

**Spectris** designs, develops and markets productivity-enhancing instrumentation and controls.

Our products, applications and services help customers to improve product quality and performance, improve core manufacturing processes, reduce downtime and wastage and reduce time to market.

#### A global presence

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



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

# £787.1m

Sales from continuing businesses

# £118.3m

Adjusted operating profit from continuing businesses

# 72.8p

Adjusted earnings per share

#### Front cover image

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

# Highlights

All major regions grew sales at constant currencies

Good progress on delivery of strategy

Acquisitions increase presence in key markets

Strong balance sheet; interest covered 14 times

Dividend increased by 11%

## Financial highlights

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

# Continuing businesses exclude businesses divested.

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

\*\* Constant exchange rates.

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

## Contents

### Overview

01	Highlights
02	Chairman's Statement
04	Chief Executive's Statement

### Business Review

06	Group Overview
08	Strategy and Objectives
09	Key Performance Indicators
10	Operating Review
20	Financial Review
23	Principal Risks and Uncertainties
25	Corporate Social Responsibility
26	Employees

### Governance

30	Board of Directors
32	Directors' Report
37	Directors' Remuneration Report

### Financial Statements

44	Auditors' Report
45	Consolidated Income Statement
45	Consolidated Statement of Recognised Income and Expense
46	Consolidated Balance Sheet
47	Consolidated Cash Flow Statement
48	Notes to the Accounts
85	Company Balance Sheet
86	Notes to the Company's Accounts
92	Shareholder Information

# Chairman's Statement

John Hughes, Chairman



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

## Introduction

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

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

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

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

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

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

### Outlook

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



**John Hughes**  
Chairman

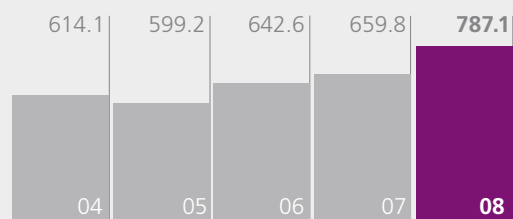
#### Lasair III

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

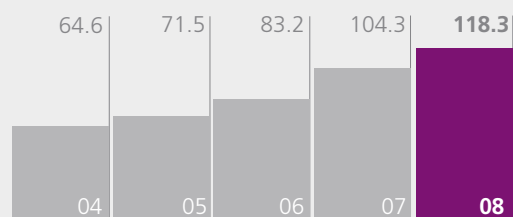


## Financial highlights

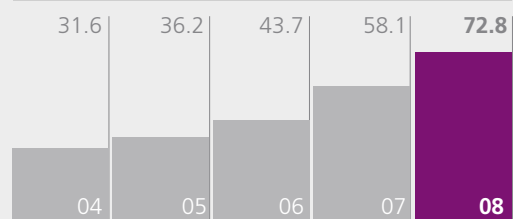
### Sales from continuing businesses £m



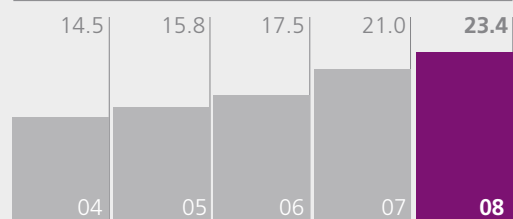
### Adjusted operating profit from continuing businesses £m



### Adjusted earnings per share pence



### Dividend per share pence



# Chief Executive's Statement

John O'Higgins, Chief Executive



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

## Introduction

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

## Strategy

We continued to deliver against our strategy:

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

## Strengthening market positions through innovation

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

## Increasing regional expansion with a focus on emerging markets

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

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

### Growing existing businesses through acquisition

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

### Focusing on operational excellence

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

### Conclusion

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



**John O'Higgins**  
Chief Executive



### LDS Test and Measurement

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

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£57m

Expenditure on R&D

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35%

Of group sales are to Asia and other expanding regions

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24%

Of group sales are from service and consumables

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