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Spectris plc : 2009 Preliminary Results

News release

Spectris plc, the productivity-enhancing instrumentation and controls company, announces results for the year ended 31 December 2009.

	2009	2008	Change	Change at CER**	Organic change at CER***
Key operational indicators					
Sales (£m)	787.3	787.1	0%	-10%	-16%
Adjusted operating profit (£m) *	79.2	118.3	-33%	-36%	-32%
Adjusted profit before tax (£m) *	68.2	110.1	-38%		
Adjusted earnings per share (pence)	45.4	72.8	-38%		
Dividend (pence)	24.25	23.4	+3.6%		
Statutory					
Profit before tax (£m)	54.2	106.1	-49%		
Basic earnings per share (pence)	36.9	70.3	-47%		

* Adjusted figures exclude certain non-operational items, as defined in Note 2, but include restructuring and post-acquisition integration costs of £14.0m (2008: £1.2m)

** Constant exchange rates *** At constant exchange rates excluding acquisitions

Highlights

- Decisive action taken to adapt the business to the economic downturn
- Investments to support growth strategy continued, despite challenging environment
- Restructuring costs of £14 million deliver benefits of £15 million in the year
- Results in Test and Measurement segment severely impacted by automotive downturn
- Conversion of operating profit to cash robust at 133%; net debt down by £38 million to £124 million
- Dividend up 3.6%, giving an unbroken track record of increases since the company's listing in 1988

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

"2009 was a difficult year, in which customer spending in many of our markets was severely curtailed. The actions we have taken, together with our strong strategic and financial position, have enabled us to partially offset the effects of the weaker demand. We had previously noted that year-on-year trading in the last quarter of 2009 was improving and this has continued into 2010. Although we expect further benefits from the restructuring and integration actions, these will be offset by the reversal of some, or all, of the temporary cost savings. We continue to plan for a modest recovery and are confident that our continued focus on new products and applications, together with our reduced cost base, leaves us well positioned as our markets return to growth."

Chairman's statement

Spectris achieved a commendable performance in 2009, despite a challenging year in which customer spending in many of our markets was severely curtailed. We took decisive action to manage our costs in response. Nevertheless, we continued to make progress on our strategy with further investments in research and development and strategic acquisitions, and in developing our distribution channels globally, particularly in emerging markets.

On a reported basis, sales were flat compared with the prior year, but decreased by 10% on a constant currency basis, with the year-on-year growth from acquisitions contributing 6%. The company took prompt action to limit the impact on profitability from the reduced volume, with the result that operating profit for the year declined by 33% to £79.2 million*, after incurring a one-off charge of £14.0 million for post-acquisition integration costs and restructuring activities. Operating margins were 10.1% compared with 15.0% in the prior year. Profit before tax decreased by 38% to £68.2 million (2008: £110.1 million). Earnings per share decreased by 38% from 72.8 pence to 45.4 pence, reflecting the impact of the decrease in profit before tax. The effective tax rate was 23.2% (2008: 23.7%).

Cash conversion was robust, with 133% of operating profit converted into operating cash, largely due to a reduction in trade working capital of approximately £35 million. Net debt decreased by £38.2 million from £162.1 million to £123.9 million. Net interest costs were £11.0 million.

Spectris is in a strong financial position. At 31 December 2009, the group had cash of £36.8 million and committed facilities of £281 million, of which £157 million was drawn.

The Board is proposing to pay a final dividend of 17.85 pence, which, combined with the interim dividend of 6.4 pence, gives a total for the year of 24.25 pence (2008: 23.4 pence), an increase of 3.6%. This is the company's twenty-first annual dividend increase in a row since its listing and reflects the Board's confidence in the company's medium- to long-term growth prospects. The dividend will be paid on 25 June 2010 to shareholders on the register at the close of business on 4 June 2010.

Outlook

The actions we have taken, together with our strong strategic and financial position, have enabled us to partially offset the effects of the weaker demand. We had previously noted that

year-on-year trading in the last quarter of 2009 was improving and this has continued into 2010. Although we expect further benefits from the restructuring and integration actions, these will be offset by the reversal of some, or all, of the temporary cost savings. We continue to plan for a modest recovery and are confident that our continued focus on new products and applications, together with our reduced cost base, leaves us well positioned as our markets return to growth.

John Hughes
Chairman

*Unless stated otherwise, 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 review

Introduction

The tough market conditions experienced in the second half of 2008 continued into 2009, with the global economic downturn resulting in low production levels in many of the industries we serve and more limited visibility of orders than normal. However, in the last quarter of the year we began to see an improvement in demand in many of our markets. For the full year, sales were flat on a reported basis. Acquisitions contributed 6% and the beneficial effects from currency were 10%; on a constant currency organic basis, therefore, sales decreased by 16%.

Weakness in the automotive market, where sales were down 26% across the group, particularly affected the Test and Measurement segment, which has the largest exposure to this market. Elsewhere, across the markets we serve, demand was strongest from energy and utilities customers, followed by the aerospace sector. Demand was also good from pulp and paper and academic research markets. On a geographic basis, sales at constant currencies grew in China, Brazil, South Korea, and Africa.

Our actions from the beginning of the year in response to declining markets focused on restructuring and accelerating post-acquisition integration. These activities included combining production facilities, streamlining sales channels, consolidating hardware and software

platforms to reduce engineering and development costs, and speeding up time to market. Total restructuring and post-acquisition integration costs for the year were £14.0 million, of which nearly £10 million were incurred in the Test and Measurement segment. The benefit from these actions was £15.0 million, which was supplemented by temporary cost savings of £27.6 million. We expect £16.0 million of restructuring benefits in 2010 over and above 2009. As a consequence of the restructuring, which was substantially completed in 2009, we have improved our operational gearing. This provides us with a solid platform to benefit from growth in 2010, notwithstanding the reversal of some, or all, of the temporary cost savings realised in 2009.

Operating profit after restructuring declined by one-third, due to the volume reduction and the one-off charge of £14.0 million described above. As a result, operating margins were 10.1%. With the exception of Test and Measurement, operating margins in the other three business segments, in aggregate, were 15.0%.

Strategy

Despite the challenging operating environment encountered during the year, we continued to make further progress in strengthening our businesses in order to deliver shareholder value over the long term. The key elements of our strategy and the progress we have made are as follows:

Focusing on operational excellence

During the year we focused on improving our own internal processes in order to take cost out of the business wherever practical, whilst preserving our ability to take advantage when markets recover. Lean manufacturing programmes and just-in-time systems are being implemented on further product manufacturing lines at a number of our businesses. Further work was undertaken in respect of inventory management processes. Low cost sourcing initiatives also continue to drive down the cost of both current and new products.

Strengthening market positions through innovation

In order to retain our market-leading positions, we decided to continue our investment in research and development and expenditure was maintained at 7% of sales, or £58.2 million (2008: £57.0 million). Expenditure was focused on programmes which would deliver benefits in the short term, and this resulted in a large number of new products introduced during the

year throughout the group, examples of which are described in the Segmental Review which follows.

Increasing regional expansion with a focus on emerging markets

On a reported basis, sales to emerging regions grew by 2 percentage points to 30% of total group sales. On a constant currency basis, sales to China grew by 16% compared with the prior year. Although recent acquisitions have been targeted primarily at companies serving developed markets, these provide us with an opportunity to expand our sales more rapidly in emerging markets. In addition, we have invested in infrastructure and service channels to support our customers globally.

Growing existing businesses through acquisition

During the year, we invested a total of £26.6 million in two acquisitions to strengthen our existing businesses. In the first half of the year, we acquired Lochard Limited, an Australia-based company providing environmental noise and air quality monitoring services for airports as well as local communities and industry. In the second half of the year, we acquired the assets of MicroSafe, an Italian supplier of microbial detection and monitoring products to global pharmaceutical manufacturers. We also took the opportunity to accelerate the integration of LDS Test and Measurement and the Siemens Machine Vision Business, which were acquired in 2008. The companies acquired in 2009 and their strategic fit to our businesses are described in more detail in the Segmental Review which follows.

Building our presence in key strategic growth areas, both organically and through acquisition

Product development programmes during the year were focused on building our positions in our key market segments. The two acquisitions made during the year further strengthen our positions in the pharmaceuticals and life sciences market and the growing environmental monitoring market. We also strengthened our service offering: aftersales, service and consumables are an important part of our business and accounted for around 27% of sales in 2009 (2008: 24%). We will continue to make investments in both organic and inorganic growth opportunities in our key strategic growth areas.

Segmental review

Materials Analysis

Overview

Materials Analysis provides a wide range of analytical instrumentation to the metals and mining, pharmaceutical and life sciences, and semiconductor and electronics 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.

Segment performance

Sales in Materials Analysis, at £248.1 million, were 2% lower than in the prior year (down 11% at constant currencies). Operating profit declined by £5.6 million to £31.9 million. Operating margins declined from 14.8% to 12.9%. Around half of the decline in operating margins relates to the effects of foreign exchange and the remainder relates to the cost of restructuring.

Key market demand in this segment in 2009 came from the academic sector and from global infrastructure projects. Sales to academic research institutions were strong, partially offsetting weaker demand from industrial customers. Furthermore, government economic stimulus packages in a number of countries, notably China and India, to support infrastructure projects provided demand for equipment from Malvern and PANalytical in construction-related sectors such as cement, steel and asphalt for roads.

Requirements to improve food and drug quality and safety, particularly in China, provided good opportunities for PANalytical, whilst Particle Measuring Systems is also experiencing growing interest in its contamination monitoring solutions from food and pharmaceutical companies.

This segment has a strategic focus on the pharmaceutical sector. In October, Malvern signed a collaboration agreement with Kaiser Optical Systems, based in North America, a leading supplier of Raman analysers and components for spectroscopy. Malvern will integrate Kaiser's analysers and probes into its Morphologi® platform, with the initial focus on pharmaceutical, life sciences and forensic applications. Particle Measuring Systems saw good

demand from vaccine manufacturers, who are increasing capacity to address the growing global demand for immunisation, and their investment in a direct sales channel in China is proving successful, with a number of pharmaceutical facility monitoring systems installed during the year. In the second half of the year, the company acquired the business of MicroSafe, whose microbial air sampling products it had previously distributed, from an Italian subsidiary of 3M. The MicroSafe suite of microbial detection and monitoring products complements the existing particulate measurement systems for the pharmaceutical market and the combined product portfolio will enable the full capabilities for use in sterile manufacturing environments to be provided by a single supplier. In November, Particle Measuring Systems opened a new business and technology centre in Tokyo, Japan, consolidating its sales and service capability to provide direct sales and support in the country.

After a weak first half, semiconductor and electronics markets began to see some recovery towards the end of the year, driven by demand from the consumer electronics industry. Growing demand for LED technology benefited PANalytical and the company received a number of orders for its X-ray systems for LED applications from China and South Korea.

Outlook

We expect to see a gradual recovery in some of the industrial markets during 2010.

We believe that the pharmaceutical sector will continue to provide good opportunities, particularly in life sciences, driven by research and development applications and increasingly stringent requirements for product quality in manufacturing processes. The outlook for the semiconductor market remains challenging, with further industry consolidation expected.

Test and Measurement

Overview

Test and Measurement supplies test, measurement and analysis equipment and software for product design optimisation and manufacturing control, principally to the aerospace, automotive and consumer electronics industries. For customers in the automotive and aerospace industries, our products and applications help them to design and test new products whilst reducing time to market. In consumer electronics, our equipment and software enable customers to refine the performance and accuracy of their products. Further applications are in the environmental monitoring market, where the desire for higher standards of community

comfort drives increasing demand. The operating companies in this segment are Brüel & Kjær Sound & Vibration and HBM.

Segment performance

Sales in Test and Measurement increased by 5% (organic decline of 22% at constant currencies) to £267.1 million, with the recent acquisitions contributing £42.0 million in sales. The decline in the automotive industry was the principal driver behind the decrease in organic revenue. As a result of the lower sales and the fact that a significant portion of the restructuring and post-acquisition integration activities were incurred in this segment (£9.7 million), as sales channels and facilities were consolidated, operating profit was down by 95% to £1.4 million. Operating margins were 0.5% compared with 11.7% in the prior year period. Around half of the decline in operating margins relates to the dramatic reduction in volume, with the majority of the remainder attributable to the cost of the restructuring and post-acquisition integration activities referred to above.

Demand from the automotive industry declined during 2009, as customers cancelled or delayed spending on research and development projects. Nevertheless, activity was more resilient from automotive manufacturers in emerging markets, for example India and China, and from companies developing hybrid vehicles. Both the LAN-XI hardware platform and the new PULSE Reflex noise analysis post-processing software generated significant interest among automotive and aerospace customers alike, with a number of orders received for the combined system. Following the success of HBM's QuantumX system, launched with BMW in 2008, this system has now attracted significant interest from other vehicle manufacturers and also from customers involved in railway infrastructure services as well as the marine, aerospace and electrical test markets. Demand also continued to grow for Brüel & Kjær's Noise Vibration Harshness Simulator, with orders from Ford and Nissan. Ford is the first vehicle manufacturer in North America to use the simulator for vehicle design optimisation and considers it to be a key technology which helps the company to keep its innovative edge in vehicle development.

In the aerospace industry, the LDS vibration test systems business saw good demand for satellite applications. These powerful shakers are designed for the most demanding vibration testing and are built for testing large payloads such as satellites and aerospace assemblies with masses of several tonnes.

Demand for our environmental noise monitoring services, which include the recently-acquired Lochard airport noise monitoring systems, was robust, with a number of orders secured from airports around the world. In July, Los Angeles World Airports launched a new online flight tracking and aircraft noise monitoring system using Lochard's WebTrak software, which allows them to manage better relations with their neighbouring communities. In November, Brüel & Kjær extended the airport noise monitoring concept to urban noise applications with the release of a newly-developed system, Sentinel, aimed at businesses which need to conform to local community noise directives.

Outlook

2009 was a year of consolidation and integration of the acquisitions in this segment. With the restructuring now substantially complete, we will see the benefits of this during 2010. Although we remain cautious about the prospects for the automotive industry, we do expect to see some recovery in spending on research and development in this market. The market for urban and airport noise monitoring is expected to continue to grow.

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.

Segment performance

Sales in In-line Instrumentation declined by 2% (decline of 13% at constant currencies) to £227.5 million. Operating profit decreased by 3% to £41.5 million and, at 18.2%, operating margins remained in line with the prior year (2008: 18.3%). The high content of service and consumables in this segment resulted in margins being largely unaffected.

Orders were weak from original equipment manufacturers. However, sales of service, spare parts and consumables, which are a key feature of this segment, were more resilient compared

with sales of new products and systems, as customers focused on maintaining existing facilities.

The pulp and paper industry experienced some capacity closures and widespread temporary production curtailments, particularly in Europe, as paper producers de-stocked in response to reduced demand. Nevertheless, sales of BTG's high performance creping blades to tissue manufacturers grew throughout the year. BTG launched a number of new products designed to help paper manufacturers reduce their costs and improve paper properties, including a range of optical sensors for measuring pulp consistency and a new high performance creping blade which improves machine uptime whilst enhancing tissue quality.

In the energy, refining and utilities sector, customer investment provided good demand for both Brüel & Kjær Vibro and Servomex. Within the gas-based process industries, customer requirements are for higher reliability of equipment and reduced maintenance, and Servomex launched a number of new products during the year which meet this demand and also provide improved measurement accuracy and lower cost of ownership. In July, the company secured its first order to supply the award-winning Servotough Oxy oxygen analysers to China. In September, Servomex launched the Servotough Laser analyser, the first product to benefit from the strategic partnership with Norsk Elektro Optikk (NEO). The result is an analyser that combines NEO's precision technologies within a rugged Servomex design, suitable for a wide range of emissions control and process and combustion control applications.

Demand for Brüel & Kjær Vibro's remote monitoring systems and safety systems in the power market led to a number of orders for its solutions and its Compass 6000 predictive monitoring system was installed in a number of large oil and gas plants. The market for renewable energy also grew strongly, with the company receiving significant orders for large wind farms and in December Brüel & Kjær Vibro entered into an agreement with Suzlon, one of the world's largest wind turbine manufacturers, to supply remote condition monitoring solutions for their range of wind turbines.

Increasing interest in hybrid vehicles resulted in a number of orders for NDC for battery manufacturing applications and new developments in LCD and solar cell technology brought orders for both NDC's measurement systems and Fusion's UV curing systems. In addition, a number of developments within the display market have led to increased demand for UV

curing systems, in particular for the manufacture of LCDs used in items such as televisions, e-books and satellite navigation systems.

In the converting industry, increased demand for packaged food products benefited NDC, with the company seeing strong orders from food manufacturers for its sensors. A new blown film system was launched for measuring and controlling the multi-layer barrier films used in complex food packaging. Beta LaserMike's LaserSpeed product continued to perform well and demand for products to measure metals and cable remained strong as the Chinese economy continued to expand. The LaserSpeed's greater accuracy of measurement compared with conventional methods achieves material savings of 1-2%, often resulting in payback periods of just a few weeks. Beta LaserMike also launched the Centerscan non-contact eccentricity gauge for wire and cable applications. During the year, Fusion received its first order for the commercial UV coating of steel. This new application enables rolls of steel to be produced with special coating qualities, for example stainless steel coatings with anti-fingerprint properties which are particularly suitable for the domestic appliance market.

In the healthcare market, Beta LaserMike secured a number of important orders for its Ultrascan product for medical tubing applications. These applications require measuring wall thicknesses around one half the width of a human hair. Also in the healthcare market, Servomex launched the Paracube Micro oxygen sensor. This is the latest addition to Servomex's portfolio of innovative gas sensors and provides oxygen analysis for critical care ventilators, anatomical anaesthesia, patient monitoring and other life-critical healthcare applications.

Government-funded infrastructure development in China and India led to robust demand for optical fibre and related cable products for the telecommunications industry, driven by 3G technology and fibre to the home, which benefited Fusion and Beta LaserMike. Beta LaserMike's systems are used in optical fibre production to measure the fibre to an accuracy of 0.2 microns, taking 2500 measurements per second, and the company also provides a laser-based flaw detector.

Outlook

Market conditions are improving in some of this segment's end markets. Demand in the upstream energy and hydrocarbon processing markets should remain in line with that

experienced in 2009. A sustained recovery in pulp and paper and other converting industries will depend on a broader recovery in consumer demand for their end products. We anticipate that service, spare parts and consumables will continue to provide a resilient revenue base for this segment.

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 made 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.

Segment performance

Sales in Industrial Controls decreased by 2% to £44.6 million (down 16% at constant currencies). Operating profit was down from £8.4 million to £4.4 million. Operating margins were 9.9% compared with 18.4% in 2008. Around one-third of the reduction in operating margins relates to the organic volume decline, with the remainder attributable to the effects of foreign exchange and the costs for restructuring and post-acquisition integration activities.

Although the electronics and general manufacturing sectors started the year with weak conditions, capacity utilisation began to improve towards the end of the year. Microscan completed the integration of the Siemens Machine Vision Business (SMVB) acquired in 2008. The vision products acquired have brought world-class decoding algorithms, vision knowledge and protected intellectual property to Microscan and enabled the company to secure a number of large projects in markets which were not previously accessible. During the year, the company launched eleven new products, the majority of which were developed following the acquisition of SMVB, expanding its portfolio of solutions for the electronics, pharmaceutical packaging, life sciences, and automotive industries. These included the Visionscape GigE product, launched in the first half, which was well received, particularly in Asia where there is a growing trend and acceptance of track, trace and control solutions in the electronics manufacturing sector. Microscan also re-launched the NerLITE machine lighting

business, which was part of SMVB. This comprises a range of coloured lights and focal configurations which help to illuminate images or barcode surfaces in conditions which are difficult to read, for example direct part marks on low contrast, curved surface or dirty parts. These accessories are critical for a number of industrial applications, and Microscan is one of the few suppliers able to offer lighting together with its vision-based products.

Although activity in the industrial controls and machine building markets remained depressed in China in the first half, the market returned to growth in the second half and Red Lion Controls secured a number of important orders. Growth was also good in India, with sales in the second half of the year more than doubling compared with the second half of 2008. Sales via catalogue channels were much more resilient throughout the downturn. Red Lion's interface products performed well, with increasing success in marine, offshore and oil and gas markets. The marine industry is now adopting Human Machine Interfaces (HMIs) to replace the buttons and dials that still make up the typical control panel and with multiple sub-systems that need to be both monitored and controlled, the ability to communicate with many devices is a valuable differentiator for Red Lion's products.

Outlook

The second half of the year saw a slight recovery in demand from the general manufacturing sector, which we expect to continue. We anticipate that our portfolio of track, trace and control solutions will continue to find opportunities across a number of industrial controls sectors.

John O'Higgins
Chief Executive

Financial review

Introduction

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures exclude certain non-operational items which, consistent with prior years, for 2009 management has defined as amortisation and impairment of acquisition-related intangible assets, profits or losses on the termination or disposal of businesses, 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. In view of the changes to IFRS 3, applicable for 2010 onwards, the definition of non-operational items will be changed for 2010 to include costs of acquisition and deferred and contingent fair value adjustments which management has concluded are non-operational in nature. This change, when applied, will have no impact on 2009 or prior year reported adjusted earnings. Unless otherwise stated, all profit and earnings figures referred to below are adjusted measures.

Operating performance

	<u>2009</u>	<u>2008</u>	<u>Increase/ decrease</u>
Sales (£m)	787.3	787.1	0%
Operating profit (£m)	79.2	118.3	(33%)
Operating margin	10.1%	15.0%	(4.9)pp

Statutory

Sales (£m)	787.3	787.1	0%
Operating profit (£m)	68.5	113.7	(40%)
Operating margin	8.7%	14.4%	(5.7)pp

Reported sales were flat at £787.3 million (2008: £787.1 million). Favourable movements in foreign currency exchange rates had an impact of approximately £81.4 million, meaning that sales decreased by approximately 10% on a constant currency basis. The year-on-year impact on sales from acquisitions was approximately £47.5 million or 6% of sales (2008: £28.1 million). Therefore, on an organic constant currency basis, sales declined by 16% year-on-year.

Adjusted operating profit decreased by £39.1 million (33%) from £118.3 million in 2008 to £79.2 million in 2009. Movements in foreign currency exchange rates had a positive effect on

operating profit of approximately £3.3 million or 3% and acquisitions contributed an additional £1.4 million to the operating profit before post-acquisition integration charges. Volume reductions had a negative gross margin impact of £71.4 million, which was partially offset by overhead cost reductions of £40.4 million. The year-on-year increase in restructuring and post-acquisition integration charges was £12.8m (2009: £14.0 million, 2008: £1.2 million). Operating margins (including restructuring and post-acquisition integration charges) declined from 15.0% to 10.1%.

The year-on-year increase in interest costs was £2.8 million (from £8.2 million to £11.0 million). This includes £1.3 million relating to foreign exchange and the balance is due to the extra cost of additional borrowing in the year, partially offset by a reduction in interest rates. Adjusted profit before tax decreased by 38% from £110.1 million to £68.2 million.

Statutory operating profit, after including acquisition-related intangible asset amortisation of £10.7 million (2008: £4.6 million), decreased by 40% from £113.7 million to £68.5 million.

Statutory profit before tax decreased by 49% from £106.1 million to £54.2 million.

The reconciliation of statutory and adjusted measures is shown in the table below.

	2009	2009	2009	2008	2008	2008
Item	IFRS (Statutory) £m	Adjust- ments £m	Spectris Adjusted £m	IFRS (Statutory) £m	Adjust- ments £m	Spectris Adjusted £m
Sales	787.3	-	787.3	787.1	-	787.1
Gross margin	445.3	-	445.3	452.6	-	452.6
Operating profit before amortisation of acquisition-related intangibles	79.2	-	79.2	118.3	-	118.3
Amortisation of acquisition-related intangibles	(10.7)	10.7	-	(4.6)	4.6	-
Operating profit	68.5	10.7	79.2	113.7	4.6	118.3
Profit on disposal of businesses	0.1	(0.1)	-	0.3	(0.3)	-
Unrealised changes in fair value of financial instruments	(3.5)	3.5	-	0.9	(0.9)	-

Net gains/losses on retranslation of short-term inter-company loan balances	0.1	(0.1)	-	(0.6)	0.6	-
Net bank interest payable	(10.7)	-	(10.7)	(8.2)	-	(8.2)
IAS19 finance cost	(0.3)	-	(0.3)	-	-	-
Profit before tax	54.2	14.0	68.2	106.1	4.0	110.1

Acquisitions

The total cost of the two acquisitions in the year was £26.6 million, including cash acquired of £0.6 million and £4.1 million attributable to the estimated fair value of deferred and contingent consideration expected to be paid in future years. In addition, a further £6.8 million was paid in respect of prior year acquisitions, making the net cash outflow in the year £28.7 million. The acquisitions contributed an incremental £47.5 million of sales and £1.4 million of profit during the year (before post-acquisition integration charges).

Taxation

The effective tax rate on profits was 23.2% (2008: 23.7%), a decrease of 0.5 percentage points. The effective tax rate continues to be below the weighted average statutory tax rate of 25.1% (2008: 29.7%), primarily as a consequence of a tax-efficient inter-company financing structure.

Earnings per share

Adjusted earnings per share decreased by 38% from 72.8p to 45.4p, reflecting the net impact of a 38% decrease in profit before tax.

Basic earnings per share decreased by 48% from 70.3p to 36.9p. The differences between the two measures are shown in the table below.

	<u>2009</u> <u>Pence</u>	2008 <u>Pence</u>
Basic earnings per share	36.9	70.3
Goodwill charges and acquisition-related intangible asset amortisation	9.3	4.0
Profit on disposal of businesses	(0.1)	(0.3)
Unrealised changes in fair value of financial instruments	3.0	(0.8)

Net (gains) / losses on retranslation of short-term inter-company loan balances	(0.1)	0.5
Tax effect of the above and other tax items that do not form part of the underlying tax rate	<u>(3.6)</u>	<u>(0.9)</u>
Adjusted earnings per share	<u>45.4</u>	<u>72.8</u>

The weighted average number of shares outstanding during the year remained the same as in 2008 at 115.4 million.

Cash flow

	2009	2008
	<u>£m</u>	<u>£m</u>
Operating cash flow		
Adjusted operating profit	79.2	118.3
Add back: depreciation and software amortisation	16.7	13.5
Trade working capital movement	35.3	(2.6)
Non-operating provisions and other	<u>(11.5)</u>	<u>(5.2)</u>
Net cash flow from operating activities before capital expenditure	119.7	124.0
Capital expenditure	<u>(14.2)</u>	<u>(21.9)</u>
Operating cash flow	105.5	102.1
Cash conversion	133%	86%
Non-operating cash flow		
Tax paid	(16.7)	(24.0)
Interest paid	(10.8)	(8.5)
Dividends paid	(27.0)	(25.0)
Acquisitions	(28.7)	(87.8)
Disposals	0.1	1.5
Share buy-back	-	(9.3)
Exercise of share options	0.4	0.3
Purchase/sale of own shares by Employee Benefit Trust	-	(0.2)
Exchange	<u>15.4</u>	<u>(33.9)</u>
Total non-operating cash flow	(67.3)	(186.9)
Operating cash flow	<u>105.5</u>	<u>102.1</u>
Movement in net debt	<u>38.2</u>	<u>(84.8)</u>

Operating cash flow was £105.5 million (2008: £102.1 million), a cash conversion rate of 133% (2008: 86%). A major contributory factor to this result was a reduction in working capital during the year of approximately £35 million after a currency impact of £10 million (inventory was £38 million lower at 31 December 2009 compared to the position at 31 December 2008; receivables were £31 million lower; advances received were down £11 million; creditors and trading provisions were down by a net £23 million).

Average working capital expressed as a percentage of sales increased to 14.3% (2008: 13.4%) whereas year-end working capital expressed as a percentage of sales decreased from 18.4% to 12.4% partly due to the favourable movement in exchange rates. At constant exchange rates, the year-end working capital ratio would have been 15.1%, still 3.3 percentage points lower than the prior year, reflecting efficient working capital management during the year.

Capital expenditure during the year equated to 1.8% of sales (2008: 2.8%) and, at £14.2 million (2008: £21.9 million), was 85% of depreciation (2008: 162%).

Overall, net debt decreased by £38.2 million (2008: increase of £84.8 million) from £162.1 million to £123.9 million. Net debt was 1.3 times EBITDA. Interest cost, excluding the financing charge arising from IAS 19, was covered by adjusted operating profit 7.4 times (2008: 14.4 times).

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 2009, the group had £281 million of committed facilities, which consists of £149 million of private placements maturing between September 2010 and October 2013, £80 million of revolving credit facilities maturing between October 2011 and September 2012, a five-year £50 million term loan facility and £2 million from three bank loans secured on property of three of our businesses. £74 million of revolving credit facilities and the £50 million term loan facility were undrawn at the year end. In addition, the group had a cash balance of £36.8 million and £37.7 million of uncommitted facilities, mainly in the form of overdraft facilities for our local operations. £3.7 million of these facilities were drawn at the year end and a further £1.8 million was committed in the form of trade bank guarantees.

The repayment of short-term floating rate debt during the year meant that at the year-end, 94% of group borrowings were at fixed interest rates (2008: 73%). The ageing profile at the year end showed that 31% of debt is due to mature within one year (2008: 15%). Based on current projections, the repayment of this debt is covered by existing facilities. 69% of debt is due to mature in between one and five years (2008: 85%).

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 euro, Danish krone, Swiss franc, the US dollar 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 2009 and 2008.

	2009 (average)	2008 (average)
USD	1.57	1.85
EUR	1.12	1.26
JPY	146	192

Translational currency exposures are not hedged.

Forward exchange contracts are used to hedge forecast net transaction flows where there is reasonable certainty of an exposure. At 31 December 2009, approximately 65% of the estimated euro, Danish krone, US dollar and Japanese yen exposures for 2010 were hedged using forward exchange contracts.

To demonstrate the transaction and translation 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 2009 before reflecting the effect of transactional hedges taken out in the year.

Revenue and cost by major currency

	<u>USD*</u>	<u>EUR*</u>	<u>GBP</u>	<u>JPY</u>	<u>Other</u>	<u>Total</u>
Total sales (£m)	267	330	61	46	83	787
% of sales	34%	42%	8%	6%	10%	
Total costs (£m)**	<u>(212)</u>	<u>(323)</u>	<u>(70)</u>	<u>(25)</u>	<u>(88)</u>	<u>(718)</u>
PBT by currency (£m)	<u>55</u>	<u>7</u>	<u>-9</u>	<u>21</u>	<u>(5)</u>	<u>69</u>
% of adjusted PBT	80%	10%	-13%	30%	-7%	

* Dollar/euro categories include tracking currencies

** Costs include interest of £4.2m in USD, £6.0m in EUR and £0.8m in GBP

The above table is for overall guidance only as the phasing of income and the movement in the monthly average exchange rates during the year can have a significant impact.

Defined benefit pension schemes

Operating profit includes a defined benefit pension scheme current service charge of £1.8 million (2008: £1.7 million). The net pension liability in the balance sheet (before taking account of the related deferred tax asset) has increased to £23.5 million (2008: £8.5 million). Gross liabilities increased over the year by £18.8 million, mainly in respect of the UK plan where the liabilities increased by £21.0 million from £75.4 million to £96.4 million. This was due to the use of a higher inflation assumption (increased from 2.8% in 2008 to 3.6% in 2009) and lower discount rate (decreased from 6.4% in 2008 to 5.6% in 2009) in projecting and discounting the liabilities. The total value of assets increased by £3.8 million. The group had a credit of £1.8 million to the income statement as a consequence of closure to future accrual of the UK Spectris pension scheme during the year. The group made cash contributions into the defined benefit pension scheme amounting to £4.4 million (2008: £5.4 million).

Clive Watson

Group Finance Director

Principal risks and uncertainties

The group has in place processes for identifying, evaluating and managing the key risks which could have an impact upon the group's performance.

These risks, together with a description of the approach to managing them, are set out in the 2008 Annual Report (pages 23-24) which is available on the group's website at www.spectris.com.

The group conducted a periodic risk review after the year end and concluded that the key risks continue to remain relevant, with two new risks being added:

The first additional risk relates to growing activity in connection with the delivery of larger contracts and systems work which is becoming more common across a number of the group's businesses. This risk reflects the concern that the profitability of such business will be impacted adversely unless effective processes are in place and operating to ensure that contractual exposures are mitigated, price discipline is maintained, and project accounting delivers good visibility of costs. This risk is being mitigated through training programmes, and strengthening the legal and internal audit focus.

The second additional risk arises from the potential impact of poor project management discipline. As project management becomes an increasing feature of the way we do business, an impact upon group profitability may result from failures in project management – through, for example, missed sales opportunities or cost overruns arising from delays in new product development. This risk is being mitigated through enhanced front-end planning and the preparation and monitoring of performance against Project Charters for all major projects.

With the addition of larger contract and systems work risk and project management risk, the list of risks now comprises:

- Acquisition integration
- New product development
- Competitive activity
- Supply chain disruption
- Seasonal fluctuations in sales
- Larger contracts and systems work
- Project management

- Fluctuations in exchange rates
- Liquidity and interest rate risk
- Intellectual property
- Information technology / business disruption
- Political and economic environment

Clive Watson
Finance Director

- ENDS -

A table of results is attached.

Contacts:

Spectris plc

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Clive Watson, Group Finance Director	01784 470470

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Richard Mountain	020 7269 7186
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The meeting with analysts will be available as a live webcast on the company's website at www.spectris.com, commencing at 08.30, 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.

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 core 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 5,700 people, with offices in 29 countries.

For more information, visit www.spectris.com

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2009

Note	2009 £m	2008 £m
Continuing operations		
3 Revenue	787.3	787.1
Cost of sales	(342.0)	(334.5)
Gross profit	445.3	452.6
Indirect production and engineering expenses	(84.0)	(71.1)
Sales and marketing expenses	(184.7)	(191.7)
Administrative expenses	(108.1)	(76.1)
3 Operating profit		
<i>Operating profit before amortisation of acquisition- related intangibles</i>		
	79.2	118.3
<i>Amortisation of acquisition-related intangibles</i>		
	(10.7)	(4.6)
	68.5	113.7
Profit on disposal of businesses	0.1	0.3
4 Financial income	5.9	7.8
4 Finance costs	(20.3)	(15.7)
Profit before tax	54.2	106.1
5 Taxation - UK	(2.6)	1.5
5 Taxation - Overseas	(9.0)	(26.5)
Profit after tax for the year from continuing operations attributable to owners of the company	<u>42.6</u>	<u>81.1</u>
7 Basic earnings per share	36.9p	70.3p
7 Diluted earnings per share	36.8p	69.8p
6 Interim dividends paid and final dividends proposed for the year (per share)	24.25p	23.4p
6 Dividends paid during the year (per share)	23.4p	21.7p

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Reconciliations showing how the adjusted performance measures are derived from those reported under adopted IFRS are set out in Note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008
	£m	£m
Profit for the period attributable to owners of the company	42.6	81.1
Other comprehensive income:		
Net gain/(loss) on effective portion of changes in fair value of forward exchange contracts	8.1	(8.2)
Foreign exchange movements on translation of overseas operations	(36.8)	136.5
Net gain/(loss) on changes in fair value of effective portion of hedges net of investment in overseas operations	14.8	(41.4)
Actuarial (loss)/gain arising on pension schemes net of exchange	(19.0)	1.8
Tax on items recognised directly in comprehensive income	<u>5.0</u>	<u>3.0</u>
Total comprehensive income for the period attributable to the owners of the company	<u>14.7</u>	<u>172.8</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	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
Balance at 1 January 2009	6.2	231.4	117.3	93.0	(8.1)	3.1	0.3	443.2
Total comprehensive income for the period:								
Profit for the period	-	-	42.6	-	-	-	-	42.6
Other comprehensive income:								
Net gain/(loss) on effective portion of changes in fair value of forward exchange contracts, net of tax	-	-	-	-	7.6	-	-	7.6
Foreign exchange movements on translation of overseas operations	-	-	-	(36.8)	-	-	-	(36.8)
Net gain/(loss) on changes in fair value of effective portion of hedges of net investment in overseas operations, net of tax	-	-	-	14.7	-	-	-	14.7
Actuarial (loss)/gain arising on pension schemes net of exchange, net of tax	-	-	(13.4)	-	-	-	-	(13.4)
Distributions to and transactions with owners:								
Equity dividends paid	-	-	(27.0)	-	-	-	-	(27.0)
Share-based payments	-	-	(0.4)	-	-	-	-	(0.4)
Share options exercised from own shares (treasury) purchased	-	-	0.4	-	-	-	-	0.4
Balance at 31 December 2009	<u>6.2</u>	<u>231.4</u>	<u>119.5</u>	<u>70.9</u>	<u>(0.5)</u>	<u>3.1</u>	<u>0.3</u>	<u>430.9</u>

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
Balance at 1 January 2008	6.2	231.4	63.8	(2.1)	0.1	3.1	0.3	302.8
Total comprehensive income attributable to the owners of the company	-	-	85.9	95.1	(8.2)	-	-	172.8
Distributions to and transactions with owners:								
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
Balance at 31 December 2008	<u>6.2</u>	<u>231.4</u>	<u>117.3</u>	<u>93.0</u>	<u>(8.1)</u>	<u>3.1</u>	<u>0.3</u>	<u>443.2</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	2009 £m	2008 £m
Assets		
Non-current assets		
Intangible assets:		
<i>Goodwill</i>	324.8	342.6
<i>Other intangible assets</i>	70.3	43.9
	395.1	386.5
Property, plant and equipment	107.6	118.2
Equity-accounted investment	0.6	0.6
Deferred tax asset	<u>26.2</u>	<u>30.7</u>
	529.5	536.0
Current assets		
Inventories	99.8	148.0
Taxation recoverable	8.1	1.4
Trade and other receivables	167.8	207.8
Derivative financial instruments	0.9	-
Cash and cash equivalents	<u>36.8</u>	<u>64.4</u>
	313.4	421.6
Total assets	<u>842.9</u>	<u>957.6</u>
Liabilities		
Current liabilities		
Short-term borrowings	(49.8)	(35.0)
Derivative financial instruments	-	(9.2)
Trade and other payables	(150.7)	(197.9)
Current tax liabilities	(36.1)	(38.4)
Provisions	<u>(25.3)</u>	<u>(23.1)</u>
	(261.9)	(303.6)
Net current assets	<u>51.5</u>	<u>118.0</u>
Non-current liabilities		
Medium- and long-term borrowings	(92.4)	(173.6)
Derivative financial instruments	(21.1)	(16.9)
Other payables	(9.3)	(10.1)
Retirement benefit obligations	(23.5)	(8.5)
Deferred tax liability	<u>(3.8)</u>	<u>(1.7)</u>
	(150.1)	(210.8)
Total liabilities	<u>(412.0)</u>	<u>(514.4)</u>
Net assets	<u>430.9</u>	<u>443.2</u>
Equity		
Issued share capital	6.2	6.2
Share premium	231.4	231.4
Retained earnings	119.5	117.3
Translation reserve	70.9	93.0
Hedging reserve	(0.5)	(8.1)
Merger reserve	3.1	3.1
Capital redemption reserve	<u>0.3</u>	<u>0.3</u>
Total equity attributable to equity holders of the company	<u>430.9</u>	<u>443.2</u>
Total equity and liabilities	<u>842.9</u>	<u>957.6</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

Note	2009 £m	2008 £m
Cash flows from operating activities		
	42.6	81.1
	Profit after tax	
	Adjustments for:	
5	11.6	25.0
	Tax	
	(0.1)	(0.3)
	Profit on disposal of businesses	
4	20.3	15.7
	Finance costs	
4	(5.9)	(7.8)
	Financial income	
	14.3	10.4
	Depreciation	
	13.1	7.7
	Amortisation of intangible assets	
	(0.3)	0.1
	(Gain)/loss on sale of property, plant and equipment	
	<u>(0.4)</u>	<u>1.8</u>
	Equity settled share-based payment (credit)/charge	
	95.2	133.7
	Operating profit before changes in working capital and provisions	
	31.0	7.8
	Decrease in trade and other receivables	
	38.1	(10.1)
	Decrease/(increase) in inventories	
	(42.9)	(1.4)
	Decrease in trade and other payables	
	(3.2)	(6.9)
	Decrease in provisions and retirement benefit obligations	
	<u>(16.7)</u>	<u>(24.0)</u>
	Corporation tax paid	
	101.5	99.1
	Net cash from operating activities	
Cash flows from investing activities		
	(14.2)	(21.9)
	Purchase of property, plant and equipment	
	1.5	0.9
	Proceeds from sale of property, plant, equipment and software	
	(28.7)	(87.2)
	Acquisition of businesses, net of cash acquired	
	-	(0.6)
	Acquisition of an associate undertaking	
	0.1	1.5
	Proceeds from disposal of businesses	
	<u>0.4</u>	<u>1.6</u>
	Interest received	
	(40.9)	(105.7)
	Net cash flows used in investing activities	
Cash flows from financing activities		
	(11.2)	(10.1)
	Interest paid	
6	(27.0)	(25.0)
	Dividends paid	
	-	0.1
	Share options exercised from shares held by Employee Benefit Trust	
	0.4	0.2
	Share options exercised from treasury shares	
	-	(0.2)
	Purchase of own shares by Employee Benefit Trust	
	-	(9.3)
	Purchase of own shares – treasury shares	
	99.0	50.0
	Proceeds from borrowings	
	<u>(142.0)</u>	<u>-</u>
	Repayment of borrowings	
	(80.8)	5.7
	Net cash flows (used in)/generated by financing activities	
	(20.2)	(0.9)
	Net decrease in cash and cash equivalents	
	54.8	47.4
	Cash and cash equivalents at beginning of year	
	<u>(0.9)</u>	<u>8.3</u>
	Effect of foreign exchange rate changes	
	33.7	54.8
	Cash and cash equivalents at end of year	

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

	2009	2008
	£m	£m
Net decrease in cash and cash equivalents	(20.2)	(0.9)
Proceeds from borrowings	(99.0)	(50.0)
Repayment of borrowings	142.0	-
Effect of foreign exchange rate changes	<u>15.4</u>	<u>(33.9)</u>
Movement in net debt	38.2	(84.8)
Net debt at start of year	<u>(162.1)</u>	<u>(77.3)</u>
Net debt at end of year	<u>(123.9)</u>	<u>(162.1)</u>

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

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

The preliminary announcement for the year ended 31 December 2009 has been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS). The preliminary announcement is presented in millions of pounds sterling rounded to the nearest one decimal place. The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at fair value.

There have been no significant changes in accounting policies from those set out in Spectris plc's Annual Report 2008. The annual financial information presented in the preliminary announcement for the year ended 31 December 2009 is based on, and is consistent with, that in the group's audited Financial Statements for the year ended 31 December 2009, and those Financial Statements will be delivered to the Registrar of Companies following the company's Annual General Meeting. The auditor's report on those Financial Statements is unqualified and does not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

During the year, the group has applied IAS 1 *Presentation of Financial Statements (revised 2007)* which has introduced a number of terminology changes (including titles for the financial statements) and has resulted in a number of changes in presentation and disclosure. The revised standard has had no impact on the reported results or financial position of the group. In addition, the group has adopted IFRS 2 *Amendment regarding Vesting Conditions and Cancellations*, IAS 23 *Borrowing Costs (revised 2007)* and Amendments to IAS 32 *Financial Instruments: Presentation*, none of which has had a significant effect on the reported results or financial position of the group.

During the year the group has adopted IFRS 8 *Operating Segments*. IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. The reportable segments of the group are consistent with the operating segments previously determined and presented in accordance with IAS 14 *Segment Reporting*. The group has four reportable segments: Materials Analysis, Test and Measurement, In-line Instrumentation and Industrial Controls, which are the group's strategic business units. These units offer different applications, assist companies at various stages of the production cycle and are focused towards specific industries. These segments are consistent with the internal reporting provided to the Chief Operating Decision Maker (considered to be the Board of Directors) on a regular basis.

Having reviewed the group's plans and available financial facilities, the Board has a reasonable expectation that the group has adequate resources to continue its operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the group's accounts. There are no key sensitivities identified in relation to this conclusion.

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 amounts of assets and liabilities, income and expenses. The key judgements made in respect of the appropriateness of the group accounting policies relate to:

- the timing of revenue recognition where the group has some responsibility for installation activity
- the classification of financial instruments in relation to hedge accounting
- the classification of retirement benefit arrangements between defined benefit and defined contribution schemes
- the point at which development activity meets the cost capitalisation threshold.

The directors do not consider the practical application of any of these judgements to involve significant subjectivity or uncertainty.

The estimates and associated assumptions used 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. 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. Estimates that have the most significant effect on the amounts recognised in the financial statements are recognised in the following areas:

- business combinations in relation to the determination of the fair value of acquired assets and liabilities
- goodwill in relation to the assumptions underpinning impairment testing
- retirement benefit schemes in relation to the assumptions used to value plan assets and liabilities
- provisions and contingent liabilities in relation to determining the quantum and timing of management's best estimate of outflows

The consolidated financial statements include the results of the company and all of its subsidiary undertakings and associates (equity-accounted investments).

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average exchange rates. Foreign exchange differences arising on retranslation are recognised directly in a separate translation reserve within the statement of changes in equity.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the statement of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The financial statements were approved by the Board of Directors on 23 February 2010.

2. ADJUSTED PERFORMANCE MEASURES

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures exclude certain non-operational items which, consistent with prior years, for 2009 management has defined as amortisation and impairment of acquisition-related intangible assets, profits or losses on the termination or disposal of businesses, 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. In view of the changes to IFRS 3, applicable for 2010 onwards, the definition of non-operational items will be changed for 2010 to include costs of acquisition and deferred and contingent fair value adjustments which management has concluded are non-operational in nature. This change, when applied, will have no impact on 2009 or prior year reported adjusted earnings.

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

Adjusted operating profit	2009	2008
	£m	£m
Operating profit as reported under adopted IFRS	68.5	113.7
Amortisation of acquisition-related intangible assets	<u>10.7</u>	<u>4.6</u>
Adjusted operating profit	79.2	118.3
Restructuring and post-acquisition integration charges	<u>14.0</u>	<u>1.2</u>
Adjusted operating profit before restructuring and post-acquisition integration charges	93.2	<u>119.5</u>

Adjusted operating profit by reportable segment - 2009	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2009 Total
	£m	£m	£m	£m	£m
Operating profit as reported under adopted IFRS	29.6	(5.3)	40.7	3.5	68.5
Amortisation of acquisition-related intangible assets	<u>2.3</u>	<u>6.7</u>	<u>0.8</u>	<u>0.9</u>	<u>10.7</u>
Adjusted operating profit: segment result under adopted IFRS	31.9	1.4	41.5	4.4	79.2
Restructuring and post-acquisition integration charges	<u>2.3</u>	<u>9.7</u>	<u>0.9</u>	<u>1.1</u>	<u>14.0</u>
Adjusted operating profit before restructuring and post-acquisition integration charges	34.2	11.1	42.4	5.5	93.2

Adjusted operating profit by reportable segment - 2008	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2008 Total
	£m	£m	£m	£m	£m
Operating profit as reported under adopted IFRS	34.9	28.6	42.0	8.2	113.7
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: segment result under adopted IFRS	37.5	29.7	42.7	8.4	118.3
Restructuring and post-acquisition integration charges	<u>0.3</u>	<u>0.9</u>	<u>(0.1)</u>	<u>0.1</u>	<u>1.2</u>
Adjusted operating profit before restructuring and post-acquisition integration charges	37.8	30.6	42.6	8.5	119.5

Return on sales by segment - 2009	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2009 Total
As reported under adopted IFRS	11.9%	(2.0%)	17.9%	7.8%	8.7%
Adjusted before restructuring	13.8%	4.2%	18.6%	12.3%	11.8%
Adjusted after restructuring	12.9%	0.5%	18.2%	9.9%	10.1%

Return on sales by segment - 2008	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2008 Total
As reported under adopted IFRS	13.8%	11.2%	18.0%	17.9%	14.4%
Adjusted before restructuring	14.9%	12.0%	18.3%	18.6%	15.2%
Adjusted after restructuring	14.8%	11.7%	18.3%	18.4%	15.0%

Reconciliation of adjusted operating profit		2009	2008
Note		£m	£m
	Profit before tax as reported under adopted IFRS	54.2	106.1
	Amortisation of acquisition-related intangible assets	10.7	4.6
4	Net (gains)/losses on retranslation of short-term inter-company loan balances	(0.1)	0.6
3	Profit on disposal of businesses	(0.1)	(0.3)
4	Decrease/(increase) in fair value of cross-currency interest rate swaps	<u>3.5</u>	<u>(0.9)</u>
	Adjusted profit before tax	68.2	110.1
	Adjusted net interest (see below)	<u>11.0</u>	<u>8.2</u>
	Adjusted operating profit	<u>79.2</u>	<u>118.3</u>

Adjusted net interest		2009	2008
		£m	£m
	Net interest costs as reported under adopted IFRS	(14.4)	(7.9)
	Decrease/(increase) in fair value of cross-currency interest rate swaps	3.5	(0.9)
	Net (gains)/losses on retranslation of short-term inter-company loan balances	<u>(0.1)</u>	<u>0.6</u>
	Adjusted net interest costs	<u>(11.0)</u>	<u>(8.2)</u>

Operating cash flow		2009	2008
		£m	£m
	Net cash from operating activities under adopted IFRS	101.5	99.1
	Corporation tax paid	16.7	24.0
	Purchase of property, plant and equipment	(14.2)	(21.9)
	Proceeds from sale of property, plant and equipment	<u>1.5</u>	<u>0.9</u>
	Operating cash flow for management purposes	<u>105.5</u>	<u>102.1</u>

Adjusted earnings per share		2009	2008
Note		£m	£m
	Profit after tax as reported under adopted IFRS	42.6	81.1
	<i>Adjusted for:</i>		
	Amortisation of acquisition-related intangible assets	10.7	4.6
3	Profit on disposal of businesses	(0.1)	(0.3)
4	Decrease/(increase) in fair value of cross-currency interest rate swaps	3.5	(0.9)
4	Net (gains)/losses on retranslation of short-term inter-company loan balances	(0.1)	0.6
5	Tax effect of the above	(4.2)	(1.1)
	Adjusted profit after tax (£m)	52.4	84.0
	Weighted average number of shares outstanding (millions)	115.4	115.4
	Adjusted earnings per share (pence)	45.4	72.8

Adjusted diluted earnings per share		2009	2008
Note			
	Adjusted profit after tax (£m)	52.4	84.0
7	Diluted weighted average number of shares outstanding (millions)	115.8	116.2
	Adjusted diluted earnings per share (pence)	45.2	72.2

Basic and diluted earnings per share in accordance with IAS 33 are disclosed in Note 7.

Analysis of net debt for management purposes		2009	2008
		£m	£m
	Bank overdrafts	3.1	9.6
	Bank loans - secured	2.4	3.1
	Bank loans - unsecured	6.2	50.0
	Unsecured loan notes	130.5	145.9
	Cross-currency interest rate swaps – currency portion	18.5	17.9
	Total borrowings	160.7	226.5
	Cash balances	(36.8)	(64.4)
	Net debt	123.9	162.1

3. OPERATING SEGMENTS

The group has four reportable segments, as described below, which are the group's strategic business units. These units offer different applications, assist companies at various stages of the production cycle and are focused towards specific industries. These segments reflect the internal reporting provided to the Chief Operating Decision Maker (considered to be the Board) on a regular basis and are the level at which performance is monitored and resources allocated. The following summary describes the operations in each of the group's reportable segments:

- Materials Analysis provides a wide range of analytical instrumentation to the metals and mining, pharmaceutical and life sciences, and semiconductor and electronics industries.
- Test and Measurement supplies test, measurement and analysis equipment and software for product design optimisation and manufacturing control, principally to the aerospace, automotive and consumer electronics industries.
- In-line Instrumentation provides process analytical measurement, asset monitoring and on-line controls for both primary processing and the converting industries.
- Industrial Controls supplies automation and control products for the discrete manufacturing industries.

Information about reportable segments

	Segment revenue		Inter-segment revenue		External customer revenue		Reportable segment profit before income tax	
	2009	2008	2009	2008	2009	2008	2009	2008
	£m	£m	£m	£m	£m	£m	£m	£m
Materials Analysis	248.6	253.5	(0.5)	(0.3)	248.1	253.2	31.9	37.5
Test and Measurement	267.8	255.8	(0.7)	(0.9)	267.1	254.9	1.4	29.7
In-line Instrumentation	227.6	233.9	(0.1)	(0.6)	227.5	233.3	41.5	42.7
Industrial Controls	45.0	45.9	(0.4)	(0.2)	44.6	45.7	4.4	8.4
Eliminate inter-segment sales	<u>(1.7)</u>	<u>(2.0)</u>	<u>1.7</u>	<u>2.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total continuing operations	<u>787.3</u>	<u>787.1</u>	<u>-</u>	<u>-</u>	<u>787.3</u>	<u>787.1</u>	<u>79.2</u>	<u>118.3</u>
Amortisation of acquisition-related intangibles							<u>(10.7)</u>	<u>(4.6)</u>
Operating profit							68.5	113.7
Profit on disposal of businesses*							0.1	0.3
Financial income*							5.9	7.8
Finance costs*							<u>(20.3)</u>	<u>(15.7)</u>
Profit before tax							54.2	106.1
Tax*							<u>(11.6)</u>	<u>(25.0)</u>
Profit after tax							<u>42.6</u>	<u>81.1</u>

Reportable segment profit is consistent with that presented to the Chief Operating Decision Maker. 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 businesses of £0.1m (2008: £0.3m) relates to the In-line Instrumentation segment.

* Not allocated to reportable segments in reporting to the Chief Operating Decision Maker.

Geographical analysis

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

No individual country amounts to more than 3% of turnover, other than those noted below.

The following is an analysis of revenue by geographical destination:

	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2009 Total
	£m	£m	£m	£m	£m
UK	9.3	11.9	7.5	1.5	30.2
Germany	19.8	54.0	21.3	3.3	98.4
France	12.1	18.7	7.5	1.1	39.4
Rest of Europe	50.2	56.3	44.0	3.0	153.5
USA	43.1	38.9	53.2	27.8	163.0
Rest of North America	6.6	3.8	5.8	2.1	18.3
Japan	11.8	16.9	21.6	0.5	50.8
China	32.6	23.3	30.4	1.5	87.8
Rest of Asia Pacific	36.0	28.0	22.1	3.1	89.2
Rest of the world	<u>26.6</u>	<u>15.3</u>	<u>14.1</u>	<u>0.7</u>	<u>56.7</u>
	<u>248.1</u>	<u>267.1</u>	<u>227.5</u>	<u>44.6</u>	<u>787.3</u>

	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2008 Total
	£m	£m	£m	£m	£m
UK	11.4	9.7	7.6	1.6	30.3
Germany	19.6	61.5	23.0	3.9	108.0
France	12.7	9.6	1.3	1.2	24.8
Rest of Europe	46.5	67.6	52.1	2.9	169.1
USA	26.4	14.6	0.7	15.3	57.0
Rest of North America	30.5	16.8	61.0	12.7	121.0
Japan	16.4	21.1	22.2	0.4	60.1
China	23.1	15.9	26.5	3.3	68.8
Rest of Asia Pacific	42.2	23.0	21.5	3.6	90.3
Rest of the world	<u>24.4</u>	<u>15.1</u>	<u>17.4</u>	<u>0.8</u>	<u>57.7</u>
	<u>253.2</u>	<u>254.9</u>	<u>233.3</u>	<u>45.7</u>	<u>787.1</u>

4. FINANCE COSTS AND FINANCIAL INCOME

	2009	2008
	£m	£m
Financial income		
Bank interest receivable	0.4	1.6
Increase in fair value of cross-currency interest rate swaps	-	0.9
Net gains on retranslation of short-term inter-company loan balances	0.1	-
Expected return on pension scheme assets	<u>5.4</u>	<u>5.3</u>
	<u>5.9</u>	<u>7.8</u>
	2009	2008
	£m	£m
Finance costs		
Interest payable on bank loans and overdrafts	10.9	9.7
Interest payable on other loans	<u>0.2</u>	<u>0.1</u>
Total interest payable	11.1	9.8
Decrease in fair value of cross-currency interest rate swaps	3.5	-
Net losses on retranslation of short-term inter-company loan balances	-	0.6
Interest cost on pension scheme liabilities	<u>5.7</u>	<u>5.3</u>
	<u>20.3</u>	<u>15.7</u>

Net interest costs of £10.7m (2008: £8.2m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £0.4m (2008: £1.6m), and interest payable on bank and other loans and overdrafts of £11.1m (2008: £9.8m).

5. TAXATION

	2009			2008		
	UK	Overseas	Total	UK	Overseas	Total
	£m	£m	£m	£m	£m	£m
Current tax charge	3.1	9.1	12.2	1.0	24.2	25.2
Adjustments in respect of current tax of prior years	0.5	(0.8)	(0.3)	(0.1)	(0.9)	(1.0)
Deferred tax – origination and reversal of temporary differences	<u>(1.0)</u>	<u>0.7</u>	<u>(0.3)</u>	<u>(2.4)</u>	<u>3.2</u>	<u>0.8</u>
	<u>2.6</u>	<u>9.0</u>	<u>11.6</u>	<u>(1.5)</u>	<u>26.5</u>	<u>25.0</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 25.1% (2008: 29.7%). The tax charge for the year is lower than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2009	2008
	£m	£m
Profit before taxation	<u>54.2</u>	<u>106.1</u>
Corporation tax at standard rate of 25.1% (2008: 29.7%)	13.6	31.5
Non-taxable income and gains	(3.4)	(3.1)
Non-deductible expenditure	0.9	1.1
Movements on unrecognised deferred tax assets	0.3	(0.1)
Other current year tax items	(0.2)	0.3
Change in tax rates	0.1	(0.1)
Revision of recognition of opening deferred tax assets	-	(3.0)
Other adjustments to prior year current and deferred tax charges	<u>0.3</u>	<u>(1.6)</u>
Total taxation	<u>11.6</u>	<u>25.0</u>

	2009	2008
	£m	£m
Aggregate current and deferred tax charge relating to items that are charged to the statement of comprehensive income	<u>5.0</u>	<u>3.0</u>

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

Tax on items of income and expense that are excluded from the group's adjusted profit before tax	2009	2008
	£m	£m
Tax (credit)/charge on unrealised change in fair value of cross-currency interest rate swaps	(1.0)	0.3
Tax credit on amortisation of intangible assets and goodwill impairment charge	(3.2)	(1.4)
Tax charge on disposal of businesses	-	0.1
Tax credit on retranslation of short-term inter-company loan balances	<u>-</u>	<u>(0.1)</u>
Total tax credit	<u>(4.2)</u>	<u>(1.1)</u>

The effective adjusted tax rate for the period was 23.2% (2008: 23.7%) as set out in the reconciliation below:

Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge	2009	2008
	£m	£m
Total tax charge on adopted IFRS basis	11.6	25.0
Tax charge on items of income and expense that are excluded from the group's adjusted profit before tax	<u>4.2</u>	<u>1.1</u>
Adjusted tax charge	<u>15.8</u>	<u>26.1</u>
Adjusted profit before tax	<u>68.2</u>	<u>110.1</u>

6. DIVIDENDS

Amounts recognised and paid as distributions to owners of the company in the year	2009	2008
	£m	£m
Final dividend for the year ended 31 December 2008 of 17.0p (2007: 15.25p) per share	19.6	17.6
Interim dividend for the year ended 31 December 2009 of 6.4p (2008: 6.4p) per share	<u>7.4</u>	<u>7.4</u>
	<u>27.0</u>	<u>25.0</u>

Amounts arising in respect of the year	2009	2008
	£m	£m
Interim dividend for the year ended 31 December 2009 of 6.4p (2008: 6.4p) per share	7.4	7.4
Proposed final dividend for the year ended 31 December 2009 of 17.85p (2008: 17.0p) per share	<u>20.6</u>	<u>19.6</u>
	<u>28.0</u>	<u>27.0</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 owners of the parent company 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.

Basic earnings per share	2009	2008
Profit after tax (£m)	42.6	81.1
Weighted average number of shares outstanding (millions)	<u>115.4</u>	<u>115.4</u>
Basic earnings per share (pence)	<u>36.9</u>	<u>70.3</u>

Diluted earnings per share	2009	2008
Profit after tax (£m)	42.6	81.1
Basic weighted average number of shares outstanding (millions)	115.4	115.4
Weighted average number of dilutive 5p ordinary shares under option (millions)	0.6	1.2
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions)	<u>(0.2)</u>	<u>(0.4)</u>
Diluted weighted average number of shares outstanding (millions)	<u>115.8</u>	<u>116.2</u>
Diluted earnings per share (pence)	<u>36.8</u>	<u>69.8</u>

8. COMPANY INFORMATION

The financial information included in the preliminary announcement does not constitute statutory accounts of the group for the years ended 31 December 2009 and 2008. Statutory accounts for the year ended 31 December 2008 have been reported on by the group's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

9. ANNUAL REPORT

The annual report will be made available to shareholders on 23 March 2010, either by post or on-line, and will be available to the general public on the company's website at www.spectris.com or on written request to the registered office at Station Road, Egham, Surrey TW20 9NP.