

spectris



Enhancing Productivity

Annual report and accounts
2008

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.

A global presence

We operate from over 160 offices around the world. The map below shows the location of our principal group offices in the key regions.



The purpose of the Annual Report is to provide information to the shareholders of Spectris plc. The company, its directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual 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 Annual Report and the company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

£787.1m

Sales from continuing businesses

£118.3m

Adjusted operating profit from continuing businesses

72.8p

Adjusted earnings per share

Front cover image

The Kinexus rheometer is a new platform for analysing the flow properties of materials. Designed for ease of use, its adaptive intelligence guides users on how to operate the system quickly, leaving them more time to investigate ways in which to characterise and optimise a material's performance.

Highlights

All major regions grew sales at constant currencies

Good progress on delivery of strategy

Acquisitions increase presence in key markets

Strong balance sheet; interest covered 14 times

Dividend increased by 11%

Financial highlights

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

Continuing businesses exclude businesses divested.

* Adjusted figures exclude certain non-operational items as defined in Note 3.

** Constant exchange rates.

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

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Chairman's Statement

John Hughes, Chairman



"The group is in a strong financial and strategic position and we consider that the actions we are taking are appropriate in the near term whilst retaining in our businesses the resources to support growth as market demand recovers."

Introduction

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

Operating profit increased by 13% to £118.3 million (2007: £104.3 million). On a constant currency basis, operating profit increased by 2%, of which approximately 3% was from acquisitions. Operating margins were 15.0%, compared with 15.8% in the prior year. Increased expenditure on research and development led to a reduction of 0.4 percentage points (pp) in operating margins, acquisitions resulted in a reduction of 0.2pp and the dilutive effect of foreign exchange reduced margins by 0.1pp. Profit before tax increased by 12% to £110.1 million (2007: £98.0 million) and earnings per share increased by 25% to 72.8 pence (2007: 58.1 pence). The effective tax rate reduced by 4pp to 24%, as a result of a tax-efficient inter-company financing structure and the recognition of tax losses brought forward in the UK.

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

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

* Two businesses were divested in 2007. In order to aid understanding of the results for the ongoing business, references in the Chairman's Statement, Chief Executive's Statement, Operating Review and Financial Review to the sales and operating profit results in the 2007 comparatives exclude the results of these two businesses. Unless otherwise stated, figures for operating profit, profit before tax and earnings per share are adjusted measures – for explanation of adjusted figures and reconciliation to the statutory reported figures see Note 3.

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

Outlook

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



John Hughes
Chairman

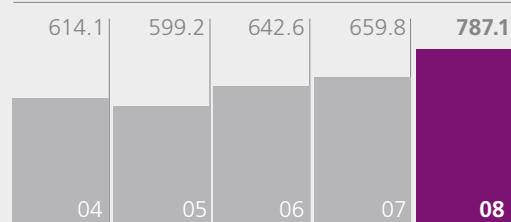
Lasair III

With its larger infrared touchscreen, simpler user interface and quieter operation than competitive instruments, the Lasair III portable particle counter also enables faster detection of particle contamination in cleanrooms, improving productivity for customers in the semiconductor and pharmaceutical industries.

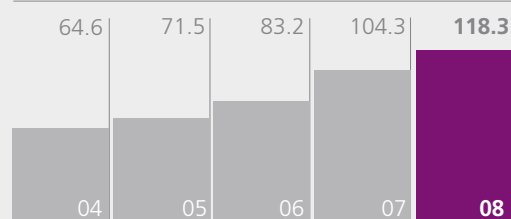


Financial highlights

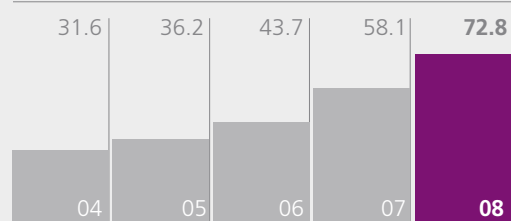
Sales from continuing businesses £m



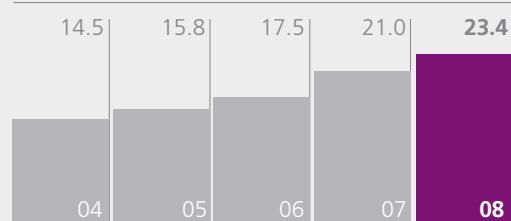
Adjusted operating profit from continuing businesses £m



Adjusted earnings per share pence



Dividend per share pence



Chief Executive's Statement

John O'Higgins, Chief Executive



"We are pleased with the strategic and operational progress we made in 2008. We have grown sales and profits and have made good progress on delivering against our strategy."

Introduction

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

Strategy

We continued to deliver against our strategy:

- Strengthening market positions through innovation
- Increasing regional expansion with a focus on emerging markets
- Growing existing businesses through acquisition
- Focusing on operational excellence
- Building our presence in key strategic growth areas, both organically and through acquisition.

Strengthening market positions through innovation

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

Increasing regional expansion with a focus on emerging markets

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

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

Growing existing businesses through acquisition

During the year, we invested a total of £88.8 million in acquisitions to strengthen our existing businesses. In addition to the distributors described above, we acquired Viscotek Corporation, a leading provider of chromatography solutions, during the first quarter. During the third quarter, we acquired nCode, a leading supplier of durability test and analysis software and data acquisition instruments, and the Siemens Machine Vision Business, an industry leader in automatic identification and data capture. In December, the acquisition of LDS Test and Measurement was completed. LDS is a leading provider of data acquisition and instrumentation products and vibration test systems and is an excellent fit with the existing businesses in the Test and Measurement segment. Since the year end, we have completed a further acquisition for the Test and Measurement segment to strengthen our position in the global noise management market. The companies acquired and their strategic fit to our businesses are described in more detail in the Operating Review which follows.

Focusing on operational excellence

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

Conclusion

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



John O'Higgins
Chief Executive



LDS Test and Measurement

In December, we completed the acquisition of the LDS Test and Measurement business. LDS is a market leader in vibration testing equipment for applications in the aerospace, defence, automotive, machinery, electrical and electronics markets. The business is an excellent fit with our Test and Measurement segment, adding capability in complete excitation systems and enabling customers to purchase the complete test system for both structural analysis and vibration testing from a single source to enhance productivity in their research and development cycles.

£57m

Expenditure on R&D

35%

Of group sales are to Asia and other expanding regions

24%

Of group sales are from service and consumables

Business Review

Group Overview

Spectris designs, develops and markets productivity-enhancing instrumentation and controls. Our products, applications and services help customers to:

Improve product quality and performance

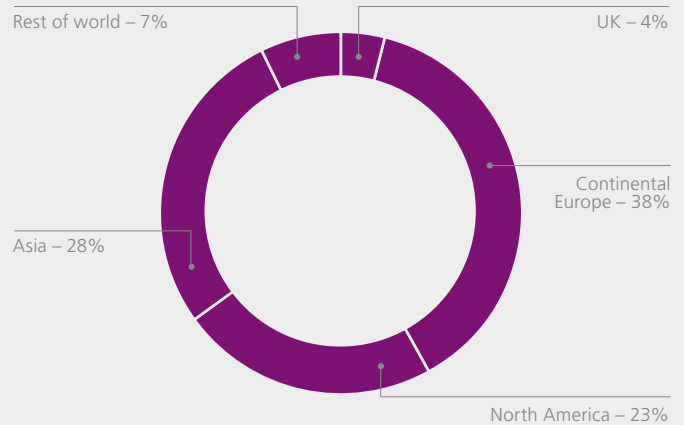
Improve core manufacturing processes

Reduce downtime and wastage

Reduce time to market

We serve our clients through our global presence

2008 sales by destination
Continuing businesses



We operate on a global scale

Our sales and service offices are located around the world, supporting customers in the key regions of Europe, Asia and the Americas, and with a growing presence in other expanding regions in the rest of the world.

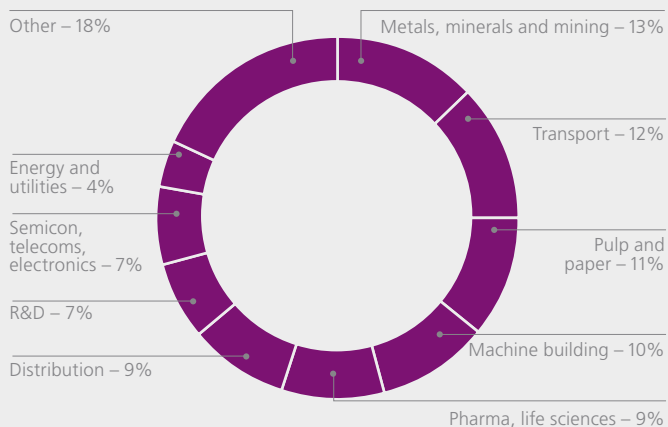
We enable our customers to achieve rapid payback on their investment

Our products generally involve low capital expenditure and bring significant and rapid payback for customers in terms of increased productivity. A typical example is the installation of a BTG Müttek system at a large producer of recycled fibre-based carton board, which, by cutting chemical additives and boosting productivity, paid for itself in just three months. In another example, a UK mineral processing company has increased throughput by around 60% following the installation of a Malvern in-line particle size analyser. The majority of our sales are to customers who are looking to upgrade existing processes at modest cost.

and operate in a balanced range of end markets

2008 approximate sales by end user market

Continuing businesses



We operate across a diverse range of markets

Our customers are multinational, blue-chip customers in a diverse range of end markets, with no individual market representing more than 13% of total group revenues. Metals, minerals and mining, pharmaceuticals, pulp and paper, and transportation (primarily research and development for the automotive and aerospace industries) are the principal end markets. Our core business is the design, assembly and testing of our products, and we outsource manufacturing and non-core activities where possible in order to reduce fixed costs and speed up response times.

Our businesses have resilient qualities and operate in niche markets

Our businesses are leaders in their specialised markets, with strong brands and market-leading products. Many of their activities are focused on markets which demonstrate resilient growth drivers. These include increasing environmental, health and safety legislation which drives demand for our products in areas such as environmental noise monitoring and emissions control; restricting hazardous substances in product manufacture; and food safety. In addition, consumables, product and software upgrades, replacement parts and calibration services form a significant part of our business, providing a degree of protection from wider economic trends.

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6,057

Employees worldwide

29

Countries in which we have offices

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Business Review

Strategy and Objectives

Our objective is to deliver shareholder value over the long term by supplying productivity-enhancing solutions for our customers.

Our strategy is based on five key elements:

- **Strengthening market positions through innovation**
We invest around 6-7% of sales each year in R&D (7.2% in 2008), with the aim of developing and delivering advanced products and applications to our customers. Working closely with customers, experienced engineers develop solutions which are tailored to the customer's specific requirements, based on standard platforms customised through high added value applications engineering. This understanding of our customers' processes brings significant competitive advantage. Much of our technology is proprietary and protected by patents or process know-how. New products and applications may be developed in house, by acquiring bolt-on product lines or by collaboration and licensing agreements for proprietary technology in partnership with universities and other institutions.
- **Increasing regional expansion with a focus on emerging markets**
We seek to grow our businesses around the world, with particular emphasis on industrialising markets such as China, India and Latin America. We continue to establish sales and support facilities in these regions so that we are able to support our global customers wherever they are based.
- **Growing existing businesses through acquisition**
We seek to enhance the growth potential of our businesses by pursuing an active but disciplined approach to acquisitions, focusing on businesses which are strong players in specific application areas where there are significant barriers to entry.
- **Focusing on operational excellence**
We continue to focus on improving all aspects of our business through a range of actions including: process efficiencies, value pricing, optimising the business mix, cost competitiveness, designing products for low-cost production, reducing inventory and improving supply chain management.
- **Building our presence in key strategic growth areas, both organically and through acquisition**
We aim to grow our existing businesses organically by developing new products as well as pursuing opportunities for growth in new markets, such as nano-technology and life sciences. Our investment in R&D enables us to maintain our leading market positions and acquisitions are targeted at both existing and new markets.

Business model

In order to deliver our strategy successfully, we organise our businesses in a way that combines the benefits of a multinational group with the best aspects of entrepreneurial capability. Our business model is based on a flat organisational structure of four segments, each comprising a number of autonomous operating companies, with management teams who have a high degree of responsibility and accountability, operating within a framework of group management and control. Within each business segment, the companies operate with their own brands, sales and service channels, tailored to meet individual customer requirements, enabling them to meet their customers' demands. The key benefit of this results-driven structure is that management teams have local ownership and can focus on their priorities and react quickly to changing customer and market demand. High calibre employees, including qualified scientists, applications engineers and technicians, have direct contact with users to develop solutions that deliver tangible benefits. Stand-alone acquisitions must share these business characteristics and have the management strength to operate as autonomous units within the Spectris group.

Central to our philosophy is a small corporate centre which determines the strategy and drives and monitors its implementation. In addition to setting and monitoring the group's overall policies and values, the centre provides advice and selective support services such as legal, tax and treasury, establishing a control framework within which entrepreneurial cultures can thrive and knowledge can be shared between businesses.

SERVOPRO MultiExact

The SERVOPRO MultiExact is an innovative multi-gas analyser specifically developed to meet the latest industry requirements for air separation plants. It provides exceptional levels of accuracy, stability and reliability for all required gas measurements, whilst offering unparalleled ease-of-use and minimising maintenance and cost of ownership.



Key Performance Indicators

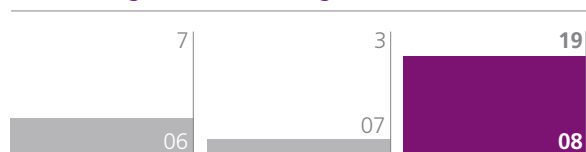
We monitor progress against the delivery of our strategic goals via four key performance indicators.

1. Sales

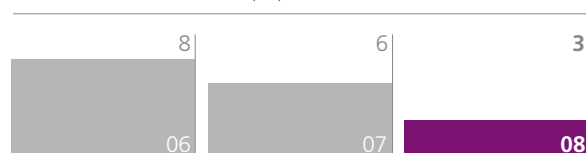
Sales growth is a measure of how we are growing our business organically. We aim to achieve year-on-year growth in sales, on a like-for-like basis, which excludes the effects of currency translation and acquisitions or divestments.

In 2008, total sales for continuing businesses were £787.1 million.

Total sales growth, continuing businesses (%)



Organic sales growth, continuing businesses, at constant currencies (%)

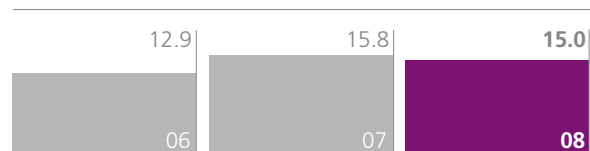


2. Return on sales

Return on sales is a measure of improving profitability in our business. Return on sales is defined as adjusted operating profit as a percentage of sales. In 2005 we announced our intention to achieve a mid-teens return on sales margin. This was achieved in 2007. Our aim is now to sustain or improve margins over time.

In 2008 return on sales for continuing businesses was 15.0%.

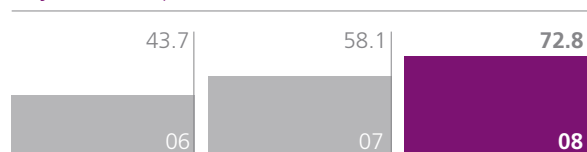
Return on sales, continuing businesses (%)



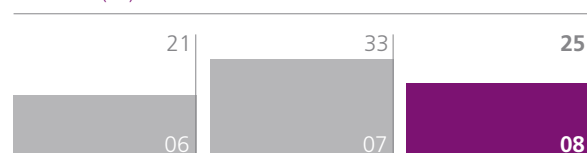
3. Earnings per share

Earnings per share is a commonly used measure of financial performance for shareholders. We aim to achieve growth in adjusted earnings per share. Adjusted earnings per share in 2008 was 72.8p. Adjusted earnings excludes certain non-operational items as defined by management in Note 3. Adjusted earnings per share is defined as the ratio of adjusted net profit for the year to the weighted average number of ordinary shares outstanding during the year.

Adjusted EPS (pence)



Growth (%)

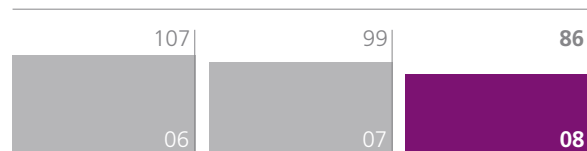


4. Cash conversion

We focus on cash generation and use cash conversion as a performance measure as we believe cash represents an effective measure of the quality of our earnings. Our target is to deliver high cash conversion of operating profit in each financial year. Cash conversion is defined as operating cash flow as a percentage of adjusted operating profit.

Capital investment was 162% of depreciation (2007: 97%), due to an investment in a technical centre in the UK and investments in IT systems upgrades. Excluding the excess of capital investment expenditure over depreciation, cash conversion in 2008 would have been 93%. In 2008 cash conversion as reported was 86%.

Cash conversion (%)



Laboratory/off-line

Our products help customers to improve accuracy and speed of materials analysis in the laboratory and in process manufacturing applications. We also provide test and measuring equipment for research and development applications.

Process/manufacturing

Our products and applications provide precision measurement and control in challenging operating environments, ensuring process quality, asset uptime, safety, and improved yield. We also provide automation and control products for the discrete manufacturing industries.

The group comprises four business segments which reflect the applications and end user industries we serve.

Business segment

Materials Analysis provides a wide range of analytical instrumentation and systems for particle and material characterisation.

Business segment

Test and Measurement supplies test and measuring equipment for research and development, principally to the aerospace and automotive industries, and for environmental monitoring.

Business segment

In-line Instrumentation provides process analytical solutions, asset monitoring and on-line controls for both primary processing and the converting industries.

Business segment

Industrial Controls supplies automation and control products for the discrete manufacturing industries.

| Applications | Industries | Sales | Profit |
|---------------------------|----------------------|-------|--------|
| Material characterisation | Pharma/life sciences | 32% | 32% |
| Contamination detection | Mining/metals | | |
| Quality control | Semiconductor | | |
| | Research institutes | | |

| Applications | Industries | Sales | Profit |
|------------------|---------------|-------|--------|
| Measurement | Automotive | 32% | 25% |
| Data acquisition | Aerospace | | |
| Simulation | Electronics | | |
| | Environmental | | |

| Applications | Industries | Sales | Profit |
|--------------------|--------------------|-------|--------|
| Quality control | Process industries | 30% | 36% |
| Process technology | Pulp & paper | | |
| Safety | Energy | | |
| | Converting | | |

| Applications | Industries | Sales | Profit |
|-----------------------|----------------------------------|-------|--------|
| Product tracking | General manufacturing | 6% | 7% |
| Machine interface | Original equipment manufacturers | | |
| Industrial networking | Distributors | | |
| | | | |

Sales and profit as % of group total.

Materials Analysis

Good demand for new products from pharmaceutical and life sciences industries

Metals, minerals and mining slowing, but need for efficiency and cost reductions sustains demand

Semiconductor weakens due to reduced investment in capital equipment

Environmental legislation boosts demand for X-ray analysis

£253.2m

Sales

£37.5m

Operating profit

1,534

Employees

Overview

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

Market drivers

In addition to the need to improve process manufacturing productivity, a key factor in the demand for this segment's products is the requirement for certification to comply with regulation, for example for quality control in the manufacture of drugs in the pharmaceutical industry and detection of materials such as lead and cadmium to meet legislation on the use of hazardous substances. Another driver for materials analysis instrumentation is the growth in new molecular and material sciences, where our equipment is used to analyse and characterise materials and structures in the development of new products.

Zetasizer APS

The Zetasizer APS is the most advanced dynamic light scattering system available for investigating protein behaviour in the biotechnology and pharmaceutical industries. It enables accurate, reliable measurement of protein stability over a wide range of developmental conditions with minimal user intervention.



Segment performance

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

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

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

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



MiniPal 4 Sulfur

The MiniPal 4 Sulfur compact spectrometer is designed for accurate and precise petrochemical analysis. Its improved sensitivity and lower limits of detection provide reliable and cost-effective analysis of elements and also help to ensure compliance with environmental regulations, for example legislation to reduce sulphur levels in fuel.

Outlook

We expect that consolidation in the pharmaceutical sector will continue to be a feature of the industry, however, our operating companies, with the new products and applications they have recently introduced, together with those they have acquired, are well placed to capture the opportunities in this sector, particularly in the increasingly important fields of life sciences and biotechnology. Demand in the metals, minerals and mining industry fell sharply towards the end of 2008 as capital expenditure was reined in, however, service and consumables are a major feature in this sector and we expect the demand for these to continue. Although demand in the semiconductor industry is not expected to improve in 2009, this market represents less than 5% of revenues in this segment and is thus not expected to have a significant impact.

Test and Measurement

nCode acquisition brings software simulation capabilities for fatigue and durability testing

LDS acquisition adds vibration test systems and data acquisition products for new model development

Capabilities in environmental noise monitoring services expanded

£254.9m

Sales

£29.7m

Operating profit

2,653

Employees

Overview

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

Market drivers

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

Segment performance

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

Automotive industry investment is focused on research and development of new models, with the emphasis on bringing smaller, more fuel-efficient vehicles to market as quickly as possible. Shorter development cycles result in higher volumes of data requiring rapid analysis and manufacturers are now using software modelling to assess new vehicle designs before the prototype is built. This reduces the number of tests required and thus shortens the development time, helping to cut costs and reduce time to market. The acquisition of nCode extends our



LAN-XI

LAN-XI data acquisition hardware provides increased flexibility from a single system for sound and vibration measurement. Used as a stand-alone module or as part of a multi-rack distributed system, LAN-XI can be configured to measure from two to over 1000 channels, depending on the user's requirements.



QuantumX
 QuantumX is the first universal data acquisition instrument with advanced plug and measure technology which enables precise and immediate results, even in difficult conditions. Its compact design allows for centralised or distributed high speed data acquisition for performance testing in development programmes for the automotive, aerospace and railway industries.

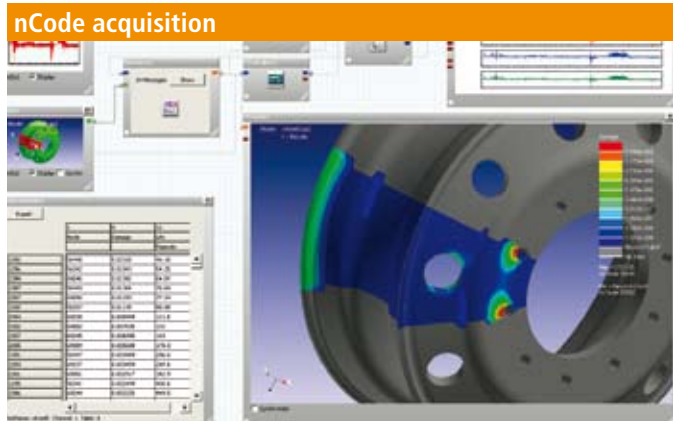
software capabilities in this area, providing customers with the technology to carry out fatigue and durability testing and life prediction, as well as noise and vibration analysis and accelerated testing. The acquisition of the LDS Test and Measurement business broadens our portfolio of data acquisition instruments and adds world-leading capability in vibration testing, enabling us to provide customers with complete test systems.

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

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

Outlook

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



The acquisition of nCode extends our software capabilities for research and development programmes in the automotive and aerospace industries. nCode's products enable customers to carry out fatigue and durability simulation, providing them with the full testing cycle from virtual to physical test. This helps manufacturers to cut test and prototype cycles, saving time and money and speeding up time to market.

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In-line Instrumentation

Continued demand for oil and gas;
strong growth in industrial gas business

Demand for tissue products sustains
pulp and paper market

Good growth in Asia, Middle East
and Africa

Converting and packaging sectors
reduced capital investment

£233.3m

Sales

£42.7m

Operating profit

1,406

Employees

Overview

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

Market drivers

The growing requirement to improve process manufacturing productivity and drive down costs in an increasingly competitive global environment has led to greater demand for process instrumentation. End user markets are facilities with critical plant assets such as paper mills and converting plants where downtime and lost production are costly. Environmental issues are also key drivers for process instrumentation in these industries. The oil and gas industry continues to focus on enhancing productivity and is seeing growing demand from the industrialising economies. Increasing power costs have led energy-intensive industries such as pulp and paper to install new instrumentation as they seek production efficiencies. Investment in infrastructure is also driving demand for process control solutions worldwide. The growth in demand for renewable resources, for example alternative energy sources such as hydro-electric and wind power, as well as the need to meet regulations on reducing emissions, has led to an increase in demand for process control solutions. Safety is also a priority in these industries, where it is a requirement to monitor gas emissions and other harmful substances in order to comply with increased health and safety regulation.

Segment performance

Sales in In-line Instrumentation increased by 17% (5% at constant currencies) to £233.3 million. Operating profit increased by 23% to £42.7 million and operating margins increased by 1pp to 18.3%. The favourable effects of foreign exchange rates and R&D expenditure growing at a slower rate than sales contributed to the increase in operating margins.

DRT-5500

The DRT-5500 Freeness Inline is the fastest, smallest and most flexible drainage rate transmitter on the market. It improves control during refining of the pulp and stabilises the drainage rate, which affects paper properties such as composition and strength. Improved drainage leads to lower energy consumption, reducing costs for pulp and paper manufacturers.



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

In the pulp and paper industry, although some capacity was taken out of the industry over the summer, the falling price of energy in the second half of the year helped paper manufacturers to improve margins, however temporary shutdowns were implemented at many mills at the end of the year to reduce inventories. Certain grades of paper have remained unaffected, with the market for tissue products growing in all regions of the world. This benefited BTG who saw increased demand for high performance creping blades as a replacement for traditional steel blades. In addition, the company secured an order to supply its new blades to a major tissue manufacturer for production of a new product. During the year BTG launched a number of new products which help to reduce pulp and papermaking costs, including a drainage rate transmitter which provides improved control during refining of the pulp and reduces energy consumption.

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

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



Series 710e

The Series 710e is a new range of on-line gauging systems, featuring high-speed digital processing technology and ethernet connectivity. The systems provide real-time measurement of critical parameters such as coat weight and moisture in the converting and papermaking industries, as well as moisture, fat and protein for a wide range of applications in the food industry.

of its products to the metals industry, which is now the company's second largest market, after cable, with increasing sales into new applications rather than cold mill operations. The company also launched the LaserSpeed 4000 gauge which provides non-contact length and speed measurement in non-metals applications such as plastics and film.

Demand for optical fibre continued to grow, driven by oceanic undersea cables and for fibre-to-the-home applications, particularly in the Asia Pacific region. This has resulted in fibre producers recommissioning 'mothballed' production equipment and/or adding new equipment to increase volumes and production speeds. This has benefited Beta LaserMike, who supply a variety of process control systems to address the different stages in the manufacture and quality control of optical fibre, and Fusion, whose equipment is used to cure the barrier coatings that are required to protect the glass fibre prior to its incorporation into the transmission cables.

Outlook

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

Industrial Controls

Good demand from general manufacturing applications, but weakness in second half

Continued growth in industrialising economies

Acquisition of Siemens' Machine Vision Business expands tracking and traceability solutions

£45.7m

Sales

£8.4m

Operating profit

365

Employees

Overview

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

Market drivers

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

Segment performance

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

Universal signal conditioners

The new IAMS series of universal signal conditioners feature a detachable LCD display/programming module. This provides simple push-button programming which allows the signal conditioner to be easily set up and can be used to programme multiple units in the same way, greatly reducing configuration time. When not being used for programming, it can remain attached to the unit to indicate the input parameters, in the same way as a panel meter.





G3 Kadet

Based on the G3 series, with many of the same capabilities, the G3 Kadet series of touchscreen operator interfaces offer the ideal balance of advanced features and value for process machinery applications.

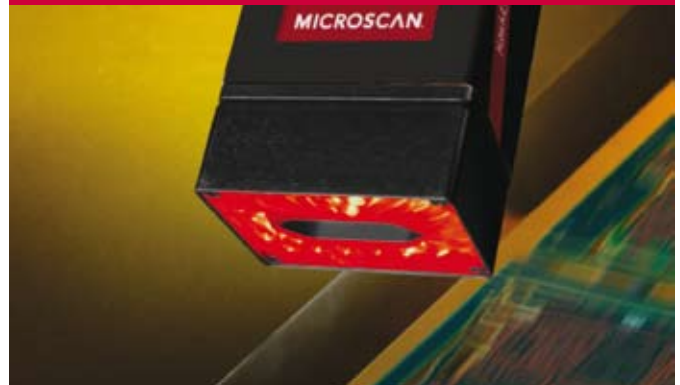
The acquisition of the Siemens Machine Vision Business expands Microscan's range of vision and smart camera products for tracking and traceability applications, from basic barcode reading to complex inspection and measurement. The acquisition has added ten product lines and over 60 technology patents.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

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

Outlook

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

Siemens' Machine Vision Business



The acquisition of the Siemens Machine Vision Business strengthens the Industrial Controls segment by expanding our range of vision and smart camera products. An industry leader in Automatic Identification and Data Capture (AIDC), the company specialises in machine vision and inspection systems used in a broad array of manufacturing, packaging and traceability applications. The acquisition enables us to provide full track, trace and control solutions, from basic barcode reading to complex inspection and measurement, to leading industrial markets, particularly in the medical, electronics manufacturing and automotive sectors. The acquisition has added ten product lines and over 60 technology patents to the Industrial Controls portfolio.

Business Review

Financial Review

Clive Watson, Group finance director



19%

Increase in sales from continuing businesses

13%

Increase in adjusted operating profit from continuing businesses

86%

Cash conversion

Introduction

Spectris uses adjusted figures as key performance measures in addition to those reported under IFRS. Adjusted figures exclude certain non-operational items which management has defined as amortisation of acquisition-related intangible assets, goodwill impairment charges, profits or losses on the termination or disposal of businesses or major fixed assets, unrealised changes in the fair value of financial instruments, net gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate. Unless otherwise stated, all profit and earnings figures referred to below are adjusted measures – for explanation of adjusted figures and reconciliation to the statutory reported figures see Note 3.

Operating performance

| | 2008 | 2007 | Increase/ decrease |
|-----------------------|--------------|-------|-----------------------|
| Continuing businesses | | | |
| Sales (£m) | 787.1 | 659.8 | 19% |
| Operating profit (£m) | 118.3 | 104.3 | 13% |
| Operating margin | 15.0% | 15.8% | (0.8)pp |
| Statutory basis | | | |
| Sales (£m) | 787.1 | 668.4 | 18% |
| Operating profit (£m) | 113.7 | 102.9 | 10% |
| Operating margin | 14.4% | 15.4% | (1.0)pp |

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

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

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

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

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

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

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Statutory profit before tax | 106.1 | 118.1 |
| Profit on disposal of businesses | (0.3) | (19.0) |
| Goodwill charges and acquisition-related intangible asset amortisation | 4.6 | 1.9 |
| Unrealised changes in fair value of financial instruments | (0.9) | (3.0) |
| Net losses on retranslation of short-term inter-company loan balances | 0.6 | – |
| Adjusted profit before tax | 110.1 | 98.0 |

Acquisitions

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

Taxation

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

The underlying tax charge is expected to remain approximately 3pp below the weighted average statutory tax rate for the foreseeable future.

Earnings per share

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

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

| | 2008 Pence | 2007 Pence |
|--|---------------|---------------|
| Basic earnings per share | 70.3 | 70.9 |
| Goodwill charges and acquisition-related intangible asset amortisation | 4.0 | 1.6 |
| Profit on disposal of businesses | (0.3) | (15.6) |
| Unrealised changes in fair value of financial instruments | (0.8) | (2.4) |
| Net losses on retranslation of short-term inter-company loan balances | 0.5 | – |
| Tax effect of the above and other tax items that do not form part of the underlying tax rate | (0.9) | 3.6 |
| Adjusted earnings per share | 72.8 | 58.1 |

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

Cash flow

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

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

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

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

Business Review

Financial Review continued

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

Financing and treasury

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

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

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

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

Currency

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

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

| | 2008 average | 2007 average |
|------|-----------------|-----------------|
| US\$ | 1.85 | 2.00 |
| Euro | 1.26 | 1.46 |
| Yen | 192 | 236 |

Translational currency exposures are not hedged.

Forward exchange contracts are used to hedge forecast sale transactions where there is reasonable certainty of an exposure. At 31 December 2008, approximately 65% of the estimated

US dollar and Japanese yen exposures for 2009 were hedged using forward exchange contracts.

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

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

* Dollar/euro categories include tracking currencies

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

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

Defined benefit pension schemes

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

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

Principal risks and uncertainties

The group has identified the key potential strategic, operational and financial risks and uncertainties which could have a material impact on the group's long-term performance. These potential risks, and the actions to manage and mitigate them, are described in detail on the following pages. The directors do not foresee any further specific risks in 2009.



Clive Watson
Group finance director

Business Review

Principal Risks and Uncertainties

The process for identifying, evaluating and managing any significant risks forms part of the group's system of internal controls.

Internal controls

The Board is ultimately responsible for the group's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risk of failure to meet business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Consistent with the guidance provided for directors on internal control by the Financial Reporting Council ('Internal Control: Guidance for Directors on the Combined Code'), the Board confirms that there is an ongoing process for identifying, evaluating and managing assessed significant risks faced by the group, that this has been in place for the year under review and up to the date of approval of the annual report and accounts, that this process has been reviewed by the Board during the year and that the group accords with the guidance. The Board affirms the importance it attaches to the continuous review and application of the guidance, the regular and systematic assessment of the risks facing the group and the value of embedding risk management and internal control systems within its business processes. The group has an internal audit function which reviews the design and effectiveness of internal controls across the group's operations.

The processes which the Board and the audit committee have applied in reviewing the effectiveness of the group's system of internal controls are summarised below:

- an established process is in place whereby each business unit regularly assesses, evaluates and reports risks of group significance. Each business unit is required to document the management and mitigating actions in place and proposed;
- regular review of the status of risks and corresponding mitigating actions ensure that risk management is embedded in day-to-day management processes and decision-making as well as in the annual strategic planning cycle;
- the effectiveness of risk management and mitigating actions is reviewed regularly by the executive directors and twice yearly by the audit committee;
- additionally, the executive directors consider those risks to the group's strategic objectives which are not addressed within the business units and develop appropriate approaches to managing and mitigating these risks;
- annual financial plans for each business unit, significant capital investments or contractual commitments and major acquisitions or divestments are all subject to review and approval by the Board;
- a Group Accounting and Policies Manual sets out the minimum standards and procedures to be applied in relation to those risk areas which are regarded as significant in a group context;
- a process of self-assessment of compliance with the Manual and reporting thereon has been established, providing for a documented trail of accountability from business unit presidents and finance directors to the audit committee.

The necessary actions are taken by the audit committee to remedy any failings or weaknesses identified by its review of the internal control system; and

- the executive directors report to the Board on changes in the business and external environment which present significant risks. The group finance director provides the Board with monthly financial information which includes key performance indicators. Regular reports on significant legal issues and insurance matters are received from the company secretary.

The key potential risks and uncertainties which could have a material impact on the group's long-term performance are described below.

Strategic risk

Spectris has a broad spread of markets, products and customers, as described previously in this review, and this limits, to a large extent, any specific risk to the ability to implement our strategy due to changes in the political and economic environments in the countries in which we operate. This broad spread of markets also provides a good averaging of individual sector investment cycles. Our products typically involve low capital outlay but provide significant and rapid payback. These benefits become even more attractive to customers as they seek to reduce their own costs of production.

A key element of Spectris' strategy is to grow the business portfolio through acquisition of stand-alone or bolt-on businesses which complement or extend the range of products and applications Spectris can provide. Potential risks exist in successfully integrating acquisitions. However, Spectris believes that its track record of carefully selecting businesses which fulfil its acquisition criteria and rigorous financial assessment of the potential acquisition's ability to contribute to growth will continue to ensure that any businesses acquired will be successfully integrated.

Operational risk

In order to sustain competitive advantage, the group invests significantly in research and development. The development of all new technologies and products involves risk including the product being more expensive, or taking longer, to develop than originally planned; that the market for the product is smaller than originally envisaged; or that the product fails to reach the production stage. However, we endeavour to reduce this risk by ensuring that new product development is carried out in conjunction with customers to ensure that the products meet expectations of the market. All businesses are exposed to risk from competitive activity. However the diversity of Spectris' products and markets, and the high barriers to entry, limits the overall risk from any single competitor.

Although the majority of our business is to supply products only, there may be instances where Spectris companies enter into complex long-term or multi-site contracts with customers. Spectris has a strict approval process for such contracts in order to manage any risks they may present. Potential risk from loss of a key customer is limited as no single customer accounts for more than 1% of turnover, and credit control procedures limit the risk from non-payment by customers. Group operating companies also monitor customer satisfaction to ensure they are meeting

Business Review

Principal Risks and Uncertainties continued

customers' product, delivery and service requirements. The company is also exposed to the risk that some of the components it sources, particularly for custom-built items or older components, are provided by a single supplier and are vulnerable to interruption of supply. The group seeks to address this risk by finding alternative sources to reduce dependency on single-source suppliers and building sufficient safety stock of critical components.

Spectris' operations are characterised by short lead times and seasonal fluctuations in sales, with some businesses exhibiting a greater trend towards sales in the second half of the year. This limited forward visibility and the potential for delays in the shipment of orders exposes the company to the potential risk that it may not meet its sales forecast for the year.

Financial risk

The principal financial risks managed by the group are foreign currency, interest and liquidity. The group's exposure to commodity risk is perceived to be small by virtue of the nature of the businesses.

Foreign exchange transaction risk is managed principally through forward contracts covering up to 75% of forecast forward exposures for up to eighteen months ahead. Foreign exchange translation risk, which results from converting foreign currency to sterling, is not hedged but is actively managed through natural hedging by matching invoicing and purchasing currencies as far as is commercially practical. In addition, it is the aim where possible to hedge foreign currency investments with borrowings in the same currency. In order to minimise interest cost and maximise interest income, companies are required to pass surplus funds to Group Treasury through inter-company loans. Where possible zero balance pools are in place to centralise cash automatically.

The long-term aim with regard to interest rate risk is to have a balance between fixed and floating rate debt. Interest rate swaps are considered to achieve this balance.

The group manages its liquidity risk through the use of regularly updated cash flow forecasts and liquidity headroom analysis to determine its funding requirements. The group maintains sufficient lines of credit from high quality investment grade lenders to cover expected cash requirements and provide reasonable headroom. The facilities are described in detail in the Financial Review.

Intellectual property risk

Spectris' business is focused on the design and manufacture of technologically advanced products and applications and the group makes significant investment in research and development. As a consequence, the group owns and protects patents, trademarks, trade secrets, copyright information and intellectual property licenses. Although these are important to growth as a whole, no single patent, trade secret or trademark is sufficiently important to present a material risk to the success of the company. Appropriate measures are taken to protect the company's intellectual property rights and to minimise the risk of infringement by third parties. Spectris is prepared to initiate legal action if necessary to safeguard

its interests. Inadvertent infringement of third-party rights also presents a risk and Spectris has procedures in place requiring its operating companies to maintain a watching brief on new applications and to undertake specific reviews prior to commencing new product development programmes, acquisitions or licenses.

Information technology/business interruption risk

Spectris depends on timely and reliable information from key software applications to aid day-to-day operational management and to provide accurate financial information for its head office. Whilst the company endeavours to ensure the continuous availability and operation of these systems and software, any disruption could delay or otherwise impact day-to-day decision making. Disaster recovery plans to maintain business-critical processes and activities in the event of a significant interruption to the normal course of business are in place throughout the group and are regularly tested.

Hazardous risk

Assessment of risk to the business is carried out on a continuous basis to determine any potential effects on the environment resulting both from product manufacture and operation of our products at the customer's site. Each operating company is required to produce a risk register which identifies possible hazardous risks to their business. For each risk the likelihood of the occurrence is documented, together with the possible consequences, the actions required to minimise the probability of the event occurring, and responsibility assigned to a member of the company's management team. The risk register is reviewed regularly by the group's internal audit function.

Contractual arrangements

The company has no contractual or other arrangements which are essential to the business of the company, nor any key customers or major suppliers upon which it is dependent.

Business Review

Corporate Social Responsibility

Spectris is committed to creating business growth through adding value for its customers whilst ensuring that its impact on the environment is minimised.

Spectris operates from 160 offices in 29 countries around the world. The company's products are used to monitor and control processes for enhancing productivity for customers in a wide range of industries.

Spectris continues to meet the criteria for membership of the FTSE4Good UK index, which measures and benchmarks the performance of companies that meet globally recognised corporate responsibility standards. The criteria are assessed on a regular basis by the independent research organisation EIRIS, with increasing emphasis on ethics and human rights.

The policies and information described below apply to all Spectris operations.

Policy setting and monitoring

Overall responsibility for developing corporate policies on environmental, social, ethical, and health and safety matters, and for reviewing their effectiveness, lies with the Spectris Board. The policies are communicated to all business units via the Spectris Group Manual. The individual operating companies are then responsible for ensuring that these policies are communicated and applied within their particular business, taking account of local legislation and regulation. All policies and procedures are reviewed periodically and any updates are communicated to the operating companies.

Reporting and compliance

Conformity with these policies is monitored by self-certification, on an annual basis, by the Managing Director and Finance Director of each operating company that their business has complied in full. Any instances of non-compliance must be reported.

Such certification forms an integral part of the company's risk management and corporate governance processes, and is regularly reviewed by the group's internal audit function and the company's external auditors. Compliance testing is a formal part of internal audit reviews. Through a structured review process, the internal audit function undertakes visits to group locations on a rotational basis. These visits involve an assessment of the business' key internal controls as well as compliance with the group's policies and procedures. The results of internal audits and any non-compliance events are reported to the Audit Committee.

Risk assessment

The key potential risks and uncertainties which could have a material impact on the group's long-term performance are described elsewhere in this Business Review. Potential social and environmental risks to the business may arise within product manufacture or operation of a product at the customer's site. Where a significant risk is identified, procedures for storage, normal operating conditions and emergency situations are

documented and regularly monitored for compliance with the relevant regulations. A nominated individual is responsible for safety compliance and all employees are informed and trained in safety procedures, depending upon the extent of their involvement with the product presenting the risk. Documented processes are in place to reduce the likelihood of an occurrence. Material risk processes and procedures are regularly reviewed by the group internal audit function.

Potential social and environmental risk in Spectris' operations is limited. However, the PANalytical business, which supplies instrumentation for X-ray analysis, makes limited use of beryllium in detector windows and X-ray tubes, whilst certain NDC Infrared Engineering products utilise low-level sealed radioactive sources. In all cases, the legal requirements for the correct handling and labelling of such products are documented and regularly audited for compliance. Procedures also exist for the disposal of contaminated waste and for recovering used products from customers and disposing of them safely. The Servomex gas analysis business includes the storage of flammable and toxic gases at its testing facility. Operating procedures for the movement and use of cylinders containing such gases are in accordance with the appropriate legal requirements and are inspected annually by an independent authority. Chemical and hazardous waste is disposed of in accordance with written procedures.

Environment

Many Spectris products and technologies have positive environmental benefits by providing customers with the ability to reduce energy consumption or material wastage or to control emissions. Our curing lamps, for example, use ultraviolet light to cure or 'dry' environmentally-friendly inks and coatings, replacing conventional heat treatment of traditional materials which is energy-intensive and emits toxic solvent vapours. Our instrumentation helps wind farm operators to keep their turbines running by using remote predictive monitoring to detect and prevent faults. Our products can also help customers to meet environmental legislation. For example, we supply instrumentation which can measure low levels of materials such as lead and cadmium to meet legislation on the restriction of hazardous substances. We also supply systems which analyse the amount of sulphur in fuel to ensure compliance with regulations on the levels permitted. Further examples of the use of Spectris products having a direct beneficial contribution to the environment are shown on our website.

We are also committed to adopting environmentally responsible policies wherever our companies operate. We aim to reduce the environmental impact of our operations by developing products which are energy-efficient and avoid the use of harmful substances. Design processes take into account the operational lifetime of every product and end-of-life removal or disposal. Consideration is also given to environment-friendly production, packaging and shipping. Products have been developed which meet the new European regulations on the Restriction of Hazardous Substances (RoHS) and Waste Electrical and Electronic Equipment (WEEE). For example, printed circuit boards used in instrumentation sold to customers in this region no longer use lead-based solder in their manufacture.

Business Review

Corporate Social Responsibility continued

All businesses are conscious of the need to conserve energy and resources and local initiatives are in place at many sites to reduce energy consumption and minimise wastage. These include recycling of items such as waste paper, cardboard, aluminium cans, batteries, toner cartridges and mobile phones, reducing energy consumption through the use of timers and sensors to control hot water, air conditioning and lighting, reducing water consumption and re-use of packaging and filling materials. The new technical centre for Servomex in Crowborough, England, which was opened in November 2008, has been designed and built to the latest environmental standards, including the use of heat exchangers to maximise heating efficiency and motion sensor lighting to reduce power wastage. At NDC's facility in the US, remote control units for the lighting system have been installed to enable the company to achieve energy and cost savings. At PANalytical in the Netherlands, despite a doubling of production volumes over the past ten years, the company's overall energy consumption has decreased by around 10%.

Spectris complies with the UK Producer Responsibility Obligations (Packaging Waste) Regulations which set targets for the recovery and recycling of packaging waste.

Our environmental policy is published on our website at www.spectris.com. The nature of our manufacturing activities means that Spectris' operations have very little impact on the environment, as our products do not require energy-intensive manufacturing processes and we endeavour to employ non-polluting technology wherever possible. Although we have four production facilities in the UK, their low power consumption means that the amount of greenhouse gas emissions produced is not significant and hence Spectris is not required to participate in the second round of the European Emissions Trading Scheme, nor is it expected that the company will be included in the UK's Carbon Reduction Commitment plan.

Environmental management systems

Approximately half of Spectris' operations (by turnover) have received accreditation to the environmental standard ISO14001. Other companies are working towards accreditation where this is deemed beneficial for their customers.

During 2008 no significant environmental incidents were recorded.

Employees

Spectris' employees are key to the success of the company. We employ around 6,000 people in 160 offices throughout the world, with a high proportion of employees qualified at, or above, degree level. We are committed to providing our people with a creative working environment with plenty of scope for individual responsibility and achievement. In 2008, on average, 3,000 employees were employed in production and engineering, with 2,220 in sales and marketing and 500 in administrative functions. Compensation and benefits, which are in line with other leading companies in the sector, are designed to reward the achievement of objectives. Annual reviews provide feedback on employees' performance, set objectives and identify training

and development opportunities to enable them to meet their full potential.

Employment

Policy

Spectris operates mainly in Europe and the US, but with a growing presence in Asia. Although different social and employment conditions exist in different locations, Spectris places high priority on compliance with the legislative and ethical requirements of the countries in which we operate, particularly with respect to employment practices, labour rights and equal opportunities. The Company Secretary has overall responsibility for employment policies, but responsibility for implementation is delegated to individual business units, with operational policies and procedures tailored to suit local needs. The company's employment policy is available at www.spectris.com.

Overall HR policies are set at the centre and implemented by each operating business, taking account of local conditions. Spectris retains a diverse workforce, valuing the different perspectives of its employees, and the company is committed to equal opportunities for all employees in terms of recruitment and employment, training and development, and promotion. We strive to create a culture of honesty, respect and professional excellence whilst maintaining a healthy balance between working and personal lives, with initiatives such as part-time and job share opportunities providing family-friendly working conditions. Employee surveys are carried out in a number of companies to measure the views of employees on company issues and action plans agreed to address the issues raised.

Staff turnover is dependent to a large extent upon local market conditions, but is generally low, particularly at senior management level and amongst technical/R&D staff, where in-depth technical knowledge brings loyalty and commitment to the company. Whilst data on employee turnover is not collated centrally, it is monitored by individual businesses.

Graduate recruitment programmes and student work placements exist in several companies, providing opportunities for young people, particularly scientists, to be introduced to the business environment.

Reporting

It is the responsibility of the managing directors in each operating company to ensure that all employees are fully aware of Spectris' HR policies. The group monitors compliance through various processes, including confirmation in writing by each business unit annually, and consolidated Equal Employment Opportunities Commission returns which are produced in the US.

Training and development

Spectris' commitment to training and personal development emphasises the importance of retaining staff throughout the group and ensuring that all employees are encouraged to realise their full potential. Annual appraisals and performance reviews are carried out to determine training and development needs for individual

employees. Malvern and Servomex, our two principal UK businesses, have received the Investors in People award for their programmes of training, appraisal, employee development and skills recognition.

Financial participation in the group is encouraged through the Savings Related Share Option Scheme, available to all UK employees, and through grants under the group's Performance Share Plan made to senior management across the group.

Employee communications

The company has a policy of encouraging its operating companies to provide information to their employees on a regular basis. This information includes matters relating to their company's performance, its prospects in the markets it serves and the future outlook for its business. In addition to regular staff briefings, most companies have intranets where news bulletins are posted.

Health and Safety

Policy

The Chief Executive has overall responsibility for environment, health and safety matters. Senior executives in each of the business units are responsible for implementing the company's health and safety policy at local level and ensuring compliance with local legislation and regulations. The company's health and safety policy can be viewed on our website at www.spectris.com.

Spectris is committed to providing a working environment at all of its sites which, so far as is possible, is safe and without risk to health. Each operating company is responsible for ensuring that the highest standards of health and safety are achieved by its employees and by sub-contractors and suppliers.

Reporting

Any serious health and safety incidents are required to be reported by the Managing Director of the business in an accident report to the Company Secretary, who reports on such issues to the Board. All accidents are thoroughly investigated and appropriate corrective and preventative actions put in place. No serious injuries or deaths have been reported in the last ten years. Although minor incidents are monitored locally, statistics for these are not compiled for the group as a whole. Audits of health and safety policies and procedures are undertaken at all major locations by external assessors acting on behalf of the group's insurers on an annual basis and recommendations are made for improving practices where appropriate.

Human rights

Spectris believes in the fundamental rights of people in all parts of the world and is committed to adopting internationally recognised human rights standards wherever it operates.

Expedition Greenhouse World



As part of their commitment to activities that stimulate interest in the sciences, PANalytical sponsored two students in the 2008 'Expedition Greenhouse World' – an initiative run by Utrecht University in the Netherlands. On the week-long expedition in October to Spitsbergen, Norway, the students visited Longyearbyen glacier where they collected rocks full of 40–60 million year old fossils of the plants that caused the greenhouse effect at that time. They investigated core samples where the ancient carbon layers demonstrated the high concentrations of atmospheric CO₂. These climate changes devastated the Palaeocene animal population and, during a trip that took them 4km underground, the students saw 55-million year old footprints made by extinct hippopotamus-like mammals.

Business Review

Corporate Social Responsibility continued

Policy

The company's human rights policy, which can be viewed at www.spectris.com, is consistent with the Principles of Human Rights, as set out in the International Labour Organization's Core Conventions, and includes policies on non-discrimination, harassment, pay and forced labour. The policy is reviewed periodically and any updates are communicated to the operating companies. The Chief Executive has overall responsibility for human rights.

Spectris takes its commitments to human rights seriously and our operating companies are required to ensure that all employees are aware of the policy and understand it. In most of the operating companies, new employees are provided with an employee handbook which includes sections on employee responsibilities with regard to equal opportunities, non-discrimination, harassment, bullying, disciplinary practices, etc, and new employees must sign to say that they have read and understood this.

In Asia, the General Manager is responsible for ensuring that the highest ethical standards are maintained in all of our Asia-based operations. Spectris has a number of sales offices in China and also owns a factory which supplies high quality weighing components. This comprises a modern facility located in a business park along with other western companies. The factory employs skilled workers, adopts employment conditions consistent with best local practice, and pays wages that are higher than average for the area.

Spectris considers human rights as part of its due diligence process for acquisitions, ensuring that the core labour rights, including non-discrimination, equal opportunities and freedom of association, of the company to be acquired are taken into account.

Reporting

The Managing Director and Finance Director of each operating company are required to certify, on an annual basis, compliance with all Spectris policies. Any non-compliance is investigated by local human resources managers or by Spectris management or the internal audit function if it is serious. Pay practices are monitored to ensure they are non-discriminatory.

Circumstances may also come to light via the company's Whistleblowing policy, via which employees may report to the business's management team or any Board member, via a confidential email address, any concerns they may have over unethical business practices or conduct, dangers to health and safety, or breach of company policies. Any such disclosures are appropriately investigated. In addition, Spectris is committed to protecting the career and reputation of employees who report wrongdoing in accordance with established procedures, so long as their disclosures are delivered in good faith and seek to safeguard the best interests of the group.

Some individual operating companies also have their own Whistleblowing processes whereby employees can anonymously report concerns over discrimination, harassment etc.

Training

In the US, awareness training on harassment and discrimination is carried out, with companies providing regular refresher training

on harassment and non-discrimination to all employees. In some companies there are worldwide programmes on corporate values and desired behaviour, with employees being measured against these values in their annual performance appraisals.

Ethics

All employees are expected to behave in accordance with the company's behavioural values, which are shown opposite. These values define who we are and how we do business, both as individuals and as a company.

Policy

The ethical standards we expect each employee to meet are set out in our Ethics policy which is communicated to all employees. The Ethics policy can be viewed on our website at www.spectris.com. The policy prohibits bribery, corruption and similar facilitation payments. Donations to political parties or similar organisations are also prohibited. Any allegations of misconduct are thoroughly investigated. All operating companies are required to comply with export control regulations governing shipment of products and the appropriate compliance procedures are in place.

Reporting

As with all Spectris policies, conformity is monitored by self-certification, on an annual basis, by the Managing Director and Finance Director of each operating company that they have complied with the policy. Any instances of non-compliance must be reported. In particular any known instances of fraud, including bribery and corruption, must be specifically disclosed.

Certification forms an integral part of the company's risk management and corporate governance processes, and is regularly reviewed by the group's internal audit function and the company's external auditors. Compliance testing is a formal part of internal audit reviews. Through a structured review process, the internal audit function undertakes visits to group locations on a rotational basis. These visits involve an assessment of the business's key internal controls as well as compliance with the group's policies and procedures. The scope of the work performed during internal audit visits includes testing to confirm compliance with the group's overall position and policy regarding anti-bribery and corruption measures.

The results of internal audits and any non-compliance events are reported to the Audit Committee.

The company operates a 'Whistleblowing' policy, described above, through which known instances of fraud, including bribery and corruption, may be reported confidentially. This will be strengthened in 2009 to include a telephone hotline and an on-line reporting system which employees will be able to access in anonymity.

Training

Currently a number of Spectris companies provide training to employees, however Spectris intends to formalise this with a group-wide ethics programme which will be introduced during

2009. This formal programme will ensure that the group's ethics policy (which includes statements on anti-bribery and corruption) is communicated to and acknowledged by all employees in local language, and will make training compulsory in all companies, either via the HR department or on-line training modules. All companies will be required to nominate an ethics compliance officer. Compliance with the ethics policy and training within each company will be monitored by the internal audit function as part of the risk assessment process.

Customers

Spectris sells productivity-enhancing instrumentation and services to a large number of customers around the world. We have developed close working relationships with our customers and in many instances involve them in the development of new products to ensure they meet their requirements. Surveys of customer satisfaction are conducted on a regular basis.

Suppliers

Spectris has no significant suppliers who are dependent upon the company's business. Suppliers are paid in line with contractual and legal obligations. Spectris businesses work with their suppliers to help them to reduce their impact on the environment and to ensure that their products meet the relevant legislation. Outsourcing of products, particularly in Asia, is to quality-approved organisations only which are regularly inspected and audited by the strategic purchasing teams and local managements. Appropriate procedures are taken, where practicable, to ensure that the company's policies, in particular in relation to human rights and ethics, are applied to suppliers.

Local communities

Spectris companies worldwide participate in a range of local activities and educational initiatives in support of their local communities. For example, as part of its sponsorship of activities that stimulate interest in the sciences, PANalytical sponsored two students on a week-long expedition to Spitsbergen, Norway, in the 2008 'Expedition Greenhouse World' to explore the climate change that took place 55 million years ago. In the UK, Malvern has sponsored scientists attending key scientific conferences, Servomex has five apprentices on a scheme and Brüel & Kjær are participating in the 'Working with Engineering Education Scheme' which links teams of students and their teachers with local companies to work on real scientific, engineering and technical problems.

Donations to charities and community causes in 2008 totalled £44,000, of which £22,400 were in the UK (2007: £28,000 of which £10,400 in UK). This included donations to charities following the earthquake in China, Cancer Research, the Red Cross, Heifer International, and to local arts and educational projects.

Our values

Honesty

Acting with absolute integrity in all that we do.

Empowerment

Creating an environment of autonomy in our operating companies where people are expected to take the initiative and to succeed.

Ownership

Taking personal ownership of the responsibility of our roles.

Delivery

Performing to the highest standards against the commitments we make both internally and, especially, externally to our customers.

Speed

Ensuring that our business decisions are made and actions executed with a sense of urgency.

Board of Directors

01 John Hughes, Chairman

John Hughes was appointed to the Board in 2007 and became Chairman in May 2008. He is chairman of the Nomination Committee and a member of the Remuneration Committee. John was previously executive vice-president and chief operating officer of defence, aerospace and electronic systems company Thales Group and is currently non-executive chairman of Intec Telecom Systems plc and Teleticity Group plc, non-executive deputy chairman of Parity Group plc, and a non-executive director of Chloride Group plc and Barco NV, a company quoted on the Brussels Stock Exchange.

02 John O'Higgins, Chief Executive

John O'Higgins joined Spectris in 2006. He is a member of the Nomination Committee. Prior to joining Spectris, he was with Honeywell, most recently as President of Automation and Control Solutions, Asia Pacific. He began his career with Daimler Benz in Stuttgart. John has engineering degrees from University College Dublin and Purdue University and an MBA from INSEAD.

03 Clive Watson, Group finance director

Clive Watson joined Spectris in 2006. He was previously at Borealis, a leading provider of plastics solutions, where he was chief financial officer and executive vice president for business support. Prior to this, he was group finance director at Thorn Lighting Group and before that group finance director Europe with Black & Decker. Clive is a member of the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Tax and holds a Bachelors degree in Commerce & Accounting from the University of Birmingham.

04 Jim Webster, Business group director

Jim Webster, a metallurgy graduate, joined Spectris in 1993. He is responsible for the operational supervision of a number of the group's trading companies. He was previously general manager of the European Wire and Cable Division of Raychem Corporation. He is a non-executive director of Raymarine plc.

05 Peter Chambré, Non-executive director

Peter Chambré was appointed to the Board in 2006. He is a member of the Audit Committee and Remuneration Committee. He is chairman of Axellia Pharmaceuticals, ApaTech and 7TM Pharma, all private companies, and a non-executive director of BTG plc. He is also an adviser to private equity company 3i. Peter was formerly chief executive officer of Cambridge Antibody Technology Group plc and prior to that was chief operating officer of Celera Genomics Group and Chief Executive of Bespak plc.

06 Anthony Reading MBE, Non-executive director

Anthony Reading was appointed to the Board in 2004. He is chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee and is the Senior Independent Director. Tony was previously a director of Tomkins plc and chairman of Tomkins Corporation, USA, and a non-executive director of George Wimpey plc. He is a non-executive director of Laird plc, Taylor Wimpey plc and e2v technologies plc.

07 John Warren, Non-executive director

John Warren was appointed to the Board in 2006. He is chairman of the Audit Committee and a member of the Remuneration Committee. From 2000 to 2005 John was group finance director at WH Smith PLC. Prior to that he was with United Biscuits Plc for 19 years, latterly as group finance director. He has been a non-executive director of Rexam Plc and RAC plc and is currently a non-executive director of The Rank Group Plc, Bovis Homes Group PLC, BPP Holdings plc and Uniq plc.

08 Roger Stephens, Head of commercial and company secretary

Roger Stephens is an economics graduate and chartered company secretary. Prior to joining Spectris in 1997, he held commercial roles in the power and construction sectors, specialising in contract negotiation, claims resolution, IP exploitation and property development.

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Overview

Business Review

Governance

Financial Statements

Directors' Report

The directors present their report and accounts for the year ended 31 December 2008.

Principal activities

Spectris designs, develops and markets productivity-enhancing instrumentation and controls. For 2008 reporting purposes, the businesses were grouped into four segments: Materials Analysis, Test and Measurement, In-Line Instrumentation and Industrial Controls. Further details of the trading companies can be found in the Business Review (page 6). Developments in the group's business activities are discussed in the Chairman's Statement (page 2), the Chief Executive's Statement (page 4) and the Business Review.

Acquisitions

During the year a number of acquisitions were made. Malvern Instruments acquired Viscotek Corporation, a US-based provider of chromatography solutions for the characterisation of natural and synthetic polymers and proteins. HBM and Particle Measuring Systems acquired their distributors in, respectively, the Nordic countries and China. HBM acquired nCode International, a supplier of durability, test and analysis software and mobile data acquisition instruments. Microscan acquired Siemens' Machine Vision Business, a leader in Automatic Identification and Data Capture (AIDC), specialising in machine vision and inspection systems used in a broad array of manufacturing, packaging and traceability applications. Finally, the LDS Test & Measurement business was acquired and integrated with Brüel & Kjær Sound & Vibration and HBM. LDS is a leader in integrated vibration test and measurement equipment and software for applications in the aerospace, defence, automotive, machinery, electrical and electronics markets. The total consideration, including acquisition expenses and net debt acquired, as well as deferred and contingent consideration expected to be paid in future years, for the above acquisitions, was £88.8 million. Deferred consideration paid and working capital adjustments made during the year in respect of prior year acquisitions amounted to £1.3 million.

Disposals

There were no disposals during the year.

Share capital

The share capital of the company comprises ordinary shares of 5p each; each share carries the right to one vote at general meetings of the company. The authorised and issued share capital of the company, together with movements in the company's issued share capital during the year, are shown in Note 25 on page 77. The Articles of Association of the company, available on the company's website, contain provisions governing the ownership and transfer of shares.

At the 2008 Annual General Meeting shareholders authorised the directors to make market purchases of the company's ordinary shares up to a maximum number of 12,500,000 shares, representing approximately 10% of the issued share capital of the company, and to either cancel the shares or hold them as Treasury shares which may then be cancelled, sold for cash or transferred for the purposes of the company's share plans, depending on the best interests of the company's shareholders at the time. At the close of business on 23 February 2009, the company had 125,005,123 ordinary shares in issue, of which 9,694,495 were held in Treasury. During the year

21,363 shares were transferred out of Treasury to meet the company's obligations under its share plans and no shares were cancelled out of Treasury. An authority to make further market purchases of the company's ordinary shares, if believed appropriate, will be sought at the forthcoming Annual General Meeting although the Board has no present intention of so doing.

Also included in the special business of the 2009 Annual General Meeting are proposals to renew the directors' authority to allot shares up to prescribed limits.

The company is introducing a Dividend Reinvestment Plan, providing shareholders with the option of using their dividend payments to buy additional Spectris plc shares. Further details are given in the Notice of Annual General Meeting.

At 23 February 2009 interests notified to the company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

Standard Life Investments

10,490,369 shares (9.10% material interest)

AXA SA

6,160,607 shares (5.34% material interest)

Ameriprise Financial Inc.

5,747,326 shares (4.98% material interest)

Legal & General Group Plc

4,997,437 shares (3.99% material interest)

Barclays Global Investors

3,483,251 shares (3.02% material interest)

Takeovers directive

Pursuant to s992 of the Companies Act 2006, which implements the EU Takeovers Directive, the company is required to disclose certain additional information. Such disclosures, which are not covered elsewhere in this Annual Report, include the following:

The company's Articles of Association ('Articles') give power to the Board to appoint directors, but require directors to submit themselves for election at the first Annual General Meeting following their appointment and for re-election where they have been a director at each of the preceding two Annual General Meetings and were not appointed or re-appointed by the company at, or since, either such meeting. The Articles may be amended by special resolution of the shareholders and are available to view on the company's website.

The Board of directors is responsible for the management of the business of the company and may exercise all the powers of the company subject to the provisions of the relevant statutes, the company's Memorandum of Association and the Articles. The Articles contain specific provisions and restrictions regarding the company's power to borrow money. Powers relating to the issuing and buying back of shares are also included in the Articles and such authorities are renewed by shareholders each year at the Annual General Meeting.

There are a number of agreements that take effect, alter or terminate upon a change of control of the group following a takeover, such as bank loan agreements and company share plans. None of these are deemed to be significant in terms of their potential impact on the business of the group as a whole. In addition, there is a service contract between the company and one of its directors which provides for compensation for loss of office or employment following a change of control of the group (please refer to the Directors' Remuneration Report on page 40 for further explanation). It is also possible that funding arrangements for the group's defined benefit pension arrangements would need to be enhanced following a change of control if that resulted in a weakening of the relevant employer covenant.

Dividend

Results for the group are set out in the Consolidated Income Statement on page 45 and in the supporting notes. A final dividend of 17p per ordinary share is proposed for the year to 31 December 2008 (2007: 15.25p). With the interim dividend, this makes a total for the year of 23.4p (2007: 21p). The final dividend will be paid on 26 June 2009 to shareholders on the register on 5 June 2009.

The terms of the Spectris plc Employee Benefit Trust provide that dividends payable on shares held within the Trust are waived to 0.01p. No dividends are payable on shares held in Treasury.

Research and development

Expenditure committed to research and development is focused on new product development, applications engineering and process integration. Costs are expensed as incurred, except where the expenditure meets certain strict criteria for capitalisation. In the year to 31 December 2008, amounts expensed totalled £57.0 million (2007: £45.2 million), and no expenditure met the criteria for capitalisation (2007: £nil).

Fixed assets

Whilst the market values of some properties differ from book values, the directors believe that the differences are not material.

Payment of suppliers

The group's policy on payment of suppliers is to ensure that terms of payment accord with contractual and legal obligations. The company had no trade creditors at the year end (2007: £nil).

Directors

The directors of the company are named on pages 30 and 31. Stephen Harris resigned from the Board on 31 January 2008. John Poulter retired from the Board following the 2008 Annual General Meeting.

John O'Higgins and John Warren retire from the Board by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

The directors' total remuneration for the year and their interests in the shares of the company and its subsidiaries at 31 December 2008 are disclosed in the Directors' Remuneration Report on pages 37 to 43.

In accordance with Section 309C of the Companies Act 1985 the directors disclose a qualifying third-party indemnity provision entered into between the company and its directors and officers which was in force at the date of approval of this report. This indemnity gives contractual force to the Indemnity of Officers provision contained in the company's Articles which were approved by shareholders in May 2005.

Auditors

Separate resolutions to re-appoint KPMG Audit Plc as auditors and to authorise the directors to agree their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of Annual General Meeting to be held at the company's offices on Tuesday 19 May 2009 at 11.30 a.m. is contained in a separate letter from the Chairman accompanying this report.

Corporate governance

Combined Code statement of compliance

Spectris plc is subject to the Combined Code on Corporate Governance ('the Combined Code') that is appended to the Listing Rules of the UK Listing Authority. The Combined Code sets out principles and provisions relating to the good governance of companies.

Corporate governance has been and remains the responsibility of the whole Board. This statement describes how the company applied the principles and complied with the provisions of the Combined Code during 2008. The Board considers that it was throughout the year and continues to be in full compliance with the provisions set out in Section 1 of the Combined Code, save that:

- A majority of the members of the nomination committee are not independent non-executive directors, as required by provision A.4.1. The committee consists of the Chairman, the senior independent director and the Chief Executive and the Board considers this to be the most appropriate composition for the sensitive issues addressed by the committee.

Board composition and procedures

The Board meets formally at regular intervals throughout the year to consider developments in relation to the company's strategy and long-term objectives and to review trading results and operational and business issues. In particular it deals with those matters reserved to it for decision, including the acquisition and disposal of businesses, major capital expenditure, the appointment and, where necessary, removal of directors and Board and senior management succession planning. Additional meetings are convened as required to consider specific topics requiring immediate decision. Usually, two meetings each year are held at operating locations and encompass a detailed review of the relevant business. Operational decisions are delegated by the Board to senior management at trading company level over which the executive directors exercise supervision. All directors receive detailed progress reports one week prior to each Board meeting.

Directors' Report continued

The Board currently comprises the Chairman, three executive directors and three non-executive directors. The Board considers its non-executive directors (Peter Chambré, Anthony Reading and John Warren) to be independent, in that none of them are or have ever been holders of an executive office with the company. The positions of Chairman, Chief Executive and senior independent director are held by separate individuals and, in accordance with the Combined Code, the Board has adopted written profiles for the first two of these. The non-executive directors have all had senior experience in other organisations and offer independent judgement on Board matters. The Chairman's other significant interests are as non-executive chairman of Intec Telecom Systems plc and Telecity Group plc, non-executive deputy chairman of Parity Group plc and non-executive director of Chloride Group plc and Barco N.V. The Board believes that the Chairman's obligations to the company are unaffected by these directorships.

There are procedures for individual Board members to receive induction and training as appropriate and to solicit independent professional advice at the group's expense where specific expertise is required in the course of exercising their duties. All directors have access to the company secretary, who is responsible for ensuring compliance with appropriate statutes and regulations.

All directors are subject to re-election by shareholders at the first Annual General Meeting after their appointment and thereafter at intervals of no more than three years.

The Board delegates specific responsibilities to Board committees, notably the nomination, remuneration and audit committees. The terms of reference of these committees are published on the company's website and the following additional documents are available to shareholders on application to the company secretary:

- schedule of matters reserved for decision by the Board;
- responsibilities of the Chairman, the Chief Executive and the non-executive directors;
- relations with shareholders;
- performance evaluation; and
- procedure for taking independent professional advice.

Board and committee meeting attendance 2008

| | Board | Remuneration committee | Audit committee | Nomination committee |
|---|-------|------------------------|-----------------|----------------------|
| Total meetings during year | 13 | 4 | 3 | 1 |
| J L M Hughes (Chairman) | 13 | 4 | 2 | n/a |
| A J Reading (senior independent director) | 13 | 4 | 3 | 1 |
| P A Chambré | 11 | 4 | 3 | n/a |
| J A Warren | 12 | 4 | 3 | n/a |
| J E O'Higgins (Chief Executive) | 13 | n/a | n/a | 1 |
| C G Watson | 13 | n/a | n/a | n/a |
| J C Webster | 13 | n/a | n/a | n/a |
| S C Harris | 2 | n/a | n/a | n/a |
| J W Poulter | 4 | n/a | n/a | – |

S C Harris and J W Poulter held office for part of the year only. S C Harris attended both of the two Board meetings which he was eligible to attend. J W Poulter attended four of the five Board meetings he was eligible to attend and did not attend the nomination committee meeting he was eligible to attend as its subject matter concerned his succession as Chairman.

Board appointments and performance evaluation

The nomination committee consists of the Chairman, the senior independent director and the Chief Executive and is chaired by the Chairman, save in the event of discussions relating to his succession when the senior independent director takes the chair.

Following a decision of the Board that the appointment of a new director is appropriate, the duty of the committee is to present for Board consideration suitably qualified candidate(s). In making such recommendations, the committee evaluates the balance of skills, knowledge and experience on the Board and develops a description of the role and required capabilities. Candidates are then identified for interview, external search consultants being engaged as part of this process. The committee also makes recommendations to the Board regarding the re-election and/or re-appointment of any director. Similar selection processes apply for the appointment of a chairman.

The nomination committee meets as the need arises. Its terms of reference can be found on the company's website.

The operation of the Board and its committees is reviewed by the Board as a whole annually. The executive directors' and company secretary's performances are appraised annually against objectives established for the prior year. The contributions of the Chairman and non-executive directors are reviewed in advance of the conclusion of their initial three-year term, by the senior independent director and the Chairman respectively, prior to their being proposed to shareholders for re-election. Additionally, the Chairman holds periodic meetings with the non-executive directors only and, led by the senior independent director, the non-executives have the opportunity to meet at least annually without the Chairman present.

An evaluation of the operation and performance of the Board was conducted in 2008. The process included submissions from all Board members in response to a structured questionnaire covering a range of issues, which were considered by the Chairman and the senior independent director and then reviewed by the Board as a whole.

Shareholder relations

Spectris conducts regular dialogue with institutional shareholders and divulges such information as is permitted within the guidelines of the Listing Rules. The content of presentations made after results announcements may be accessed by individual investors on the group website, www.spectris.com.

All shareholders are invited to participate in the Annual General Meeting, where the Chairman, the Chief Executive and the chairmen of the audit, remuneration and nomination committees are available to answer questions. The results of proxy votes are

declared at the Annual General Meeting after each resolution has been dealt with on a show of hands. These are then published on the group website.

The Board is kept informed of the views of major shareholders through periodic reports from the Chief Executive, the company's joint brokers Merrill Lynch and RBS Hoare Govett and the company's shareholder relations adviser, Makinson Cowell. The Chairman and non-executive directors have the opportunity to attend the bi-annual analyst presentations.

Shareholders representing in excess of 3% of the company's issued share capital receive a standing invitation to meet the Chairman, the senior independent director or new non-executive directors. Such meetings would supplement if necessary, but not replace, the regular meetings with the Chief Executive and group finance director.

Audit committee

The audit committee comprises the non-executive directors and is chaired by John Warren who has recent and relevant financial experience as the former group finance director of WH Smith PLC. The committee meets at least twice each year to consider the effectiveness of the group's internal controls, policies and procedures, the process of internal audit and the outcome of the external audit. Its meetings are normally attended by the Chairman, the Chief Executive, the group finance director, the company secretary and the external auditor. All executive directors attend the year end final audit review meeting and processes requiring the disclosure of relevant information by individual directors to the auditor have been adopted. The committee regularly confers with the auditor without the attendance of executive directors. Its terms of reference can be found on the company's website.

The committee is responsible for making recommendations to the Board in relation to the appointment of the external auditor and then for approving the external auditor's remuneration, terms of engagement and scope of work.

The committee has also adopted procedures governing and restricting the appointment of the external auditor for non-audit services. The following services are precluded:

- book-keeping or other services related to the accounting records or financial statements of Spectris plc;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution in kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser or investment banking services; and
- legal services and expert services unrelated to the audit.

A cumulative annual cap of £200,000 is established for all other non-audit services (save for acquisition due diligence and taxation services) above which all engagements are subject to prior approval by the audit committee.

The Head of Internal Audit is employed by the group to perform internal control reviews across the group according to a work programme agreed by the committee. The Head of Internal Audit is assisted in this by two further internal auditors and by other group finance personnel. The nature and scope of the group's internal control review resources is reviewed by the audit committee annually. The audit committee receives reports twice a year on the results of internal control reviews. The Head of Internal Audit has direct access to the chairman of the audit committee and may meet with him in the absence of executive management.

Internal controls

The group's system of internal controls is described on page 23 of the Business Review.

Going concern

Having reviewed the group's plans and available financial facilities, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the group's accounts.

Business Review

The information that fulfils the requirements of the Business Review, as required by Section 417 of the Companies Act 2006, and which should be treated as forming part of this report by reference, is included in the following sections of the annual report:

- Chairman's Statement on pages 2 and 3.
- Chief Executive's Statement on pages 4 and 5.
- Group Overview on pages 6 and 7.
- Operating Review on pages 10 to 19, which includes a review of the external environment.
- Key strategic aims and performance measures are described on pages 8 and 9.
- Principal risks and uncertainties are described on pages 23 and 24.
- Details of the principal operating subsidiaries are set out on pages 12 to 19.
- Financial Review on pages 20 to 22.
- Corporate citizenship on pages 25 to 29 which includes the company's policy on treatment of its employees.

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Directors' Report continued

The group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Responsibility statement of the directors in respect of the Annual Report

We, the directors of the company, confirm that to the best of our knowledge:

- a) the financial statements of the group have been prepared in accordance with IFRS as adopted by the EU, and for the company under UK GAAP, in accordance with applicable United Kingdom law and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group; and
- b) the information that is cross-referenced from the Business Review section of the Directors' Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that face the group.

By order of the Board.



R J Stephens

Secretary

24 February 2009

Directors' Remuneration Report

The directors present their remuneration report for the year ended 31 December 2008.

Remuneration committee

The remuneration committee is responsible for recommending to the Board the broad policy for the remuneration of the Chairman, the Chief Executive, the executive directors and the company secretary. The remuneration of non-executive directors is a matter reserved to the Chairman and executive directors.

Within the terms of the agreed policy, the committee determines:

- the total individual remuneration package including, where appropriate, bonuses and share-based incentives;
- the targets for any performance-related incentives;
- the scope of any pension arrangements;
- contractual terms of engagement and any payments to be made on termination; and
- the policy for authorising claims for expenses from the Chairman or Chief Executive.

The committee also monitors the level and structure of remuneration for business unit presidents or managing directors and the head of corporate development.

The remuneration committee consists of the Chairman and the non-executive directors (all of whom are independent), these being at the date of this report Anthony Reading (chairman), Peter Chambré, John Hughes and John Warren. The Chief Executive may be in attendance by invitation and the committee takes into consideration his recommendations regarding the remuneration of his executive colleagues. The Chief Executive is not involved in discussions concerning his own remuneration.

The committee has appointed Hewitt New Bridge Street (a trading name of Hewitt Associates Limited which acquired New Bridge Street Consultants LLP) to advise on various aspects of the Chairman's and executive directors' remuneration. Hewitt New Bridge Street did not provide any other services to the company during the year. However, Hewitt Associates Limited provided benchmark data on selected management roles during the year. Hewitt New Bridge Street operates separately from the rest of Hewitt.

The terms of reference of the remuneration committee can be found on the company's website and are available on request.

Remuneration policy

The Board, in considering the recommendations of the remuneration committee, complied throughout the year with the provisions of the Combined Code (including the principles for performance-related remuneration set out in Schedule A). The policy objective is to ensure that the high calibre individuals required at board level are fairly and competitively remunerated and incentivised in a manner consistent with the group's strategic objectives.

The remuneration committee also regularly reviews the balance between fixed and variable pay.

Salaries and fees

Base salaries and fees are established by reference to surveys of the terms offered by comparable UK quoted companies. The starting point for comparative surveys is the scope of the position and associated performance of the Chairman, each executive director and the company secretary. Excluding his own position and performance, the Chief Executive is responsible for the definition of the scope of positions and assessment of the performance of each executive director, for approval by the remuneration committee. Salaries are reviewed at the beginning of each year and are set at competitive levels, typically based around the market median, although the remuneration committee reserves the flexibility to respond to individual circumstances which may cause salaries to be set at a level higher or lower than market median. Market ranges are reviewed on a regular basis.

Salary levels for all Board members were not subject to any increase at the review date of 1 January 2009.

Bonuses

To align remuneration with shareholders' interests, a significant proportion of executive directors' potential total remuneration is related to annual corporate performance.

Under the 2008 arrangements, bonuses of up to 100% of base salary were achievable upon the attainment of demanding profitability (75% potential) and personal (25% potential) targets set in relation to carefully considered business plans. Bonus payments commence only at a level which shows an acceptable financial result in the context of economic circumstances and market expectations, with an 'on-plan' performance yielding a payment of approximately half the maximum potential. Targets for maximum outturn are set at highly stretching, albeit attainable, levels. There is no change to the bonus potential or performance measures for 2009. Bonuses achieved in respect of 2008 performance based on targets set at the start of the financial year were as follows (as a percentage of salary at 31 December 2008):

| | |
|---------------|--------|
| J E O'Higgins | 81.10% |
| C G Watson | 75.65% |
| J C Webster | 77.90% |

Share-based incentives

The remuneration committee keeps under review the company's share-based incentive arrangements and takes advice on market practice. The committee is of the view that offering senior management the opportunity to be awarded and then retain shares in the company is an important part of motivating and rewarding key employees so that they may participate in the future growth in value of the company. The Spectris Performance Share Plan ('the Plan'), approved by shareholders at the 2006 AGM, is intended to support this objective and to facilitate the retention of senior management over the longer term.

Under the Plan, annual awards of shares may be made which vest at the end of a three-year period, subject to continued employment and the satisfaction of challenging performance conditions. The maximum award of performance shares that can be made to any participant in any financial year is limited to shares with a market value equal to 125% of the participant's salary, although the

Directors' Remuneration Report continued

committee's general policy is to determine awards by reference to a base award over shares worth 100% of salary, which may then be flexed up or down from year to year depending on corporate and personal performance.

Awards are currently structured so that 50% of the award is subject to an earnings per share ('EPS') target and 50% subject to a total shareholder return ('TSR') target. Each condition operates over a fixed three-year period with no opportunity for retesting.

The performance criteria for grants made in 2008 are summarised in the tables below.

| Company EPS performance | % of award that vests (expressed as a percentage of one-half of the total number of shares subject to an award) |
|---|---|
| Consumer Prices Index ('CPI') + 12% compound per annum ('c.p.a.') | 100% |
| Between CPI +5% and 12% c.p.a. | Pro rata straight line between 25% and 100% |
| CPI +5% c.p.a. | 25% |
| Less than CPI + 5% c.p.a. | 0% |

| Company TSR performance relative to the FTSE 250 (excluding investment trusts) | % of award that vests (expressed as a percentage of one-half of the total number of shares subject to an award) |
|--|---|
| Upper quintile or above | 100% |
| Between upper quintile and median | Pro rata straight line between 25% and 100% |
| Median | 25% |
| Below median | 0% |

The above criteria will continue to apply to Performance Share Plan awards to be made in 2009.

For grants made in 2006 and 2007, the upper end of each vesting scale was set at a) CPI + 10% c.p.a. and b) upper quartile. The reference level for a base award of shares in 2006 and 2007 was 67% of salary.

If awards in excess of 100% of salary were to be granted, the committee has also undertaken that the percentage of an award that will vest for threshold performance will be limited to 25% of a participant's base salary rather than 25% of the number of shares subject to an award, with pro rata straight line vesting from this lower point up to 100% of the award. There is no intention to make awards in excess of 100% of salary during 2009.

The committee considers the above performance conditions to be an appropriate means of aligning the interests of participants with those of longer-term shareholders. The TSR performance condition will be measured independently by Hewitt New Bridge Street and the EPS condition will be verified by the company's auditors.

It is the intention of the committee that all future share-based incentives granted to senior managers or executive directors are made under the Plan. No share option grants were made during 2008 or the year to date, nor are any grants envisaged. Executive directors may, however, continue to participate in grants made

under the Spectris Savings Related Share Option Scheme which is applicable to all UK employees.

Exercise of share options granted under the 1996 executive share plan (which was not renewed on expiry) or the 1999 executive share option scheme, were subject to prior achievement of performance conditions, requiring compound annual growth in earnings per share before exceptional items and amortisation of goodwill ('EPS') over three financial years to be between 3% and 5% per annum ahead of the increase in the retail prices index ('RPI'). This condition has now been met for all outstanding option grants. EPS growth was selected as the appropriate pre-condition to exercise in order to ensure that share option gains would only be received if the company's performance for shareholders had been enhanced.

Share retention

It is intended that each executive director should, subject to personal circumstances, build a retained shareholding in Spectris plc greater than two times base salary in value within a five-year period from appointment. Executive directors are required to apply the post-tax benefit of any vested Plan awards or bonus payments exceeding 60% of base salary to the acquisition of shares until this level of shareholding is achieved.

Benefits

Company car and health insurance benefits are subject to income tax. The executive directors have defined contribution pension arrangements to which the company contributes at a rate of 25% of base salary.

Contractual terms

All executive directors have rolling contracts subject to 12 months' notice.

The committee has determined that contracts of employment should, going forward, contain a contractual best endeavours obligation to seek alternative employment in the event of serving of notice of termination by the company, and that full mitigation reflective of any earnings from a new position should apply so as to reduce the payments otherwise due from the company during the notice period. Additionally, in these circumstances, it is the current intention that bonus entitlements should be calculated to the date of notice of termination only and that a phased payment provision, subject to reduction as explained above and equivalent to 1.65 times monthly salary, should apply in lieu of all remuneration and benefits otherwise payable during the notice period and in full and final settlement of all employment-related claims. Mr O'Higgins' and Mr Watson's contracts of employment reflect these terms.

Mr Webster's contract, concluded in 1998, provides for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration – salary, bonus and benefits) in the event of termination by the employer within 12 months of a change in control of the group. Termination payments in other circumstances would be a matter for negotiation and remain, at the discretion of the committee, subject to mitigation and/or reduction for accelerated payment.

No compensation payments on termination of employment were made during the year.

External appointments

Executive directors may retain any payments received in respect of external non-executive appointments. Such appointments are limited to one per director at any time and are subject to the approval of the Board. Mr Webster is a non-executive director of Raymarine plc and was paid a fee of £35,000 per annum. No other external directorships are held by the executive directors.

Remuneration below board level

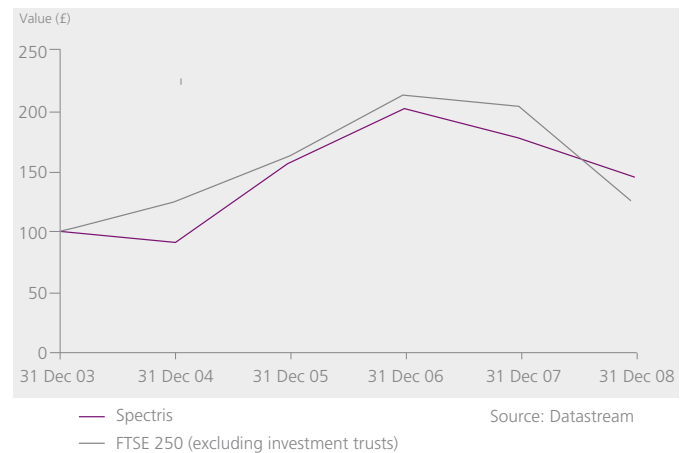
Remuneration for presidents of the group's trading companies is set at competitive levels to reflect the size, complexity and geographic locations of these businesses. Base salaries for presidents of the group's European operations fall within a range between €130,000 and €340,000. Base salaries for presidents of the group's US operations fall within a range between \$220,000 and \$300,000. Additionally, the group's presidents participate in share awards under the Spectris Performance Share Plan (typically over 60% of base salary) and in profit-related bonus arrangements linked to base salary and payable against their business annual operating profit after exchange, plus or minus a financing charge/credit arising from changes in working capital over the year. On plan performance delivers a c.30% of base salary bonus with the upper limit of the payment range delivering 50% of base salary.

Non-executive directors

Non-executive directors' fees are agreed by the Chairman and executive directors by reference to market practice. The base fee is supplemented by allowances for chairmanship of the audit and remuneration committees and the pension scheme trustee board. There is no participation in bonus, share option, or pension arrangements and no participation in the Spectris Performance Share Plan. All non-executive directors' conditions of appointment provide for a six-month period of notice within an initial term of three years from election by shareholders at the director's first AGM. The appointment may be renewed by mutual agreement for a further three-year period.

Total shareholder return

The following graph indicates the value by the end of 2008 of £100 invested in Spectris plc 5p ordinary shares on 31 December 2003 compared with the value of £100 invested in the FTSE 250 index (excluding investment trusts) over the same period. The graph was selected as the most appropriate comparison measure because the company is a constituent member of the FTSE 250 index and the members of the FTSE 250 (excluding investment trusts) form the comparator group for the purposes of the TSR performance test under the Spectris Performance Share Plan.



This graph shows the value, by 31 December 2008, of £100 invested in Spectris on 31 December 2003 compared with the value of £100 invested in the FTSE 250 index (excluding investment trusts). The other points plotted are the values at intervening financial year-ends.

Directors' Remuneration Report continued

Service contracts

The following table sets out a summary of the directors' service contracts or terms of appointment. Directors' service contracts provide for termination on the director reaching the age of 65.

| | Date of contract | Expiry date | Notice period | Length of service at 23 February 2009 |
|--------------------------------|------------------|-------------|---------------|---------------------------------------|
| Executive directors | | | | |
| J E O'Higgins | 1.1.06 | 3.2.29 | 12 months | 3 years 1 month |
| C G Watson | 1.10.06 | 4.2.23 | 12 months | 2 years 4 months |
| J C Webster | 27.3.98 | 21.6.15 | 12 months | 15 years 4 months |
| Non-executive directors | | | | |
| P A Chambré | 1.8.06 | 16.5.10 | 6 months | 2 years 6 months |
| J L M Hughes | 1.6.07 | 16.5.11 | 6 months | 1 year 8 months |
| A J Reading | 10.3.04 | 16.5.10 | 6 months | 4 years 11 months |
| J A Warren | 7.3.06 | 16.5.09 | 6 months | 2 years 11 months |

Mr Webster's contract provides for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration – salary, bonus and benefits) in the event of termination by the employer within 12 months of a change in control of the group.

Mr O'Higgins' and Mr Watson's contracts provide, subject to a duty of mitigation, for phased monthly payments equivalent to 1.65 times monthly salary in lieu of all remuneration and benefits otherwise payable during the notice period in full and final settlement of all employment-related claims.

Directors' remuneration and interests

The auditors are required to report on the information contained in the following sections a) to e).

a) Emoluments of directors excluding pension contributions (£000)

| | Salary and/or fees | Bonus | Benefits in kind | Taxable expenses | 2008 Total | 2007 Total |
|--------------------------------|--------------------|-------|------------------|------------------|--------------|------------|
| Executive directors | | | | | | |
| J E O'Higgins | 420 | 341 | 15 | 4 | 780 | 663 |
| C G Watson | 275 | 208 | 11 | 4 | 498 | 447 |
| J C Webster | 250 | 195 | 21 | – | 466 | 421 |
| S C Harris | 46 | – | 2 | – | 48 | 403 |
| Non-executive directors | | | | | | |
| P A Chambré | 39 | – | – | – | 39 | 35 |
| J L M Hughes | 102 | – | – | – | 102 | 23 |
| A J Reading | 45 | – | – | – | 45 | 40 |
| J A Warren | 56 | – | – | – | 56 | 40 |
| A F Given | – | – | – | – | – | 15 |
| J W Poulter | 53 | – | – | – | 53 | 126 |
| | 1,286 | 744 | 49 | 8 | 2,087 | 2,213 |

1. Benefits in kind include company cars, private fuel and medical expenses insurance. Taxable expenses relate to allowances paid in lieu of company cars and private fuel.
2. The Chairman's fees are £140,000 p.a. Fees paid to Mr Hughes in 2008 reflect his appointment as Chairman in May 2008.
3. For Mr Reading and Mr Warren, their base fee of £38,500 p.a. is increased by an additional fee of £6,500 p.a. for their chairmanship of, respectively, the remuneration and audit committees. Additionally, Mr Warren receives a fee of £15,000 p.a. for his chairmanship of Spectris Pension Trustees Limited, following his appointment to that position in April 2008.
4. During the year Mr Webster received £35,000 in respect of his appointment as a non-executive director of Raymarine plc.

b) Directors' pensions

Company contributions to defined contribution plans:

| | 2008 £000 | 2007 £000 |
|---------------|--------------|--------------|
| J E O'Higgins | 105 | 95 |
| C G Watson | 69 | 63 |
| J C Webster | 63 | 60 |
| S C Harris | 10 | 59 |

The company contributes at the rate of 25% of salary.

c) Directors' total remuneration

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Aggregate emoluments | 2,087 | 2,213 |
| Company pension contributions to defined contribution schemes | 247 | 277 |
| Gains made on exercise of share options | – | 1,561 |
| | 2,334 | 4,051 |

d) Directors' interests in options to purchase ordinary shares

| | Date granted | Options held 1 Jan 08 | Granted during the year | Exercise price (p) | Exercised during the year | Share price at date of exercise (p) | Lapsed during the year | Options held 31 Dec 08 (or date of cessation of employment if earlier) | Date exercisable | Expiry date |
|-----------------------|--------------|--------------------------|-------------------------------|-----------------------|---------------------------------|---|------------------------------|---|---------------------|-------------|
| J E O'Higgins SAYE | Oct 2006 | 1,529 | | 618 | | | | 1,529 | Dec 2009 | Jun 2010 |
| | | 1,529 | | | | | | 1,529 | | |
| S C Harris | Sep 2005 | 85,000 | | 589 | | | 85,000 | 0 | n/a | n/a |
| | | 85,000 | | | | | 85,000 | 0 | | |
| C G Watson SAYE | Oct 2007 | 1,146 | | 837 | | | | 1,146 | Dec 2010 | Jun 2011 |
| | | 1,146 | | | | | | 1,146 | | |
| J C Webster | Sep 2005 | 85,000 | | 589 | | | | 85,000 | Sep 2008 | Sep 2015 |
| | | 85,000 | | | | | | 85,000 | | |
| Total | | 172,675 | | | | | 85,000 | 87,675 | | |

Shares other than those marked SAYE relate to executive share option grants. Entitlement to exercise grants under the Unapproved 1996 Executive Share Plan is conditional upon a performance criterion requiring compound growth in normalised earnings per share (EPS) over three years up to 5% per annum in excess of the increase in the retail prices index (please refer to the Directors' Remuneration Report on page 38 for further explanation). This condition has been met for all outstanding option grants. No consideration was paid by any recipient in relation to the grant of an option and there were no changes to the conditions on which any option was granted during the year.

No director exercised share options during the year. The remaining options granted to S C Harris lapsed on his leaving employment on 31 January 2008.

Directors' Remuneration Report continued

e) Directors' share awards under the Spectris Performance Share Plan

| | Number of shares subject to award at 1 Jan 08 | Granted during the year | Exercised during the year | Lapsed during the year | Number of shares subject to award at 31 Dec 08 (or date of cessation of employment if earlier) | Market value of each share at date of award (p) | Date exercisable | Expiry date |
|---------------|---|-------------------------|---------------------------|------------------------|--|---|------------------|-------------|
| J E O'Higgins | 56,000 | | | | 56,000 | 622.5 | May 2009 | May 2010 |
| | 35,500 | | | | 35,500 | 865.0 | Mar 2010 | Mar 2011 |
| | | 53,400 | | | 53,400 | 786.5 | Mar 2011 | Mar 2012 |
| | 91,500 | | | | 144,900 | | | |
| S C Harris | 24,000 | | | 24,000 | 0 | 622.5 | n/a | n/a |
| | 20,500 | | | 20,500 | 0 | 865.0 | n/a | n/a |
| | 44,500 | | | 44,500 | 0 | | | |
| C G Watson | 6,500 | | | | 6,500 | 640.0 | Oct 2009 | Oct 2010 |
| | 21,500 | | | | 21,500 | 865.0 | Mar 2010 | Mar 2011 |
| | | 34,900 | | | 34,900 | 786.5 | Mar 2011 | Mar 2012 |
| | 28,000 | | | | 62,900 | | | |
| J C Webster | 24,500 | | | | 24,500 | 622.5 | May 2009 | May 2010 |
| | 20,500 | | | | 20,500 | 865.0 | Mar 2010 | Mar 2011 |
| | | 31,700 | | | 31,700 | 786.5 | Mar 2011 | Mar 2012 |
| | 45,000 | | | | 76,700 | | | |
| Total | 209,000 | 120,000 | | 44,500 | 284,500 | | | |

The above awards were made as conditional rights to acquire shares (structured as nominal cost options) and the number of shares awarded were based on the mid-market closing price of the company's shares on the business day prior to the date of grant. In respect of the 2008 award, for each of Mr O'Higgins, Mr Watson and Mr Webster, the value of the award was equivalent to 100% of their base salaries at the date of grant. Following satisfaction, in whole or part, of the performance criteria attaching to the awards (as summarised on page 38), the directors may call for the release to them of the vested shares during the above-shown exercise periods.

The awards granted to Mr Harris lapsed on his leaving employment on 31 January 2008.

f) Directors' interests

The following directors or their families had beneficial interests in the ordinary shares of the company:

| | Shareholdings | |
|---------------|---|--|
| | 2008 31 Dec (or date of resignation) | 2008 1 Jan (or date of appointment) |
| J L M Hughes | 8,000 | 4,000 |
| J E O'Higgins | 27,000 | 15,000 |
| P A Chambré | 5,000 | 5,000 |
| A J Reading | 11,000 | 10,000 |
| J A Warren | 3,000 | 3,000 |
| C G Watson | 12,500 | 8,832 |
| J C Webster | 105,942 | 100,126 |
| S C Harris | 19,924 | 19,924 |
| J W Poulter | 85,315 | 85,315 |

There were no changes to the above interests between the year end and the date of this report.

No director had during the year or at the end of the year any material interest in any contract of significance to the group's business.

At 31 December 2008 the middle market closing share price on the London Stock Exchange was 535p. The highest share price in the year was 830.5p and the lowest was 400p. At 31 December 2008 each of the executive directors was deemed to have a non-beneficial interest in 10,765 (2007: 20,780) ordinary shares held by the Trustees of the Spectris plc Employee Benefit Trust of which the directors are among the class of discretionary beneficiaries.

By order of the Board



A J Reading

Chairman of the Committee
24 February 2009

Independent Auditors' Report to the Members of Spectris plc

We have audited the group and parent company financial statements (the 'financial statements') of Spectris plc for the year ended 31 December 2008, which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 35.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Annual Report that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or

form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

24 February 2009

Consolidated Income Statement

For the year ended 31 December 2008

| | Note | 2008 £m | 2007 £m |
|---|------|---------------|------------|
| Continuing operations | | | |
| Revenue | 6 | 787.1 | 668.4 |
| Cost of sales | | (334.5) | (283.8) |
| Gross profit | | 452.6 | 384.6 |
| Indirect production and engineering expenses | | (71.1) | (57.4) |
| Sales and marketing expenses | | (191.7) | (158.0) |
| Administrative expenses | | (76.1) | (66.3) |
| Operating profit | 7 | 113.7 | 102.9 |
| Profit on disposal of businesses | 28 | 0.3 | 19.0 |
| Financial income | 10 | 7.8 | 9.6 |
| Finance costs | 10 | (15.7) | (13.4) |
| Profit before tax | | 106.1 | 118.1 |
| Taxation – UK | 11 | 1.5 | (2.6) |
| Taxation – Overseas | 11 | (26.5) | (29.3) |
| Total taxation | | (25.0) | (31.9) |
| Profit after tax for the year from continuing operations attributable to equity shareholders | | 81.1 | 86.2 |
| Basic earnings per share (pence) | 13 | 70.3 | 70.9 |
| Diluted earnings per share (pence) | 13 | 69.8 | 70.6 |
| Interim dividends paid and final dividends proposed for the year (per share) | 12 | 23.4p | 21.0p |
| Dividends paid during the year (per share) | 12 | 21.7p | 18.3p |

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

Reconciliations showing how the adjusted performance measures are derived from those reported under adopted IFRS are set out in Note 3.

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

| | Note | 2008 £m | 2007 £m |
|---|------|--------------|------------|
| Net loss on effective portion of changes in fair value of forward exchange contracts | 21 | (8.2) | (1.1) |
| Foreign exchange movements on translation of overseas operations | | 136.5 | 26.0 |
| Net loss on changes in fair value of effective portion of hedges of net investment in overseas operations | | (41.4) | (6.3) |
| Actuarial gains arising on pension schemes | 9 | 2.3 | 5.9 |
| Inclusion of Swiss pension plan | 9 | (0.5) | – |
| Tax on items recognised directly in equity | 11 | 3.0 | (4.0) |
| Net income recognised in equity in respect of year | | 91.7 | 20.5 |
| Profit for the year | | 81.1 | 86.2 |
| Total recognised income and expense for the year attributable to equity shareholders | | 172.8 | 106.7 |

Consolidated Balance Sheet

As at 31 December 2008

| | Note | 2008 £m | 2007 £m |
|-------------------------------------|------|----------------|----------------|
| Assets | | | |
| Non-current assets | | | |
| Goodwill | 14 | 342.6 | 223.1 |
| Other intangible assets | 15 | 43.9 | 12.2 |
| Property, plant and equipment | 16 | 118.2 | 87.7 |
| Equity accounted investment | 31 | 0.6 | – |
| Deferred tax asset | 24 | 30.7 | 25.7 |
| | | 536.0 | 348.7 |
| Current assets | | | |
| Inventories | 17 | 148.0 | 92.8 |
| Taxation recoverable | | 1.4 | – |
| Trade and other receivables | 18 | 207.8 | 153.7 |
| Derivative financial instruments | 21 | – | 0.1 |
| Cash and cash equivalents | 19 | 64.4 | 51.4 |
| Assets held for sale | 5 | – | 1.2 |
| | | 421.6 | 299.2 |
| Total assets | | 957.6 | 647.9 |
| Liabilities | | | |
| Current liabilities | | | |
| Short-term borrowings | 20 | (35.0) | (4.4) |
| Derivative financial instruments | 21 | (9.2) | – |
| Trade and other payables | 22 | (197.9) | (141.7) |
| Current tax liabilities | | (38.4) | (32.8) |
| Provisions | 23 | (23.1) | (21.5) |
| | | (303.6) | (200.4) |
| Net current assets | | 118.0 | 98.8 |
| Non-current liabilities | | | |
| Medium- and long-term borrowings | 20 | (173.6) | (108.1) |
| Derivative financial instruments | 21 | (16.9) | (16.1) |
| Other payables | 22 | (10.1) | (8.4) |
| Retirement benefit obligations | 9 | (8.5) | (11.1) |
| Deferred tax liability | 24 | (1.7) | (1.0) |
| | | (210.8) | (144.7) |
| Total liabilities | | (514.4) | (345.1) |
| Net assets | | 443.2 | 302.8 |
| Equity | | | |
| Issued share capital | 25 | 6.2 | 6.2 |
| Share premium | 26 | 231.4 | 231.4 |
| Retained earnings | 26 | 117.3 | 63.8 |
| Translation reserve | 26 | 93.0 | (2.1) |
| Hedging reserve | 26 | (8.1) | 0.1 |
| Merger reserve | 26 | 3.1 | 3.1 |
| Capital redemption reserve | 26 | 0.3 | 0.3 |
| Equity shareholders' funds | | 443.2 | 302.8 |
| Total equity and liabilities | | 957.6 | 647.9 |

The financial statements on pages 45 to 84 were approved by the Board of Directors on 24 February 2009 and were signed on its behalf by:



Clive Watson
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | Note | 2008 £m | 2007 £m |
|--|------|----------------|----------------|
| Cash flows from operating activities | | | |
| Profit after tax | | 81.1 | 86.2 |
| Adjustments for: | | | |
| Tax | 11 | 25.0 | 31.9 |
| Profit on disposal of businesses | 28 | (0.3) | (19.0) |
| Finance costs | 10 | 15.7 | 13.4 |
| Financial income | 10 | (7.8) | (9.6) |
| Depreciation | 16 | 10.4 | 13.1 |
| Amortisation of intangible assets | 15 | 7.7 | 2.0 |
| Loss/(gain) on sale of property, plant and equipment | 7 | 0.1 | (0.6) |
| Equity settled share-based payment expense | 27 | 1.8 | 0.9 |
| Operating profit before changes in working capital and provisions | | 133.7 | 118.3 |
| Decrease/(increase) in trade and other receivables | | 7.8 | (2.0) |
| Increase in inventories | | (10.1) | (6.9) |
| (Decrease)/increase in trade and other payables | | (1.4) | 10.1 |
| Decrease in provisions and employee benefits | | (6.9) | (4.5) |
| Corporation tax paid | | (24.0) | (23.8) |
| Net cash from operating activities | | 99.1 | 91.2 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (21.9) | (12.7) |
| Proceeds from sale of property, plant and equipment | | 0.9 | 1.4 |
| Acquisition of businesses, net of cash acquired | 31 | (87.2) | (6.0) |
| Acquisition of an associate undertaking | 31 | (0.6) | – |
| Disposal of businesses | | 1.5 | 29.8 |
| Interest received | | 1.6 | 1.9 |
| Net cash flows (used in)/generated by investing activities | | (105.7) | 14.4 |
| Cash flows from financing activities | | | |
| Interest paid | | (10.1) | (8.2) |
| Dividends paid to equity holders of the parent | 12 | (25.0) | (22.2) |
| Share options exercised by issue of share capital | | – | 0.2 |
| Share options exercised from shares held by Employee Benefit Trust | | 0.1 | 1.0 |
| Share options exercised from treasury shares | | 0.2 | 2.9 |
| Purchase of own shares by Employee Benefit Trust | | (0.2) | (1.6) |
| Purchase of own shares – treasury shares | | (9.3) | (79.2) |
| Proceeds from borrowings | | 50.0 | – |
| Decrease in finance lease liabilities | | – | (0.1) |
| Net cash flows generated by/(used in) financing activities | | 5.7 | (107.2) |
| Net decrease in cash and cash equivalents | | (0.9) | (1.6) |
| Cash and cash equivalents at beginning of year | | 47.4 | 47.0 |
| Effect of foreign exchange rate changes | | 8.3 | 2.0 |
| Cash and cash equivalents at end of year | 19 | 54.8 | 47.4 |
| Reconciliation of changes in cash and cash equivalents to movements in net debt (as defined in Note 20) | | | |
| | Note | 2008 £m | 2007 £m |
| Net decrease in cash and cash equivalents | | (0.9) | (1.6) |
| Decrease in finance lease liabilities | | – | 0.1 |
| Proceeds from borrowings | 20 | (50.0) | – |
| Effect of foreign exchange rate changes | | (33.9) | (4.1) |
| Movement in net debt | | (84.8) | (5.6) |
| Net debt at start of year | 20 | (77.3) | (71.7) |
| Net debt at end of year | 20 | (162.1) | (77.3) |

Notes to the Accounts

1. Accounting policies

General information

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.

These financial statements are presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

Statement of compliance and basis of preparation

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS). The company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice; these are presented on pages 85 to 91.

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

The group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 29. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 20 to 22. In addition, Note 2 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The directors have considered the group's forecasts and projections and reasonably possible changes in trading performance. Taking account of the financing position at 31 December 2008 and the new facility secured from the European Investment Bank (Note 20), the directors consider that the group will be able to operate within the level of its committed facilities even should the facility maturing at the end of 2009 not be renewed. No matters have been drawn to the group's attention to suggest that renewal of this facility might not be forthcoming on acceptable terms should the group seek renewal in due course.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The key judgements made in respect of the appropriateness of the group accounting policies relate to:

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

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

The estimates and associated assumptions are continually evaluated and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates that have the most significant effect on the amounts recognised in the financial statements are recognised in the following areas:

- business combinations in relation to the determination of the fair value of acquired assets and liabilities (Note 31);
- goodwill in relation to the assumptions underpinning impairment testing (Note 14);
- retirement benefit schemes in relation to the assumptions used to value plan assets and liabilities (Note 9);
- provisions and contingent liabilities in relation to determining the quantum and timing of management's best estimate of outflows (Notes 23 and 32).

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

New standards and interpretations not yet adopted

A number of new IFRS standards and IFRIC interpretations have been issued and endorsed, which are not yet effective for the year ended 31 December 2008. Although these have not been applied in preparing these consolidated financial statements, it is not expected that they will have a significant impact on the group's reported results when they come into force with the exception of those noted below.

Revised IFRS 3, *Business Combinations (2008)*, incorporates the following changes that are likely to be relevant to the group's operations:

- contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss;
- transaction costs, other than share and debt issue costs, will be expensed as incurred;
- any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss; and
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior years in the group's 2010 consolidated financial statements.

IFRS 8, *Operating Segments*, introduces the 'management approach' to segment reporting. IFRS 8, which becomes mandatory for the group's 2009 consolidated financial statements requires presentation and disclosure of segment information based on the internal reports regularly reviewed by the group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The group has analysed the impact of IFRS 8 and it is not expected to have any impact on the presentation and disclosure of the segment information disclosed.

Revised IAS 23, *Borrowing Costs*, removes the option to expense all borrowing costs and requires the group to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the group's 2009 consolidated financial statements and will constitute a change in accounting policy for the group. In accordance with the transitional provisions, the group will apply the revised IAS 23 to qualifying assets for which expenditure commences on or after the effective date. Therefore, there will be no impact on prior periods in the group's 2009 consolidated financial statements.

Revised IAS 1, *Presentation of Financial Statements (2007)*, introduces the term 'total comprehensive income', which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the group's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements.

Basis of consolidation

The group financial statements include the results of the company and all of its subsidiary undertakings and associates (equity accounted investment).

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method of accounting and are recognised initially at cost.

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

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

Foreign currency transactions

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

Derivative financial instruments may be purchased to hedge the group's exposure to changes in foreign exchange rates. The accounting policies applied in these circumstances are described under the heading 'Derivative financial instruments and hedge accounting' below.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Derivative financial instruments and hedge accounting

The group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating and financing activities. In accordance with its treasury policy, it does not hold or use derivative financial instruments for trading or speculative purposes.

Cash flow hedge accounting

Derivative financial instruments may be transacted to hedge the variability in cash flows of a recognised asset or liability, or of highly probable forecast transactions, caused by changes in exchange rates.

Derivative financial instruments are carried in the balance sheet at fair value. Where a derivative financial instrument is designated in a cash flow hedge relationship with a highly probable forecast transaction, the effective part of any gain or loss arising is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement. When the forecast transaction subsequently occurs and results in the recognition of a financial asset or liability that impacts on the income statement, the associated cumulative gain or loss is removed from equity and presented within the income

Notes to the Accounts continued

1. Accounting policies continued

statement. When the forecast transaction subsequently occurs and results in the recognition of a non-financial asset or liability, the associated cumulative gain or loss is removed from equity and included within the initial cost of the non-financial asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is either sold, terminated or exercised without replacement or rollover; or the group revokes the designation; or the hedging instrument no longer qualifies for hedge accounting.

If a derivative financial instrument is not formally designated in a cash flow hedge relationship, any change in fair value is recognised in the income statement.

Net investment hedge accounting

The group uses US dollar and euro-denominated borrowings and derivative financial instruments as a hedge against the translation exposure on the group's net investment in overseas companies. Where the hedge is fully effective at hedging the variability in the net assets of such companies caused by changes in exchange rates, the changes in value of the borrowings are recognised in equity. The ineffective part of any change in value caused by changes in exchange rates is recognised in the income statement.

The group takes advantage of cross-currency swaps for some of its US dollar-denominated private placement borrowings. The swaps have the effect of converting fixed rate US dollar borrowings into 'synthetic' fixed rate euro-denominated borrowings. The value of the element of the swap that locks interest payments at a fixed euro interest rate changes as US dollar variable interest rates, euro variable interest rates and foreign currency exchange rates change. Under IAS 39's rules, such changes in value are considered to be ineffective as a net investment hedge and accordingly they are recognised in the income statement.

Business combinations and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the fair value of the purchase consideration for the interests in subsidiary undertakings over the fair value to the group of the net assets and any contingent liabilities acquired. In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost which represents the amount recorded previously under UK GAAP. Prior to 1 January 1998, goodwill was written off to reserves in the year of acquisition.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. From 1 January 2004, goodwill is allocated on acquisition to cash-generating units that are anticipated to benefit from the combination, and is no longer amortised but is tested annually for impairment. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. This estimate of recoverable amount is performed at each balance sheet date.

The estimate of recoverable amount requires significant judgement and is based on a number of factors such as the near-term business outlook for the cash generating unit, including both its operating profit and operating cash flow performance. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and an active programme to locate a buyer and complete the sale must have been initiated. Ordinarily, the sale should be expected to qualify for recognition as a completed sale within one year from the date of the classification as held for sale.

Segmental analysis

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmental information is based on two segment formats: the primary format represents the group's business segments whereas the secondary format reflects the geographical segments.

Segment result represents operating profits (including intangible asset amortisation and goodwill impairment charges) and includes an allocation of head office expenses. Segment result excludes tax and financing items.

Segment assets comprise goodwill, other intangible assets, property, plant and equipment, inventories, trade and other receivables and assets held for sale. Segment liabilities comprise trade and other payables, provisions, held for sale liabilities, and other payables. Unallocated items represent corporate and deferred taxation balances, defined benefit scheme liabilities and all components of net debt.

Intangible assets

Self-funded research and development costs are charged to the income statement in the year in which they are incurred unless development expenditure meets certain strict criteria for capitalisation. These criteria include demonstration of the technical feasibility of completing a new intangible asset that

will be available for sale and that the asset will generate probable future economic benefits. Where expenditure meets the criteria, development costs are capitalised and amortised over their useful economic lives.

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits, otherwise it is expensed as incurred.

Amortisation of intangible assets is charged to administrative expenses in the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Patents and trademark – up to 5 years
Other intangible assets – 3 to 10 years

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The group recognises in the carrying amount of property, plant and equipment the additions that are appropriate to capitalise and the subsequent costs of replacing the parts of such items when there are future economic benefits that will flow to the group and its cost can be measured reliably. Cost includes expenditure that is directly attributable to the acquisition of the asset cost. All other costs are recognised in the income statement as an expense as they are incurred.

Depreciation is recognised in the income statement on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over its estimated useful life. The depreciation charge is revised where useful lives are different from previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Land is not depreciated. Estimated useful lives are as follows:

| | |
|--------------------------------------|--------------------------------|
| Freehold and long leasehold property | – 20 to 40 years |
| Short leasehold property | – over the period of the lease |
| Plant, machinery and other equipment | – 5 to 20 years |
| Motor vehicles | – 4 years |
| Tooling, computer hardware | – 3 to 5 years |

Impairment of tangible and intangible assets excluding goodwill

The carrying amount of the group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future

cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised as an operating expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Impairment losses on goodwill are not reversed.

Trade and other receivables

Trade and other receivables are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts. Discounting is applied where it is expected to have a material impact.

Inventories

Inventories and work in progress are carried at the lower of cost and net realisable value. Inventories acquired as part of business combinations are valued at fair value. Cost represents direct costs incurred and, where appropriate, production or conversion costs and other costs to bring the inventory to its existing location and condition. In the case of manufacturing inventory and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Inventory is accounted for on a first-in, first-out basis. Provision is made to write down slow-moving and obsolete items to net realisable value based on an assessment of technological and market developments and on an analysis of historic and projected usage.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash equivalents for the purposes of the statement of cash flows.

Trade and other payables

Trade and other payables are stated at fair value.

Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. In respect of warranties a provision is recognised when the underlying products or services are sold. Provisions are recognised at an amount equal to the best estimate of the expenditure required to settle the group's liability. Obligations arising from restructuring plans are recognised when detailed formal plans

Notes to the Accounts continued

1. Accounting policies continued

have been established and when there is a valid expectation that such a plan will be carried out.

Post-retirement benefits

The group operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the group. The group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the group's obligations.

The calculation is performed by a qualified actuary using the projected unit method. Actuarial gains and losses are recognised in full in the period in which they arise in the statement of recognised income and expense.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

For defined contribution schemes, the assets are held separately from those of the group in independently administered funds. Payments to defined contribution schemes are charged to the income statement as they fall due.

In certain countries, the group participates in industry-wide defined benefit-type pension arrangements. In such circumstances, it is not possible to determine the amount of any surplus or deficit attributable to the group and the pension costs are accounted for as if the arrangements were defined contribution schemes.

Share-based payments

The fair value of equity-settled employee share option grants is calculated at grant date. The resulting cost is charged to the income statement over the vesting period of the plans. The value of the charge is adjusted to reflect expected and actual levels of options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Revenues

Revenues comprise sales to outside customers after discounts and excluding value added tax.

Revenue from the sale of goods is recognised in the income statement when the significant risk and rewards of ownership of the goods have been transferred to the customer, which is typically on delivery. For contracts that involve a significant element of installation or testing of equipment, revenue is

recognised at the point of customer acceptance. Revenue from services rendered is recognised in the income statement in proportion to the measurement of the stage of completion of services rendered as at the balance sheet date. This is generally assessed by reference to the amount of time incurred in proportion to the total expected time to be taken to deliver the service. Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due.

Interest payable and receivable

Interest payable comprises the interest payable on borrowings calculated using the effective interest method.

Interest receivable and payable is recognised in the income statement as it accrues using the effective interest method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Taxation

Tax on the profit or loss for the year comprises both current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Additional income taxes that arise from the distribution of intra-group dividends are recognised at the same time as the liability to pay the related dividend.

2. Financial risk management

The group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the group is exposed to foreign currency risk, interest rate risk, liquidity risk, and credit risk. Financial risk management is an integral part of the way the group is managed. Financial risk management policies are set by the Board of directors. These policies are implemented by a central treasury department that has formal procedures to manage foreign exchange risk, interest rate risk, and liquidity risk including, where appropriate, the use of derivative financial instruments. The group has clearly defined authority and approval limits.

In accordance with its treasury policy, the group does not hold or use derivative financial instruments for trading or speculative purposes. Such instruments are only used to manage the risks arising from operating or financial assets or liabilities or highly probable future transactions. The quantitative analysis of financial risk is included in Note 21.

(a) Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of group companies (transactional exposures) and where the results of overseas companies are consolidated into the group's reporting currency of £ sterling (translational exposures). The group has operations around the world which record their results in a variety of different local functional currencies. In countries where the group does not have operations, it invariably has some customers or suppliers that transact in a foreign currency. The group is therefore exposed to the changes in foreign currency exchange rates between a number of different currencies but the group's primary exposures relate to the US dollar, and, to a lesser extent, the euro, Danish krone and Japanese yen. Where appropriate the group manages its foreign currency exposures using derivative financial instruments.

The group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts. Forward exchange contracts are typically used to hedge highly probable forecast sale transactions which can be forecast to occur from anything between one and 18 months into the future.

The group's translational exposures to foreign currency risks can relate both to the income statement and net assets of overseas subsidiaries. The group's policy is not to hedge the translational exposure that arises on consolidation of the income statements of overseas subsidiaries. The group finances overseas company investments partly through the use of foreign currency borrowings in order to provide a natural hedge of foreign currency risk arising on translation of the group's net investment.

(b) Interest rate risk

Interest rate risk comprises both the interest rate price risk that results from borrowing at fixed rates of interest and also the interest cash flow risk that results from borrowing at variable rates. Where appropriate, interest rate swaps are used to manage the group's interest rate profile.

Currently, the majority of the group's borrowings attract fixed rates of interest payments and therefore the group's principal interest rate risk is a price risk.

(c) Liquidity risk

Liquidity risk represents the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. The group manages this risk through the use of regularly updated cash flow forecasts and a liquidity headroom analysis which is used to determine funding requirements. Adequate committed lines of funding are maintained from high quality investment grade lenders. The facilities committed to the group as at 31 December 2008 are set out in Note 20.

(d) Credit risk

Credit risk arises because a counterparty may fail to perform its obligations. The group is exposed to credit risk on financial assets such as cash balances, derivative financial instruments, trade and other receivables.

The group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the balance sheet are net of appropriate allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment. Trade receivables are subject to credit limits, and control and approval procedures in the operating companies. Due to its large geographic base and number of customers, the group is not exposed to material concentrations of credit risk on its trade receivables.

Credit risk associated with cash balances and derivative financial instruments is managed centrally by transacting with an existing relationship bank with strong investment grade rating. Accordingly, the group's associated credit risk is limited. The group has no significant concentration of credit risk.

The group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the group balance sheet.

Capital management

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of directors monitors both the demographic spread of shareholders and the level of dividends to ordinary shareholders.

The Board encourages employees to hold shares in the company. This is carried out through a Save As You Earn option scheme in the UK, as well as Performance Share Plans. Full details of these schemes are given in the share-based payments note (Note 27) of these accounts.

Notes to the Accounts continued

2. Financial risk management continued

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

From time to time the group purchases its own shares in the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by the Board.

There were no changes to the group's approach to capital management during the year.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

3. Adjusted performance measures

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures are stated before amortisation of acquisition-related intangible assets, goodwill impairment charges, profits or losses on termination or disposal of businesses or major fixed assets, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 11).

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

| Adjusted sales | Note | 2008 £m | 2007 £m |
|---|------|--------------------|------------|
| Sales as reported under adopted IFRS | 4 | 787.1 | 668.4 |
| Divested businesses | | – | (8.6) |
| Adjusted sales for continuing businesses | | 787.1 | 659.8 |

| Adjusted sales by segment – 2008 | Note | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2008 Total £m |
|---|------|--------------------------------------|--|---|---------------------------------------|------------------------------|
| Sales as reported under adopted IFRS | 4 | 253.2 | 254.9 | 233.3 | 45.7 | 787.1 |
| Divested businesses | | – | – | – | – | – |
| Adjusted sales for continuing businesses | | 253.2 | 254.9 | 233.3 | 45.7 | 787.1 |

| Adjusted sales by segment – 2007 | Note | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2007 Total £m |
|---|------|--------------------------------------|--|---|---------------------------------------|---------------------|
| Sales as reported under adopted IFRS | 4 | 213.8 | 207.5 | 208.8 | 38.3 | 668.4 |
| Divested businesses | | – | – | (8.6) | – | (8.6) |
| Adjusted sales for continuing businesses | | 213.8 | 207.5 | 200.2 | 38.3 | 659.8 |

| Adjusted operating profit | Note | 2008 £m | 2007 £m |
|---|------|--------------------|------------|
| Operating profit as reported under adopted IFRS | | 113.7 | 102.9 |
| Amortisation of acquisition-related intangible assets | 15 | 4.6 | 1.9 |
| Adjusted operating profit | | 118.3 | 104.8 |
| Divested businesses | | – | (0.5) |
| Adjusted operating profit for continuing businesses | | 118.3 | 104.3 |
| Restructuring charges for continuing businesses | | 1.2 | 0.9 |
| Adjusted operating profit for continuing businesses before restructuring charges | | 119.5 | 105.2 |

| | Note | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2008 Total £m |
|--|------|--------------------------|----------------------------|-------------------------------|---------------------------|------------------|
| Adjusted operating profit by segment – 2008 | | | | | | |
| Segment result under adopted IFRS | 4 | 34.9 | 28.6 | 42.0 | 8.2 | 113.7 |
| Amortisation of acquisition-related intangible assets | | 2.6 | 1.1 | 0.7 | 0.2 | 4.6 |
| Adjusted operating profit | | 37.5 | 29.7 | 42.7 | 8.4 | 118.3 |
| Divested businesses | | – | – | – | – | – |
| Adjusted operating profit for continuing businesses | | 37.5 | 29.7 | 42.7 | 8.4 | 118.3 |
| Restructuring charges for continuing businesses | | 0.3 | 0.9 | (0.1) | 0.1 | 1.2 |
| Adjusted operating profit for continuing businesses before restructuring charges | | 37.8 | 30.6 | 42.6 | 8.5 | 119.5 |

| | Note | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2007 Total £m |
|--|------|--------------------------|----------------------------|-------------------------------|---------------------------|------------------|
| Adjusted operating profit by segment – 2007 | | | | | | |
| Segment result under adopted IFRS | 4 | 33.5 | 26.0 | 34.8 | 8.6 | 102.9 |
| Amortisation of acquisition-related intangible assets | | 1.3 | 0.2 | 0.4 | – | 1.9 |
| Adjusted operating profit | | 34.8 | 26.2 | 35.2 | 8.6 | 104.8 |
| Divested businesses | | – | – | (0.5) | – | (0.5) |
| Adjusted operating profit for continuing businesses | | 34.8 | 26.2 | 34.7 | 8.6 | 104.3 |
| Restructuring charges for continuing businesses | | 0.1 | 0.1 | 0.7 | – | 0.9 |
| Adjusted operating profit for continuing businesses before restructuring charges | | 34.9 | 26.3 | 35.4 | 8.6 | 105.2 |

| | Note | 2008 £m | 2007 £m |
|---|------|------------|------------|
| Adjusted profit before tax | | | |
| Profit before tax as reported under adopted IFRS | | 106.1 | 118.1 |
| Amortisation of acquisition-related intangible assets | 15 | 4.6 | 1.9 |
| Net losses on retranslation of short-term inter-company loans | 10 | 0.6 | – |
| Profit on disposal of businesses | 28 | (0.3) | (19.0) |
| Unrealised change in fair value of cross-currency interest rate swaps | 21 | (0.9) | (3.0) |
| Adjusted profit before tax | | 110.1 | 98.0 |

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

| | Note | 2008 £m | 2007 £m |
|---|------|------------|------------|
| Adjusted earnings per share | | | |
| Profit after tax as reported under adopted IFRS | | 81.1 | 86.2 |
| Adjusted for: | | | |
| Amortisation of acquisition-related intangible assets | 15 | 4.6 | 1.9 |
| Profit on disposal of businesses | 28 | (0.3) | (19.0) |
| Unrealised change in fair value of cross-currency interest rate swaps | 21 | (0.9) | (3.0) |
| Net losses on retranslation of short-term inter-company loans | 10 | 0.6 | – |
| Tax effect of the above | 11 | (1.1) | 4.5 |
| Adjusted earnings | | 84.0 | 70.6 |
| Weighted average number of shares outstanding (millions) | 13 | 115.4 | 121.6 |
| Adjusted earnings per share (pence) | | 72.8 | 58.1 |

Notes to the Accounts continued

3. Adjusted performance measures continued

| Adjusted diluted earnings per share | Note | 2008 | 2007 |
|--|------|--------------|-------|
| Adjusted earnings (as above) (£m) | | 84.0 | 70.6 |
| Diluted weighted average number of shares outstanding (millions) | 13 | 116.2 | 122.1 |
| Adjusted diluted earnings per share (pence) | | 72.2 | 57.8 |

Basic and diluted earnings per share in accordance with IAS 33 are disclosed in Note 13.

| Analysis of net debt for management purposes | Note | 2008 £m | 2007 £m |
|---|------|---------------|------------|
| Bank overdrafts | | 9.6 | 4.0 |
| Bank loans – secured | | 3.1 | 2.5 |
| Bank loans – unsecured | | 50.0 | – |
| Unsecured loan notes | | 145.9 | 106.0 |
| Cross-currency interest rate swaps – currency portion | 21 | 17.9 | 16.2 |
| Total borrowings | | 226.5 | 128.7 |
| Cash balances | 19 | (64.4) | (51.4) |
| Net debt | | 162.1 | 77.3 |

| Analysis of revenue by geographical destination | 2008 £m | 2007 £m |
|---|--------------|------------|
| UK | 30.3 | 28.5 |
| Continental Europe | 301.9 | 254.6 |
| North America | 178.0 | 152.5 |
| Japan | 60.1 | 53.6 |
| China | 68.8 | 55.0 |
| Rest of Asia Pacific | 90.3 | 73.1 |
| Rest of the world | 57.7 | 42.5 |
| Total continuing businesses | 787.1 | 659.8 |
| Divested businesses | – | 8.6 |
| Group total | 787.1 | 668.4 |

4. Segmental information

The group's primary reporting format is business segments and its secondary format is geographical segments. The companies within each business segment, together with the significant products made by each, are detailed within the additional information section of this Annual Report, see the inside back cover.

a) Business segments

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

Inter-segment pricing is on an arm's length basis. Segments are presented on the basis of actual inter-segment charges made. Profit on disposal of businesses of £0.3m (2007: £19.0m) relates to the In-line Instrumentation segment, see Note 28.

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

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

b) Geographical segments

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

The following is an analysis of revenue by geographical destination.

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

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

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

Notes to the Accounts continued

5. Assets and liabilities held for sale

During 2008, the building in Niles, Illinois, USA, was sold.

| Assets held for sale | Note | 2008 £m | 2007 £m |
|-------------------------------|------|------------|------------|
| Property, plant and equipment | 28 | – | 1.2 |
| | | – | 1.2 |

6. Revenue

An analysis of the group's revenue is as follows:

| | 2008 £m | 2007 £m |
|-------------------|--------------|------------|
| Sale of goods | 700.6 | 595.7 |
| Services rendered | 86.5 | 72.7 |
| Revenue | 787.1 | 668.4 |

7. Operating profit

Operating profit has been arrived at after charging:

| | 2008 £m | 2007 £m |
|--|--------------------|--------------------|
| Net foreign exchange (gains)/losses | (0.6) | 0.4 |
| Research and development expenditure | 57.0 | 45.2 |
| Depreciation of property, plant and equipment | 10.4 | 13.1 |
| Amortisation of intangible assets | 7.7 | 2.0 |
| Loss/(gain) on sale of property, plant and equipment | 0.1 | (0.6) |
| Auditors' remuneration | 2008 £m | 2007 £m |
| Fees payable to the company's auditor for audit of the group's annual accounts | 0.4 | 0.4 |
| Fees payable to the company's auditor and its associates for other services: | | |
| – the audit of the company's subsidiaries, pursuant to legislation | 1.0 | 0.6 |
| – tax services | 0.2 | 0.7 |
| | 1.6 | 1.7 |

8. Employee costs

Employee costs, including directors' remuneration, comprise:

| | Note | 2008 £m | 2007 £m |
|---|------|--------------|--------------|
| Wages and salaries | | 211.2 | 180.8 |
| Social security costs | | 35.3 | 28.1 |
| Defined benefit pension plans: current service cost | 9 | 1.7 | 0.9 |
| Defined contribution pension plans | 9 | 7.6 | 7.2 |
| Share-based payment expense | | 1.8 | 0.9 |
| | | 257.6 | 217.9 |
| Directors' remuneration | | | |
| Short-term benefits | | 2.1 | 2.3 |
| Post-employment benefits | | 0.2 | 0.3 |
| Share-based payment expense | | 0.5 | 0.6 |
| | | 2.8 | 3.2 |

Further details of directors' remuneration and share options are given in the Directors' Remuneration Report on pages 37 to 43.

| Average number of employees | 2008 Number | 2007 Number |
|-----------------------------|----------------|----------------|
| Production and engineering | 3,007 | 3,149 |
| Sales and marketing | 2,219 | 1,974 |
| Administrative | 491 | 454 |
| | 5,717 | 5,577 |

9. Retirement benefit schemes

Spectris plc operates funded defined benefit 'final salary' and defined contribution pension plans for the group's qualifying employees in the UK. In addition, eleven overseas subsidiaries provide defined benefit plans. Other UK and overseas subsidiaries have their own defined contribution plans invested in independent funds, and the group operates a defined contribution plan in the USA for its US subsidiaries.

Defined contribution plans

The total cost to Spectris plc of the defined contribution plans for the year ended 31 December 2008 was £7.6m (2007: £7.2m). There were no outstanding or prepaid contributions to these plans as at 31 December 2008 (or at 31 December 2007).

Defined benefit plans

The last full actuarial valuations were carried out as at the following dates:

| Plan name | Date of last full actuarial valuation |
|--|---------------------------------------|
| Spectris Pension Plan | 31 December 2005 |
| Brüel & Kjær Vibro GmbH | 1 October 2008 |
| Hottinger Baldwin Messtechnik GmbH | 1 October 2008 |
| Spectris GmbH Sensoren und Systeme | 1 October 2008 |
| BTG Mütek GmbH | 1 October 2008 |
| Brüel & Kjær GmbH | 1 October 2008 |
| PANalytical GmbH | 1 April 2006 |
| LDS Test and Measurement GmbH (German) | 31 December 2007 |
| Brüel & Kjær Instruments, Inc. Retirement Plan | 31 December 2007 |
| Servomex Inc Pension Plan | 31 December 2007 |
| LDS Test and Measurement (Dutch) | 31 December 2007 |
| BTG Eclépens SA | 31 December 2007 |

The valuations were updated to 31 December 2008 for IAS 19 purposes by qualified independent actuaries.

Notes to the Accounts continued

9. Retirement benefit schemes continued

The total company contributions made to the defined benefit plans during the year ended 31 December 2008 were £5.4m (2007: £3.1m). Contributions for the whole of 2009 are expected to be as follows:

| Plan name | Expected 2009 contributions (£m) |
|--|----------------------------------|
| Spectris Pension Plan | 2.5 |
| Brüel & Kjær Vibro GmbH | – |
| Hottinger Baldwin Messtechnik GmbH | 0.5 |
| Spectris GmbH Sensoren und Systeme | – |
| BTG Müttek GmbH | – |
| Brüel & Kjær GmbH | – |
| PANalytical GmbH | – |
| LDS Test and Measurement GmbH (German) | – |
| Brüel & Kjær Instruments, Inc. Retirement Plan | – |
| Servomex Inc Pension Plan | 0.5 |
| LDS Test and Measurement (Dutch) | 0.1 |
| BTG Eclépens SA | 0.9 |

The above contribution rates are subject to review at future valuations and periodic certifications of the Schedule of Contributions.

Following legal rulings in Switzerland, the Swiss Institute of Certified Accountants has issued revised guidance that redesignates certain Swiss pension arrangements as defined benefit (previously defined contribution). Accordingly management has included its BTG Swiss pension plan as a defined benefit plan as at 1 January 2008. Management does not consider there has been any substantive change in its risks in relation to this plan.

The major assumptions used by the actuary to value the liabilities of the defined benefit plans were:

| UK plans | 2008 (% p.a.) | 2007 (% p.a.) |
|--------------------------------|-------------------------|------------------|
| Discount rate | 6.40 | 5.80 |
| Salary increases | 4.30 | 4.80 |
| Pension increases in payment: | | |
| RPI max 5% (LPI)* | 2.70 | 3.10 |
| RPI max 3% | 2.50 | 2.80 |
| RPI max 2.5% | 2.30 | 2.50 |
| RPI min 3%, max 5% | 3.10 | 3.30 |
| Pension increases in deferment | 2.80 | 3.30 |
| Inflation assumption | 2.80 | 3.30 |

* LPI is Limited Price Indexation (Retail Price Indexation of a maximum of 5%)

Mortality rate assumptions:

Pensioner life expectancy assumed in the 31 December 2008 valuation is based on the following tables:

| | |
|-------------------------------|---|
| Current and future pensioners | PxA92 tables with medium cohort projections and a +1 year age rating and a 1% underpin to future improvements |
|-------------------------------|---|

Samples of the ages which pensioners are assumed to live to are as follows:

| | Males | Females |
|---------------------------|-------|---------|
| Pensioner aged 65 in 2008 | 86.4 | 88.8 |
| Pensioner aged 65 in 2020 | 87.6 | 89.9 |

Pensioner life expectancy assumed in the 31 December 2005 valuation is based on the following tables:

| | |
|--------------------|--|
| Current pensioners | PxA92 tables projected to calendar year 2005 |
| Future pensioners | PxA92 tables projected to calendar year 2020 |

| German plans | 2008 (% p.a.) | 2007 (% p.a.) |
|------------------------------|-------------------------|------------------|
| Discount rate | 6.50 | 5.50 |
| Salary increases | 3.00 | 2.50 |
| Pension increases in payment | 2.00 | 2.00 |
| Inflation assumption | 2.00 | 2.50 |

Mortality rate assumptions:

Pensioner life expectancy assumed in the 1 October 2008 valuation is based on the following tables:

| | |
|--|------------------------------------|
| Current pensioners and future pensioners | Dr K Heubeck pension tables 2005 G |
|--|------------------------------------|

Samples of the ages which pensioners are assumed to live to are as follows:

| | Males | Females |
|---------------------------|-------|---------|
| Pensioner aged 60 in 2008 | 82.5 | 87.1 |
| Pensioner aged 60 in 2020 | 84.3 | 88.8 |

| US plans | 2008 (% p.a.) | 2007 (% p.a.) |
|----------------------|-------------------------|------------------|
| Discount rate | 5.50 | 5.75 |
| Inflation assumption | 3.00 | 3.00 |

Mortality rate assumptions:

Pensioner life expectancy assumed in the 31 December 2007 valuation is based on the following tables:

| | |
|--|-----------------------------|
| Current pensioners and future pensioners | RP2000 tables with AA scale |
|--|-----------------------------|

Samples of the ages which pensioners are assumed to live to are as follows:

| | Males | Females |
|---------------------------|-------|---------|
| Pensioner aged 65 in 2005 | 83.9 | 86.0 |
| Pensioner aged 65 in 2020 | 85.1 | 86.7 |

| Dutch plans | 2008 (% p.a.) | 2007 (% p.a.) |
|----------------------|-------------------------|------------------|
| Discount rate | 6.50 | – |
| Salary increases | 3.00 | – |
| Inflation assumption | 2.00 | – |

Mortality rate assumptions:

Pensioner life expectancy assumed in the 31 December 2007 valuation is based on the following tables:

| | |
|--|---------------------------------|
| Current pensioners and future pensioners | Prognostetafel 2005–2050 tables |
|--|---------------------------------|

Samples of the ages which pensioners are expected to live to are not available but the table covers life expectancies and is the general standard in the Netherlands.

Notes to the Accounts continued

9. Retirement benefit schemes continued

| Swiss plans | 2008 (% p.a.) | 2007 (% p.a.) |
|----------------------|------------------|------------------|
| Discount rate | 3.25 | — |
| Salary increases | 2.00 | — |
| Inflation assumption | 1.50 | — |

Mortality rate assumptions:

Pensioner life expectancy assumed in the 31 December 2007 valuation is based on the following tables:

| | |
|--|-----------------|
| Current pensioners and future pensioners | EVK 2000 tables |
|--|-----------------|

Samples of the ages which pensioners are expected to live to are not available.

| Amounts recognised in the income statement | UK plans | | Overseas plans | | Total | |
|---|------------|------------|----------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Current service cost | 1.0 | 0.9 | 0.7 | — | 1.7 | 0.9 |
| Interest cost | 4.7 | 4.3 | 0.6 | 0.6 | 5.3 | 4.9 |
| Expected return on scheme assets | (5.1) | (4.6) | (0.2) | (0.2) | (5.3) | (4.8) |
| Settlement credit – B&K Instruments, Inc, Retirement Plan | — | — | (0.1) | — | (0.1) | — |
| | 0.6 | 0.6 | 1.0 | 0.4 | 1.6 | 1.0 |

The current service cost is recognised in administrative expenses in the income statement. The interest cost and expected return on scheme assets are recognised in finance costs and finance income respectively in the income statement. Actuarial losses are recognised in the statement of recognised income and expense.

During the year, insurance premiums for death-in-service benefits were paid amounting to £0.2m (2007: £0.2m).

The actual return on scheme assets in the period was a loss of £2.7m (2007: £5.9m gain).

| Amounts recognised in the statement of recognised income and expense | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Actuarial gains and losses recognised in the current period | 2.1 | 5.9 | 0.2 | (0.4) | 2.3 | 5.5 |
| Loss on inclusion of Swiss plan | — | — | (0.5) | — | (0.5) | — |
| Total gains and (losses) recognised in the current period | 2.1 | 5.9 | (0.3) | (0.4) | 1.8 | 5.5 |
| Cumulative actuarial gains and losses (since 1 January 2004) | (20.2) | (22.3) | (1.1) | (0.8) | (21.3) | (23.1) |

| Amounts recognised in the balance sheet | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Present value of defined benefit obligations | (75.4) | (83.2) | (23.1) | (10.5) | (98.5) | (93.7) |
| Fair value of scheme assets | 74.7 | 78.4 | 15.3 | 4.2 | 90.0 | 82.6 |
| Net deficit in scheme | (0.7) | (4.8) | (7.8) | (6.3) | (8.5) | (11.1) |

| | UK plans | | Overseas plans | | Total | |
|---|------------|------------|----------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Reconciliation of movement in net deficit | | | | | | |
| At 1 January | (4.8) | (12.6) | (6.3) | (6.2) | (11.1) | (18.8) |
| Expected return on plan assets | 5.1 | 4.6 | 0.2 | 0.2 | 5.3 | 4.8 |
| Contributions from sponsoring company | 2.6 | 2.5 | 2.8 | 0.6 | 5.4 | 3.1 |
| Current service cost | (1.0) | (0.9) | (0.7) | – | (1.7) | (0.9) |
| Interest cost | (4.7) | (4.3) | (0.6) | (0.6) | (5.3) | (4.9) |
| Actuarial gains | 2.1 | 5.9 | 0.2 | – | 2.3 | 5.9 |
| Exchange difference | – | – | (1.4) | (0.3) | (1.4) | (0.3) |
| Settlement of B&K Instruments, Inc, Retirement Plan | – | – | 0.1 | – | 0.1 | – |
| Acquisition (LDS Test & Measurement) | – | – | (1.6) | – | (1.6) | – |
| Inclusion of Swiss plan | – | – | (0.5) | – | (0.5) | – |
| At 31 December | (0.7) | (4.8) | (7.8) | (6.3) | (8.5) | (11.1) |

| | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Analysis of movement in the present value of the defined benefit obligation | | | | | | |
| At 1 January | 83.2 | 86.3 | 10.5 | 10.4 | 93.7 | 96.7 |
| Current service cost | 1.0 | 0.9 | 0.7 | – | 1.7 | 0.9 |
| Interest cost | 4.7 | 4.3 | 0.6 | 0.6 | 5.3 | 4.9 |
| Actuarial gains | (9.8) | (4.8) | (0.5) | – | (10.3) | (4.8) |
| Exchange difference | – | – | 2.3 | 0.4 | 2.3 | 0.4 |
| Contributions from scheme members | 0.3 | 0.3 | – | – | 0.3 | 0.3 |
| Benefits paid | (4.0) | (3.8) | (0.9) | (0.9) | (4.9) | (4.7) |
| Settlement of B&K Instruments, Inc, Retirement Plan | – | – | (3.5) | – | (3.5) | – |
| Acquisition (LDS Test & Measurement) | – | – | 2.4 | – | 2.4 | – |
| Inclusion of Swiss plan | – | – | 11.5 | – | 11.5 | – |
| At 31 December | 75.4 | 83.2 | 23.1 | 10.5 | 98.5 | 93.7 |

| | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Analysis of defined benefit obligation | | | | | | |
| Present value of unfunded defined benefit obligation | – | – | 6.5 | 4.6 | 6.5 | 4.6 |
| Present value of funded defined benefit obligation | 75.4 | 83.2 | 16.6 | 5.9 | 92.0 | 89.1 |

| | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Reconciliation of movement in fair value of plan assets | | | | | | |
| At 1 January | 78.4 | 73.7 | 4.2 | 4.2 | 82.6 | 77.9 |
| Expected return on plan assets | 5.1 | 4.6 | 0.2 | 0.2 | 5.3 | 4.8 |
| Actuarial (losses)/gains | (7.7) | 1.1 | (0.3) | – | (8.0) | 1.1 |
| Exchange difference | – | – | 0.9 | 0.1 | 0.9 | 0.1 |
| Contributions from sponsoring company | 2.6 | 2.5 | 2.8 | 0.6 | 5.4 | 3.1 |
| Contributions from scheme members | 0.3 | 0.3 | – | – | 0.3 | 0.3 |
| Benefits paid | (4.0) | (3.8) | (0.9) | (0.9) | (4.9) | (4.7) |
| Settlement of B&K Instruments, Inc, Retirement Plan | – | – | (3.4) | – | (3.4) | – |
| Acquisition (LDS Test & Measurement) | – | – | 0.8 | – | 0.8 | – |
| Inclusion of Swiss plan | – | – | 11.0 | – | 11.0 | – |
| At 31 December | 74.7 | 78.4 | 15.3 | 4.2 | 90.0 | 82.6 |

Analysis of the scheme assets and expected rate of return

| UK plans | Expected return | | Fair value of assets | |
|--------------------|-----------------|-----------|----------------------|------------|
| | 2008 % | 2007 % | 2008 £m | 2007 £m |
| Equity instruments | 8.3 | 7.8 | 27.1 | 36.9 |
| Debt instruments | 6.2 | 5.5 | 34.9 | 37.1 |
| Other assets | 4.3 | 4.7 | 12.7 | 4.4 |
| | 6.6 | 6.5 | 74.7 | 78.4 |

Notes to the Accounts continued

9. Retirement benefit schemes continued

| | Expected return | | Fair value of assets | |
|---------------------|-----------------|-----------|----------------------|------------|
| | 2008 % | 2007 % | 2008 £m | 2007 £m |
| German plans | | | | |
| Insurance policies | 6.5 | 5.5 | 1.6 | 1.2 |
| US plans | | | | |
| Equity instruments | 9.0 | 9.0 | 0.7 | 1.3 |
| Debt instruments | 6.0 | 6.0 | 0.4 | 1.6 |
| Other assets | 7.0 | 7.0 | 0.1 | 0.1 |
| | 7.8 | 7.4 | 1.2 | 3.0 |
| Dutch plan | | | | |
| Insurance policies | 6.5 | 5.5 | 0.8 | 0.6 |
| Swiss plan | | | | |
| Insurance policies | 2.8 | – | 11.0 | – |

The overall expected return on assets is calculated as the weighted average of the expected return on each individual asset class. The expected return on equities is the sum of inflation, dividend yield and economic growth, less investment expenses. The return on gilts and bonds is the current market yield on long-term gilts and bonds. The expected return on other assets is the current interest rate set by the Bank of England.

| | 2008 £m | 2007† £m | 2006 £m | 2005* £m | 2004 £m |
|--|---------------|-------------|------------|-------------|------------|
| History of experience adjustments | | | | | |
| Present value of defined benefit obligations | (98.5) | (93.7) | (96.7) | (91.8) | (80.1) |
| Fair value of scheme assets | 90.0 | 82.6 | 77.9 | 69.2 | 59.4 |
| Deficit in the scheme | (8.5) | (11.1) | (18.8) | (22.6) | (20.7) |
| Experience adjustment on scheme liabilities: | | | | | |
| Amount (£m) | 10.0 | 4.8 | 1.3 | (10.2) | (4.5) |
| Percentage of scheme liabilities (%) | 10.2 | 5.1 | 1.3 | (11.1) | (5.6) |
| Experience adjustment on scheme assets: | | | | | |
| Amount (£m) | (8.0) | 1.1 | 2.4 | 6.1 | 1.1 |
| Percentage of scheme assets (%) | (9.0) | 1.3 | 3.1 | 8.8 | 1.9 |

* The history of experience for 2005 and earlier excludes the US plans that were not previously disclosed due to materiality.

† The history of experience for 2007 and earlier excludes the German and Dutch LDS Test & Measurement plans as they were new acquisitions in 2008. It also excludes the Swiss plan that has not previously been disclosed.

10. Finance costs and financial income

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

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

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

11. Taxation

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

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

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

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

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

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

Notes to the Accounts continued

11. Taxation continued

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

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

12. Dividends

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Amounts recognised and paid as distributions to equity holders in the year | | |
| Final dividend for the year ended 31 December 2007 of 15.25p (2006: 12.5p) per share | 17.6 | 15.4 |
| Interim dividend for the year ended 31 December 2008 of 6.4p (2007: 5.75p) per share | 7.4 | 6.8 |
| | 25.0 | 22.2 |

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Amounts arising in respect of the year | | |
| Interim dividend for the year ended 31 December 2008 of 6.4p (2007: 5.75p) per share | 7.4 | 6.8 |
| Proposed final dividend for the year ended 31 December 2008 of 17.0p (2007: 15.25p) per share | 19.6 | 17.5 |
| | 27.0 | 24.3 |

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

13. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year but adjusted for the effects of dilutive options. The key features of share option contracts are described in Note 27.

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

14. Goodwill

| Cost | £m |
|---|--------------|
| At 1 January 2007 | 239.2 |
| Exchange differences | 16.7 |
| At 31 December 2007 | 255.9 |
| Recognised on acquisitions | 54.1 |
| Exchange differences | 74.1 |
| At 31 December 2008 | 384.1 |
| Accumulated amortisation and impairment losses | £m |
| At 1 January 2007 | 31.8 |
| Exchange differences | 1.0 |
| At 31 December 2007 | 32.8 |
| Exchange differences | 8.7 |
| At 31 December 2008 | 41.5 |
| Carrying amount | £m |
| At 31 December 2008 | 342.6 |
| At 31 December 2007 | 223.1 |
| At 1 January 2007 | 207.4 |

In accordance with the requirements of IAS 36, *Impairment of Assets*, goodwill is allocated to the group's cash-generating units represented by each of the group's major businesses. The most significant elements of the group's total consolidated goodwill of £342.6m at 31 December 2008 are allocated to PANalytical (£105.9m), BTG (£63.8m), HBM (£71.9m) and Brüel & Kjær Sound & Vibration (£62.2m). Each cash-generating unit is assessed for impairment annually and whenever there is an indication of impairment. There have been no indications of impairment in 2008. As part of the annual impairment test review, the carrying value of goodwill has been assessed with reference to value in use to perpetuity reflecting the projected cash flows of each cash-generating unit based on actual operating results and the most recent budgets for the next financial year.

The key assumptions on which the cash flow projections are based relate to growth rates and discount rates. There are no individually significant assumptions in respect of any business that materially impacts the impairment testing. Growth rates for the period not covered by the budgets do not exceed 2.5%. The cash flow projections have been discounted on the group's pre-tax weighted average cost of capital estimated at 13%. No impairment charge has been recognised in either 2008 or 2007 to write goodwill down to its estimated recoverable amount.

The directors have considered the following individual sensitivities:

- a 2% increase in the pre-tax discount rate to 15% would result in an impairment of £6.0m;
- if the long-term growth rate assumption was reduced to 1% no impairment would arise; and
- if the cash flow projections of all businesses were reduced by 25% in 2009 and 2010 no impairment would arise.

The goodwill impairment testing performed by management is based on plan data updated in February 2009.

Notes to the Accounts continued

15. Other intangible assets

| Cost | Patents, trademarks and technology £m | Customer- related intangibles £m | Software- related and other £m | Total £m |
|---|--|---|---|-------------|
| At 1 January 2007 | 8.2 | 7.1 | – | 15.3 |
| Recognised on acquisitions | 5.2 | 0.4 | – | 5.6 |
| Exchange differences | 0.4 | 0.2 | – | 0.6 |
| At 31 December 2007 | 13.8 | 7.7 | – | 21.5 |
| Additions | – | – | 1.2 | 1.2 |
| Recognised on acquisitions | 17.4 | 5.0 | 2.8 | 25.2 |
| Transfer from property, plant and equipment | – | – | 19.0 | 19.0 |
| Exchange differences | 3.2 | 2.6 | 4.3 | 10.1 |
| At 31 December 2008 | 34.4 | 15.3 | 27.3 | 77.0 |
| Accumulated amortisation and impairment losses | | | | |
| At 1 January 2007 | 5.4 | 1.9 | – | 7.3 |
| Charge for the year | 1.4 | 0.6 | – | 2.0 |
| At 31 December 2007 | 6.8 | 2.5 | – | 9.3 |
| Transfer from property, plant and equipment | – | – | 11.4 | 11.4 |
| Charge for the year | 2.0 | 2.6 | 3.1 | 7.7 |
| Exchange differences | 1.0 | 0.7 | 3.0 | 4.7 |
| At 31 December 2008 | 9.8 | 5.8 | 17.5 | 33.1 |
| Carrying amount | | | | |
| At 31 December 2008 | 24.6 | 9.5 | 9.8 | 43.9 |
| At 31 December 2007 | 7.0 | 5.2 | – | 12.2 |
| At 1 January 2007 | 2.8 | 5.2 | – | 8.0 |

Of the total amortisation charge of £7.7m (2007: £2.0m), the amount attributable to the amortisation of acquisition-related intangible assets was £4.6m (2007: £1.9m).

The transfer from property, plant and equipment to software-related and other intangible assets relates to identifiable software assets.

16. Property, plant and equipment

| Cost | Freehold property £m | Leasehold property £m | Plant and equipment £m | Total £m |
|--------------------------------------|-------------------------|--------------------------|---------------------------|--------------|
| At 1 January 2007 | 65.3 | 7.2 | 126.6 | 199.1 |
| Additions | 4.3 | 0.5 | 7.9 | 12.7 |
| Recognised on acquisitions | 0.1 | – | 0.1 | 0.2 |
| Disposals | – | (0.1) | (15.8) | (15.9) |
| Transfers | 0.1 | – | (0.1) | – |
| Exchange differences | 5.2 | 0.2 | 6.8 | 12.2 |
| At 31 December 2007 | 75.0 | 7.8 | 125.5 | 208.3 |
| Additions | 5.9 | 0.3 | 14.6 | 20.8 |
| Recognised on acquisitions | – | 1.6 | 1.9 | 3.5 |
| Disposals | (2.7) | (0.8) | (10.1) | (13.6) |
| Transfers to intangible fixed assets | – | – | (19.0) | (19.0) |
| Exchange differences | 23.8 | 2.2 | 36.0 | 62.0 |
| At 31 December 2008 | 102.0 | 11.1 | 148.9 | 262.0 |

Accumulated depreciation and impairment

| | | | | |
|--------------------------------------|-------------|------------|--------------|--------------|
| At 1 January 2007 | 18.4 | 5.1 | 92.4 | 115.9 |
| Charge for the year | 2.1 | 1.0 | 10.0 | 13.1 |
| Disposals | – | (0.1) | (15.0) | (15.1) |
| Exchange differences | 2.1 | – | 4.6 | 6.7 |
| At 31 December 2007 | 22.6 | 6.0 | 92.0 | 120.6 |
| Charge for the year | 2.0 | 0.6 | 7.8 | 10.4 |
| Disposals | (2.5) | (0.6) | (9.5) | (12.6) |
| Transfers to intangible fixed assets | – | – | (11.4) | (11.4) |
| Exchange differences | 9.2 | 1.7 | 25.9 | 36.8 |
| At 31 December 2008 | 31.3 | 7.7 | 104.8 | 143.8 |

Carrying amount

| | | | | |
|---------------------|-------------|------------|-------------|--------------|
| At 31 December 2008 | 70.7 | 3.4 | 44.1 | 118.2 |
| At 31 December 2007 | 52.4 | 1.8 | 33.5 | 87.7 |
| At 1 January 2007 | 46.9 | 2.1 | 34.2 | 83.2 |

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £1.6m (2007: £1.8m).

The group has pledged land and buildings having a carrying amount of approximately £3.1m (2007: £2.5m) to secure bank loans granted to the group.

17. Inventories

| | 2008 £m | 2007 £m |
|------------------|--------------|------------|
| Raw materials | 56.0 | 32.3 |
| Work in progress | 29.7 | 19.5 |
| Finished goods | 62.3 | 41.0 |
| | 148.0 | 92.8 |

In the ordinary course of business, the group makes provision for slow-moving, excess and obsolete inventory as appropriate.

Inventory is stated after charging impairments of £4.6m (2007: £2.9m), and crediting reversals of previous impairments of £1.9m (2007: £1.2m). Impairments and reversals of impairments are included within operating profit.

Inventory carried at fair value less cost to sell is £6.5m (2007: £nil)

The amount of inventory recognised as an expense during both the current and prior year is equal to the amount recognised within the cost of sales.

Notes to the Accounts continued

18. Trade and other receivables

| | 2008 £m | 2007 £m |
|--------------------------------|--------------|------------|
| Trade receivables | 180.2 | 137.2 |
| Prepayments and accrued income | 11.2 | 11.5 |
| Other receivables | 16.4 | 5.0 |
| | 207.8 | 153.7 |

Trade receivables are non-interest bearing. Standard credit terms provided to customers differ according to business and country, and are typically between 30 and 60 days. Included within the above are amounts receivable in more than one year of £0.1m (2007: £0.1m). Trade receivables and other receivables are stated after recognising impairments during the year of £1.0m (2007: £1.3m) and reversals of impairments of £0.8m (2007: £0.9m). Impairments and reversals of impairments are included within operating profit.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

| | 2008 £m | 2007 £m |
|----------------------|--------------|------------|
| UK | 7.9 | 6.3 |
| Continental Europe | 76.3 | 60.9 |
| North America | 35.2 | 24.5 |
| Japan | 23.3 | 14.6 |
| China | 7.9 | 6.5 |
| Rest of Asia Pacific | 19.9 | 14.3 |
| Rest of the world | 9.7 | 10.1 |
| | 180.2 | 137.2 |

Impairment losses

The ageing of trade receivables at the reporting date was:

| | 2008 | | 2007 | |
|------------------------|--------------|------------------|-------------|------------------|
| | Gross £m | Impairment £m | Gross £m | Impairment £m |
| Not past due | 135.9 | – | 106.3 | – |
| 1 month past due | 29.0 | 0.2 | 18.9 | – |
| 2 months past due | 6.8 | 0.1 | 5.6 | 0.2 |
| 3 months past due | 5.1 | 0.7 | 3.1 | 0.1 |
| Over 3 months past due | 8.3 | 3.9 | 7.0 | 3.4 |
| Total | 185.1 | 4.9 | 140.9 | 3.7 |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | 2008 £m | 2007 £m |
|----------------------------|--------------|------------|
| Balance at 1 January | 3.7 | 3.8 |
| Impairment loss recognised | 1.0 | 1.3 |
| Impairment loss utilised | – | (0.6) |
| Impairment loss released | (0.8) | (0.9) |
| Exchange differences | 1.0 | 0.1 |
| Balance at 31 December | 4.9 | 3.7 |

Based on past experience, the group believes that no impairment allowance is necessary in respect of trade receivables not past due and an impairment has been recorded against the trade receivables that the group believes may not be recoverable.

The fair value of trade and other receivables approximates to book value due to the short-term maturities associated with these items.

19. Cash and cash equivalents

| Analysis of balances of cash and cash equivalents | Note | 2008 £m | 2007 £m |
|--|------|--------------|------------|
| Cash balances | | 64.4 | 51.4 |
| Bank overdrafts | 20 | (9.6) | (4.0) |
| Cash and cash equivalents in the statement of cash flows | | 54.8 | 47.4 |

The group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 21.

20. Borrowings

| | Effective interest rate | Earlier of repricing date or maturity date | 2008 £m | 2007 £m |
|------------------------------------|----------------------------|---|--------------|------------|
| Current | | | | |
| Bank loans – secured | see below | see below | 0.4 | 0.4 |
| Bank overdrafts | 3.75% | on demand | 9.6 | 4.0 |
| Bank loans – unsecured | 3.10% | 31 December 2009 | 25.0 | – |
| | | | 35.0 | 4.4 |
| Non-current | | | | |
| Bank loans – secured | see below | see below | 2.7 | 2.1 |
| Bank loans – unsecured | 3.26% | 9 October 2011 | 25.0 | – |
| Unsecured loan notes – 2000 \$75m | 8.23% | 13 September 2010 | 52.2 | 37.6 |
| Unsecured loan notes – 2003 \$100m | 6.08% | 15 October 2013 | 69.5 | 50.2 |
| Unsecured loan notes – 2003 €25m | 5.56% | 15 October 2013 | 24.2 | 18.2 |
| Total unsecured borrowings | | | 170.9 | 106.0 |
| Total non-current borrowings | | | 173.6 | 108.1 |

At 31 December 2008, the group had available £40.0m (2007: £65.8m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

After the year end, a £50m, five-year term facility was secured from the European Investment Bank in January 2009 under covenant conditions in line with existing facilities.

Secured bank loans

Bank loans are secured by fixed charges over property at three of the group's subsidiaries. Of these £2.0m is denominated in Chinese renminbi and is repayable by instalments until December 2012 with a fixed interest rate of 7.5%, £0.7m is denominated in US dollars and is repayable by instalments until December 2014 with a variable interest rate of LIBOR plus a small margin, and £0.4m is denominated in euros and is repayable by instalments until December 2012 with a variable interest rate of LIBOR plus a small margin.

Unsecured loan notes

The interest rates on the unsecured loan notes are those contracted on the underlying borrowings before taking into account any cross-currency interest rate swaps, and remain fixed until redemption. On issue of the US\$100m loan notes in October 2003 the group entered into a cross-currency interest rate swap which has the effect of converting this US dollar borrowing into fixed interest euro-denominated debt. The combined effect of the borrowing and swap arrangement results in euro debt of €90.5m with a fixed interest rate of 5.64%. This interest rate remains fixed until redemption.

Notes to the Accounts continued

20. Borrowings continued

Under adopted IFRS, where cross-currency interest rate swaps are used, the value of the underlying US dollar borrowing is presented in this borrowings note and the value of the related cross-currency interest rate swaps is presented separately within derivative financial instruments in Note 21. For management purposes, the value attributed to the portion of the swap arrangements that converts US dollar borrowings into euro borrowings is viewed as part of the group's net debt, as analysed below.

| Analysis of net debt | Note | 2008 £m | 2007 £m |
|---|------|---------------|--------------|
| Bank overdrafts | | 9.6 | 4.0 |
| Bank loans – secured | | 3.1 | 2.5 |
| Bank loans – unsecured | | 50.0 | – |
| Unsecured loan notes | | 145.9 | 106.0 |
| Cross-currency interest rate swaps – currency portion | 21 | 17.9 | 16.2 |
| Total borrowings | | 226.5 | 128.7 |
| Cash balances | 19 | (64.4) | (51.4) |
| Net debt | | 162.1 | 77.3 |

21. Financial instruments

| Fair value and carrying amount of financial instruments | 2008 | | 2007 | |
|---|--------------------------|---------------------|--------------------------|---------------------|
| | Carrying amount £m | Fair value £m | Carrying amount £m | Fair value £m |
| Trade and other receivables | 207.8 | 207.8 | 153.7 | 153.7 |
| Trade and other payables | (208.0) | (208.0) | (150.1) | (150.1) |
| Cash deposits | 64.4 | 64.4 | 51.4 | 51.4 |
| Floating rate borrowings | (60.7) | (60.7) | (5.0) | (5.0) |
| Fixed rate borrowings | (147.9) | (171.8) | (123.7) | (117.6) |
| Forward exchange contracts | (9.2) | (9.2) | 0.1 | 0.1 |
| Cross-currency interest rate swaps | (16.9) | (16.9) | (16.1) | (16.1) |
| | (170.5) | (194.4) | (89.7) | (83.6) |

The fair value of floating rate borrowings approximates to the carrying value because interest rates are at floating rates where payments are reset to market rates at intervals of less than one year.

The fair value of fixed rate borrowings and derivative financial instruments is estimated by discounting the future contracted cash flow, using appropriate yield curves, to the net present values.

The fair value of forward exchange contracts outstanding as at 31 December 2008 is a liability of £9.2m (2007: asset of £0.1m) of which £8.1m has been debited to the hedging reserve (2007: credit of £0.1m), £0.8m debited to the translation reserve (2007: £nil) and £0.1m debited to the income statement (2007: £nil). These contracts mature over periods not exceeding 12 months. A summary of the movements in the hedging reserve during the year is presented below.

| Analysis of movements in hedging reserve | 2008 £m | 2007 £m |
|--|--------------|------------|
| At 1 January | 0.1 | 1.2 |
| Amounts removed from equity and included in income statement during the year | (0.1) | (1.2) |
| Amounts recognised in equity during the year | (8.1) | 0.1 |
| At 31 December | (8.1) | 0.1 |

The fair value of forward exchange contracts is determined using discounted cash flow techniques based on readily available market data.

The amount included in the income statement is split between revenue and administrative expenses.

The following table shows the contractual forward exchange contracts hedging designated transactional exposures. These contracts mature in the next 12 months, therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 12 months.

| Forward exchange contracts at 31 December | 2008 | 2007 |
|--|-------------|------|
| Foreign currency sale amount (£m) | 60.5 | 52.7 |
| Percentage of total: | | |
| US dollar | 43% | 59% |
| Euro | 6% | 4% |
| Japanese yen | 50% | 37% |

Cross-currency interest rate swaps

The value of the group's cross-currency interest rate swaps can effectively be split into two components: a portion that is attributable to converting a US dollar-denominated borrowing liability into a euro-denominated borrowing liability (the currency portion) – the value of this portion changes as currency exchange rates change and a portion that is attributable to converting fixed rate US dollar interest payments into fixed rate euro interest payments (the interest portion) – the value of this portion of the swap changes as US dollar variable interest rates, euro variable interest rates and foreign currency exchange rates change.

Under adopted IFRS, the underlying US dollar borrowings are required to be presented separately in the balance sheet from the cross-currency interest rate swaps. In addition, the fair value of the cross-currency interest rate swaps is required to be recognised in full on the balance sheet.

The table below shows the movements in the total value of the cross-currency interest rate swap during the year and also how it is attributed to its currency and interest portions.

| Fair value of cross-currency interest rate swap | Currency portion £m | Interest portion £m | Total value £m |
|--|------------------------|------------------------|-------------------|
| As at 1 January 2007 | (9.8) | (3.0) | (12.8) |
| Change in fair value recognised in reserves | (6.3) | – | (6.3) |
| Change in fair value recognised in income statement | – | 3.0 | 3.0 |
| As at 31 December 2007 | (16.1) | – | (16.1) |
| Change in fair value recognised in reserves | (1.7) | – | (1.7) |
| Change in fair value recognised in income statement | – | 0.9 | 0.9 |
| As at 31 December 2008 | (17.8) | 0.9 | (16.9) |

The combination of the underlying US dollar borrowings and cross-currency interest rate swap has been designated as a net investment hedge of the group's net investment in its European businesses. However, the interest portion of the swap is ineffective in this hedging relationship. Accordingly, the change in value of the currency portion of the swap is recognised together with the change in value of the underlying US dollar borrowings in reserves, and the change in value of the interest portion of the swap is recognised in the income statement within financing costs.

Notes to the Accounts continued

21. Financial instruments continued

The fair value of cross-currency interest rate swaps is determined using discounted cash flow techniques based on readily available market data. The principal borrowing amounts match exactly with the related unsecured loan note borrowings as described in Note 20.

| Maturity of financial liabilities | 2008 | | | | | 2007 | | | | |
|-----------------------------------|---------------------------------|--------------------------|-----------------------|---------------------------|-------------|---------------------------------|--------------------------|-----------------------|---------------------------|-------------|
| | Bank loans and overdrafts £m | Secured bank loans £m | Unsecured loans £m | Cross-currency swap £m | Total £m | Bank loans and overdrafts £m | Secured bank loans £m | Unsecured loans £m | Cross-currency swap £m | Total £m |
| Due within one year | 9.6 | 0.5 | 34.9 | 0.8 | 45.8 | 4.0 | 0.4 | 7.2 | 0.7 | 12.3 |
| Due between one and two years | – | 0.4 | 62.0 | 0.8 | 63.2 | – | 0.2 | 7.2 | 0.7 | 8.1 |
| Due between two and five years | – | 2.2 | 135.4 | 20.2 | 157.8 | – | 1.7 | 53.0 | 2.2 | 56.9 |
| Due in more than five years | – | 0.1 | – | – | 0.1 | – | 0.2 | 72.7 | 16.9 | 89.8 |
| | 9.6 | 3.2 | 232.3 | 21.8 | 266.9 | 4.0 | 2.5 | 140.1 | 20.5 | 167.1 |

Trade and other payables are due within one year.

| Interest rate exposure of financial assets and liabilities by currency | Financial assets | | | | Financial liabilities | | | 2008 |
|--|------------------|---------------------|----------------------------|-------------|-----------------------|---------------------|-------------|--|
| | Fixed rate £m | Floating rate £m | Non-interest bearing £m | Total £m | Fixed rate £m | Floating rate £m | Total £m | Net financial assets/ (liabilities) £m |
| Sterling | 20.7 | 2.0 | 0.2 | 22.9 | – | (51.4) | (51.4) | (28.5) |
| Euro | 0.6 | 12.0 | 1.9 | 14.5 | (111.6) | (0.4) | (112.0) | (97.5) |
| US dollar | 0.2 | 9.3 | 1.4 | 10.9 | (52.2) | (0.8) | (53.0) | (42.1) |
| Japanese yen | 0.2 | 0.6 | 2.1 | 2.9 | – | (3.0) | (3.0) | (0.1) |
| Other | 4.3 | 5.1 | 3.8 | 13.2 | (2.0) | (5.1) | (7.1) | 6.1 |
| | 26.0 | 29.0 | 9.4 | 64.4 | (165.8) | (60.7) | (226.5) | (162.1) |

| Interest rate exposure of financial assets and liabilities by currency | Financial assets | | | Financial liabilities | | | 2007 |
|--|---------------------|----------------------------|-------------|-----------------------|---------------------|-------------|--|
| | Floating rate £m | Non-interest bearing £m | Total £m | Fixed rate £m | Floating rate £m | Total £m | Net financial assets/ (liabilities) £m |
| Sterling | 3.7 | – | 3.7 | – | – | – | 3.7 |
| Euro | 11.9 | 3.1 | 15.0 | (84.7) | (0.5) | (85.2) | (70.2) |
| US dollar | 7.6 | 1.8 | 9.4 | (37.6) | (0.7) | (38.3) | (28.9) |
| Japanese yen | 0.5 | 1.5 | 2.0 | – | (2.2) | (2.2) | (0.2) |
| Other | 12.8 | 8.5 | 21.3 | (1.5) | (1.5) | (3.0) | 18.3 |
| | 36.5 | 14.9 | 51.4 | (123.8) | (4.9) | (128.7) | (77.3) |

Sensitivity analysis

At 31 December 2008 it is estimated that a general increase of one percentage point in interest rates would decrease the group's profit before tax by approximately £0.3m (2007: increase of £0.3m).

For the year ended 31 December 2008 it is estimated that a ten percentage point weakening in the value of the US dollar against £ sterling would have decreased the group's profit before tax by approximately £4.3m (2007: £6.9m), a ten percentage point weakening in the value of the euro/Danish krone against £ sterling would have decreased the group's profit before tax by approximately £4.1m (2007: £1.1m) and a ten percentage point weakening in the value of the Japanese yen against £ sterling would have decreased the group's profit before tax by approximately £1.8m (2007: £2.6m).

22. Trade and other payables

| | 2008 £m | 2007 £m |
|--|--------------|------------|
| Current | | |
| Trade payables | 82.8 | 61.0 |
| Non-trade payables, accruals and deferred income | 115.1 | 80.7 |
| | 197.9 | 141.7 |
| Non-current | | |
| Non-trade payables, accruals and deferred income | 10.1 | 8.4 |

The fair value of trade and other payables approximates to book value due to the short-term maturities associated with these items.

23. Provisions

| | Reorganisation £m | Product warranty £m | Other £m | Total £m |
|----------------------------------|----------------------|---------------------------|-------------|--------------|
| At 1 January 2008 | 2.2 | 6.6 | 12.7 | 21.5 |
| Additional provision in the year | 1.5 | 1.5 | 3.1 | 6.1 |
| Acquired on acquisition | – | 0.6 | 0.2 | 0.8 |
| Utilised during the year | (2.1) | (1.9) | (5.2) | (9.2) |
| Released during the year | – | – | (0.1) | (0.1) |
| Exchange adjustments | 0.4 | 1.9 | 1.7 | 4.0 |
| At 31 December 2008 | 2.0 | 8.7 | 12.4 | 23.1 |

Provisions are all presented as current liabilities.

Provisions are discounted to reflect the time value of money where the effect is significant, generally only where it is anticipated that a liability will crystallise in more than one year.

Reorganisation

Reorganisation provisions relate to committed restructuring plans in place within the business and represent the directors' best estimate of the cost to complete the restructuring.

Product warranty

Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business and included within the group's standard terms and conditions. Warranty commitments typically apply for a 12-month period, with the occasional extension up to 36 months. These extended warranties are not significant and the provision represents the directors' best estimate of the group's liability based on past experience.

Other

Other comprises legal, property-related and other provisions. Property-related and other provisions represent the directors' best estimate of the cost of settling future obligations over varying time periods. The company has on occasion been required to take legal action to protect its intellectual property rights, to enforce commercial contracts or otherwise and similarly to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent management's best estimate of the likely outcome. The timing of utilisation of these provisions is uncertain pending the outcome of various court proceedings and negotiations, but is expected to be within one to three years.

However, no provision is made for proceedings which have been or might be brought by other parties unless management, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful. Contingent liabilities associated with such proceedings have been identified but the directors are of the opinion that any associated claims that might be brought can be resisted successfully and therefore the possibility of any outflow in settlement is assessed as remote.

Notes to the Accounts continued

24. Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet method using the current corporate tax rate in the relevant local jurisdiction.

The movement on the deferred tax account is shown below.

| | Note | 2008 £m | 2007 £m |
|--|------|---------------|------------|
| At 1 January | | (24.7) | (37.3) |
| Exchange adjustments | | (7.8) | (0.5) |
| Disposal of businesses | | – | 1.0 |
| Acquisition of subsidiary undertakings | | 4.4 | – |
| Transfer from current taxation | | 0.1 | 0.2 |
| Deferred tax on changes in fair value of forward exchange contracts recognised in equity | | (1.7) | (0.3) |
| Deferred tax on actuarial gains and losses on pension schemes recognised in equity | | 1.6 | 4.2 |
| Tax on foreign exchange in reserves | | (0.4) | – |
| Other credit to reserves | | (1.3) | – |
| Charged to income statement in the year | 11 | 0.8 | 8.0 |
| At 31 December | | (29.0) | (24.7) |
| Comprising: | | | |
| Deferred tax liabilities | | 1.7 | 1.0 |
| Deferred tax assets (including £0.3m attributable to the pension scheme deficit (2007: £2.0m)) | | (30.7) | (25.7) |
| | | (29.0) | (24.7) |

The movements in deferred tax assets and liabilities during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and they relate to income taxes levied by the same taxation authority.

| | Accelerated tax depreciation £m | Accruals & provisions £m | Tax losses £m | Unrealised profit on inter-company transactions £m | Pension schemes £m | Goodwill & intangible assets £m | Other £m | 2008 Total £m |
|--|---------------------------------------|--------------------------------|------------------|--|--------------------------|--|--------------|---------------------|
| Net deferred tax assets | | | | | | | | |
| At 1 January 2008 | (1.6) | (9.6) | (0.2) | (3.5) | (2.0) | (7.4) | (0.4) | (24.7) |
| Exchange adjustments | (0.2) | (4.0) | (0.3) | (0.9) | (0.1) | (1.3) | (1.0) | (7.8) |
| Acquisition of subsidiary undertakings | – | – | – | – | – | 4.4 | – | 4.4 |
| Transfer from current taxation | – | 0.1 | – | – | – | – | – | 0.1 |
| Deferred tax on changes in fair value of forward exchange contracts recognised in equity | – | – | – | – | – | – | (1.7) | (1.7) |
| Deferred tax on actuarial gain on pension schemes recognised in equity | – | – | – | – | 1.6 | – | – | 1.6 |
| Other amounts (credited) to reserves | – | (0.4) | – | – | – | (1.3) | – | (1.7) |
| Charged/(credited) to income statement | 0.6 | 0.4 | (2.6) | 0.2 | (0.6) | 2.2 | 0.6 | 0.8 |
| At 31 December 2008 | (1.2) | (13.5) | (3.1) | (4.2) | (1.1) | (3.4) | (2.5) | (29.0) |

| | Accelerated tax depreciation £m | Accruals & provisions £m | Tax losses £m | Unrealised profit on inter-company transactions £m | Pension schemes £m | Goodwill & intangible assets £m | Other £m | 2007 Total £m |
|--|---------------------------------------|--------------------------------|------------------|--|--------------------------|--|--------------|---------------------|
| Net deferred tax assets | | | | | | | | |
| At 1 January 2007 | (2.6) | (12.1) | (3.3) | (2.9) | (6.2) | (9.4) | (0.8) | (37.3) |
| Exchange adjustments | (0.2) | – | – | (0.2) | – | (0.1) | – | (0.5) |
| Disposal of businesses | 0.4 | 0.3 | 0.3 | – | – | – | – | 1.0 |
| Transfer from current taxation | – | 0.2 | – | – | – | – | – | 0.2 |
| Deferred tax on changes in fair value of forward exchange contracts recognised in equity | – | – | – | – | – | – | (0.3) | (0.3) |
| Deferred tax on actuarial gain on pension schemes recognised in equity | – | – | – | – | 4.2 | – | – | 4.2 |
| Charged/(credited) to income statement | 0.8 | 2.0 | 2.8 | (0.4) | – | 2.1 | 0.7 | 8.0 |
| At 31 December 2007 | (1.6) | (9.6) | (0.2) | (3.5) | (2.0) | (7.4) | (0.4) | (24.7) |

Unrecognised temporary differences

Deferred tax assets have not been recognised on the following temporary differences due to the degree of uncertainty over both the amount and utilisation of the underlying tax losses and deductions in certain jurisdictions. There is no associated expiry date in respect of tax losses.

| | 2008 £m | 2007 £m |
|-----------------------------|-------------|------------|
| Tax losses | 31.2 | 20.6 |
| Other temporary differences | 6.9 | 6.5 |
| | 38.1 | 27.1 |

No deferred tax liabilities have been provided in respect of the unremitted earnings of the non-UK subsidiaries. The amount of such unremitted earnings is estimated to be a retained profit of £610m (2007: £380m).

25. Share capital and reserves

| | 2008 | | 2007 | |
|----------------------------|---------------------------------|------|---------------------------------|------|
| | Number of shares millions | £m | Number of shares millions | £m |
| Authorised: | | | | |
| Ordinary shares of 5p each | 210.0 | 10.5 | 210.0 | 10.5 |
| Issued and fully paid: | | | | |
| At 1 January | 125.0 | 6.2 | 125.0 | 6.2 |
| At 31 December | 125.0 | 6.2 | 125.0 | 6.2 |

The group has one class of ordinary voting shares which carry no right to fixed income.

During the year no ordinary shares were issued upon exercise under share option schemes (2007: 38,500), giving rise to net proceeds of £nil (2007: £0.2m). See Note 27 for a summary of potential issues of ordinary shares under existing share option schemes.

Other reserves

Movements in reserves are set out in the Reconciliation of movement in capital and reserves in Note 26. The retained earnings reserve includes own shares held by the Employee Benefit Trust (see Note 29). The retained earnings reserve also includes own shares purchased by the company and treated as treasury shares (see Note 30). The nature and purpose of other reserves forming part of equity are as follows:

Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries, including gains or losses arising on net investment hedges.

Hedging reserve

This reserve records the cumulative net change in the fair value of forward exchange contracts where they are designated as effective cash flow hedge relationships.

Merger reserve

This reserve arose on the acquisition of Servomex Limited in 1999, a purchase satisfied substantially by the issue of share capital and therefore eligible for merger relief under the provisions of section 131 of the Companies Act 1985.

Capital redemption reserve

This reserve records the historical repurchase of the group's own shares.

Notes to the Accounts continued

26. Reconciliation of movement in capital and reserves

For the year ended 31 December 2008

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

27. Share-based payments

The Executive Share Option Scheme and Save As You Earn share option schemes were set up in order to provide executives and selected employees with options to purchase ordinary shares in the company. Under the Executive Share Option Scheme, exercise prices are determined according to the mid-market closing share price prevailing on the day before the date of grant. Share options granted under the Executive Share Option Scheme are also subject to performance criteria, being the fulfilment of earnings growth targets. Options vest after a period of three years, and have a maximum term of ten years.

Under the Performance Share Plan, the exercise price is the nominal cost of the company's shares. Awards to Spectris plc executives and senior managers are subject to performance criteria; 50% of the award being based on fulfilment of earnings growth targets (EPS) and 50% subject to a total shareholder return target (TSR). For executives and senior managers of the group's operating companies, the performance criteria is subject to EPS in respect of 50% of the award and operating company targets in respect of 50% of the award. For operating company managers the award is entirely subject to operating company profitability targets. Awards vest after a period of three years and must be exercised during the twelve-month period following vesting.

Under the Save As You Earn scheme, equity shares are issued following a vesting period of three years. Options may be exercised during a six-month period following the vesting date, and exercise prices are determined according to the mid-market closing share price prevailing on the day before the date of grant. There are no performance criteria associated with options granted under the Save As You Earn scheme.

Share options outstanding at the end of the period

| SAYE – Year of grant | Exercise price £ | Exercise period | 2008 Number thousands | 2007 Number thousands |
|----------------------|---------------------|--------------------|-----------------------------|-----------------------------|
| 2004 | 4.08 | 2008 | – | 12 |
| 2005 | 5.89 | 2009 | 24 | 26 |
| 2006 | 6.18 | 2010 | 48 | 58 |
| 2007 | 8.37 | 2011 | 40 | 54 |
| 2008 | 7.66 | 2012 | 46 | – |
| | | | 158 | 150 |

| Executive Share Option Scheme – Year of grant | Exercise price £ | Exercise period | 2008 Number thousands | 2007 Number thousands |
|---|---------------------|--------------------|-----------------------------|-----------------------------|
| 1998 | 2.39–5.51 | 2001–2008 | – | 34 |
| 1999 | 3.22–3.96 | 2002–2009 | 16 | 18 |
| 2000 | 5.13–5.25 | 2003–2010 | 130 | 131 |
| 2001 | 3.58–4.99 | 2004–2011 | 115 | 122 |
| 2004 | 4.06–4.62 | 2007–2014 | 12 | 12 |
| 2005 | 5.89 | 2008–2015 | 172 | 261 |
| | | | 445 | 578 |

| Performance Share Plan – Year of grant | Exercise price £ | Exercise period | 2008 Number thousands | 2007 Number thousands |
|--|---------------------|--------------------|-----------------------------|-----------------------------|
| 2006 | 0.05 | 2009–2010 | 160 | 186 |
| 2007 | 0.05 | 2010–2011 | 463 | 487 |
| 2008 | 0.05 | 2011–2012 | 789 | – |
| | | | 1,412 | 673 |

Movements in the year

| SAYE | 2008 | | | 2007 | | |
|----------------------------|---------------------|---|--------------------------|---------------------|---|--------------------------|
| | Number thousands | Weighted average exercise price £ | Value of shares £m | Number thousands | Weighted average exercise price £ | Value of shares £m |
| At 1 January | 150 | 7.33 | 1.1 | 194 | 4.98 | 1.0 |
| Granted | 49 | 7.66 | 0.4 | 54 | 8.37 | 0.4 |
| Exercised | (12) | 4.24 | (0.1) | (81) | 4.12 | (0.2) |
| Lapsed | (29) | 7.28 | (0.2) | (17) | 5.18 | (0.1) |
| At 31 December | 158 | 7.12 | 1.2 | 150 | 7.33 | 1.1 |
| Exercisable at 31 December | 24 | 5.89 | 0.14 | 12 | 4.08 | 0.05 |

| Executive Share Option Scheme | 2008 | | | 2007 | | |
|-------------------------------|---------------------|---|--------------------------|---------------------|---|--------------------------|
| | Number thousands | Weighted average exercise price £ | Value of shares £m | Number thousands | Weighted average exercise price £ | Value of shares £m |
| At 1 January | 578 | 5.19 | 3.0 | 1,376 | 4.84 | 6.7 |
| Exercised | (39) | 3.85 | (0.2) | (768) | 4.60 | (3.5) |
| Lapsed | (94) | 5.82 | (0.5) | (30) | 5.00 | (0.2) |
| At 31 December | 445 | 5.11 | 2.3 | 578 | 5.19 | 3.0 |
| Exercisable at 31 December | 445 | 5.11 | 2.3 | 317 | 4.52 | 1.4 |

Notes to the Accounts continued

27. Share-based payments continued

| | 2008 | | | 2007 | | |
|-------------------------------|---------------------|---|--------------------------|---------------------|---|--------------------------|
| | Number thousands | Weighted average exercise price £ | Value of shares £m | Number thousands | Weighted average exercise price £ | Value of shares £m |
| Performance Share Plan | | | | | | |
| At 1 January | 673 | 0.05 | 0.03 | 197 | 0.05 | 0.01 |
| Granted | 829 | 0.05 | 0.04 | 494 | 0.05 | 0.02 |
| Lapsed | (90) | 0.05 | – | (18) | 0.05 | – |
| At 31 December | 1,412 | 0.05 | 0.07 | 673 | 0.05 | 0.03 |
| Exercisable at 31 December | – | – | – | – | – | – |

Share-based payment expense

Share options are valued using a stochastic option pricing model, with support from an independent remuneration consultant. The Total Shareholder Return (TSR) performance condition and the operating company profit condition have been included in the calculation of fair value under the Performance Share Plan. For options granted in 2008 and 2007, the fair value per option granted and the assumptions used in the calculation are as follows:

| | SAYE | | Executive Share Option Scheme* | | Performance Share Plan | |
|---|-----------------|----------|-----------------------------------|------|---------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Weighted average share price (pence) | 549 | 889 | – | – | 654–789 | 865–899 |
| Weighted average exercise price (pence) | 766 | 837 | – | – | 5 | 5 |
| Expected volatility | 26.7% | 22.0% | – | – | 23.0%–28.2% | 20.6%–22.4% |
| Expected life | 3.25 yrs | 3.25 yrs | – | – | 3.0 yrs | 3.0 yrs |
| Risk-free rate | 3.8% | 5.1% | – | – | 1.09%–5.21% | 4.95%–5.19% |
| Expected dividends (expressed as a yield) | 3.9% | 2.1% | – | – | – | – |
| Fair value per option | 7.0% | 21.5% | – | – | – | – |
| Fair value per award – TSR condition | | | | | 65.0%–74.0% | 59.7%–65.6% |
| Fair value per award – operating company profit condition | | | | | 99.1%–99.4% | 99.5% |
| Fair value per award – EPS condition | | | | | 99.1%–99.4% | 99.5% |

The expected volatility is based on historical volatility over the expected term. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

* No options were granted under the Executive Share Option Scheme.

The group recognised total expenses of £1.8m related to equity settled share-based payment transactions in 2008 (2007: £0.9m).

28. Disposal of businesses

During the year the group did not divest any businesses.

The assets and liabilities disposed of by the group are as follows:

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Goodwill | – | 2.9 |
| Property, plant and equipment | 1.2 | 2.4 |
| Inventories | – | 3.7 |
| Trade and other receivables | – | 5.5 |
| Cash and cash equivalents | – | (0.1) |
| Taxation | – | 1.2 |
| Trade and other payables | – | (5.2) |
| Provisions | – | (0.7) |
| Net assets disposed of | 1.2 | 9.7 |
| Consideration received, satisfied in cash | 1.5 | 33.4 |
| Overdraft disposed of | – | (0.1) |
| Transaction expenses | – | (3.5) |
| Net cash inflow | 1.5 | 29.8 |
| Cash received net of transaction expenses and cash disposed of | 1.5 | 29.8 |
| Net assets disposed of | (1.2) | (9.7) |
| Accruals and provisions | – | (1.1) |
| Profit on businesses disposed | 0.3 | 19.0 |

29. Own shares held by Employee Benefit Trust

The own shares reserve forms part of retained earnings and represents the cost of shares in Spectris plc purchased in the market and held by the Spectris plc Employee Benefit Trust ('EBT') to satisfy options under the group's share option schemes (see Note 27).

| | 2008 £m | 2007 £m |
|----------------|------------|------------|
| At 1 January | 0.2 | 0.3 |
| Disposals | (0.1) | (0.1) |
| At 31 December | 0.1 | 0.2 |

The EBT holds ordinary 5p shares in Spectris plc for the purpose of satisfying obligations under the 1996 Executive Share Option Plan for the benefit of the group's employees. The EBT held 10,765 shares at 31 December 2008 (2007: 20,780) at a cost of £0.1m (2007: £0.2m). The market value of the EBT's shares at 31 December 2008 was £0.1m (2007: £0.1m).

The purchase of the shares on the open market is funded by loans directly from Spectris plc. Dividend income in excess of 0.01p per share on the shares held by the EBT has been waived by the Trust and is therefore not included in the group's profit and loss account. Interest and administration costs of the EBT are charged to the profit and loss account of the company for the year.

30. Treasury shares

During the year the group repurchased 1.4 million shares (2007: 8.9 million) for a consideration of £9.3m (2007: £79.2m). 21,363 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 (2007: nil).

Notes to the Accounts continued

31. Acquisitions

During the period, the group acquired 100% of the share capital of Viscotek Corporation effective on 1 January 2008, nCode International effective on 1 August 2008 and the LDS Test and Measurement business effective on 1 December 2008. The group also acquired the assets and liabilities of Siemens' Machine Vision Business on 19 September 2008 and, in addition, a number of distributors in markets where a direct presence was sought. The assets and liabilities acquired, together with the aggregate purchase consideration, is summarised below. The profit contribution of the acquired businesses to the group's result for the period was £3.4m. Group revenue and operating profit would have been £833.1m and £116.8m respectively had the acquisitions taken place on the first day of the year. Fair values attached to certain provisions acquired in connection with the LDS business are provisional at the balance sheet date, pending finalisation of the alignment with group policy. No material changes are anticipated.

Reflecting the proximity of the LDS acquisition to the year end, the allocation of the residual balance of goodwill between goodwill and the fair value of intangible assets is yet to be finalised. Where the fair value of acquired intangible assets has been identified, the residual goodwill represents the synergies that can be achieved through the integration into the group, the future potential to develop new technology, and the potential future relationships and contracts.

| | 2008 | | | 2007 | | |
|---|------------------|---------------------------------|------------------|------------------|---------------------------------|------------------|
| | Book value £m | Fair value adjustments £m | Fair value £m | Book value £m | Fair value adjustments £m | Fair value £m |
| Net assets acquired | | | | | | |
| Intangible fixed assets | 2.8 | 22.4 | 25.2 | 5.6 | – | 5.6 |
| Tangible fixed assets | 4.0 | (0.5) | 3.5 | 0.2 | – | 0.2 |
| Inventories | 12.0 | 0.9 | 12.9 | 0.4 | – | 0.4 |
| Trade and other receivables | 17.0 | (2.1) | 14.9 | 0.4 | – | 0.4 |
| Trade and other payables | (14.1) | (3.3) | (17.4) | – | – | – |
| Deferred tax liabilities | – | (4.4) | (4.4) | – | – | – |
| Cash | 4.1 | – | 4.1 | – | – | – |
| Net assets acquired | 25.8 | 13.0 | 38.8 | 6.6 | – | 6.6 |
| Goodwill | | | 54.1 | | | – |
| Total consideration | | | 92.9 | | | 6.6 |
| Adjustment for cash acquired | | | (4.1) | | | – |
| Net consideration | | | 88.8 | | | 6.6 |
| Analysis of cash outflow in consolidated cash flow statement | | | | | | |
| Total consideration | | | 92.9 | | | 6.6 |
| Deferred and contingent consideration to be paid in future years | | | (2.9) | | | (1.4) |
| Cash paid (including directly attributable costs) | | | 90.0 | | | 5.2 |
| Prior year acquisitions | | | | | | |
| Purchase price adjustment re prior year acquisition | | | – | | | 0.2 |
| Deferred consideration in relation to prior year acquisitions | | | 1.3 | | | 0.6 |
| | | | 1.3 | | | 0.8 |
| Total cash outflow relating to acquisitions | | | 91.3 | | | 6.0 |
| Cash acquired on acquisition | | | (4.1) | | | – |
| Net cash outflow relating to acquisitions | | | 87.2 | | | 6.0 |

Net assets acquired for significant 2008 acquisitions

| | 2008 | | |
|---|------------------|---------------------------------|------------------|
| | Book value £m | Fair value adjustments £m | Fair value £m |
| Net assets acquired for LDS Test and Measurement | | | |
| Intangible fixed assets | – | 2.7 | 2.7 |
| Tangible fixed assets | 3.3 | (0.3) | 3.0 |
| Inventories | 8.8 | 1.4 | 10.2 |
| Trade and other receivables | 11.2 | (1.5) | 9.7 |
| Trade and other payables | (13.1) | 2.9 | (10.2) |
| Cash | 0.9 | – | 0.9 |
| Net assets acquired | 11.1 | 5.2 | 16.3 |
| Goodwill | | | 40.0 |
| Total consideration | | | 56.3 |
| Adjustment for cash acquired | | | (0.9) |
| Net consideration | | | 55.4 |

Acquisition of minority interest

On 21 October 2008, the group acquired a 31.2% investment in Naneum Limited for £0.6m in cash. The group's share of profit since the date of acquisition was £nil.

32. Contingent liabilities

Royal Bank of Scotland

Spectris plc and its UK subsidiaries are party to a cross guarantee arrangement to support trade finance facilities provided by the bank. They also are party to a cross guarantee arrangement that allows individual subsidiaries to borrow from the bank on overdraft within the overall borrowing limit agreed with the bank. An amount of £4.1m (2007: £3.7m) was outstanding at 31 December 2008.

JP Morgan Chase NA

Spectris plc has provided a parent company guarantee to JP Morgan Chase NA to support trade finance facilities provided by the bank to its subsidiaries in the USA. An amount of £1.7m (2007: £0.6m) was outstanding at 31 December 2008.

ABN AMRO Bank NV

Spectris plc has provided a parent company guarantee to ABN AMRO Bank NV to support trade finance facilities provided by the bank to its subsidiaries in various countries outside of the UK and USA. Spectris plc has also provided a parent company guarantee to ABN AMRO Bank NV to support overdraft and intra-day facilities provided by the bank to its subsidiaries who participate in the cross-border euro zero balance pooling arrangement. An amount of £13.0m (2007: £6.7m) was outstanding at 31 December 2008.

Other banks

Group companies have, in the normal course of business, provided bonds and guarantees through local banking arrangements amounting to £5.2m (2007: £3.1m).

Legal

See Note 23 *Other*.

33. Operating lease arrangements

| | 2008 | | 2007 | |
|---|----------------|-------------|----------------|-------------|
| | Property £m | Other £m | Property £m | Other £m |
| Total commitments under non-cancellable operating leases | | | | |
| Not later than one year | 4.7 | 2.8 | 3.2 | 2.3 |
| Later than one year and not later than five years | 10.9 | 6.6 | 11.7 | 4.9 |
| Later than five years | 9.2 | – | 8.5 | – |
| | 24.8 | 9.4 | 23.4 | 7.2 |

Notes to the Accounts continued

33. Operating lease arrangements continued

Group companies are party to a number of operating leases, mainly for plant and machinery, including motor vehicles and property rentals. The arrangements do not impose any significant restrictions on the group.

During the year £9.1m (2007: £8.3m) was recognised in the income statement in respect of operating lease rental payments.

34. Capital commitments

At 31 December 2008, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.7m (2007: £6.9m), for which provision has not been made.

35. Related party transactions

Details of directors' remuneration (being the key management personnel) are summarised in Note 8 and shown in detail in the Directors' Remuneration Report on pages 37 to 43. There were no other related party transactions requiring disclosure.

36. Subsidiary undertakings

The following are the group's principal subsidiary undertakings. They operate mainly in the countries of incorporation. All the subsidiaries, other than intermediate holding companies, are involved in the manufacture and sale of materials analysis systems, test and measurement equipment, in-line instrumentation and industrial controls.

Spectris plc holds 100% of the ordinary share capital of the subsidiaries incorporated in the UK. Subsidiaries incorporated overseas are 100% owned through intermediate holding companies.

| | Country of incorporation |
|--|-----------------------------|
| Malvern Instruments Limited | UK |
| Servomex Group Limited | UK |
| Spectris China Limited | China |
| Brüel & Kjær Sound & Vibration Measurement A/S | Denmark |
| Brüel & Kjær Vibro A/S | Denmark |
| Hottinger Baldwin Messtechnik GmbH | Germany |
| Spectris Company Limited (Japan) | Japan |
| BTG Eclépens SA | Switzerland |
| PANalytical BV | The Netherlands |
| Beta LaserMike Inc | USA |
| Fusion UV Systems Inc | USA |
| Microscan Systems Inc | USA |
| NDC Infrared Engineering Inc | USA |
| Particle Measuring Systems Inc | USA |
| Red Lion Controls Inc | USA |
| Spectris Inc | USA |

37. Post balance sheet events

After the year end, a £50m, five-year term facility was secured from the European Investment Bank in January 2009 under covenant conditions in line with existing facilities.

On 6 February 2009, Spectris acquired 100% of the share capital of Lochard Limited which extends the group's capabilities in environmental monitoring systems for a consideration of AUD 41m with a three-year conditional earn out.

Company Balance Sheet

| | Note | 2008 £m | 2007 £m |
|--|------|----------------|------------|
| Fixed assets | | | |
| Intangible fixed assets | 40 | 2.4 | – |
| Tangible fixed assets | 41 | – | 0.1 |
| Fixed asset investments | 42 | 198.0 | 196.3 |
| | | 200.4 | 196.4 |
| Current assets | | | |
| Debtors | 43 | 452.9 | 668.9 |
| Cash at bank | | 25.0 | 12.6 |
| | | 477.9 | 681.5 |
| Creditors: due within one year | | | |
| Short-term borrowing | 44 | (26.0) | (2.6) |
| Other creditors | 44 | (92.4) | (364.4) |
| | | (118.4) | (367.0) |
| Net current assets | | 359.5 | 314.5 |
| Debtors: due after more than one year | | | |
| Debtors | 45 | 212.7 | – |
| Total assets less current liabilities | | 772.6 | 510.9 |
| Creditors: due after more than one year | | | |
| Medium- and long-term borrowing | 46 | (392.5) | (106.0) |
| Derivative financial instruments | 47 | (17.1) | (16.1) |
| | | (409.6) | (122.1) |
| Provisions for liabilities and charges | 48 | (0.9) | (1.2) |
| Net assets | | 362.1 | 387.6 |
| Capital and reserves | | | |
| Called up share capital | 49 | 6.2 | 6.2 |
| Share premium account | 50 | 231.4 | 231.4 |
| Merger reserve | 50 | 3.1 | 3.1 |
| Capital redemption reserve | 50 | 0.3 | 0.3 |
| Special reserve | 50 | 34.1 | 34.1 |
| Hedging reserve | 50 | (1.3) | – |
| Profit and loss account | 50 | 88.3 | 112.5 |
| Equity shareholders' funds | | 362.1 | 387.6 |

The financial statements on pages 85 to 91 were approved by the Board of Directors on 24 February 2009 and were signed on its behalf by:



Clive Watson
Director

Notes to the Company's Accounts

38. Accounting policies

The separate financial statements of the company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. In accordance with the exemption provided by Section 230 of the Companies Act 1985 the company has not presented its own profit and loss account.

The company has taken the exemption available in respect of the requirements of FRS 29, *Financial Instruments: Disclosures*.

Basis of accounting

The accounts are prepared on the historical cost basis, except that derivative financial instruments are stated at fair value as described below.

Derivative financial instruments

The company uses derivative financial instruments to hedge the group's exposure to foreign exchange and interest rate risks arising from operating and financing activities. In accordance with its treasury policy, it does not hold or use derivative financial instruments for trading or speculative purposes.

Cross-currency interest rate swaps

The company takes advantage of cross-currency interest rate swaps for some of its US dollar-denominated private placement borrowings. The swaps have the effect of converting fixed rate US dollar borrowings into fixed rate euro-denominated borrowings.

The underlying US dollar borrowings are required to be presented separately in the balance sheet from the cross-currency interest rate swaps. In addition, the fair value of the cross-currency interest rate swap is required to be recognised in full on the balance sheet. All changes in value are recognised in the profit and loss account.

Financial guarantees

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Foreign currencies

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost.

Depreciation is calculated to write off the difference between the cost or valuation of fixed assets and their residual value over their estimated useful lives on a straight-line basis at the following rates per annum:

| | |
|------------------------|---------|
| Leasehold improvements | 5 years |
| Office equipment | 3 years |

Intangible fixed assets and amortisation

Intangible fixed assets purchased by the company are capitalised at their cost.

Amortisation of intangible assets is charged to administrative expenses in the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

| | |
|----------------|---------|
| Software costs | 5 years |
|----------------|---------|

Fixed asset investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Trade and other receivables

Trade and other receivables are stated at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade and other payables

Trade and other payables are stated at amortised cost.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Leasing

Annual payments under operating leases are charged to the profit and loss account on an accruals basis.

Post-retirement benefits

The company participates in group operated defined contribution and defined benefit pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The company is unable to identify its share of the group defined benefit scheme's underlying assets and liabilities and therefore accounts for it as a defined contribution scheme. The amounts charged against profits represent contributions payable to the schemes in respect of the accounting period.

Share-based payments

The fair value of equity-settled employee share option grants is calculated at grant date. The resulting cost for company employees is charged to the income statement over the vesting period of the plans. The company has also offered share options to key management in other group companies and this cost has been included as part of the company's investment in subsidiaries. The value of the charge is adjusted to reflect expected and actual levels of options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Cash flow statement

The company has not presented a separate cash flow statement in accordance with the exemption provided by FRS 1 (Revised), as its cash flows are included within the cash flows of the group, as set out elsewhere in this Annual Report.

39. Employee costs and other information

Employee costs, including directors' remuneration, comprise:

| | 2008 £m | 2007 £m |
|------------------------------------|------------|------------|
| Wages and salaries | 4.5 | 4.6 |
| Social security costs | 0.8 | 0.7 |
| Defined benefit pension plans | 1.7 | 1.7 |
| Defined contribution pension plans | 0.4 | 0.4 |
| Share-based payment expense | 0.8 | 0.6 |
| | 8.2 | 8.0 |

| | 2008 Number | 2007 Number |
|-----------------------------|----------------|----------------|
| Average number of employees | 30 | 29 |

Directors' remuneration

Further details of directors' remuneration and share options are given in Note 8 to the group financial statements and in the Directors' Remuneration Report on pages 37 to 43.

Auditors' fees

Fees paid to the group auditors in respect of audit services provided to the company amounted to £0.2m (2007: £0.2m).

40. Intangible fixed assets

| Cost | Software costs £m |
|---------------------|----------------------|
| At 1 January 2008 | – |
| Additions | 2.5 |
| Disposals | – |
| At 31 December 2008 | 2.5 |

| Amortisation | |
|---------------------|------------|
| At 1 January 2008 | – |
| Charge for the year | 0.1 |
| Disposals | – |
| At 31 December 2008 | 0.1 |

| Net book value | |
|---------------------|------------|
| At 31 December 2008 | 2.4 |
| At 31 December 2007 | – |

Notes to the Company's Accounts continued

41. Tangible fixed assets

| | Leasehold improvements £m | Office equipment £m | Total £m |
|-----------------------|---------------------------------|---------------------------|-------------|
| Cost | | | |
| At 1 January 2008 | 0.3 | 0.7 | 1.0 |
| Additions | – | – | – |
| Disposals | – | – | – |
| At 31 December 2008 | 0.3 | 0.7 | 1.0 |
| Depreciation | | | |
| At 1 January 2008 | 0.3 | 0.6 | 0.9 |
| Charge for the year | – | 0.1 | 0.1 |
| Disposals | – | – | – |
| At 31 December 2008 | 0.3 | 0.7 | 1.0 |
| Net book value | | | |
| At 31 December 2008 | – | – | – |
| At 31 December 2007 | – | 0.1 | 0.1 |

42. Fixed asset investments

| | Investments in subsidiary undertakings £m |
|---------------------------------|--|
| Cost | |
| At 1 January 2008 | 265.4 |
| Additions | 1.7 |
| Disposals | – |
| At 31 December 2008 | 267.1 |
| Provision for impairment | |
| At 1 January 2008 | 69.1 |
| Charge for the year | – |
| Disposals | – |
| At 31 December 2008 | 69.1 |
| Net book value | |
| At 31 December 2008 | 198.0 |
| At 1 January 2008 | 196.3 |

Further details regarding the investments in subsidiaries are given in Note 36 to the group's consolidated financial statements.

43. Debtors

| | 2008 £m | 2007 £m |
|--|--------------|------------|
| Amounts falling due within one year | | |
| Amounts owed by group undertakings | 447.4 | 666.9 |
| Other debtors | 0.9 | 0.3 |
| Prepayments and accrued income | 0.3 | 0.2 |
| Corporation tax | – | 1.1 |
| Deferred tax asset | 4.3 | 0.4 |
| | 452.9 | 668.9 |

44. Creditors: due within one year

| | 2008 £m | 2007 £m |
|------------------------------------|--------------|------------|
| Short-term borrowing: | | |
| Bank overdraft | 1.0 | 2.6 |
| Unsecured bank loans | 25.0 | – |
| | 26.0 | 2.6 |
| Amounts owed to group undertakings | 85.4 | 359.4 |
| Other taxation and social security | 0.2 | 0.5 |
| Corporation tax | 0.9 | – |
| Accruals and deferred income | 5.9 | 4.5 |
| | 92.4 | 364.4 |
| Total | 118.4 | 367.0 |

Further details regarding the company's borrowings are set out in Note 20 of the group's consolidated financial statements.

45. Debtors: due after more than one year

| | 2008 £m | 2007 £m |
|------------------------------------|------------|------------|
| Medium- and long-term debtors: | | |
| Amounts owed by group undertakings | 212.7 | – |

46. Creditors: due after more than one year

| | 2008 £m | 2007 £m |
|------------------------------------|--------------|------------|
| Medium- and long-term borrowing: | | |
| Amounts owed to group undertakings | 221.6 | – |
| Unsecured bank loans | 25.0 | – |
| Unsecured loan notes | 145.9 | 106.0 |
| | 392.5 | 106.0 |

Further details regarding the company's borrowings are set out in Note 20 of the group's consolidated financial statements.

47. Derivative financial instruments

| | 2008 £m | 2007 £m |
|------------------------------------|-------------|------------|
| Cross-currency interest rate swaps | 16.9 | 16.1 |
| Forward exchange contracts | 0.2 | – |
| | 17.1 | 16.1 |

Further details regarding the company's cross-currency interest rate swaps and forward exchange contracts are set out in Note 21 of the group's consolidated financial statements.

48. Provisions for liabilities and charges

| | £m |
|--------------------------|------------|
| At 1 January 2008 | 1.2 |
| Utilised during the year | (0.3) |
| At 31 December 2008 | 0.9 |

Provisions represent the directors' best estimate of settling various potential claims against the company arising in the ordinary course of business.

Notes to the Company's Accounts continued

49. Share capital

| | 2008 | | 2007 | |
|----------------------------|--------------------------|-------------|--------------------------|------|
| | Number of shares million | £m | Number of shares million | £m |
| Authorised: | | | | |
| Ordinary shares of 5p each | 210.0 | 10.5 | 210.0 | 10.5 |
| Issued and fully paid: | | | | |
| At 1 January | 125.0 | 6.2 | 125.0 | 6.2 |
| At 31 December | 125.0 | 6.2 | 125.0 | 6.2 |

During the year no ordinary shares were issued upon exercise under share option schemes (2007: 38,500).

Share options have been granted to subscribe for ordinary shares of Spectris plc. Full details of share options currently in issue, including those issued during the year, together with information regarding the basis of calculation of the share-based payment expense, is contained in Note 27 to the group's consolidated financial statements.

The company recognised total expenses of £0.8m related to equity-settled share-based payment transactions in 2008 (2007: £0.6m). In addition, the company recognised £1.0m (2007: £0.3m) related to equity-settled share-based transactions for certain employees of other group companies.

50. Reserves

| | Share premium account £m | Merger reserve £m | Capital redemption reserve £m | Special reserve £m | Hedging reserve £m | Profit and loss account £m | Total £m |
|--|-----------------------------|----------------------|----------------------------------|-----------------------|-----------------------|-------------------------------|--------------|
| At 1 January 2008 | 231.4 | 3.1 | 0.3 | 34.1 | – | 112.5 | 381.4 |
| Profit for the year | – | – | – | – | (1.3) | 8.2 | 6.9 |
| Dividends paid | – | – | – | – | – | (25.0) | (25.0) |
| Share-based payment expense | – | – | – | – | – | 1.8 | 1.8 |
| Own shares (treasury) purchased | – | – | – | – | – | (9.3) | (9.3) |
| Own shares (EBT) purchased | – | – | – | – | – | (0.2) | (0.2) |
| Share options exercised from own shares (treasury) purchased | – | – | – | – | – | 0.2 | 0.2 |
| Share options exercised from shares held by Employee Benefit Trust | – | – | – | – | – | 0.1 | 0.1 |
| At 31 December 2008 | 231.4 | 3.1 | 0.3 | 34.1 | (1.3) | 88.3 | 355.9 |

Further details of the Employee Benefit Trust are set out in Note 29 of the group's consolidated financial statements.

The purpose of the merger reserve and capital redemption reserve is detailed in Note 25 of the consolidated financial statements. The special reserve was created historically following the cancellation of an amount of share premium for the purpose of writing off goodwill. The special reserve is not distributable.

51. Reconciliation of movement in equity shareholders' funds

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Profit for the year | 6.9 | 85.9 |
| Dividends paid in the year | (25.0) | (22.2) |
| Share-based payment expense | 1.8 | 0.9 |
| Own shares (treasury) purchased | (9.3) | (79.2) |
| Own shares (EBT) purchased | (0.2) | (1.6) |
| Share options exercised from own shares (treasury) purchased | 0.2 | 2.9 |
| Share options exercised by issue of share capital | – | 0.2 |
| Share options exercised from shares held by Employee Benefit Trust | 0.1 | 1.0 |
| Net increase in equity shareholders' funds | (25.5) | (12.1) |
| Opening equity shareholders' funds | 387.6 | 399.7 |
| Closing equity shareholders' funds | 362.1 | 387.6 |

52. Pensions

Certain of the company's employees participate in the Spectris Pension Plan, a UK multi-employer defined benefit scheme. Further details of the group's scheme are contained in Note 9 to the group's consolidated financial statements. The company is unable to identify its share of the Plan's underlying assets and liabilities and therefore accounts for the scheme as a defined contribution scheme. In accordance with the Schedule of Contributions in place for the Spectris Pension Plan for the financial year ending 31 December 2008, employer contributions are 13% p.a. of pensionable salaries. The actuary certified in 2006 that this level of contributions was adequate for the purposes of the minimum funding requirement. Contributions paid in 2008 to the Spectris Pension Plan were £1.7m (2007: £1.7m) and the amounts outstanding at the year end were £0.1m (2007: £0.1m). Contributions paid in 2008 to defined contribution plans were £0.4m (2007: £0.4m).

53. Related party disclosures

The company has taken advantage of the exemption under FRS 8, *Related Party Disclosures*, not to disclose related party transactions between subsidiaries.

There are no material transactions with directors and other related parties of the company except those relating to remuneration and share dealing disclosed in the Directors' Remuneration Report, enclosed within this Annual Report.

54. Commitments

| | Land and buildings | |
|--|--------------------|------------|
| | 2008 £m | 2007 £m |
| Annual commitments for operating leases expiring | | |
| After five years | 0.2 | 0.2 |

At the balance sheet date the company had no capital commitments for which provision has not been made (2007: £nil).

55. Contingent liabilities

There are no contingent liabilities as at the year end. The cross guarantee arrangements to support trade finance facilities are stated in Note 32 of the group's consolidated financial statements.

56. Post balance sheet events

After the year end, a £50m, five-year term facility was secured from the European Investment Bank in January 2009 under covenant conditions in line with existing facilities.

Shareholder Information

Financial calendar

| | |
|---|-----------------|
| Annual General Meeting and Interim management statement | 19 May 2009 |
| Record date for 2008 final dividend | 5 June 2009 |
| 2008 Final dividend payable | 26 June 2009 |
| 2009 Interim results | 25 August 2009 |
| Interim management statement | 5 November 2009 |
| 2009 Preliminary results | February 2010 |

Company secretary

R J Stephens, FCIS

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Auditors

KPMG Audit Plc

Bankers

Royal Bank of Scotland Plc

Solicitors

Ashurst

Brokers

RBS Hoare Govett Ltd
Merrill Lynch

Shareholder relations advisers

Makinson Cowell

Financial PR advisers

FD

Registrars

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Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

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

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Directory of Companies

Materials Analysis

Malvern Instruments

Analytical systems for materials characterisation, from bulk powders to nano-materials and macro-molecules.



PANalytical

Analytical X-ray equipment for industrial and scientific applications.



Particle Measuring Systems

Micro-contamination monitoring systems for ultraclean environments and manufacturing processes.



Test and Measurement

Brüel & Kjær Sound & Vibration

Transducers, sound level meters and analysers for sound and vibration measurement.



HBM

Load cells, transducers, strain gauges, signal conditioning and data acquisition systems, test and measurement software and services.



In-line Instrumentation

Beta LaserMike

Non-contact, laser-based dimensional measuring and flaw detection, ultrasonic dimensional gauging.



Brüel & Kjær Vibro

Machine condition monitoring systems and maintenance services.



BTG Group

High performance blades, rods and equipment for metering and doctoring; lab and on-line analysers and sensors for process control in the pulp and paper industry.



Fusion UV Systems

Ultraviolet light processing technology for curing photo-sensitive inks, coatings and adhesives.



NDC Infrared Engineering

Infrared, X-ray, isotopic and microwave sensors for on-line measurement of moisture, composition, film thickness and coat weight.



Servomex

Gas analysers, gas analysis systems and transducers.



Industrial Controls

Microscan

High speed industrial bar code scanning and decoding instruments.



Red Lion Controls

Operator interfaces, signal conditioners, temperature controllers, counters, rate indicators and panel meters.



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