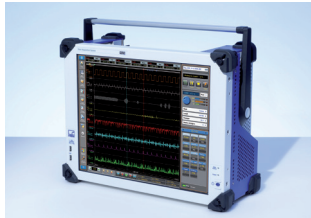
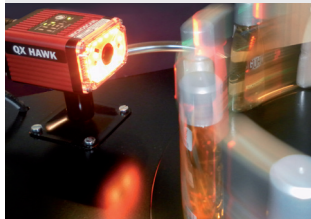


# Interim Report 2010

## Enhancing Productivity



**Spectris designs, develops and markets productivity-enhancing instrumentation and controls. Our products, applications and services help customers to improve product quality and performance, improve core manufacturing processes, reduce downtime and wastage and reduce time to market.**

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The Interim Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the company. By their nature, these statements involve uncertainties since future events and circumstances can cause actual results to differ materially from those anticipated and no reliance should be placed on them. The forward-looking statements reflect knowledge and information available at the date of preparation of this Interim Report and the company undertakes no obligation to update these forward-looking statements. Nothing in this Interim Report should be construed as a profit forecast.

## Highlights

- Strong demand in first half: sales and profits up in all four segments
- Strategies for new products and emerging markets delivering results
- Gross margins improved by 1.9pp to 57.9%, with return on sales up by 6.9pp to 12.3%
- Operating cash flow conversion strong at 133%
- Net debt down by £31 million to £93 million
- Dividend increased by 11% to 7.1p

## Financial Highlights

	H1 2010	H1 2009	Change	Change at CER**	Organic change at CER***
<b>Key operational indicators</b>					
Sales (£m)	405.1	371.5	+9%	+9%	+8%
Adjusted operating profit (£m) *	49.9	20.0	+150%	+149%	+149%
Adjusted profit before tax (£m) *	44.7	14.3	+213%		
Adjusted earnings per share (pence) *	29.4	9.4	+213%		
Dividend (pence)	7.1	6.4	+11%		
<b>Statutory</b>					
Profit before tax (£m)	40.3	8.6	+369%		
Basic earnings per share (pence)	28.7	6.5	+342%		

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

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

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

"Trading in the first half of 2010 was encouraging, with signs of recovery throughout most regions and end markets. The actions taken in 2009 to restructure the business, cut costs and focus on emerging markets, together with maintaining our investment in new product development, have strengthened our business and positioned the group well for the future. Whilst the macro-economic outlook remains uncertain, in the near term we expect to continue to make good progress and deliver results for the full year in line with the Board's expectations."

## Group at a Glance

### Materials Analysis

Provides a wide range of analytical instrumentation to the metals and mining, pharmaceutical and life sciences, and electronics industries, and to academic and research institutions.

#### Group contribution

30% sales

28% profit



#### Applications

- > Material characterisation
- > Contamination detection
- > Quality control

#### Industries

- > Pharma/life sciences
- > Metals/mining
- > Semiconductor/electronics
- > Research institutes

#### Operating Companies

- > Malvern Instruments
- > PANalytical
- > Particle Measuring Systems

- ◀ PANalytical's new X-Ray Diffraction platform, Empyrean, is designed for materials research. Featuring the world's first 3D detection system on a diffractometer, PIXcel<sup>3D</sup>, Empyrean is unique in its ability to measure all sample types, from powders to thin films, nanomaterials and 3D objects, on a single instrument.

### In-line Instrumentation

Provides process analytical measurement, asset monitoring and on-line controls for both primary processing and the converting industries.

#### Group contribution

31% sales

48% profit



#### Applications

- > Quality control
- > Process technology
- > Safety

#### Industries

- > Process industries
- > Pulp and paper
- > Energy
- > Converting

#### Operating Companies

- > Beta LaserMike
- > Brüel & Kjær Vibro
- > BTG Group
- > Fusion UV Systems
- > NDC Infrared Engineering
- > Servomex

- ◀ NDC's new InfraLab e-series food analyser is designed for rapid measurement of moisture, fat and protein in food processing. Applications include dairy products, snacks, coffee, chocolate and meat. Using samples taken from the process, a key benefit of the at-line analyser is that contact is not required with the product sample.

## Test and Measurement

Supplies test, measurement and analysis equipment and software for product design optimisation, manufacturing control and environmental monitoring.

### Group contribution

32% sales

### Applications

- > Measurement
- > Data acquisition and processing
- > Simulation

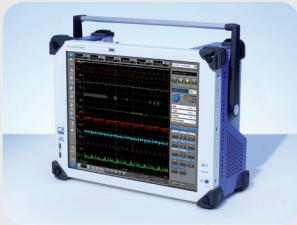
### Industries

- > Automotive
- > Aerospace
- > Electronics
- > Environmental

16% profit

### Operating Companies

- > Brüel & Kjær Sound & Vibration
- > HBM



- ◀ HBM's new data acquisition instrument, GEN2i, is a portable data recorder which is powerful and easy to use. Designed for field applications such as the maintenance of generators, turbines and motors, GEN2i is also equally suited to the laboratory test environment, and in test cells for power measurement. Its robust design and touch-screen user interface enable data to be easily recorded in any location.

## Industrial Controls

Supplies automation and control products for the discrete manufacturing industries.

### Group contribution

7% sales

### Applications

- > Product tracking
- > Machine interface
- > Industrial networking

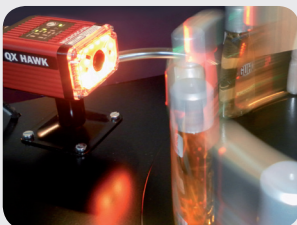
### Industries

- > General manufacturing
- > Machine building
- > Distributors

8% profit

### Operating Companies

- > Microscan
- > Red Lion Controls



- ◀ Microscan's QX Hawk is the world's first imager to be fully integrated with liquid lens technology, enabling infinite focus flexibility. It easily reads any barcode or 2D symbol, including challenging 2D direct part marks, in any environment, within seconds of installation.

## Chairman's Statement

The gradual recovery we saw towards the end of 2009 strengthened as the first half of 2010 progressed, with demand improving across most regions and end markets. As a result, sales for the first six months of 2010 increased by 9% to £405.1 million, compared with £371.5 million in the prior year period. This included a contribution from acquisitions of 1%. There was no impact from currency translation on sales; organic growth was therefore 8%.



Operating profit\* increased by 150% to £49.9 million (H1 2009: £20.0 million) as a result of the increased sales volume and the cost benefits from the restructuring and integration activities taken in 2009. Operating margins were 12.3%, an increase of 6.9 percentage points compared with the prior year. Profit before tax increased by 213% from £14.3 million to £44.7 million and earnings per share increased by 213% from 9.4 pence to 29.4 pence. Based on the forecast for the full year, the effective tax rate for the half year was 24.0% (2009 full year: 23.2%).

Cash conversion in the period was strong, due in large part to rigorous working capital management, with 133% of operating profit converted to operating cash. Operating cash flow, at £66.3 million, was £33.5 million higher than the prior year period. As a result, net debt decreased by £31.1 million to £92.8 million.

The Board proposes to pay an interim dividend of 7.1 pence, an increase of 11%. The dividend will be paid on 12 November 2010 to shareholders on the register at the close of business on 22 October 2010.

### Outlook

Trading in the first half of 2010 was encouraging, with signs of recovery throughout most regions and end markets. The actions taken in 2009 to restructure the business, cut costs and focus on emerging markets, together with maintaining our investment in new product development, have strengthened our business and positioned the group well for the future. Whilst the macro-economic outlook remains uncertain, in the near term we expect to continue to make good progress and deliver results for the full year in line with the Board's expectations.

A handwritten signature in black ink, appearing to read 'John Hughes'.

**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

Trading in 2010 got off to an encouraging start, with all four segments growing sales and profits. Demand was strongest in the In-line Instrumentation and Industrial Controls segments as production rates and customer spending returned to more normal levels. As expected, recovery was slower in the Test and Measurement segment where the number of automotive industry projects is only improving in some regions. Growth in the Materials Analysis segment was held back by slower demand from the metals and mining sector even though the pharmaceutical and electronic sectors performed strongly.



Across the regions, there were differences in the speed of recovery. The economies of Asia and Latin America are leading the growth, with the USA improving; however, Europe is recovering more slowly.

Gross margins improved by 1.9 percentage points (pp) to 57.9%, driven by volume, new product sales, favourable mix, pricing, and cost reduction, partially offset by material cost inflation.

Benefits arising from the 2009 restructuring and post-acquisition integration actions were in line with expectations. However, as expected, these incremental net benefits were offset by the reversal of temporary cost savings as full-time working recommenced and full salaries were restored. We remain on track to deliver the planned restructuring benefits for the full year, offset by the reversal of temporary cost savings, as outlined at the time of the 2009 full year results.

Operating profit was £49.9 million (H1 2009: £20.0 million), an increase of 150%, and operating margins increased to 12.3% (H1 2009: 5.4%).

### Strategy

The progress we have made on the key elements of our strategy is as follows:

#### Strengthening market positions through innovation

We maintained our investment in research and development activities throughout 2009, despite the difficult operating environment, and continued this investment into 2010, with research and development expenditure at 8% of sales in the first half. A number of new products were launched, including the UltraChem 40 product, the highest sensitivity liquid particle counter in the world. This uses NanoVision™ technology, a state-of-the-art digital imaging technology which enables the detection of ultra-small particles, allowing customers to “see” much smaller particles in liquids than previously. We also launched the GEN2i, a portable data acquisition instrument, which is particularly suitable for field applications such as the maintenance of generators, turbines and motors in the power industry and also for applications in the laboratory test environment. The new, non-consumable Paracube Micro oxygen sensor, with its industry-leading levels of accuracy and reliability, is replacing the limited lifetime electro-chemical sensor technology previously used across a range of applications in healthcare, emissions monitoring and process gas analysis. Other examples of our new products are described in the Segmental Review which follows.

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

Sales to China, Korea, Brazil and India were particularly strong in the first half. We continued to invest in infrastructure and service channels

## Chief Executive's Review continued

to support our customers globally, with Malvern opening a third centre of excellence in India and Servomex opening business centres in Brazil and India. Sales to emerging markets increased as a percentage of revenue year on year.

### Growing existing businesses through acquisition

In April, we acquired the assets of Reologica Instruments AB, a Swedish company specialising in the design and manufacture of rheometers. The product technologies acquired provide us with access to additional technologies and intellectual property that will support the continued development of our rheology business. In July, we acquired Zhuhai Omec Instruments Co Ltd, a privately-owned Chinese company specialising in particle characterisation, which will extend our range of instrumentation in the Materials Analysis segment. Previous acquisitions have been integrated and the benefits are now being realised. As an example, the environmental noise monitoring technology acquired with Lochar had been adapted for use in Brüel & Kjær's industrial markets. The Noise Sentinel system is now being marketed for continuous noise monitoring around factory facilities to report levels for ongoing compliance with relevant noise restrictions.

### Focusing on operational excellence

We continue to implement good cost control across the business, assisted by our strategic sourcing teams who continue to drive down costs and improve flexibility and responsiveness to customers. The first half of the year saw a significant increase in the volume of components and assemblies purchased from low-cost sources. The efficiencies gained from the restructuring and post-acquisition integration actions have lowered our break-even point and leave us with more flexibility to better withstand any renewed deterioration in the marketplace or benefit from further market recovery.

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

Our key strategic segments have benefited from product development programmes during the year focused on building our market positions and a number of co-operation agreements were signed. In addition, our focus on higher margin customer

support, service and consumables continues to be an important part of our business, growing to approximately 29% of sales in the first half (H1 2009: 28%). Given our financial strength, we continue to look for acquisition opportunities in line with our strategic business segments.

## Segmental review

### Materials Analysis

#### Overview

Materials Analysis provides a wide range of analytical instrumentation to the metals and mining, pharmaceutical and life sciences, and electronics industries, and to academic and research institutions. 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 £119.3 million, increased by 2.8% (H1 2009: £116.1 million) (up 2.2% at constant currencies, including 1.8% from acquisitions). Operating profit increased by £3.8 million to £13.9 million. Operating margins improved from 8.7% to 11.7%. Approximately 1.5pp of the increase in operating margins was due to improved gross margins arising from an increase in the contribution from new products and services. The balance was due to the net benefits arising from the 2009 restructuring actions.

Although year-on-year sales in the metals, minerals and mining sector, the largest end user market for this segment, were down as a result of a high order backlog from 2008 carried over into 2009, we have seen activity slowly beginning to recover, with many service laboratories now returning to full utilisation. The steel market is also slowly improving and interest in automation is growing, with orders received for projects in the Middle East. Increased investment in infrastructure projects, particularly in India, China and the Middle East, provided demand for analysis equipment from construction-related sectors, such as metals and building materials. In March, PANalytical entered into a strategic alliance with a French company, SODERN, for exclusive worldwide distribution and support of

its neutron-generator based analyser. This technology is used in critical applications such as real-time characterisation of raw materials and will broaden PANalytical's range of solutions for customers in the mining sector.

Sales in the academic sector and to research institutions were good. However, as anticipated, we have seen some softening in demand from government-sponsored programmes in some developed markets, whilst emerging markets continue to grow. In March, we launched Epyrean, a new X-Ray Diffraction platform, aimed at academic and research markets. This high-performance instrument introduces the world's first 3D detection system on a diffractometer, PIXcel<sup>3D</sup>, and is unique in its ability to measure all sample types – from powders to thin films, nanomaterials and 3D objects – on a single instrument.

Demand from the pharmaceutical market was strong for this segment, driven by increasing demand from emerging markets. A number of facility monitoring contracts were secured, notably in China, where regulatory enforcement is increasing, and demand was also good from India and Brazil. The microbial contamination detection products, which were acquired from an Italian subsidiary of 3M in 2009, performed well.

Momentum continues to build in the electronics industry, driven by recent product innovations. The introduction of flat screen televisions, smart phones and e-book readers has resulted in increased demand for the semiconductor chips which power

these devices, for LED devices which provide the backlighting, and for quality control of the screen layers. The semiconductor industry has begun to invest once again in capital equipment, and we secured large orders from all of the major semiconductor chip manufacturers. We saw good demand for our X-Ray analysis systems for LED applications for backlighting in televisions and computers, particularly from Korea, Taiwan and China, and demand is increasing in Europe. Hard disk manufacturers also provided good demand for our analysis and contamination monitoring products.

### Segment outlook

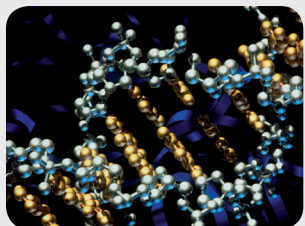
Mining is slowly gaining momentum, although growth may not return until 2011. In the pharmaceutical market, drug discovery and manufacturing challenges are expected to continue to provide good demand, particularly in emerging markets. We expect to see some softening in the academic and research market as a result of government budgets tightening. Growth is expected to continue from the electronics sector in the short term, largely in Asia.

### Test and Measurement

#### Overview

Test and Measurement supplies test, measurement and analysis equipment and software for product design optimisation, manufacturing control, and environmental monitoring systems. Markets are principally the aerospace, automotive and consumer electronics industries. For customers in the automotive and aerospace industries, our products

### Case Study



### Chemistry experts rely on Zetasizer Nano for ground-breaking cancer research

The Illinois Institute of Technology selected the Zetasizer Nano ZS from Malvern Instruments for their chemistry research. The research team at Illinois use the particle characterisation system to measure the diameter and zeta potential of nanoparticles, enabling them to continue breaking ground in research that may ultimately facilitate fast screening and early diagnosis of breast cancer.

## Chief Executive's Review continued

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. In the environmental monitoring market, the desire for higher standards of community comfort is driving increasing demand. The operating companies in this segment are Brüel & Kjær Sound & Vibration and HBM.

### Segment performance

Sales in Test and Measurement increased by 4.1% (organic increase of 4.0% at constant currencies) to £131.3 million, with acquisitions contributing £0.6 million to the sales growth. Operating profit increased by £14.4 million to £8.2 million as the benefits of the restructuring actions and accelerated post-acquisition integration activities in the prior year were realised. Operating margins were 6.3% compared with -4.9% in the prior year period, an increase of 11.2pp, driven by an improvement in gross margins of 2.7pp, principally due to favourable product mix, a reduction in restructuring costs (3.2pp) and a net reduction in overheads arising from the 2009 restructuring and post-acquisition integration actions, combined with the effects of operational leverage (5.3pp).

As the year progressed, the automotive market began to show some signs of improvement, with the reinstatement of budgets in some regions, notably Asia, where original equipment manufacturers are focusing on improving the emissions and engine efficiency of new vehicles

and developing alternative energy vehicles. Business continues to be very good in China and is improving in Japan and North America, however Europe continues to be slow.

The Noise Vibration Harshness (NVH) Simulator continued to attract attention, with Ford adding to their simulator purchases and Nissan also deciding to integrate the simulator as part of their product development process. Ford's sound-deadening improvements can be found in the new Ford Taurus, which achieved the quietest levels ever recorded in Ford laboratories following wind tunnel tests and in the new Ford Fusion, which features side-view mirrors which generate less wind noise than a vehicle without side mirrors.

We continue to introduce new products for the automotive industry, with recent examples including new modules for the LAN-XI data analysis system, opening up new opportunities for in-vehicle and mobile testing. A major Japanese automotive manufacturer ordered a number of LAN-XI systems for their latest Noise and Vibration Laboratory Automation System.

Hybrid vehicle development continued to provide opportunities for our testing systems and we delivered a large vibration test system for hybrid battery durability testing. The system is used for pre-production qualification and functional test of complete battery assemblies, often weighing more than 250kg, which are designed to be mounted underneath a hybrid car.

### Case Study



### Data acquisition equipment ensures good operational landing performance for the Lynx naval helicopter

Helicopter manufacturer AgustaWestland used HBM's QuantumX MX840 data acquisition equipment to test the undercarriage of the next generation of Lynx naval helicopters to ensure good operational landing performance. A total of 34 test conditions needed to be met to ensure the undercarriage could fully withstand and exceed the landing forces on ships, where the combined elements of wind and waves make landing more demanding than on land.

In the aerospace market, orders included an assembly force monitoring system for a major European commercial aircraft manufacturer and a data acquisition system for aircraft wing testing for an aerospace institute in China, as well as a number of large orders for vibration test systems for customers in North America and China.

Demand was good for our environmental management systems and several contracts were secured for noise monitoring at major European, US and Australian airports. In March, Madrid Airport became the 46th airport to launch Lochard's WebTrak service, displaying actual radar flight tracks and noise from 27 noise monitoring terminals located around the airport. This is the first implementation of WebTrak in conjunction with Brüel and Kjær's Type 7804 Noise and Flight Tracking System. WebTrak is part of the Spanish National Airport and Aircraft's environmental action plan to reduce CO<sub>2</sub> emissions and noise generated by operations at its airports throughout Spain.

The strong electronics market also brought benefits to this segment, which is involved in the design and testing of consumer devices. A number of orders were secured from a major manufacturer of mobile phones for microphones and conditioning amplifiers. These systems are integrated into the production process for on-line quality control of the audio performance of the phones.

In the energy sector, growing worldwide demand for power benefited sales of our test equipment for high voltage switchgear testing, with notable contracts obtained in China and North America.

### **Segment outlook**

This segment saw the greatest restructuring and post-acquisition integration activities in 2009 within the group, and the benefits are now being realised in 2010. Recovery in the automotive industry is improving, with strong growth in Asia, as spending on research and development returns, but slower growth in Europe. Recent acquisitions, together with customer and distributor relationships, have increased our opportunities in the automotive sector. We expect to continue to see improving demand in the aerospace industry and the market for urban and airport noise monitoring continues

to grow as noise measurement becomes an increasingly important subject.

### **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 increased by 18.2% (increase of 17.8% at constant currencies) to £126.9 million. Operating profit increased by £8.2 million to £23.7 million and operating margins were 18.7%, compared with 14.4% in the prior period. The 4.3pp increase in operating margins was due to gross margins improving by 0.6pp, primarily driven by a favourable mix, and the net benefits arising from restructuring actions combined with operational leverage (3.7pp). Service and consumables account for around 44% of sales (H1 2009: 41%) in this segment.

The gradual economic recovery benefited sales activity in this segment, led by Asia and the US, whilst conditions in Europe recovered more slowly.

In the pulp and paper industry, a steady recovery in coated paper production in all regions, together with increased demand from the tissue market, helped sales of our high performance blades. Demand was particularly strong in Asia, where production rates in China and Japan are high as a result of growing domestic and export demand. Additionally, our high performance blades are being used by a number of papermakers who are switching to lower cost coating formulations as they look for ways to offset higher fibre costs. Demand for our instruments was also strong, notably in China, where there has been a rapid expansion in capacity across all grades of paper, and in North America, where a number of producers are now upgrading their process control capabilities to

## Chief Executive's Review continued

improve reliability and reduce costs. The recently launched optical transmitters for measuring total consistency and filler content also performed well as papermakers seek ways to mitigate higher fibre costs, and we launched an integrated tissue solution (Total Tissue Capability) to address the need for more advanced and integrated process control in tissue manufacturing. This has already generated a number of orders and interest from mills around the world.

Sales in the industrial gas, energy and refining markets all remained good in the first half of 2010, while in the emerging economies of China, India, Middle East and Latin America, sales continued the excellent growth seen through 2009. In response to increasing customer demand, Servomex expanded its Shanghai system integration facility and opened new business centres in Sao Paulo, Brazil, and Mumbai, India. During the first half, we launched a range of new products including the SERVOPRO Plasma analyser, and the SERVOTOUGH Ecoflue analyser. The Ecoflue is primarily used to optimise combustion efficiency and is targeted specifically at the developing regions, with a large number of orders already secured.

In the alternative energy sector, we secured a number of orders for condition monitoring systems for hydropower plants and further orders for remote condition monitoring systems for wind farms.

In the converting industry, demand improved in Asia, led by China, and in North America, where previously postponed projects are now being resumed as well as new capacity added. The recently launched blown film system saw good success and orders included a system for a major Asian producer of plastic film to measure the thickness of varying film types. A number of orders were received for manufacturing processes for lithium-ion batteries. We launched the CenterScan 2010 system for measuring the diameter of insulated wire and cable, and eccentricity of conductors, during extrusion and insulation processes. This system helps wire and cable manufacturers to better control and improve the quality of product whilst reducing material consumption. Our UV systems for coating solar cell components also saw good success.

In the food industry, the launch in March of a new Infralab benchtop analyser has been a great success. The analyser is designed for rapid measurement of moisture, fat, and protein in food processing and customers include a major European food manufacturer who is using the system for testing coffee. Growing demand for beverage cans in Latin America resulted in a number of orders for our bottom rim UV coating lines. Consumption of canned drinks is increasing in this region as the economy grows and UV coating of the bottom rim of these two-piece cans improves their mobility on the production line. With production speeds of around 2000 cans per minute, the installation of bottom rim can coating can significantly increase throughput for the can manufacturer.

Continued demand for consumer electronic products such as flat panel displays and new mobile phones resulted in an increase in sales of our UV products. Our systems are used by the major contract manufacturing companies that produce consumer electronic products for the world's leading brands. The recent introduction of several new "e-book," "net book," and "tablet" products and the emergence of 3D HDTV will further drive the demand for touch screens and the requirement for the UV-cured functionalised films that are inherent in this technology.

### Segment outlook

Market conditions are improving in this segment's end markets, driven by demands for greater efficiency and productivity, notably in emerging markets, pulp and paper, and the converting industry. 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 increased by 26% to £27.6 million (up 28.6% at constant currencies). Operating profit increased from £0.6 million to £4.1 million. Operating margins were 14.9% compared with 2.7% in 2009, an improvement of 12.2pp. Of this, 4.4pp was due to increased gross margins, with 5.1pp due to a reduction in the cost of restructuring and post-acquisition integration actions, and 2.7pp due to the net benefits arising from restructuring as well as operational leverage from the increased volume.

The electronics and general manufacturing sectors returned to growth in 2010. In the consumer electronics market, demand was strong for our Hawk range of track, trace and control products, developed following the acquisition of the Siemens Machine Vision Business (SMVB) in 2008, with a major electronics manufacturer selecting them for traceability and quality applications at their contract manufacturers in China. During the first half, a number of new products were introduced to strengthen our position in industrial barcode and vision applications, and we were selected by

several large industrial automation suppliers in Germany and Japan as their provider for re-branded products for direct part marking applications. We also launched updated Human Machine Interface (HMI) models and expansion cards, with greater networking connectivity to bridge the gap between the shop floor and business computer systems. Several large private label agreements were secured for these products and for our Data Stations, while sales via catalogue channels also continued to grow.

Activity in the industrial controls and machine building markets in China continued to increase and we secured a number of important orders. Growth was also good in India, where sales doubled.

### Segment outlook

The first half of the year saw a recovery in demand from the general manufacturing sector, and we expect this to continue with emphasis on the Asian markets.



**John O'Higgins**  
Chief Executive

## Financial Review



Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures exclude certain non-operational items which management has defined as amortisation and impairment of acquisition-related intangible assets, cost of acquisitions and deferred and contingent fair value adjustments, profits or losses on 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. As noted in the 2009 annual report, the definition has been modified for 2010 to include the income statement effects arising from the adoption of IFRS 3 (Revised). Unless otherwise stated, all profit and earnings figures referred to below are adjusted measures.

Reported sales in the first half increased by 9.0% from £371.5 million in 2009 to £405.1 million in 2010. The year-on-year impact on sales from acquisitions was approximately £2.7 million, or 0.7%, and the impact of currency year on year was negligible, resulting in organic growth of 8.3%.

Reported operating profit increased by 150% from £20.0 million in 2009 to £49.9 million in 2010. Volume, mix and pricing had a positive impact of £26.5 million. The reduction in restructuring and post-acquisition integration costs and the increase in restructuring benefits, offset by the reversal of temporary cost savings, resulted in a net overhead cost increase of approximately £3.6 million. The year-on-year impact from foreign exchange and

acquisitions is a profit of approximately £0.1 million each, resulting in an organic constant currency growth in operating profit of 149%.

The year-on-year decrease in net finance costs is £0.5 million (from £5.7 million in 2009 to £5.2 million in 2010). This is due to average net debt being approximately £70 million lower than in the same period in 2009, partially offset by lower interest rates on our cash balances. Profit before tax increased by 213% from £14.3 million to £44.7 million.

One of the private placement notes amounting to \$75 million, carrying a fixed rate of interest of 8.23%, becomes repayable on 13 September 2010. This will be refinanced out of a five-year, \$75 million term loan facility carrying a fixed rate of interest of 3.123%.

Based on the forecast for the full year, the effective tax rate for the half year was 24.0% (2009 full year: 23.2%).

The higher operating profit resulted in earnings per share increasing by 213% from 9.4 pence to 29.4 pence.

Operating cash flow of £66.3 million is £33.5 million higher than the prior year period (£32.8 million). Increased profits and continuing rigorous working capital management led to operating cash conversion of 133% (2009: 164%). Net debt decreased by £31.1 million (2009: increase of £17.0 million) from £123.9 million at 31 December 2009 to £92.8 million, mainly due to strong operating cash flows.

Reflecting the strong working capital management actions throughout the first half of 2010, rolling 12-month average working capital has been running at just over 11% of sales compared to around 14% for the whole of 2009.

A handwritten signature in black ink, appearing to read 'Clive Watson', written over a white background.

**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 group's 2009 annual report which is available on the group's website at [www.spectris.com](http://www.spectris.com).

The group has reviewed these risks and concluded that they continue to remain relevant for the second half of the financial year. They comprise:

- Acquisition integration
- New product development
- Competitive activity
- Supply-chain disruption
- Seasonal fluctuations in sales
- Fluctuations in exchange rates
- Liquidity and interest rate risk
- Intellectual property

- Information technology / business disruption
- Political and economic environment risks
- Larger contracts and systems work
- Project management

Although we are continuing to see an improvement in demand over the prior year, with signs of recovery throughout most regions and end markets, we remain alert to the potential for a deterioration in economic conditions. The group has in place a strategy to mitigate the effects of any such deterioration, by taking cost saving and cash management conservation actions similar to those undertaken in 2009.



**Clive Watson**  
Group Finance Director

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## Statement of Directors' Responsibilities in respect of the Interim Report

The directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The directors of Spectris plc are as listed in the 2009 annual report, with the exception of Tony Reading, who retired from the Board on 19 May

2010. A list of current directors is maintained on the company's website: [www.spectris.com](http://www.spectris.com).

By order of the Board



**John Hughes**  
Chairman

# Condensed Consolidated Statement of Income

For the six months ended 30 June 2010

	Note	2010 Half year £m	2009 Half year £m	2009 Full year £m
<b>Continuing operations</b>				
Revenue	3	<b>405.1</b>	371.5	787.3
Cost of sales		<b>(170.7)</b>	(163.6)	(342.0)
<b>Gross profit</b>		<b>234.4</b>	207.9	445.3
Indirect production and engineering expenses		<b>(35.7)</b>	(42.2)	(84.0)
Sales and marketing expenses		<b>(99.4)</b>	(97.5)	(184.7)
Administrative expenses		<b>(55.2)</b>	(51.4)	(108.1)
<b>Operating profit</b>				
Operating profit before acquisition costs and amortisation of acquisition-related intangibles		<b>49.9</b>	20.0	79.2
Cost of acquisitions and deferred and contingent fair value adjustments		<b>(0.8)</b>	–	–
Amortisation of acquisition-related intangibles		<b>(5.0)</b>	(3.2)	(10.7)
Profit on disposal of businesses	2,3	<b>44.1</b>	16.8	68.5
Financial income	4	<b>–</b>	–	0.1
Financial income	6	<b>4.6</b>	4.0	5.9
Finance costs	6	<b>(8.4)</b>	(12.2)	(20.3)
<b>Profit before tax</b>		<b>40.3</b>	8.6	54.2
Taxation – UK	7	<b>(1.7)</b>	1.6	(2.6)
Taxation – Overseas	7	<b>(5.5)</b>	(2.7)	(9.0)
<b>Profit after tax for the year from continuing operations attributable to owners of the company</b>		<b>33.1</b>	7.5	42.6
Basic earnings per share (pence)	8	<b>28.7p</b>	6.5p	36.9p
Diluted earnings per share (pence)	8	<b>28.5p</b>	6.5p	36.8p
Dividends proposed for the period (per share)	9	<b>7.1p</b>	6.4p	24.25p
Dividends paid during the period (per share)	9	<b>17.85p</b>	17.0p	23.4p

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.

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Profit for the period attributable to owners of the company	33.1	7.5	42.6
Other comprehensive income:			
Net (loss)/gain on effective portion of changes in fair value of forward exchange contracts	(0.8)	6.9	8.1
Foreign exchange movements on translation of overseas operations	(16.7)	(59.7)	(36.8)
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations	4.5	19.9	14.8
Actuarial gain/(loss) arising on pension schemes, net of exchange	1.8	(17.9)	(19.0)
Tax on items recognised directly in comprehensive income	(0.4)	3.2	5.0
<b>Total comprehensive income for the period attributable to the owners of the company</b>	<b>21.5</b>	<b>(40.1)</b>	<b>14.7</b>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £m
Balance at 1 January 2010	6.2	231.4	119.5	70.9	(0.5)	3.1	0.3	<b>430.9</b>
Total comprehensive income for the period:								
Profit for the period	–	–	33.1	–	–	–	–	<b>33.1</b>
Other comprehensive income:								
Net loss on effective portion of changes in fair value of forward exchange contracts, net of tax	–	–	–	–	(0.6)	–	–	<b>(0.6)</b>
Foreign exchange movements on translation of overseas operations	–	–	–	(16.7)	–	–	–	<b>(16.7)</b>
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations, net of tax	–	–	–	4.5	–	–	–	<b>4.5</b>
Actuarial gain arising on pension schemes, net of exchange, net of tax	–	–	1.2	–	–	–	–	<b>1.2</b>
Distributions to and transactions with owners:								
Equity dividends paid	–	–	(20.7)	–	–	–	–	<b>(20.7)</b>
Share-based payments	–	–	1.3	–	–	–	–	<b>1.3</b>
Share options exercised from own shares (treasury) purchased	–	–	1.3	–	–	–	–	<b>1.3</b>
<b>Balance at 30 June 2010</b>	<b>6.2</b>	<b>231.4</b>	<b>135.7</b>	<b>58.7</b>	<b>(1.1)</b>	<b>3.1</b>	<b>0.3</b>	<b>434.3</b>

## Condensed Consolidated Statement of Changes in Equity continued

For the six months ended 30 June 2009

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £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	–	–	7.5	–	–	–	–	7.5
Other comprehensive income:								
Net gain on effective portion of changes in fair value of forward exchange contracts, net of tax	–	–	–	–	5.0	–	–	5.0
Foreign exchange movements on translation of overseas operations	–	–	–	(59.7)	–	–	–	(59.7)
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations, net of tax	–	–	–	20.4	–	–	–	20.4
Actuarial loss arising on pension schemes, net of exchange, net of tax	–	–	(13.3)	–	–	–	–	(13.3)
Distributions to and transactions with owners:								
Equity dividends paid	–	–	(19.6)	–	–	–	–	(19.6)
Share-based payments	–	–	(0.6)	–	–	–	–	(0.6)
Own shares (Employee Benefit Trust) purchased	–	–	(0.2)	–	–	–	–	(0.2)
Share options exercised from shares held by Employee Benefit Trust	–	–	0.1	–	–	–	–	0.1
Balance at 30 June 2009	6.2	231.4	91.2	53.7	(3.1)	3.1	0.3	382.8

## Condensed Consolidated Statement of Changes in Equity continued

For the year ended 31 December 2009

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £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 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 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 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	6.2	231.4	119.5	70.9	(0.5)	3.1	0.3	430.9

# Condensed Consolidated Statement of Financial Position

At 30 June 2010

	2010 Half year £m	2009 Half year £m	2009 Full year £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets:			
Goodwill	309.8	329.6	324.8
Other intangible assets	67.0	48.3	70.3
	<b>376.8</b>	<b>377.9</b>	<b>395.1</b>
Property, plant and equipment	103.7	105.6	107.6
Equity-accounted investment	0.6	0.6	0.6
Deferred tax asset	26.9	33.9	26.2
	<b>508.0</b>	<b>518.0</b>	<b>529.5</b>
<b>Current assets</b>			
Inventories	109.0	122.2	99.8
Taxation recoverable	–	1.4	8.1
Trade and other receivables	154.8	147.5	167.8
Derivative financial instruments	0.2	–	0.9
Cash and cash equivalents	55.3	33.9	36.8
	<b>319.3</b>	<b>305.0</b>	<b>313.4</b>
<b>Total assets</b>	<b>827.3</b>	<b>823.0</b>	<b>842.9</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	(51.2)	(8.0)	(49.8)
Derivative financial instruments	–	(0.8)	–
Trade and other payables	(164.2)	(148.3)	(150.7)
Current tax liabilities	(28.4)	(21.3)	(36.1)
Provisions	(20.0)	(16.8)	(25.3)
	<b>(263.8)</b>	<b>(195.2)</b>	<b>(261.9)</b>
<b>Net current assets</b>	<b>55.5</b>	<b>109.8</b>	<b>51.5</b>
<b>Non-current liabilities</b>			
Medium- and long-term borrowings	(89.6)	(188.6)	(92.4)
Derivative financial instruments	(8.7)	(18.9)	(21.1)
Other payables	(8.8)	(8.7)	(9.3)
Retirement benefit obligations	(18.5)	(24.5)	(23.5)
Deferred tax liability	(3.6)	(4.3)	(3.8)
	<b>(129.2)</b>	<b>(245.0)</b>	<b>(150.1)</b>
<b>Total liabilities</b>	<b>(393.0)</b>	<b>(440.2)</b>	<b>(412.0)</b>
<b>Net assets</b>	<b>434.3</b>	<b>382.8</b>	<b>430.9</b>
<b>Equity</b>			
Issued share capital	6.2	6.2	6.2
Share premium	231.4	231.4	231.4
Retained earnings	135.7	91.2	119.5
Translation reserve	58.7	53.7	70.9
Hedging reserve	(1.1)	(3.1)	(0.5)
Merger reserve	3.1	3.1	3.1
Capital redemption reserve	0.3	0.3	0.3
<b>Total equity attributable to equity holders of the company</b>	<b>434.3</b>	<b>382.8</b>	<b>430.9</b>
<b>Total equity and liabilities</b>	<b>827.3</b>	<b>823.0</b>	<b>842.9</b>

# Condensed Consolidated Statement of Cash Flows

For the half year ended 30 June 2010

	Note	2010 Half year £m	2009 Half year £m	2009 Full year £m
<b>Cash flows from operating activities</b>				
Profit after tax		<b>33.1</b>	7.5	42.6
Adjustments for:				
Tax	7	<b>7.2</b>	1.1	11.6
Profit on disposal of businesses		–	–	(0.1)
Finance costs	6	<b>8.4</b>	12.2	20.3
Financial income	6	<b>(4.6)</b>	(4.0)	(5.9)
Depreciation		<b>7.1</b>	7.1	14.3
Amortisation of intangible assets		<b>6.0</b>	4.7	13.1
Gain on sale of property, plant and equipment		–	(0.4)	(0.3)
Share-based payment charge/(credit)		<b>1.4</b>	(0.6)	(0.4)
<b>Operating profit before changes in working capital and provisions</b>				
		<b>58.6</b>	27.6	95.2
Decrease in trade and other receivables		<b>13.9</b>	45.4	31.0
(Increase)/decrease in inventories		<b>(9.3)</b>	10.7	38.1
Increase/(decrease) in trade and other payables		<b>18.6</b>	(37.7)	(42.9)
Decrease in provisions and employee benefits		<b>(9.2)</b>	(7.9)	(3.2)
Corporation tax paid		<b>(7.9)</b>	(17.7)	(16.7)
<b>Net cash from operating activities</b>				
		<b>64.7</b>	20.4	101.5
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		<b>(7.4)</b>	(6.6)	(14.2)
Proceeds from sale of property, plant and equipment		<b>0.3</b>	1.3	1.5
Acquisition of businesses, net of cash acquired	5	<b>(5.0)</b>	(26.4)	(28.7)
Proceeds from disposal of businesses		–	–	0.1
Interest received		<b>0.4</b>	0.1	0.4
<b>Net cash flows used in investing activities</b>				
		<b>(11.7)</b>	(31.6)	(40.9)
<b>Cash flows from financing activities</b>				
Interest paid		<b>(5.5)</b>	(6.0)	(11.2)
Dividends paid		<b>(20.7)</b>	(19.6)	(27.0)
Share options exercised from shares held by Employee Benefit Trust		–	0.1	–
Share options exercised from treasury shares		<b>1.3</b>	–	0.4
Purchase of own shares by Employee Benefit Trust		–	(0.2)	–
Proceeds from borrowings		–	49.0	99.0
Repayment of borrowings		<b>(6.2)</b>	(34.8)	(142.0)
<b>Net cash flows used in financing activities</b>				
		<b>(31.1)</b>	(11.5)	(80.8)
<b>Net increase/(decrease) in cash and cash equivalents</b>				
		<b>21.9</b>	(22.7)	(20.2)
<b>Cash and cash equivalents at beginning of year</b>				
		<b>33.7</b>	54.8	54.8
Effect of foreign exchange rate changes		<b>(1.5)</b>	(6.2)	(0.9)
<b>Cash and cash equivalents at end of period</b>				
		<b>54.1</b>	25.9	33.7

## Condensed Consolidated Statement of Cash Flows continued

<b>Reconciliation of changes in cash and cash equivalents to movements in net debt</b>	<b>2010 Half year £m</b>	2009 Half year £m	2009 Full year £m
Net increase/(decrease) in cash and cash equivalents	<b>21.9</b>	(22.7)	(20.2)
Proceeds from borrowings	–	(49.0)	(99.0)
Repayment of borrowings	<b>6.2</b>	34.8	142.0
Effect of foreign exchange rate changes	<b>3.0</b>	19.9	15.4
Movement in net debt	<b>31.1</b>	(17.0)	38.2
Net debt at start of year	<b>(123.9)</b>	(162.1)	(162.1)
Net debt at end of period	<b>(92.8)</b>	(179.1)	(123.9)

# Notes to the Interim Financial Statements

## 1. Principal accounting policies and basis of preparation

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

The condensed consolidated interim financial statements of the company for the six months ended 30 June 2010 comprise the company and its subsidiaries, together referred to as the group. These condensed consolidated interim financial statements are presented in millions of pounds sterling rounded to the nearest one decimal place. The consolidated financial statements of the group for the year ended 31 December 2009 are available upon request from the company's registered office at Station Road, Egham, Surrey TW20 9NP.

These condensed consolidated interim financial statements have been prepared in accordance with adopted International Financial Reporting Standard (IFRS) IAS 34 'Interim Financial Reporting'. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the group for the year ended 31 December 2009.

Except as described below, the accounting policies applied by the group in these condensed consolidated interim financial statements are the same as those applied by the group in its consolidated financial statements for the year ended 31 December 2009.

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 group has adopted IFRS 3 (Revised) 'Business Combinations' for transactions arising after 1 January 2010. This has changed the group's definition of the cost of business combinations and the treatment of deferred and contingent consideration. Previously, costs to effect a business combination were included in the cost of acquisition, but under IFRS 3 (Revised) these costs are expensed. Previously, subsequent adjustments to contingent consideration were made against goodwill, but under IFRS 3 (Revised) subsequent accounting depends on whether the contingent consideration is initially recognised as equity or as a liability and whether the event is considered a measurement period adjustment. The adoption of IFRS 3 (Revised) has had no material impact on assets, profit or earnings per share in the interim period ended 30 June 2010; the impact on profit and earnings per share is highlighted in Note 2.

The interim results are unaudited. They do not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2009 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company'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 498(2) or (3) of the Companies Act 2006.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates. Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated statements for the year ended 31 December 2009.

The directors have considered the circumstances as at 30 June 2010 and concluded that there are no indicators of impairments that require an impairment review to be undertaken at the balance sheet date. Regular impairment reviews will be undertaken later in 2010 consistent with the timing in previous years.

The group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2009.

## 1. Principal accounting policies and basis of preparation continued

These condensed consolidated interim financial statements were approved by the Board of Directors on 24 August 2010.

### Seasonality of operations

Due to the seasonal nature of the group's operations, higher revenues and operating profits are usually expected in the second half of the year than in the first six months.

## 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 management has defined as amortisation and impairment of acquisition-related intangible assets, cost of acquisitions and deferred and contingent fair value adjustments, profits or losses on 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. As noted in the 2009 Annual Report, the definition has been modified for 2010 to include the income statement effects arising from the adoption of IFRS 3 (Revised).

	Note	2010 Half year £m	2009 Half year £m	2009 Full year £m
<b>Adjusted operating profit</b>				
Operating profit as reported under adopted IFRS		44.1	16.8	68.5
Cost of acquisitions and deferred and contingent fair value adjustments		0.8	–	–
Amortisation of acquisition-related intangible assets		5.0	3.2	10.7
Adjusted operating profit	3	49.9	20.0	79.2
Restructuring and post-acquisition integration charges		0.2	7.0	14.0
Adjusted operating profit before restructuring and post-acquisition integration charges		50.1	27.0	93.2

<b>Adjusted operating profit by segment – June 2010</b>	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2010 Half Year Total £m
Operating profit as reported under adopted IFRS		12.1	5.1	23.3	3.6	44.1
Cost of acquisitions and deferred and contingent fair value adjustments		0.8	–	–	–	0.8
Amortisation of acquisition-related intangible assets		1.0	3.1	0.4	0.5	5.0
Adjusted operating profit: segment result under adopted IFRS	3	13.9	8.2	23.7	4.1	49.9
Restructuring and post-acquisition integration charges		–	–	0.2	–	0.2
Adjusted operating profit before restructuring and post-acquisition integration charges		13.9	8.2	23.9	4.1	50.1

## Notes to the Interim Financial Statements continued

### 2. Adjusted performance measures continued

<b>Adjusted operating profit by segment – June 2009</b>	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2009 Half Year Total £m
Operating profit as reported under adopted IFRS		8.9	(7.3)	15.1	0.1	16.8
Amortisation of acquisition-related intangible assets		1.2	1.1	0.4	0.5	3.2
Adjusted operating profit: segment result under adopted IFRS	3	10.1	(6.2)	15.5	0.6	20.0
Restructuring and post-acquisition integration charges		1.4	4.0	0.5	1.1	7.0
Adjusted operating profit before restructuring and post-acquisition integration charges		11.5	(2.2)	16.0	1.7	27.0

<b>Adjusted operating profit by segment – December 2009</b>	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2009 Half Year Total £m
Operating profit as reported under adopted IFRS		29.6	(5.3)	40.7	3.5	68.5
Amortisation of acquisition-related intangible assets		2.3	6.7	0.8	0.9	10.7
Adjusted operating profit: segment result under adopted IFRS	3	31.9	1.4	41.5	4.4	79.2
Restructuring and post-acquisition integration charges		2.3	9.7	0.9	1.1	14.0
Adjusted operating profit before restructuring and post-acquisition integration charges		34.2	11.1	42.4	5.5	93.2

<b>Return on sales by segment – June 2010</b>	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2010 Half Year Total
Using operating profit as reported under adopted IFRS	<b>10.1%</b>	<b>3.9%</b>	<b>18.4%</b>	<b>13.0%</b>	<b>10.9%</b>
Using adjusted operating profit	<b>11.7%</b>	<b>6.3%</b>	<b>18.7%</b>	<b>14.9%</b>	<b>12.3%</b>

<b>Return on sales by segment – June 2009</b>	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2009 Half Year Total
Using operating profit as reported under adopted IFRS	7.7%	(5.8%)	14.1%	0.0%	4.5%
Using adjusted operating profit	8.7%	(4.9%)	14.4%	2.7%	5.4%

<b>Return on sales by segment – December 2009</b>	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2009 Full Year Total
Using operating profit as reported under adopted IFRS	11.9%	(2.0%)	17.9%	7.8%	8.7%
Using adjusted operating profit	12.9%	0.5%	18.2%	9.9%	10.1%

## 2. Adjusted performance measures continued

<b>Reconciliation to adjusted profit before tax and adjusted operating profit</b>	Note	<b>2010 Half year £m</b>	2009 Half year £m	2009 Full year £m
Profit before tax as reported under adopted IFRS		<b>40.3</b>	8.6	54.2
Add/(deduct):				
Cost of acquisitions and deferred and contingent fair value adjustments		<b>0.8</b>	–	–
Amortisation of acquisition-related intangible assets		<b>5.0</b>	3.2	10.7
Net gains on retranslation of short-term inter-company loan balances	6	<b>(0.3)</b>	(1.1)	(0.1)
Profit on disposal of businesses	4	–	–	(0.1)
(Increase)/decrease in fair value of cross-currency interest rate swaps	6	<b>(1.1)</b>	3.6	3.5
Adjusted profit before tax		<b>44.7</b>	14.3	68.2
Adjusted net finance costs (see below)		<b>5.2</b>	5.7	11.0
Adjusted operating profit		<b>49.9</b>	20.0	79.2
<b>Adjusted net finance costs</b>		<b>2010 Half year £m</b>	2009 Half year £m	2009 Full year £m
Net interest costs as reported under adopted IFRS		<b>(3.8)</b>	(8.2)	(14.4)
(Increase)/decrease in fair value of cross-currency interest rate swaps		<b>(1.1)</b>	3.6	3.5
Net gains on retranslation of short-term inter-company loan balances		<b>(0.3)</b>	(1.1)	(0.1)
Adjusted net finance costs		<b>(5.2)</b>	(5.7)	(11.0)
<b>Operating cash flow</b>		<b>2010 Half year £m</b>	2009 Half year £m	2009 Full year £m
Net cash from operating activities under adopted IFRS		<b>64.7</b>	20.4	101.5
Cost of acquisitions and deferred and contingent consideration adjustments paid		<b>0.8</b>	–	–
Corporation tax paid		<b>7.9</b>	17.7	16.7
Purchase of property, plant and equipment		<b>(7.4)</b>	(6.6)	(14.2)
Proceeds from sale of property, plant and equipment		<b>0.3</b>	1.3	1.5
Operating cash flow for management purposes		<b>66.3</b>	32.8	105.5
<b>Adjusted earnings per share</b>	Note	<b>2010 Half year £m</b>	2009 Half year £m	2009 Full year £m
Profit after tax as reported under adopted IFRS		<b>33.1</b>	7.5	42.6
Adjusted for:				
Cost of acquisitions and deferred and contingent fair value adjustments		<b>0.8</b>	–	–
Amortisation of acquisition-related intangible assets		<b>5.0</b>	3.2	10.7
Profit on disposal of businesses	4	–	–	(0.1)
(Increase)/decrease in fair value of cross-currency interest rate swaps	6	<b>(1.1)</b>	3.6	3.5
Net gains on retranslation of short-term inter-company loan balances	6	<b>(0.3)</b>	(1.1)	(0.1)
Tax effect of the above and other exceptional items	7	<b>(3.5)</b>	(2.3)	(4.2)
Adjusted earnings		<b>34.0</b>	10.9	52.4
Weighted average number of shares outstanding (millions)		<b>115.7</b>	115.3	115.4
Adjusted earnings per share (pence)		<b>29.4</b>	9.4	45.4

## Notes to the Interim Financial Statements continued

### 2. Adjusted performance measures continued

<b>Adjusted diluted earnings per share</b>	Note	<b>2010 Half year</b>	2009 Half year	2009 Full year
Adjusted earnings (as above) (£m)		<b>34.0</b>	10.9	52.4
Diluted weighted average number of shares outstanding (millions)	8	<b>116.2</b>	115.4	115.8
Adjusted diluted earnings per share (pence)		<b>29.3</b>	9.4	45.2

Basic and diluted earnings per share in accordance with IAS 33 are disclosed in Note 8.

<b>Analysis of net debt for management purposes</b>	<b>2010 Half year £m</b>	2009 Half year £m	2009 Full year £m
Bank overdrafts	<b>1.2</b>	8.0	3.1
Bank loans – secured	<b>2.4</b>	2.6	2.4
Bank loans – unsecured	–	58.5	6.2
Unsecured loan notes	<b>137.2</b>	127.5	130.5
Cross-currency interest rate swaps – currency portion	<b>7.3</b>	16.4	18.5
Total borrowings	<b>148.1</b>	213.0	160.7
Cash balances	<b>(55.3)</b>	(33.9)	(36.8)
Net debt	<b>92.8</b>	179.1	123.9

### 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 electronics industries, and to academic and research institutions.
- 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.

### 3. Operating segments continued

#### Information about reportable segments

	External customer revenue			Reportable segment profit		
	2010 Half year £m	2009 Half year £m	2009 Full year £m	2010 Half year £m	2009 Half year £m	2009 Full year £m
Materials Analysis	119.3	116.1	248.1	13.9	10.1	31.9
Test and Measurement	131.3	126.1	267.1	8.2	(6.2)	1.4
In-line Instrumentation	126.9	107.4	227.5	23.7	15.5	41.5
Industrial Controls	27.6	21.9	44.6	4.1	0.6	4.4
Total continuing operations	405.1	371.5	787.3	49.9	20.0	79.2
Cost of acquisitions and deferred and contingent fair value adjustments				(0.8)	–	–
Amortisation of acquisition-related intangibles				(5.0)	(3.2)	(10.7)
Operating profit				44.1	16.8	68.5
Profit on disposal of businesses *				–	–	0.1
Financial income *				4.6	4.0	5.9
Finance costs *				(8.4)	(12.2)	(20.3)
Profit before tax				40.3	8.6	54.2
Tax				(7.2)	(1.1)	(11.6)
Profit after tax				33.1	7.5	42.6

Reportable segment profit is consistent with that presented to the Chief Operating Decision Maker.

Inter-segment sales are not disclosed separately as they are not material.

A table of segmental assets is not disclosed as there are no material changes compared to 31 December 2009.

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

#### Geographical segments

The group's operating segments 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.

	2010 Half year £m	2009 Half year £m	2009 Full year £m
UK	14.6	15.3	30.2
Germany	46.3	47.8	98.4
France	18.3	19.9	39.4
Rest of Europe	70.0	72.5	153.5
USA	88.2	78.4	163.0
Rest of North America	10.6	9.7	18.3
Japan	33.5	23.8	50.8
China	48.0	40.3	87.8
Rest of Asia Pacific	48.1	38.9	89.2
Rest of the world	27.5	24.9	56.7
	405.1	371.5	787.3

## Notes to the Interim Financial Statements continued

### 4. Disposal of businesses

During the period to 30 June 2010 the group did not divest any businesses.

On 30 September 2009 the group sold its operation in Hungary for a profit on disposal of £0.1m. The total consideration was £0.1m net of transaction costs.

### 5. Acquisitions

On 7 April 2010, the group acquired the assets of Reologica Instruments AB located in Sweden. The assets acquired, together with the aggregate purchase consideration, are summarised below. It has no impact on the group's reported revenue or operating profit.

The group also paid £4.5m in respect of prior period acquisitions, which had been accrued as deferred consideration at 31 December 2009.

Acquisition costs of £0.8m have been recognised in the statement of income under IFRS 3 (Revised) and included within administrative expenses which relate mainly to the acquisition of the share capital of Zhuhai Omec Instruments Co. Ltd on 6 July 2010 for a consideration of approximately £7m. This is a company registered in China which extends the group's capabilities in analytical systems for material characterisation. This business will form part of the Materials Analysis segment.

The effect of the acquisitions on the individual assets and liabilities of the group is as follows:

	Book value £m	Fair value adjustments £m	2010 Half year Fair value £m
<b>Net assets acquired</b>			
Intangible fixed assets	–	–	<b>0.5</b>
Net assets acquired	–	–	<b>0.5</b>
Goodwill			–
Total consideration			<b>0.5</b>
<b>Prior year acquisitions</b>			
Deferred consideration in relation to prior year acquisitions			<b>4.5</b>
Net cash outflow relating to acquisitions			<b>5.0</b>

In February 2009, the group acquired Lochard Limited, a company based in Australia and servicing the airport industry, as well as environmental noise and air quality monitoring and management. The assets and liabilities acquired, together with the aggregate purchase consideration, are summarised in the following table.

## 5. Acquisitions continued

	Book value £m	Fair value adjustments £m	2009 Half year Fair value £m
<b>Net assets acquired</b>			
Intangible fixed assets	1.9	8.6	10.5
Tangible fixed assets	0.9	–	0.9
Deferred tax asset	1.3	–	1.3
Inventories	2.0	–	2.0
Trade and other receivables	1.8	–	1.8
Trade and other payables	(4.5)	–	(4.5)
Deferred tax liabilities	(0.6)	(2.6)	(3.2)
Cash	0.2	–	0.2
Net assets acquired	3.0	6.0	9.0
Goodwill			14.5
Total consideration in relation to first half 2009 acquisitions			23.5
Adjustment for cash acquired on acquisitions			(0.2)
Deferred contingent consideration to be paid in future years			(3.4)
Net consideration paid for first half 2009 acquisitions			19.9
<b>Prior year acquisitions</b>			
Purchase price adjustment re pre-2009 acquisitions not previously recognised			3.7
Deferred consideration in relation to pre-2009 acquisitions previously recognised			2.8
			6.5
Net cash outflow relating to acquisitions			26.4

During the full year 2009, the group acquired Lochard Limited (see details above) and MicroSafe, a supplier of microbial detection and monitoring products based in Italy. The assets and liabilities of the acquisitions, together with the aggregate purchase considerations, are summarised below:

	Book value £m	Fair value adjustments £m	Prior periods Fair value adjustments* £m	2009 Full year Fair value £m
<b>Net assets acquired</b>				
Intangible fixed assets	1.9	11.4	25.0	38.3
Tangible fixed assets	1.0	–	–	1.0
Deferred tax asset	1.3	–	–	1.3
Inventories	1.8	0.1	(0.7)	1.2
Trade and other receivables	5.1	–	–	5.1
Trade and other payables	(6.0)	–	–	(6.0)
Provisions	–	–	(0.6)	(0.6)
Deferred tax liabilities	(0.6)	(3.0)	(5.4)	(9.0)
Cash	0.6	–	–	0.6
Net assets acquired	5.1	8.5	18.3	31.9
Total consideration in relation to full year 2009 acquisitions				26.6
Adjustment for cash acquired on acquisitions				(0.6)
Deferred contingent consideration to be paid in future years				(4.1)
Net consideration paid for full year 2009 acquisitions				21.9
<b>Prior year acquisitions</b>				
Purchase price adjustment re pre-2009 acquisitions not previously recognised				3.9
Deferred consideration in relation to pre-2009 acquisitions previously recognised				2.9
				6.8
Net cash outflow relating to acquisitions				28.7

\* Adjustments made relate to acquisitions in 2008.

## Notes to the Interim Financial Statements continued

### 6. Finance costs and financial income

	2010 Half year £m	2009 Half year £m	2009 Full year £m
<b>Financial income</b>			
Bank interest receivable	0.4	0.2	0.4
Increase in fair value of cross-currency interest rate swaps	1.1	–	–
Net gains on retranslation of short-term inter-company loan balances	0.3	1.1	0.1
Expected return on pension scheme assets	2.8	2.7	5.4
	<b>4.6</b>	4.0	5.9
<b>Finance costs</b>			
Interest payable on bank loans and overdrafts	5.3	5.5	10.9
Interest payable on other loans	0.1	0.2	0.2
Total interest payable	5.4	5.7	11.1
Decrease in fair value of cross-currency interest rate swaps	–	3.6	3.5
Interest cost on pension scheme liabilities	3.0	2.9	5.7
	<b>8.4</b>	12.2	20.3

Net interest costs of £5.0m (30 June 2009: £5.5m; 31 December 2009: £10.7m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £0.4m (30 June 2009: £0.2m; 31 December 2009: £0.4m), and interest payable on bank loans and other loans and overdrafts of £5.4m (30 June 2009: £5.7m; 31 December 2009: £11.1m).

### 7. Tax on profit on ordinary activities

The taxation charge for the six months to 30 June 2010 is based on an estimate of the effective rate of taxation for the current year. The effective rate of taxation applied to adjusted profit before tax for the half year is 24.0% (30 June 2009: 24.0%; Year ended 31 December 2009: 23.2%). A reconciliation of the tax charge on adjusted profit to the actual tax charge is presented below:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
The tax charge is analysed as follows:			
Tax charge on adjusted profit before tax at effective rate	10.7	3.4	15.8
Tax credit on amortisation of intangible assets and goodwill impairment charges	(1.6)	(1.0)	(3.2)
Tax charge/(credit) on unrealised gain on change in fair value of cross-currency interest rate swaps	0.3	(1.0)	(1.0)
Tax charge/(credit) on retranslation of short-term inter-company loan balances	0.1	(0.3)	–
Tax credit on prior year disposal of businesses	(2.3)	–	–
Total	<b>7.2</b>	1.1	11.6

## 8. Earnings per share

Earnings per share and diluted earnings per share are calculated as follows:

<b>Basic earnings per share</b>	<b>2010 Half year</b>	2009 Half year	2009 Full year
Profit after tax (£m)	<b>33.1</b>	7.5	42.6
Weighted average number of shares outstanding (millions)	<b>115.7</b>	115.3	115.4
Basic earnings per share (pence)	<b>28.7</b>	6.5	36.9

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

The calculation of diluted earnings per share of 28.5p (30 June 2009: 6.5p; 31 December 2009: 36.8p) is based on the group profit of £33.1m (30 June 2009: £7.5m; 31 December 2009: £42.6m) and on the diluted weighted average number of 5p ordinary shares in issue during the year of 116.2 million (30 June 2009: 115.4 million; 31 December 2009: 115.8 million).

## 9. Dividends

The interim dividend of 7.1p per share (2009 interim dividend: 6.4p) will be payable on 12 November 2010 to ordinary shareholders on the register at the close of business on 22 October 2010.

The final 2009 dividend of 17.85p per share (2008 final dividend: 17.0p) was paid on 25 June 2010 to ordinary shareholders on the register at the close of business on 4 June 2010.

## 10. Treasury shares

At 30 June 2010 the group held 9,195,898 treasury shares (30 June 2009: 9,612,613; 31 December 2009: 9,493,575). During the period the group repurchased nil shares (30 June 2009: nil; 31 December 2009: nil) for a consideration of £nil (30 June 2009: £nil; 31 December 2009: £nil). 297,677 of these shares were issued to satisfy options exercised by the employees which were granted under the group's share scheme (30 June 2009: 81,882; 31 December 2009: 200,920). No shares were cancelled during the year (30 June 2009: nil; 31 December 2009: nil).

# Shareholder Information

## Financial calendar

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2010 interim results	24 August 2010
Record date for interim dividend	22 October 2010
Interim dividend payable	12 November 2010
Interim management statement	12 November 2010
2010 full year results	24 February 2011

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R J Stephens, FCIS

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Royal Bank of Scotland Plc

## Solicitors

Macfarlanes LLP

## Brokers

RBS Hoare Govett Limited  
Bank of America - Merrill Lynch

## Financial PR advisers

FD

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The registrars provide a range of shareholder services on-line at [www.shareview.co.uk](http://www.shareview.co.uk)

## Share price information

The company's ordinary shares are listed on the London Stock Exchange. The latest share price is available via the company's website at [www.spectris.com](http://www.spectris.com)

## E-mail news service

To receive details of press releases and other announcements as they are issued, register with the e-mail alert service on the company's website at [www.spectris.com](http://www.spectris.com)

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