted weighted average number of shares outstanding (millions)	<b><u>116.2</u></b>	<u>122.1</u>
Diluted earnings per share (pence)	<b><u>69.8</u></b>	<u>70.6</u>

## 8. COMPANY INFORMATION

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2008 or 2007 but is derived from those accounts. The auditors have reported on these accounts; their report was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985. Statutory accounts for 2007 have been delivered to the Registrar of Companies. The statutory accounts for 2008 will be delivered following the company's Annual General Meeting.

## 9. ANNUAL REPORT

The annual report will be made available to shareholders on 23 March 2009, either by post or on-line, and will be available to the general public on the company's website at [www.spectris.com](http://www.spectris.com) or on written request to the registered office at Station Road, Egham, Surrey TW20 9NP.