

# spectris

Annual report and accounts 2007



Enhancing

productivity



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

Our businesses are leaders in their specialised markets, with strong brands and market-leading products. We work with multinational, blue-chip customers in a diverse range of end markets, with metals, minerals and mining, pharmaceuticals, pulp and paper, and transportation (primarily automotive and aerospace) the principal industry sectors.

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

Our businesses are organised into four segments which reflect the applications and end user industries we serve:

Materials Analysis  
Test and Measurement  
In-line Instrumentation  
Industrial Controls

For more information about our companies, our technologies and the markets we serve, see the Business review on page 4.

### Contents

1	Financial highlights
2	Chairman's statement
3	Chief Executive's statement
4	Business review
24	Corporate social responsibility
28	Board of directors
30	Directors' report
35	Directors' remuneration report
42	Auditors' report
43	Consolidated income statement
43	Consolidated statement of recognised income and expense
44	Consolidated balance sheet
45	Consolidated cash flow statement
46	Notes to the accounts
78	Company balance sheet
79	Notes to the company's accounts
85	Shareholder information

## Financial highlights

Strong performance – sales, profits and cash flow all increase

Growth across all sectors and major geographies

Operating margins of 15.8%

Business groupings aligned with applications and end user industries

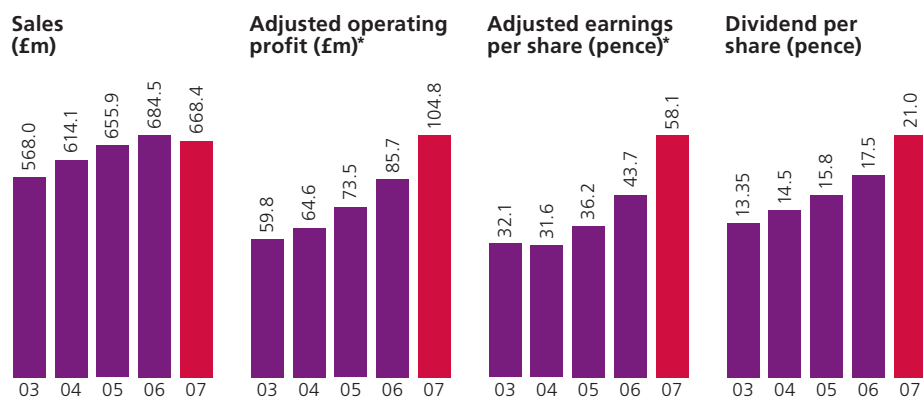
Strategic focus on platforms for growth

	2007	2006	Change	Change at CER**
Sales from continuing businesses# (£m)	<b>659.8</b>	642.6	+2.7%	+6.5%
Adjusted operating profit from continuing businesses# (£m)*	<b>104.3</b>	83.2	+25%	+35%
Adjusted operating profit (£m)*	<b>104.8</b>	85.7	+22%	
Adjusted profit before tax (£m)*	<b>98.0</b>	76.3	+28%	
Adjusted earnings per share (pence)*	<b>58.1</b>	43.7	+33%	
Dividend (pence)	<b>21.0</b>	17.5	+20%	
<b>Statutory</b>				
Sales (£m)	<b>668.4</b>	684.5	-2.4%	
Profit before tax (£m)	<b>118.1</b>	85.6	+38%	
Basic earnings per share (pence)	<b>70.9</b>	49.4	+44%	

# Continuing businesses exclude businesses divested

\* 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, related tax effects and other tax items which do not form part of the underlying tax rate

\*\* Constant exchange rates



## Chairman's statement



Spectris performed well in 2007, with sales, profits and earnings per share all increasing compared with the prior year, after adjusting for disposals and acquisitions. Total group sales were £668.4 million compared with £684.5 million in the prior year. Excluding the effect of disposals during the first half of 2007, sales from continuing businesses increased by 2.7% to £659.8 million (2006: £642.6 million), or 6.5% at constant currencies.

Total group adjusted operating profit increased by 22% to £104.8 million (2006: £85.7 million)\*. Operating margins increased by 2.9 percentage points to 15.8% of sales. Profit before tax increased by 28% to £98.0 million (2006: £76.3 million) and earnings per share increased by 33% to 58.1p (2006: 43.7p). Operating cash conversion was strong, with 99% of operating profit converted to operating cash. Net proceeds from disposals were £29.8 million. The buy-back of 8.9 million shares during 2007 absorbed £79.2 million, with the result that net debt at the end of the year was £77.3 million, compared with £71.7 million at the end of December 2006. Net interest costs were £6.7 million, giving an annualised cover of 15.6 times.

The Board proposes to pay a final dividend of 15.25p which, combined with the interim dividend of 5.75p, gives a total of 21.0p (2006: 17.5p), an increase of 20%. The dividend will be paid on 20 June 2008 to shareholders on the register at 30 May 2008.

### Board changes

As previously announced, Andrew Given retired at the May 2007 AGM and John Hughes joined the Board as a non-executive director in June. Stephen Harris, Business Group Director, resigned from the Board on 31 January 2008. I shall be standing

down at the May 2008 AGM, as announced in November 2006, after twenty years with the company and will be succeeded as Chairman by John Hughes. To him, to the rest of the Board, and to everyone at Spectris, I convey my thanks and best wishes for continuing success and prosperity.

### Outlook

2007 was a successful year, in which the company delivered a return on sales in excess of 15%. Our broad spread of geographies and end user markets, and strong product offering, ensure that we are well placed to maintain good progress despite an economic outlook which is less certain. The current year has started well, with encouraging prospects across the multiple industries and regions we serve.

A handwritten signature in black ink that reads "John Poulter". The signature is written in a cursive, flowing style.

**John Poulter**  
Chairman

\* Unless otherwise stated, all sales and operating profit figures in the narrative are on a continuing businesses basis and exclude the businesses divested. Figures for operating profit, profit before tax and earnings per share are adjusted measures – for explanation of adjusted figures and reconciliation to the statutory reported figures see Note 3.

**"2007 was a successful year, in which the company delivered a return on sales in excess of 15%"**

## Chief Executive's statement



Spectris delivered a strong performance in 2007, with sales, profits, operating margins and cash flow from continuing businesses all improving compared with the prior year. At constant currencies, sales increased by 6.5%, including 1% from acquisitions, and operating profit increased by 35%.

The major geographic regions again showed growth during 2007. The strongest growth was seen in Asia, where sales increased by 7% at constant currencies, led by China. Sales in Europe increased by over 3% at constant currencies. Sales in North America increased by 6%, helped by the acquisition of the IPI business acquired in 2006. Sales in the rest of the world increased by 32%, reflecting the growing importance of industrialising markets such as Russia, South America and Africa.

Operating margins improved to 15.8% (2006: 12.9%), as the restructuring and other business improvement actions taken in prior years continued to deliver results.

### Strategy

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 elements: strengthening market positions through innovation; increasing regional expansion with the focus on emerging markets; growing existing businesses through acquisition; focusing on operational excellence; building our presence in key strategic growth areas.

In order to give better clarity to our operations, we have re-aligned the activities of our business segments to reflect more closely the applications and end user industries we serve. Going forward, our businesses will be reported in four segments. These are: Materials Analysis, Test and Measurement, In-line Instrumentation and Industrial Controls. Figures for prior years have been restated accordingly. Figures at group level

and key performance indicators are not affected by these changes. For comparative purposes, the key results for the group based upon the prior segmentation are shown in Note 3. The segments are described in detail in the Business review.

Two acquisitions were made during the second half of the year. On 2 July, Particle Measuring Systems acquired the distribution activities of Quest Technologies in Singapore, giving it an increased presence in Asia. On 1 November, Servomex acquired Contrôle Analytique, a leading provider of specialist gas analysis products based in Canada. The acquisition enables Servomex to increase its product offering in the global industrial gas market and also provides opportunities for the company to meet the needs of customers in the semiconductor market.

Research and development expenditure increased to £45.2 million, which represents 7% of group sales, enabling the businesses to maintain their leading market positions and continue to meet the productivity challenges their customers face.

### Looking ahead

Over the longer term we are well positioned, both in terms of geographic exposure and end user markets. We have a clearly defined strategy which will deliver both top-line and bottom-line performance.

A handwritten signature in black ink, reading "John O'Higgins". The signature is fluid and cursive, written over a white background.

**John O'Higgins**  
Chief Executive

**"Over the longer term we are well positioned, both in terms of geographic exposure and end user markets"**

## Business review

### Business review contents

Group overview	4
Strategy and objectives	5
Key performance indicators	7
Operating review	8
- Materials Analysis	10
- Test and Measurement	12
- In-line Instrumentation	14
- Industrial Controls	16
Financial review	18
Principal risks and uncertainties	21
Resources	23
Corporate social responsibility	23

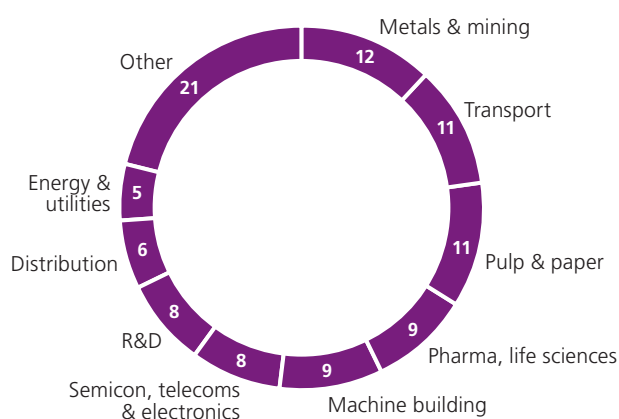
### Group overview

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

**We operate across a diverse range of markets**

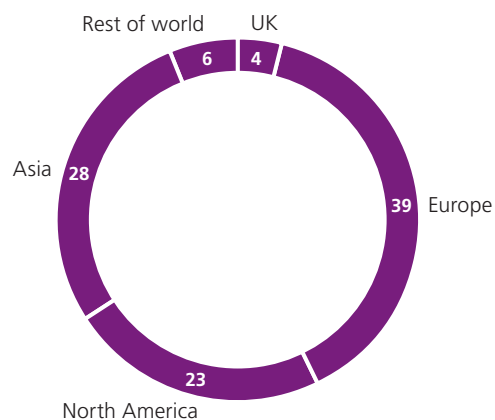
**We operate on a global scale, with sales and service offices around the world**

### Stability through the cycle



2007 Approximate sales by end user market (%)  
Continuing businesses

### Geographic diversity



2007 Sales by destination (%)  
Continuing businesses

#### *We operate across a diverse range of markets*

Our businesses are leaders in their specialised markets, with strong brands and market-leading products. Our customers are multinational, blue-chip customers in a diverse range of end markets, with no individual market representing more than 12% of sales and no individual customer representing more than 1%. Metals, minerals and mining, pharmaceuticals, pulp and paper, and transportation (primarily automotive and aerospace) are the principal industry sectors. 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.

#### *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 industrialising regions in the rest of the world. We also add value for customers by providing aftermarket services, for example supplying consumables, calibration, consultancy and support services. This area is increasing in importance and currently accounts for around one quarter of our business.

#### *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.

## 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% in 2007), 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 the focus on emerging markets*

We seek to grow our businesses around the world, with particular emphasis on industrialising markets such as China, India and South 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 business by pursuing an active but disciplined approach to bolt-on 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*

We aim to grow our existing businesses organically by developing new products as well as pursuing opportunities for growth in new markets, such as nanotechnology 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**

To meet the challenge of delivering successfully across a diverse range of customers, markets and geographies, 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 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 needs. 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 sets 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.

In November, Servomex acquired Contrôle Analytique, a leading provider of specialist gas analysis products based in Canada

In July, Particle Measuring Systems acquired the distribution activities of Quest Technologies in Singapore

## Key performance indicators

We monitor progress against our objectives via four key performance indicators.

### 1 Sales

We aim to achieve year-on-year growth in sales which excludes the effects of currency translation and divestments.

In 2007, total sales for continuing businesses were £659.8 million.

#### Sales growth, continuing businesses, at constant currencies (%)



### 2 Return on sales

Return on sales is defined as adjusted operating profit as a percentage of sales from continuing businesses. Our aim is to sustain or improve margins over time.

In 2007, return on sales for continuing businesses was 15.8%.

#### Return on sales, continuing businesses (%)



### 3 Cash conversion

We continue to focus on cash generation, with the target of delivering 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.

In 2007, cash conversion was 99%.

#### Cash conversion, as reported (%)



### 4 Earnings per share

We aim to achieve growth in adjusted earnings per share.

Adjusted earnings per share in 2007 was 58.1p.

#### EPS (pence)

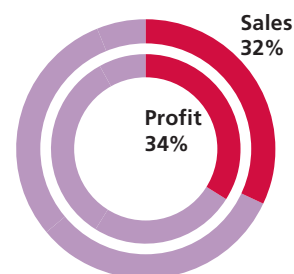


## Operating review

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

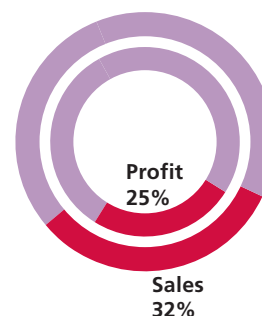
### Materials Analysis

Materials Analysis provides a wide range of analytical instrumentation and systems for particle and material characterisation. Applications are typically in batch process manufacturing industries and research and development laboratories. Industries served include semiconductor, pharmaceuticals and life sciences, with applications also in metals, minerals and mining.



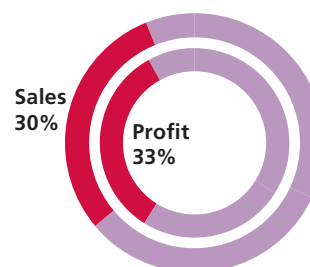
### Test and Measurement

Test and Measurement supplies test and measuring equipment for research and development, principally to the aerospace and automotive industries. Further applications are in consumer electronics and the environmental monitoring market.



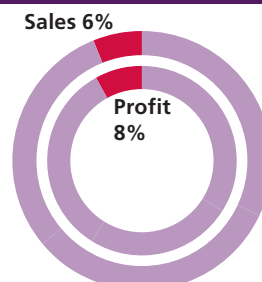
### In-line Instrumentation

In-line Instrumentation provides process analytical solutions, asset monitoring and control, gauging, and on-line controls for both primary processing industries (oil and gas, energy generation, petrochemicals, pulp and paper) and the converting markets (plastics, rubber, film).
















### Industrial Controls

Industrial Controls supplies automation and controls for general manufacturing processes. Products include bar code scanners, panel meters, human machine interfaces, industrial controllers and networking products.

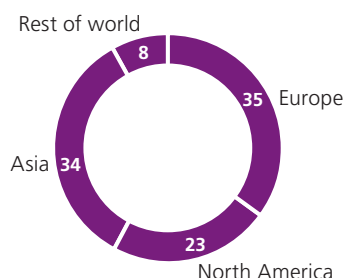


Our businesses are leaders in the markets they serve, with strong brands and market-leading products.

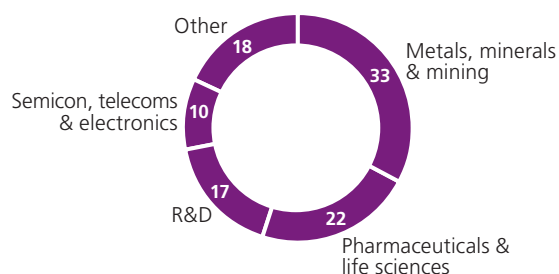
<p><b>Malvern Instruments</b></p> <p>Analytical systems for materials characterisation, from bulk powders to nanomaterials and macromolecules.</p> 	<p><b>PANalytical</b></p> <p>X-ray analytical equipment for industrial and scientific applications.</p> 	<p><b>Particle Measuring Systems</b></p> <p>Micro-contamination monitoring systems for ultraclean environments and manufacturing processes.</p> 			
<p><b>Brüel &amp; Kjær Sound &amp; Vibration</b></p> <p>Transducers, sound level meters and analysers for sound and vibration measurement.</p> 	<p><b>HBM</b></p> <p>Load cells, transducers, strain gauges, signal conditioning and data acquisition systems, test and measurement software and services.</p> 				
<p><b>Beta LaserMike</b></p> <p>Non-contact, laser-based dimensional measuring and flaw detection, ultrasonic dimensional gauging.</p> 	<p><b>Brüel &amp; Kjær Vibro</b></p> <p>Machine condition monitoring systems and maintenance services.</p> 	<p><b>BTG Group</b></p> <p>Instruments, coating and creping technology for the pulp and paper industry.</p> 	<p><b>Fusion UV Systems</b></p> <p>Ultraviolet light processing technology for curing photo-sensitive inks, coatings and adhesives.</p> 	<p><b>NDC Infrared Engineering</b></p> <p>Infrared, X-ray, isotopic and microwave sensors for on-line measurement of moisture, composition, film thickness and coat weight.</p> 	<p><b>Servomex</b></p> <p>Gas analysers, gas analysis systems and transducers.</p> 
<p><b>Microscan</b></p> <p>High speed industrial bar code scanning and decoding instruments.</p> 	<p><b>Red Lion Controls</b></p> <p>Operator interfaces, signal conditioners, temperature controllers, counters, rate indicators and panel meters.</p> 				

## Materials Analysis

2007 Sales by destination (%)



2007 Approximate sales by end user market (%)



### Overview

Materials Analysis provides a wide range of analytical instrumentation and systems for particle and material characterisation. The companies in this segment are Malvern Instruments, PANalytical and Particle Measuring Systems. These businesses generally sell directly to global end user customers and provide aftermarket services such as technical support, instrument calibration and replacement consumables. Applications are typically in batch process manufacturing industries and research and development laboratories. Industries served include semiconductor, pharmaceuticals and life sciences, with applications also in metals, minerals and mining. The total market for materials analysis instrumentation is estimated to be around £9 billion.

### 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 demand from the growth in new molecular and material sciences, where the equipment is used to analyse and characterise materials and structures in the development of new products.

## Improving product performance



Malvern's Zetasizer Nano particle measurement system is being used by speciality chemical manufacturers to develop innovative lacquers for the paints and coatings industry. Incorporating nano-sized ceramic particles, these lacquers offer greater scratch resistance and improved gloss compared with conventional paints, and are particularly attractive to the automotive industry. The Zetasizer Nano measures both particle size and zeta potential. Particle size correlates directly with the visual aspects of paint performance, such as hue, gloss and opacity, and zeta potential is a critical variable when determining product stability, as the performance of paints can be affected by sedimentation during storage.

### Review of operations

Sales in Materials Analysis increased by 4% in 2007 to £213.8 million, and by 8% at constant currencies. Operating profit increased by 15% to £34.8 million and operating margins improved by 1.6 percentage points to 16.3%. Restructuring charges were £0.1 million, compared with £0.5 million in the prior year.

The metals and mining industries continued to grow, particularly in Australia, South America and southern Africa, benefiting Malvern and PANalytical. Malvern's in-line particle characterisation products saw strong growth in areas such as cement and print toners as the productivity benefits achieved by existing customers led them to extend the use of these products into their other facilities.

Demand from the pharmaceutical industry continued to be strong. Malvern's recently launched Morphologi G3 product, an automated particle characterisation system, has been positively received by large pharmaceutical manufacturers, with a significant number of orders already placed. Particle characterisation is critical to the pharmaceutical industry, from protein size and conformation analysis at the discovery stage through to on-line analysis during manufacture. Both Malvern and PANalytical have seen good growth for their instrumentation from emerging regions such as India and China, where the establishment of R&D and production centres by leading pharmaceutical manufacturers is increasing, as is the production of drugs by generic manufacturers. At Particle Measuring Systems good growth in contamination detection systems for the pharmaceutical industry compensated for cyclically weaker demand in the semiconductor industry.

Investment in research and development continued in the semiconductor industry, benefiting PANalytical. During the year, Particle Measuring Systems launched the AirSentry II product for contamination monitoring in the semiconductor and electronics industries. This product features a patented ion mobility spectrometry technique and is used for real-time monitoring of airborne molecular contamination, a critical factor in semiconductor processing and hard disk drive and liquid crystal display manufacturing.

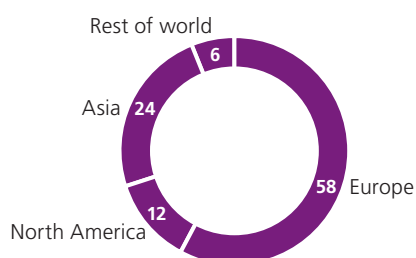


### Reducing environmental impact

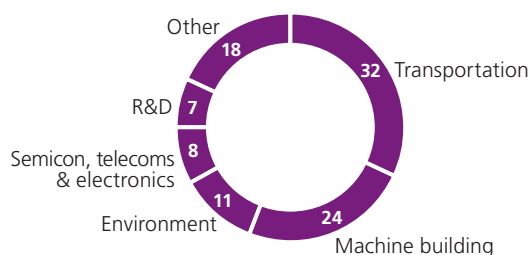
Antarctica is often thought of as the world's last unspoilt wilderness, but unfortunately this is no longer the case. Contaminated waste sites, left behind from abandoned research stations, are spreading into environmentally sensitive areas. In a major programme of remediation, the Australian Antarctic Program is using PANalytical's MiniPal spectrometer at the abandoned Casey station to detect soil contaminants, mainly heavy metals, polluting the soil and melt water. The data obtained has classified around 1000 tonnes of waste soil for disposal and validated the satisfactory clean up of the site.

## Test and Measurement

2007 Sales by destination (%)



2007 Approximate sales by end user market (%)



### Overview

Test and Measurement supplies test and measuring equipment for research and development, principally to the aerospace and automotive industries. Further applications are in consumer electronics and the environmental monitoring market. The companies in this segment are Brüel & Kjær Sound and Vibration and HBM. Products include sensors and controls for noise, vibration, weight and stress measurement, data acquisition hardware and software, and advanced data analysis applications. Services such as consultancy and instrument calibration and repair are also offered. The general industrial test and measurement market is estimated at around £2 billion.

### Market drivers

Product testing and quality control are the principal drivers for demand in the Test and Measurement segment. 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 that ever-increasing environmental, safety and efficiency targets are complied with. 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.

## Developing new products

As portable audio devices become increasingly popular, concern is growing over potential damage to people's hearing, particularly in children, from loud noise through headphones or earphones. European standard EN 50332 sets a limit for the maximum sound output allowed. Brüel & Kjær's Head and Torso Simulator is used by manufacturers to measure the full volume level from the audio player at the eardrum with the help of ear simulators. This ensures that their products comply with the standard, reducing the risk of ear damage.



### Review of operations

Sales in Test and Measurement increased by 3% in 2007 to £207.5 million, and by 5% at constant currencies. Operating profit increased by 39% to £26.2 million and operating margins improved by 3.3 percentage points to 12.6%.

Restructuring charges were £0.1 million compared with £2.1 million in the prior year.

Demand from the automotive industry continued to grow, particularly in Europe, as manufacturers maintained their new model development programmes and endeavoured to meet the challenge of testing prototypes in ever shorter time frames. Brüel & Kjær increased sales to the leading automotive manufacturers and also grew their support and calibration services offering. In September, HBM launched the QuantumX data acquisition system for test and measurement markets,

particularly the automotive and aerospace markets, and a significant order has already been received from the BMW Group for the new engine, gearbox and power train test stands being developed at their Research and Innovation Center in Munich.

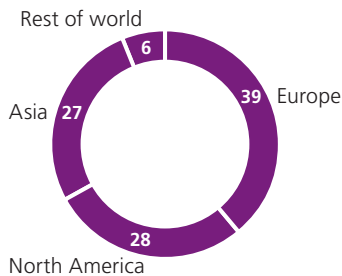
In the aerospace industry, the increased use of new carbon fibre composite materials in lightweight aerospace structures is setting new demands for structural testing and stress analysis, benefiting HBM.

In environmental monitoring, Brüel & Kjær's airport noise monitoring system was selected by the Metropolitan Washington Airports Authority, serving Reagan National Airport and Washington Dulles International Airport. The company also installed an airport noise and flight track monitoring system at Zurich airport and noise monitoring systems in several cities in China.

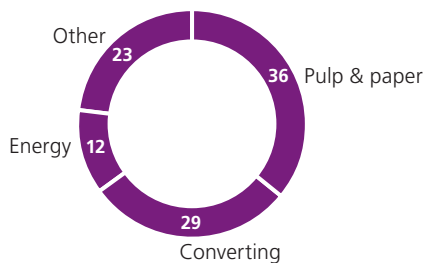


## In-line Instrumentation

2007 Sales by destination (%)



2007 Approximate sales by end user market (%)



### Overview

In-line Instrumentation provides process analytical solutions, asset monitoring and control, gauging, and on-line controls for both primary processing industries (oil and gas, energy generation, petrochemicals, pulp and paper) and the converting markets (plastics, rubber, film). The companies in this segment are Beta LaserMike, Brüel & Kjær Vibro, BTG, Fusion UV Systems, NDC Infrared Engineering and Servomex. These businesses sell directly to global end user customers and systems integrators and the majority of sales are for new and upgraded production facilities. All businesses provide aftermarket services. The global market for in-line instrumentation is estimated to be in excess of £1 billion.

### 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. Higher oil prices have resulted in energy generation expansion and efficiency to meet the global demand for refining and petrochemical products. At the same time, increasing power costs have led energy-intensive industries such as pulp and paper to install new instrumentation as they seek production efficiencies.

## Reducing downtime



Catastrophic machine failure was avoided at a major liquefied natural gas plant in the Middle East when Brüel & Kjær Vibro's remote surveillance service successfully diagnosed a fault on a turbine whilst the plant monitoring specialists were on holiday over Christmas. The plant uses Brüel & Kjær Vibro's Compass system with a remote connection for predictive maintenance. The high vibrations on the machine, spotted by an engineer at the plant, were investigated remotely, and a developing fault was identified just one day before the sensors were overloaded.

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 hydroelectric 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, with the requirement to monitor gas emissions and other harmful substances in order to comply with increased health and safety regulation.

### Review of operations

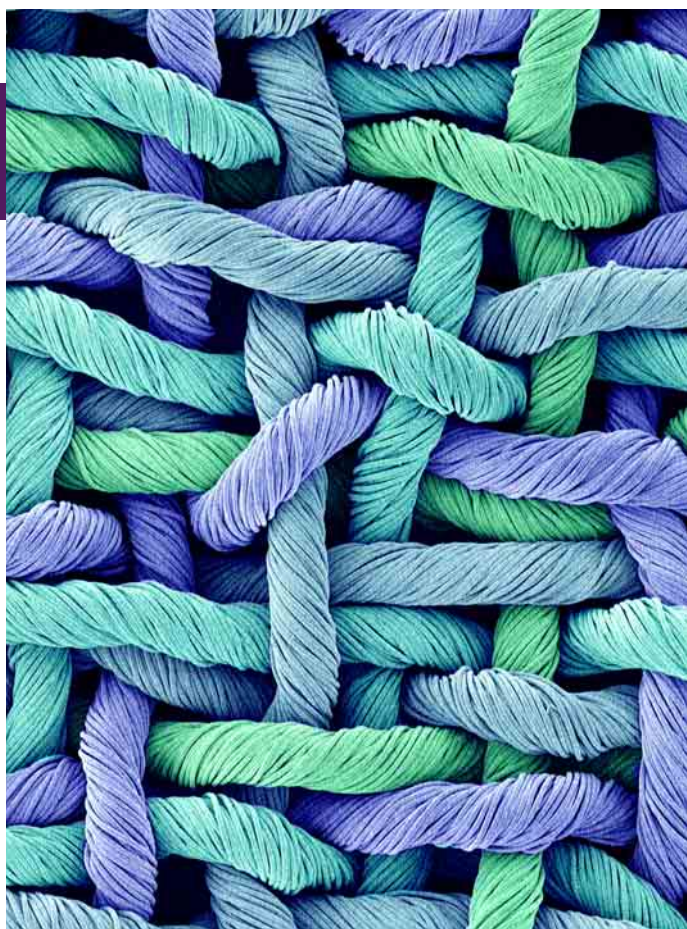
Sales in In-line Instrumentation increased by 2% in 2007 to £200.2 million, and by 6% at constant currencies. Operating profit increased by 32% to £34.7 million and operating margins improved by 3.9 percentage points to 17.3%. Restructuring charges were £0.7 million in 2007, compared with £5.1 million in the prior year.

Investment in capital-intensive facilities in the continuous process industries was strong. In the pulp and paper industry, the need to reduce production costs and become more energy-efficient has led to a shift in production facilities from the west to regions such as South America and Asia. This has benefited BTG, particularly the Duroblade business where, in response to the industry focus on paper quality, the company has moved from producing ceramic blades to developing blades tailored for

different types of paper applications. In the past two years, BTG has launched a number of new products for metering and doctoring solutions for specific coating processes and is a recognised innovator in this market.

Good demand in the energy and petrochemical markets benefited Brüel & Kjær Vibro and Servomex, as producers expanded their processing facilities in the light of higher oil prices. Brüel & Kjær Vibro received a number of high value orders from oil and gas customers for its condition monitoring systems. At Servomex, demand for gas analysers was strong in the hydrocarbon business in North America and Canada and in the industrial gas business in Europe and the Middle East. On 1 November, Servomex acquired Contrôle Analytique, a leading provider of specialist gas analysis products based in Canada, enabling the company to increase its product offering in the global industrial gas market.

In the converting industry, Fusion UV Systems, NDC and Beta LaserMike all saw good sales growth. Fusion UV Systems benefited from continued growth in the flat panel display market, one of the fastest-growing sectors in the electronics industry, as the quality and size of flat panel televisions increases. Fusion's UV technology is used to cure the anti-reflective functionalised film applied to the screen. Good demand from the converting market in China benefited both Beta LaserMike and NDC in their respective markets.

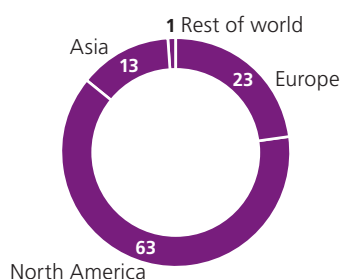


### Improving productivity

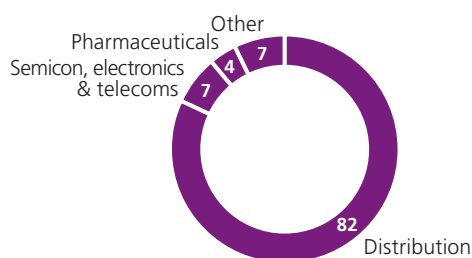
Advansa is Europe's largest manufacturer of pure terephthalic acid (PTA), a key constituent of polyester and an intermediate in the production of plastics. To meet increased global demand, the UK plant has recently been upgraded and annual production of PTA has increased by around 100,000 tonnes. A Servomex 2200 process oxygen analyser has been installed as part of a functional safety system to monitor the oxygen-enriched air used in the reactor to increase production of PTA. If the level is too high it could cause an explosive atmosphere to form.

## Industrial Controls

2007 Sales by destination (%)



2007 Approximate sales by end user market (%)



### Overview

Industrial Controls supplies automation and controls for general manufacturing processes. The companies in this segment are Microscan and Red Lion Controls, which supply bar code scanners, panel meters, human machine interfaces, industrial controllers and networking products. This segment sells indirectly to end users via distributors as well as directly to original equipment manufacturers (OEMs), with a significant proportion of repeat business from existing customers. The total market for industrial controls is estimated to be in excess of £10 billion.

### Market drivers

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

## Improving performance

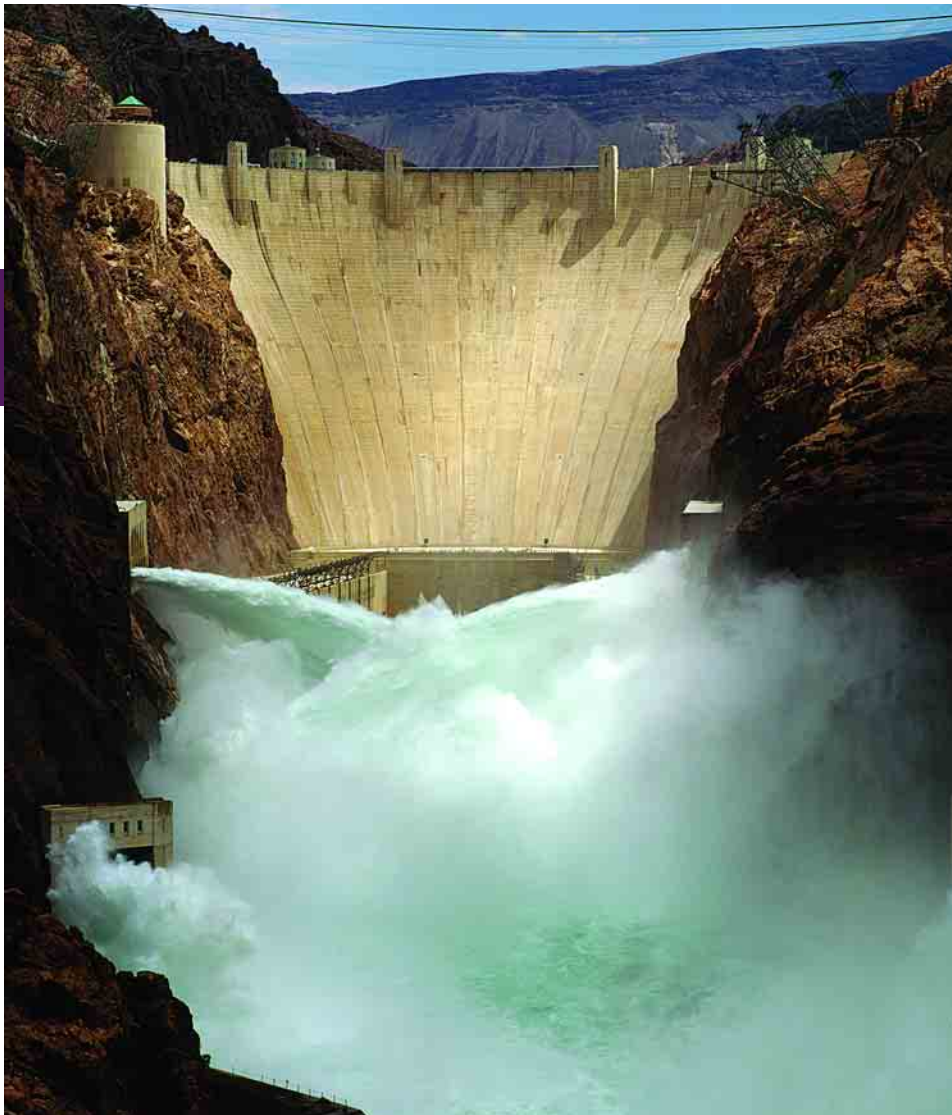
The Hoover Dam is one of North America's largest hydroelectric facilities, generating more than 4 billion kilowatt-hours a year – enough to serve 1.3 million people. The control room, which runs a 24-hour operation, is critical to the efficient functioning of the facility. Red Lion's panel meters are used on a recently-installed dynamic mapboard to monitor generators, water levels and additional system components, replacing the previous video monitoring system which was not sufficiently reliable. The 77 integrated panel meters deliver real-time readouts, providing "systems at a glance" status information which allows operators to monitor power flow and perform preventative maintenance when needed.

### Review of operations

Sales in Industrial Controls were £38.3 million in 2007, compared with £38.9 million in 2006. Sales increased by 6% at constant currencies. Operating profit increased by 10% to £8.6 million and operating margins improved by 2.4 percentage points to 22.5%.

Microscan saw strong sales growth in Europe and Asia, in part due to the increasing move of electronics assembly operations to Asia, particularly China, Taiwan and Korea. The company launched the Quadrus MINI Velocity scanner, the world's fastest mini imager, which can read up to 45 bar codes per second.

Red Lion Controls also grew sales internationally, with its human machine interface and data station products proving particularly successful. Human machine interfaces are being used increasingly in industrial applications, displacing traditional analogue displays, due to the increased operational data and better interfacing with other plant systems they are able to provide.





## Financial review

### Introduction

Spectris uses adjusted figures as key performance measures in addition to those reported under IFRS. Adjusted figures are stated before amortisation of acquisition-related intangible assets, goodwill 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, 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.

The Spectrum and Ircon businesses were divested in February 2007 and June 2007 respectively (as described further below). The results of these two businesses are not considered to be sufficiently material to be presented as discontinued operations under IFRS. However, in order to aid understanding of the results for the ongoing business, references below to the sales and operating profit results for “continuing businesses” exclude the results of these two businesses and the business sold in April 2006 (Arcom).

### Operating performance

	2007	2006	Increase/ (decrease)
<b>Total group</b>			
Sales (£m)	<b>668.4</b>	684.5	(2.4%)
Operating profit (£m)	<b>104.8</b>	85.7	22%
Operating margin	<b>15.7%</b>	12.5%	3.2pp
<b>Continuing businesses</b>			
Sales (£m)	<b>659.8</b>	642.6	2.7%
Operating profit (£m)	<b>104.3</b>	83.2	25%
Operating margin	<b>15.8%</b>	12.9%	2.9pp

Total group sales decreased by 2.4% (1.3% increase at constant currencies) and sales in continuing businesses increased by 2.7% (6.5% at constant currencies). The year-on-year impact on sales from acquisitions (acquired in 2006 and 2007) was approximately £6.8 million or 1% of sales.

Adjusted operating profit rose by 22% overall (32% at constant currencies) and by 25% (35% at constant currencies) in continuing businesses, with operating margins improving from 12.5% to 15.7% overall, and from 12.9% to 15.8% on a continuing businesses basis. This growth in operating profit was

driven by the increase in sales, an increase in restructuring benefits, a decrease in restructuring costs, and good cost control. The year-on-year impact on profits from acquisitions was approximately £1.3 million or 1% of profits.

Net interest costs, including IAS 19 pension charges but excluding derivative fair value movements, reduced from £9.4 million to £6.8 million. After taking account of lower interest costs, adjusted profit before tax increased by 28% from £76.3 million to £98.0 million.

Unadjusted operating profit, after including goodwill impairment charges of £nil (2006: £1.2 million) and acquisition-related intangible asset amortisation of £1.9 million (2006: £1.8 million), increased by 24% from £82.7 million to £102.9 million.

Unadjusted profit before tax increased by 38% from £85.6 million to £118.1 million. In addition to goodwill impairment charges, acquisition-related intangible asset amortisation charges, and profit on disposal of businesses, the 2007 unadjusted result includes an unrealised gain of £3.0 million on the group’s cross-currency interest rate swaps (2006: unrealised gain of £2.8 million).

### Acquisitions and disposals

During the year, two of the group’s businesses made acquisitions. The total consideration, including acquisition expenses and net debt acquired, as well as deferred and contingent consideration expected to be paid in future years, was £6.6 million. The largest of these acquisitions took place close to the end of 2007. These acquisitions contributed £0.6 million of sales during the year. Prior year acquisitions contributed £6.2 million.

In February 2007, Spectris sold the Spectrum business to Illinois Tools Works Inc and in June 2007 the Ircon business to Fluke Electronics Corporation for total net proceeds (after taking account of transaction costs) of £29.8 million, giving rise to a profit on disposal of £19.0 million (2006: £9.5 million).

### Taxation

The effective tax rate on profits was 28.0% (2006: 28.8%) compared with the weighted average statutory tax rate of 32.3% (2006: 32.1%). The group benefited from utilising brought forward tax losses which had not previously been recognised on the balance sheet, and from the favourable closure of prior year tax returns. The weighted average statutory tax rate is expected to reduce in future by approximately two percentage points in line with reduced corporate tax rates on profits in several countries where the group operates, principally Germany.

Whilst the effective tax rate is expected to move closer to the weighted average rate over time, it is not expected to increase substantially in the near future.

### Earnings per share

Adjusted earnings per share increased by 33% from 43.7p to 58.1p, reflecting the net impact of a 28% increase in adjusted profit before tax and the reduced tax rates.

Basic earnings per share increased by 44% from 49.4p to 70.9p. The differences between the two measures are shown in the table below.

	2007 Pence	2006 Pence
Basic earnings per share	70.9	49.4
Goodwill impairment charges and acquisition-related intangible asset amortisation	1.6	2.4
Profit on disposal of businesses	(15.6)	(7.6)
Unrealised changes in fair value of financial instruments	(2.4)	(2.3)
Tax effect of the above and other tax items that do not form part of the underlying tax rate	3.6	1.8
Adjusted earnings per share	58.1	43.7

The weighted average number of shares outstanding during the year decreased from 124.3 million to 121.6 million. This decrease arose largely as a result of the share buy-back programme.

### Cash flow

	2007 £m	2006 £m
<b>Operating cash flow</b>		
Adjusted operating profit	104.8	85.7
Add back: depreciation	13.1	13.2
Working capital movement/other	(1.5)	3.1
Net cash flow from operating activities before capital expenditure	116.4	102.0
Capital expenditure	(12.7)	(10.5)
Operating cash flow	103.7	91.5
Cash conversion	99%	107%

	2007 £m	2006 £m
<b>Non-operating cash flow</b>		
Tax paid	(23.8)	(21.5)
Net interest paid	(6.3)	(11.2)
Dividends paid	(22.2)	(20.2)
Acquisitions	(6.0)	(13.6)
Disposals	29.8	13.3
Share buy-back	(79.2)	–
Exercise of share options	4.1	5.3
(Purchase)/sale of own shares by Employee Benefit Trust	(1.6)	0.9
Exchange/other	(4.1)	3.7
Total non-operating cash flow	(109.3)	(43.3)
Operating cash flow	103.7	91.5
Movement in net debt	(5.6)	48.2

Cash conversion of operating profit to operating cash was 99% (2006: 107%). This was achieved mainly through continued control of working capital. The year end working capital expressed as a percentage of sales reduced from 14.8% to 14.2%. Average working capital expressed as a percentage of sales reduced from 13.7% to 13.5%.

Capital expenditure during the year equated to 1.9% of sales (2006: 1.5%) and, at £12.7 million (2006: £10.5 million), was 97% of depreciation (2006: 80%).

The level of tax paid in 2007 was higher than in 2006 due primarily to the increase in profits.

Overall, net debt increased by £5.6 million (2006: reduction of £48.2 million) from £71.7 million to £77.3 million. Interest cost, excluding the financing charge arising from IAS 19, was covered by adjusted operating profit 15.6 times (2006: 9.4 times), providing significant headroom over and above banking covenants which require a minimum of 3 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.

The group's principal borrowings relate to its 2000 and 2003 US Private Placement loan notes. The \$100 million 2003 US Private Placement has been swapped into euro-denominated borrowings using a cross-currency interest rate swap.

At the year end, 96% of group borrowings were at fixed interest rates (2006: 97%). The ageing profile at the year end showed that 3% of debt is due to mature within one year (2006: 4%), 31% of debt is due to mature in between one and five years (2006: 31%) and the remaining 66% in more than five years (2006: 65%).

### Share buy-back

During 2007 the group purchased 8.9 million shares for a total cash consideration of £79.2 million and after the year end acquired a further 1.4 million shares for a total consideration of £9.3 million before announcing its intention to stop the buy-back on 22 February 2008.

### Currency

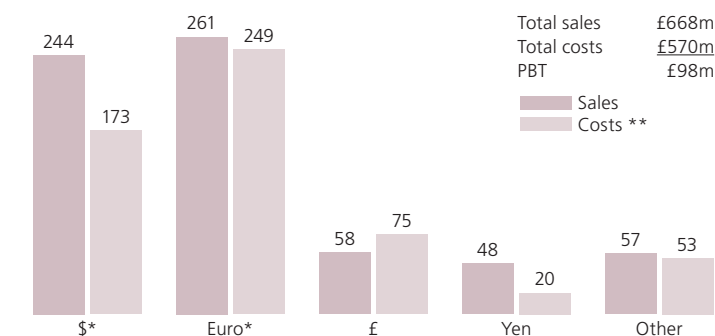
The group has both translational and transactional currency exposures. Translational exposures arise on the translation of overseas company results into sterling. Transactional exposures arise where the currency of sale or purchase invoices differs from the functional currency in which each company prepares 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, the euro and the Danish krone. The table below shows the key average exchange rates during 2007 and 2006. Translational currency exposures are not hedged.

	2007 (average)	2006 (average)
US \$	2.00	1.84
Euro	1.46	1.47
Yen	236	214

To demonstrate the currency exposures faced by the group, the chart opposite shows the differences between the group's consolidated revenues and costs for each of the major currencies.

Forward exchange contracts are used to hedge forecast sale transactions where there is reasonable certainty of an exposure. At 31 December 2007, approximately 61% of the estimated US dollar and Japanese yen exposures for 2008 were hedged using forward exchange contracts.



\* Dollar/euro categories include tracking currencies  
\*\* Costs include interest

### Defined benefit pension schemes

Operating profit includes a defined benefit pension scheme current service charge of £0.9 million (2006: £0.8 million). The net pension liability in the balance sheet (before taking account of the related deferred tax asset) has reduced to £11.1 million (2006: £18.8 million), largely as a consequence of cash contributions into the schemes and actuarial gains on the scheme assets. During 2007, the group made cash contributions into the defined benefit pension scheme amounting to £3.1 million (2006: £3.3 million).

**Clive Watson**  
Group finance director

## 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.

Following publication in October 2005 by the Financial Reporting Council of the updated guidance for directors on internal control ("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. An experienced internal auditor assists the Head of Internal Audit with internal control reviews across the group.

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:

- risk assessment and evaluation for each business unit takes place as an integral part of the annual strategic planning cycle. Having identified the principal risks to achievement of their strategic business objectives, each business unit is required to document the management and mitigating actions in place and proposed;
- the principal risks identified during the annual strategic planning cycle and the effectiveness of the management and mitigating actions in place are 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;
- there is a Group Accounting and Policies Manual which 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;
- 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 thus 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 is limited. 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. We endeavour to reduce this risk by ensuring that the development of new products 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 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, however, 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 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.

In order to ensure adequate liquidity the group maintains sufficient lines of credit to cover expected cash requirements.

### **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 Head of Internal Audit.

## **Resources**

The company's key resources include:

- the skills and expertise of our people
- our technology
- our relationships with customers

### **People**

Spectris employs around 5,500 people in 150 offices throughout the world. The success of the company is dependent upon the abilities of its employees. We recruit high calibre people, with a high proportion of employees qualified at, or above, degree level, and are committed to providing them with the resources and working environment they require to achieve the highest standards. In 2007, on average, 3000 people were employed in production and engineering, with 2000 in sales and marketing and 500 in administrative functions. Further information on our employees, and on their recruitment, training and development, is set out in the Corporate social responsibility statement on page 24.

### **Technology**

As mentioned above, we invest significantly in research and development to develop new products and applications. We have technology centres and applications laboratories around the world and our businesses are leaders in their markets, providing customised solutions to customers in all locations.

### **Customers**

We sell productivity-enhancing instrumentation and services to a large number of customers around the world. We have developed close working relationships with many of our customers and in many instances involve them in the development of new products.

## **Corporate social responsibility**

Spectris is committed to creating business growth whilst ensuring that the impact on the environment is minimised. The company's products are used to help customers reduce their use of resources such as energy, water and raw materials during the manufacturing process. For further details of Spectris' policies on the environment, health and safety, ethics and human rights, refer to the Corporate social responsibility statement on page 24.

## Corporate social responsibility

Spectris operates from 150 offices 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 is committed to creating business growth through adding value for its customers whilst ensuring that its impact on the environment is minimised.

Spectris continues to be a member of the FTSE4Good UK index, which measures and benchmarks the performance of companies that meet globally recognised corporate responsibility standards, with particular emphasis on the environment 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 individual operating units 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.

Spectris policies and procedures are communicated to all business units via the Spectris Group Manual. Conformity is monitored by a process of self-assessment, with the Managing Directors and Finance Directors of each operating company required to certify, on an annual basis, compliance with these policies and procedures and report on any non-compliance events. This 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.

### Environment

Many Spectris products and technologies have positive environmental benefits by providing customers with the ability to reduce energy consumption or 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 the European directive on the restriction of hazardous substances. Further examples of the use of Spectris products having a direct beneficial contribution to the environment are shown on our website.

Our environmental policy is published on our website at [www.spectris.com/aboutus/corporate.php](http://www.spectris.com/aboutus/corporate.php).

Spectris aims to reduce the environmental impact of its operations by developing products which are energy-efficient and avoid the use of harmful substances. The design processes take into account the operational lifetime of every product and end-of-life removal or disposal. Consideration is given to the recyclability of materials, energy consumption, environment-friendly production, packaging and shipping. Products have

## Making a difference

**Our employees are key to our success. We employ high calibre people and provide them with a creative environment with scope for individual responsibility and achievement.**



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. This legislation has not had a material impact on the company's operations and in fact has brought benefits to businesses such as PANalytical which has developed X-ray instrumentation specifically for customers to analyse their products to ensure that no traces of the prohibited substances are present.

#### *Climate change*

The nature of our activities means that Spectris' operations have very little impact on the environment, as our products do not require capital-intensive manufacturing processes. Nevertheless, we are committed to adopting environmentally responsible policies wherever our companies operate. Due to the nature of the group, both in terms of geographical locations (5,500 staff in 150 offices in more than 28 countries around the world) and the characteristics of our business (the majority of manufacturing is outsourced to third parties, with Spectris providing design, assembly and test operations), and the way that we are organised (autonomous companies, with only limited resources at the corporate centre), Spectris does not require its companies to measure greenhouse gas emissions or the use of other resources

such as water and waste and the low power consumption of our operations means that Spectris is not required to participate in the European Emissions Trading Scheme. Nevertheless, all businesses are conscious of the need to conserve energy and resources and local initiatives are in place at many sites to reduce energy usage and minimise wastage. These include recycling of waste paper, cardboard, plastic cups, 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. Spectris complies with the UK Producer Responsibility Obligations (Packaging Waste) Regulations which set targets for the recovery and recycling of packaging waste.

Spectris businesses also work with their suppliers to help them to reduce their impact on the environment and to ensure that their products meet the relevant legislation. Supplier audits and surveys are regularly undertaken by operating company managements and the strategic purchasing teams.

#### *Environmental management systems*

Malvern Instruments achieved certification to ISO14001 during 2007, bringing the total of Spectris' operations covered by this environmental standard to approximately 50% by turnover. Other companies are working towards accreditation where this is deemed beneficial for their customers.



During 2007 no significant environmental incidents were recorded.

### **Health and safety**

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/aboutus/corporate.php](http://www.spectris.com/aboutus/corporate.php).

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.

Any serious health and safety incidents are reported by the Managing Director of the business in an accident report to the Company Secretary, who reports on this issue 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.

### **Employees**

Spectris' employees are key to the success of the company. We employ a large number of highly-qualified people who work in a creative environment with scope for individual responsibility and achievement. 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.

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 human rights, employment and ethics 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/aboutus/corporate.php](http://www.spectris.com/aboutus/corporate.php).

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.

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.

### *Values*

Spectris has established a core set of behavioural values which all of our employees abide by:

- **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.

These values define who we are and how we do business, both as individuals and as a company.

### *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.

### **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.

The company's human rights policy, which can be viewed at [www.spectris.com/aboutus/corporate.php](http://www.spectris.com/aboutus/corporate.php), 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 General Manager of Asia 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.

### **Ethics**

All employees are expected to behave with honesty and integrity and demonstrate appropriate business behaviour. The ethical standards we expect each employee to meet are set out in our Ethics policy which is communicated to all employees. This policy prohibits bribery 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.

Spectris operates a confidential "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.

### **Suppliers**

Spectris has no significant suppliers who are dependent upon the company's business. Suppliers are paid in line with contractual and legal obligations. Outsourcing of products, particularly in Asia, is to quality-approved organisations only which are regularly inspected by the strategic sourcing teams and local managements.

### **Community involvement**

In line with the way the group operates, community activity is organised by individual companies at a local level. Spectris operating companies worldwide support local charities and participate in a range of local community activities and educational initiatives. Examples of community activities are described on our website at [www.spectris.com/aboutus/corporate.php](http://www.spectris.com/aboutus/corporate.php). Donations to charities and community causes in 2007 totalled £28,000 of which £10,400 were in the UK (2006: £22,000 of which £9,500 in UK).

## Board of directors

**John Poulter**  
**Chairman**

John Poulter joined Spectris in 1988 and was Chief Executive from 1992 until he became non-executive Chairman in 2001. He is chairman of the Nomination Committee. His earlier career was with BTR plc and Cambridge Instruments. He has been a non-executive director of a number of public companies including RAC plc and Kidde plc. He is non-executive chairman of Filtronic plc and a non-executive director of Smaller Companies Value Trust plc and several private companies.

**John O'Higgins**  
**Chief Executive**

John O'Higgins joined Spectris in 2006. He is a member of the Nomination Committee. John was previously with Honeywell, most recently as President of Automation and Control Solutions, Asia Pacific. Prior to this he was based in Brussels and Germany in a series of management roles in the automation and controls division of the company. Before joining Honeywell, he worked with Daimler Benz in Stuttgart. John has engineering degrees from University College Dublin and Purdue University and an MBA from INSEAD.

**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 Ltd and before that group finance director Europe with Black & Decker. Clive holds a Bachelors degree in Commerce & Accounting from the University of Birmingham.

**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.



John Poulter



John O'Higgins



Clive Watson



Jim Webster

**Peter Chambré****Non-executive director**

Peter Chambré was appointed to the Board in 2006. He is a member of the Audit Committee and the Remuneration Committee. He is chairman of 7TM Pharma, a private Danish biopharmaceutical company, a non-executive director of BTG plc, and an advisor to private equity and venture capital 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 Bepak plc.

**John Hughes****Non-executive director**

John Hughes was appointed to the Board in June 2007. He is a member of the Audit Committee and 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 Telecity Group plc, non-executive deputy chairman of Parity Group plc, a non-executive director of Barco NV, a company quoted on the Brussels stock exchange, and a non-executive director of Nice Systems Limited, an Israeli-headquartered business listed on NASDAQ.

**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. Anthony 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 The Laird Group PLC, Taylor Wimpey plc and e2v technologies plc.

**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.

**Roger Stephens****Head of commercial & 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.

**Peter Chambré****John Hughes****Anthony Reading MBE****John Warren****Roger Stephens**

## Directors' report

The directors present their report and accounts for the year ended 31 December 2007.

### Principal activities

Spectris designs, develops and markets productivity-enhancing instrumentation and controls. For 2007 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 4). Developments in the group's business activities are discussed in the Chairman's statement (page 2) and the Business review.

### Acquisitions

During the year two of the group's businesses, Particle Measuring Systems and Servomex, made acquisitions. The total consideration, including acquisition expenses and net debt acquired, as well as deferred and contingent consideration expected to be paid in future years, was £6.6 million. Deferred consideration paid and working capital adjustments made during the year in respect of prior year acquisitions amounted to £0.8 million.

### Disposals

In February 2007, the company completed the sale of its Spectrum Inspection Systems business to Illinois Toolworks Inc. After taking account of transaction costs, net proceeds were £14.3 million.

In June 2007, the company completed the sale of its Ircon business to Fluke Electronics Corporation. After taking account of transaction costs, net proceeds were £15.5 million.

### 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 71. The Articles of Association of the company, available on the company's website, contain provisions governing the ownership and transfer of shares.

At the 2007 Annual General Meeting shareholders authorised the directors to make market purchases of the company's ordinary shares up to a maximum number of 12,495,000 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. This authority has been used to make market purchases of the company's shares during the 2007 financial year and subsequently. At the close of business on 21 February 2008,

the company had 125,005,123 ordinary shares in issue, of which 9,633,384 were held in Treasury. During the year 593,642 shares were transferred out of Treasury to meet the company's obligations under its share plans and no shares were cancelled out of Treasury. It is proposed that 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 2008 Annual General Meeting are proposals to renew the directors' authority to allot shares up to prescribed limits. Further details are given in the Notice of Annual General Meeting.

At 21 February 2008 interests notified to the company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

Standard Life Investments  
8,412,921 shares (7.02% material interest)

AXA SA  
6,463,755 shares (5.57% material interest)

Barclays Global Investors  
5,811,524 shares (5.02% material interest)

Legal & General Group Plc  
4,932,445 shares (4.18% material interest)

Deutsche Bank AG  
4,536,286 shares (3.89% 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 38 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 43 and in the supporting notes. A final dividend of 15.25p per ordinary share is proposed for the year to 31 December 2007 (2006: 12.5p). With the interim dividend, this makes a total for the year of 21.0p (2006: 17.5p). The final dividend will be paid on 20 June 2008 to shareholders on the register on 30 May 2008.

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 2007, amounts expensed totalled £45.2 million (2006: £44.7 million), and no expenditure met the criteria for capitalisation (2006: £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 (2006: £0.5 million).

#### **Directors**

The directors of the company are named on pages 28 and 29. John Hughes was appointed to the Board on 1 June 2007. Andrew Given retired from the Board following the 2007 Annual General Meeting. John Poulter, Chairman, will retire from the Board following the 2008 AGM and be succeeded in that position by John Hughes. Stephen Harris resigned from the Board on 31 January 2008.

John Hughes, having been appointed since the 2007 Annual General Meeting, retires from the Board under the terms of the Articles of Association and, being eligible, offers himself for election. All other directors of the company were either appointed or re-appointed at the 2006 or 2007 Annual General Meetings. Therefore, in accordance with Article 106 of the Company's Articles of Association, no director is required to submit themselves for re-election at the 2008 Annual General Meeting.

The directors' total remuneration for the year and their interests in the shares of the company and its subsidiaries at 31 December 2007 are disclosed in the Directors' Remuneration Report on pages 35 to 41.

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 Friday 16 May 2008 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 2007.

## Directors' report continued

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:

- between 16 May and 1 June 2007 (comprising the period between the retirement of Andrew Given and the appointment of John Hughes) at least half the Board, excluding the Chairman, did not comprise independent non-executive directors, as required by provision A3.2.
- a majority of the members of the nomination committee are not independent non-executive directors, as required by provision A4.1. 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 Business Group Directors exercise supervision. All directors receive detailed progress reports one week prior to each Board meeting.

The Board currently comprises the Chairman, three executive directors and four non-executive directors. The Board considers all its non-executive directors (Peter Chambré, John Hughes, Anthony Reading and John Warren) to be independent. 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 chairman of Filtronic plc and as a non-executive director of Smaller Companies Value Trust plc and certain unlisted companies. 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;
- procedure for taking independent professional advice.

### *Board and committee meeting attendance 2007*

	Board	Remuneration committee	Audit committee	Nomination committee
Total meetings during year	16	5	3	1
J W Poulter (Chairman)	16	N/A	N/A	1
A J Reading (senior independent director)	16	5	3	N/A
P A Chambré	15	5	3	N/A
J L M Hughes	8	3	1	N/A
J A Warren	16	5	3	N/A
J E O'Higgins (Chief Executive)	16	N/A	N/A	1
C G Watson	16	N/A	N/A	N/A
J C Webster	16	N/A	N/A	N/A
S C Harris	16	N/A	N/A	N/A
A Given	6	2	2	1

A Given and J L M Hughes held office for part of the year only. A Given attended six of the seven Board meetings, and all of the Remuneration, Audit and Nomination Committee meetings, which he was eligible to attend. J L M Hughes attended eight of the nine Board meetings, and all of the Remuneration and Audit Committee meetings, which he was eligible to attend.

### *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 2007 by 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](http://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 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. 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;
- 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 an internal auditor 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.

## Directors' report continued

### *Internal controls*

The group's system of internal controls is described on page 21 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 234 ZZB of the Companies Act 1985, 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 page 2.
- Group at a Glance on pages 8 and 9.
- Operating review on pages 8 to 17, which includes a review of the external environment
- Key strategic aims and performance measures are described on pages 5 to 7.
- Principal risks and uncertainties are described on pages 21 to 23.
- Details of the principal operating subsidiaries are set out on pages 8 and 9.
- Financial review on pages 18 to 20.
- Corporate citizenship on pages 24 to 27 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).

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.

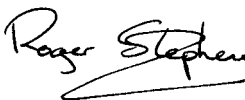
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such 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.

By order of the Board.



R J Stephens  
Secretary  
22 February 2008

## Directors' remuneration report

The directors present their remuneration report for the year ended 31 December 2007.

### 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 non-executive directors (who are all independent), these being at the date of this report Anthony Reading (chairman), Peter Chambré, John Hughes and John Warren. Andrew Given was a member of the remuneration committee until his retirement from the Board at the 2007 Annual General Meeting. John Poulter, Chairman of the Board, is in attendance at most meetings save during discussions relating to his own remuneration. The Chief Executive may also on occasions 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 New Bridge Street Consultants LLP to advise on various aspects of the Chairman's and executive directors' remuneration. This firm did not provide any other services to the company during the year.

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 managers 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. The relative importance of the annual and longer-term variable incentives is to be enhanced following a review during the year. This review highlighted that the annual bonus potential and the base award level for long-term incentive awards were both below the market median. Accordingly, for 2008 the bonus potential and the level of base award were revised upward to bring them into line with the market median. Concurrent with these increases, the performance targets for full bonus vesting have been increased. Full details of the changes are set out below.

### 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 in December 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.

### Bonuses

To align remuneration with shareholders' interests, a significant proportion of executive directors' potential total remuneration is related to annual corporate performance and it is intended that this emphasis should be enhanced in the future.

Under the 2007 arrangements, bonuses of up to 75% of base salary were achievable upon the attainment of demanding profitability and personal targets set in relation to carefully considered business plans. Going forward, the committee has determined, following receipt of advice from New Bridge Street Consultants LLP, that the bonus potential should be raised to 100%, consistent with median levels for comparable public companies. Bonus payments commence only at a level which shows an acceptable degree of financial progress year-on-year, 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 (this level remaining unchanged notwithstanding the increase in maximum bonus potential). Bonuses are not pensionable.

Bonuses achieved in respect of 2007 performance were as follows (as a percentage of salary at 31 December 2007):

J E O'Higgins	70%	S C Harris	65%
C G Watson	73%	J C Webster	68.33%

## Directors' remuneration report continued

### 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 committee's general policy, from 2008, 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. Formerly the reference level for a base award of shares was 67% of salary. This has been revised upwards by the committee, following advice from New Bridge Street Consultants LLP, consistent with median levels for comparable public companies.

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 2006 and 2007 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") + 10% compound per annum ("c.p.a.")	100%
Between CPI + 5% and 10% 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 quartile or above	100%
Between upper quartile and median	Pro-rata straight line between 25% and 100%
Median	25%
Below Median	0%

In conjunction with the increase in the normal level of award described above, it is intended that, for awards in 2008, the upper end of each vesting scale should be increased to a) CPI + 12% c.p.a. and b) upper quintile or above, thereby requiring more stretching performance for achievement of the increased potential.

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.

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 New Bridge Street Consultants LLP 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 and that no further grants are made under the remaining 1999 executive share option scheme. No share option grants were made during 2007 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.

Mr Poulter has exercised all share option grants received during his previous service as an executive director. He did not receive share option grants after being appointed Chairman in 2001 and does not receive awards under the Plan.

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% ahead of the increase in the retail prices index ("RPI"). This condition has now been met for all 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. Formerly the expectation was for each executive director to build a retained shareholding of one times salary, but this was revised upwards by the committee in conjunction with the 2008 enhancements to bonus and share-based incentives described in this report. 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 and none of these benefits are pensionable. The executive directors have defined contribution pension arrangements to which the company contributes at a rate of 25% of 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.

The Chairman, John Poulter, is retained on a contract of employment subject to six months' notice and terminating at the 2008 AGM.

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.

#### 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

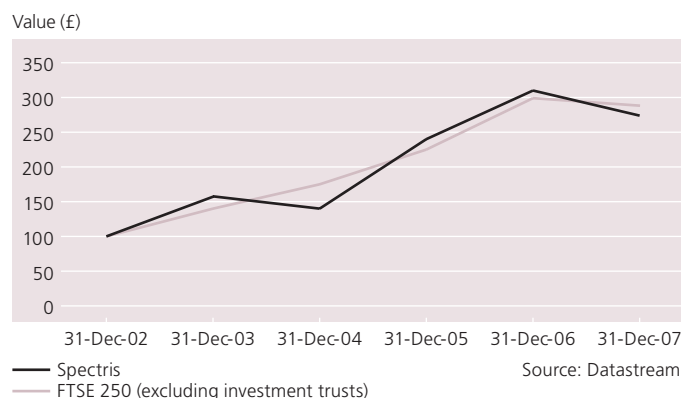
presidents of the group's European operations fall within a range between €160,000 and €260,000. Base salaries for presidents of the group's US operations fall within a range between \$220,000 and \$300,000. Additionally, the group's presidents participate in share awards under the Spectris Performance 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. 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 2007 of £100 invested in Spectris plc 5p ordinary shares on 31 December 2002 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 2007, of £100 invested in Spectris plc on 31 December 2002 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 22 February 2008
<b>Executive directors</b>				
J E O'Higgins	1.1.06	3.2.29	12 months	2 years 1 month
C G Watson	1.10.06	4.2.23	12 months	1 year 4 months
J C Webster	27.3.98	21.6.15	12 months	14 years 4 months
<b>Non-executive directors</b>				
P A Chambré	1.8.06	16.5.10	6 months	1 year 6 months
J L M Hughes	1.6.07	16.5.11	6 months	8 months
J W Poulter	17.2.02	16.5.08	6 months	19 years 9 months
A J Reading	10.3.04	16.5.10	6 months	3 years 11 months
J A Warren	7.3.06	16.5.09	6 months	1 year 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.

Mr Poulter will retire from the Board, and his service contract will terminate, with effect from the date of the 2008 AGM, 16 May.

### 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	2007 Total	2006 Total
<b>Executive directors</b>						
J E O'Higgins	380	266	14	3	663	647
C G Watson	250	183	11	3	447	128
J C Webster	238	163	20	–	421	416
S Hare	–	–	–	–	–	161
S C Harris	234	152	17	–	403	412
<b>Non-executive directors</b>						
P A Chambré	35	–	–	–	35	15
J L M Hughes	23	–	–	–	23	–
J W Poulter	125	–	1	–	126	126
A J Reading	40	–	–	–	40	40
J A Warren	40	–	–	–	40	29
A F Given	15	–	–	–	15	40
M J Lamb	–	–	–	–	–	15
L G Murray	–	–	–	–	–	15
	1,380	764	63	6	2,213	2,044

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.

During the year Mr Harris received £37,500 in respect of his appointment as a non-executive director of Brixton plc and 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:

	2007 £'000	2006 £'000
J E O'Higgins	95	65
C G Watson	63	–
J C Webster	60	57
S Hare	–	38
S C Harris	59	56

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

*c) Directors' total remuneration*

	2007 £'000	2006 £'000
Aggregate emoluments	2,213	2,044
Company pension contributions to defined contribution schemes	277	216
Gains made on exercise of share options	1,561	344
	4,015	2,604

*d) Directors' interests in options to purchase ordinary shares*

	Date granted	Options held 1 Jan 07	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 07	Date exercisable	Expiry date
<b>J W Poulter</b>	Mar 1999	20,518		321.6533	20,518	846.628			Mar 2002	Mar 2009
	Mar 2000	48,715		513.1832	48,715	846.628			Mar 2003	Mar 2010
	Mar 2001	30,550		498.50	30,550	846.628			Mar 2004	Mar 2011
		<b>99,783</b>			<b>99,783</b>			<b>0</b>		
<b>J E O'Higgins</b>										
SAYE	Oct 2006	1,529		618				1,529	Dec 2009	Jun 2010
		<b>1,529</b>						<b>1,529</b>		
<b>S C Harris</b>	Sep 2003	40,000		468.5	40,000	920.2944			Sep 2006	Sep 2013
	Mar 2004	40,000		462	40,000	920.2944			Mar 2007	Mar 2014
	Oct 2004	35,000		406.25	35,000	717.7011			Oct 2007	Oct 2014
	Sep 2005	85,000		589				85,000	Sep 2008	Sep 2015
		<b>200,000</b>			<b>115,000</b>			<b>85,000</b>		
<b>C G Watson</b>										
SAYE	Oct 2007		1,146	837				1,146	Dec 2010	Jun 2011
			<b>1,146</b>					<b>1,146</b>		
<b>J C Webster</b>	Mar 2000	30,202		513.1832	30,202	884.505			Mar 2003	Mar 2010
	Mar 2001	18,839		498.50	18,839	884.505			Mar 2004	Mar 2011
	Sep 2003	44,000		468.50	44,000	884.505			Sep 2006	Sep 2013
	Mar 2004	40,000		462	40,000	884.505			Mar 2007	Mar 2014
	Oct 2004	35,000		406.25	35,000	904.1659			Oct 2007	Oct 2014
	Sep 2005	85,000		589				85,000	Sep 2008	Sep 2015
		<b>253,041</b>			<b>168,041</b>			<b>85,000</b>		
<b>Total</b>		<b>552,824</b>			<b>382,824</b>			<b>172,675</b>		

## Directors' remuneration report continued

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 36 for further explanation). 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.

J W Poulter exercised 99,783 options under the Unapproved 1996 Executive Share Plan during the year. The gain on exercise was £376,505.

S C Harris exercised 6,403 options under the Approved 1999 Executive Share Option Scheme and 108,597 options under the Unapproved 1996 Executive Share Plan during the year. He exercised on 19 April 2007, 80,000 options and the gain on exercise was £364,036. He subsequently exercised on 20 November 2007, 35,000 options, retaining 15,124 shares and selling 19,876 shares at a gain of £109,008. Remaining options granted to S Harris lapsed on his leaving employment on 31 January 2008.

J C Webster exercised 168,041 options under the Unapproved 1996 Executive Share Plan during the year. He exercised 133,041 options on 22 March 2007, and the gain on exercise was £536,910. He subsequently exercised on 12 October 2007, 35,000 options at a gain of £174,271.

The aggregate gains on exercise for all directors were thus £1,560,730 (2006: £343,748).

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

	Number of shares subject to award at 1 Jan 07	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares subject to award at 31 Dec 07	Market value of each share at date of award (p)	Date exercisable	Expiry date
<b>J E O'Higgins</b>	56,000				56,000	622.5	May 2009	May 2010
		35,500			35,500	865	Mar 2010	Mar 2011
					<b>91,500</b>			
<b>S C Harris</b>	24,000				24,000	622.5	May 2009	May 2010
		20,500			20,500	865	Mar 2010	Mar 2011
					<b>44,500</b>			
<b>C G Watson</b>	6,500				6,500	640.0	Oct 2009	Oct 2010
		21,500			21,500	865	Mar 2010	Mar 2011
					<b>28,000</b>			
<b>J C Webster</b>	24,500				24,500	622.5	May 2009	May 2010
		20,500			20,500	865	Mar 2010	Mar 2011
					<b>45,000</b>			
<b>Total</b>	<b>111,000</b>	<b>98,000</b>			<b>209,000</b>			

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 2007 awards, for each of Mr O'Higgins, Mr Harris, Mr Watson and Mr Webster the value of the award was equivalent to 80%, 75%, 75% and 75%, respectively, of his base salary at the date of grant. Following satisfaction, in whole or part, of the performance criteria attaching to the award (as summarised on page 36), 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	
	2007 31 Dec (or date of resignation)	2007 1 Jan (or date of appointment)
J W Poulter	85,315	142,687
J E O'Higgins	15,000	15,000
P A Chambré	5,000	5,000
J L M Hughes	4,000	–
A J Reading	10,000	10,000
J A Warren	3,000	3,000
C G Watson	8,832	–
J C Webster	100,126	100,126
A F Given	5,000	5,000
S C Harris	19,924	1,000

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 2007 the middle market closing share price on the London Stock Exchange was 680p. The highest share price in the year was 988.5p and the lowest was 657p. At 31 December 2007 each of the executive directors was deemed to have a non-beneficial interest in 20,780 (2006: 67,491) 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  
22 February 2008

## 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 2007, 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 34.

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 Operating and Financial review 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 2007 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 2007;
- 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  
22 February 2008

## Consolidated income statement

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
<b>Continuing operations</b>			
Revenue	6	<b>668.4</b>	684.5
Cost of sales		<b>(283.8)</b>	(288.7)
<b>Gross profit</b>		<b>384.6</b>	395.8
Indirect production and engineering expenses		<b>(57.4)</b>	(60.8)
Sales and marketing expenses		<b>(158.0)</b>	(171.6)
Administrative expenses		<b>(66.3)</b>	(80.7)
<b>Operating profit</b>	7	<b>102.9</b>	82.7
Profit on disposal of businesses	28	<b>19.0</b>	9.5
Financial income	10	<b>9.6</b>	9.0
Finance costs	10	<b>(13.4)</b>	(15.6)
<b>Profit before tax</b>		<b>118.1</b>	85.6
Taxation – UK	11	<b>(2.6)</b>	(0.5)
Taxation – Overseas	11	<b>(29.3)</b>	(23.7)
<b>Total taxation</b>		<b>(31.9)</b>	(24.2)
<b>Profit after tax for the year from continuing operations attributable to equity shareholders</b>		<b>86.2</b>	61.4
Basic earnings per share	13	<b>70.9</b>	49.4
Diluted earnings per share	13	<b>70.6</b>	49.2
Interim dividends paid and final dividends proposed for the year (per share)	12	<b>21.0p</b>	17.5p
Dividends paid during the year (per share)	12	<b>18.3p</b>	16.2p

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, 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

	Note	2007 £m	2006 £m
Net (loss)/gain on effective portion of changes in fair value of forward exchange contracts	21	<b>(1.1)</b>	1.7
Associated deferred tax on changes in fair value of forward exchange contracts		<b>0.3</b>	(0.5)
Net (loss)/gain on changes in fair value of effective portion of net investment hedges		<b>(6.3)</b>	7.6
Actuarial gains arising on pension schemes	9	<b>5.9</b>	2.2
Current and deferred tax on actuarial gains on pension schemes		<b>(3.7)</b>	(0.6)
Foreign exchange movements on translation of overseas operations		<b>26.0</b>	(19.9)
Current and deferred tax on foreign exchange movements recognised directly in equity		<b>(0.6)</b>	(0.1)
Net income/(expense) recognised in equity in respect of year		<b>20.5</b>	(9.6)
Profit for the year		<b>86.2</b>	61.4
<b>Total recognised income and expense for the year attributable to equity shareholders</b>		<b>106.7</b>	51.8

# Consolidated balance sheet

As at 31 December 2007

	Note	2007 £m	2006 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	14	223.1	207.4
Other intangible assets	15	12.2	8.0
Property, plant and equipment	16	87.7	83.2
Deferred tax asset	24	25.7	37.6
		<b>348.7</b>	336.2
<b>Current assets</b>			
Inventories	17	92.8	81.6
Taxation recoverable		–	0.5
Trade and other receivables	18	153.7	145.4
Derivative financial instruments	21	0.1	1.3
Cash and cash equivalents	19	51.4	51.0
Assets held for sale	5	1.2	17.3
		<b>299.2</b>	297.1
<b>Total assets</b>		<b>647.9</b>	633.3
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	20	(4.4)	(4.3)
Trade and other payables	22	(141.7)	(124.2)
Current tax liabilities		(32.8)	(32.9)
Provisions	23	(21.5)	(21.8)
Liabilities held for sale	5	–	(6.0)
		<b>(200.4)</b>	(189.2)
<b>Net current assets</b>		<b>98.8</b>	107.9
<b>Non-current liabilities</b>			
Medium and long-term borrowings	20	(108.1)	(108.6)
Derivative financial instruments	21	(16.1)	(12.8)
Other payables	22	(8.4)	(8.8)
Retirement benefit obligations	9	(11.1)	(18.8)
Deferred tax liability	24	(1.0)	(1.0)
		<b>(144.7)</b>	(150.0)
<b>Total liabilities</b>		<b>(345.1)</b>	(339.2)
<b>Net assets</b>		<b>302.8</b>	294.1
<b>Equity</b>			
Issued share capital	25	6.2	6.2
Share premium	26	231.4	231.1
Retained earnings	26	63.8	74.0
Translation reserve	26	(2.1)	(21.8)
Hedging reserve	26	0.1	1.2
Merger reserve	26	3.1	3.1
Capital redemption reserve	26	0.3	0.3
<b>Equity shareholders' funds</b>		<b>302.8</b>	294.1
<b>Total equity and liabilities</b>		<b>647.9</b>	633.3

The financial statements on pages 43 to 77 were approved by the Board of Directors on 22 February 2008 and were signed on its behalf by:



Clive Watson  
Director

# Consolidated cash flow statement

For the year ended 31 December 2007

	Note	2007 £m	2006 £m
<b>Cash flows from operating activities</b>			
Profit after tax		86.2	61.4
Adjustments for:			
Tax	11	31.9	24.2
Profit on disposal of businesses	28	(19.0)	(9.5)
Finance costs	10	13.4	15.6
Financial income	10	(9.6)	(9.0)
Depreciation	16	13.1	13.2
Amortisation of intangible assets	15	2.0	1.9
Goodwill reduction	14	–	1.2
(Gain)/loss on sale of property, plant and equipment		(0.6)	0.5
Equity settled share-based payment expense	27	0.9	0.6
<b>Operating profit before changes in working capital and provisions</b>		<b>118.3</b>	100.1
Increase in trade and other receivables		(2.0)	(8.9)
Increase in inventories		(6.9)	(1.0)
Increase in trade and other payables		10.1	4.4
(Decrease)/increase in provisions and employee benefits		(4.5)	7.4
Corporation tax paid		(23.8)	(21.5)
<b>Net cash from operating activities</b>		<b>91.2</b>	80.5
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(12.7)	(10.5)
Proceeds from sale of property, plant and equipment		1.4	–
Acquisition of businesses, net of cash acquired	31	(6.0)	(13.6)
Disposal of businesses		29.8	13.3
Interest received		1.9	2.0
<b>Net cash flows used in investing activities</b>		<b>14.4</b>	(8.8)
<b>Cash flows from financing activities</b>			
Interest paid		(8.2)	(13.2)
Dividends paid to equity holders of the parent	12	(22.2)	(20.2)
Share options exercised by issue of share capital		0.2	1.5
Share options exercised from shares held by Employee Benefit Trust		1.0	3.8
Share options exercised from treasury shares		2.9	–
(Purchase)/sale of own shares by Employee Benefit Trust		(1.6)	0.9
Purchase of own shares – treasury shares		(79.2)	–
Cancellation of cross-currency swap		–	(2.9)
Repayment of borrowings		–	(65.9)
Decrease in finance lease liabilities		(0.1)	(0.4)
<b>Net cash flows used in financing activities</b>		<b>(107.2)</b>	(96.4)
<b>Net decrease in cash and cash equivalents</b>		<b>(1.6)</b>	(24.7)
<b>Cash and cash equivalents at beginning of year</b>		<b>47.0</b>	76.1
Effect of foreign exchange rate changes		2.0	(4.4)
<b>Cash and cash equivalents at end of year</b>	19	<b>47.4</b>	47.0
<b>Reconciliation of changes in cash and cash equivalents to movements in net debt (as defined in Note 20)</b>			
Net decrease in cash and cash equivalents		(1.6)	(24.7)
Repayment of borrowings		–	65.9
Decrease in finance lease liabilities		0.1	0.4
Effect of foreign exchange rate changes		(4.1)	6.6
Movement in net debt		(5.6)	48.2
Net debt at start of year	20	(71.7)	(119.9)
Net debt at end of year	20	(77.3)	(71.7)

# 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 78 to 84.

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. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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 estimates and associated assumptions are continually evaluated and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have a significant effect on the carrying amount of assets and liabilities are noted within specific accounting policies below. 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:

- Goodwill (Note 14)
- Retirement benefit schemes (Note 9)
- Provisions and contingent liabilities (Notes 23 and 32)
- Valuation of financial instruments (Note 21)

The financial statements comply with IFRS 7, *Financial Instruments: Disclosures*. The adoption of this standard by the group in the current year has no impact on the group results and relates solely to disclosures.

The business segments for which information has been included in these accounts are different from those disclosed in prior years. The new disclosures for business segments reflect the manner in which the business is currently managed by the Board of Directors. Prior year comparatives have been restated accordingly.

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, which are not yet effective for the year ended 31 December 2007. 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.

### Basis of consolidation

The group financial statements include the results of the company and all of its subsidiary undertakings. 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.

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 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\$ and euro-denominated borrowings 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\$-denominated private placement borrowings. The swaps have the effect of converting fixed rate US\$ borrowings into "synthetic" fixed rate euro-denominated borrowings. The portion of the swap that locks interest payments at a fixed euro interest rate changes as US\$ 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.

The business segments for which information has been included in these accounts are different from those disclosed in prior years. The new disclosures for business segments reflect the manner in which the business is currently managed by the Board of Directors. Prior year comparatives have been restated accordingly (Notes 3 and 4).

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.

## Notes to the accounts continued

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 trademarks	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 part of such items when there are future economic benefits. All other costs are recognised in the income statement as an expense as they are incurred.

Depreciation is provided 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.

### Trade and other receivables

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

### Inventories

Inventories and work in progress are carried at the lower of cost and net realisable value. Cost represents direct costs incurred and, where appropriate, a proportion of attributable overheads to bring the inventory to its present location and condition. 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 amortised cost.

### 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 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. For contracts which 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. Dividend income is recognised in the income statement when the right to receive payment is established.

#### 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 income 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 liability 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.

#### 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\$, 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 eighteen months into the future.

## Notes to the accounts continued

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.

At this time, 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 by maintaining adequate committed lines of funding from high quality lenders. The facilities committed to the group as at 31 December 2007 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 by transacting with financial institutions with high quality credit ratings. 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.

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, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 11).

The business segments for which information has been included in these accounts are different from those disclosed in prior years. The results of the Group based upon the 2006 segmentation are shown at the end of this Note. The new disclosures for business segments reflect the manner in which the business is currently managed by the Board of Directors. Prior year comparatives have been restated accordingly.

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

<b>Adjusted sales</b>	Note	<b>2007 £m</b>	2006 £m
Sales as reported under adopted IFRS	4	<b>668.4</b>	684.5
Divested businesses		<b>(8.6)</b>	(41.9)
Adjusted sales for continuing businesses		<b>659.8</b>	642.6

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

<b>Adjusted sales by segment – 2006 restated</b>	Note	Materials Analysis	In-line Instrumentation	Test and Measurement	Industrial Controls	2006 Total £m
Sales as reported under adopted IFRS	4	205.7	234.5	201.5	42.8	684.5
Divested businesses		–	(38.0)	–	(3.9)	(41.9)
Adjusted sales for continuing businesses		205.7	196.5	201.5	38.9	642.6

<b>Adjusted operating profit</b>	Note	<b>2007 £m</b>	2006 £m
Operating profit as reported under adopted IFRS		<b>102.9</b>	82.7
Amortisation of acquisition-related intangible assets	15	<b>1.9</b>	1.8
Goodwill reduction	14	–	1.2
Adjusted operating profit		<b>104.8</b>	85.7
Divested businesses		<b>(0.5)</b>	(2.5)
Adjusted operating profit for continuing businesses		<b>104.3</b>	83.2
Restructuring charges for continuing businesses		<b>0.9</b>	7.7
Adjusted operating profit for continuing businesses before restructuring charges		<b>105.2</b>	90.9

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

## Notes to the accounts continued

### 3 Adjusted performance measures continued

<b>Adjusted operating profit by segment – 2006 restated</b>	Note	Materials Analysis	In-line Instrumentation	Test and Measurement	Industrial Controls	2006 Total £m
Segment result under adopted IFRS	4	28.2	28.1	18.4	8.0	82.7
Amortisation of acquisition-related intangible assets		1.1	0.1	0.6	–	1.8
Goodwill impairment charge		1.2	–	–	–	1.2
Adjusted operating profit		30.5	28.2	19.0	8.0	85.7
Divested businesses		–	(2.3)	–	(0.2)	(2.5)
Corporate cost reallocation		(0.2)	0.4	(0.2)	–	–
Adjusted operating profit for continuing businesses		30.3	26.3	18.8	7.8	83.2
Restructuring charges for continuing businesses		0.5	5.1	2.1	–	7.7
Adjusted operating profit for continuing businesses before restructuring charges		30.8	31.4	20.9	7.8	90.9

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

<b>Adjusted profit before tax</b>	Note	2007 £m	2006 £m
Profit before tax as reported under adopted IFRS		<b>118.1</b>	85.6
Amortisation of acquisition-related intangible assets	15	<b>1.9</b>	1.8
Goodwill reduction	14	–	1.2
Profit on disposal of businesses	28	<b>(19.0)</b>	(9.5)
Unrealised change in fair value of cross-currency interest rate swaps	21	<b>(3.0)</b>	(2.8)
Adjusted profit before tax		<b>98.0</b>	76.3

<b>Operating cash flow</b>	2007 £m	2006 £m
Net cash from operating activities under adopted IFRS	<b>91.2</b>	80.5
Corporation tax paid	<b>23.8</b>	21.5
Purchase of property, plant and equipment	<b>(12.7)</b>	(10.5)
Proceeds from sale of property, plant and equipment	<b>1.4</b>	–
Operating cash flow for management purposes	<b>103.7</b>	91.5

<b>Adjusted earnings per share</b>	Note	2007 £m	2006 £m
Profit after tax as reported under adopted IFRS		<b>86.2</b>	61.4
Adjusted for:			
Amortisation of acquisition-related intangible assets	15	<b>1.9</b>	1.8
Goodwill reduction	14	–	1.2
Profit on disposal of businesses	28	<b>(19.0)</b>	(9.5)
Unrealised change in fair value of cross-currency interest rate swaps	10	<b>(3.0)</b>	(2.8)
Tax effect of the above	11	<b>4.5</b>	3.4
Other tax items not forming part of the underlying tax rate	11	–	(1.2)
Adjusted earnings		<b>70.6</b>	54.3
Weighted average number of shares outstanding (millions)	13	<b>121.6</b>	124.3
Adjusted earnings per share (pence)		<b>58.1p</b>	43.7p

<b>Adjusted diluted earnings per share</b>	Note	2007	2006
Adjusted earnings (as above) (£m)		<b>70.6</b>	54.3
Diluted weighted average number of shares outstanding (millions)	13	<b>122.1</b>	124.7
Adjusted diluted earnings per share (pence)		<b>57.8</b>	43.5

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

### 3 Adjusted performance measures continued

<b>Analysis of net debt for management purposes</b>	<b>2007 £m</b>	<b>2006 £m</b>
Bank overdrafts	<b>4.0</b>	4.0
Bank loans – secured	<b>2.5</b>	2.7
Unsecured loan notes	<b>106.0</b>	106.1
Cross-currency interest rate swaps – currency portion (see Note 21)	<b>16.2</b>	9.8
Finance lease liabilities	–	0.1
Total borrowings	<b>128.7</b>	122.7
Cash balances (see Note 19)	<b>(51.4)</b>	(51.0)
Net debt	<b>77.3</b>	71.7

<b>Analysis of revenue by geographical destination</b>	<b>2007 £m</b>	<b>2006 £m</b>
UK	<b>28.5</b>	28.6
Continental Europe	<b>254.6</b>	244.5
North America	<b>152.5</b>	157.0
Japan	<b>53.6</b>	55.5
China	<b>55.0</b>	49.0
Rest of Asia Pacific	<b>73.1</b>	74.7
Rest of the world	<b>42.5</b>	33.3
Total continuing businesses	<b>659.8</b>	642.6
Divested businesses	<b>8.6</b>	41.9
Group total	<b>668.4</b>	684.5

<b>Results of the group based upon the 2006 segmentation</b>	Process Technology		In-line Instrumentation		Electronic Controls		Total	
	<b>2007 £m</b>	2006 £m	<b>2007 £m</b>	2006 £m	<b>2007 £m</b>	2006 £m	<b>2007 £m</b>	2006 £m
Sales	<b>352.3</b>	343.6	<b>177.7</b>	202.2	<b>138.4</b>	138.7	<b>668.4</b>	684.5
Divested businesses	–	–	<b>(8.6)</b>	(38.0)	–	(3.9)	<b>(8.6)</b>	(41.9)
Sales for continuing businesses	<b>352.3</b>	343.6	<b>169.1</b>	164.2	<b>138.4</b>	134.8	<b>659.8</b>	642.6
Operating profit	<b>52.0</b>	42.6	<b>29.7</b>	22.9	<b>21.2</b>	17.2	<b>102.9</b>	82.7
Amortisation of intangibles	<b>1.5</b>	1.7	<b>0.4</b>	0.1	–	–	<b>1.9</b>	1.8
Goodwill reduction	–	1.2	–	–	–	–	–	1.2
Adjusted operating profit	<b>53.5</b>	45.5	<b>30.1</b>	23.0	<b>21.2</b>	17.2	<b>104.8</b>	85.7
Divested businesses	–	–	<b>(0.5)</b>	(2.3)	–	(0.2)	<b>(0.5)</b>	(2.5)
Corporate cost reallocation*	–	(0.3)	–	0.4	–	(0.1)	–	–
Adjusted operating profit for continuing businesses	<b>53.5</b>	45.2	<b>29.6</b>	21.1	<b>21.2</b>	16.9	<b>104.3</b>	83.2
Restructuring charges for continuing businesses	<b>0.2</b>	1.9	<b>0.7</b>	5.1	–	0.7	<b>0.9</b>	7.7
Adjusted operating profit for continuing businesses before restructuring charges	<b>53.7</b>	47.1	<b>30.3</b>	26.2	<b>21.2</b>	17.6	<b>105.2</b>	90.9
Return on sales after restructuring	<b>15.2%</b>	13.2%	<b>17.5%</b>	12.9%	<b>15.3%</b>	12.5%	<b>15.8%</b>	12.9%
Return on sales before restructuring	<b>15.2%</b>	13.7%	<b>17.9%</b>	16.0%	<b>15.3%</b>	13.1%	<b>15.9%</b>	14.1%

\* Reallocates corporate costs from divested businesses to continuing businesses

## Notes to the accounts continued

### 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 on pages 8 and 9.

The business segments for which information has been included in these accounts are different from those disclosed in prior years. The new disclosures for business segments reflect the manner in which the business is currently managed by the Board of Directors. Prior year comparatives have been restated accordingly.

a) Business segments	Segment revenue		Inter-segment revenue		External customer revenue		Segment result	
	2007	2006 Restated	2007	2006 Restated	2007	2006 Restated	2007	2006 Restated
	£m	£m	£m	£m	£m	£m	£m	£m
Materials Analysis	214.1	206.0	(0.3)	(0.3)	213.8	205.7	33.5	28.2
Test and Measurement	208.1	202.2	(0.6)	(0.7)	207.5	201.5	26.0	18.4
In-line Instrumentation	209.3	235.2	(0.5)	(0.7)	208.8	234.5	34.8	28.1
Industrial Controls	38.3	42.8	–	–	38.3	42.8	8.6	8.0
Eliminate inter-segment sales	(1.4)	(1.7)	1.4	1.7	–	–	–	–
Total continuing operations	668.4	684.5	–	–	668.4	684.5	102.9	82.7
Profit on disposal of businesses							19.0	9.5
Financial income							9.6	9.0
Finance costs							(13.4)	(15.6)
Profit before tax							118.1	85.6
Tax							(31.9)	(24.2)
Profit after tax							86.2	61.4

Inter-segment pricing is on an arm's length basis. Segments are presented on the basis of actual inter-segment charges made. As noted in Note 28, profit on disposal of businesses of £19.0m (2006: £9.5m) relates to the In-line Instrumentation segment (2006: Electronic Controls segment).

	Segment assets		Segment liabilities	
	2007	2006 Restated	2007	2006 Restated
	£m	£m	£m	£m
Materials Analysis	199.8	184.6	(67.8)	(59.1)
Test and Measurement	191.9	179.8	(53.6)	(50.6)
In-line Instrumentation	169.2	167.0	(46.1)	(45.4)
Industrial Controls	9.8	9.9	(4.1)	(5.2)
Total segment assets and liabilities	570.7	541.3	(171.6)	(160.3)
Cash and borrowings	51.4	51.0	(112.5)	(112.9)
Derivative financial instruments	0.1	1.3	(16.1)	(12.8)
Net pension liability	–	–	(11.1)	(18.8)
Taxation (including amounts disclosed within assets and liabilities held for sale)	25.7	39.7	(33.8)	(34.4)
Consolidated total assets and liabilities	647.9	633.3	(345.1)	(339.2)

	Additions to non-current assets		Depreciation and amortisation		Impairment charges	
	2007	2006 Restated	2007	2006 Restated	2007	2006
	£m	£m	£m	£m	£m	£m
Materials Analysis	4.2	6.1	4.3	3.6	–	–
Test and Measurement	3.5	5.8	6.3	6.8	–	–
In-line Instrumentation	10.8	5.5	4.2	4.4	–	–
Industrial Controls	0.4	0.3	0.3	0.3	–	–
	18.9	17.7	15.1	15.1	–	–

## 4 Segmental information continued

### 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	Total	
					2007 £m	2006 £m
UK	9.4	8.6	10.2	1.5	29.7	36.3
Continental Europe	66.2	112.4	70.7	7.2	256.5	253.5
North America	50.0	23.5	58.9	24.2	156.6	176.4
Japan	18.9	16.5	17.9	0.4	53.7	55.8
China	18.7	14.4	21.2	1.1	55.4	50.1
Rest of Asia Pacific	33.9	19.0	17.3	3.4	73.6	76.9
Rest of the world	16.7	13.1	12.6	0.5	42.9	35.5
	<b>213.8</b>	<b>207.5</b>	<b>208.8</b>	<b>38.3</b>	<b>668.4</b>	<b>684.5</b>

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	
	2007 £m	2006 £m	2007 £m	2006 £m
UK	58.4	63.1	3.9	1.8
Continental Europe	385.6	355.6	5.5	5.9
North America	84.5	84.2	7.8	7.7
Japan	15.0	13.9	0.1	0.1
China	10.5	10.1	0.6	0.3
Rest of Asia Pacific	12.0	11.6	0.9	1.3
Rest of the world	4.7	2.8	0.1	0.6
	<b>570.7</b>	<b>541.3</b>	<b>18.9</b>	<b>17.7</b>

## 5 Assets and liabilities held for sale

As described in Note 28, the two businesses that were held for sale at 31 December 2006 were sold during 2007.

	2007 £m	2006 £m
<b>Assets held for sale</b>		
Goodwill	–	2.9
Property, plant and equipment	1.2	3.7
Deferred tax assets	–	0.7
Taxation recoverable	–	0.9
Inventory	–	3.4
Trade and other receivables	–	5.7
	<b>1.2</b>	<b>17.3</b>

The £1.2m above relates to the building in Niles, Illinois, USA.

	2007 £m	2006 £m
<b>Liabilities held for sale</b>		
Trade and other payables	–	4.8
Current tax liabilities	–	0.5
Provisions	–	0.7
	–	6.0

## Notes to the accounts continued

### 6 Revenue

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

	2007 £m	2006 £m
Sale of goods	595.7	615.3
Services rendered	72.7	69.2
Revenue	668.4	684.5

### 7 Operating profit

Operating profit has been arrived at after charging:

	2007 £m	2006 £m
Net foreign exchange losses	0.4	2.2
Research and development expenditure	45.2	44.7
Depreciation of property, plant and equipment	13.1	13.2
Amortisation of intangible assets	2.0	1.9
Goodwill reduction	–	1.2
(Gain)/loss on sale of property, plant and equipment	(0.6)	0.5

### Auditors' remuneration

	2007 £m	2006 £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	0.6	0.6
– tax services	0.7	0.5
– other assurance services	–	0.1
	1.7	1.6

### 8 Employee costs

Employee costs, including directors' remuneration, comprise:

	2007 £m	2006 £m
Wages and salaries	180.8	191.8
Social security costs	28.1	29.9
Defined benefit pension plans: current service cost (see Note 9)	0.9	0.8
Defined contribution pension plans (see Note 9)	7.2	7.3
Share-based payment expense	0.9	0.6
	217.9	230.4

### Directors' remuneration

	2007 £m	2006 £m
Short-term benefits	2.3	2.0
Post-employment benefits	0.3	0.2
Share-based payment expense	0.6	0.6
	3.2	2.8

Further details of directors' remuneration and share options are given in the Directors' remuneration report on pages 35 to 41.

### Average number of employees

	2007 Number	2006 Number
Production and engineering	3,149	3,261
Sales and marketing	1,974	2,106
Administrative	454	480
	5,577	5,847

## 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, eight 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 2007 was £7.2m (2006: £7.3m). There were no outstanding or prepaid contributions to these plans as at 31 December 2007 (or at 31 December 2006).

### 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	31 December 2006
Hottinger Baldwin Messtechnik GmbH	31 December 2006
Spectris GmbH Sensoren und Systeme	31 December 2006
BTG Müttek GmbH	31 December 2006
Brüel & Kjær GmbH	31 December 2006
PANalytical GmbH	1 April 2006
Brüel & Kjær Instruments, Inc. Retirement Plan	31 December 2006
Servomex Inc Pension Plan	31 December 2006

The valuations were updated to 31 December 2007 for IAS 19 purposes by qualified independent actuaries.

The total company contributions made to the defined benefit plans during the year ended 31 December 2007 were £3.1m (2006: £3.3m). Contributions for the whole of 2008 are expected to be as follows:

Plan name	Expected 2008 contributions (£m)
Spectris Pension Plan	£2.6m
Brüel & Kjær Vibro GmbH	–
Hottinger Baldwin Messtechnik GmbH	£0.4m
Spectris GmbH Sensoren und Systeme	–
BTG Müttek GmbH	–
Brüel & Kjær GmbH	–
PANalytical GmbH	–
Brüel & Kjær Instruments, Inc. Retirement Plan	£1.8m
Servomex Inc Pension Plan	–

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

The Spectris Pension Plan is a closed scheme and hence under the projected unit method, used to calculate the service cost under IAS 19, the current service cost will increase when expressed as a percentage of pensionable pay as the members of the plan approach retirement.

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

<b>UK plans</b>	<b>2007 % pa</b>	<b>2006 % pa</b>
Discount rate	<b>5.80</b>	5.10
Salary increases	<b>4.80</b>	4.50
Pension increases in payment:		
RPI max 5% (LPI)*	<b>3.10</b>	2.80
RPI max 3%	<b>2.80</b>	2.50
RPI max 2.5%	<b>2.50</b>	2.30
RPI min 3%, max 5%	<b>3.30</b>	3.20
Pension increases in deferment	<b>3.30</b>	3.00
Inflation assumption	<b>3.30</b>	3.00

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

## Notes to the accounts continued

### 9 Retirement benefit schemes continued

Mortality rate assumptions:

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

Current and future pensioners	PxA92 tables with medium cohort projections and a +1 year age rating
-------------------------------	--

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

	Males	Females
Pensioner aged 65 in 2007	85.9	88.1
Pensioner aged 65 in 2020	86.7	88.8

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

<b>German plans</b>	<b>2007 % pa</b>	2006 % pa
Discount rate	<b>5.50</b>	4.50
Salary increases	<b>2.50</b>	2.50
Pension increases in payment	<b>2.00</b>	1.50
Inflation assumption	<b>2.50</b>	2.50

Mortality rate assumptions:

Pensioner life expectancy assumed in the 31 December 2007 update 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 2007	82.4	87.0
Pensioner aged 60 in 2020	84.3	88.8

Different rates of pension increases apply to some members of the Spectris Pension Plan; the liabilities have been valued at the appropriate rates.

<b>US plans</b>	<b>2007 % pa</b>	2006 % pa
Discount rate	<b>5.75</b>	5.75
Inflation assumption	<b>3.00</b>	3.00

Mortality rate assumptions:

Pensioner life expectancy assumed in the 31 December 2006 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

<b>Amounts recognised in the income statement</b>	UK plans		German and US plans		Total	
	<b>2007 £m</b>	2006 £m	<b>2007 £m</b>	2006 £m	<b>2007 £m</b>	2006 £m
Current service cost	<b>0.9</b>	0.8	–	–	<b>0.9</b>	0.8
Interest cost	<b>4.3</b>	4.0	<b>0.6</b>	0.5	<b>4.9</b>	4.5
Expected return on scheme assets	<b>(4.6)</b>	(4.0)	<b>(0.2)</b>	(0.2)	<b>(4.8)</b>	(4.2)
	<b>0.6</b>	0.8	<b>0.4</b>	0.3	<b>1.0</b>	1.1

The current service cost is recognised in administrative expenses in the income statement. The interest cost and expected return on scheme assets are both 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 (2006: £0.2m).

The actual return on scheme assets in the period was £5.9m (2006: £6.6m).

## 9 Retirement benefit schemes continued

Amounts recognised in the statement of recognised income and expense	UK plans		German and US plans		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Actuarial gains and losses recognised in the current period*	5.9	3.3	(0.4)	0.8	5.5	4.1
Cumulative actuarial gains and losses* (Since 1 January 2004)	(22.3)	(28.2)	(0.8)	(0.4)	(23.1)	(28.6)

\* Inclusive of exchange rate differences

Amounts recognised in the balance sheet	UK plans		German and US plans		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Present value of defined benefit obligations	(83.2)	(86.3)	(10.5)	(10.4)	(93.7)	(96.7)
Fair value of scheme assets	78.4	73.7	4.2	4.2	82.6	77.9
Net deficit in scheme	(4.8)	(12.6)	(6.3)	(6.2)	(11.1)	(18.8)

Reconciliation of movement in net deficit	UK plans		German and US plans		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
At 1 January	(12.6)	(17.6)	(6.2)	(5.0)	(18.8)	(22.6)
Inclusion of US plan in disclosure	–	–	–	(2.5)	–	(2.5)
Expected return on plan assets	4.6	4.0	0.2	0.2	4.8	4.2
Contributions from sponsoring company	2.5	2.5	0.6	0.8	3.1	3.3
Current service cost	(0.9)	(0.8)	–	–	(0.9)	(0.8)
Interest cost	(4.3)	(4.0)	(0.6)	(0.5)	(4.9)	(4.5)
Actuarial gains	5.9	3.3	–	0.4	5.9	3.7
Exchange difference	–	–	(0.3)	0.4	(0.3)	0.4
At 31 December	(4.8)	(12.6)	(6.3)	(6.2)	(11.1)	(18.8)

Analysis of movement in the present value of the defined benefit obligation	UK plans		German and US plans		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
At 1 January	86.3	85.7	10.4	6.1	96.7	91.8
Inclusion of US plan in disclosure	–	–	–	5.5	–	5.5
Current service cost	0.9	0.8	–	–	0.9	0.8
Interest cost	4.3	4.0	0.6	0.5	4.9	4.5
Actuarial gains	(4.8)	(1.1)	–	(0.2)	(4.8)	(1.3)
Exchange difference	–	–	0.4	(0.6)	0.4	(0.6)
Contributions from scheme members	0.3	0.3	–	–	0.3	0.3
Benefits paid	(3.8)	(3.4)	(0.9)	(0.9)	(4.7)	(4.3)
At 31 December	83.2	86.3	10.5	10.4	93.7	96.7

Analysis of defined benefit obligation	UK plans		German and US plans		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Present value of unfunded defined benefit obligation	–	–	4.6	4.5	4.6	4.5
Present value of funded defined benefit obligation	83.2	86.3	5.9	5.9	89.1	92.2

Reconciliation of movement in fair value of plan assets	UK plans		German and US plans		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
At 1 January	73.7	68.1	4.2	1.1	77.9	69.2
Inclusion of US plan in disclosure	–	–	–	3.0	–	3.0
Expected return on plan assets	4.6	4.0	0.2	0.2	4.8	4.2
Actuarial gains	1.1	2.2	–	0.2	1.1	2.4
Exchange difference	–	–	0.1	(0.2)	0.1	(0.2)
Contributions from sponsoring company	2.5	2.5	0.6	0.8	3.1	3.3
Contributions from scheme members	0.3	0.3	–	–	0.3	0.3
Benefits paid	(3.8)	(3.4)	(0.9)	(0.9)	(4.7)	(4.3)
At 31 December	78.4	73.7	4.2	4.2	82.6	77.9

## Notes to the accounts continued

### 9 Retirement benefit schemes continued

#### Analysis of the scheme assets and expected rate of return

	Expected return		Fair value of assets	
	2007 %	2006 %	2007 £m	2006 £m
<b>UK plans</b>				
Equity instruments	7.8	7.8	36.9	34.0
Debt instruments	5.5	4.9	37.1	37.0
Other assets	4.7	4.9	4.4	2.7
	6.5	6.3	78.4	73.7
<b>German plans</b>				
Insurance policies	5.5	4.5	1.2	1.1
<b>US plans</b>				
Equity instruments	9.0	9.0	1.3	1.3
Debt instruments	6.0	6.0	1.6	1.7
Other assets	7.0	7.0	0.1	0.1
Total	7.4	7.3	3.0	3.1

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.

	2007 £m	2006 £m	2005* £m	2004 £m	2003 £m
<b>History of experience adjustments</b>					
Present value of defined benefit obligations	(93.7)	(96.7)	(91.8)	(80.1)	(74.1)
Fair value of scheme assets	82.6	77.9	69.2	59.4	56.4
Deficit in the scheme	(11.1)	(18.8)	(22.6)	(20.7)	(17.7)
Experience adjustment on scheme liabilities:					
Amount (£m)	4.8	1.3	(10.2)	(4.5)	(7.2)
Percentage of scheme liabilities (%)	5.1	1.3	(11.1)	(5.6)	(9.7)
Experience adjustment on scheme assets:					
Amount (£m)	1.1	2.4	6.1	1.1	2.7
Percentage of scheme assets (%)	1.3	3.1	8.8	1.9	4.8

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

### 10 Finance costs and financial income

	2007 £m	2006 £m
<b>Financial income</b>		
Bank interest receivable	1.8	2.0
Change in fair value of cross-currency interest rate swaps	3.0	2.8
Expected return on pension scheme assets	4.8	4.2
	9.6	9.0
<b>Finance costs</b>		
Interest payable on bank loans and overdrafts	8.2	0.5
Interest payable on other loans	0.3	10.6
Total interest payable	8.5	11.1
Interest cost on pension scheme liabilities	4.9	4.5
	13.4	15.6

Net interest costs of £6.7m (2006: £9.1m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £1.8m (2006: £2.0m), and interest payable on bank and other loans and overdrafts of £8.5m (2006: £11.1m).

## 11 Taxation

	UK £m	Overseas £m	2007 Total £m	UK £m	Overseas £m	2006 Total £m
Current tax charge	–	27.8	27.8	0.9	21.4	22.3
Adjustments in respect of current tax of prior years	(0.3)	(3.6)	(3.9)	(0.1)	(0.5)	(0.6)
Deferred tax – origination and reversal of temporary differences	2.9	5.1	8.0	(0.3)	2.8	2.5
	2.6	29.3	31.9	0.5	23.7	24.2

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the group's profits, is 32.3% (2006: 32.1%).

The tax charge for the year is lower than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2007 £m	2006 £m
Profit before taxation	118.1	85.6
Corporation tax at standard rate of 32.3% (2006: 32.1%)	38.2	27.5
Non-taxable income and gains	(4.1)	(1.7)
Non-deductible expenditure	1.7	1.2
Movements on unrecognised deferred tax assets	–	(0.6)
Other current year tax items	(0.1)	(0.1)
Taxation on other dividend flows	0.1	–
Change in tax rates	0.5	–
Other adjustments to prior year current and deferred tax charges	(4.4)	(2.1)
Total taxation	31.9	24.2

The aggregate current and deferred tax charge relating to items that are charged directly to equity is as follows:

	2007 £m	2006 £m
	4.0	1.2

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

<b>Tax on items of income and expense that are excluded from the group's adjusted profit before tax</b>	2007 £m	2006 £m
Tax charge on unrealised change in fair value of cross-currency interest rate swaps	0.9	0.8
Tax credit on amortisation of intangible assets and goodwill impairment charge	(0.5)	(0.6)
Tax charge on disposal of businesses	4.1	3.2
Total tax charge	4.5	3.4

<b>Other tax items not forming part of the underlying tax rate</b>	2007 £m	2006 £m
Material transfers from unrecognised tax assets	–	(1.2)
Total tax credit	–	(1.2)

The effective adjusted tax rate for the period was 28.0% (2006: 28.8%) as set out in the reconciliation below.

<b>Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge</b>	2007 £m	2006 £m
Total tax charge on adopted IFRS basis	31.9	24.2
Tax charge on items of income and expense that are excluded from the group's adjusted profit before tax	(4.5)	(3.4)
Other tax items not forming part of the underlying tax rate	–	1.2
Adjusted tax charge	27.4	22.0
Adjusted profit before tax	98.0	76.3
Adjusted effective tax rate	28.0%	28.8%

## Notes to the accounts continued

### 12 Dividends

<b>Amounts recognised and paid as distributions to equity holders in the year</b>	<b>2007 £m</b>	<b>2006 £m</b>
Final dividend for the year ended 31 December 2006 of 12.5p (2005: 11.2p) per share	<b>15.4</b>	14.0
Interim dividend for the year ended 31 December 2007 of 5.75p (2006: 5.0p) per share	<b>6.8</b>	6.2
	<b>22.2</b>	20.2

<b>Amounts arising in respect of the year</b>	<b>2007 £m</b>	<b>2006 £m</b>
Interim dividend for the year ended 31 December 2007 of 5.75p (2006: 5.0p) per share	<b>6.8</b>	6.2
Proposed final dividend for the year ended 31 December 2007 of 15.25p (2006: 12.5p) per share	<b>17.5</b>	15.6
	<b>24.3</b>	21.8

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.

<b>Basic earnings per share</b>	<b>2007</b>	<b>2006</b>
Profit after tax (£m)	<b>86.2</b>	61.4
Weighted average number of shares outstanding (millions)	<b>121.6</b>	124.3
Basic earnings per share (pence)	<b>70.9</b>	49.4

<b>Diluted earnings per share</b>	<b>2007</b>	<b>2006</b>
Profit after tax per income statement (£m)	<b>86.2</b>	61.4
Basic weighted average number of shares outstanding (millions)	<b>121.6</b>	124.3
Weighted average number of dilutive 5p ordinary shares under option (millions)	<b>1.0</b>	1.6
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions)	<b>(0.5)</b>	(1.2)
Diluted weighted average number of shares outstanding (millions)	<b>122.1</b>	124.7
Diluted earnings per share (pence)	<b>70.6</b>	49.2

### 14 Goodwill

<b>Cost</b>	<b>£m</b>
At 1 January 2006	248.7
Recognised on acquisitions	7.6
Reduction in goodwill associated with recognition of deferred tax asset	(1.2)
Assets reclassified as held for sale	(9.2)
Exchange differences	(6.7)
At 31 December 2006	239.2
Exchange differences	16.7
At 31 December 2007	<b>255.9</b>

## 14 Goodwill continued

<b>Accumulated amortisation and impairment losses</b>		£m
At 1 January 2006		39.2
Assets reclassified as held for sale		(6.3)
Exchange differences		(1.1)
At 31 December 2006		31.8
Exchange differences		1.0
At 31 December 2007		<b>32.8</b>
<b>Carrying amount</b>		£m
At 31 December 2007		<b>223.1</b>
At 31 December 2006		207.4
At 1 January 2006		209.5

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 £223.1m at 31 December 2007 are allocated to PANalytical (£84.7m), BTG (£50.6m), HBM (£36.2m) and Brüel & Kjær Sound & Vibration (£23.0m). 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 2007. 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 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. 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 12%. No impairment charge has been recognised in either 2007 or 2006 to write goodwill down to its estimated recoverable amount.

## 15 Other intangible assets

<b>Cost</b>	Patents, trademarks and technology £m	Customer- related intangibles £m	Total £m
At 1 January 2006	7.1	2.4	9.5
Recognised on acquisitions	1.5	5.0	6.5
Exchange differences	(0.4)	(0.3)	(0.7)
At 31 December 2006	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	<b>13.8</b>	<b>7.7</b>	<b>21.5</b>
<b>Accumulated amortisation and impairment losses</b>			
At 1 January 2006	4.3	1.1	5.4
Charge for the year	1.1	0.8	1.9
At 31 December 2006	5.4	1.9	7.3
Charge for the year	1.4	0.6	2.0
At 31 December 2007	<b>6.8</b>	<b>2.5</b>	<b>9.3</b>
<b>Carrying amount</b>			
At 31 December 2007	<b>7.0</b>	<b>5.2</b>	<b>12.2</b>
At 31 December 2006	2.8	5.2	8.0
At 1 January 2006	2.8	1.3	4.1

Of the total amortisation charge of £2.0m (2006: £1.9m), the amount attributable to the amortisation of acquisition-related intangible assets was £1.9m (2006: £1.8m).

## Notes to the accounts continued

### 16 Property, plant and equipment

<b>Cost</b>	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 1 January 2006	70.6	7.6	136.6	214.8
Additions	1.2	0.1	9.1	10.4
Recognised on acquisitions	–	–	0.4	0.4
Disposals	–	(0.2)	(7.9)	(8.1)
Assets reclassified as held for sale	(3.0)	–	(7.1)	(10.1)
Transfers	(1.0)	0.2	1.2	0.4
Exchange differences	(2.5)	(0.5)	(5.7)	(8.7)
At 31 December 2006	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	<b>75.0</b>	<b>7.8</b>	<b>125.5</b>	<b>208.3</b>

### Accumulated depreciation and impairment

At 1 January 2006	18.0	5.0	99.0	122.0
Charge for the year	2.0	0.6	10.6	13.2
Disposals	–	(0.2)	(7.4)	(7.6)
Depreciation on assets reclassified as held for sale	(0.6)	–	(5.8)	(6.4)
Transfers	–	0.1	0.3	0.4
Exchange differences	(1.0)	(0.4)	(4.3)	(5.7)
At 31 December 2006	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	<b>22.6</b>	<b>6.0</b>	<b>92.0</b>	<b>120.6</b>

### Carrying amount

At 31 December 2007	<b>52.4</b>	<b>1.8</b>	<b>33.5</b>	<b>87.7</b>
At 31 December 2006	46.9	2.1	34.2	83.2
At 1 January 2006	52.6	2.6	37.6	92.8

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £1.8m (2006: £2.2m).

The carrying amount of the group's plant and equipment includes an amount of £nil (2006: £0.2m) in respect of assets held under finance leases.

The group has pledged land and buildings having a carrying amount of approximately £2.5m (2006: £2.7m) to secure bank loans granted to the group.

## 17 Inventories

	2007 £m	2006 £m
Raw materials	32.3	28.3
Work in progress	19.5	16.7
Finished goods	41.0	36.6
	<b>92.8</b>	81.6

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 £2.9m (2006: £3.2m), and crediting reversals of previous impairments of £1.2m (2006: £2.8m). Impairments and reversals of impairments are included within operating profit.

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.

## 18 Trade and other receivables

	2007 £m	2006 £m
Trade receivables	137.2	129.5
Prepayments and accrued income	11.5	10.4
Other receivables	5.0	5.5
	<b>153.7</b>	145.4

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 (2006: £0.2m). Trade receivables and other receivables are stated after recognising impairments during the year of £1.3m (2006: £1.2m) and reversals of impairments of £0.9m (2006: £0.7m). 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:

	2007 £m	2006 £m
UK	6.3	6.2
Continental Europe	60.9	53.5
North America	24.5	29.3
Japan	14.6	14.9
China	6.5	4.8
Rest of Asia Pacific	14.3	12.7
Rest of the world	10.1	8.1
	<b>137.2</b>	129.5

### Impairment losses

The ageing of trade receivables at the reporting date was:

	2007		2006	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	106.3	–	99.8	–
1 month past due	18.9	–	18.1	0.3
2 months past due	5.6	0.2	5.9	0.1
3 months past due	3.1	0.1	3.1	0.6
Over 3 months past due	7.0	3.4	6.4	2.8
Total	<b>140.9</b>	<b>3.7</b>	133.3	3.8

## Notes to the accounts continued

### 18 Trade and other receivables continued

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

	2007 £m	2006 £m
Balance at 1 January	3.8	3.7
Impairment loss recognised	1.3	1.2
Impairment loss utilised	(0.6)	(0.4)
Impairment loss released	(0.9)	(0.6)
Exchange differences	0.1	(0.1)
Balance at 31 December	3.7	3.8

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	2007 £m	2006 £m
Cash balances	51.4	51.0
Bank overdrafts (Note 20)	(4.0)	(4.0)
Cash and cash equivalents in the statement of cash flows	47.4	47.0

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

### 20 Borrowings

Current	Effective interest rate	Earlier of repricing date or maturity date	2007 £m	2006 £m
Bank loans – secured	see below	see below	0.4	0.2
Bank overdrafts	3.30%	on demand	4.0	4.0
Finance lease liabilities	–	see below	–	0.1
			<b>4.4</b>	<b>4.3</b>
Non-current	Effective interest rate	Earlier of repricing date or maturity date	2007 £m	2006 £m
Bank loans – secured	see below	see below	2.1	2.5
Unsecured loan notes – 2000 \$75m	8.23%	13 September 2010	37.6	38.2
Unsecured loan notes – 2003 \$100m	6.08%	15 October 2013	50.2	51.1
Unsecured loan notes – 2003 €25m	5.56%	15 October 2013	18.2	16.8
Total unsecured loan notes			<b>106.0</b>	<b>106.1</b>
Total non-current borrowings			<b>108.1</b>	<b>108.6</b>

At 31 December 2007, the group had available £65.8m (2006: £55.4m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

#### Secured bank loans

Bank loans are secured by fixed charges over property at three of the group's subsidiaries. Of these £1.5m is denominated in Chinese renminbi and is repayable by instalments until December 2012 with a fixed interest rate of 7.5%, £0.6m 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\$ 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.

## 20 Borrowings continued

Under adopted IFRS, where cross-currency interest rate swaps are used, the value of the underlying US\$ 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\$ borrowings into euro borrowings is viewed as part of the group's net debt, as analysed below.

	2007 £m	2006 £m
<b>Analysis of net debt</b>		
Bank overdrafts	4.0	4.0
Bank loans – secured	2.5	2.7
Unsecured loan notes	106.0	106.1
Cross-currency interest rate swaps – currency portion (see Note 21)	16.2	9.8
Finance lease liabilities	–	0.1
Total borrowings	128.7	122.7
Cash balances (see Note 19)	(51.4)	(51.0)
Net debt	77.3	71.7

	2007			2006		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
<b>Finance lease liabilities</b>						
Less than one year	–	–	–	0.1	–	0.1
	–	–	–	0.1	–	0.1

## 21 Financial instruments

	2007		2006	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Fair value and carrying amount of financial instruments</b>				
Trade and other receivables	153.7	153.7	145.4	145.4
Trade and other payables	150.1	150.1	133.0	133.0
Cash deposits	51.4	51.4	51.0	51.0
Floating rate borrowings	(5.0)	(5.0)	(4.1)	(3.1)
Fixed rate borrowings	(123.7)	(117.6)	(118.5)	(128.9)
Finance lease liabilities	–	–	(0.1)	(0.1)
Forward exchange contracts	0.1	0.1	1.3	1.3
Cross-currency interest rate swaps	(16.1)	(16.1)	(12.8)	(12.8)
	210.5	216.6	195.2	185.8

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 2007 is an asset of £0.1m (2006: asset of £1.3m) of which £0.1m has been credited to the hedging reserve (2006: credit of £1.2m) and £nil credited to the income statement (2006: credit of £0.1m). These contracts mature over periods not exceeding 12 months. A summary of the movements in the hedging reserve during the year is presented below.

	2007 £m	2006 £m
<b>Analysis of movements in hedging reserve</b>		
At 1 January	1.2	(0.5)
Amounts removed from equity and included in income statement during the year	(1.2)	0.5
Amounts recognised in equity during the year	0.1	1.2
At 31 December	0.1	1.2

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

## Notes to the accounts continued

### 21 Financial instruments continued

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.

<b>Forward exchange contracts at 31 December</b>	<b>2007</b>	2006
Foreign currency sale amount (£m)	<b>52.7</b>	59.1
Percentage of total:		
US dollar	<b>59%</b>	53%
Euro	<b>4%</b>	18%
Japanese yen	<b>37%</b>	29%

### 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\$-denominated borrowing liability into a €-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\$ interest payments into fixed rate € interest payments (the interest portion) – the value of this portion of the swap changes as US\$ variable interest rates, € variable interest rates and foreign currency exchange rates change.

Under adopted IFRS, the underlying US\$ 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.

<b>Fair value of cross-currency interest rate swap</b>	Currency portion £m	Interest portion £m	Total value £m
As at 1 January 2006	(16.0)	(8.7)	(24.7)
Cash settled on cancellation of swap in July 2006	14.5	2.9	17.4
Change in fair value recognised in reserves	(8.3)	–	(8.3)
Change in fair value recognised in income statement	–	2.8	2.8
As at 31 December 2006	(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	<b>(16.1)</b>	–	<b>(16.1)</b>

The combination of the underlying US\$ 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\$ borrowings in reserves, and the change in value of the interest portion of the swap is recognised in the income statement within financing costs.

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.

<b>Maturity of financial liabilities</b>	<b>2007</b>					<b>2006</b>				
	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	4.0	0.4	7.2	0.7	12.3	4.0	0.2	7.2	0.4	11.8
Due between one and two years	–	0.2	7.2	0.7	8.1	–	0.1	7.2	0.4	7.7
Due between two and five years	–	1.7	53.0	2.2	56.9	–	0.3	56.7	1.1	58.1
Due in more than five years	–	0.2	72.7	16.9	89.8	–	2.1	76.0	10.6	88.7
	<b>4.0</b>	<b>2.5</b>	<b>140.1</b>	<b>20.5</b>	<b>167.1</b>	4.0	2.7	147.1	12.5	166.3

Trade and other payables are due within one year.

## 21 Financial instruments continued

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	–	–	–	<b>3.7</b>
Euro	11.9	3.1	15.0	(84.7)	(0.5)	(85.2)	<b>(70.2)</b>
US dollar	7.6	1.8	9.4	(37.6)	(0.7)	(38.3)	<b>(28.9)</b>
Japanese yen	0.5	1.5	2.0	–	(2.2)	(2.2)	<b>(0.2)</b>
Other	12.8	8.5	21.3	(1.5)	(1.5)	(3.0)	<b>18.3</b>
	36.5	14.9	51.4	(123.8)	(4.9)	(128.7)	<b>(77.3)</b>

Interest rate exposure of financial assets and liabilities by currency	Financial assets			Financial liabilities			2006
	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	Net financial assets/ (liabilities) £m
Sterling	21.0	–	21.0	–	–	–	21.0
Euro	9.1	–	9.1	(78.2)	–	(78.2)	(69.1)
US dollar	0.3	0.2	0.5	(38.7)	(2.2)	(40.9)	(40.4)
Japanese yen	1.1	1.1	2.2	–	(1.6)	(1.6)	0.6
Other	13.9	4.3	18.2	(1.7)	(0.3)	(2.0)	16.2
	45.4	5.6	51.0	(118.6)	(4.1)	(122.7)	(71.7)

### Sensitivity analysis

At 31 December 2007 it is estimated that a general increase of one percentage point in interest rates would increase the group's profit before tax by approximately £0.3m (2006: £0.4m).

For the year ended 31 December 2007 it is estimated that a one percentage point weakening in the value of the US dollar against £ sterling would have decreased the group's profit before tax by approximately £0.7m (2006: £0.8m), a one percentage point weakening in the value of the euro/Danish krone against £ sterling would have decreased the group's profit before tax by approximately £0.1m (2006: £0.1m) and a one percentage point weakening in the value of the Japanese yen against £ sterling would have decreased the group's profit before tax by approximately £0.3m (2006: £0.3m).

## 22 Trade and other payables

	2007 £m	2006 £m
<b>Current</b>		
Trade payables	<b>61.0</b>	46.0
Non-trade payables, accruals and deferred income	<b>80.7</b>	78.2
	<b>141.7</b>	124.2
<b>Non-current</b>		
Non-trade payables, accruals and deferred income	<b>8.4</b>	8.8

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

## Notes to the accounts continued

### 23 Provisions

	Reorganisation £m	Product warranty £m	Other £m	Total £m
At 1 January 2007	4.9	5.7	11.2	<b>21.8</b>
Additional provision in the year	1.0	2.9	3.6	<b>7.5</b>
Utilised during the year	(3.8)	(2.1)	(1.1)	<b>(7.0)</b>
Released during the year	(0.1)	(0.2)	(1.3)	<b>(1.6)</b>
Exchange adjustments	0.2	0.3	0.3	<b>0.8</b>
At 31 December 2007	<b>2.2</b>	<b>6.6</b>	<b>12.7</b>	<b>21.5</b>

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. The provision represents the directors' best estimate of the group's liability based on past experience.

#### *Other*

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.

### 24 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the current corporate tax rate in the relevant local jurisdiction. The movement on the deferred tax account is shown below.

	2007 £m	2006 £m
At 1 January	<b>(37.3)</b>	(43.8)
Exchange adjustments	<b>(0.5)</b>	2.7
Disposal of businesses	<b>1.0</b>	0.2
Transfer from current taxation	<b>0.2</b>	(0.5)
Deferred tax on changes in fair value of forward exchange contracts recognised in equity	<b>(0.3)</b>	0.5
Deferred tax on actuarial gains and losses on pension schemes recognised in equity	<b>4.2</b>	1.1
Charged to income statement in the year (see Note 11)	<b>8.0</b>	2.5
At 31 December	<b>(24.7)</b>	(37.3)
Comprising:		
Deferred tax liabilities	<b>1.0</b>	1.0
Deferred tax assets (including £2.0m attributable to the pension scheme deficit (2006: £6.2m))	<b>(25.7)</b>	(37.6)
Deferred tax asset held for sale	<b>-</b>	(0.7)
	<b>(24.7)</b>	(37.3)

## 24 Deferred tax continued

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	2007 Total £m
<b>Net deferred tax assets</b>								
At 31 December 2006	(2.6)	(12.1)	(3.3)	(2.9)	(6.2)	(9.4)	(0.8)	<b>(37.3)</b>
Exchange adjustments	(0.2)	–	–	(0.2)	–	(0.1)	–	<b>(0.5)</b>
Disposal of businesses	0.4	0.3	0.3	–	–	–	–	<b>1.0</b>
Transfer from current taxation	–	0.2	–	–	–	–	–	<b>0.2</b>
Deferred tax on changes in fair value of forward exchange contracts recognised in equity	–	–	–	–	–	–	(0.3)	<b>(0.3)</b>
Deferred tax on actuarial gain on pension schemes recognised in equity	–	–	–	–	4.2	–	–	<b>4.2</b>
Charged/(credited) to income statement	0.8	2.0	2.8	(0.4)	–	2.1	0.7	<b>8.0</b>
At 31 December 2007	<b>(1.6)</b>	<b>(9.6)</b>	<b>(0.2)</b>	<b>(3.5)</b>	<b>(2.0)</b>	<b>(7.4)</b>	<b>(0.4)</b>	<b>(24.7)</b>

	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	2006 Total £m
<b>Net deferred tax assets</b>								
At 31 December 2005	(2.7)	(11.2)	(3.8)	(2.8)	(7.3)	(13.7)	(2.3)	(43.8)
Exchange adjustments	–	1.2	0.1	0.1	–	1.3	–	2.7
Disposal of businesses	–	0.2	–	–	–	–	–	0.2
Transfer from current taxation	–	(0.5)	–	–	–	–	–	(0.5)
Deferred tax on changes in fair value of forward exchange contracts recognised in equity	–	–	–	–	–	–	0.5	0.5
Deferred tax on actuarial gain on pension schemes recognised in equity	–	–	–	–	1.1	–	–	1.1
Charged/(credited) to income statement	0.1	(1.8)	0.4	(0.2)	–	3.0	1.0	2.5
At 31 December 2006	(2.6)	(12.1)	(3.3)	(2.9)	(6.2)	(9.4)	(0.8)	(37.3)

## 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.

	2007 £m	2006 £m
Tax losses	<b>20.6</b>	36.0
Other temporary differences	<b>6.5</b>	6.0
	<b>27.1</b>	42.0

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 £380m (2006: £344m).

## 25 Share capital and reserves

	2007		2006	
	Number of shares millions	£m	Number of shares millions	£m
Authorised:				
Ordinary shares of 5p each	<b>210.0</b>	<b>10.5</b>	210.0	10.5
Issued and fully paid:				
At 1 January	<b>125.0</b>	<b>6.2</b>	124.6	6.2
Issued for cash on exercise of share options	–	–	0.4	–
At 31 December	<b>125.0</b>	<b>6.2</b>	125.0	6.2

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

During the year 38,500 (2006: 0.4 million) ordinary shares were issued upon exercise under share option schemes, giving rise to net proceeds of £0.2m (2006: £1.5m). See Note 27 for a summary of potential issues of ordinary shares under existing share option schemes.

## Notes to the accounts continued

### 25 Share capital and reserves continued

#### 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.

### 26 Reconciliation of movement in capital and reserves

For the year ended 31 December 2007

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £m
Equity at 1 January 2006 (restated)*	6.2	229.1	26.8	(9.5)	(0.5)	3.1	0.3	255.5
Gains and losses – year ended 31 December 2006:								
Total recognised income and expense	–	–	62.4	(12.3)	1.7	–	–	51.8
Distributions to and transactions with shareholders:								
Equity dividends paid	–	–	(20.2)	–	–	–	–	(20.2)
Share-based payments	–	–	0.6	–	–	–	–	0.6
Share options exercised from shares held by Employee Benefit Trust	–	–	3.8	–	–	–	–	3.8
Sale of own shares by Employee Benefit Trust	–	–	0.9	–	–	–	–	0.9
Exercise of equity share options	–	2.0	(0.3)	–	–	–	–	1.7
Equity at 31 December 2006 (restated)*	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
<b>Equity at 31 December 2007</b>	<b>6.2</b>	<b>231.4</b>	<b>63.8</b>	<b>(2.1)</b>	<b>0.1</b>	<b>3.1</b>	<b>0.3</b>	<b>302.8</b>

\* An amount of £6.7m has been transferred from the translation reserve to retained earnings as at 1 January 2006. This reflects the cumulative translation gain that should have been recycled into financial income and expense prior to that date.

## 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 are subject to performance criteria, 50% of the award being based on fulfilment of earnings growth targets and 50% subject to a Total Shareholder Return target. 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	2007 Number thousands	2006 Number thousands
2003	4.69	2007	–	1
2004	4.08	2008	12	97
2005	5.89	2009	26	32
2006	6.18	2010	58	64
2007	8.37	2011	54	–
			<b>150</b>	194

Executive Share Option Scheme – Year of grant	Exercise price £	Exercise period	2007 Number thousands	2006 Number thousands
1997	5.39 – 6.61	2000 – 2007	–	40
1998	2.39 – 5.51	2001 – 2008	34	94
1999	3.22 – 3.96	2002 – 2009	18	54
2000	5.13 – 5.25	2003 – 2010	131	321
2001	3.58 – 4.99	2004 – 2011	122	240
2003	4.69	2006 – 2013	–	114
2004	4.06 – 4.62	2007 – 2014	12	240
2005	5.89	2008 – 2015	261	273
			<b>578</b>	1,376

Performance Share Plan – Year of grant	Exercise price £	Exercise period	2007 Number thousands	2006 Number thousands
2006	0.05	2009 – 2010	186	197
2007	0.05	2010 – 2011	487	–
			<b>673</b>	197

### Movements in the year

SAYE	2007			2006		
	Number thousands	Weighted average exercise price £	Value of shares £m	Number thousands	Weighted average exercise price £	Value of shares £m
At 1 January	194	4.98	1.0	202	4.47	0.9
Granted	54	8.37	0.4	64	6.18	0.4
Exercised	(81)	4.12	(0.4)	(49)	4.61	(0.2)
Lapsed	(17)	5.18	0.1	(23)	4.64	(0.1)
At 31 December	150	7.33	1.1	194	4.98	1.0
Exercisable at 31 December	12	4.08	0.05	1	4.69	–

## Notes to the accounts continued

### 27 Share-based payments continued

	2007			2006		
	Number thousands	Weighted average exercise price £	Value of shares £m	Number thousands	Weighted average exercise price £	Value of shares £m
<b>Executive Share Option Scheme</b>						
At 1 January	1,376	4.84	6.7	3,034	4.61	14.0
Granted	–	–	–	–	–	–
Exercised	(768)	4.60	(3.5)	(1,219)	4.16	(5.1)
Lapsed	(30)	5.00	(0.2)	(439)	5.18	(2.3)
At 31 December	578	5.19	3.0	1,376	4.84	6.7
Exercisable at 31 December	317	4.52	1.4	863	4.64	4.0

	2007			2006		
	Number thousands	Weighted average exercise price £	Value of shares £m	Number thousands	Weighted average exercise price £	Value of shares £m
<b>Performance Share Plan</b>						
At 1 January	197	0.05	0.01	–	–	–
Granted	494	0.05	0.02	198	0.05	0.01
Lapsed	(18)	0.05	–	(1)	0.05	–
At 31 December	673	0.05	0.03	197	0.05	0.01
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 was included in the calculation of fair value under the Performance Share Plan. For options granted in 2007 and 2006, the fair value per option granted and the assumptions used in the calculation are as follows:

	SAYE		Executive Share Option Scheme*		Performance Share Plan	
	2007	2006	2007	2006	2007	2006
Weighted average share price (pence)	889	642.5	–	–	865-899	620 – 640
Weighted average exercise price (pence)	837	618	–	–	5	5
Expected volatility	22.0%	23.5%	–	–	20.6% – 22.4%	22.7% – 23.8%
Expected life	3.25 yrs	3.25 yrs	–	–	3.0 yrs	3.0 yrs
Risk-free rate	5.1%	4.9%	–	–	4.95% – 5.19%	4.7% – 4.8%
Expected dividends (expressed as a yield)	2.1%	2.5%	–	–	–	–
Fair value per option	21.5%	20.1%	–	–	–	–
Fair value per award – TSR condition					59.7% – 65.6%	42.8% – 51.1%
Fair value per award – profit condition					99.5%	–
Fair value per award – EPS condition					99.5%	99.3%

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 in 2007 or 2006 under the Executive Share Option Scheme.

The group recognised total expenses of £0.9m related to equity settled share-based payment transactions in 2007 (2006: £0.6m).

## 28 Disposal of businesses

During the year, the group divested the Ircon and the Spectrum businesses, which were previously included in the In-line Instrumentation segment. The Spectrum business was divested on 28 February 2007 and the Ircon business was divested on 15 June 2007. These businesses were classified as held for sale in the 31 December 2006 financial statements. The total consideration was £29.8m net of transaction expenses. The disposals gave rise to a profit of £19.0m.

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

	2007 £m	2006 £m
Goodwill	2.9	–
Property, plant and equipment	2.4	0.1
Inventories	3.7	2.6
Trade and other receivables	5.5	3.0
Cash and cash equivalents	(0.1)	0.2
Taxation	1.2	0.3
Trade and other payables	(5.2)	(2.6)
Provisions	(0.7)	(0.1)
Net assets disposed of	9.7	3.5
Consideration received, satisfied in cash	33.4	15.0
Overdraft disposed of	(0.1)	0.2
Transaction expenses	(3.5)	(1.9)
Net cash inflow	29.8	13.3
Cash received net of transaction expenses and cash disposed of	29.8	13.3
Net assets disposed of	(9.7)	(3.5)
Accruals and provisions	(1.1)	(0.3)
Profit on disposal of businesses	19.0	9.5

## 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).

	2007 £m	2006 £m
Balance at 1 January	0.3	5.0
Disposals	(0.1)	(4.7)
At 31 December	0.2	0.3

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 20,780 shares at 31 December 2007 (2006: 0.1 million) at a cost of £0.2m (2006: £0.3m). The market value of the EBT's shares at 31 December 2007 was £0.1m (2006: £0.5m).

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 8.9 million shares (2006: nil) for a consideration of £79.2m (2006: £nil). 0.6 million of these shares were issued to satisfy options exercised by employees which were granted under the group's share scheme. No shares were cancelled during the year (2006: nil).

## Notes to the accounts continued

### 31 Acquisitions

During the year, the group acquired Contrôle Analytique on 1 November 2007 and a distributor in Singapore on 2 July 2007. The assets and liabilities acquired, together with the aggregate purchase consideration, are summarised below. The profit contribution of the acquired businesses to the group's result for the year was not significant. Had the acquisitions taken place at the start of the year, the impact on group revenue and profit would not have been materially different. Certain elements of the purchase consideration are contingent on future events.

The following table provides an analysis of the assets and liabilities acquired and the related fair value adjustments.

	2007			2006		
	Book value £m	Fair value adjustments £m	Fair value £m	Book value £m	Fair value adjustments £m	Fair value £m
<b>Net assets acquired</b>						
Intangible fixed assets	5.6	–	5.6	–	6.5	6.5
Tangible fixed assets	0.2	–	0.2	0.4	–	0.4
Inventories	0.4	–	0.4	0.9	0.2	1.1
Trade and other receivables	0.4	–	0.4	1.6	–	1.6
Trade and other payables	–	–	–	(0.7)	–	(0.7)
Cash	–	–	–	0.2	–	0.2
Net assets acquired	6.6	–	6.6	2.4	6.7	9.1
Goodwill			–			7.6
Total consideration			6.6			16.7
Adjustment for cash acquired			–			(0.2)
Net consideration			6.6			16.5

#### Analysis of cash outflow in consolidated cash flow statement

Total consideration	6.6	16.7
Deferred and contingent consideration to be paid in future years	(1.4)	(3.4)
Cash paid (including directly attributable costs)	5.2	13.3

#### Prior year acquisitions

Purchase price adjustment re prior year acquisition	0.2	–
Deferred consideration in relation to prior year acquisitions	0.6	0.5
	0.8	0.5
Total cash outflow relating to acquisitions	6.0	13.8
Cash acquired on acquisition	–	(0.2)
Net cash outflow relating to acquisitions	6.0	13.6

### 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 £3.7m (2006: £3.6m) was outstanding at 31 December 2007.

#### 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 £0.6m (2006: £1.0m) was outstanding at 31 December 2007.

#### 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 £6.7m (2006: £6.0m) was outstanding at 31 December 2007.

#### Other banks

Group companies have, in the normal course of business, provided bonds and guarantees through local banking arrangements amounting to £3.1m (2006: £3.6m).

#### Legal

Please refer to Note 23 – 'Other'.

### 33 Operating lease arrangements

	2007		2006	
	Property £m	Other £m	Property £m	Other £m
<b>Total commitments under non-cancellable operating leases</b>				
Within one year	3.2	2.3	2.9	2.3
In the second to fifth years	11.7	4.9	13.3	5.2
After five years	8.5	–	14.6	0.2
	<b>23.4</b>	<b>7.2</b>	30.8	7.7

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 £8.3m (2006: £9.5m) was recognised in the income statement in respect of operating lease rental payments.

### 34 Capital commitments

At 31 December 2007, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £6.9m (2006: £0.8m), 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 35 to 41. 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

## Company balance sheet

	Note	2007 £m	2006 £m
<b>Fixed assets</b>			
Tangible fixed assets	39	0.1	0.1
Fixed asset investments	40	196.3	287.4
		<b>196.4</b>	<b>287.5</b>
<b>Current assets</b>			
Debtors	41	668.9	387.3
Cash at bank		12.6	22.9
		<b>681.5</b>	<b>410.2</b>
<b>Creditors: due within one year</b>			
Short-term borrowing	42	(2.6)	(3.2)
Other creditors	42	(364.4)	(174.3)
		<b>(367.0)</b>	<b>(177.5)</b>
<b>Net current assets</b>			
		<b>314.5</b>	<b>232.7</b>
<b>Total assets less current liabilities</b>			
		<b>510.9</b>	<b>520.2</b>
<b>Creditors: due after more than one year</b>			
Medium and long-term borrowing	43	(106.0)	(106.1)
Derivative financial instruments	44	(16.1)	(12.8)
		<b>(122.1)</b>	<b>(118.9)</b>
<b>Provisions for liabilities and charges</b>			
	45	(1.2)	(1.6)
<b>Net assets</b>			
		<b>387.6</b>	<b>399.7</b>
<b>Capital and reserves</b>			
Called up share capital	46	6.2	6.2
Share premium account	47	231.4	231.1
Merger reserve	47	3.1	3.1
Capital redemption reserve	47	0.3	0.3
Special reserve	47	34.1	34.1
Profit and loss account	47	112.5	124.9
<b>Equity shareholders' funds</b>			
		<b>387.6</b>	<b>399.7</b>

The financial statements on pages 78 to 84 were approved by the Board of Directors on 22 February 2008 and were signed on its behalf by:



Clive Watson  
Director

# Notes to the company's accounts

## 37 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.

### 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\$-denominated private placement borrowings. The swaps have the effect of converting fixed rate US\$ borrowings into fixed rate €-denominated borrowings.

The underlying US\$ 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

### 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.

## Notes to the company's accounts continued

### 38 Employee costs and other information

Employee costs, including directors' remuneration, comprise:

	2007 £m	2006 £m
Wages and salaries	4.6	3.8
Social security costs	0.7	0.6
Defined benefit pension plans	1.7	1.7
Defined contribution pension plans	0.4	0.3
Share-based payment expense	0.6	0.6
	<b>8.0</b>	<b>7.0</b>

	2007 Number	2006 Number
Average number of employees	29	30

### 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 35 to 41.

### Auditors' fees

Fees paid to the group auditors in respect of audit services provided to the company amounted to £0.2m (2006: £0.2m).

### 39 Tangible fixed assets

Cost	Leasehold improvements £m	Office equipment £m	Total £m
At 1 January 2007	0.3	0.7	1.0
Additions	–	–	–
Disposals	–	–	–
At 31 December 2007	<b>0.3</b>	<b>0.7</b>	<b>1.0</b>

Depreciation	Leasehold improvements £m	Office equipment £m	Total £m
At 1 January 2007	0.3	0.6	0.9
Charge for the year	–	–	–
Disposals	–	–	–
At 31 December 2007	<b>0.3</b>	<b>0.6</b>	<b>0.9</b>

Net book value	Leasehold improvements £m	Office equipment £m	Total £m
At 31 December 2007	–	0.1	0.1
At 31 December 2006	–	0.1	0.1

## 40 Fixed asset investments

	Investments in subsidiary undertakings £m
<b>Cost</b>	
At 1 January 2007	333.5
Additions	0.3
Disposals	(68.4)
At 31 December 2007	<b>265.4</b>
<b>Provision for impairment</b>	
At 1 January 2007	46.1
Charge for the year	23.0
Disposals	–
At 31 December 2007	<b>69.1</b>
<b>Net book value</b>	
At 31 December 2007	<b>196.3</b>
At 1 January 2007	287.4

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

The impairment charge of £23.0m arose as a consequence of dividends being received from a subsidiary company.

## 41 Debtors

	2007 £m	2006 £m
<b>Amounts falling due within one year</b>		
Amounts owed by group undertakings	<b>666.9</b>	380.2
Other debtors	<b>0.3</b>	0.2
Prepayments and accrued income	<b>0.2</b>	0.7
Corporation tax	<b>1.1</b>	4.7
Deferred tax asset	<b>0.4</b>	1.5
	<b>668.9</b>	387.3

## 42 Creditors: due within one year

	2007 £m	2006 £m
Short-term borrowing:		
Bank loans and overdraft	<b>2.6</b>	3.2
Trade creditors	–	0.5
Amounts owed to group undertakings	<b>359.4</b>	169.9
Other taxation and social security	<b>0.5</b>	0.5
Accruals and deferred income	<b>4.5</b>	3.4
	<b>364.4</b>	174.3
<b>Total</b>	<b>367.0</b>	177.5

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

## Notes to the company's accounts continued

### 43 Creditors: due after more than one year

	2007 £m	2006 £m
Medium and long-term borrowing:		
Unsecured loan notes	106.0	106.1

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

### 44 Derivative financial instruments

	2007 £m	2006 £m
Cross-currency interest rate swaps	16.1	12.8

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

### 45 Provisions for liabilities and charges

	£m
At 1 January 2007	1.6
Transfer from group company	0.3
Utilised during the year	(0.7)
At 31 December 2007	1.2

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

### 46 Share capital

	2007		2006	
	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	124.6	6.2
Issued for cash on exercise of share options	–	–	0.4	–
At 31 December	125.0	6.2	125.0	6.2

During the year 38,500 (2006: 0.4 million) ordinary shares were issued upon exercise under share option schemes.

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, are contained in Note 27 to the consolidated financial statements.

The company recognised total expenses of £0.6m related to equity-settled share-based payment transactions in 2007 (2006: £0.6m). In addition, the company recognised £0.3m (2006: £nil) related to equity-settled share-based transactions for certain employees of other group companies.

## 47 Reserves

	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Total £m
At 1 January 2007	231.1	3.1	0.3	34.1	124.9	393.5
Profit for the year	–	–	–	–	85.9	85.9
Dividends paid	–	–	–	–	(22.2)	(22.2)
Share-based payment expense	–	–	–	–	0.9	0.9
Own shares (treasury) purchased	–	–	–	–	(79.2)	(79.2)
Own shares (EBT) 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	–	–	–	–	–	–
Sale of own shares by Employee Benefit Trust	–	–	–	–	1.0	1.0
At 31 December 2007	<b>231.4</b>	<b>3.1</b>	<b>0.3</b>	<b>34.1</b>	<b>112.5</b>	<b>381.4</b>

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

The purpose of the merger reserve and capital redemption reserve is detailed in Note 26 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.

## 48 Reconciliation of movement in equity shareholders' funds

	2007 £m	2006 £m
Profit for the year	<b>85.9</b>	99.7
Dividends paid in the year	<b>(22.2)</b>	(20.2)
Share-based payment expense	<b>0.9</b>	0.6
Own shares (treasury) purchased	<b>(79.2)</b>	–
Own shares (EBT) purchased	<b>(1.6)</b>	–
Share options exercised from own shares (treasury) purchased	<b>2.9</b>	–
Share options exercised by issue of share capital	<b>0.2</b>	–
Premium on issues of shares	–	2.0
Sale of own shares by Employee Benefit Trust	–	0.9
Share options exercised from shares held by Employee Benefit Trust	<b>1.0</b>	3.8
Net increase in equity shareholders' funds	<b>(12.1)</b>	86.8
Opening equity shareholders' funds	<b>399.7</b>	312.9
Closing equity shareholders' funds	<b>387.6</b>	399.7

## 49 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 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 2007, employer contributions of 13% pa of pensionable salaries plus £1,712,000 pa were due. The actuary certified in 2006 that this level of contributions was adequate for the purposes of the minimum funding requirement. Contributions paid in 2007 to the Spectris Pension Plan were £1.7m (2006: £1.7m) and the amounts outstanding at the year end were £0.1m (2006: £0.1m). Contributions paid in 2007 to defined contribution plans were £0.4m (2006: £0.3m).

## Notes to the company's accounts continued

### 50 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.

### 51 Commitments

	Land and buildings	
	2007	2006
	£m	£m
<b>Annual commitments for operating leases expiring</b>		
After five years	<b>0.2</b>	0.2

At the balance sheet date the company had no capital commitments for which provision has not been made (2006: £nil).

### 52 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 £3.7m (2006: £3.6m) was outstanding at 31 December 2007.

#### 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 £0.6m (2006: £1.0m) was outstanding at 31 December 2007.

#### 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 £6.7m (2006: £6.0m) was outstanding at 31 December 2007.

# Shareholder information

## Financial calendar

Annual General Meeting	16 May 2008
Record date for 2007 final dividend	30 May 2008
2007 Final dividend payable	20 June 2008
2008 First half trading update	10 July 2008
2008 Interim results	22 August 2008
2008 Preliminary results	February 2009

## Company secretary

R J Stephens, FCIS

## Registered office

Spectris plc  
Station Road  
Egham  
Surrey  
TW20 9NP  
England

Tel: +44 (0)1784 470470

Email: [info@spectris.com](mailto:info@spectris.com)

Company registered in England, No. 2025003

## Auditors

KPMG Audit Plc

## Bankers

Royal Bank of Scotland Plc

## Solicitors

Ashurst

## Brokers

Hoare Govett Limited  
Merrill Lynch

## Corporate finance advisers

Merrill Lynch

## Shareholder relations advisers

Makinson Cowell

## Financial PR advisers

FD

## Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

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

## Share price information

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

## E-mail news service

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

Designed by Tor Pettersen & Partners

Printed in England by the colourhouse, a carbon neutral company

Acknowledgements: The case study on page 11 is abridged from an article in the September 2007 issue of AWE International by Dr Gary Pritchard, PANalytical, and Dr Scott C Stark, Australian Antarctic Division (AAD). Photography on page 17 courtesy of the Bureau of Reclamation, Lower Colorado Region.



This report is printed on Revive Special Silk, which is produced using at least 30% de-inked post-consumer recovered fibre with the remainder being wood fibre from well-managed forests independently certified according to the rules of the Forest Stewardship Council. The paper is manufactured at a mill that has been awarded the ISO14001 certificate for environmental management and the pulp is bleached using either totally chlorine free or elemental chlorine free processes.

## Directory of companies

### Materials Analysis

**Malvern Instruments**  
Analytical systems for materials characterisation, from bulk powders to nanomaterials and macromolecules.



**PANalytical**  
X-ray analytical 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.

Brüel & Kjær 

**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**  
Instruments, coating and creping technology for 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.

MICROSCAN.

**Red Lion Controls**  
Operator interfaces, signal conditioners, temperature controllers, counters, rate indicators and panel meters.



Spectris plc  
Station Road, Egham  
Surrey TW20 9NP, England  
Tel: +44 (0)1784 470470  
Fax: +44 (0)1784 470848  
[www.spectris.com](http://www.spectris.com)