

Notes to the Accounts

1. Accounting policies

General information

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

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

Statement of compliance and basis of preparation

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

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

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

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

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

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

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

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

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

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

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

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

New standards and interpretations not yet adopted

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

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

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

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

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

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

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

Basis of consolidation

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

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

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

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

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

Foreign currency transactions

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

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

Interest-bearing borrowings

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

Derivative financial instruments and hedge accounting

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

Cash flow hedge accounting

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

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

Notes to the Accounts continued

1. Accounting policies continued

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

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

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

Net investment hedge accounting

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

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

Business combinations and goodwill

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

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

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

Non-current assets held for sale

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

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

Segmental analysis

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

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

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

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

Intangible assets

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

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

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

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

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

Property, plant and equipment

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

Impairment losses on goodwill are not reversed.

Trade and other receivables

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

Inventories

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

Cash and cash equivalents

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

Trade and other payables

Trade and other payables are stated at fair value.

Provisions

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

Notes to the Accounts continued

1. Accounting policies continued

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

Post-retirement benefits

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

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

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

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

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

Share-based payments

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

Revenues

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

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

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

Interest payable and receivable

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

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

Leasing

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

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

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

Taxation

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

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

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

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

2. Financial risk management

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

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

(a) Foreign currency risk

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

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

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

(b) Interest rate risk

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

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

(c) Liquidity risk

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

(d) Credit risk

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

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

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

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

Capital management

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

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

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

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2. Financial risk management continued

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

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

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

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

3. Adjusted performance measures

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

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

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

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

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

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

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

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

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

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

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

Notes to the Accounts continued

3. Adjusted performance measures continued

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

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

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

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

4. Segmental information

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

a) Business segments

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

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

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

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

b) Geographical segments

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

The following is an analysis of revenue by geographical destination.

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

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

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

Notes to the Accounts continued

5. Assets and liabilities held for sale

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

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

6. Revenue

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

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

7. Operating profit

Operating profit has been arrived at after charging:

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

8. Employee costs

Employee costs, including directors' remuneration, comprise:

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

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

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

9. Retirement benefit schemes

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

Defined contribution plans

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

Defined benefit plans

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

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

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

Notes to the Accounts continued

9. Retirement benefit schemes continued

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

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

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

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

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

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

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

Mortality rate assumptions:

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

Current and future pensioners	PxA92 tables with medium cohort projections and a +1 year age rating and a 1% underpin to future improvements
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Samples of the ages which pensioners are assumed to live to are as follows:

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

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

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

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

Mortality rate assumptions:

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

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

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

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

Mortality rate assumptions:

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

Current pensioners and future pensioners	RP2000 tables with AA scale
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Samples of the ages which pensioners are assumed to live to are as follows:

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

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

Mortality rate assumptions:

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

Current pensioners and future pensioners	Prognostetafel 2005–2050 tables
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Samples of the ages which pensioners are expected to live to are not available but the table covers life expectancies and is the general standard in the Netherlands.

Notes to the Accounts continued

9. Retirement benefit schemes continued

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

Mortality rate assumptions:

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

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

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

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

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

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

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

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

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

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

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

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

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

Analysis of the scheme assets and expected rate of return

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

Notes to the Accounts continued

9. Retirement benefit schemes continued

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

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

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

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

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

10. Finance costs and financial income

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

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

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

11. Taxation

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

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

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

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

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

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

Notes to the Accounts continued

11. Taxation continued

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

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

12. Dividends

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

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

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

13. Earnings per share

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

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

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

14. Goodwill

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

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

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

The directors have considered the following individual sensitivities:

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

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

Notes to the Accounts continued

15. Other intangible assets

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

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

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

16. Property, plant and equipment

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

Accumulated depreciation and impairment

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

Carrying amount

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

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

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

17. Inventories

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

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

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

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

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

Notes to the Accounts continued

18. Trade and other receivables

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

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

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

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

Impairment losses

The ageing of trade receivables at the reporting date was:

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

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

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

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

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

19. Cash and cash equivalents

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

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

20. Borrowings

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

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

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

Secured bank loans

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

Unsecured loan notes

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

Notes to the Accounts continued

20. Borrowings continued

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

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

21. Financial instruments

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

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

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

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

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

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

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

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

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

Cross-currency interest rate swaps

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

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

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

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

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

Notes to the Accounts continued

21. Financial instruments continued

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

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

Trade and other payables are due within one year.

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

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

Sensitivity analysis

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

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

22. Trade and other payables

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

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

23. Provisions

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

Provisions are all presented as current liabilities.

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

Reorganisation

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

Product warranty

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

Other

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

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

Notes to the Accounts continued

24. Deferred tax

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

The movement on the deferred tax account is shown below.

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

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

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

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

Unrecognised temporary differences

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

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

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

25. Share capital and reserves

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

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

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

Other reserves

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

Translation reserve

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

Hedging reserve

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

Merger reserve

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

Capital redemption reserve

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

Notes to the Accounts continued

26. Reconciliation of movement in capital and reserves

For the year ended 31 December 2008

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

27. Share-based payments

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

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

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

Share options outstanding at the end of the period

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

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

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

Movements in the year

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

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

Notes to the Accounts continued

27. Share-based payments continued

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

Share-based payment expense

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

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

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

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

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

28. Disposal of businesses

During the year the group did not divest any businesses.

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

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

29. Own shares held by Employee Benefit Trust

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

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

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

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

30. Treasury shares

During the year the group repurchased 1.4 million shares (2007: 8.9 million) for a consideration of £9.3m (2007: £79.2m). 21,363 of these shares were issued to satisfy options exercised by employees which were granted under the group's share scheme. No shares were cancelled during the year (2007: nil).

Notes to the Accounts continued

31. Acquisitions

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

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

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

Net assets acquired for significant 2008 acquisitions

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

Acquisition of minority interest

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

32. Contingent liabilities

Royal Bank of Scotland

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

JP Morgan Chase NA

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

ABN AMRO Bank NV

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

Other banks

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

Legal

See Note 23 *Other*.

33. Operating lease arrangements

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

Notes to the Accounts continued

33. Operating lease arrangements continued

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

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

34. Capital commitments

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

35. Related party transactions

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

36. Subsidiary undertakings

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

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

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

37. Post balance sheet events

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

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