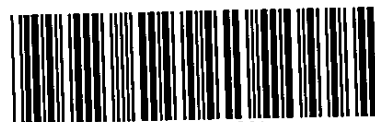


ENHANCING PRODUCTIVITY

IMPROVING PERFORMANCE

TUESDAY



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COMPANIES HOUSE

Spectris plc
Annual Report and Accounts 2010

Spectris is a leading supplier of 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 the markets they serve, providing solutions for customers across a wide range of industries.

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The purpose of the annual report is to provide information to the shareholders of Spectris plc. The company, its directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The annual report contains certain forward-looking statements with respect to the operations performance and financial condition of the company. By their nature, these statements involve uncertainties since future events and circumstances can cause actual results to differ materially from those anticipated and no reliance should be placed on them. The forward-looking statements reflect knowledge and information available at the date of preparation of this annual report and the company undertakes no obligation to update these forward-looking statements. Nothing in this annual report should be construed as a profit forecast.

The front cover of this report is printed on coated paper and the type in the graphic has an ultraviolet (UV) radiation cured varnish. Paper coating control and UV curing are key applications of our BTG and Fusion UV Systems businesses respectively.

Highlights

Highlights

Business Review

Corporate Governance

Financial Statements

Revenue £m
(continuing businesses)

Much faster recovery in performance achieved than after previous downturns

Strong sales and profits growth in all business segments, particularly in emerging markets

Acquisitions strengthen Materials Analysis, In-line Instrumentation and Industrial Controls

Robust conversion of operating profit to cash at 112%

Net debt down by £38 million to £86 million; 0.5X EBITDA

Dividend up by 15%

Adjusted operating profit £m
(continuing businesses)

Adjusted earnings per share (p)

Dividend (p)

	2010	2009	Change	Change at CER**	Organic change at CER***
Key operational indicators £m					
Revenue	901.9	787.3	+14.6%	+13.1%	+11.6%
Adjusted operating profit*	142.1	79.2	+79%	+77%	+75%
Adjusted profit before tax*	132.3	68.2	+94%		
Adjusted earnings per share*	86.6p	45.4p	+91%		
Adjusted return on sales*	15.8%	10.1%	+5.7pp		
Cash conversion	112%	133%	-21pp		
Dividend	28.0p	24.25p	+15%		
Statutory					
Operating profit	127.9	68.5	+87%		
Profit before tax	119.9	54.2	+121%		
Basic earnings per share	83.1p	36.9p	+125%		

* Adjusted figures exclude certain non-operational items as defined in Note 3 but include restructuring and post-acquisition integration costs of £0.8m (2009: £14.0m)

** Constant exchange rates

*** At constant exchange rates excluding acquisitions

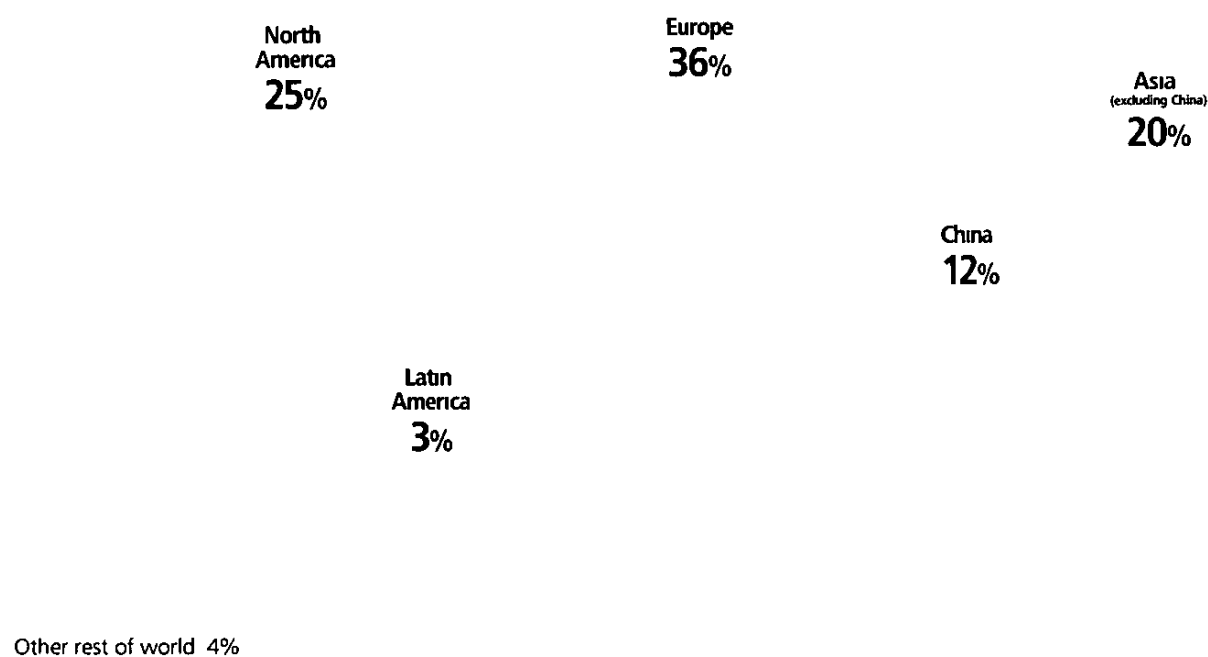
Group Overview

Spectris is a leading supplier of 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, providing solutions across a wide range of industries.

Our customers are multinational, blue-chip companies in a diverse range of end-user markets around the world.

2010 Sales by destination



Figures shown are % of total reported group sales

The group comprises four business segments which reflect the applications and end-user industries we serve.
Our businesses are leaders in the markets they serve with strong brands and market-leading products.

Laboratory/off-line

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

Process/manufacturing

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

Materials Analysis

Provides a wide range of analytical instrumentation and systems for particle and material characterisation.

Applications

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

Industries

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

Test and Measurement

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

Applications

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

Industries

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

In-line Instrumentation

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

Applications

- > Quality control
- > Process technology
- > Safety

Industries

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

Industrial Controls

Supplies automation and control products for the discrete manufacturing industries.

Applications

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

Industries

- > General manufacturing
- > Machine building
- > Distributors

Group contribution

30%
Sales

28%
Profit*

Group contribution

33%
Sales*

24%
Profit

Group contribution

30%
Sales

41%
Profit

Group contribution

7%
Sales

7%
Profit*

Operating companies

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

Operating companies

- > Brüel & Kjær Sound & Vibration
- > HBM

Operating companies

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

Operating companies

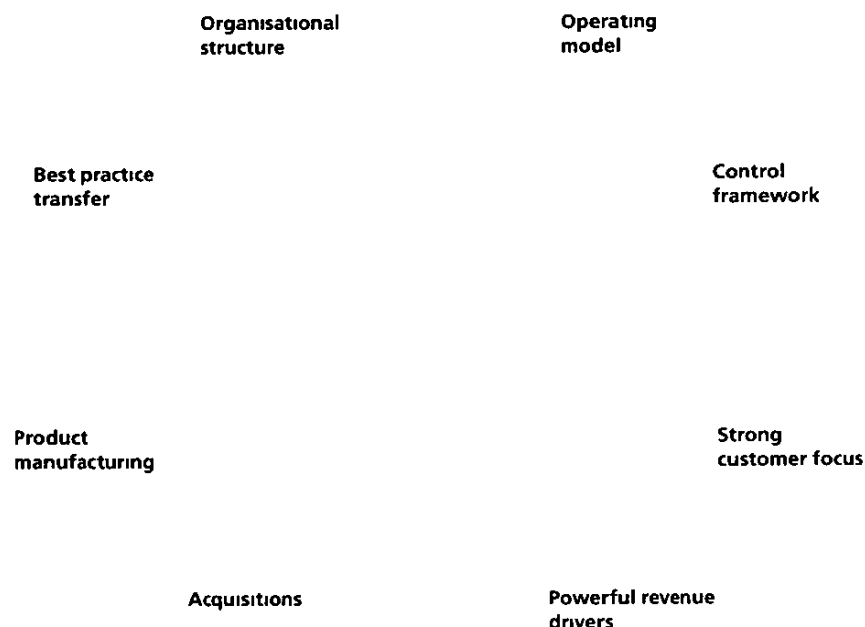
- > Microscan
- > Red Lion Controls

* Reported sales

** Adjusted operating profit

Business Model

In order to execute our strategy successfully, we are organised in a way that combines the benefits of a multinational group whilst maintaining the entrepreneurial culture of our operating companies.



Organisational structure

Our group comprises four business segments which reflect the end-user industries and applications we serve, as shown on page 3. Each segment contains a number of operating companies, with dedicated management teams having a high degree of responsibility and accountability, and operating within a framework of group management and control.

Operating model

Central to this approach is a limited group structure which, together with the Board, sets the strategy and drives and monitors its implementation. In addition, the centre provides knowledge, advice and selective support services such as legal, tax and treasury, mergers and acquisitions, emerging market infrastructure and best practice sharing among businesses.

Control framework

The group has developed a robust internal control framework in keeping with our operating model, values and culture. This comprises common policies, procedures, principles and processes and provides the minimum requirement for the controls the businesses should have in place.

Values

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

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

Building off this central model, each operating company is required to implement its own system of internal controls, consistent with the size and complexity of its business. The effectiveness of the internal control framework is routinely monitored through a combination of certification, self-assessment and a rolling programme of reviews by internal and external audit functions, complemented by a sound risk management process, as outlined on page 40.

Strong customer focus

Within each business segment, each operating company has developed its own brands and sales and service channels, tailored to its target industrial markets. 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.

All of our businesses are strong players in niche markets where there are significant barriers to entry. We aim to build long-term relationships with our customers and our experienced engineers work with customers to understand the business and productivity challenges they face, and offer solutions, based on standard product platforms. In addition, much of our technology and applications know-how is proprietary and patent-protected.

Powerful revenue drivers

Our products typically involve relatively low capital expenditure for customers, but provide a significant and rapid payback. Customer benefits include improving production efficiency, reducing downtime, eliminating wastage, reducing time to market, and ensuring compliance with safety and quality regulations. In addition, after-sales service and support is an important part of our business and over 25% of our revenue is derived from consumables and services.

Acquisitions

We seek to enhance the growth potential of our businesses by pursuing an active but disciplined approach to acquisitions. Stand-alone acquisitions must share our business characteristics and have the management strength to operate as autonomous units within the Spectris group. Bolt-on acquisitions are merged with one of our existing businesses to create a stronger and more broadly-based growth platform.

Product manufacturing

We focus on our core competencies of research and development, product design, and assembly and test, whilst outsourcing the majority of component and sub-assembly production to qualified suppliers. As a result, our businesses are capital efficient. Low cost sourcing initiatives by the group's strategic purchasing teams continue to drive down the costs of procurement whilst optimising quality and supply chain performance.

Best practice transfer

Despite the specific industry and technology focus of each of the businesses, considerable emphasis is placed on knowledge sharing across the group and the transfer of best practice. This can be especially valuable when entering new end-user markets or geographical regions, and was of real benefit to many companies when moving into China and, more recently, Latin America.

Strategy and Objectives

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

Our strategy

Strengthening market positions through innovation

We invest around 7% of sales each year in R&D in order to maintain our market-leading positions. We work closely with customers to develop solutions which are tailored to their specific requirements. 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.

Achievements

- > Expenditure on research and development grew by 7% to £62.4 million, or 7% of sales
- > Significant number of new products, applications and technologies introduced throughout the group. These included Empyrean, the world's first 3D detection system on a diffractometer, and Morphologi G3ID, adding chemical identification to the existing size and shape analysis for the first time.

Increasing regional expansion with a focus on emerging markets

We seek to grow our businesses around the world, with particular emphasis on industrialising markets such as China, India and Latin America. We continue to establish sales and group support facilities in these regions so that we are able to support our global customers wherever they are based.

Achievements

- > On a constant currency basis, sales to China grew by 24% and sales to Latin America grew by 11%.
- > Acquisition of Omec provides further opportunities to extend our product range in the Materials Analysis segment in China.
- > Increase of 25% in sales, marketing and support staff in existing businesses in China, increase of 46% including acquisitions. We now have a total of around 1,000 employees in China.
- > New business centres opened in Brazil and India.

Growing existing businesses through acquisition

We seek to enhance the growth potential of our businesses by pursuing an active but disciplined approach to acquisitions, focusing on businesses which are strong players in specific application areas where there are significant barriers to entry.

Achievements

- > Invested a total of £63.0 million in five acquisitions:
 - Reologica, a Swedish rheometer specialist
 - Omec, a Chinese company specialising in particle characterisation
 - Industrial particle characterisation business of Sysmex, a Japanese company
 - N-Tron, a US-based supplier of rugged industrial networking components
 - Delta F, a US-based supplier of specialist gas analysers

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.

Achievements

- > Components sourced or manufactured in lower-cost countries increased to approximately 11% of total cost of goods sold.
- > Lean manufacturing programmes drive tangible productivity improvements and cost reductions.
- > Inventory management processes reduced number of days of inventory on hand from 85 days to 71 days.

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

We aim to grow our existing businesses organically by developing new products as well as pursuing opportunities for growth in new markets, such as nanotechnology and life sciences. Acquisitions are targeted at both existing and new markets.

Achievements

- > Product development programmes focused on building positions in our key market segments.
- > Acquisitions made strengthen our positions in the key markets of pharmaceuticals and life sciences, industrial controls and industrial gas analysis.
- > Aftersales, service and consumables are an important part of our business, representing 29% of sales.

Key Performance Indicators

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

Sales

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

Total sales growth, continuing businesses

Organic sales growth, continuing businesses at constant currencies

Return on sales

Return on sales is a measure of improving profitability in our business. Return on sales is defined as adjusted operating profit as a percentage of sales. Our intention is to achieve a mid-teens return on sales margin on average throughout the cycle.

Return on sales, continuing businesses

Cash conversion

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

Cash conversion

Earnings per share

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

Adjusted EPS

Growth

Non-financial KPIs are described on pages 29 to 33

Principal Risks and Uncertainties

The group has a well-established risk process for identifying, evaluating and managing significant risks which is a part of the group's system of internal controls as described in the Directors' Report on page 40.

Strengthening market positions through innovation

New product development

Risk description

In order to strengthen our market positions and sustain competitive advantage, the group invests significantly in research and development. The development of new technologies and products involves risk including

- > The product being more expensive or taking longer to develop than originally planned
- > The market for the product being smaller than originally envisaged
- > The product failing to reach the production phase

Potential impact

- > Reduced profitability and cash flow
- > Loss of market share
- > Failure to recoup investment in innovation

Mitigation

- > Significant investment levels in R&D, maintained at around 7% of sales
- > Project management disciplines are applied in product development programmes
- > Working closely with customers to ensure that we develop solutions tailored to their specific needs
- > New product developments are based on standard platforms, customised through high added-value applications engineering
- > Extensive customer involvement during product development and prior to product launch (through beta evaluations)

Intellectual property

Risk description

Our business is focused on the design and manufacture of technologically advanced products and applications. Significant investment in R&D is made towards this end. As a consequence, we own and protect patents, trademarks, trade secrets, copyright information and intellectual property licenses

The risk therefore exists that this intellectual property may be infringed by third parties or that we may inadvertently infringe third-party rights

Potential impact

- > Reduced profitability and cash flow
- > Loss of market share
- > Failure to recoup investment in innovation

Mitigation

- > Procedures in place requiring all of our businesses to
 - maintain a watching brief on new applications
 - undertake specific reviews prior to commencing new product development, acquisitions or licenses
- > Maintain a portfolio of intellectual property assets such that no single patent, trade secret or trademark is sufficiently important to present a material risk to the success of the company

Increasing regional expansion with a focus on emerging markets

Political and economic risks

Risk description

We operate in a range of end-user markets around the world and may be affected by political, economic or regulatory developments in any of these countries. Material adverse changes in the political and economic environments in the countries in which we operate have the potential to put at risk our ability to carry out our strategy

Potential impact

- > Reduced profitability and cash flow

Mitigation

- > Maintaining a broad spread of markets, products and customers limits risks associated with any given territory
- > Ensure we remain structured in such a way that enables us to take prompt action in the event of any material change in the trading environment
- > Monitor market intelligence
- > Ensure we maintain a strong balance sheet and financial position

Laws and regulations

Risk description

We operate in a large number of jurisdictions and, as a consequence we are subject to numerous domestic and international regulations and restrictions. These include laws and regulations covering product safety, export controls, anti-bribery, competition and false accounting

Any failure by the group or its representatives to comply with relevant laws and regulations could result in civil or criminal liabilities leading to significant fines and penalties or the disqualification of the group from participation in government-related contracts for a period of time. In the event of a failure to comply with export control regulations, the group could also be exposed to restrictions being placed upon its ability to trade

Potential impact

- > Reduced sales, profitability and cash flow
- > Reputational damage
- > Diversion of management resource to address any resulting investigation

Mitigation

- > Strong internal control framework, policies and culture
- > Formal export controls compliance procedures in place, including strict product classification and transaction screening protocols
- > Ethics training provided to all employees
- > Regular monitoring of compliance

All such risks are evaluated with reference to the group's achievement of its strategic objectives as outlined on page 6. The key potential risks and uncertainties facing the group's ability to deliver its strategy, together with mitigating actions, are described below.

Growing existing businesses through acquisition

Acquisitions

Risk description

A key element of our 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 we can provide

Integrating both the operations and personnel of acquired businesses can be a complex process. Potential risks therefore exist that the planned benefits from the acquisition may not be achieved as a result of problems encountered in integrating the acquired business, incorrect assumptions in the original business case, changing market conditions or deficiencies arising in the due diligence process. Further, the company could be exposed to past acts or omissions of the acquired business

Potential impact

- > Failure to achieve the benefits outlined in the business case
- > Reduced profitability and cash flow
- > Unforeseen liabilities

Mitigation

- > Rigorous financial and legal assessment of target businesses
- > Strict authority levels which, subject to size, involve review by the Board for such transactions
- > Comprehensive representations and warranties in purchase agreements
- > Extensive integration planning and execution
- > Regular review against the business case for the acquired businesses
- > Post-acquisition controls reviews

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

Competitive activity

Risk description

The nature of the marketplaces in which we operate means that all of our businesses are exposed to risk from competitor activity

Potential impact

- > Loss of market share
- > Reduced profitability and cash flow

Mitigation

- > Maintain market-leading positions through significant investment in research and development
- > Diversified portfolio of products and markets limits the overall risk from any single competitor
- > Maintain ability to react quickly to changes in customer and market demand
- > Maintain a watching brief on new competitor activity

Revenue visibility and seasonal fluctuations

Risk description

Our 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. The limited forward visibility makes determining the impact of longer-term purchasing trends more difficult

Potential impact

- > Reduced visibility of business performance
- > Reduced profitability and cash flow

Mitigation

- > Even out the first half/second half sales and profit split
- > Careful monitoring of quote activity, orders and shipments in the final few months of the year

Focusing on operational excellence

Supply chain dependencies and disruption

Risk description

The company is 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 therefore vulnerable to interruption of supply

The company also manufactures components, from proprietary technologies, at a number of locations. Our ability to supply products to our customers could be adversely impacted by a disaster or other disruptive event at any of these sites

Any interruption to the company's supplies or related increase in costs may result in an adverse effect on the business' financial position and future performance

Potential impact

- > Inability to fulfil customer orders resulting in lost sales and reputational damage
- > Increased costs reduce profitability
- > Loss of market share

Mitigation

- > Strategic sourcing teams source lower-cost components across a range of markets
- > Alternative sources of supply actively sought to reduce dependency upon single-source suppliers
- > Safety stock levels established for critical components
- > Business continuity plans and disaster prevention measures in place for all material manufacturing locations
- > Business interruption insurance
- > Strong contract review process

Fluctuations in exchange rates

Risk description

Because of the global nature of our business, we have operations which sell and purchase goods in foreign currencies and whose results we record in a variety of different currencies. We are therefore exposed to any significant changes in exchange rates between a number of different currencies

Potential impact

- > Unexpected variations in the company's results
- > Reduced profitability and cash flow

Mitigation

- > Forward contracts cover up to 75% of forecast exposures up to 18 months ahead
- > Natural hedging strategy, matching invoicing and purchasing currencies where practical
- > Foreign currency investments hedged with borrowings in the same currency wherever possible
- > Regular sensitivity analyses carried out to understand the impact of exchange rate movements on the group's reporting

Chairman's Statement

We are very pleased with the group's performance in 2010, with trading exceeding our expectations across all four business segments.

Dear Shareholder

I am pleased to report that Spectris achieved a record performance in 2010, in terms of both revenue and adjusted operating profit for the year. Throughout the downturn, we maintained the focus on our strategic objectives. As a result, our acquisition activity, continued expenditure on research and development, strength in emerging markets and good cost control have enabled us to benefit more quickly from the improvement in the economy than following previous downturns.

Improving customer demand led to revenue for the year increasing by 14.6% to £901.9 million (2009: £787.3 million) and adjusted operating profit* increasing by 79% to £142.1 million (2009: £79.2 million).

On a reported basis, revenue growth was 14.6%, with acquisitions contributing 1.5% and currency also contributing 1.5%. On a constant currency organic (like-for-like) basis, growth was therefore 11.6%. Operating margins were 15.8%, an increase of 5.7 percentage points compared with the prior year.

The growth in operating profit was due to a combination of increased volume, an expansion in gross margins, and cost benefits resulting from restructuring and integration activities we had implemented the previous year.

Profit before tax increased by 94% to £132.3 million (2009: £68.2 million) and earnings per share increased by 91% from 45.4 pence to 86.6 pence. The effective tax rate was 24.2% (2009: 23.2%).

Cash conversion was robust, with 112% of operating profit converted into operating cash, largely due to a reduction in working capital of approximately £20 million. Net debt decreased by £37.7 million from £123.9 million to £86.2 million, 0.5X EBITDA. Net interest costs were £9.8 million. At 31 December 2010, the group had cash of £64.7 million and undrawn committed facilities of £80 million. This strong financial position gives us the flexibility to continue to pursue our strategic objectives.

The Board is proposing to pay a final dividend of 20.9 pence, which, combined with the interim dividend of 7.1 pence, gives a total for the year of 28.0 pence (2009: 24.25 pence), an increase of 15%. The dividend is covered 3.1 times. This is consistent with our policy of making progressive dividend payments based upon affordability and sustainability. The dividend will be paid on 24 June 2011 to shareholders on the register at the close of business on 3 June 2011.

John Hughes
Chairman

14.6%
Increase in reported revenue

28.0p
Dividend up 15%

Board changes

Having served for six years as a non-executive director, Anthony Reading retired at the conclusion of the AGM in May 2010. On behalf of the Board, I would like to thank him for his contribution to the group and his chairmanship of the remuneration committee. I would also like to welcome Russell King, who joined the Board as a non-executive director on 20 October 2010 and assumes the role of chairman of the remuneration committee. Russell was previously chief strategy officer of Anglo American PLC and is a non-executive director of Aggreko plc.

Outlook

Spectris recovered quickly from the economic downturn and made excellent progress in 2010, with trading exceeding our expectations across all four business segments. Looking ahead, we expect a return to more normal sales growth during 2011 and we will continue to pursue our strategy of investing in new products and applications, seeking acquisition opportunities and expanding our market positions and regional presence. As a result, the Board believes Spectris is well positioned for further progress in 2011.



John Hughes
Chairman

* Unless stated otherwise, figures quoted for operating profit, net interest, profit before tax, tax and earnings per share are adjusted measures – for explanation of adjusted figures and reconciliation to the statutory reported figures see Note 3.

2010 sales by end-user market

% total group reported sales

1 Automotive and aerospace	12%
2 Pulp and paper	11%
3 Semicon, telecoms, electronics	10%
4 Academic research	9%
5 Pharma, life sciences	9%
6 Metals, minerals and mining	9%
7 Machine building	9%
8 Energy and utilities	7%
9 Environment	5%
10 Other, incl distribution	19%

Chief Executive's Review

We will continue to pursue our strategy of investing in new products and applications, seeking acquisition opportunities and expanding our market positions and regional presence.

John O'Higgins
Chief Executive

£62.4m
Expenditure on R&D up 7%

26%
Increase in sales to Asia Pacific

Growth returned during 2010 and all business segments saw higher sales than in 2009. Overall, sales growth was strongest in the in-line instrumentation and Industrial Controls segments as the general economic recovery resulted in production levels and customer expenditure returning to more usual rates. The Test and Measurement segment saw a strong recovery in the second half of the year, as the number of automotive customer projects increased, and the Materials Analysis segment also grew strongly in the second half.

Strategy

We made significant progress on all elements of our strategy during the year, as set out below.

Strengthening market positions through innovation

Expenditure on research and development grew by 7% to £62.4 million (7% of sales). Following the sustained investment during the downturn of 2009, we launched a range of new products, technologies and applications during the year across the group. One of the most exciting of these was Empyrean, our new X-ray diffraction platform for materials research. Empyrean is unique in its ability to measure all sample types, from powders to thin films, nanomaterials and 3D objects, on a single instrument. We also launched a new version of the Morphologi automated image analysis system, the G3ID, developed as part of our collaboration with Kaiser Optical Systems. This product, which adds chemical identification to the existing size and shape analysis in one system for the first time, enables customers in the pharmaceutical industry to distinguish between materials that appear identical in traditional particle sizing systems and has been well received in the industry.

Increasing regional expansion with a focus on emerging markets

Asia Pacific continued to see strong growth, with group sales up by 26% on a reported basis. This remains our second-largest regional market, and is now just 4pp behind Europe, compared with 12pp in 2009. Two of the acquisitions made in the year are based in Asia and, together with N-Tron and Delta F, increase our presence in the region. We have also increased the number of staff employed in sales, marketing and support functions in our existing businesses in China by 25% (increase of 46% including acquisitions), bringing the total number of people employed in China to around 1,000. We continued to invest in infrastructure and service channels globally, opening new customer business centres in São Paulo, Brazil, and Mumbai, India.

Growing existing businesses through acquisition

During the year, we made five bolt-on acquisitions for a total consideration of £63.0 million. The total annualised pro-forma revenues of the businesses acquired would have been approximately £36 million. In April, we acquired the assets of Reologica Instruments AB, a Swedish company specialising in the design and manufacture of rheometers. In July, we acquired Zhuhai Omec Instruments Co Ltd, a Chinese company specialising in particle characterisation, which has extended our product range in the Materials Analysis segment. In October, we acquired the industrial business of Sysmex, a Japanese company. This has increased our product offering in the industrial particle characterisation area and enables us to provide technical and applications support from laboratories and offices in Kobe and Tokyo. These three acquisitions form part of the Materials Analysis segment. In October, we acquired the business of N-Tron Corp, a leading US-based manufacturer of rugged industrial networking components. This business has been incorporated into the Industrial Controls segment. Finally, in November, we acquired Delta F Corporation, a manufacturer of process analyser technologies based in the US. Delta F's products and technologies complement our range of process

gas analysis solutions, further extending our measurement capabilities in the In-line Instrumentation segment

Focusing on operational excellence

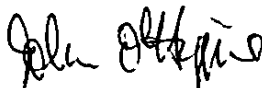
We continued to focus on improving operational efficiency with a number of on-going initiatives during the year. Despite the general increases in material costs as the global economy recovered, our China-based strategic sourcing team, together with operating company purchasing managers, continued to accelerate the pace of sourcing from lower-cost countries, and we now have a well-established supply chain of partners in China, south-east Asia and eastern Europe. The value of items sourced or manufactured in lower-cost countries now accounts for approximately 11% of our total cost of goods sold. It is also worth noting that we have limited exposure to energy and commodity input prices. Lean manufacturing programmes have been introduced across the group. An example is at NDC Infrared Engineering's facility in the USA, as described in the case study below.

Focusing on operational excellence

At NDC Infrared Engineering, lean manufacturing initiatives have been introduced including outsourcing, supply chain realignment and extensive use of organisational techniques such as 5S and visual management. These focus the company on critical value-added processes and tangible productivity improvements. Supply chain initiatives include realignment with suppliers whose business models and processes more closely fit with NDC's in order to establish a global supply chain that provides NDC with a sustainable competitive advantage.

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

The acquisitions we have made during the year have improved our positions in key strategic markets. In addition, we are placing increasing focus on the more resilient areas of our business, for example customer support, service and consumables, which now represent 29% of sales. We continue to look for suitable acquisition opportunities to build our strategic business segments.



John O'Higgins
Chief Executive

Operating Review

Materials Analysis

Highlights

- > Strong growth in pharmaceuticals and life sciences
- > Some softening in academic R&D
- > H2 recovery in metals and mining
- > 3 bolt-on acquisitions

Overview

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

Segment performance

Sales in Materials Analysis, at £271.6 million, increased by 9% compared with the prior year (up 8% at constant currencies, including 3% from acquisitions). Operating profit increased by 24% to £39.5 million. Operating margins improved from 12.9% to 14.5%, as a result of volume, pricing and mix, including a favourable shift towards aftersales services, which grew by 15% and now represent 31% of sales.

Activity in the metals, minerals and mining sector, the largest end-user market for this segment, was slow in the first half of the year but improved in the second half. A number of orders for laboratory automation projects were secured, particularly in Latin America and Europe. These included an order from a major steel producer in the UK for a fully automated system for iron and steel analysis. Continued investment in infrastructure projects, particularly in China and the Middle East, provided good demand for our equipment, and we received a large number of orders for our X-ray analysis systems from the cement industry in China and, in the Middle East, for our rheometers to control the quality of asphalt production.

Demand from the pharmaceutical industry grew by over 40% in 2010. New regulations in China have led to the enforcement of stricter safety standards covering the production of food and pharmaceutical products, with standards equivalent to the FDA regulations in North America. As a result, we made a number of important sales to customers who need to comply with these regulations and the State Food & Drug Administration in China also purchased our particle characterisation instruments to assist in standards enforcement. We also launched a new facility monitoring system which detects both molecular and microbial contamination, combining the MicroSafe microbial detection and monitoring products acquired in 2009 with our existing particulate measurement products, and secured a major US manufacturer as the first customer.

Sales to the academic sector and to research institutions were very good in 2009, helped by government stimulus packages in a number of regions. Although some of these government-funded research programmes in the developed economies ended during 2010, the market overall remained resilient, with Germany benefiting from sustained investment in the university/R&D sector and sales to emerging markets continuing to increase. Our new Empyrean X-ray system, launched in the first quarter, has also proved attractive to the academic and research market, enabling customers to carry out experiments that were not previously possible. We have long-standing relationships with many of our customers in this market and our equipment is used extensively in their laboratories, with new systems adding to the research capabilities they can provide.

The electronics industry experienced a strong recovery in 2010 as a result of large investments in semiconductor manufacturing capacity, driven by growth in PCs, flat panel TVs, LEDs and smart phones, and we sold a number of products to manufacturers.

£271.6m

Sales up 9%

£39.5m

Operating profit up 24%

Increasing regional expansion with a focus on emerging markets

Spectris' office in São Paulo, Brazil, provides sales and support for a number of our operating companies in Latin America, enabling them to provide a direct response to the increasing number of customers in this region. Customers include the University of São Paulo, where PANalytical's applications laboratory is used for research and support applications, primarily in the materials and industrial segments. Samples for analysis are received from government institutions and industrial companies as well as from students with their own research projects.

for upgrading their facilities. In July, we launched the UltraChem 40 particle counter for the semiconductor industry. This instrument uses proprietary digital imaging technology to detect ultra-small particles and is the most sensitive particle counter in the industry. Increasing demand for the high-brightness LEDs used for display backlighting in devices such as computers, televisions and in-car lighting also provided good demand from Korea and China for our high resolution X-ray diffraction instruments. These are the systems of choice for process control by the majority of manufacturers and suppliers of gallium nitride, the key material used in these devices.

Segment outlook

The outlook for metals, minerals and mining is good, with further recovery expected in mining and steel as commodity prices rise. Some softness is expected to remain in academic segments, however, this will be mitigated by continued investment in emerging markets and an increase in industrial R&D as the global economy grows. The semiconductor market is forecast to remain strong in 2011 and we expect to see more investment in process monitoring in the pharmaceutical industry, particularly in China. The acquisitions made in this segment will further strengthen our Asia presence in 2011.

Test and Measurement

Highlights

- > Automotive customers reinstate development budgets
- > Strong profit contribution
- > Good demand from aerospace
- > Good growth regionally, especially Asia

Overview

Test and Measurement supplies test, measurement and analysis equipment and software for product design optimisation, manufacturing control and environmental monitoring systems. Markets are principally the aerospace, automotive and consumer electronics industries. For customers in the automotive and aerospace industries, our products and applications help them to design and test new products whilst reducing time to market. In consumer electronics, our equipment and software enable customers to refine the performance and accuracy of their products. In the environmental monitoring market, the desire for higher standards of community comfort is driving increasing demand. The operating companies in this segment are Brüel & Kjær Sound & Vibration and HBM.

Segment performance

Sales in Test and Measurement increased by 11% (organic increase of 11% at constant currencies) to £297.4 million. Operating profit increased to £34.8 million (2009: £1.4 million). The margin effect of the increase in sales was boosted by a year-on-year reduction in overhead costs. This reflects an increase in restructuring benefits and a reduction in restructuring charges, combined with good cost control throughout the segment. Operating margins were 11.7% compared with 0.5% in the prior year. Of this increase, 2.6 percentage points (pp) came from an increase in gross margins, 3.1 pp from a reduction in restructuring costs and 5.5 pp from operating leverage as the benefits of the restructuring were realised.

The automotive market, a key end-user market for this segment, experienced a dramatic slowdown in 2009 and, although not returning to the high levels of 2008, saw a major improvement in 2010 as customers began to reinstate budgets.

£297.4m

Sales up 11%

£34.8m

Operating profit up from £1.4m

The world of data acquisition and analysis is changing rapidly as our customers are under growing competitive pressure to launch products with reduced development times and which meet increasingly stringent environmental and legislative compliance, and we are developing new products to help them to meet these requirements. In September, we signed an exclusive partnership agreement with MIRA, the Motor Industry Research Association in the UK, to jointly provide engineering services to Chinese automotive customers. MIRA is a world leader in advanced engineering, research and product testing, with facilities located around the world, and its work includes the development of ground-breaking low carbon vehicle technologies. In return, MIRA has made significant investment in our equipment, including a noise vibration harshness (NVH) simulator, for use in these services. The NVH simulators saw good demand from vehicle manufacturers and a major Japanese manufacturer invested in a number of our solutions for vehicle development including an NVH simulator, transducers, in-vehicle measurement and analysis systems, and array systems for wind tunnel testing.

In February, Scuderia Ferrari took delivery of a data acquisition system and software for test bench balancing for their Formula One engines. Engine balancing leads to superior performance and increased safety and reliability and has taken on a new importance since the introduction of new rules limiting the number of engines per driver per season.

The growth of consumer electronics products such as smart phones, MP3 players and tablet computers also benefited this segment. In order to achieve the very high product quality the market demands, manufacturers have increased production testing standards for operational and environmental performance. Our ability to offer complete solutions for both acoustics and vibration has led to new opportunities in the quality assurance testing of smart phones and we secured orders for our microphones and conditioning amplifiers from a number of manufacturers.

Building our presence in key strategic growth areas

In the automotive industry, a key end-user market for Test and Measurement, Ferrari have selected our PULSE LAN-XI data acquisition system for testing engine vibration in their Formula One cars. With the engines running at up to 20,000 rpm, vibration is a critical issue. Balancing the crankshaft to reduce engine vibration leads to superior performance and increased safety and reliability. A second PULSE system, together with a mannequin with built-in ear and mouth simulators, is used to test the radio communication link between the racing driver and the engineers at the pit. With the driver exposed to noise equivalent to a jet engine taking off, miniature loudspeakers are built into special silicone earplugs that protect his hearing whilst allowing him to listen to messages from his team.

During the year, sales of our products to the aerospace industry increased, particularly for satellite testing. In October, Spain's National Institute for Aerospace Technology successfully achieved noise certification of the Airbus A330 Multi Role Transport Tanker using our data acquisition system. This aircraft can operate in civil airports, for example during international human aid operations. We also sold equipment for structural testing of new aircraft in China and Japan, and our recently-launched optical strain gauges are proving successful for stress analysis of the composite materials used in aircraft design.

In the environmental noise market, there was good demand for our noise monitoring services and we secured orders from a number of airports around the world. Our flight tracking service is also proving successful, assisting in the management of aircraft noise and safety at airports worldwide.

Our recently-launched urban and industrial noise monitoring application is aimed at installations which are required to report compliance with noise regulations, such as mines, ports, industrial premises, power stations, wind farms and large construction projects. This system negates the need for in-house expertise by outsourcing compliance via our managed service and is generating significant interest with industrial plant managers who are faced with noise management issues in their local communities.

Segment outlook

The automotive, aerospace and consumer electronics segments all recovered well in 2010 and are expected to continue to provide good opportunities for growth. The market for urban and airport noise monitoring is expected to continue to grow as regulation of environmental noise levels increases.

In-line Instrumentation

Highlights

- > Good growth and record profitability
- > Pulp and paper strong
- > Strong growth in converting and plastics
- > Acquisition of Delta F Corporation

Overview

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

Segment performance

Sales in In-line Instrumentation increased by 20% (increase of 17% at constant currencies and organic) to £273.1 million. Operating profit increased by 41% to £58.3 million and operating margins increased to a record 21.3%, up 3.1pp from last year. This was partly due to gross margin increases and partly to operating leverage. Sales of service, spare parts and consumables are a key feature of this segment and represent 43% of revenues.

The In-line Instrumentation segment saw good growth in all major regions and markets and strong profitability. The pulp and paper industry, the largest end-user market for this segment, performed well as paper mills placed increased emphasis on cost reduction in response to higher energy and fibre costs and we saw strong demand for both our instruments and creping blades. Our high performance blades are particularly successful in tissue production where they provide enhanced product properties such as tissue bulk and softness whilst improving tissue uniformity compared with traditional steel blades. This results in more efficient tissue converting and less wastage. Demand for our instruments was also good, particularly in China, where new paper mill expansion projects are under way, and orders were also received from a number of mills in Latin America. Our new optical consistency transmitters are performing well. These units can accurately measure consistency over a wide range of pulp types and generate savings in fibre, fillers, chemical consumption and lost production. We received an order for a new newsprint machine in the UK, which will be the first paper machine in the world to be entirely fitted out with optical transmitters.

Sales in the energy, refining and industrial gas markets continued to recover in all regions, with excellent growth in China, Middle East, India and Latin America. New business centres were opened in Brazil and India, providing sales and service for customers in these regions. In November, we acquired Delta F Corporation, a specialist manufacturer of process analyser technologies. The acquisition further enhances our ability to deliver a complete range and choice of process gas analysis technologies and systems to industry worldwide. Demand for condition monitoring systems was also strong from the energy sector and in October we introduced the VDAU-6000 condition monitor, a product providing cost-effective condition monitoring and analysis as a bolt-on to existing safety systems or for balance of plant applications. The hydro-electric power market continued to show strong signs of growth, particularly in eastern Europe and also in Latin America, where we were nominated as an approved vendor for the supply of safety and condition monitoring equipment for two hydropower plant projects in Brazil. We also had a record year for remote monitoring orders for wind power applications and we entered into a frame agreement with Arise Windpower, a leading player in the Swedish wind power market, for the supply of condition monitoring solutions for wind turbine applications.

In the converting industry, sales to the wire and cable market of our non-eccentricity gauge, launched in the first half, greatly exceeded our expectations and our non-contact length and speed measurement gauge also saw good success with original equipment manufacturers in Europe. These products provide more accurate control of the production process and improve product quality whilst reducing material consumption.

£273.1m

Sales up 20%

£58.3m

Operating profit up 41%

Growing existing businesses through acquisition

In November, we acquired Delta F Corporation, a leading manufacturer of specialist gas analysers, based in Boston, Massachusetts, USA. Delta F develops, manufactures and distributes a range of trace oxygen and moisture analysers, primarily for use in the semiconductor and electronics industries. This bolt-on acquisition increases our offering in the In-line Instrumentation segment, with Delta F's products, technologies and expertise complementing those of Servomex, enabling the company to deliver a complete range of process gas analysis systems to customers worldwide.

In the fibre optic market, we continued to see the adoption of our non-contact measurement systems among the leading optical manufacturers, particularly in China, to improve product quality and increase production yields. Our FiberMike systems, which include diameter gauges and flaw detectors, are used to monitor each stage of the draw tower process.

We made good progress in high technology markets such as coating lines and separator film lines for the production of lithium ion batteries. Most of the increase in battery production is in Asia, followed by North America.

The investment in new technologies to improve the image quality of displays and new products such as 3DTV, as previously mentioned in the Materials Analysis segment, was also beneficial for the In-line Instrumentation segment and we sold a number of systems for UV curing of back light units and brightness-enhancing films for flat panel displays in Japan, Korea and Taiwan. The adoption of UV in industrial markets also continues to expand, with China one of the fastest-growing markets for the curing of industrial coatings and the use of UV curing technology.

Segment outlook

Conditions have recovered in this segment's end markets, driven by customer investments in upgrades to facilities and a demand for greater production efficiencies. We have increased our focus on service and support and we anticipate that this will continue to provide a resilient revenue base.

Industrial Controls

Highlights

- > General manufacturing and electronics sectors return to growth
- > Good growth in all major regions
- > N-Tron acquisition gives foothold in industrial networking applications

£59.8m

Sales up 34%

£9.5m

Operating profit up 119%

Overview

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

Segment performance

Sales in Industrial Controls increased by 34% to £59.8 million (increase of 32% at constant currencies, including 8% from acquisitions). Operating profit increased by 119% to £9.5 million. Operating margins were 15.9% compared with 9.9% in 2009. The expansion in operating margins was largely due to the increased volume and the benefits of the restructuring and integration actions taken in 2009.

The electronics and general manufacturing sectors returned to growth in 2010. Activity in the industrial controls and machine building markets continued to increase, particularly with original equipment manufacturers, and we secured a number of orders for private labelling of our networking products. Our Data Station product continued to find new applications, and traditional interface products also continued to benefit from the recovery in the global manufacturing sector. In October, we acquired the business of N-Tron Corp, a leading manufacturer of rugged ethernet switches – the products used to connect multiple ethernet devices to each other and to build network infrastructure – and associated components for the industrial, infrastructure and power generation markets.

In the pharmaceutical market, demand was strong for our laser scanners in China, where they are used in systems which validate compliance to the new regulations regarding manufacture and distribution of pharmaceutical products. All products covered by the scheme are now required to have an e-tracking bar code affixed to the packaging so that they can be traced. In October, we introduced a new inspection and verification solution for pharmaceutical packaging. The VS-1 track and trace machine vision system features a smart camera, integrated lighting and powerful machine vision tools to read barcodes, verify text and inspect labels for misalignment.

Segment outlook

2010 saw a recovery in demand from the general manufacturing sector, which we expect to continue, with good opportunities in China. We anticipate that our portfolio of track, trace and control solutions will continue to find opportunities across a number of industrial controls sectors. The segment has been strengthened by the acquisition of N-Tron, and we expect to see growth from increased demand for industrial networking components.

Building our presence in key strategic growth areas

In October, we acquired N-Tron, a leading US manufacturer of rugged industrial networking components. N-Tron supplies ethernet switches and associated components to the industrial, infrastructure and power generation markets. Over the past few years wind turbine manufacturers have embraced the use of ethernet to monitor and control wind farms worldwide and use N-Tron's switches to optimise their operation.

Strengthening market positions through innovation

VDAU-6000 condition monitoring system

This state-of-the-art system provides a cost-effective alternative to rack-based condition monitoring systems for rotating machinery. The VDAU-6000 can monitor auxiliary machines or act as an extension to existing safety systems for monitoring all types of machines, including critical turbo machinery. Its powerful, user-friendly scalar condition monitoring functionality enables narrow band measurements for monitoring specific frequencies, such as running speed, blade pass and bearing defect. The values are easy to monitor and trend, providing reliable early fault detection.

BioLaz real-time microbial monitor

The BioLaz real-time microbial monitor provides rapid detection of airborne biological organisms in controlled environments. This compact device can fit in restricted spaces and provides immediate notification when biological particles are present and real-time verification of biological activity levels during filling operations. This results in faster batch releases, improving productivity in sterile manufacturing processes in the pharmaceutical and biotech industries.

K-OR optical strain gauge

Although this strain gauge rosette is the smallest in the world, it is designed for withstanding extreme loads, even in adverse ambient conditions and potentially explosive environments. Optical devices require no electrical signal and are easy to install, opening up new opportunities for use in experimental stress analysis. This gauge measures strain in three directions, from which the two-dimensional mechanical stress state is calculated. Typical applications include materials testing, for example on the rotor blades of wind turbines.

Noise Sentinel noise monitoring system

This urban and industrial noise monitoring application is aimed at installations which are required to report compliance with noise regulations, such as mines, ports, industrial premises, power stations, wind farms and large construction projects. The system negates the need for in-house expertise by outsourcing compliance via our managed service. This provides alerts when compliance with the relevant noise restrictions is exceeded, delivers the information necessary to investigate and compiles regular reports demonstrating compliance.

VS-1 Track and Trace machine vision inspection system

Pharmaceutical companies are increasingly required to meet strict regulations on the manufacture and distribution of their products. The VS-1 system provides a complete solution for pharmaceutical packaging inspection. Featuring a smart camera, integrated lighting and powerful machine vision tools, it is designed to read barcodes, verify text and inspect labels for misalignment.

Empyrean X-ray diffraction platform

Empyrean is our new X-ray diffraction platform for materials research. Featuring PIXcel^{3D}, the world's first 3D detection system on a diffractometer, Empyrean is unique in its ability to measure all sample types, from powders to thin films, nanomaterials and 3D objects, on a single instrument. The system enables analysis of the widest range of properties of any existing or novel materials with a minimum of sample preparation time, speeding up research and development processes.

Financial Review

Reported sales were up 14.6% at £901.9 million.

On an organic constant currency basis, sales increased by 11.6%.

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures exclude certain non-operational items which management has defined as amortisation and impairment of acquisition-related intangible assets, acquisition-related costs and contingent consideration fair value adjustments, profits or losses on termination or disposal of businesses, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 3). As noted in the 2009 annual report, the definition has been modified for 2010 to include the income statement effects arising from the adoption of IFRS 3 (Revised).

Operating performance

	2010	2009	Increase
Sales (£m)	901.9	787.3	14.6%
Adjusted operating profit (£m)	142.1	79.2	79.4%
Operating margin	15.8%	10.1%	+5.7pp
Statutory			
Sales (£m)	901.9	787.3	14.6%
Operating profit (£m)	127.9	68.5	86.7%
Operating margin	14.2%	8.7%	+5.5pp

Clive Watson
Group finance director

£142.1m

Operating profit up 79%

15.8%

Operating margins up 5.7pp

Reported sales were up 14.6% at £901.9 million (2009 £787.3 million). Favourable movements in foreign currency exchange rates contributed approximately £11.9 million (1.5%) and revenue from acquisitions contributed £11.6 million (1.5%). Therefore, on an organic constant currency basis, sales increased by 11.6% year-on-year.

Adjusted operating profit increased by 79% to £142.1 million (2009 £79.2 million). Movements in foreign currency exchange rates had a positive effect of approximately £2.0 million and acquisitions contributed an additional £1.2 million. On a like-for-like basis, therefore, operating profit increased by £59.7 million. Of this, £73.1 million is due to an increase in gross margin from the higher sales, offset by like-for-like overheads increasing by £13.4 million. The increase in net overheads is inclusive of the year-on-year increase in restructuring benefits of £12.3 million and the year-on-year decrease in restructuring and post-acquisition integration charges of £13.2 million. Underlying overheads therefore grew by £38.9 million, of which approximately £27 million relates to the reinstatement of costs which were temporarily cut or frozen in 2009 (mainly salary-related and certain discretionary costs), and the balance of £11.9 million relates to the increase in variable overhead costs arising from increased sales activity and normal cost inflation. Operating margins increased from 10.1% to 15.8%.

The year-on-year decrease in net finance costs was £1.2 million (from £11.0 million to £9.8 million). This includes £0.7 million from refinancing the \$75 million US private placement (which matured in September 2010) with a five-year term loan facility carrying an interest rate of 3.12%, 5.1 percentage points lower than the US private placement note it replaced. The balance of the year-on-year reduction in net finance costs (£0.5 million) arises from a reduction in average net debt, offset by an increase in the effective average interest rate caused by holding large cash balances at a lower interest rate.

Profit before tax increased by 94% from £68.2 million to £132.3 million.

Statutory operating profit, after including acquisition-related intangible asset amortisation of £12.3 million (2009 £10.7 million) and acquisition-related costs and contingent consideration fair value adjustments of £1.9 million (2009 £nil, due to the adoption of IFRS 3 (Revised) from 1 January 2010), increased by 87% from £68.5 million to £127.9 million.

Statutory profit before tax increased by 121% from £54.2 million to £119.9 million

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

£132.3m

Profit before tax up 94%

86.6p

Earnings per share up 91%

	2010 IFRS (Statutory) £m	2010 Adjustments £m	2010 Spectris adjusted £m	2009 IFRS (Statutory) £m	2009 Adjustments £m	2009 Spectris adjusted £m
Sales	901.9	–	901.9	787.3	–	787.3
Gross margin	526.8	–	526.8	445.3	–	445.3
Operating profit before amortisation of acquisition-related intangibles and acquisition-related costs	142.1	–	142.1	79.2	–	79.2
Amortisation of acquisition-related intangibles	(12.3)	12.3	–	(10.7)	10.7	–
Acquisition-related costs and contingent consideration fair value adjustments	(1.9)	1.9	–	–	–	–
Operating profit	127.9	14.2	142.1	68.5	10.7	79.2
Profit on disposal of businesses	–	–	–	0.1	(0.1)	–
Unrealised changes in fair value of financial instruments	1.4	(1.4)	–	(3.5)	3.5	–
Net gains on retranslation of short-term inter-company loan balances	0.4	(0.4)	–	0.1	(0.1)	–
Net bank interest payable	(9.0)	–	(9.0)	(10.7)	–	(10.7)
IAS 19 finance cost	(0.5)	–	(0.5)	(0.3)	–	(0.3)
Other finance cost	(0.3)	–	(0.3)	–	–	–
Profit before tax	119.9	12.4	132.3	54.2	14.0	68.2

Acquisitions

The total cost of acquisitions in the year was £63.0 million, including £0.8 million for cash acquired. Of this, £4.1 million is attributable to the fair value of deferred and contingent consideration expected to be paid in future years. In addition, a further £4.5 million was paid in respect of prior year acquisitions, making the net cash outflow in the year £62.6 million. An amount of £1.9 million was spent on incidental costs (mainly professional fees), which makes the total acquisition-related cash flow in 2010 £64.5 million. The acquisitions mainly took place in the fourth quarter of 2010 and contributed £11.6 million of incremental sales and £1.2 million of operating profit.

Taxation

The effective tax rate on adjusted profits was 24.2% (2009: 23.2%), an increase of 1pp, mainly due to a higher proportion of the profits being earned in the more highly taxed USA. On a statutory basis, the effective tax rate was 19.8% (2009: 21.4%). The effective tax rate continues to be below the weighted average statutory tax rate of 27.6% (2009: 25.1%), primarily as a consequence of a tax-efficient inter-company financing structure and research and development tax incentives.

Earnings per share

Earnings per share increased by 91% from 45 4p to 86 6p, reflecting the net impact of a 94% increase in profit before tax slightly offset by the increase in the weighted average number of shares from 115 4 million in 2009 to 115 8 million in 2010, due to company share option exercises satisfied from treasury shares and an increased tax rate

Statutory basic earnings per share increased by 125% from 36 9p to 83 1p. The difference between the two measures is shown in the table below

	2010 Pence	2009 Pence
Statutory basic earnings per share	83.1	36.9
Amortisation of acquisition-related intangible assets	10.6	9.3
Acquisition-related costs and contingent consideration fair value adjustments	1.6	–
Profit on disposal of businesses	–	(0.1)
(Increase)/decrease in fair value of cross-currency interest rate swaps	(1.2)	3.0
Net gains on retranslation of short-term inter-company loan balances	(0.3)	(0.1)
Tax effect of the above and other exceptional items	(7.2)	(3.6)
Earnings per share	86.6	45.4

Cash flow

	2010 £m	2009 £m
Operating cash flow		
Operating profit	142.1	79.2
Add back: depreciation and software amortisation	16.5	16.7
Trade working capital movement	19.4	35.3
Non-operating provisions and other	0.7	(11.5)
Net cash flow from operating activities before capital expenditure	178.7	119.7
Capital expenditure	(18.9)	(14.2)
Operating cash flow	159.8	105.5
Cash conversion*	112%	133%
Non-operating cash flow		
Tax paid	(21.0)	(16.7)
Interest paid	(10.1)	(10.8)
Dividends paid	(28.9)	(27.0)
Acquisition of businesses, net of cash acquired	(62.6)	(28.7)
Acquisition-related costs	(1.9)	–
Disposals	–	0.1
Exercise of share options	1.9	0.4
Exchange	0.5	15.4
Total non-operating cash flow	(122.1)	(67.3)
Operating cash flow	159.8	105.5
Movement in net debt	37.7	38.2

* Operating cash flow as a percentage of operating profit

Operating cash flow was £159.8 million (2009: £105.5 million), a cash conversion rate of 112% (2009: 133%). A major contributory factor to this result was a reduction in working capital during the year of approximately £20 million.

Average working capital and year-end working capital expressed as a percentage of sales decreased to 9.4% (2009: 14.3%) and 9.8% (2009: 12.4%), respectively. This reflects the continuing effort by management to keep working capital to a minimum, despite the increased value of sales. Capital expenditure during the year equated to 2.1% of sales (2009: 1.8%) and, at £18.9 million (2009: £14.2 million), was 115% of depreciation and software amortisation (2009: 85%).

Overall, net debt decreased by £37.7 million (2009: decrease of £38.2 million) from

112%

Cash conversion rate

£86.2m

Net debt at year end down by £37.7m

£123.9 million to £86.2 million. Net debt was 0.5X EBITDA. Interest cost, excluding the financing charge arising from IAS 19, was covered by operating profit 15.8 times (2009: 7.4 times).

Financing and treasury

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

As at 31 December 2010, the group had £229 million of committed facilities denominated in different currencies, consisting of £99 million of private placements maturing in October 2013, £80 million of revolving credit facilities maturing between October 2011 and September 2012, a five-year £48 million term loan maturing in September 2015 and £2 million from three bank loans secured on property of three of our businesses. The revolving credit facilities were undrawn at the year end. In addition, the group had a cash balance of £64.7 million and other uncommitted facilities, mainly in the form of overdraft facilities at our local operations.

At the year end, the group's borrowings amounted to £150.9 million, 99% of which were at fixed interest rates (2009: 94%). The ageing profile at the year end showed that 1% of the year end borrowing is due to mature within one year (2009: 31%) and 99% is due to mature in between one and five years (2009: 69%).

Currency

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

After matching currency of revenue with currency of costs wherever practical, forward exchange contracts are used to hedge a proportion (up to 75%) of the remaining forecast net transaction flows where there is reasonable certainty of an exposure. At 31 December 2010, approximately 61% of the estimated net euro, US dollar and Japanese yen exposures for 2011 were hedged using forward exchange contracts mainly against the Swiss franc, sterling, the euro and the Danish krone.

The largest translational exposures are to the US dollar, euro, Danish krone and Swiss franc. Translational exposures are not hedged. The table below shows the key average exchange rates compared to sterling during 2010 and 2009.

	2010 (average)	2009 (average)
USD	1.55	1.57
EUR	1.17	1.12
JPY	135	146

To demonstrate the transaction and translation currency exposure faced by the group, the table below shows the differences between the group's consolidated revenues and costs for each of the major currencies in 2010 before reflecting the effect of transactional hedges taken out in the year.

Revenue and cost by major currency

	USD*	EUR*	GBP	JPY	Other	Total
Total sales (£m)	317	354	65	68	98	902
% of sales	35%	39%	7%	8%	11%	
Total costs (£m)**	(241)	(315)	(79)	(35)	(100)	(770)
PBT by currency (£m)	76	39	-14	33	-2	132
% of PBT	57%	30%	-11%	25%	-1%	

* Dollar/euro categories include tracking currencies

** Costs include interest of £3.3 million in USD, £6.3 million in EUR and £0.2 million in GBP

£229m

Committed facilities

£64.7m

Cash balance

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

Defined benefit pension schemes

The company operates a number of pension schemes throughout the group. The net pension liability in the balance sheet (before taking account of the related deferred tax asset of £3.5 million) has decreased to £14.1 million (2009: £23.5 million). The movement can be summarised as follows:

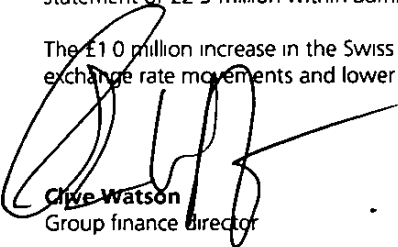
	£m
Deficit in defined benefit pension schemes at 1 January 2010	(23.5)
Gain as a consequence of the UK change in inflation previously indexed to RPI, now CPI	2.9
Actuarial gains	2.4
Contributions in excess of service cost	4.9
Interest costs on pension scheme liabilities net of expected return on pension scheme assets	(0.5)
Exchange difference and other movements	(0.3)
Deficit in defined benefit pension schemes at 31 December 2010	(14.1)

The movement in individual plan deficits is shown in the table below:

	UK	Germany	Netherlands	Switzerland	Total
Deficit as at 1 January 2010	(14.3)	(7.0)	(0.3)	(1.9)	(23.5)
Decrease/(increase) in deficit	10.6	(0.1)	(0.1)	(1.0)	9.4
Deficit as at 31 December 2010	(3.7)	(7.1)	(0.4)	(2.9)	(14.1)

The reduction in the UK deficit is mainly as a consequence of the increase in investment returns arising from a recovery in equity values supplemented by the continuing deficit recovery contributions made to the plan. These contributions were increased to £2.6 million in 2010 (formerly £2.0 million p.a.) and augmented by a special funding contribution of £1.9 million made during the year, putting the group on track to eliminate the UK deficit by the end of 2012. It should be noted that actions taken in earlier years have contained the pension deficit and reduced risk: the UK plan was closed to new members in 1996 and closed to future accruals in 2009. In addition, the UK plan is largely protected from interest rate and inflation rate volatility due to swaps held by the plan but remains exposed to equity volatility, corporate default and mortality experience. A programme to reduce equity volatility commenced in 2008 by transitioning towards long-term corporate bond holdings matched to pensioner and deferred pensioner liabilities. At 31 December 2010, 70% of the UK plan's assets (excluding swaps) were held in corporate bonds with the remainder in equity investments. In July, the UK government announced that CPI should be used as the basis for statutory minimum pension increases. The impact of the change to CPI (from RPI) for the UK plan, where the pension rules mandate inflation according to the deemed statutory index, was a credit to the income statement of £2.9 million within administrative expenses.

The £1.0 million increase in the Swiss deficit arose largely from a combination of adverse exchange rate movements and lower than expected asset returns.


Clive Watson
Group finance director

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

FTSE4GOOD

Index member

Introduction

Spectris is a leading supplier of productivity-enhancing instrumentation and controls. Our 6,000 employees operate from 134 offices in 29 countries around the world. Our products are used to monitor and control research and manufacturing processes, enhancing productivity and reducing environmental impact for customers in a wide range of industries.

We are committed to creating business growth through adding such value for our customers whilst also ensuring that our own impact on the environment is minimised and that we adhere to high standards of corporate social responsibility generally.

Spectris continues to meet the criteria for membership of the FTSE4Good index, the leading responsible investment benchmark. The FTSE4Good inclusion criteria are enhanced regularly and demand continued improvement in order to maintain inclusion in the index. The criteria are assessed on a regular basis by the independent research organisation EIRIS.

Corporate governance

Details of how the company complied with the principles of the Combined Code during 2010 and will henceforth comply with the new Corporate Governance Code are described in detail in the Directors' Report.

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 of Directors. These policies are mandated across all business units and applied within each particular business, taking account of local legislation and regulation. All policies are reviewed periodically and any updates are communicated to the operating companies. Each year we require the president and finance director of each operating company to confirm that their business has complied in full with our corporate policies. Any instances of non-compliance must be reported. There were no material cases of non-compliance in 2010.

This certification forms an integral part of the company's system of internal controls, and is regularly reviewed by the group's internal audit function and considered annually by the company's external auditors. Compliance testing is a formal part of internal audit reviews. Through a structured review process, the internal audit function undertakes visits to group locations on a rotational basis. These visits involve an assessment of the business' key internal controls as well as compliance with the group's policies and procedures. The results of internal audits and any cases of non-compliance are reported to the audit committee.

Environment and climate change

Our core business of providing instruments and controls for the design and manufacturing processes of major industrial companies helps our customers to reduce their environmental impact in a number of ways. We offer our customers products and technologies to reduce energy consumption, make more efficient use of resources, and control emissions. Furthermore, a number of our products are critical to the development, manufacture and maintenance of renewable energy generation technologies such as wind turbine generators and solar panels. Examples of the use of Spectris' products having a direct beneficial contribution to the environment are shown on our website.

Our policies

are published on our website
at www.spectris.com

Key Performance Indicator 2010 energy consumption MWh per £m revenue

We estimate that the above energy consumption
metric covers 100% of our operations

92 8

We also take the continuing reduction in our own environmental impact seriously, endeavouring to employ non-polluting technology wherever possible in our operations and taking steps to reduce our energy consumption further. Design processes take into account the operational lifetime of every product and end-of-life removal or disposal. Consideration is also given to environment-friendly production, packaging and shipping. Our environmental policy is published on our website. Approximately half of Spectris' manufacturing operations (by turnover) are certified to ISO14001.

No significant environmental incidents were recorded in 2010 and the company received no environmental fines.

Overall, Spectris has a low climate change impact, as our products do not require substantial manufacturing processes at our facilities (see below for details of supplier impacts). Although we fall below the threshold for full participation in the UK CRC Energy Efficiency Scheme and are only required to submit an information disclosure, we recognise the importance of managing our impact on the environment and are working to improve our environmental performance further and reduce our carbon emissions. To this end, we employed environmental consultants WS Atkins to undertake a sustainability and responsibility review during 2010 and are in the process of acting on their recommendations, as detailed below.

We take seriously the need to manage our carbon emissions and in 2010 WS Atkins helped develop a reporting tool to collect data on electricity, gas and fuel oil consumption across our global operations, which will enable us to monitor and better manage our energy use. To support this initiative, we have established a new Key Performance Indicator for energy consumption to provide a baseline against which future performance can be measured (see chart). Using the data we have gathered, we have commenced a programme to evaluate the potential for improvement around the group and will develop appropriate action plans for delivery.

We will participate in the 2011 Carbon Disclosure Project as a further part of our commitment to monitoring and managing our environmental impacts. We are also reviewing the impact of water usage across our businesses and plan to assess the feasibility of collecting data on waste management throughout the group.

Employees

We employ a highly skilled technical workforce, averaging around 6,000 people in 2010, in 134 offices throughout the world and are committed to providing our people with a creative working 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.

Our employment policy is published on our website.

As part of our culture of respect, we believe that people with varied backgrounds and perspectives add creativity to the company and thus we encourage diversity in the workplace. We are committed to providing equal employment opportunities in terms of recruitment and employment, training and development, and promotion, regardless of race, colour, religion, national origin, sex, sexual orientation, age, disability or military veteran status. Our value of treating others with respect carries over to our policy against workplace discrimination and harassment. 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. Initiatives such as the Savings Related Share Option Scheme, available to all UK employees, and grants under the group's Performance Share Plan made to senior management across the group, are designed to encourage loyalty and performance.

Investors in People

Malvern, Servomex

A 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 reviews provide feedback on performance, set objectives and identify training and development opportunities. Data on employee turnover is monitored by individual businesses and reported to the Board on an annual basis. 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.

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

Health and safety

We take health and safety seriously and strive to provide a workplace at all of our sites where all employees feel safe and protected from harm. Our policies regarding workplace health and safety are implemented throughout the group, with each operating company responsible for compliance with local legislation and regulations and ensuring that the highest standards of health and safety are achieved by its employees and by sub-contractors and suppliers. The company's health and safety policy can be viewed on our website.

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.

Any serious health and safety incidents are required to be reported by the managing director of the business in an accident report to the company secretary, who reports on such issues to the Board. All accidents are thoroughly investigated and appropriate corrective and preventative actions put in place. No work-related serious injuries or deaths have been reported in the last ten years. Nevertheless, in 2010 we established a formal reporting system which enables us to monitor and measure work-related accidents or ill health resulting in lost time in excess of three days, which in the UK are reportable to the Health and Safety Executive ('HSE') under the RIDDOR regulations. The resulting data is shown opposite, expressed as a Key Performance Indicator, as recognised by the HSE, and records the health and safety situation throughout the group.

Key Performance Indicator

2010 Accident Incident Rate (AIR)

Reportable accidents* per 1 000 employees

5.3

* Work-related accidents/ill health resulting in lost time in excess of three days

We will work with our operating companies to reduce the AIR to the lowest possible level. Within the reported figure, significant work-related incidents resulting in lost time in excess of 20 working days included two stress-related cases, two cases of repetitive strain injury and several cases involving injuries to limbs sustained as a result of falls in the workplace.

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 is available on our website, 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.

Spectris takes its commitments to human rights seriously and our operating companies are required to ensure that all employees are aware of the policy and understand it. The Code of Business Ethics also contains a section on human rights and employees are required to ensure that all company operations adhere to these important standards. Pay practices are monitored to ensure they are non-discriminatory.

The region president is responsible for ensuring that the highest ethical standards are maintained in all of our Asia-based operations. We have a number of sales offices in China and also factories supplying high quality weighing components and particle characterisation instruments. These comprise modern facilities, employ skilled workers, adopt employment conditions consistent with best local practice, and pay wages that are higher than average for the area.

Our values

Honesty
Empowerment
Ownership
Delivery
Speed

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

Ethics

Our core values – honesty, empowerment, ownership, delivery and speed – underpin the way we work and are set out in our Code of Business Ethics (the 'Code'), which is available on our website. The Code applies to all employees of Spectris and is available in all 15 languages relevant to our operations. It provides a clear framework for how we do business and includes policies on anti-bribery and corruption, dealings with customers, suppliers and colleagues, conflicts of interest, and human rights. All employees have participated in a training course and received a printed copy of the Code, and each operating company has a nominated Ethics Compliance Officer who is responsible for ensuring compliance in their business. Compliance is also monitored by the internal audit function as part of the risk assessment process.

On-line training modules supporting the ethics programme were introduced during 2010 and further modules will be implemented in 2011.

All operating companies are required to comply with export control regulations governing shipment of products and the appropriate compliance procedures are in place. Our export control policy can be viewed on our website.

Employees are encouraged to report any concerns they may have over fraud, including bribery and corruption, unethical business practices or conduct, dangers to health and safety, or breach of company policies, via the group's 'whistle-blowing' policy. This is supported by a telephone and internet-based multi-lingual hotline enabling employees and others to report concerns, anonymously if they wish. All whistle-blowing reports are summarised for the audit committee on a six-monthly basis. In the past 12 months the hotline has been used on a number of occasions and the reports followed up to a successful conclusion. 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.

Community

Our social responsibilities extend to the communities in which we operate. Our companies provide charitable assistance to local causes and also participate in a range of activities and educational initiatives in support of their local communities. These include providing apprenticeships and work placements for students, working with local schools and colleges on science projects, and sponsorship of scientists attending key scientific conferences.

Total donations to charities and community causes in 2010 were £27,429, of which £8,286 were in the UK (2009: £19,955 of which £6,042 in UK). This included donations in response to disasters such as the Haiti earthquake and the Pakistan floods and to charities such as the International Red Cross as well as to local sports clubs, schools and colleges and local arts and educational projects. The company also makes contributions in kind to a number of projects. For example, as part of Boulder County's annual Day of Caring, in the USA, ten staff from Particle Measuring Systems volunteer a half day each to help on local projects for charities. At Microscan, in Renton, USA, 15 employees volunteer one hour each on a weekly basis to help local elementary school pupils with maths, reading and special education activities. At HBM in Darmstadt, Germany, the company provided work placements for 13 pupils and also held in-house seminars for students from the technical university.

It is Spectris' policy that donations or provision of support in kind to political parties or campaigns are prohibited.

SA8000

Auditing against this standard will commence in 2011

Customers

Spectris sells productivity-enhancing instrumentation and services to a large number of customers around the world. We have developed close working relationships with our customers and in many instances involve them in the development of new products to ensure they meet their requirements. Surveys of customer satisfaction are conducted on a regular basis, for example via web-based questionnaires where customers are asked, amongst other things, to rate product performance and the quality of documentation, and to specify overall satisfaction.

Suppliers

Spectris has no significant suppliers who are wholly dependent upon the company's business. Suppliers are paid in line with contractual and legal obligations.

We recognise that our strategy of outsourcing non-core manufacturing does not absolve us from responsibility for the environmental impact of our suppliers and we work to help them reduce their impact on the environment and ensure that their products meet relevant legislation. Outsourcing of products and services is only to quality-approved organisations which are regularly inspected and audited by the group's strategic sourcing team and local management. Due to the high technology content of our instrumentation and control products, suppliers of our parts need to have leading edge manufacturing equipment and are subject to rigorous qualification processes which cover both their technological capabilities and their quality and regulatory conformance. In order to gain improved assurance from suppliers, particularly in the areas of human rights, working conditions, health and safety, and environmental issues, significant suppliers (those providing bespoke parts, assemblies and systems), both new and current, will be screened against relevant criteria stipulated in the social accountability standard SA8000. The initiative will commence with Asia Pacific, with the intention that all significant suppliers, and all new suppliers, in this region will be audited by the end of 2011, and the programme will then be extended to suppliers in other regions based on experience gained.

Contractual arrangements

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

Board of Directors

Front row, left to right John O'Higgins, John Hughes, Clive Watson
Back row Russell King, John Warren, Peter Chambré, Jim Webster, Roger Stephens

Nomination committee

John Hughes (chairman)
Peter Chambré
Russell King
John O'Higgins
John Warren

Remuneration committee

Russell King (chairman)
Peter Chambré
John Hughes
John Warren

Audit and risk committee

John Warren (chairman)
Peter Chambré
Russell King

Senior independent director

John Warren

1 John O'Higgins, Chief Executive

John O'Higgins joined Spectris in 2006. Prior to joining Spectris, he was with Honeywell, latterly as President of Automation and Control Solutions, Asia Pacific. He began his career with Daimler Benz in Stuttgart. John has engineering degrees from University College Dublin and Purdue University and an MBA from INSEAD. John is a non-executive director of Exide Technologies, a company listed on NASDAQ.

2 John Hughes CBE, Chairman

John Hughes was appointed to the Board in 2007 and became non-executive Chairman in 2008. John was previously executive vice-president and chief operating officer of defence, aerospace and electronic systems company Thales Group SA. He is currently non-executive chairman of Sepura plc and Telecity Group plc, and a non-executive director of Nice Systems Limited, a company listed on NASDAQ. John is an adviser to private equity firm Advent International and also serves as an Ambassador for the Alzheimer's Society.

3 Clive Watson, group finance director

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

4 Russell King, non-executive director

Russell King was appointed to the Board in October 2010. Until October 2009, Russell was chief strategy officer of Anglo American PLC and between 2006 and 2009 was a non-executive director of Anglo Platinum Ltd. Prior to that, he spent over 20 years in senior roles at ICI, gaining worldwide experience in its fertiliser, petrochemical and paint businesses. Russell is also a non-executive director of Aggreko plc.

5 John Warren, non-executive director

John Warren was appointed to the Board in 2006. 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, RAC plc, Arla Foods UK plc and BPP Holdings plc and is currently chairman of Uniq plc and a non-executive director of The Rank Group Plc and Bovis Homes Group PLC.

6 Peter Chambré, non-executive director

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

7 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.

8 Roger Stephens, head of commercial and company secretary

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

Directors' Report

The directors present their report and accounts for the year ended 31 December 2010

Principal activities

Spectris designs, develops and markets productivity-enhancing instrumentation and controls. The businesses are grouped into four segments for management and segmental reporting purposes: Materials Analysis, Test and Measurement, In-line Instrumentation and Industrial Controls. Further details of the trading companies within each segment can be found in the Operating Review (pages 14 to 23). Developments in the group's business activities are discussed in the Chairman's Statement (page 10), the Chief Executive's Review (page 12) and the Business Review (pages 2 to 33).

Acquisitions

During the year five acquisitions were made. The assets of Reologica Instruments AB, a Swedish company specialising in the design and manufacture of rheometers, were acquired by Malvern Instruments and provide access to additional technologies and intellectual property that will support the continued development of Malvern's rheometry product offering. Zhuhai Omec Instruments Co. Ltd, a privately-owned Chinese company specialising in particle characterisation, extends the group's range of instrumentation in the Materials Analysis segment. Malvern Instruments acquired from Sysmex Corporation the Japanese distribution and service business for both Malvern's own instruments and Sysmex's FPIA analysers and CDA particle counters. N-Tron Corporation, a producer of rugged industrial networking components based in Mobile, Alabama, USA, is a leading manufacturer of ethernet switches – the products used to connect multiple ethernet devices to each other and to build network infrastructure – and associated components for the industrial, infrastructure and power generation markets. The business will become part of the Industrial Controls segment, operating in close co-operation with Red Lion Controls. Finally, within the In-line Instrumentation segment, the acquisition of Delta F Corporation adds trace and ultra-trace oxygen and moisture analysis capability to Servomex's product offering. The total cost of acquisitions during the year was £63.0 million, including £0.8 million for cash acquired. Of this, £4.1 million is attributable to the fair value of deferred and contingent consideration expected to be paid in future years.

Disposals

There were no disposals during the year.

Share capital

The share capital of the company comprises ordinary shares of 5p each, each share carries the right to one vote at general meetings of the company. The authorised and issued share capital of the company, together with movements in the company's issued share capital during the year, is shown in Note 24 on page 86. The Articles of Association of the company, available on the company's website, contain provisions governing the ownership and transfer of shares.

At the 2010 Annual General Meeting, shareholders authorised the directors to make market purchases of the company's ordinary shares up to a maximum number of 12,500,000 shares,

representing approximately 10% of the issued share capital of the company, and to either cancel the shares or hold them as Treasury shares which may then be cancelled, sold for cash or transferred for the purposes of the company's share plans, depending on the best interests of the company's shareholders at the time. No such purchases were made during the year. At the close of business on 24 February 2011, the company had 125,005,123 ordinary shares in issue, of which 9,063,279 were held in Treasury. During the year 419,815 shares were transferred out of Treasury to meet the company's obligations under its share plans and no shares were cancelled out of Treasury. An authority to make further market purchases of the company's ordinary shares, if believed appropriate, will be sought at the forthcoming Annual General Meeting although the Board has no present intention of so doing.

Also included in the special business of the 2011 Annual General Meeting are proposals to renew the directors' authority to allot shares up to prescribed limits.

At 24 February 2011, interests notified to the company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

Black Rock Inc
15,048,498 shares (12.98% material interest)

Standard Life Investments Limited
8,229,088 shares (7.1% material interest)

Global Aegon Asset Management Group
8,156,408 shares (7.04% material interest)

F & C Asset Management plc
6,128,308 shares (5.29% material interest)

Massachusetts Financial Services Company
5,611,725 shares (4.84% material interest)

Legal & General Group Plc
4,603,565 shares (3.99% material interest)

Takeovers directive

Pursuant to Section 992 of the Companies Act 2006, which implements the EU Takeovers Directive, the company is required to disclose certain additional information. The disclosures not covered elsewhere in this annual report are as follows:

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 and the

company's 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 46 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 employer covenant.

Dividend

Results for the group are set out in the consolidated statement of income on page 52 and in the supporting notes. A final dividend of 20.9 pence per ordinary share is proposed for the year to 31 December 2010 (2009: 17.85 pence). With the interim dividend, this makes a total for the year of 28.0 pence (2009: 24.25 pence). The final dividend will be paid on 24 June 2011 to shareholders on the register on 3 June 2011.

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 2010, amounts expensed totalled £62.4 million (2009: £58.2 million), and no expenditure met the criteria for capitalisation (2009: £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 (2009: £nil).

Directors

The directors of the company are named on pages 34 and 35.

In accordance with the requirement of the UK Corporate Governance Code, which the company is adopting early with regard to annual election of directors by shareholders, each director has agreed to resign at the 2011 Annual General Meeting and put themselves up for re-election. A change to the Articles, reflecting the resignation of each director at every Annual General Meeting and their submission for re-election at each such meeting, will be proposed at the 2012 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

2010 are disclosed in the Directors' Remuneration Report on pages 48 to 50.

In accordance with Section 236 of the Companies Act 2006 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.

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 13 May 2011 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 2010. 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 19 May and 19 October 2010 (comprising the period between the retirement of Anthony Reading and the appointment of Russell King) at least half the Board, excluding the Chairman, did not comprise independent non-executive directors, as required by provision A3.2.

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. Through these meetings, the induction process on appointment and the access given to the company's operations and its staff, all directors gain the knowledge of the company required for them to discharge their duties. Operational decisions are delegated by the Board to senior management at trading company level, over which the executive directors exercise

Directors' Report continued

supervision. All directors receive detailed progress reports one week prior to each Board meeting.

The Board currently comprises the Chairman, three executive directors and three non-executive directors. The Board considers its non-executive directors (Peter Chambré, Russell King and John Warren) to be independent, in that none of them are or have ever been holders of an executive office with the company. The positions of Chairman, Chief Executive and senior independent director are held by separate individuals and, in accordance with the Combined Code, the Board has adopted written profiles for the first two of these. The non-executive directors have all had senior experience in other organisations and offer independent judgement on Board matters. The Chairman's other significant listed company interests are as non-executive chairman of Sepura plc and Telecity Group plc. 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. The Chairman annually reviews and agrees with each director their training and development needs. All directors have access to the company secretary, who is responsible for ensuring compliance with appropriate statutes and regulations.

The Board delegates specific responsibilities to Board committees, notably the nomination, remuneration and audit and risk 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.

The Board has adopted the Institute of Chartered Secretaries and Administrators' Guidance Note of September 2009 on Board Meeting Etiquette.

Under the Companies Act 2006, a director must avoid a situation where he has, or may have, a direct or indirect interest that conflicts, or may conflict, with the company's interests. During the year, in accordance with the powers and duties of directors laid down in the company's Articles, directors were asked to declare any such conflict or potential conflict of interest to the Board for the Board's authorisation of a matter which otherwise may have given rise to a conflict of interest. No such conflicts have been declared.

Board and committee meeting attendance 2010

	Board	Remuneration committee	Audit committee	Nomination committee
Total meetings during year	14	4	3	2
J L M Hughes (Chairman)	14	4	N/A	2
J A Warren (senior independent director)	14	4	3	2
P A Chambré	14	4	3	2
R J King	2	2	–	–
J E O'Higgins (Chief Executive)	14	N/A	N/A	2
C G Watson	14	N/A	N/A	N/A
J C Webster	14	N/A	N/A	N/A
A J Reading	7	1	2	1

R J King and A J Reading held office for part of the year only. R J King attended two of the three Board meetings and all of the remuneration committee meetings which he was eligible to attend. A J Reading attended all of the Board meetings and all of the audit, nomination and remuneration committee meetings which he was eligible to attend.

Board appointments and performance evaluation

The nomination committee consists of the Chairman, Chief Executive and all non-executive directors. It 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. Due regard is given to the benefits of diversity on the Board and consideration is given to the time commitment expected for the Chairman and non-executive director positions. 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.

Recommendations are also made to the Board concerning succession plans for both executive and non-executive directors and, in particular, for the key roles of Chairman and Chief Executive. The committee also recommends to the Board suitable candidates for the position of senior independent director.

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 2010 by external facilitators, Egon Zehnder. The process included submissions from all Board members in response to a structured questionnaire covering a range of issues, which were then reviewed by the Board as a whole. Areas addressed and reviewed included strategy, Board structure and organisation, development plan input for the directors, Board dynamics, the performance of the Chairman, information flows, shareholder reporting, the Board committees, succession planning and risk management. A number of action items identified to enhance the Board's governance were agreed. Egon Zehnder are additionally retained by the company as search consultants.

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's website, www.spectris.com.

All shareholders are invited to participate in the Annual General Meeting, where the Chairman, the Chief Executive and the chairmen of the audit and risk, 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's website.

The Board is kept informed of the views of major shareholders through periodic reports from the Chief Executive and the company's joint brokers J P Morgan Cazenove and RBS Hoare Govett. 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 and risk committee

The audit and risk 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 both United Biscuits plc and WH Smith PLC. Mr Warren is also the current chairman of the audit committees of Bovis Homes Group PLC, The Rank Group Plc and Uniq plc. The committee meets at least three times each year to consider the effectiveness of the group's internal controls, policies and procedures, the process of internal audit and the conduct and 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 and internal auditors. All executive directors attend the year end audit committee meeting and processes requiring the disclosure of relevant information by individual directors to the auditor have been adopted. The committee confers annually with both the Head of Internal Audit and the external auditors without the attendance of executive directors. Additionally, both the external audit partner and the Head of Internal Audit have the right of direct access to the audit and risk committee chairman. The committee's 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 and risk committee.

The Head of Internal Audit is employed by the group to perform internal control reviews across the group according to a work programme agreed by the committee. The Head of Internal Audit is assisted in this by two further internal auditors. The nature and scope of the group's internal control review resources is reviewed by the audit and risk committee annually. The audit and risk committee receives reports twice a year on the results of internal control reviews.

The committee has considered the risk of the withdrawal of their auditor, KPMG Audit Plc, from the market in their risk evaluation and planning and has concluded that the risk is small. In the event that the company's auditor did exit the market, a replacement appointment would be made from audit firms of equivalent standing. KPMG Audit Plc were appointed as the company's auditors on 12 May 1998. The position of auditor to the company is kept under regular review, but KPMG Audit Plc's in-depth understanding of the company's operations is considered by the committee to be of benefit to both the company and its shareholders.

Directors' Report continued

There were no contractual obligations that acted to restrict the committee's choice of auditor

Internal controls

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

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

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

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

committee. The necessary actions are taken by the audit and risk 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 and information on the group's operating segments. Regular reports on significant legal, ethics and compliance issues and insurance matters are received from the company secretary.

Going concern

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

Business Review

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

- Chairman's Statement on pages 10 and 11
- Chief Executive's Review on pages 12 and 13
- Group Overview on pages 2 to 5
- Operating Review on pages 14 to 23, which includes a review of the external environment
- Principal risks and uncertainties are described on pages 8 to 9
- Details of the principal operating subsidiaries are set out on pages 14 to 23
- Financial Review on pages 24 to 28
- Corporate Social Responsibility on pages 29 to 33, which includes the company's policy on treatment of its employees

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual 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 are required 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).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and

of their profit or loss for that period. 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. 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.

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

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.

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

Responsibility statement of the directors in respect of the annual report

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole, and
- the information that is cross-referred from the Business Review section of the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board



R J Stephens
Secretary
25 February 2011

Directors' Remuneration Report

Letter from Russell King, Chairman of the remuneration committee

Dear Shareholder

As the new chairman of the remuneration committee, I am pleased to present to you the 2010 Directors' Remuneration Report of Spectris plc

A policy of relating pay to the performance of Spectris continues to be a strong principle underlying your committee's consideration of executive remuneration. We aim to ensure that the company continues to attract, motivate and retain high calibre management to deliver the best possible performance for shareholders, commensurate with appropriate risk considerations.

The key elements of the executive directors' remuneration arrangements are

- base salary and total remuneration set at or modestly below the median of comparable UK quoted companies, subject to adjustment up or down to reflect the experience and performance of individual incumbents,
- on-target and maximum annual bonus of, respectively, 50% and 100% of salary, only payable on achievement of stretching profit and individual objectives, with any bonus in excess of 60% being applied to the purchase of Spectris shares until a two times base salary shareholding is achieved,
- annual awards under the company's performance share plan of up to 125% of salary, with vesting after three years based 50% upon Total Shareholder Return ('TSR') relative to the FTSE 250 index and 50% upon earnings per share ('EPS') growth. This long-term incentive links individual reward to the continuing growth of the company, with vested share retention until a shareholding of two times base salary is achieved,
- benefits provided on a market competitive basis.

Russell King
Chairman of the remuneration committee

During 2010 the company's remuneration advisers, Hewitt New Bridge Street, conducted a benchmarking review of directors' salaries and fees. Spectris does not undertake benchmarking on an annual basis, the normal period being every two to three years as recently endorsed in NAPF guidelines. However, the review scheduled for 1 January 2009 was deferred for two years as a result of the recession. Salaries and fees for all directors were frozen as at 1 January 2009, a voluntary 7.7% salary cut was implemented for the second half of the year and no profit-related or individual bonuses were awarded. As of 1 January 2010, salaries were increased by 2% across the board. It has thus been five years since Hewitt New Bridge Street were last commissioned to undertake a review.

In the interim, the Spectris executive team has produced commendable results. Adjusted profit before tax rose by 94% during 2010, producing maximum payment under this element of the annual bonus plan. As can be seen from the TSR graph opposite, Spectris has also outperformed over the longer term. £100 invested in Spectris on 31 December 2005 would have been worth £240 at the end of 2010, compared to the £153 it would have been worth if invested in the FTSE 250 index.

The Hewitt New Bridge Street review concluded that, although the current remuneration structure remained appropriate, the fee payable to the Chairman and the salaries of the executive directors had fallen significantly below market median. In particular, the Chief Executive had been appointed to his first CEO role in January 2006 on a below market salary with a view to this increasing as he became established, but due to the economic situation that realignment had to date not been possible. Your committee therefore

Total shareholder return

The graph above shows the value at 31 December 2010 of £100 invested in Spectris plc on 31 December 2005 compared with the value of £100 invested in the FTSE 250 Index (excluding investment trusts) over the same period

Source Thomson Reuters

determined that the salary increases below should be implemented with effect from 1 January 2011 (conditional with regard to Mr O'Higgins and Mr Watson that their salary uplift in lieu of benefits payable on termination of employment (as described on page 46) be reduced to 0.4 times salary)

J L M Hughes (Chairman) £165,000 (+17.9%)

J E O'Higgins (Chief Executive) £500,000 (+16.7%)

C G Watson (finance director) £310,000 (+10.5%)

J C Webster (business group director) £268,000 (+5.1%)

Your committee's approach to setting remuneration packages for the company's executives is designed to reward management fairly if it is successful in continuing the track record of performance and long-term growth enjoyed by shareholders in recent years. We consider that compensation is now at a competitive level to the external market and that the balance between fixed and variable elements remains appropriate. We will, however, keep remuneration packages under review to ensure that this remains the case.

I hope that you will support the advisory vote on the 2010 Directors' Remuneration Report which will be put to the Annual General Meeting.

Yours sincerely



Russell King

Chairman of the remuneration committee
25 February 2011

Directors' Remuneration Report continued

The directors present their remuneration report for the year ended 31 December 2010

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,
- any major changes in employee benefit structures throughout the company, and
- the policy for authorising claims for expenses from the Chairman and Chief Executive

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

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

The committee has appointed Hewitt New Bridge Street to advise on various aspects of the Chairman's and executive directors' remuneration. They additionally provide services to the committee and to the company in relation to IFRS 2 reporting on the company's share plans and Total Shareholder Return ('TSR') performance calculations in relation to the company's Performance Share Plan. Hewitt New Bridge Street were paid £30,534 in respect of services undertaken in 2010 (2009: £29,323). Hewitt New Bridge Street is part of Aon Corporation. A subsidiary of Aon Corporation provides actuarial services to the company.

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

Remuneration policy

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

Clawback provisions have been introduced from January 2011 and are in place to enable variable remuneration to be reclaimed under exceptional circumstances. Such provisions relate to bonus payments and to future awards made under the company's Performance Share Plan, were there to be any miscalculation of entitlement, misstatement of accounts, or incidence of fraud.

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

Salaries and fees

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

Following a review of Board remuneration conducted by Hewitt New Bridge Street during the year, the salaries of the Chairman and the executive directors were adjusted as detailed on page 43. It was also determined that the base non-executive director fee and the fee paid for chairing the remuneration and audit and risk committees were below the market median. Accordingly, following the approval of the Chairman and the executive directors, the non-executive director fee was increased from £39,270 to £42,000 (7.0% increase) and the committee chairman fee was increased from £6,630 to £8,000 (20.7% increase). Additionally, the fee paid to Mr Warren for his chairmanship of Spectris Pension Trustees Limited was increased from £15,300 to £16,500 (7.8% increase). The salaries and fees given above and those detailed on page 43 were increased on 1 January 2011 and will not be further reviewed until 1 January 2012 for the executive directors and until 1 January 2013 for the Chairman and the non-executive directors.

Bonuses

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

Under the 2010 arrangements, bonuses of up to 100% of base salary were achievable upon the attainment of demanding profitability (75% potential) and personal (25% potential) targets set in relation to carefully considered business plans. Bonus payments commence only at a level which shows an acceptable financial result in the context of economic circumstances and market expectations, with an 'on-plan' performance yielding a

payment of approximately half the maximum potential. Targets for maximum outturn are set at highly stretching, albeit attainable, levels. There is no change for the 2011 bonus potential and the same performance measurement framework remains in place. Bonuses achieved in respect of 2010 performance, based on targets set at the start of the financial year, were as follows (as a percentage of salary at 31 December 2010)

J E O'Higgins 95%
C G Watson 95%
J C Webster 90%

In respect of the above bonus payments for Mr O'Higgins, Mr Watson and Mr Webster, 75% of their salary related to profitability targets and 20%, 20% and 15% of their salary, respectively, related to personal targets.

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'), 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, the satisfaction of challenging performance conditions and justification of vesting in relation to the overall underlying financial performance of the company. 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. In line with median awards for FTSE 250 companies, the committee's policy is to determine awards by reference to a base award over shares worth 125% of salary, which may then be flexed downwards from year to year depending on corporate and personal performance.

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

The performance criteria for grants made in 2008, 2009 and 2010 are summarised in the tables below.

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

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

The above criteria will continue to apply to Plan awards to be made in 2011.

For awards in excess of 100% of salary, the committee stipulates, in accordance with undertakings provided on approval of the Plan, 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. This restriction applies to awards made in 2010 and beyond.

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 is measured independently by Hewitt New Bridge Street and the EPS condition is verified by the company's auditors.

The committee undertook to review the Plan's provisions, including performance criteria, five years after its approval by shareholders at the 2006 Annual General Meeting. Such review was completed within the scope of Hewitt New Bridge Street's overall assessment of the remuneration arrangements. The only amendments proposed to be made to the Plan following the review are as follows. Subject to HM Revenue & Customs approval, the Plan will be amended to permit a proportion of the value provided under the Plan to be delivered in a tax-efficient manner via an HM Revenue & Customs approved option scheme. This amendment will not increase the cost to the company of the awards.

It is the intention of the committee that all future share-based incentives granted to senior managers or executive directors should be made solely under the Plan. Executive directors may, however, continue to participate in grants made under the Spectris Savings Related Share Option Scheme which is applicable to all UK employees.

Exercise of share options granted under the 1996 executive share plan or the 1999 executive share option scheme was subject to prior achievement of a performance condition, requiring compound annual growth in EPS before exceptional items and amortisation of goodwill over three financial years to be between 3% and 5% per annum ahead of the increase in the retail prices index ('RPI'). This condition was met for the executive director option exercised during the year. No options now remain to be exercised by the executive directors under the 1996 executive share plan or the 1999 executive share option scheme.

Directors' Remuneration Report continued

Share retention

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

Benefits

Company car and health insurance benefits are subject to income tax. The executive directors have defined contribution pension arrangements to which the company currently contributes at a rate of 25% of base salary. In light of the government's intention to reduce the pension lifetime allowance to £1.5 million in 2012 and introduce a maximum pension contribution allowance of £50,000 p.a. in 2011, the executive directors will be entitled, at their option, to a taxable salary supplement in lieu of pension contributions otherwise payable by the company.

Contractual terms

All executive directors have rolling contracts subject to 12 months' notice of termination by either party, or to summary notice in the event of a serious breach of obligations, dishonesty, serious misconduct or other conduct bringing the company into disrepute.

Mr O'Higgins' and Mr Watson's contracts of employment, concluded in 2006 and modified in 2011 simultaneously to their salary review, also contain an option, at the sole discretion of the Board, for the contract to be terminated by way of payments in lieu of notice equivalent to 1.4 times (reduced from 1.65 times) monthly basic salary. In such circumstances, the executive becomes subject to a contractual best endeavours obligation to seek alternative employment, and full mitigation reflective of any earnings from a new position applies so as to reduce the payments otherwise due from the company during the notice period. Additionally, in these circumstances, bonus entitlements are calculated to the date of notice of termination only, with the phased payment provision, subject to reduction as explained above, then applying in lieu of all remuneration and benefits otherwise payable during the notice period and in full and final settlement of all employment-related claims. The 0.4 uplift on monthly salary is intended to account for the 25% employer pension contribution, company car, insurance and fuel benefits, mobile telephone provision, life, disability and medical expenses insurances and settlement of any statutory employment claims that may arise from termination. No other payments would be made, including any forward bonus payment. Whether the Board elects to apply this payment in lieu option will depend on the circumstances underlying termination and the best interests of shareholders at the time.

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 committee has discussed the best practice expectations set out in the 2008 ABI/NAPF joint statement on executive contracts and severance and noted the update to the NAPF policy that was published in January 2009. This guidance, and any future revisions, will be taken into account before agreeing any future service contracts. The committee is committed to continuous review of its policies in the best interests of shareholders.

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

External appointments

Executive directors may retain any payments received in respect of external non-executive appointments. Such appointments are limited to one per director at any time and are subject to the approval of the Board. Mr O'Higgins is a non-executive director of NASDAQ listed Exide Technologies and was paid a fee of \$17,000 during 2010 (from his appointment on 15 September 2010) and Mr Watson is a non-executive director of Spirax-Sarco Engineering plc and was paid a fee of £50,000 during 2010. No other external directorships are held by the executive directors.

Remuneration below board level

Remuneration for presidents of the group's trading companies is set at competitive levels to reflect the size, complexity and geographic locations of these businesses. Base salaries fall within a range between £310,000 and £132,000. 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.

Internal relativity

The committee is sensitive to the need to set directors' remuneration having regard to pay and conditions in the group as a whole and is satisfied that the approach taken by the company is fair and reasonable in light of current market practice and the best interests of shareholders.

Non-executive directors

Non-executive directors' fees are agreed by the Chairman and executive directors by reference to market practice. The base fee is supplemented by allowances for chairmanship of the audit and risk and remuneration committees and the pension scheme trustee board. There is no participation in bonus, share option, or pension arrangements and no participation in the Spectris Performance Share Plan. All non-executive directors' conditions of appointment provide for a six-month period of notice within an initial term of three years from election by shareholders at the director's first Annual General Meeting. 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 2010 of £100 invested in Spectris plc 5p ordinary shares on 31 December 2005 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.

The graph above shows the value, by 31 December 2010, of £100 invested in Spectris plc on 31 December 2005 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.

Source: Datastream

Service contracts

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

	Date of contract	Expiry date	Notice period	Length of service at 24 February 2011
Executive directors				
J E O'Higgins	1 1 06	3 2 29	12 months	5 years 1 month
C G Watson	1 10 06	4 2 23	12 months	4 years 4 months
J C Webster	27 3 98	21 6 15	12 months	17 years 4 months
Non-executive directors				
P A Chambré	1 8 06	16 5 13	6 months	4 years 6 months
J L M Hughes	1 6 07	16 5 11	6 months	3 years 8 months
R J King	12 10 10	16 5 14	6 months	4 months
J A Warren	7 3 06	16 5 12	6 months	4 years 11 months

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

Mr O' Higgins' and Mr Watson's contracts provide, subject to a duty of mitigation, for phased monthly payments equivalent to 1.4 times monthly salary in lieu of all remuneration and benefits otherwise payable during the notice period in full and final settlement of all employment-related claims.

Directors' Remuneration Report continued

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	2010 Total	2009 Total
Executive directors						
J E O'Higgins	428	407	13	5	853	422
C G Watson	281	266	12	5	564	280
J C Webster	255	229	20	—	504	262
Non-executive directors						
P A Chambré	39	—	—	—	39	37
J L M Hughes	140	—	—	—	140	135
R J King	9	—	—	—	9	—
J A Warren	61	—	—	—	61	54
A J Reading	19	—	—	—	19	43
					2,189	1,233

- 1 Benefits in kind include company cars, private fuel and medical expenses insurance. Taxable expenses relate to allowances paid in lieu of company cars and private fuel.
- 2 For Mr King and Mr Warren, their base fee of £39,270 p a is increased by an additional fee of £6,630 p a for their chairmanship of, respectively, the remuneration and audit committees. Additionally, Mr Warren receives a fee of £15,300 p a for his chairmanship of Spectris Pension Trustees Limited, following his appointment to that position in April 2008.
- 3 During the year Mr O'Higgins received \$17,000 in respect of his appointment as a non-executive director of Exide Technologies and Mr Watson received £50,000 in respect of his appointment as a non-executive director of Spirax-Sarco Engineering plc.

b) Directors' pensions

Company contributions to defined contribution plans

	2010 £'000	2009 £'000
J E O'Higgins	107	105
C G Watson	70	69
J C Webster	64	63

The company contributes at the rate of 25% of salary

c) Directors' total remuneration

	2010 £'000	2009 £'000
Aggregate emoluments	2,189	1,233
Company pension contributions to defined contribution schemes	241	237
Gains made on exercise of share options	508	469
	2,938	1,939

Balance of remuneration

The balance of remuneration for the executive directors is such that a significant part of overall remuneration is subject to achieving performance conditions over both the short and long term. The reward mix for the Chief Executive, finance director and business group director is shown in the chart below. This assumes Performance Share Plan awards with a value on grant equal to 125% of the director's basic salary, giving an expected vesting of 55% of the award (68.75% of basic salary) and an annual bonus on-plan expectation of 60% of salary.

Base pay	39%
Pension	10%
Annual bonus	24%
Performance Share Plan	27%

Note: based on remuneration for 2011

d) Directors' interests in options to purchase ordinary shares

	Date granted	Options held 1 Jan 10	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 10	Date exercisable	Expiry date
J E O'Higgins										
SAYE	Oct 2009	1,255		723				1,255	Dec 2012	Jun 2013
		1,255						1,255		
C G Watson										
SAYE	Oct 2007	1,146		837	1,146	1165		0	Dec 2010	Jun 2011
		1,146						0		
J C Webster										
	Sep 2005	85,000		589	85,000	813.01		0	Sep 2008	Sep 2015
		85,000						0		
Total		87,401			86,146			1,255		

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 EPS over three years up to 5% per annum in excess of the increase in RPI (please refer to the Directors' Remuneration Report on page 45 for further explanation). This condition has been met for all outstanding option grants. No consideration was paid by any recipient in relation to the grant of an option and there were no changes to the conditions on which any option was granted during the year.

J C Webster exercised 85,000 options under the Unapproved 1996 Executive Share Plan during the year. The gain on exercise was £190,404.

Mr Watson exercised his 2007 SAYE option on 1 December 2010. The gain on exercise was £3,759.

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

	Number of shares subject to award at 1 Jan 10	Date granted	Exercise price (p)	Granted during the year	Exercised during the year	Market price at exercise (p)	Addition of reinvested dividends*	Lapsed during the year	Number of shares subject to award at 31 Dec 10	Market value of each share at date of award (p)	Date exercisable	Expiry date
J E O'Higgins												
	35,500	Mar 2007	5		(17,572)	822.00	3,522	(21,450)	0	865	Mar 2010	Mar 2017
	53,400	Feb 2008							53,400	786.5	Feb 2011	Feb 2018
	96,600	Feb 2009							96,600	434.5	Feb 2012	Feb 2019
		Mar 2010		65,400					65,400	818.5	Mar 2013	Mar 2020
	185,500								215,400			
C G Watson												
	21,500	Mar 2007	5		(10,641)	830.40	2,133	(12,992)	0	865	Mar 2010	Mar 2017
	34,900	Feb 2008							34,900	786.5	Feb 2011	Feb 2018
	63,200	Feb 2009							63,200	434.5	Feb 2012	Feb 2019
		Mar 2010		42,800					42,800	818.5	Mar 2013	Mar 2020
	119,600								140,900			
J C Webster												
	20,500	Mar 2007	5		(10,147)	822.00	2,034	(12,387)	0	865	Mar 2010	Mar 2017
	31,700	Feb 2008							31,700	786.5	Feb 2011	Feb 2018
	57,500	Feb 2009							57,500	434.5	Feb 2012	Feb 2019
		Mar 2010		38,900					38,900	818.5	Mar 2013	Mar 2020
	109,700								128,100			
Total	414,800			147,100	(38,360)		7,689	(46,829)	484,400			

* Under the terms of the Plan, notional dividends of the company are applied over award shares during the performance period and exercise period to date of exercise, thus increasing the number of award shares granted. These additional award shares are subject to application of the performance criteria attaching to the award.

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

Directors' Remuneration Report continued

of the 2010 award, for each of Mr O'Higgins, Mr Watson and Mr Webster, the value of the award was equivalent to 125% of their base salaries at the date of grant. Following satisfaction, in whole or part, of the performance criteria attaching to the awards (as summarised on page 45), the directors may call for the release to them of the vested shares during the above-shown exercise periods.

During the year the terms and conditions of all subsisting awards were varied to allow a seven-year period of exercise from vesting. Formerly, the period of exercise for awards was 12 months.

The awards granted to Mr O'Higgins, Mr Watson and Mr Webster in 2007 of 35,500, 21,500 and 20,500 award shares, respectively, became exercisable and were exercised by them during the year. The awards had two performance conditions attaching to them. The EPS target lapsed completely (50% of the award) and the TSR target was met to 45.03% of the award. In determining the level of vesting against the TSR target, the committee took into account the company's underlying financial performance. The awards were satisfied from the company's treasury shares.

The Spectris Performance Share Plan operates within the dilution limits laid down by the Association of British Insurers.

Mr O'Higgins retained 10,386 shares arising from the exercise of his 2007 award on 11 March 2010 and sold 7,186 shares. The gain on exercise was £143,563.

Mr Watson retained 6,289 shares arising from the exercise of his 2007 award on 12 March 2010 and sold 4,352 shares. The gain on exercise was £87,830.

Mr Webster retained 5,935 shares arising from the exercise of his 2007 award on 11 March 2010 and sold 4,212 shares. The gain on exercise was £82,900.

The aggregate gains on exercise for all directors under the company's share plans were thus £508,456 (2009: £469,356).

f) Directors' interests

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

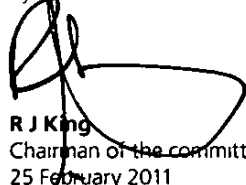
	Shareholdings	
	2010 31 Dec (or date of resignation)	2010 1 Jan (or date of appointment)
J L M Hughes	8,000	8,000
J E O'Higgins	103,319	92,933
P A Chambre	5,344	5,197
R J King	3,000	—
J A Warren	3,000	3,000
C G Watson	32,745	24,964
J C Webster	118,310	118,736

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 2010 the middle market closing share price on the London Stock Exchange was 1311p. The highest share price in the year was 1326p and the lowest was 735p.

By order of the Board



R J King
Chairman of the committee
25 February 2011

Company No: 2025003

Independent Auditor's Report to the Members of Spectris plc

We have audited the financial statements of Spectris plc for the year ended 31 December 2010 which comprise the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows, the parent company balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the directors' statement, set out on page 40, in relation to going concern,
- the part of the Corporate Governance Statement on page 37 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

I K Bone (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

25 February 2011

Consolidated Statement of Income

For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Continuing operations			
Revenue	5	901 9	787 3
Cost of sales		(375 1)	(342 0)
Gross profit		526 8	445 3
Indirect production and engineering expenses		(75 4)	(84 0)
Sales and marketing expenses		(206 0)	(184 7)
Administrative expenses		(117 5)	(108 1)
Operating profit			
Operating profit before acquisition-related costs and amortisation of acquisition-related intangible assets		142 1	79 2
Acquisition-related costs and contingent consideration fair value adjustments		(1 9)	–
Amortisation of acquisition-related intangible assets		(12 3)	(10 7)
	6	127 9	68 5
Profit on disposal of businesses	26	–	0 1
Financial income	9	8 2	5 9
Finance costs	9	(16 2)	(20 3)
Profit before tax		119 9	54 2
Taxation – UK	10	(5 5)	(2 6)
Taxation – Overseas	10	(18 2)	(9 0)
Profit after tax for the year from continuing operations attributable to owners of the company		96 2	42 6
Basic earnings per share	12	83 1p	36 9p
Diluted earnings per share	12	81 6p	36 8p
Interim dividends paid and final dividends proposed for the year (per share)	11	28 00p	24 25p
Dividends paid during the year (per share)	11	24 95p	23 40p

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Reconciliations showing how the adjusted performance measures are derived from those reported under adopted IFRS are set out in Note 3.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit for the period attributable to owners of the company		96 2	42 6
Other comprehensive income			
Net gain on effective portion of changes in fair value of forward exchange contracts		0 7	8 1
Foreign exchange movements on translation of overseas operations		1 3	(36 8)
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations		2 2	14 8
Actuarial gain/(loss) arising on pension schemes, net of exchange	8	2 1	(19 0)
Tax on items recognised directly in comprehensive income	10	0 1	5 0
Total comprehensive income for the period attributable to owners of the company		102 6	14 7

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £m
Balance at 1 January 2010	6.2	231.4	119.5	70.9	(0.5)	3.1	0.3	430.9
Total comprehensive income for the period								
Profit for the period	–	–	96.2	–	–	–	–	96.2
Other comprehensive income								
Net gain on effective portion of changes in fair value of forward exchange contracts, net of tax	–	–	–	–	0.3	–	–	0.3
Foreign exchange movements on translation of overseas operations	–	–	–	1.3	–	–	–	1.3
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations, net of tax	–	–	–	3.1	–	–	–	3.1
Actuarial gain arising on pension schemes, net of exchange, net of tax	–	–	1.7	–	–	–	–	1.7
Distributions to and transactions with owners								
Equity dividends paid	–	–	(28.9)	–	–	–	–	(28.9)
Share-based payments, net of tax	–	–	7.1	–	–	–	–	7.1
Share options exercised from own shares (treasury) purchased	–	–	1.9	–	–	–	–	1.9
Balance at 31 December 2010	6.2	231.4	197.5	75.3	(0.2)	3.1	0.3	513.6

For the year ended 31 December 2009

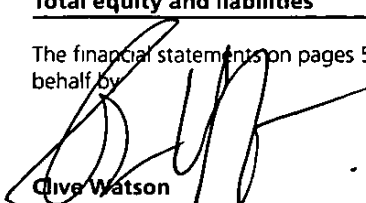
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £m
Balance at 1 January 2009	6.2	231.4	117.3	93.0	(8.1)	3.1	0.3	443.2
Total comprehensive income for the period								
Profit for the period	–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

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	2010 £m	2009 £m
Assets			
Non-current assets			
Intangible assets			
Goodwill	13	355 1	324 8
Other intangible assets	14	97 4	70 3
		452 5	395 1
Property, plant and equipment	15	110 5	107 6
Equity-accounted investments		0 5	0 6
Deferred tax assets	23	18 4	26 2
		581 9	529 5
Current assets			
Inventories	16	121 0	99 8
Taxation recoverable		8 5	8 1
Trade and other receivables	17	194 8	167 8
Derivative financial instruments	20	2 3	0 9
Cash and cash equivalents	18	64 7	36 8
		391 3	313 4
Total assets		973 2	842 9
Liabilities			
Current liabilities			
Short-term borrowings	19	(1 7)	(49 8)
Trade and other payables	21	(212 1)	(150 7)
Current tax liabilities		(36 7)	(36 1)
Provisions	22	(23 4)	(25 3)
		(273 9)	(261 9)
Net current assets		117 4	51 5
Non-current liabilities			
Medium- and long-term borrowings	19	(135 5)	(92 4)
Derivative financial instruments	20	(14 9)	(21 1)
Other payables	21	(17 3)	(9 3)
Retirement benefit obligations	8	(14 1)	(23 5)
Deferred tax liabilities	23	(3 9)	(3 8)
		(185 7)	(150 1)
Total liabilities		(459 6)	(412 0)
Net assets		513 6	430 9
Equity			
Issued share capital	24	6 2	6 2
Share premium		231 4	231 4
Retained earnings		197 5	119 5
Translation reserve		75 3	70 9
Hedging reserve		(0 2)	(0 5)
Merger reserve		3 1	3 1
Capital redemption reserve		0 3	0 3
Total equity attributable to equity holders of the company		513 6	430 9
Total equity and liabilities		973 2	842 9

The financial statements on pages 52 to 93 were approved by the Board of Directors on 25 February 2011 and were signed on its behalf by


Clive Watson
Director

Company Registration No 02025003

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Profit after tax		96 2	42 6
Adjustments for			
Tax	10	23 7	11 6
Profit on disposal of businesses	26	–	(0 1)
Finance costs	9	16 2	20 3
Financial income	9	(8 2)	(5 9)
Depreciation	15	14 4	14 3
Amortisation of intangible assets	14	14 4	13 1
Gain on sale of property, plant and equipment	6	(0 1)	(0 3)
Share-based payment charge/(credit)	7	7 3	(0 4)
Operating profit before changes in working capital and provisions		163 9	95 2
(Increase)/decrease in trade and other receivables		(18 5)	31 0
(Increase)/decrease in inventories		(15 1)	38 1
Increase/(decrease) in trade and other payables		55 9	(42 9)
Decrease in provisions and employee benefits		(10 8)	(3 2)
Corporation tax paid		(21 0)	(16 7)
Net cash from operating activities		154 4	101 5
Cash flows from investing activities			
Purchase of property, plant and equipment and software		(18 9)	(14 2)
Proceeds from sale of property, plant and equipment		1 4	1 5
Acquisition of businesses, net of cash acquired	28	(62 6)	(28 7)
Proceeds from disposal of businesses		–	0 1
Interest received		1 0	0 4
Net cash flows used in investing activities		(79 1)	(40 9)
Cash flows from financing activities			
Interest paid		(11 1)	(11 2)
Dividends paid	11	(28 9)	(27 0)
Share options exercised from treasury shares		1 9	0 4
Proceeds from borrowings		46 8	99 0
Repayment of borrowings		(52 8)	(142 0)
Net cash flows used in financing activities		(44 1)	(80 8)
Net increase/(decrease) in cash and cash equivalents		31 2	(20 2)
Cash and cash equivalents at beginning of year		33 7	54 8
Effect of foreign exchange rate changes		(1 6)	(0 9)
Cash and cash equivalents at end of year	18	63 3	33 7
Reconciliation of changes in cash and cash equivalents to movements in net debt			
	Note	2010 £m	2009 £m
Net increase/(decrease) in cash and cash equivalents		31 2	(20 2)
Proceeds from borrowings		(46 8)	(99 0)
Repayment of borrowings		52 8	142 0
Effect of foreign exchange rate changes		0 5	15 4
Movement in net debt		37 7	38 2
Net debt at start of year	19	(123 9)	(162 1)
Net debt at end of year	19	(86 2)	(123 9)

1 Accounting policies

General information

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

These financial statements are presented in millions of pounds sterling rounded to the nearest one decimal place. 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 94 to 100

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at fair value

The group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 33. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 24 to 28. In addition, Note 2 to the financial statements includes the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk

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

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

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

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

The estimates and associated assumptions used are continually evaluated and are based on historical experience and various other factors that are believed to be reasonable under the

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

- business combinations in relation to the determination of the fair value of acquired assets and liabilities (Note 28),
- goodwill in relation to the assumptions underpinning impairment testing (Note 13),
- retirement benefit schemes in relation to the assumptions used to value plan assets and liabilities (Note 8),
- provisions and contingent liabilities in relation to determining the quantum and timing of management's best estimate of outflows (Notes 22 and 29)

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

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2010. None of these have been adopted early in preparing these consolidated financial statements. None of these are anticipated to have any impact on the results or statement of financial position reported in these consolidated financial statements. The adoption of IFRS 3 (Revised) with effect from 1 January 2010 has changed the group's definition of the cost of business combinations and the treatment of contingent consideration for transactions completed from that date. None of the other new standards, amendments to standards and interpretations not yet effective are anticipated to materially change the group's published accounting policies

New standards adopted during the year

As at 1 January 2010, the group changed its accounting policies in the following area to reflect accounting standards adopted for the year

The group has adopted IFRS 3 (Revised) 'Business Combinations' for transactions arising after 1 January 2010. This has changed the group's definition of the cost of business combinations and the treatment of contingent consideration. The adoption of IFRS 3 (Revised) has been applied prospectively and has had no material impact on assets, profit or earnings per share in the year ended 31 December 2010, the impact on profit and earnings per share is highlighted in Note 3

Had this accounting policy change not arisen, then acquisition-related costs of £1.9m would have been capitalised within intangible assets arising on acquisition and operating costs reduced and profit before tax increased by the same amount. Basic earnings per share would have been 1.6p per share higher at 84.7p per share. Adjusted earnings per share, as defined, would not differ from that presented

For acquisitions on or after 1 January 2010, the group measures goodwill as the fair value of the consideration transferred less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date

Notes to the Accounts continued

1 Accounting policies continued

Previously, transaction costs to effect a business combination were included in the cost of acquisition, but under IFRS 3 (Revised) these acquisition-related costs are expensed as incurred

For transactions relating to acquisitions before 1 January 2010, subsequent adjustments to contingent consideration were made against goodwill, but under IFRS 3 (Revised) subsequent accounting depends on whether the contingent consideration is initially recognised as equity or as a liability and whether the event is considered a measurement period adjustment

Basis of consolidation

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

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

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

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average exchange rates. Foreign exchange differences arising on retranslation are recognised directly in a separate translation reserve within the statement of changes in 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 statement of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction

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 statement of income 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

Derivative financial instruments are presented as current or non-current based on their contracted maturity dates

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 in the hedging reserve via the statement of comprehensive income. The ineffective part of any gain or loss is recognised in the statement of income. When the forecast transaction subsequently occurs and results in the recognition of a financial asset or liability that impacts on the statement of income, the associated cumulative gain or loss is removed from the hedging reserve and presented within the statement of income. 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 the hedging reserve 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 statement of income

Net investment hedge accounting

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

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

'synthetic' fixed rate euro-denominated borrowings. The value of the element of the swap that locks interest payments at a fixed euro interest rate changes as US dollar variable interest rates, euro variable interest rates and foreign currency exchange rates change. Under IAS 39's rules, such changes in value are considered to be ineffective as a net investment hedge and accordingly they are recognised in the statement of income.

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 net fair value to the group of the identifiable assets, liabilities and 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. Impairment losses on goodwill are not reversed. 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 determined at each balance sheet date. The group's identified cash-generating units are smaller than reportable segments.

The estimate of recoverable amount requires significant assumptions to be made 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.

Segmental reporting

An operating segment is a distinguishable component of the group that is engaged in business activities from which it may earn revenues and incur expenses, and whose operating results are reviewed regularly by the Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Reportable segments are operating segments that either meet the thresholds and conditions set out in IFRS 8 or are considered by the Board to be appropriately designated as reportable segments.

Segment result is the result reviewed by the Chief Operating Decision Maker and represents operating profits (excluding intangible asset amortisation and goodwill impairment charges), acquisition-related costs and contingent consideration fair value

adjustments, 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. Segment liabilities comprise trade and other payables, provisions and other payables. Unallocated items represent corporate and deferred taxation balances, defined benefit scheme liabilities and all components of net debt.

Intangible assets

The cost of acquiring software (including associated implementation costs where applicable) that is not specific to an item of property, plant and equipment is classified as an intangible asset.

Self-funded research and development costs are charged to the statement of income 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 and intent of completing a new intangible asset that will be available for sale and that the asset will generate probable future economic benefits. From the point where expenditure meets the criteria, development costs are capitalised and amortised over their useful economic lives. The directors consider that, due to the nature of projects undertaken, the proportion of development costs incurred that meets the criteria for capitalisation is immaterial.

Other intangible assets that are separately 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.

Intangible assets arising from a business combination are recognised at fair value.

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

- Software – 3 to 5 years
- Patents, trademarks and technology – up to 10 years, dependent upon the nature of the underlying contractual right or the technology acquired
- Customer related – 3 to 10 years, dependent upon the underlying contractual arrangements and specific circumstances such as customer retention experience

Property, plant and equipment

Property, plant and equipment is stated at cost (which from 1 January 2009 includes capitalised borrowing costs where appropriate) less accumulated depreciation and impairment losses. The group recognises in the carrying amount of property, plant and equipment the additions that are appropriate to capitalise and the subsequent costs of replacing the parts of such items when there are future economic benefits that will flow to the group and its cost can be measured reliably. Cost includes expenditure that is directly attributable to the acquisition of the asset cost. All other costs are recognised in the statement of income as an expense as they are incurred.

Notes to the Accounts continued

1. Accounting policies continued

Depreciation is recognised in the statement of income on a straight-line basis to write off the cost, less the estimated residual value (which is reviewed annually), 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. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired. The group currently has no such assets.

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 is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment loss 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 initially recognised at their fair value and are subsequently reduced by appropriate allowances for estimated irrecoverable amounts. Discounting is applied where it is expected to have a material impact.

Inventories

Inventories and work in progress are carried at the lower of cost and net realisable value. Inventory acquired as part of business combinations is valued at fair value. Cost represents direct costs incurred and, where appropriate, production or conversion costs and other costs to bring the inventory to its existing location

and condition. In the case of manufacturing inventory and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Inventory is accounted for on a first-in, first-out basis. Provision is made to write down slow-moving and obsolete items to net realisable value, based on an assessment of technological and market developments and on an analysis of historic and projected usage with regard to quantities on hand.

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 initially recognised at fair value.

Provisions

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

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 statement of income 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 statement of income. Similarly, any cost or income relating to the curtailment or settlement of a pension scheme is recognised as a cost or income immediately in the statement of income.

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 statement of income 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.

Other long-term employee benefits

The group's net obligation in respect of long-term employee benefits other than pension plans is 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.

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 statement of income 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 statement of income when the significant risk and rewards of ownership of the goods have been transferred to the customer, which is typically on delivery. For contracts that involve a significant element of installation or testing of equipment, revenue is recognised at the point of customer acceptance. Revenue from services rendered is recognised in the statement of income in proportion to the measurement of the stage of completion of services rendered as at the balance sheet date. This is assessed by reference to the amount of time incurred in proportion to the total expected time to be taken to deliver the service.

The group has an immaterial amount of activity accounted for under IAS 11, Construction Contracts, and accordingly the applicable disclosures for these types of contracts are not provided.

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 statement of income as it accrues using the effective interest method.

Leasing

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

Rentals payable under operating leases are charged to the statement of 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 statement of income except to the extent that it relates to items recognised either in other comprehensive income or directly in equity, in which case tax is recognised in the statement of comprehensive income or statement of changes in equity, respectively.

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

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

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

2 Financial risk management

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

In accordance with its treasury policy, the group does not hold or use derivative financial instruments for trading or speculative purposes. Such instruments are only used to manage the risks arising from operating or financial assets or liabilities or highly probable future transactions. The quantitative analysis of financial risk is included in Note 20.

(a) Foreign currency risk

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

Notes to the Accounts continued

2 Financial risk management continued

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 transactions which can be forecast to occur from anything between 1 and 18 months into the future.

The group's translational exposures to foreign currency risks can relate both to the statement of income and net assets of overseas subsidiaries. The group's policy is not to hedge the translational exposure that arises on consolidation of the statement of income 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 foreign currency subsidiaries. The quantitative analysis of foreign currency risk is included in Note 20.

(b) Interest rate risk

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

Currently, the majority of the group's borrowings attract fixed rates of interest payments and therefore the group's principal interest rate risk is a price risk. Quantitative analysis of interest rate risk is included in Note 20.

(c) Liquidity risk

Liquidity risk represents the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. The group manages this risk through the use of regularly updated cash flow and covenant compliance forecasts and a liquidity headroom analysis which is used to determine funding requirements. Adequate committed lines of funding are maintained from high quality investment grade lenders. The facilities committed to the group as at 31 December 2010 are set out in Note 19.

(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. Quantitative analysis of credit risk to receivables is included in Note 17.

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

The group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the group balance sheet (see Note 20).

Capital Management

The Board considers equity shareholders' funds together with committed debt facilities as capital for the purposes of funding the group's operations. Total managed capital at 31 December 2010 is

	2010 £m	2009 £m
Equity shareholders' funds (page 55)	513.6	430.9
Committed debt facilities	229.5	281.4
	743.1	712.3

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 25) of these accounts.

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

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 exclude certain non-operational items which management has defined as amortisation and impairment of acquisition-related intangible assets, acquisition-related costs and contingent consideration fair value adjustments, profits or losses on termination or disposal of businesses, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 10). As noted in the 2009 Annual Report, the definition has been modified for 2010 to include the income statement effects arising from the adoption of IFRS 3 (Revised).

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

	Note	2010 £m	2009 £m
Adjusted operating profit			
Operating profit as reported under adopted IFRS		127.9	68.5
Acquisition-related costs and contingent consideration fair value adjustments	28	1.9	–
Amortisation of acquisition-related intangible assets	14	12.3	10.7
Adjusted operating profit		142.1	79.2
Restructuring and post-acquisition integration charges		0.8	14.0
Adjusted operating profit before restructuring and post-acquisition integration charges		142.9	93.2

	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2010 Total £m
Adjusted operating profit by segment – 2010						
Operating profit as reported under adopted IFRS		34.7	28.3	57.1	7.8	127.9
Acquisition-related costs and contingent consideration fair value adjustments		1.2	0.2	0.3	0.2	1.9
Amortisation of acquisition-related intangible assets		3.6	6.3	0.9	1.5	12.3
Adjusted operating profit segment result under adopted IFRS	4	39.5	34.8	58.3	9.5	142.1
Restructuring and post-acquisition integration charges		0.1	0.4	0.2	0.1	0.8
Adjusted operating profit before restructuring and post-acquisition integration charges		39.6	35.2	58.5	9.6	142.9

	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2009 Total £m
Adjusted operating profit by segment – 2009						
Operating profit as reported under adopted IFRS		29.6	(5.3)	40.7	3.5	68.5
Amortisation of acquisition-related intangible assets		2.3	6.7	0.8	0.9	10.7
Adjusted operating profit segment result under adopted IFRS	4	31.9	1.4	41.5	4.4	79.2
Restructuring and post-acquisition integration charges		2.3	9.7	0.9	1.1	14.0
Adjusted operating profit before restructuring and post-acquisition integration charges		34.2	11.1	42.4	5.5	93.2

	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2010 Total
Return on sales by segment – 2010					
Using operating profit as reported under adopted IFRS	12.8%	9.5%	20.9%	13.0%	14.2%
Using adjusted operating profit	14.5%	11.7%	21.3%	15.9%	15.8%

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

Notes to the Accounts continued

3 Adjusted performance measures continued

Reconciliation to adjusted profit before tax and adjusted operating profit	Note	2010 £m	2009 £m
Profit before tax as reported under adopted IFRS		119 9	54 2
Add/(deduct)			
Acquisition-related costs and contingent consideration fair value adjustments	28	1 9	–
Amortisation of acquisition-related intangible assets	14	12 3	10 7
Net gains on retranslation of short-term inter-company loan balances	9	(0 4)	(0 1)
Profit on disposal of businesses	26	–	(0 1)
(Increase)/decrease in fair value of cross-currency interest rate swaps	20	(1 4)	3 5
Adjusted profit before tax		132 3	68 2
Adjusted net finance costs (see below)		9 8	11 0
Adjusted operating profit		142 1	79 2

Adjusted net finance costs	Note	2010 £m	2009 £m
Net interest costs as reported under adopted IFRS	9	(8 0)	(14 4)
(Increase)/decrease in fair value of cross-currency interest rate swaps	20	(1 4)	3 5
Net gains on retranslation of short-term inter-company loan balances	9	(0 4)	(0 1)
Adjusted net finance costs		(9 8)	(11 0)

Operating cash flow	Note	2010 £m	2009 £m
Net cash from operating activities under adopted IFRS		154 4	101 5
Acquisition-related costs and contingent consideration adjustments paid	28	1 9	–
Corporation tax paid		21 0	16 7
Purchase of property, plant and equipment and software		(18 9)	(14 2)
Proceeds from sale of property, plant and equipment		1 4	1 5
Operating cash flow for management purposes		159 8	105 5

Adjusted earnings per share	Note	2010 £m	2009 £m
Profit after tax as reported under adopted IFRS		96 2	42 6
Adjusted for			
Acquisition-related costs and contingent consideration fair value adjustments	28	1 9	–
Amortisation of acquisition-related intangible assets	14	12 3	10 7
Profit on disposal of businesses	26	–	(0 1)
(Increase)/decrease in fair value of cross-currency interest rate swaps	20	(1 4)	3 5
Net gains on retranslation of short-term inter-company loan balances	9	(0 4)	(0 1)
Tax effect of the above and other exceptional items	10	(8 3)	(4 2)
Adjusted earnings		100 3	52 4
Weighted average number of shares outstanding (millions)	12	115 8	115 4
Adjusted earnings per share (pence)		86 6	45 4

Adjusted diluted earnings per share	Note	2010	2009
Adjusted earnings (as above) (£m)		100 3	52 4
Diluted weighted average number of shares outstanding (millions)	12	117 9	115 8
Adjusted diluted earnings per share (pence)		85 1	45 2

Basic and diluted earnings per share in accordance with IAS 33 are disclosed in Note 12

Analysis of net debt for management purposes	Note	2010 £m	2009 £m
Bank overdrafts		1 4	3 1
Bank loans – secured		2 2	2 4
Bank loans – unsecured		48 3	6 2
Unsecured loan notes		85 3	130 5
Cross-currency interest rate swaps – currency portion	20	13 7	18 5
Total borrowings		150 9	160 7
Cash balances	18	(64 7)	(36 8)
Net debt		86 2	123 9

4 Operating segments

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

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

Further details of the nature of these segments and the products and services they provide are contained in the Business Review on pages 2 to 33.

Information about reportable segments	Segment revenue		Inter-segment revenue		External customer revenue		Reportable segment profit	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Materials Analysis	271 7	248 6	(0 1)	(0 5)	271 6	248 1	39 5	31 9
Test and Measurement	298 2	267 8	(0 8)	(0 7)	297 4	267 1	34 8	1 4
In-line Instrumentation	273 7	227 6	(0 6)	(0 1)	273 1	227 5	58 3	41 5
Industrial Controls	60 5	45 0	(0 7)	(0 4)	59 8	44 6	9 5	4 4
Eliminate inter-segment sales	(2 2)	(1 7)	2 2	1 7	–	–	–	–
Total continuing operations	901 9	787 3	–	–	901 9	787 3	142 1	79 2
Acquisition-related costs and contingent consideration fair value adjustments							(1 9)	–
Amortisation of acquisition-related intangibles							(12 3)	(10 7)
Operating profit							127 9	68 5
Profit on disposal of businesses*							–	0 1
Financial income*							8 2	5 9
Finance costs*							(16 2)	(20 3)
Profit before tax							119 9	54 2
Tax*							(23 7)	(11 6)
Profit after tax							96 2	42 6

Reportable segment profit is consistent with that presented to the Chief Operating Decision Maker. Inter-segment pricing is on an arm's length basis. Segments are presented on the basis of actual inter-segment charges made.

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

Notes to the Accounts continued

4 Operating segments continued

	Carrying amount of segment assets		Carrying amount of segment liabilities**	
	2010 £m	2009 £m	2010 £m	2009 £m
Materials Analysis	256 2	221 9	(104 6)	(67 5)
Test and Measurement	346 9	337 5	(93 9)	(78 0)
In-line Instrumentation	224 3	193 9	(46 6)	(35 0)
Industrial Controls	51 9	17 6	(7 7)	(4 8)
Total segment assets and liabilities	879 3	770 9	(252 8)	(185 3)
Cash and borrowings*	64 7	36 8	(137 2)	(142 2)
Derivative financial instruments*	2 3	0 9	(14 9)	(21 1)
Net pension liability*	–	–	(14 1)	(23 5)
Taxation*	26 9	34 3	(40 6)	(39 9)
Consolidated total assets and liabilities	973 2	842 9	(459 6)	(412 0)

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

** Segment liabilities are presented here on a voluntary basis

	Additions to non-current assets		Depreciation and amortisation		Impairment charges	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Materials Analysis	22 8	5 5	7 4	5 9	–	–
Test and Measurement	13 0	41 6	14 1	15 2	–	–
In-line Instrumentation	24 2	4 3	5 3	5 0	–	–
Industrial Controls	28 8	0 7	2 0	1 3	–	–
	88 8	52 1	28 8	27 4	–	–

Geographical segments

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

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

The following is an analysis of revenue by geographical destination

	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2010 Total £m
UK	10 5	11 3	7 6	2 0	31 4
Germany	19 0	54 7	26 0	4 8	104 5
France	11 7	18 1	7 8	1 3	38 9
Rest of Europe	43 8	56 2	46 9	3 5	150 4
USA	55 5	49 5	63 0	34 9	202 9
Rest of North America	8 7	4 9	8 0	2 8	24 4
Japan	19 2	23 5	30 1	0 4	73 2
China	33 0	32 4	41 5	4 3	111 2
Rest of Asia Pacific	43 2	30 5	23 8	5 0	102 5
Rest of the world	27 0	16 3	18 4	0 8	62 5
	271 6	297 4	273 1	59 8	901 9

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

The following is an analysis of the carrying amount of non-current segment assets, analysed by the geographical area in which the assets are located

	Non-current assets	
	2010 £m	2009 £m
UK	75.6	72.6
Germany	29.3	29.3
France	0.4	0.3
Rest of Europe	260.4	266.9
USA	124.9	79.4
Rest of North America	6.3	11.7
Japan	4.2	0.6
China	13.1	4.5
Rest of Asia Pacific	43.6	32.8
Rest of the world	5.7	5.2
	563.5	503.3

5 Revenue

An analysis of the group's revenue is as follows

	2010 £m	2009 £m
Sale of goods	778.3	685.8
Services rendered	123.6	101.5
Revenue	901.9	787.3

No individual customer accounted for more than 2% of external revenue in either 2010 or 2009

Spectris does not have the necessary information readily available to disclose the revenue from external customers for each product and service, or each group of similar products and services, and the cost to develop this would be excessive

Notes to the Accounts continued

6 Operating profit

Operating profit has been arrived at after charging

	2010 £m	2009 £m
Net foreign exchange losses	0 3	0 5
Research and development expenditure	62 4	58 2
Depreciation of property, plant and equipment	14 4	14 3
Amortisation of intangible assets	14 4	13 1
Gain on sale of property, plant and equipment	(0 1)	(0 3)

Auditor's remuneration

	2010 £m	2009 £m
Fees payable to the company's auditor for audit of the group's annual accounts	0 4	0 4
Fees payable to the company's auditor and its associates for other services		
– the audit of the company's subsidiaries, pursuant to legislation	1 0	1 0
– tax services	0 5	0 4
	1 9	1 8

7 Employee costs

Employee costs, including directors' remuneration, comprise

	Note	2010 £m	2009 £m
Wages and salaries		261 0	239 2
Social security costs		43 0	41 3
Defined benefit pension plans – current service cost	8	0 7	1 8
Defined benefit pension plans – past service credit	8	(2 9)	–
Defined benefit pension plans – curtailment gain	8	–	(1 8)
Defined benefit pension plans – settlements	8	–	0 1
Defined contribution pension plans	8	9 0	9 4
Share-based payment charge/(credit)		7 3	(0 4)
		318 1	289 6

Directors' remuneration

	2010 £m	2009 £m
Short-term benefits	1 3	1 2
Post-employment benefits	0 2	0 2
Share-based payment expense	1 1	0 1
	2 6	1 5

Further details of directors' remuneration and share options are given in the Directors' Remuneration Report on pages 48 to 50

Average number of employees

	2010 Number	2009 Number
Production and engineering	2,904	2,862
Sales and marketing	2,296	2,307
Administrative	581	595
	5,781	5,764

8 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, 12 overseas subsidiaries in three overseas countries provide defined benefit plans. Other UK and overseas subsidiaries have their own defined contribution plans invested in independent funds.

Defined contribution plans

The total cost of the defined contribution plans for the year ended 31 December 2010 was £9.0m (2009: £9.4m). There were no outstanding or prepaid contributions to these plans as at 31 December 2010 (or at 31 December 2009).

Defined benefit plans

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

Plan name	Date of last full actuarial valuation
German	
Bruel & Kjaer GmbH	31 December 2010
Bruel & Kjaer Vibro GmbH	31 December 2010
BTG Mutek GmbH	31 December 2010
Spectris GmbH Sensoren und Systeme	31 December 2010
Hottinger Baldwin Messtechnik GmbH	31 December 2010
LDS Test and Measurement GmbH	31 December 2010
PANalytical GmbH	31 December 2010
Dutch	
LDS Test and Measurement	31 December 2009
Bruel & Kjaer BV	31 December 2009
Bruel & Kjaer Vibro BV	31 December 2009
Hottinger Baldwin Messtechnik BV	31 December 2009
Swiss	
BTG Eclépens SA	31 December 2010
UK	
Spectris Pension Plan	31 December 2008

The valuations were updated to 31 December 2010 for IAS 19 purposes by qualified independent actuaries.

The total company contributions made to the defined benefit plans during the year ended 31 December 2010 were £5.6m (2009: £4.4m). Contributions for 2011 are expected to be as follows:

Plan name	Expected 2011 contributions £m
German	
Bruel & Kjaer GmbH	–
Bruel & Kjaer Vibro GmbH	–
BTG Mutek GmbH	–
Spectris GmbH Sensoren und Systeme	–
Hottinger Baldwin Messtechnik GmbH	0.5
LDS Test and Measurement GmbH	–
PANalytical GmbH	–
Dutch	
LDS Test and Measurement	–
Bruel & Kjaer BV	–
Bruel & Kjaer Vibro BV	–
Hottinger Baldwin Messtechnik BV	–
Swiss	
BTG Eclépens SA	0.9
UK	
Spectris Pension Plan	2.6

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

The Spectris Pension Plan (UK) was closed to future accrual of benefits with effect from 31 December 2009.

Since 1 January 2010, the directors have included three additional defined benefit plans in the Netherlands in this note. These had previously been excluded on the grounds of immateriality.

Notes to the Accounts continued

8 Retirement benefit schemes continued

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

UK plans	2010 % pa	2009 % pa
Discount rate	5 40	5 60
Salary increases	4 90	5 10
Pension increases in payment		
RPI max 5% (LPI)*	3 20	3 40
RPI max 3%	2 60	2 80
RPI max 2 5%	2 30	2 40
RPI min 3%, max 5%	3 70	3 80
CPI max 5%	2 70	N/A
Pension increases in deferment		
RPI	3 40	3 60
CPI	2 70	N/A
Inflation assumption		
RPI	3 40	3 60
CPI	2 70	N/A

* LPI is Limited Price Indexation

Mortality rate assumptions

Pensioner life expectancy assumed in the 31 December 2010 valuation is based on the following table

Current and future pensioners	PxA00 tables with medium cohort projections and a +1 year age rating and a 1% pa underpin to future improvements
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Samples of the age which pensioners are assumed to live to are as follows

	Males	Females
Pensioner aged 65 in 2010	86 5	89 0
Pensioner aged 65 in 2020	87 6	89 9

German plans	2010 % pa	2009 % pa
Discount rate	4 80	5 20
Salary increases	3 00	3 00
Pension increases in payment	2 00	2 00
Pension increases in deferment	—	—
Inflation assumption	2 00	2 00

Mortality rate assumptions

Pensioner life expectancy assumed in the 31 December 2010 valuation is based on the following tables

Current pensioners and future pensioners	Dr K Heubeck pension tables 2005 G
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Samples of the ages which pensioners are assumed to live to are as follows

	Males	Females
Pensioner aged 60 in 2010	83 3	87 9
Pensioner aged 60 in 2020	84 8	89 3

Dutch plans	2010 % pa	2009 % pa
Discount rate	5 20	5 20
Salary increases	3 00	3 00
Inflation assumption	2 00	2 00

Mortality rate assumptions

Pensioner life expectancy assumed in the 31 December 2010 valuation is based on the following tables

Current pensioners and future pensioners	Prognostetafel 2005–2050 tables
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Sample ages to which pensioners are expected to live are not available (but this table covers improving life expectancies and is a general standard in the Netherlands)

Swiss plans	2010 % pa	2009 % pa
Discount rate	2.75	2.75
Salary increases	1.00	1.00
Inflation assumption	1.00	1.00

Mortality rate assumptions

Pensioner life expectancy assumed in the 31 December 2010 valuation is based on the following tables

Current pensioners and future pensioners	EVK 2000 tables
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Sample ages to which pensioners are expected to live are not available (but this table covers improving life expectancies and is a general standard in Switzerland)

Amounts recognised in the statement of income	UK plans		Overseas plans		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Current service cost	–	1.0	0.7	0.8	0.7	1.8
Interest cost	5.3	4.7	0.7	1.0	6.0	5.7
Expected return on scheme assets	(5.3)	(4.9)	(0.2)	(0.5)	(5.5)	(5.4)
Curtailment gain	–	(1.8)	–	–	–	(1.8)
Past service credit	(2.9)	–	–	–	(2.9)	–
Settlement charge – Servomex Inc Retirement Plan	–	–	–	0.1	–	0.1
	(2.9)	(1.0)	1.2	1.4	(1.7)	0.4

On materiality grounds, the current service cost is recognised solely in administrative expenses in the statement of income. The interest cost and expected return on scheme assets are recognised in finance costs and financial income, respectively, in the statement of income. Actuarial losses or gains are recognised in the statement of comprehensive income.

During the year, insurance premiums for death-in-service benefits were paid amounting to £0.2m (2009: £0.2m).

The total return on scheme assets in the year (and reimbursed rights) was £10.2m (2009: £8.7m).

In July 2010, the UK government announced that CPI should be used as the basis for statutory minimum pension increases. The impact of the change to CPI (from RPI) for the UK plan, where the pension rules mandate inflation according to the deemed statutory index, was a credit to the statement of income of £2.9m, within administrative expenses.

Amounts recognised in the statement of comprehensive income	UK plans		Overseas plans		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Actuarial gains/(losses) recognised in the current year	3.2	(17.1)	(0.8)	(2.6)	2.4	(19.7)
Exchange (losses)/gains in the current year	–	–	(0.1)	0.7	(0.1)	0.7
Loss on inclusion of Dutch plan	–	–	(0.2)	–	(0.2)	–
Total gains/(losses) recognised in the current year	3.2	(17.1)	(1.1)	(1.9)	2.1	(19.0)
Cumulative actuarial (losses) since 1 January 2004	(34.1)	(37.3)	(4.1)	(3.0)	(38.2)	(40.3)

Notes to the Accounts continued

8 Retirement benefit schemes continued

	UK plans		Overseas plans		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Amounts recognised in the balance sheet						
Present value of defined benefit obligations	(96 9)	(96 4)	(26 0)	(20 9)	(122 9)	(117 3)
Fair value of scheme assets	93 2	82 1	15 6	11 7	108 8	93 8
Net deficit in scheme	(3 7)	(14 3)	(10 4)	(9 2)	(14 1)	(23 5)

	UK plans		Overseas plans		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Reconciliation of movement in net deficit						
At 1 January	(14 3)	(0 7)	(9 2)	(7 8)	(23 5)	(8 5)
Expected return on plan assets	5 3	4 9	0 2	0 5	5 5	5 4
Contributions from sponsoring company	4 5	2 5	1 1	1 9	5 6	4 4
Current service cost	–	(1 0)	(0 7)	(0 8)	(0 7)	(1 8)
Interest cost	(5 3)	(4 7)	(0 7)	(1 0)	(6 0)	(5 7)
Actuarial gains/(losses)	3 2	(17 1)	(0 8)	(2 6)	2 4	(19 7)
Curtailment gain	–	1 8	–	–	–	1 8
Exchange difference	–	–	(0 1)	0 7	(0 1)	0 7
Settlement of Servomex Inc Pension Plan	–	–	–	(0 1)	–	(0 1)
Past service credit	2 9	–	–	–	2 9	–
Inclusion of three additional Dutch plans	–	–	(0 2)	–	(0 2)	–
At 31 December	(3 7)	(14 3)	(10 4)	(9 2)	(14 1)	(23 5)

	UK plans		Overseas plans		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Analysis of movement in the present value of the defined benefit obligation						
At 1 January	96 4	75 4	20 9	23 1	117 3	98 5
Current service cost	–	1 0	0 7	0 8	0 7	1 8
Interest cost	5 3	4 7	0 7	1 0	6 0	5 7
Actuarial losses	1 6	21 3	0 7	1 7	2 3	23 0
Curtailment gain (UK)	–	(1 8)	–	–	–	(1 8)
Exchange difference	–	–	1 6	(1 7)	1 6	(1 7)
Contributions from scheme members	–	0 3	0 7	0 6	0 7	0 9
Benefits paid	(3 5)	(4 5)	(1 1)	(2 5)	(4 6)	(7 0)
Past service credit	(2 9)	–	–	–	(2 9)	–
Settlement of Servomex Inc Pension Plan	–	–	–	(1 6)	–	(1 6)
Settlement of Swiss Plan	–	–	1 2	(0 5)	1 2	(0 5)
Inclusion of three additional Dutch plans	–	–	0 6	–	0 6	–
At 31 December	96 9	96 4	26 0	20 9	122 9	117 3

	UK plans		Overseas plans		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Analysis of defined benefit obligation						
Present value of unfunded defined benefit obligation	–	–	6 8	6 7	6 8	6 7
Present value of funded defined benefit obligation	96 9	96 4	19 2	14 2	116 1	110 6

	UK plans		Overseas plans		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Reconciliation of movement in fair value of plan assets						
At 1 January	82 1	74 7	11 7	15 3	93 8	90 0
Expected return on plan assets	5 3	4 9	0 2	0 5	5 5	5 4
Actuarial gains/(losses)	4 8	4 2	(0 1)	(0 9)	4 7	3 3
Exchange difference	–	–	1 5	(1 0)	1 5	(1 0)
Contributions from sponsoring company	4 5	2 5	1 1	1 9	5 6	4 4
Contributions from scheme members	–	0 3	0 7	0 6	0 7	0 9
Benefits paid	(3 5)	(4 5)	(1 1)	(2 5)	(4 6)	(7 0)
Settlement of Servomex Inc Pension Plan	–	–	–	(1 7)	–	(1 7)
Settlement of Swiss plan	–	–	1 2	(0 5)	1 2	(0 5)
Inclusion of three additional Dutch plans	–	–	0 4	–	0 4	–
At 31 December	93 2	82 1	15 6	11 7	108 8	93 8

Analysis of the scheme assets and expected rate of return

	Expected return		Fair value of assets	
	2010 %	2009 %	2010 £m	2009 £m
UK plans				
Equity instruments	7.3	7.5	29.0	21.1
Debt instruments	5.5	6.1	66.2	64.0
Other assets	4.0	4.8	(2.0)	(3.0)
	6.1	6.5	93.2	82.1

	Expected return		Fair value of assets	
	2010 %	2009 %	2010 £m	2009 £m
German plans				
Insurance policies	4.8	5.2	1.2	1.5

	Expected return		Fair value of assets	
	2010 %	2009 %	2010 £m	2009 £m
Dutch plan				
Insurance policies	5.2	5.2	1.3	0.9

	Expected return		Fair value of assets	
	2010 %	2009 %	2010 £m	2009 £m
Swiss plan				
Insurance policies	3.0	2.0	13.1	9.3

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 reflects market conditions for interest rate swaps.

	2010 £m	2009 £m	2008 £m	2007* £m	2006* £m
History of experience adjustments					
Present value of defined benefit obligations	(122.9)	(117.3)	(98.5)	(93.7)	(96.7)
Fair value of scheme assets	108.8	93.8	90.0	82.6	77.9
Deficit in the scheme	(14.1)	(23.5)	(8.5)	(11.1)	(18.8)
Experience adjustment on scheme liabilities					
Amount (£m)	(2.3)	(23.0)	10.0	4.8	1.3
Percentage of scheme liabilities (%)	(1.9)	(19.6)	10.2	5.1	1.3
Experience adjustment on scheme assets					
Amount (£m)	4.7	3.3	(8.0)	1.1	2.4
Percentage of scheme assets (%)	4.3	3.5	(9.0)	1.3	3.1

* The history of experience for 2007 and earlier excludes the German and Dutch LDS Test and Measurement plans as they were new acquisitions in 2008. It also excludes the Swiss plan that had not previously been treated as a defined benefit arrangement.

9 Finance costs and financial income

	Note	2010 £m	2009 £m
Financial income			
Interest receivable		0.9	0.4
Increase in fair value of cross-currency interest rate swaps	20	1.4	—
Net gains on retranslation of short-term inter-company loan balances		0.4	0.1
Expected return on pension scheme assets		5.5	5.4
		8.2	5.9

Notes to the Accounts continued

9 Finance costs and financial income continued

	Note	2010 £m	2009 £m
Finance costs			
Interest payable on loans and overdrafts		99	11.1
Decrease in fair value of cross-currency interest rate swaps	20	–	3.5
Interest cost on pension scheme liabilities		60	5.7
Other finance costs		0.3	–
		162	20.3

Net interest costs of £9.0m (2009 £10.7m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £0.9m (2009 £0.4m), and interest payable on loans and overdrafts of £9.9m (2009 £11.1m)

10 Taxation

	2010			2009		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Current tax charge	4.8	24.5	29.3	3.1	9.1	12.2
Adjustments in respect of current tax of prior years	(0.6)	(6.8)	(7.4)	0.5	(0.8)	(0.3)
Deferred tax – origination and reversal of temporary differences	1.3	0.5	1.8	(1.0)	0.7	(0.3)
	5.5	18.2	23.7	2.6	9.0	11.6

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the group's profits, is 27.6% (2009 25.1%). The tax charge for the year is lower than the standard rate of corporation tax for the reasons set out in the following reconciliation

	2010 £m	2009 £m
Profit before taxation	119.9	54.2
Corporation tax at standard rate of 27.6% (2009 25.1%)	33.1	13.6
Non-taxable income and gains	(2.8)	(3.4)
Non-deductible expenditure	1.7	0.9
Movements on unrecognised deferred tax assets	0.3	0.3
Research and development tax incentives	(2.1)	(0.6)
Other current year tax items	(0.4)	0.4
Change in tax rates	(0.1)	0.1
Adjustments relating to prior year acquisitions and disposals	(4.3)	–
Other adjustments to prior year current and deferred tax charges	(1.7)	0.3
Total taxation	23.7	11.6

Factors that may affect the future tax charge

The group's tax charge in future years is likely to be affected by the proportion of profits arising, and the effective tax rates, in the various territories in which the group operates. Due to a change in UK tax legislation in 2009, no UK tax is expected to be payable on the future remittance of the retained earnings of overseas subsidiaries

	2010 £m	2009 £m
Tax on items recognised directly in other comprehensive income		
Tax on net gain on effective portion of changes in fair value of forward exchange contracts	(0.4)	(0.5)
Tax on changes in fair value of effective portion of hedges of net investment in overseas operations	0.9	(0.1)
Tax on actuarial (loss)/gain arising on pension schemes, net of exchange	(0.4)	5.6
Aggregate current and deferred tax charge relating to items that are charged directly to the statement of comprehensive income	0.1	5.0

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

	2010 £m	2009 £m
Tax on items of income and expense that are excluded from the group's adjusted profit before tax		
Tax charge/(credit) on unrealised change in fair value of cross-currency interest rate swaps	0 4	(1 0)
Tax credit on amortisation of intangible assets	(4 0)	(3 2)
Tax credit on acquisition-related costs	(0 1)	–
Tax credit on retranslation of short-term inter-company loan balances	(0 3)	–
Tax credit relating to prior year acquisitions and disposals	(4 3)	–
Total tax credit	(8 3)	(4 2)

The effective adjusted tax rate for the year was 24.2% (2009: 23.2%) as set out in the reconciliation below

	Note	2010 £m	2009 £m
Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge			
Total tax charge on adopted IFRS basis		23 7	11 6
Tax credit on items of income and expense that are excluded from the group's adjusted profit before tax		8 3	4 2
Adjusted tax charge		32 0	15 8
Adjusted profit before tax	3	132 3	68 2

11 Dividends

	2010 £m	2009 £m
Amounts recognised and paid as distributions to owners of the company in the year		
Final dividend for the year ended 31 December 2009 of 17.85p (2008: 17.0p) per share	20 7	19 6
Interim dividend for the year ended 31 December 2010 of 7.1p (2009: 6.4p) per share	8 2	7 4
	28 9	27 0
Amounts arising in respect of the year		
Interim dividend for the year ended 31 December 2010 of 7.1p (2009: 6.4p) per share	8 2	7 4
Proposed final dividend for the year ended 31 December 2010 of 20.9p (2009: 17.85p) per share	24 2	20 6
	32 4	28 0

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

12 Earnings per share

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

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 25

	2010	2009
Basic earnings per share		
Profit after tax (£m)	96 2	42 6
Weighted average number of shares outstanding (millions)	115 8	115 4
Basic earnings per share (pence)	83 1	36 9

Notes to the Accounts continued

12 Earnings per share continued

Diluted earnings per share	2010	2009
Profit after tax (£m)	96 2	42 6
Basic weighted average number of shares outstanding (millions)	115 8	115 4
Weighted average number of dilutive 5p ordinary shares under option (millions)	2 2	0 6
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions)	(0 1)	(0 2)
Diluted weighted average number of shares outstanding (millions)	117 9	115 8
Diluted earnings per share (pence)	81 6	36 8

13 Goodwill

Cost	Note	£m
At 1 January 2009		384 1
Recognised on acquisitions		16 3
Adjustments to provisional fair values		
Recognition of acquired intangible assets		(24 4)
Other fair value adjustments		6 7
Exchange differences		(19 2)
At 31 December 2009		363 5
Recognised on acquisitions	28	24 3
Adjustments to contingent consideration	28	8 3
Exchange differences		(3 7)
At 31 December 2010		392 4
Accumulated amortisation and impairment losses		£m
At 1 January 2009		41 5
Exchange differences		(2 8)
At 31 December 2009		38 7
Exchange differences		(1 4)
At 31 December 2010		37 3
Carrying amount		£m
At 31 December 2010		355 1
At 31 December 2009		324 8
At 1 January 2009		342 6

In accordance with the requirements of IAS 36, Impairment of Assets, goodwill is allocated to the group's cash-generating units which are represented by the group's trading businesses. The most significant elements of the group's total consolidated goodwill of £355 1m at 31 December 2010 are allocated to PANalytical £97 7m (2009 £99 3m), BTG £54 7m (2009 £54 9m), HBM £72 3m (2009 £74 7m) and Bruel & Kjaer Sound & Vibration £68 9m (2009 £59 4m). Acquired entities are quickly integrated into existing group companies with the result that it is not appropriate to consider their individual performance when determining cash-generating units and performing goodwill impairment testing. Each cash-generating unit is assessed for impairment annually and whenever there is a specific indication of impairment. There were no indications of impairment in 2010.

As part of the annual impairment test review, the carrying value of goodwill has been assessed with reference to value in use to perpetuity, reflecting the projected cash flows of each cash-generating unit based on actual operating results, the most recent budget for the next financial year, and strategic review projections for 2012 and 2013.

The key assumptions on which the value in use calculations are based relate to business performance over the next three years, long-term growth rates beyond 2013 and the discount rates applied. There are no individually significant business level cash flow assumptions in respect of any business that materially impact the impairment testing. The key judgements are the level of revenue and operating margins anticipated and the proportion of operating profit converted to cash in each year. Growth rates for the period beyond 2013 are assumed to be 2.5% (2009 2.5%), which is considered to be at or below long-term market trends for each business. The cash flow projections have been discounted using entity-specific pre-tax discount rates between 12% and 17% (2009 14% and 18%). These rates have been determined taking size of business and specific geographic and industry risk factors into account. No impairment charge has been required to be recognised in either 2010 or 2009.

The directors do not consider that there are any reasonable possible sensitivities that could arise in the next 12 months that could result in a significant impairment charge arising. For illustration, the directors have considered the following specific individual sensitivities:

- a 2% increase in the pre-tax discount rate applied to each business would result in an impairment of £nil (2009: £nil),
- if the long-term growth rate assumption was reduced to 1% no impairment would arise (2009: £nil), and
- if the cash flow projections of all businesses were reduced by 25% for the next two years no impairment would arise (2009: £nil)

Management considers that operating results in 2010 confirm that none of the group's trading businesses have suffered permanent diminutions in value as a result of recent difficult economic conditions.

14 Other intangible assets

	Patents trademarks and technology £m	Customer- related intangibles £m	Software £m	Total £m
Cost				
At 1 January 2009	34.4	15.3	27.3	77.0
Additions	–	–	2.4	2.4
Reclassification of intangibles	2.6	–	(2.6)	–
Recognised on acquisitions	5.3	8.6	–	13.9
Disposals	–	–	(0.1)	(0.1)
Transfer from goodwill	13.8	10.6	–	24.4
Transfer from property, plant and equipment	–	–	3.1	3.1
Exchange differences	(2.4)	0.6	(2.0)	(3.8)
At 31 December 2009	53.7	35.1	28.1	116.9
Additions	–	–	1.9	1.9
Recognised on acquisitions	16.2	20.3	0.1	36.6
Disposals	–	–	(0.5)	(0.5)
Exchange differences	2.3	1.5	(0.2)	3.6
At 31 December 2010	72.2	56.9	29.4	158.5
Accumulated amortisation and impairment losses				
At 1 January 2009	9.8	5.8	17.5	33.1
Transfer from property, plant and equipment	–	–	2.7	2.7
Charge for the year	6.7	4.0	2.4	13.1
Exchange differences	(0.3)	(0.5)	(1.5)	(2.3)
At 31 December 2009	16.2	9.3	21.1	46.6
Disposals	–	–	(0.3)	(0.3)
Charge for the year	6.5	5.8	2.1	14.4
Exchange differences	0.2	0.6	(0.4)	0.4
At 31 December 2010	22.9	15.7	22.5	61.1
Carrying amount				
At 31 December 2010	49.3	41.2	6.9	97.4
At 31 December 2009	37.5	25.8	7.0	70.3
At 1 January 2009	24.6	9.5	9.8	43.9

Of the total amortisation charge of £14.4m (2009: £13.1m), the amount attributable to the amortisation of acquisition-related intangible assets was £12.3m (2009: £10.7m).

The transfers from property, plant and equipment to software in 2009 relate to identifiable software assets.

The transfer from goodwill to intangibles and the reclassification within intangibles in 2009 relates to the finalisation during 2009 of the allocation of goodwill and intangibles for the 2008 acquisitions (Note 28).

Notes to the Accounts continued

15 Property, plant and equipment

Cost	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 1 January 2009	102 0	11 1	148 9	262 0
Additions	1 6	0 9	9 3	11 8
Recognised on acquisitions	–	–	1 0	1 0
Disposals	(0 3)	(1 3)	(8 6)	(10 2)
Disposal of subsidiary undertakings	–	–	(0 1)	(0 1)
Transfers to intangible fixed assets	–	–	(3 1)	(3 1)
Exchange differences	(7 4)	(0 6)	(11 3)	(19 3)
At 31 December 2009	95 9	10 1	136 1	242 1
Additions	4 6	1 2	11 5	17 3
Recognised on acquisitions	–	–	0 4	0 4
Disposals	(1 9)	(0 4)	(7 3)	(9 6)
Transfers from/(to) plant and equipment	0 3	–	(0 3)	–
Exchange differences	(0 9)	0 5	1 8	1 4
At 31 December 2010	98 0	11 4	142 2	251 6

Accumulated depreciation and impairment

At 1 January 2009	31 3	7 7	104 8	143 8
Charge for the year	2 6	0 8	10 9	14 3
Disposals	(0 2)	(1 2)	(7 8)	(9 2)
Disposal of subsidiary undertakings	–	–	(0 1)	(0 1)
Transfers to intangible fixed assets	–	–	(2 7)	(2 7)
Exchange differences	(3 1)	(0 6)	(7 9)	(11 6)
At 31 December 2009	30 6	6 7	97 2	134 5
Charge for the year	2 6	0 9	10 9	14 4
Disposals	(1 8)	(0 4)	(6 5)	(8 7)
Exchange differences	(0 5)	0 3	1 1	0 9
At 31 December 2010	30.9	7 5	102 7	141 1

Carrying amount

At 31 December 2010	67 1	3 9	39 5	110 5
At 31 December 2009	65 3	3 4	38 9	107 6
At 1 January 2009	70 7	3 4	44 1	118 2

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £1 0m (2009 £1 0m)

No borrowing costs met the required criteria for capitalisation during the year (2009 £nil)

The group has pledged land and buildings having a carrying amount of approximately £2 2m (2009 £2 4m) to secure bank loans granted to the group

16 Inventories

	2010 £m	2009 £m
Raw materials	46 5	37 7
Work in progress	23 6	19 1
Finished goods	50 9	43 0
	121 0	99 8

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

Inventory is stated after charging impairments of £4 0m (2009 £4 1m) and crediting reversals of previous impairments of £2 5m (2009 £2 8m). Impairments and reversals of impairments are included within operating profit

Inventory carried at fair value less cost to sell is £0.2m (2009: £nil)

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

17 Trade and other receivables

	2010 £m	2009 £m
Trade receivables	168.8	144.6
Prepayments and accrued income	10.4	9.3
Other receivables	15.6	13.9
	194.8	167.8

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 £nil (2009: £nil). Trade receivables and other receivables are stated after net impairments recognised and utilised during the year of £3.3m (2009: £2.2m) and reversals of impairments of £1.4m (2009: £1.0m). Impairments and reversals of impairments are included within operating profit.

The maximum exposure to credit risk for trade receivables at 31 December by geographic region was

	2010 £m	2009 £m
UK	6.2	8.3
Germany	17.5	13.5
France	10.3	9.2
Rest of Europe	36.5	36.0
USA	37.6	28.3
Rest of North America	5.8	2.8
Japan	15.6	12.6
China	10.6	8.0
Rest of Asia Pacific	18.6	17.8
Rest of the world	10.1	8.1
	168.8	144.6

Impairment losses

The ageing of trade receivables and related impairment provisions at 31 December was

	2010		2009	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	128.3	0.3	110.0	0.3
One month past due	27.6	0.1	23.7	0.2
Two months past due	8.1	0.3	5.6	0.2
Three months past due	3.6	0.2	2.8	0.3
Over three months past due	9.0	6.9	8.3	4.8
	176.6	7.8	150.4	5.8

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

	2010 £m	2009 £m
Balance at 1 January	5.8	4.9
Impairment loss recognised	4.3	3.2
Impairment loss utilised	(1.0)	(1.0)
Impairment loss released	(1.4)	(1.0)
Exchange differences	0.1	(0.3)
Balance at 31 December	7.8	5.8

Notes to the Accounts continued

17 Trade and other receivables continued

An impairment has been recorded against the trade receivables that the group believes may not be recoverable. In the case of trade receivables that are past due, management makes an assessment of the risk of non-collection, taking into account factors such as any disputes, or other factors delaying payment, and the risk of bankruptcy or other failure of the customer to meet their obligations. For trade receivables that are not past due, taking into account good historic collection experience, management records an impairment charge only where there is a specific risk of non-collection. All trade receivables past due for more than 120 days have been fully provided in line with the group's credit risk policy.

The fair value of trade and other receivables approximates to book value due to the short-term maturities associated with these items. There is no impairment risk identified with regards to prepayments and accrued income or other receivables where no amounts are past due.

18 Cash and cash equivalents

Analysis of balances of cash and cash equivalents	Note	2010 £m	2009 £m
Cash balances		64.7	36.8
Bank overdrafts	19	(1.4)	(3.1)
Cash and cash equivalents in the statement of cash flows		63.3	33.7

The group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 20.

19. Borrowings

Current	Effective interest rate	Earlier of repricing date or maturity date	2010 £m	2009 £m
Bank loans – secured	see below	see below	0.3	0.3
Bank overdrafts		on demand	1.4	3.1
Unsecured loan notes – 2000 \$75m	8.23%	13 September 2010	–	46.4
			1.7	49.8
Non-current	Effective interest rate	Earlier of repricing date or maturity date	2010 £m	2009 £m
Bank loans – secured	see below	see below	1.9	2.1
Bank loans – unsecured	–	9 October 2011	–	6.2
Bank loans – unsecured \$75.6m	3.12%	10 September 2015	48.3	–
Unsecured loan notes – 2003 \$100m	6.08%	15 October 2013	63.9	61.9
Unsecured loan notes – 2003 €25m	5.56%	15 October 2013	21.4	22.2
Total unsecured borrowings			133.6	90.3
Total non-current borrowings			135.5	92.4

At 31 December 2010, the group had available £80.0m (2009: £123.8m) 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%, £0.5m 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 £0.2m is denominated in euros and is repayable by instalments until December 2012 with a variable interest rate of LIBOR plus a small margin.

Unsecured loan notes

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

Under adopted IFRS, where cross-currency interest rate swaps are used, the value of the underlying US dollar borrowing is presented in this borrowings note and the value of the related cross-currency interest rate swaps is presented separately within derivative financial instruments in Note 20. For management purposes, the value attributed to the portion of the swap arrangements that converts US dollar borrowings into euro borrowings is viewed as part of the group's net debt, as analysed below

Analysis of net debt	Note	2010 £m	2009 £m
Bank overdrafts		1 4	3 1
Bank loans – secured		2 2	2 4
Bank loans – unsecured		48 3	6 2
Unsecured loan notes		85 3	130 5
Cross-currency interest rate swaps – currency portion	20	13 7	18 5
Total borrowings		150 9	160 7
Cash balances	18	(64 7)	(36 8)
Net debt		86 2	123 9

20 Financial instruments

	2010		2009	
Fair value and carrying amount of financial instruments	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Trade and other receivables	194 8	194 8	167 8	167 8
Trade and other payables	(229 4)	(229 4)	(160 0)	(160 0)
Cash and cash equivalents	64 7	64 7	36 8	36 8
Floating rate borrowings	(1 8)	(1 8)	(10 1)	(10 1)
Fixed rate borrowings	(135 4)	(145 0)	(132 1)	(147 9)
Forward exchange contracts	2 3	2 3	0 9	0 9
Cross-currency interest rate swaps	(14 9)	(14 9)	(21 1)	(21 1)
	(119 7)	(129 3)	(117 8)	(133 6)

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

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

The fair value of forward exchange contracts outstanding as at 31 December 2010 is an asset of £2.3m (2009: £0.9m) of which £1.9m has been credited to the hedging reserve (2009: £1.0m), and £0.4m credited to the income statement (2009: £0.1m debit). These contracts mature over periods not exceeding 12 months. A summary of the movements in the hedging reserve during the year is presented below. There was no ineffectiveness arising with regards to cash flow hedges in either 2010 or 2009.

Analysis of movements in hedging reserve	2010 £m	2009 £m
At 1 January	(0 5)	(8 1)
Amounts removed from statement of changes in equity and included in statement of income during the year	(0 6)	6 6
Amounts recognised in statement of changes in equity during the year	0 9	1 0
At 31 December	(0 2)	(0 5)

The fair value of forward exchange contracts is determined using discounted cash flow techniques based on readily available market data and represents a Level 2 measurement in the fair value hierarchy under IFRS 7.

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

Notes to the Accounts continued

20 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.

Forward exchange contracts at 31 December	2010	2009
Foreign currency sale amount (£m)	93.7	59.8
Percentage of total		
US dollar	24%	32%
Euro	41%	43%
Japanese yen	30%	25%
Other	5%	–

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 100m US dollar-denominated borrowing liability into a euro-denominated borrowing liability (the currency portion) – the value of this portion changes as currency exchange rates change and a portion that is attributable to converting fixed rate US dollar interest payments into fixed rate euro interest payments (the interest portion) – the value of this portion of the swap changes as US dollar variable interest rates, euro variable interest rates and foreign currency exchange rates change.

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

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

	Currency portion £m	Interest portion £m	Total value £m
Fair value of cross-currency interest rate swaps			
As at 1 January 2009	(17.8)	0.9	(16.9)
Change in fair value recognised in statement of comprehensive income	(0.7)	–	(0.7)
Change in fair value recognised in statement of income	–	(3.5)	(3.5)
As at 31 December 2009	(18.5)	(2.6)	(21.1)
Change in fair value recognised in statement of comprehensive income	4.8	–	4.8
Change in fair value recognised in statement of income	–	1.4	1.4
As at 31 December 2010	(13.7)	(1.2)	(14.9)

Together with the group's €25m borrowing, this combination of the underlying US dollar borrowings and cross-currency interest rate swap has been designated as a net investment hedge of the group's net investment in its European businesses. However, the interest portion of the swap is ineffective in this hedging relationship. Accordingly, the change in value of the currency portion of the swap is recognised together with the change in value of the underlying US dollar borrowings in the statement of comprehensive income, and the change in value of the interest portion of the swap is recognised in the statement of income within financing costs. The group's US\$75.6m borrowings have been designated as a net investment hedge of the group's net investment in its US businesses.

The fair value of cross-currency interest rate swaps is determined using discounted cash flow techniques based on readily available market data and represent a Level 2 measurement in the fair value hierarchy under IFRS 7. The principal borrowing amounts match exactly with the related unsecured loan note borrowings as described in Note 19.

A maturity profile of the gross cash flows related to financial liabilities is

	2010					2009				
	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
Maturity of financial liabilities										
Due within one year	1.4	0.3	6.6	0.5	8.8	3.1	0.3	55.3	0.8	59.5
Due between one and two years	–	1.7	6.6	0.5	8.8	–	0.5	11.2	0.8	12.5
Due between two and five years	–	0.3	143.1	14.2	157.6	–	1.7	94.1	20.1	115.9
Due in more than five years	–	–	–	–	–	–	–	–	–	–
	1.4	2.3	156.3	15.2	175.2	3.1	2.5	160.6	21.7	187.9

Trade and other payables (Note 21) are substantially due within one year

It is not expected that the cash flows described above could occur significantly earlier or at substantially different amounts

Interest rate exposure of financial assets and liabilities by currency	Financial assets				Financial liabilities			2010 Net financial assets/ (liabilities) £m
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	–	38.8	0.2	39.0	–	–	–	39.0
Euro	0.3	5.2	2.7	8.2	(99.1)	–	(99.1)	(90.9)
US dollar	0.4	3.8	0.2	4.4	(48.3)	(1.3)	(49.6)	(45.2)
Japanese yen	–	0.7	–	0.7	–	(0.1)	(0.1)	0.6
Other	2.6	6.0	3.8	12.4	(1.7)	(0.4)	(2.1)	10.3
	3.3	54.5	6.9	64.7	(149.1)	(1.8)	(150.9)	(86.2)

Interest rate exposure of financial assets and liabilities by currency	Financial assets				Financial liabilities			2009 Net financial assets/ (liabilities) £m
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	–	12.6	0.2	12.8	–	–	–	12.8
Euro	1.6	7.0	0.8	9.4	(102.6)	(0.7)	(103.3)	(93.9)
US dollar	–	4.0	0.8	4.8	(46.4)	(7.8)	(54.2)	(49.4)
Japanese yen	–	0.8	–	0.8	–	(0.5)	(0.5)	0.3
Other	1.3	5.7	2.0	9.0	(1.6)	(1.1)	(2.7)	6.3
	2.9	30.1	3.8	36.8	(150.6)	(10.1)	(160.7)	(123.9)

The above exposures are net of the cross-currency interest rate swap

Sensitivity analysis

At 31 December 2010 it is estimated that a general increase of one percentage point in interest rates would increase the group's profit before tax by approximately £0.5m (2009 increase of £0.2m)

Based on foreign exchange translational exposures for the year ended 31 December 2010 it is estimated that a ten percentage point weakening in the value of the US dollar against £ sterling would have decreased the group's profit before tax by approximately £2.2m (2009 £0.6m), a ten percentage point weakening in the value of the euro/Danish krone against £ sterling would have decreased the group's profit before tax by approximately £2.9m (2009 £1.1m) and a ten percentage point weakening in the value of the Swiss franc against £ sterling would have decreased the group's profit before tax by approximately £2.2m (2009 £1.6m). In addition, a ten percentage point weakening in the value of the US dollar against £ sterling would have decreased the group's net assets by approximately £26.1m and a ten percentage point weakening in the value of the euro against £ sterling would have decreased the group's net assets by approximately £41.2m, exposures to other currencies are not considered to have a material impact on net assets

21 Trade and other payables

	2010 £m	2009 £m
Current		
Trade payables	84.7	50.6
Non-trade payables, accruals and deferred income	127.4	100.1
	212.1	150.7
Non-current		
Non-trade payables, accruals and deferred income	17.3	9.3

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

The effect of discounting on non-current amounts is not material

Notes to the Accounts continued

22. Provisions

	Reorganisation £m	Product warranty £m	Legal contractual and other £m	Total £m
At 1 January 2010	5 4	7 2	12 7	25 3
Additional provision in the year	0 5	6 7	7 4	14 6
Acquired on acquisition	–	0 1	–	0 1
Utilised during the year	(4 3)	(2 0)	(2 1)	(8 4)
Released during the year	(0 1)	(3 7)	(4 6)	(8 4)
Exchange adjustments	(0 1)	0 1	0 2	0 2
At 31 December 2010	1 4	8 4	13 6	23 4

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. Costs are expected to be incurred within one year and there is little judgement in determining the amount.

Product warranty

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

Legal, contractual and other

Legal, contractual and other comprises mainly amounts reserved against open legal and contractual disputes. The company has on occasion been required to take legal or other actions 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 frequently uncertain, reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent the directors' best estimate of the cost of settling future obligations although there is a higher degree of judgement involved. Unless specific evidence exists to the contrary, these reserves are shown as current.

However, no provision is made for proceedings which have been or might be brought by other parties against group companies 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 material outflow in settlement in excess of amounts provided is assessed as remote.

23 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

	2010 £m	2009 £m
At 1 January	(22 4)	(29 0)
Exchange adjustments	0 1	3 0
Acquisition of subsidiary undertakings	5 7	7 7
Deferred tax on changes in fair value of forward exchange contracts recognised in statement of comprehensive income	0 4	1 8
Deferred tax on actuarial gains and losses on pension schemes recognised in statement of comprehensive income	0 4	(5 3)
Deferred tax on share-based payments recognised in equity	(0 5)	–
Tax on foreign exchange in statement of comprehensive income	–	(0 3)
Charged to statement of income in the year (see Note 10)	1 8	(0 3)
At 31 December	(14 5)	(22 4)
Comprising		
Deferred tax liabilities	3 9	3 8
Deferred tax assets	(18 4)	(26 2)
	(14 5)	(22 4)

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 and provisions £m	Tax losses £m	Unrealised profit on inter- company transactions £m	Pension schemes £m	Goodwill and intangible assets £m	Other £m	2010 Total £m
Net deferred tax assets								
At 1 January 2010	(1 2)	(10 6)	(3 8)	(3 6)	(5 2)	5 4	(3 4)	(22 4)
Exchange adjustments	–	0 1	–	–	–	–	–	0 1
Acquisition of subsidiary undertakings	–	–	–	–	–	5 7	–	5 7
Deferred tax on changes in fair value of forward exchange contracts recognised in statement of comprehensive income	–	–	–	–	–	–	0 4	0 4
Deferred tax on actuarial gain on pension schemes recognised in statement of comprehensive income	–	–	–	–	0 4	–	–	0 4
Deferred tax on share-based payments recognised in equity	–	–	–	–	–	–	(0 5)	(0 5)
Charged/(credited) to statement of income	(1 2)	(3 8)	1 2	(2 7)	1 3	2 2	4 8	1 8
At 31 December 2010	(2 4)	(14 3)	(2 6)	(6 3)	(3 5)	13 3	1 3	(14 5)

Notes to the Accounts continued

23 Deferred tax continued

	Accelerated tax depreciation £m	Accruals and provisions £m	Tax losses £m	Unrealised profit on inter- company transactions £m	Pension schemes £m	Goodwill and intangible assets £m	Other £m	2009 Total £m
Net deferred tax assets								
At 1 January 2009	(1 2)	(13 1)	(3 1)	(4 2)	(1 1)	(2 1)	(4 2)	(29 0)
Exchange adjustments	0 1	1 2	0 4	0 4	0 5	0 3	0 1	3 0
Acquisition of subsidiary undertakings	–	–	(1 3)	–	–	9 0	–	7 7
Deferred tax on changes in fair value of forward exchange contracts recognised in statement of comprehensive income	–	–	–	–	–	–	1 8	1 8
Deferred tax on actuarial gain on pension schemes recognised in statement of comprehensive income	–	–	–	–	(5 3)	–	–	(5 3)
Tax on foreign exchange in statement of comprehensive income	–	–	–	–	–	–	(0 3)	(0 3)
Charged/(credited) to statement of income	(0 1)	1 3	0 2	0 2	0 7	(1 8)	(0 8)	(0 3)
At 31 December 2009	(1 2)	(10 6)	(3 8)	(3 6)	(5 2)	5 4	(3 4)	(22 4)

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 £1 5m of the tax losses will expire after seven years There is no expiry date associated with the other tax losses

	2010 £m	2009 £m
Tax losses	29 0	23 6
Other temporary differences	9 6	6 4
	38 6	30 0

The UK government's emergency budget statement in June 2010 announced a phased reduction in the main UK corporation tax rate from 28% to 24% with the first 1% reduction taking effect from 1 April 2011 being substantively enacted on 20 July 2010 This rate reduction has no material impact on the financial statements as at 31 December 2010 No account will be taken of the expected further 3% reduction in UK tax rates until substantive enactment of these changes Until this change and other potential changes are enacted it is not possible to identify the impact these changes might have However, for indicative purposes only, had the UK main corporate tax rate been reduced to 24% the net impact on recognised deferred tax assets and liabilities at 31 December 2010 would not have been material

24 Share capital and reserves

	2010		2009	
	Number of shares million	£m	Number of shares million	£m
Authorised				
Ordinary shares of 5p each	210 0	10 5	210 0	10 5
Issued and fully paid				
At 1 January	125 0	6 2	125 0	6 2
At 31 December	125 0	6 2	125 0	6 2

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

Other reserves

Movements in reserves are set out in the Consolidated Statement of Changes in Equity The retained earnings reserve also includes own shares purchased by the company and treated as treasury shares (see Note 27) 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 612 of the Companies Act 2006

Capital redemption reserve

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

25 Share-based payments

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.

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

Under the Performance Share Plan, the exercise price is the nominal cost of the company's shares. Awards to Spectris plc executives and senior managers are subject to performance criteria, 50% of the award being based on fulfilment of an earnings growth target (EPS) and 50% subject to a total shareholder return target (TSR). Awards made to executives and senior managers of the group's operating companies in 2008 and 2009 have performance criteria subject to EPS in respect of 50% of the award and operating company targets in respect of 50% of the award. For awards made in 2010, the performance criteria is EPS in respect of 33.33% of the award and operating company targets in respect of 66.67% of the award. Operating company manager awards are entirely subject to operating company profitability targets. Awards vest after a period of three years and must be exercised during the seven-year period (previously one-year period) following vesting except for the 2006 awards, no longer capable of exercise, which had a 12-month exercise period.

Share options outstanding at the end of the period

SAYE – Year of grant	Exercise price £	Exercise period	2010 Number thousands	2009 Number thousands
2006	6.18	2010	–	14
2007	8.37	2011	7	31
2008	7.66	2012	35	37
2009	7.23	2013	51	51
2010	10.19	2014	19	–
			112	133

Executive Share Option Scheme – Year of grant	Exercise price £	Exercise period	2010 Number thousands	2009 Number thousands
2000	5.13–5.25	2003–2010	–	119
2001	3.58–4.99	2004–2011	60	107
2004	4.06–4.62	2007–2014	7	7
2005	5.89	2008–2015	5	163
			72	396

Performance Share Plan – Year of grant	Exercise price £	Exercise period	2010 Number thousands	2009 Number thousands
2006	0.05	2009–2010	–	14
2007	0.05	2010–2017	23	434
2008	0.05	2011–2018	709	755
2009	0.05	2012–2019	1,391	1,491
2010	0.05	2013–2020	943	–
			3,066	2,694

Notes to the Accounts continued

25 Share-based payments continued

Movements in the year

	2010			2009		
	Number thousands	Weighted average exercise price £	Value of shares £m	Number thousands	Weighted average exercise price £	Value of shares £m
SAYE						
At 1 January	133	7 52	1.0	158	7 12	1 2
Granted	19	10.19	0.2	51	7 23	0 3
Exercised	(32)	7 66	(0 2)	(29)	6 18	(0 2)
Lapsed	(8)	7 12	(0 1)	(47)	6 72	(0 3)
At 31 December	112	7 95	0 9	133	7 52	1 0
Exercisable at 31 December	7	8 37	0 03	16	6 18	0 10

	2010			2009		
	Number thousands	Weighted average exercise price £	Value of shares £m	Number thousands	Weighted average exercise price £	Value of shares £m
Executive Share Option Scheme						
At 1 January	396	5 17	2 1	445	5 11	2 3
Granted	–	–	–	–	–	–
Exercised	(299)	5 49	(1 7)	(42)	4 44	(0 2)
Lapsed	(25)	5 04	(0 1)	(7)	5 43	–
At 31 December	72	3 92	0 3	396	5 17	2 1
Exercisable at 31 December	72	3 92	0 3	396	5 17	2 1

	2010			2009		
	Number thousands	Weighted average exercise price £	Value of shares £m	Number thousands	Weighted average exercise price £	Value of shares £m
Performance Share Plan						
At 1 January	2,694	0 05	0 14	1,412	0 05	0 07
Shares granted	972	0 05	0 05	1,520	0 05	0 08
Dividends granted	17	0 05	–	–	–	–
Exercised	(89)	0.05	(0 01)	(134)	0 05	(0 01)
Lapsed	(528)	0.05	(0 03)	(104)	0 05	–
At 31 December	3,066	0.05	0 15	2,694	0 05	0 14
Exercisable at 31 December	23	0.05	–	14	0 05	–

Share-based payment expense

Share options are valued using a stochastic option pricing model, with support from an independent remuneration consultant. The TSR performance condition was included in the calculation of fair value under the Performance Share Plan. For options granted in 2010 and 2009, the fair value per option granted and the assumptions used in the calculation are as follows:

	SAYE		Performance Share Plan	
	2010	2009	2010	2009
Weighted average share price (pence)	1075	685	738–1311	435–551 5
Weighted average exercise price (pence)	1019	723	5	5
Expected volatility	41 2%	39 9%	41 6%	36 4%
Expected life	3 25 yrs	3 25 yrs	0 2–3 0 yrs	1 3–3 0 yrs
Risk-free rate	1 1%	2 1%	3 1%	1 8%
Expected dividends (expressed as a yield)	2 3%	3 4%	0%–3 2%	0%–4 2%
Fair value per option	24 6%	17 9%	–	–
Fair value per award – TSR condition			68 4%–71 4%	56 2%–59 6%
Fair value per award – Profit condition			92 7%–99 6%	88 5%–98 9%
Fair value per award – EPS condition			92 7%–99 6%	88 5%–98 9%

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.

The group recognised a total charge of £7.3m (2009 £0.4m credit) in the statement of income, of which £6.6m related to equity settled share-based payment transactions.

26 Disposal of businesses

During the year the group did not divest any businesses.

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

27. Treasury shares

At 31 December 2010, the group held 9,073,760 treasury shares (2009 9,493,575). 419,815 of these shares were issued to satisfy options exercised by employees which were granted under the group's share schemes (2009 200,920). No shares were repurchased by the group during the year (2009 nil) and no shares were cancelled during the year (2009 nil).

28 Acquisitions

On 7 April 2010, the group acquired the trade and assets of Reologica Instruments AB, located in Sweden, for a consideration of £0.5m. No goodwill arose on the Reologica Instruments AB acquisition, with the excess of the fair value of the consideration paid over the fair value of the net assets acquired represented by technology-based intangibles. This business has been integrated into the Materials Analysis segment.

On 6 July 2010, the group acquired 100% of the share capital of Zhuhai Omec Instruments Co. Ltd, a company based in China, which extends the group's capabilities in analytical systems for particle characterisation, for a total consideration of £9.2m including £1.9m contingent on the future performance of the acquired business. This forms part of the Materials Analysis segment. The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer-related and marketing based intangibles and the value of a non-compete agreement entered into with the previous owners of the business.

On 1 October 2010, the group acquired the trade and assets of a distributor in Japan where direct presence was sought for a consideration of £4.6m including £1.7m contingent on the future performance of the acquired business. This also forms part of the Materials Analysis segment. No goodwill arose on this acquisition with the excess of the fair value of the consideration paid over the fair value of the net assets acquired represented by customer-based intangibles. There was no material fair value attaching to the pre-existing relationships with the distributor.

Also on 1 October 2010, the group acquired the trade and assets of N-Tron Corp, a company based in the USA, which extends the group's capabilities in industrial networking products, for a consideration of £32.9m including deferred consideration of £0.1m. This forms part of the Industrial Controls segment. An analysis of the assets acquired is provided below. The excess of the fair value of the consideration paid over the fair value of the net assets acquired is represented by customer-related, technology and other intangibles of £9.1m, £2.5m and £2.1m, respectively, with residual goodwill arising of £16.7m. The goodwill arising is considered to represent the value of the acquired workforce and the ability to exploit the group's existing distribution arrangements to expand N-Tron's routes to market, particularly outside of North America where it currently makes limited sales.

On 24 November 2010, the group acquired 100% of the shares of the Delta F Corporation, a company based in the USA, which extends the group's capabilities in trace oxygen and water measurement, for a consideration of £15.8m, including deferred consideration of £0.4m. This forms part of the In-line Instrumentation segment. The excess of the fair value of the consideration paid over the fair value of the net assets acquired is represented by technology-based intangibles of £9.0m with residual goodwill arising of £7.6m. The goodwill arising is considered to represent the value of the acquired workforce and the ability to exploit the group's existing customer relationships and know-how to expand Delta F's routes to market, particularly into markets (both geographic and industry) where it currently makes limited sales.

The assets and liabilities acquired as a result of the above transactions, together with the aggregate purchase consideration, are summarised below. The revenue and operating profit contribution from the acquisitions in the year to the group's results for the year were £8.1m and £1.1m respectively. Group revenue and operating profit would have been £929.6m and £135.4m, respectively, had each of these acquisitions taken place on the first day of the year.

Notes to the Accounts continued

28 Acquisitions continued

On acquisitions prior to 1 January 2010, the deferred and contingent consideration has been revised to reflect the increased earn-out payments amounting to £8.3m that were not accrued at 31 December 2009 with a corresponding increase to goodwill. The group also paid £4.5m in respect of prior period acquisitions, which had been accrued as deferred or contingent consideration at 31 December 2009.

Acquisition-related costs of £1.9m have been recognised in the statement of income under IFRS 3 (Revised) and included within administrative expenses.

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

	Book value £m	Adjustments £m	2010 Fair value £m
Net assets acquired under 2010 acquisitions			
Intangible fixed assets	0.1	36.5	36.6
Tangible fixed assets	0.5	(0.1)	0.4
Inventories	4.1	(0.2)	3.9
Trade and other receivables	4.5	–	4.5
Trade and other payables	(1.7)	–	(1.7)
Provisions	(0.1)	–	(0.1)
Deferred tax liabilities	–	(5.7)	(5.7)
Cash	0.8	–	0.8
Net assets acquired	8.2	30.5	38.7
Goodwill			24.3
Total consideration in respect of 2010 acquisitions			63.0

Analysis of cash outflow in consolidated cash flow statement

Total consideration in respect of 2010 acquisitions	63.0
Adjustment for cash acquired on 2010 acquisitions	(0.8)
Deferred and contingent consideration on 2010 acquisitions to be paid in future years	(4.1)
Cash paid in 2010 in respect of 2010 acquisitions	58.1

Prior year acquisitions

Purchase price adjustment re prior year acquisition*	8.3
Deferred and contingent consideration in relation to prior year acquisitions	
Accrued at 31 December 2009	4.5
Accrued during 2010 but not paid at 31 December 2010*	(8.3)
Cash paid in 2010 in respect of prior year acquisitions	4.5
Net cash outflow relating to acquisitions	62.6

* An additional purchase price of £8.3m in relation to prior period acquisitions has been accrued (but not paid) during the year based on updated expectations of the amounts to be paid under contingent consideration arrangements.

Due to their contractual due dates, the fair value of receivables acquired (shown above) approximates the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

There are no material contingent liabilities recognised in accordance with paragraph 23 of IFRS 3 (Revised).

Contingent consideration exists on two of the acquisitions made in 2010. The maximum amounts payable (which will be settled in cash) total £4.1m and are contingent based on the future performance of the acquired businesses over periods of up to three years. Reflecting the levels of the performance targets set and expected business performance, these amounts have been accrued in full at the respective acquisition dates as the fair value of the contingent consideration is considered by the directors to approximate the full amounts potentially payable under the 'earn out' arrangements.

£16.7m of the goodwill arising on acquisitions in the year is expected to be amortised and deductible for tax purposes.

	Book value £m	Adjustments £m	2010 Fair value £m
Net assets acquired for N-Tron			
Intangible fixed assets	0.1	13.6	13.7
Tangible fixed assets	0.1	–	0.1
Inventories	1.5	0.3	1.8
Trade and other receivables	1.8	–	1.8
Trade and other payables	(1.2)	–	(1.2)
Net assets acquired	2.3	13.9	16.2
Goodwill			16.7
Total consideration			32.9
Adjustment for cash acquired			–
Net consideration			32.9

The following table presents the information related to 2009 acquisitions, including the effect of the finalisation of acquisition fair values on prior year acquisitions, reflected in the comparative figures

	Amount previously recognised at 31 December 2009		
	Book value £m	Fair value adjustments £m	Final fair values £m
Net assets acquired			
Intangible fixed assets	1.9	36.4	38.3
Tangible fixed assets	1.0	–	1.0
Deferred tax asset	1.3	–	1.3
Inventories	1.8	(0.6)	1.2
Trade and other receivables	5.1	–	5.1
Trade and other payables	(6.0)	–	(6.0)
Provisions	–	(0.6)	(0.6)
Deferred tax liabilities	(0.6)	(8.4)	(9.0)
Cash	0.6	–	0.6
Net assets acquired	5.1	26.8	31.9
Goodwill			(1.4)
Total consideration recognised in the year			30.5
Total consideration in relation to 2009 acquisitions			26.6
Adjustment for cash acquired on 2009 acquisitions			(0.6)
Deferred and contingent consideration to be paid in future years			(4.1)
Cash paid in 2009 in respect of 2009 acquisitions			21.9
Prior year acquisitions			
Additional consideration			3.9
Purchase price adjustment re prior year acquisitions not previously recognised			2.9
Deferred and contingent consideration in relation to prior year acquisitions previously recognised			6.8
Net cash outflow in 2009 relating to acquisitions			28.7

Notes to the Accounts continued

29 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 are also 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. Spectris plc has provided a parent company guarantee 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 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 £11.2m (2009: £11.9m) was outstanding at 31 December 2010.

JP Morgan Chase NA

Spectris plc has provided a parent company guarantee to JP Morgan Chase NA to support trade finance facilities provided by the bank to its subsidiaries in the USA. An amount of £1.4m (2009: £1.3m) was outstanding at 31 December 2010.

Other banks

Group companies have, in the normal course of business, provided bonds and guarantees through local banking arrangements amounting to £8.5m (2009: £5.6m).

Legal

Refer to Note 22 'Provisions'

30 Operating lease arrangements

	2010		2009	
	Property £m	Other £m	Property £m	Other £m
Total commitments under non-cancellable operating leases				
Not later than one year	5.9	2.9	4.7	2.7
Later than one year and not later than five years	14.3	5.4	11.0	5.7
Later than five years	5.3	–	9.1	–
	25.5	8.3	24.8	8.4

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 £10.6m (2009: £10.2m) was recognised in the statement of income in respect of operating lease rental payments.

31 Capital commitments

At 31 December 2010, the group had entered into contractual commitments for the acquisition of property, plant and equipment and software amounting to £2.0m (2009: £0.6m), which have not been provided for.

32 Related party transactions

Details of directors' remuneration (being the key management personnel) are summarised in Note 7 and shown in detail in the Directors' Remuneration Report on page 48. There were no other related party transactions requiring disclosure.

33 Subsidiary undertakings

The following are the group's principal subsidiary undertakings. They operate mainly in the countries of incorporation. All the subsidiaries 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 all the subsidiaries either directly or indirectly 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
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
LDS Test and Measurement Limited	UK
Lochard Limited	Australia

Company Balance Sheet

As at 31 December 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Intangible fixed assets	36	1 6	2 0
Tangible fixed assets	37	0 2	0 2
Fixed asset investments	38	247 1	193 8
		248 9	196 0
Current assets			
Debtors	39	398 2	393 8
Cash at bank		35 1	9 5
		433 3	403 3
Creditors due within one year			
Short-term borrowings	40	–	(46 4)
Other creditors	40	(179 0)	(129 9)
		(179 0)	(176 3)
Net current assets		254 3	227 0
Debtors due after more than one year			
Debtors	41	170 6	191 8
Total assets less current liabilities		673.8	614 8
Creditors due after more than one year			
Medium- and long-term borrowings	42	(168 7)	(133 0)
Derivative financial instruments	43	(15 0)	(21 4)
		(183 7)	(154 4)
Provisions for liabilities and charges	44	(2 7)	(0 3)
Net assets		487.4	460 1
Capital and reserves			
Called up share capital	45	6 2	6 2
Share premium account	46	231 4	231 4
Merger reserve	46	3 1	3 1
Capital redemption reserve	46	0 3	0 3
Special reserve	46	34 1	34 1
Profit and loss account	46	212 3	185 0
Equity shareholders' funds		487 4	460 1

The financial statements on pages 94 to 100 were approved by the Board of Directors on 25 February 2011 and were signed on its behalf by


Clive Watson
Director

Company Registration No 02025003

Notes to the Company's Accounts

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34 Accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. 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 408 of the Companies Act 2006, the company has not presented its own profit and loss account.

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

Basis of accounting

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

Derivative financial instruments

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

Cross-currency interest rate swaps

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

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

Financial guarantees

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

Foreign currencies

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost.

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

Leasehold improvements – 5 years

Office equipment – 3 years

Intangible fixed assets and amortisation

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

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

Software costs – 5 years

Fixed asset investments

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

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at their amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Notes to the Company's Accounts continued

34 Accounting policies continued

Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured 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 the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity.

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.

35 Employee costs and other information

Employee costs, including directors' remuneration	2010 £m	2009 £m
Wages and salaries	4.7	3.1
Social security costs	1.8	0.8
Defined benefit pension plans	3.5	1.7
Defined contribution pension plans	0.4	0.4
Share-based payment expense	1.9	0.1
	12.3	6.1

	2010 Number	2009 Number
Average number of employees	29	30

Directors' remuneration

Further details of directors' remuneration and share options are given in Note 7 to the group's consolidated financial statements and in the Directors' Remuneration Report on pages 48 to 50.

Auditor's fees

Fees paid in respect of audit services amounted to £0.2m (2009: £0.2m).

36 Intangible fixed assets

	Software costs £m
Cost	
At 1 January 2010	2 6
Additions	0 2
At 31 December 2010	2 8
Amortisation	
At 1 January 2010	0 6
Charge for the year	0 6
At 31 December 2010	1 2
Net book value	
At 31 December 2010	1 6
At 31 December 2009	2 0

37 Tangible fixed assets

	Leasehold improvements £m	Office equipment £m	Total £m
Cost			
At 1 January 2010	0 5	0 5	1 0
Additions	–	0 1	0 1
At 31 December 2010	0 5	0 6	1 1
Depreciation			
At 1 January 2010	0 3	0 5	0 8
Charge for the year	0 1	–	0 1
At 31 December 2010	0 4	0 5	0 9
Net book value			
At 31 December 2010	0 1	0 1	0 2
At 31 December 2009	0 2	–	0 2

38 Fixed asset investments

	Investments in subsidiary undertakings £m
Cost	
At 1 January 2010	263 4
Additions	53 3
At 31 December 2010	316 7
Provision for impairment	
At 1 January 2010	69 6
Charge for the year	–
At 31 December 2010	69 6
Net book value	
At 31 December 2010	247 1
At 1 January 2010	193 8

Further details regarding the investments in subsidiaries are given in Note 33 to the group's consolidated financial statements

Notes to the Company's Accounts continued

39 Debtors

	2010 £m	2009 £m
Amounts falling due within one year		
Amounts owed by group undertakings	394.4	389.4
Other debtors	0.5	0.8
Prepayments and accrued income	0.7	0.7
Corporation tax	1.0	–
Deferred tax asset	1.6	2.9
	398.2	393.8

40 Creditors due within one year

	2010 £m	2009 £m
Short-term borrowings		
Unsecured bank loans	–	46.4
Amounts owed to group undertakings	172.9	124.5
Other taxation and social security	0.2	–
Corporation tax	–	0.6
Accruals and deferred income	5.9	4.8
	179.0	129.9
Total	179.0	176.3

Further details regarding the company's borrowings are set out in Note 19 of the group's consolidated financial statements

41 Debtors due after more than one year

	2010 £m	2009 £m
Medium- and long-term debtors		
Amounts owed by group undertakings	170.6	191.8

42 Creditors due after more than one year

	2010 £m	2009 £m
Medium- and long-term borrowings		
Amounts owed to group undertakings	35.1	42.7
Unsecured bank loans	48.3	6.2
Unsecured loan notes	85.3	84.1
	168.7	133.0

Further details regarding the company's borrowings are set out in Note 19 of the group's consolidated financial statements

43 Derivative financial instruments

	2010 £m	2009 £m
Cross-currency interest rate swaps	14.9	21.1
Forward exchange contracts	0.1	0.3
	15.0	21.4

Further details regarding the company's cross-currency interest rate swaps and forward exchange contracts are set out in Note 20 of the group's consolidated financial statements

44 Provisions for liabilities and charges

	£m
At 1 January 2010	0.3
Utilised during the year	(0.1)
Charged during the year	2.5
At 31 December 2010	2.7

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

45 Share capital

	2010		2009	
	Number of shares million	£m	Number of shares million	£m
Authorised				
Ordinary shares of 5p each	210.0	10.5	210.0	10.5
Issued and fully paid				
At 1 January	125.0	6.2	125.0	6.2
At 31 December	125.0	6.2	125.0	6.2

During the year no ordinary shares were issued upon exercise under share option schemes (2009: nil)

Share options have been granted to subscribe for ordinary shares of Spectris plc. Full details of share options currently in issue, including those issued during the year, together with information regarding the basis of calculation of the share-based payment expense, is contained in Note 25 to the group's consolidated financial statements

The company recognised total expenses of £1.9m related to equity-settled share-based payment transactions in 2010 (2009: £0.1m). In addition, the company recognised a charge of £4.7m (2009: credit of £0.6m) related to equity-settled share-based transactions for certain employees of other group companies

46 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 2010	231.4	3.1	0.3	34.1	185.0	453.9
Profit for the year	—	—	—	—	47.7	47.7
Equity dividends paid	—	—	—	—	(28.9)	(28.9)
Share-based payments	—	—	—	—	6.6	6.6
Share options exercised from own shares (treasury) purchased	—	—	—	—	1.9	1.9
At 31 December 2010	231.4	3.1	0.3	34.1	212.3	481.2

The purpose of the merger reserve and capital redemption reserve is detailed in Note 24 of the group's 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.

Notes to the Company's Accounts continued

47 Reconciliation of movement in equity shareholders' funds

	2010 £m	2009 £m
Profit for the year	47.7	123.7
Amounts recycled to profit and loss	–	1.3
Equity dividends paid in the year	(28.9)	(27.0)
Share-based payments	6.6	(0.4)
Share options exercised from own shares (treasury) purchased	1.9	0.4
Net increase in equity shareholders' funds	27.3	98.0
Opening equity shareholders' funds	460.1	362.1
Closing equity shareholders' funds	487.4	460.1

48 Pensions

The company operates the Spectris Pension Plan, a UK defined benefit pension plan that is closed to new members. Further details of the Spectris Pension Plan are contained in Note 8 to the group's consolidated financial statements. The company is unable to identify its share of the Plan's underlying assets and liabilities and therefore accounts for the Plan 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 2010, employer contributions of £1,620,000 pa were due. The actuary certified in 2010 that this level of contribution was adequate for the purposes of securing the statutory funding objective. On 25 June 2010, a payment of £1,900,000 was made by the company as an additional one-off contribution towards the Spectris Pension Plan. Contributions paid in the year to the Spectris Pension Plan were £3.5m (2009: £1.7m) and the amounts outstanding at the year end were £0.1m (2009: £0.1m). Contributions paid in the year to defined contribution plans were £0.4m (2009: £0.4m).

49 Related party disclosures

The company has taken advantage of the exemption under FRS 8, Related Party Disclosures, not to disclose related party transactions between the company and wholly-owned 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 Director's Remuneration Report, enclosed within this Annual Report.

50 Commitments

	Land and buildings	
	2010 £m	2009 £m
Annual commitments for operating leases expiring		
Between two and five years	0.2	–
After five years	–	0.2

At the balance sheet date the company had no capital commitments for which provision has not been made (2009: £nil).

51 Contingent liabilities

There are no contingent liabilities as at the year end. The cross guarantee arrangements to support trade finance facilities are stated in Note 29 of the group's consolidated financial statements.

Shareholder Information

Highlights

Business Review

Corporate Governance

Financial Statements

Financial calendar

Annual General Meeting and Interim management statement	13 May 2011
Record date for 2010 final dividend	3 June 2011
2010 final dividend payable	24 June 2011
2011 Interim results	23 August 2011
Interim management statement	11 November 2011
2011 Preliminary results	February 2012

Company secretary

R J Stephens, FCIS

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Royal Bank of Scotland Plc

Solicitors

Macfarlanes LLP

Brokers

RBS Hoare Govett Limited

J P Morgan Cazenove

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

Share price information

The company's ordinary shares are listed on the London Stock Exchange. The latest share price is available via the company's website at www.spectris.com

E-mail news service

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

Board photography by Simon Jarratt

Page 15 PANalytical laboratory at University of São Paulo, Brazil
Photograph by Dudu Tresca

Page 17 Formula One racing car photograph courtesy of
Scuderia Ferrari

Page 21 Windmills at Middelgrunden, Copenhagen Photograph
by Tore Johannesen

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This report is printed on Heaven 42, comprising pulp sourced from well-managed forests certified in accordance with the Forest Stewardship Council (FSC). The paper is manufactured using elemental chlorine-free processes and the high degree of whiteness is achieved through high quality natural materials.

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