spectris

Enhancing productivity

Spectris plc
Interim report 2007

Highlights

	2007 Half year	2006 Half year	Change
Sales from continuing businesses (£m)#	**308.7**	303.6	+1.7%
Adjusted operating profit from continuing businesses (£m)#*	**39.4**	31.3	+26%
Adjusted operating profit (£m)#*	**39.9**	32.7	+22%
Adjusted profit before tax (£m)*	**36.8**	27.5	+34%
Adjusted earnings per share (pence)*	**20.8**	15.7	+32%
Dividend (pence)	**5.75**	5.0	+15%
Statutory			
Sales (£m)	**317.3**	327.3	-3%
Profit before tax (£m)	**56.4**	36.9	+53%
Basic earnings per share (pence)	**33.4**	20.7	+61%

Continuing businesses exclude businesses divested
* For explanation of adjusted figures see Note 2

- **Sales from continuing businesses up 7.6% at constant exchange rates**
- **Operating margins improved by 2.5 percentage points to 12.8%**
- **Strong cash conversion contributing to further reduction in net debt by £9.6 million to £62.1 million**
- **Share buy-back: 3.5 million shares purchased for £32.5 million**
- **Dividend increased by 15%**

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

"With sales, profits and operating margins all increasing compared with the prior year, Spectris has made good progress towards meeting its objectives. We remain confident of continued improvement consistent with expectations for the year."

Improving productivity

Aditya Cement uses PANalytical's analytical X-ray instrumentation to monitor the composition of raw materials for a range of cement grades at its plants throughout India. Fast analysis of the pressed powders enables process control to be optimised, with the result that productivity has improved and production and maintenance costs have been reduced.

Enhancing productivity

Optimising product design

HBM's data acquisition and analysis software was used by German company Webasto to test the innovative three-piece retractable hardtop it had designed for the Volvo C70 Cabriolet. The equipment was used to measure the locking forces, closing speeds and stresses on the roof system.

Spectris is a leading supplier of precision instrumentation and controls. Our products help customers to improve product quality and performance, improve core manufacturing processes, reduce downtime and wastage and reduce time to market.

Our businesses are leaders in their specialised markets and work with multinational customers in a broad spread of industries. We have a wide range of core technologies, many of which are proprietary. Working closely with customers, we apply our expertise to help them solve the production challenges they face.

Our solutions and services are increasingly being applied to help our customers use energy and resources more efficiently. This enables them to both improve their productivity and limit the impact of their products or processes on the environment.

Reducing downtime

Mitsubishi HiTec Paper in Germany uses BTG's Duroblades in the production of its speciality papers. The high performance coating blades are used to apply the abrasive base coat for thermo-active paper and enable the machines to run at a record 100 km/h. Normal steel blades would require changing every three hours, interrupting the continuous production.

Enabling new product development

Israeli drug company SoluBest is using Malvern's Zetasizer Nano particle characterisation system to analyse the nano-particles in drug formulations. Many new drugs under development are not easily soluble. To help overcome this, SoluBest has developed an innovative approach for wrapping the active drug molecules in approved polymers to aid their solubility and hence their absorption by the patient.

Chairman's statement

Overview

Spectris delivered increased sales, profits and earnings per share in the first half of 2007 compared with the corresponding period in 2006, after adjusting for disposals and acquisitions. Total group sales in the first half were £317.3 million compared with £327.3 million in the prior year. Sales from continuing businesses increased by 1.7% to £308.7 million (2006: £303.6 million)*. However, taking into account the weakness of the US dollar and the Japanese yen against sterling, at constant currencies sales increased by 7.6%. Sales in local currencies increased across all geographies, reflecting the on-going strong demand from the global industries which the group serves.

Despite the currency disadvantage, adjusted operating profit increased by 26% to £39.4 million (2006: £31.3 million). The increase in operating margins by 2.5 percentage points, from 10.3% to 12.8%, is encouraging and evidence of the Board's determination to restore margins to a level commensurate with the high quality of the group's businesses.

Profit before tax increased by 34% to £36.8 million (2006: £27.5 million) and earnings per share increased by 32% from 15.7p to 20.8p.

Cash conversion was strong with 93% of operating profit converted to operating cash. Net proceeds from the disposal of the Ircon and Spectrum businesses were £30.4 million. Whilst the buy-back of 3.5 million shares absorbed £32.5 million, net debt at the end of the period was £62.1 million, compared with £71.7 million at the end of December 2006. Interest costs were £3.1 million, giving an annualised cover of 13.1 times.

The Board proposes to pay an interim dividend of 5.75p, an increase of 15%. The dividend will be paid on 16 November 2007 to shareholders on the register at 26 October 2007.

*Unless otherwise stated, all sales and operating profit figures are on a continuing businesses basis and exclude the businesses divested. Figures for operating profit, profit before tax and earnings per share are adjusted measures – for explanation of adjusted figures see Note 2.

John Poulter
Chairman

Board changes

Andrew Given retired from the Board at the AGM in May, having completed his two three-year terms, and I re-iterate my thanks to him expressed earlier in the year. I should like to welcome John Hughes, who joined the Board as a non-executive director in June.

Outlook

The order backlog, together with current order levels and increasing margins, provides confidence that the group will show continued improvement consistent with expectations for the year.

John Poulter, Chairman
24 August 2007

Chief Executive's review

John O'Higgins
Chief Executive

Introduction

Spectris made good progress in the first half of 2007, with sales, profits and operating margins all improving compared with the corresponding period in the prior year. At constant currencies, sales increased by 7.6%, including 1.2% from bolt-on acquisitions, and operating profit increased by 43%. Sales at actual exchange rates increased by 1.7% to £308.7 million. This reflects the strength of sterling, which has increased by 10% against the US dollar and 14% against the Japanese yen compared with the same period last year. Operating profit at actual exchange rates increased by 26% to £39.4 million. Margins improved to 12.8% (2006: 10.3%), reflecting the benefits from the increase in volume and the restructuring actions taken in 2006.

Geographically, sales in Europe increased by 9% at constant currencies. Organic sales in North America grew by 6% at constant currencies. Asia grew by 4% at constant currencies, with good growth in China and Japan offset by fewer large projects in other parts of the region. Sales in the rest of the world increased by 15%.

Cash generation continues to be a focus and remained strong in the first half with 93% of operating profit converted to operating cash. The previously announced disposal programme was concluded in the first half, with the sale of the Ircon business to Fluke Electronics Corporation on 15 June. This followed the sale of Spectrum Inspection Systems to Illinois Tool Works Inc on 28 February.

Sector performance

Sales, profits and operating margins showed good improvement in all three sectors. A more detailed analysis of individual sector performance follows.

Process Technology

Sales increased by 2% to £163.4 million, and by 9% at constant currencies. Operating profit increased by 16% to £19.2 million and operating margins improved by 1.4 percentage points to 11.8%. Restructuring charges in the first half of 2007 were £nil (2006: £0.6 million).

Demand from the pharmaceutical industry continued to be strong for Malvern, PANalytical and Particle Measuring Systems in Europe and, increasingly, in Asia as the globalisation of pharmaceutical markets continues. India and China are growing in importance as key countries for multinational pharmaceutical companies to carry out manufacturing and research activities. There is evidence of some slowdown in demand in North America as the pharmaceutical industry restructures in response to the increase in the use of generic prescription drugs and the growth in emerging markets. In March Malvern signed an agreement with Farfield Scientific Limited, giving the company exclusive distribution rights in North, Central and South America for Farfield's unique range of analytical instruments which are used to analyse the structure and behaviour of proteins and nano-materials in the life sciences industry.

PANalytical continued to see good demand for its X-ray analysis systems from the semiconductor industry to facilitate research and development of new materials and processes. Fusion saw continued growth from the sale of its UV curing systems into Asia for the production of flat panel displays. However, there is some evidence of a slowdown in the semiconductor and some electronics sectors in North America.

Demand from the automotive and aerospace industries was strong for Brüel & Kjær Sound & Vibration, as its noise testing systems were chosen by leading manufacturers for new model development programmes. The recently released automotive noise vibration harshness (NVH) vehicle simulator, which enables the noise and vibration from vehicle components to be simulated at the design stage before a physical prototype has been built, has already been ordered by a number of major automotive customers. In March Brüel & Kjær received the "Company of the year" award from Automotive Testing Technology Magazine based on, amongst other factors, its work in the field of NVH simulation. In the aerospace market Brüel & Kjær had success with its jet engine noise monitoring applications. These systems, based on the PULSE analyser platform, are used by major aero engine manufacturers for noise certification in accordance with regulations on engine noise emissions.

The mining and minerals sector continued to see growth, particularly in India, where there are increasing opportunities in infrastructure projects. PANalytical's Axios XRF systems saw strong demand in a wide range of processing industries, particularly in China. In April PANalytical entered into a partnership agreement with OBLF GmbH, which brings optical atomic emission spectrometers to complement PANalytical's X-ray fluorescence (XRF) spectrometers for the analysis of metals. Malvern's SyNIRgi near infrared chemical imaging system, based on the platform which Malvern acquired from Spectral Dimensions last year, won an Innovation Award for materials analysis and characterisation at the Powtech/Technopharm congress.

In-line Instrumentation

Sales in the In-line Instrumentation sector increased by 1% to £78.7 million, and by 6% at constant currencies. Operating profit grew by 39% to £10.7 million, with operating margins improving by 3.8 percentage points to 13.6%, reflecting management actions and the benefits of the restructuring spend. Restructuring charges in the first half of 2007 were £0.4 million (2006: £1.5 million).

In the pulp and paper industry a number of new paper mills have come on stream, particularly in Asia and South America, as investment increases to meet rising demand created by firmer pulp prices, which is starting to benefit BTG's instrumentation business. At the same time, less efficient mills are being decommissioned in other parts of the world. BTG's Duroblade business performed well. The IPI business acquired in 2006 has shown good growth, benefiting from Duroblade's worldwide sales network, and a number of new high performance blades have been launched based on the latest materials technology.

Brüel & Kjær Vibro's V6000 safety monitoring system has been well received by the energy and petrochemical markets with a large number of systems already installed and operating. Servomex won two major orders for analysers and sampling systems for a new liquefied natural gas (LNG) terminal and refinery in North America being built to meet the increasing demand for natural gas.

Strong demand in the rubber market in Asia, particularly China, helped drive sales of

NDC's scanning systems. Demand from the converting market in North America continued to be good as investment in new production lines continued and investment in flexible packaging and label production recovered. There was good demand for the company's sensors from the food industry where they are used to measure, amongst other things, moisture and oil content in snack foods.

Beta LaserMike saw good growth in sales to China, with particularly strong demand for its LaserSpeed family of products. These are used in the production of steel, wire, cable and other continuously manufactured products, where their greater accuracy compared with conventional methods results in significant material savings for customers.

Electronic Controls

Sales in the Electronic Controls sector increased by 2% to £66.6 million, and by 7% at constant currencies. Operating profit grew by 36% to £9.5 million and operating margins increased by 3.6 percentage points to 14.3%.

Profitability improved at HBM as the continuing focus on higher value products, together with overhead efficiency, showed benefits. The company launched an optical strain gauge-based measurement system which is particularly suitable for stress analysis of composite materials. This is increasingly used in the aerospace industry and in other applications, for example wind turbine blades.

Microscan continued to extend its highly successful range of Quadrus bar code scanning products into a broad spread of industries, with the recently launched Quadrus MINI 3 providing the highest resolution currently available for data tracking. With the ability to decode high density codes of less than 3 millimetres square, it is designed for use in industries such as printed circuit board assembly and semiconductor manufacturing.

Red Lion Controls has been building additional distribution channels and is now represented in multiple catalogues in Europe and North America, where sales of its high volume products are showing strong growth. Red Lion's network communication products saw good growth, particularly in Europe, and its human machine interface (HMI) products performed well in North America. A new range of displays was launched during the first half.

Financial review

During the first half of 2007, the group divested the Spectrum and Ircon businesses on 28 February 2007 and 15 June 2007 respectively. In the first half of 2006 the group divested the Arcom business on 31 March 2006. These three businesses are not sufficiently material to be presented as discontinued operations under IFRS, however Note 2 of these interim financial statements sets out the impact that this has had on the results of the group.

Reported group sales in the first half decreased by 3% from £327.3 million to £317.3 million driven by the divestments noted above; sales in continuing businesses increased by 1.7%. Movements in foreign currency exchange rates had an adverse effect on sales in continuing businesses of approximately 5.9% and bolt-on acquisitions contributed approximately 1.2% of growth.

Reported unadjusted operating profit, after including acquisition-related intangible asset amortisation charges of £1.0 million (2006: £0.7 million), increased from £32.0 million to £38.9 million. Operating profit in continuing businesses increased by 26% from £31.3 million to £39.4 million. Adverse movements in foreign currency exchange rates had an effect on operating profit of approximately £5.5 million and bolt-on acquisitions contributed approximately £0.5 million to the result. Aside from the effect from sales growth, operating profit benefited from the actions taken to improve margins and a reduction in charges from restructuring activities from £2.1 million in the first half of 2006 to £0.4 million in the first half of 2007.

Interest charges, including IAS 19 pension charges, reduced from £5.2 million to £3.1 million, reflecting the reduction in net debt. Profit before tax increased by 34% from £27.5 million to £36.8 million. After also including acquisition-related intangible asset amortisation charges, £19.4 million profit on disposal of the Spectrum and Ircon businesses (2006: £9.5 million profit on disposal of the Arcom business), unrealised gains on the group's cross-currency interest rate swaps of £1.2 million (2006: £0.6 million), the group's unadjusted profit before tax increased by 53% from £36.9 million to £56.4 million.

Based on the forecast for the full year, the underlying tax rate for the half year was 30% (2006: 29%), reflecting the move towards the weighted average statutory tax rate as previously communicated.

Earnings per share increased by 32% from 15.7p to 20.8p as the combined effects of higher operating profits and lower interest charges were offset slightly by the higher tax rate. Basic earnings per share increased by 61% from 20.7p to 33.4p. In addition to the factors above, this increase primarily reflects the profit realised on disposal of the Spectrum and Ircon businesses.

As announced earlier this year, the Spectrum Inspection Systems and Ircon businesses were divested during the first half of the year. The Spectrum business was sold to Illinois Tool Works Inc on 28 February 2007. After taking account of transaction costs, net proceeds were £14.3 million. The Ircon business was sold on 15 June 2007. After taking account of transaction costs incurred to date, the net proceeds received in the first half of the year amount to £16.1 million. It is expected that adjustments to the net proceeds in the second half of the year to take account of final transaction costs and a working capital adjustment mechanism will not exceed £0.5 million.

The share buy-back announced in February is continuing, with 3.5 million shares purchased up to the end of June at a cost of £32.5 million.

Cash conversion was 93% (2006: 113%), in line with our stated target of 90-100%, reflecting the differences in timing of charges and cash outflow from restructuring activities. The cash generated by the group in the first half of the year resulted in the reduction of net debt by £9.6 million to £62.1 million, compared with £71.7 million at the start of the year. The share buy-back of 3.5 million shares cost £32.5 million, whilst net proceeds from the disposal of businesses were £30.4 million.

John O'Higgins, Chief Executive
24 August 2007

Interim financial statements

Consolidated income statement

For the half year to 30 June 2007

	Note	**2007 Half year £m**	2006 Half year £m	2006 Full year £m
Continuing operations				
Revenue	2, 3	**317.3**	327.3	684.5
Cost of sales		**(136.9)**	(138.7)	(288.7)
Gross profit		**180.4**	188.6	395.8
Net operating expenses		**(141.5)**	(156.6)	(313.1)
Operating profit	2, 3	**38.9**	32.0	82.7
Profit on disposal of businesses	4	**19.4**	9.5	9.5
Financial income	5	**4.6**	4.1	9.0
Finance costs	5	**(6.5)**	(8.7)	(15.6)
Profit before tax		**56.4**	36.9	85.6
Taxation – UK	6	**(0.6)**	(0.6)	(0.5)
Taxation – Overseas	6	**(14.3)**	(10.6)	(23.7)
Profit after tax for the period from continuing operations attributable to equity shareholders		**41.5**	25.7	61.4
Basic earnings per share	7	**33.4p**	20.7p	49.4p
Diluted earnings per share	7	**33.2p**	20.7p	49.2p
Dividends arising in respect of the period (per share)	8	**5.75p**	5.0p	17.5p
Dividends paid during the period (per share)		**12.5p**	11.2p	16.2p

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

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

Consolidated statement of recognised income and expense

For the half year to 30 June 2007

	2007 Half year £m	2006 Half year £m	2006 Full year £m
Net (loss)/gain on effective portion of changes in fair value of forward exchange contracts	**(0.1)**	1.6	1.7
Deferred tax on changes in fair value of forward exchange contracts	**–**	(0.5)	(0.5)
Net gain on changes in fair value of effective portion of net investment hedge	**1.0**	3.3	7.6
Actuarial gain arising on pension schemes	**4.8**	0.4	1.8
Exchange differences on pension schemes	**–**	–	0.4
Adjustment to prior year deferred tax on pension schemes	**(1.8)**	–	–
Current and deferred tax on actuarial gain and losses on pension schemes	**(1.5)**	(0.1)	(0.6)
Foreign exchange difference on translation of overseas operations	**(2.7)**	(5.2)	(19.9)
Current tax on foreign exchange differences	**(0.3)**	–	(0.1)
Deferred tax on share options	**0.2**	–	–
Net expense recognised in equity in respect of year	**(0.4)**	(0.5)	(9.6)
Profit for the period	**41.5**	25.7	61.4
Total recognised income and expense for the period attributable to equity shareholders	**41.1**	25.2	51.8

Consolidated balance sheet

At 30 June 2007

	Note	**2007 Half year £m**	2006 Half year £m	2006 Full year £m
Non-current assets				
Goodwill		**209.1**	209.6	207.4
Other intangible assets		**5.4**	5.1	8.0
Property, plant & equipment		**82.1**	90.1	83.2
Deferred tax asset		**30.2**	39.4	37.6
		326.8	344.2	336.2
Current assets				
Inventories		**87.6**	88.3	81.6
Derivative financial instruments		**1.2**	1.3	1.3
Taxation recoverable		**0.2**	–	0.5
Trade and other receivables		**128.3**	137.2	145.4
Cash and cash equivalents		**56.7**	101.4	51.0
Assets held for sale		**–**	–	17.3
		274.0	328.2	297.1
Total assets		**600.8**	672.4	633.3
Current liabilities				
Short-term borrowings		**(2.0)**	(58.5)	(4.3)
Derivative financial instruments		**–**	(18.1)	–
Trade and other payables		**(111.8)**	(121.7)	(124.2)
Current tax liabilities		**(35.2)**	(27.6)	(32.9)
Provisions		**(21.4)**	(15.8)	(21.8)
Liabilities held for sale		**–**	–	(6.0)
		(170.4)	(241.7)	(189.2)
Net current assets		**103.6**	86.5	107.9
Non-current liabilities				
Medium and long-term borrowings		**(105.7)**	(114.7)	(108.6)
Derivative financial instruments		**(13.0)**	(13.6)	(12.8)
Other payables		**(8.4)**	(6.4)	(8.8)
Retirement benefit obligations		**(12.9)**	(21.6)	(18.8)
Provisions		**–**	(1.6)	–
Deferred tax liabilities		**(1.0)**	(1.1)	(1.0)
		(141.0)	(159.0)	(150.0)
Total liabilities		**(311.4)**	(400.7)	(339.2)
Net assets		**289.4**	271.7	294.1
Equity				
Issued share capital	9	**6.2**	6.2	6.2
Share premium	9	**231.4**	230.4	231.1
Retained earnings	9	**64.1**	35.3	67.3
Translation reserve	9	**(16.8)**	(4.7)	(15.1)
Hedging reserve	9	**1.1**	1.1	1.2
Merger reserve	9	**3.1**	3.1	3.1
Capital redemption reserve	9	**0.3**	0.3	0.3
Equity shareholders' funds		**289.4**	271.7	294.1
Total equity and liabilities		**600.8**	672.4	633.3

Consolidated cash flow statement

For the half year to 30 June 2007

	Note	2007 Half year £m	2006 Half year £m	2006 Full year £m
Cash flows from operating activities				
Profit after tax		**41.5**	25.7	61.4
Adjustments for:				
Tax		**14.9**	11.2	24.2
Profit on disposal of businesses		**(19.4)**	(9.5)	(9.5)
Finance costs		**6.5**	8.7	15.6
Financial income		**(4.6)**	(4.1)	(9.0)
Depreciation		**6.3**	6.8	13.2
Amortisation of intangible assets		**1.0**	0.7	1.9
Goodwill reduction		**–**	–	1.2
Loss on sale of property, plant & equipment		**0.3**	0.1	0.5
Equity settled share-based payment expense		**0.4**	0.3	0.6
Operating profit before changes in working capital and provisions		**46.9**	39.9	100.1
Decrease/(increase) in trade and other receivables		**15.3**	10.4	(8.9)
Increase in inventories		**(7.1)**	(2.0)	(1.0)
(Decrease)/increase in trade and other payables		**(10.8)**	(9.2)	4.4
(Decrease)/increase in provisions and employee benefits		**(2.5)**	2.6	7.4
Corporation tax paid		**(8.5)**	(12.3)	(21.5)
Net cash from operating activities	2	**33.3**	29.4	80.5
Cash flows from investing activities				
Purchase of property, plant & equipment		**(4.9)**	(4.9)	(10.5)
Proceeds from sale of property, plant & equipment		**0.1**	0.1	–
Acquisition of businesses, net of cash acquired		**(0.5)**	(1.7)	(13.6)
Proceeds from disposal of businesses, net of cash disposed		**30.4**	13.5	13.3
Interest received		**1.0**	1.3	2.0
Net cash from investing activities		**26.1**	8.3	(8.8)
Cash flows from financing activities				
Interest paid		**(4.1)**	(6.5)	(13.2)
Dividends paid to equity holders of the parent		**(15.4)**	(13.9)	(20.2)
Share options exercised by issue of share capital		**0.1**	1.0	1.5
Share options exercised from shares held by Employee Benefit Trust		**0.9**	2.7	3.8
Share options exercised from treasury shares		**2.0**	–	–
Purchase/sale of own shares by Employee Benefit Trust		**(1.5)**	0.9	0.9
Purchase of own shares – treasury shares		**(32.5)**	–	–
Cancellation of cross-currency swap		**–**	–	(2.9)
Repayment of borrowings		**–**	–	(65.9)
Decrease in finance lease liabilities		**(0.1)**	–	(0.4)
Net cash from financing activities		**(50.6)**	(15.8)	(96.4)
Net increase/(decrease) in cash and cash equivalents		**8.8**	21.9	(24.7)
Cash and cash equivalents at beginning of period		**47.0**	76.1	76.1
Effect of foreign exchange rate changes		**(0.6)**	(1.1)	(4.4)
Cash and cash equivalents at end of period		**55.2**	96.9	47.0

Consolidated cash flow statement continued

For the half year to 30 June 2007

	Note	**2007 Half year £m**	2006 Half year £m	2006 Full year £m
Reconciliation of changes in cash and cash equivalents to movements in net debt				
Net increase/(decrease) in cash and cash equivalents		**8.8**	21.9	(24.7)
Repayment of borrowings		**–**	–	65.9
Net decrease in finance lease liabilities		**0.1**	–	0.4
Effect of foreign exchange rate changes		**0.7**	2.8	6.6
Movement in net debt		**9.6**	24.7	48.2
Net debt at start of period		**(71.7)**	(119.9)	(119.9)
Net debt at end of period	2	**(62.1)**	(95.2)	(71.7)

Notes to the interim financial statements

1. Principal accounting policies and basis of preparation

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

The condensed consolidated interim financial statements of the company for the six months ended 30 June 2007 comprise the company and its subsidiaries, together referred to as the group. These condensed consolidated interim financial statements are presented in pounds sterling. The consolidated financial statements of the group for the year ended 31 December 2006 are available upon request from the company's registered office at Station Road, Egham, Surrey TW20 9NP.

These condensed consolidated financial statements are drawn up in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, with the exception of IAS 34 Interim Financial Reporting which has not been applied in these interim condensed consolidated financial statements. 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 2006.

The accounting policies applied by the group in these condensed consolidated financial statements are the same as those applied by the group in its consolidated financial statements for the year ended 31 December 2006.

The interim results are unaudited. The audit report on the 2006 Annual Report was unqualified and has been filed with the Registrar of Companies. The 2006 Annual Report did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

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 2006.

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 2006.

These condensed consolidated interim financial statements were approved by the Board of Directors on 24 August 2007.

2. Adjusted performance measures

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures are stated before amortisation of acquisition-related intangible assets, goodwill charges, profits or losses on termination or disposal of businesses or major fixed assets, unrealised changes in the fair value of financial instruments, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 6).

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

	Note	**2007 Half year £m**	2006 Half year £m	2006 Full year £m
Adjusted sales				
Sales as reported under adopted IFRS	3	**317.3**	327.3	684.5
Divested businesses		**(8.6)**	(23.7)	(41.9)
Adjusted sales for continuing businesses		**308.7**	303.6	642.6

	Note	Process Technology £m	In-line Instrumentation £m	Electronic Controls £m	**2007 Half year Total £m**
Adjusted sales by segment – June 2007					
Sales as reported under adopted IFRS	3	163.4	87.3	66.6	**317.3**
Divested businesses		–	(8.6)	–	**(8.6)**
Adjusted sales for continuing businesses		**163.4**	**78.7**	**66.6**	**308.7**

	Note	Process Technology £m	In-line Instrumentation £m	Electronic Controls £m	2006 Half year Total £m
Adjusted sales by segment – June 2006					
Sales as reported under adopted IFRS	3	160.0	98.1	69.2	327.3
Divested businesses		–	(19.8)	(3.9)	(23.7)
Adjusted sales for continuing businesses		160.0	78.3	65.3	303.6

	Note	Process Technology £m	In-line Instrumentation £m	Electronic Controls £m	2006 Full year Total £m
Adjusted sales by segment – December 2006					
Sales as reported under adopted IFRS	3	343.6	202.2	138.7	684.5
Divested businesses		–	(38.0)	(3.9)	(41.9)
Adjusted sales for continuing businesses		343.6	164.2	134.8	642.6

2. Adjusted performance measures continued

	Note	**2007 Half year £m**	2006 Half year £m	2006 Full year £m
Adjusted operating profit				
Operating profit as reported under adopted IFRS	3	**38.9**	32.0	82.7
Amortisation of acquisition-related intangible assets		**1.0**	0.7	1.8
Goodwill reduction		**–**	–	1.2
Adjusted operating profit		**39.9**	32.7	85.7
Divested businesses		**(0.5)**	(1.4)	(2.5)
Adjusted operating profit for continuing businesses		**39.4**	31.3	83.2
Restructuring charges for continuing businesses		**0.4**	2.1	7.7
Adjusted operating profit for continuing businesses before restructuring charges		**39.8**	33.4	90.9

	Note	Process Technology £m	In-line Instrumentation £m	Electronic Controls £m	**2007 Half year Total £m**
Adjusted operating profit by segment – June 2007					
Segment result under adopted IFRS	3	18.4	11.0	9.5	**38.9**
Amortisation of acquisition-related intangible assets		0.8	0.2	–	**1.0**
Goodwill impairment charge		–	–	–	**–**
Adjusted operating profit		**19.2**	**11.2**	**9.5**	**39.9**
Divested businesses		–	(0.5)	–	**(0.5)**
Corporate cost reallocation*		–	–	–	**–**
Adjusted operating profit for continuing businesses		**19.2**	**10.7**	**9.5**	**39.4**
Restructuring charges for continuing businesses		–	0.4	–	**0.4**
Adjusted operating profit for continuing businesses before restructuring charges		**19.2**	**11.1**	**9.5**	**39.8**

	Note	Process Technology £m	In-line Instrumentation £m	Electronic Controls £m	2006 Half year Total £m
Adjusted operating profit by segment – June 2006					
Segment result under adopted IFRS	3	16.1	8.6	7.3	32.0
Amortisation of acquisition-related intangible assets		0.7	–	–	0.7
Goodwill impairment charge		–	–	–	–
Adjusted operating profit		16.8	8.6	7.3	32.7
Divested businesses		–	(1.1)	(0.3)	(1.4)
Corporate cost reallocation*		(0.2)	0.2	–	–
Adjusted operating profit for continuing businesses		16.6	7.7	7.0	31.3
Restructuring charges for continuing businesses		0.6	1.5	–	2.1
Adjusted operating profit for continuing businesses before restructuring charges		17.2	9.2	7.0	33.4

*The adjustment for corporate cost reallocation is a consequence of the adjustment for divested businesses and reallocates all corporate costs to the continuing businesses.

2. Adjusted performance measures continued

	Note	Process Technology £m	In-line Instrumentation £m	Electronic Controls £m	2006 Full year Total £m
Adjusted operating profit by segment – December 2006					
Segment result under adopted IFRS	3	42.6	22.9	17.2	82.7
Amortisation of acquisition-related intangible assets		1.7	0.1	–	1.8
Goodwill impairment charge		1.2	–	–	1.2
Adjusted operating profit		45.5	23.0	17.2	85.7
Divested businesses		–	(2.3)	(0.2)	(2.5)
Corporate cost reallocation*		(0.3)	0.4	(0.1)	–
Adjusted operating profit for continuing businesses		45.2	21.1	16.9	83.2
Restructuring charges for continuing businesses		1.9	5.1	0.7	7.7
Adjusted operating profit for continuing businesses before restructuring charges		47.1	26.2	17.6	90.9

	Note	**2007 Half year £m**	2006 Half year £m	2006 Full year £m
Adjusted profit before tax				
Profit before tax as reported under adopted IFRS		**56.4**	36.9	85.6
Amortisation of acquisition-related intangible assets		**1.0**	0.7	1.8
Goodwill reduction		**–**	–	1.2
Profit on disposal of businesses	4	**(19.4)**	(9.5)	(9.5)
Unrealised change in fair value of cross-currency interest rate swaps	5	**(1.2)**	(0.6)	(2.8)
Adjusted profit before tax		**36.8**	27.5	76.3

	2007 Half year £m	2006 Half year £m	2006 Full year £m
Operating cash flow			
Net cash from operating activities under adopted IFRS	**33.3**	29.4	80.5
Corporation tax paid	**8.5**	12.3	21.5
Purchase of property, plant & equipment	**(4.9)**	(4.9)	(10.5)
Proceeds from sale of property, plant & equipment	**0.1**	0.1	–
Operating cash flow for management purposes	**37.0**	36.9	91.5
Divested businesses	**(0.8)**	(1.9)	(3.1)
Operating cash flow for management purposes for continuing businesses	**36.2**	35.0	88.4

2. Adjusted performance measures continued

	Note	2007 Half year £m	2006 Half year £m	2006 Full year £m
Adjusted earnings per share				
Profit after tax as reported under adopted IFRS		**41.5**	25.7	61.4
Adjusted for:				
Amortisation of acquisition-related intangible assets		**1.0**	0.7	1.8
Goodwill reduction		**–**	–	1.2
Profit on disposal of businesses	4	**(19.4)**	(9.5)	(9.5)
Unrealised change in fair value of cross-currency interest rate swaps	5	**(1.2)**	(0.6)	(2.8)
Tax effect of the above	6	**3.9**	3.2	3.4
Other tax items not forming part of the underlying tax rate	6	**–**	–	(1.2)
Adjusted earnings		**25.8**	19.5	54.3
Weighted average number of shares outstanding (millions)		**124.3**	124.0	124.3
Adjusted earnings per share (pence)		**20.8p**	15.7p	43.7p

	2007 Half year	2006 Half year	2006 Full year
Adjusted diluted earnings per share			
Adjusted earnings (as above) (£m)	**25.8**	19.5	54.3
Diluted weighted average number of shares outstanding (millions)	**124.9**	124.4	124.7
Adjusted diluted earnings per share (pence)	**20.7p**	15.7p	43.5p

	2007 Half year £m	2006 Half year £m	2006 Full year £m
Analysis of net debt for management purposes			
Bank overdrafts	**1.5**	4.5	4.0
Bank loans – secured	**2.5**	2.4	2.7
Unsecured loan notes	**103.7**	166.1	106.1
Cross-currency interest rate swaps – currency portion	**11.1**	23.4	9.8
Finance lease liabilities	**–**	0.2	0.1
Total borrowings	**118.8**	196.6	122.7
Cash balances	**(56.7)**	(101.4)	(51.0)
Net debt	**62.1**	95.2	71.7

	2007 Half year £m	2006 Half year £m	2006 Full year £m
Analysis of revenue by geographical destination for continuing businesses			
UK	**13.8**	13.3	28.6
Continental Europe	**121.3**	113.6	244.5
North America	**73.9**	75.3	157.0
Japan	**25.1**	26.4	55.5
China	**25.0**	24.5	49.0
Rest of Asia Pacific	**32.4**	34.6	74.7
Rest of the world	**17.2**	15.9	33.3
Total continuing businesses	**308.7**	303.6	642.6
Divested businesses	**8.6**	23.7	41.9
Group total	**317.3**	327.3	684.5

3. Segmental analysis

The group's primary reporting format is business segments and its secondary format is geographical segments.

a) Analysis by business segment

	External customer revenue			Segment result		
	2007 Half year £m	2006 Half year £m	2006 Full year £m	**2007 Half year £m**	2006 Half year £m	2006 Full year £m
Process Technology	**163.4**	160.0	343.6	**18.4**	16.1	42.6
In-line Instrumentation	**87.3**	98.1	202.2	**11.0**	8.6	22.9
Electronic Controls	**66.6**	69.2	138.7	**9.5**	7.3	17.2
Total	**317.3**	327.3	684.5	**38.9**	32.0	82.7
Profit on disposal of businesses				**19.4**	9.5	9.5
Financial income				**4.6**	4.1	9.0
Finance costs				**(6.5)**	(8.7)	(15.6)
Profit before tax				**56.4**	36.9	85.6
Tax				**(14.9)**	(11.2)	(24.2)
Profit after tax				**41.5**	25.7	61.4

The operating businesses are grouped as follows:
Process Technology: Brüel & Kjær Sound & Vibration, Fusion UV Systems, Malvern Instruments, PANalytical, Particle Measuring Systems.

In-line Instrumentation: Beta LaserMike, Brüel & Kjær Vibro, BTG, Ircon*, NDC Infrared Engineering, Servomex, Spectrum Inspection Systems*.

Electronic Controls: Arcom Control Systems*, HBM, Microscan, Red Lion Controls.

*As described in Note 4, the Ircon and Spectrum businesses were divested in the first half of 2007.
The Arcom business was divested in the first half of 2006.

b) Analysis of revenue by geographical segment

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

The following is an analysis of revenue by geographical destination:

	2007 Half year £m	2006 Half year £m	2006 Full year £m
UK	**15.0**	17.7	36.3
Continental Europe	**123.3**	118.6	253.5
North America	**78.1**	86.6	176.4
Japan	**25.2**	26.5	55.8
China	**25.2**	24.9	50.1
Rest of Asia Pacific	**32.9**	36.1	76.9
Rest of the world	**17.6**	16.9	35.5
Total	**317.3**	327.3	684.5

4. Disposal of businesses

During the period, the group divested the Ircon and Spectrum businesses, which were previously included in the In-line Instrumentation segment. The Spectrum business was divested on 28 February 2007 and the Ircon business was divested on 15 June 2007. These businesses were classified as held for sale at the most recent year end. The total consideration was £30.4m net of transaction expenses. The disposals gave rise to a profit of £19.4m.

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

	£m
Goodwill	**2.9**
Property, plant & equipment	**2.4**
Inventories	**3.7**
Trade and other receivables	**5.6**
Cash and cash equivalents	**0.1**
Taxation	**1.1**
Trade and other payables	**(5.2)**
Provisions	**(0.7)**
Net assets disposed	**9.9**
Consideration received, satisfied in cash	**33.4**
Overdraft disposed of	**0.1**
Transaction expenses	**(3.1)**
Net cash inflow	**30.4**
Cash received, net of transaction expenses and cash disposed of	**30.4**
Net assets disposed of	**(9.9)**
Accruals and provisions	**(1.1)**
Profit on disposal of businesses	**19.4**

5. Finance costs and financial income

	2007 Half year £m	2006 Half year £m	2006 Full year £m
Financial income			
Bank interest receivable	**1.0**	1.4	2.0
Unrealised gain in fair value of cross-currency interest rate swaps	**1.2**	0.6	2.8
Expected return on pension scheme assets	**2.4**	2.1	4.2
	4.6	4.1	9.0

	2007 Half year £m	2006 Half year £m	2006 Full year £m
Finance costs			
Interest payable on bank loans and overdrafts	**0.1**	0.1	0.5
Interest payable on other loans	**4.0**	6.4	10.6
Total interest payable	**4.1**	6.5	11.1
Interest cost on pension scheme liabilities	**2.4**	2.2	4.5
	6.5	8.7	15.6

6. Tax on profit on ordinary activities

The taxation charge for the six months to 30 June 2007 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 30% (30 June 2006: 29%; year ended 31 December 2006: 29%). A reconciliation of the tax charge on adjusted profit to the actual tax charge is presented below:

	2007 Half year £m	2006 Half year £m	2006 Full year £m
The tax charge is analysed as follows:			
Tax charge on adjusted profit before tax at effective rate	**11.0**	8.0	22.0
Tax credit on amortisation of intangible assets	**(0.3)**	(0.2)	(0.6)
Tax charge on unrealised loss on change in fair value of financial instruments	**0.4**	0.2	0.8
Material transfers from unrecognised tax assets	**–**	–	(1.2)
Tax charge on profit on disposal of businesses	**3.8**	3.2	3.2
Total	**14.9**	11.2	24.2

7. Earnings per share

Earnings per share is calculated as follows:

	2007 Half year	2006 Half year	2006 Full year
Basic earnings per share			
Profit after tax (£m)	**41.5**	25.7	61.4
Weighted average number of shares outstanding (millions)	**124.3**	124.0	124.3
Basic earnings per share (pence)	**33.4**	20.7	49.4

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

The calculation of diluted earnings per share of 33.2p (30 June 2006: 20.7p; 31 December 2006: 49.2p) is based on the group profit of £41.5m (30 June 2006: £25.7m; 31 December 2006: £61.4m) and on the diluted weighted average number of 5p ordinary shares in issue during the year of 124.9 million (30 June 2006: 124.4 million, 31 December 2006: 124.7 million).

8. Dividends

The interim dividend of 5.75p per share (2006 interim dividend: 5.0p) will be payable on 16 November 2007 to ordinary shareholders on the register at the close of business on 26 October 2007.

9. Consolidated statement of changes in equity

For the half year to 30 June 2007

	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**
At 1 January 2007	6.2	231.1	67.3	(15.1)	1.2	3.1	0.3	**294.1**
Gains and losses – period ended 30 June 2007								
Total recognised income/(expense)	–	–	42.9	(1.7)	(0.1)	–	–	**41.1**
Distributions to and transactions with shareholders:								
Dividends paid	–	–	(15.4)	–	–	–	–	**(15.4)**
Own shares (treasury) purchased	–	–	(32.5)	–	–	–	–	**(32.5)**
Own shares (EBT) purchased	–	–	(1.5)	–	–	–	–	**(1.5)**
Share-based payments	–	–	0.4	–	–	–	–	**0.4**
Share options exercised from own shares (treasury) purchased	–	–	2.0	–	–	–	–	**2.0**
Share options exercised by issue of share capital	–	0.3	–	–	–	–	–	**0.3**
Share options exercised from shares held by Employee Benefit Trust	–	–	0.9	–	–	–	–	**0.9**
At 30 June 2007	**6.2**	**231.4**	**64.1**	**(16.8)**	**1.1**	**3.1**	**0.3**	**289.4**

10. Treasury shares

During the year the group repurchased 3.5 million shares (2006: nil) for a consideration of £32.5m (2006: £nil). 0.4 million of these shares were issued to satisfy options exercised by employees which were granted under the group's share scheme. No shares were cancelled during the year (2006: nil).

Shareholder information

SHAREHOLDER ENQUIRIES

To receive further copies of the annual or interim reports, please contact Spectris on +44 (0)1784 470470 or e-mail **info@spectris.com**

For queries regarding your shareholding, please contact the company's registrar, Lloyds TSB Registrars, at the address below.

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The registrars provide a range of shareholder services on-line at **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**

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/news/news.php**

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FINANCIAL CALENDAR

Interim results
24 August 2007

Record date for interim dividend
26 October 2007

Interim dividend payable
16 November 2007

2007 preliminary results
February 2008

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Auditors
KPMG Audit Plc

Bankers
Royal Bank of Scotland Plc

Solicitors
Ashurst

Brokers
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