

Notes to the Interim Financial Statements

1. Principal accounting policies and basis of preparation

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

The condensed consolidated interim financial statements of the company for the six months ended 30 June 2009 comprise the company and its subsidiaries, together referred to as the group. These condensed consolidated interim financial statements are presented in pounds sterling. The consolidated financial statements of the group for the year ended 31 December 2008 are available upon request from the company's registered office at Station Road, Egham, Surrey TW20 9NP.

These condensed consolidated interim financial statements have been prepared in accordance with adopted International Financial Reporting Standard (IFRS) IAS 34 'Interim Financial Reporting'. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the group for the year ended 31 December 2008.

Except as described below, the accounting policies applied by the group in these condensed consolidated interim financial statements are the same as those applied by the group in its consolidated financial statements for the year ended 31 December 2008.

The directors have considered the group's forecasts and projections, the impact of restructuring actions taken and planned, and reasonably possible changes in trading performance. Taking account of the financial position at 30 June 2009, the directors consider that the group will be able to operate within the level of its committed facilities for the next 12 months even should the £50 million facility maturing at the end of 2009 not be renewed. The group is in active discussions with its provider to renew this facility and no matter has arisen to suggest it will not be renewed on market terms in due course.

Accordingly, 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. The going concern basis is therefore appropriate for preparing the condensed consolidated interim financial statements.

During the period, the group has applied IAS 1 'Presentation of Financial Statements (revised 2007)' which has introduced a number of terminology changes (including titles for the condensed primary statements) and has resulted in a number of changes in presentation and disclosures. The revised standard has had no impact on the reported results or financial position of the group.

Since 1 January 2009, the group has capitalised borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously, the group immediately recognised borrowing costs as an expense. This change in accounting policy was due to the prospective adoption of IAS 23 'Borrowing Costs (2007)' and in accordance with the transitional provisions of this standard, comparative figures have not been restated. The change in accounting policy had no material impact on assets, profit or earnings per share in the interim period ended 30 June 2009.

As of 1 January 2009, the group has adopted IFRS 8 'Operating Segments'. The reportable segments disclosed under IFRS 8 are consistent with the operating segments determined and presented in accordance with IAS 14 'Segment Reporting'. The group has four reportable segments, as described below, which are the group's strategic business units. These units offer different applications, assist companies at various stages of the production cycle or assist specific industries. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision Maker (considered to be the Board of Directors) on a regular basis. The following summary describes the operations in each of the group's reportable segments:

Notes to the Interim Financial Statements continued

1. Principal accounting policies and basis of preparation continued

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

The interim results are unaudited. The comparative figures for the financial year ended 31 December 2008 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates. Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated statements for the year ended 31 December 2008.

The group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2008.

These condensed consolidated interim financial statements were approved by the Board of Directors on 25 August 2009.

2. 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 and impairment of acquisition-related intangible assets, profits or losses on termination or disposal of businesses, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate.

	Note	2009 Half year £m	2008 Half year £m	2008 Full year £m
Adjusted operating profit				
Operating profit as reported under adopted IFRS		16.8	44.7	113.7
Amortisation of acquisition-related intangible assets		3.2	1.7	4.6
Adjusted operating profit	3	20.0	46.4	118.3
Restructuring and post-acquisition integration charges		7.0	0.2	1.6
Adjusted operating profit before restructuring and post-acquisition integration charges		27.0	46.6	119.9

Adjusted operating profit by segment – June 2009	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2009 Half year Total £m
Operating profit under adopted IFRS		8.9	(7.3)	15.1	0.1	16.8
Amortisation of acquisition-related intangible assets		1.2	1.1	0.4	0.5	3.2
Adjusted operating profit: segment result under adopted IFRS	3	10.1	(6.2)	15.5	0.6	20.0
Restructuring and post-acquisition integration charges		1.4	4.0	0.5	1.1	7.0
Adjusted operating profit before restructuring and post-acquisition integration charges		11.5	(2.2)	16.0	1.7	27.0

Adjusted operating profit by segment – June 2008	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2008 Half year Total £m
Operating profit under adopted IFRS		12.1	11.5	16.5	4.6	44.7
Amortisation of acquisition-related intangible assets		1.4	–	0.3	–	1.7
Adjusted operating profit: segment result under adopted IFRS	3	13.5	11.5	16.8	4.6	46.4
Restructuring and post-acquisition integration charges		0.2	–	–	–	0.2
Adjusted operating profit before restructuring and post-acquisition integration charges		13.7	11.5	16.8	4.6	46.6

Adjusted operating profit by segment – December 2008	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2008 Full year Total £m
Operating profit under adopted IFRS		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: segment result under adopted IFRS	3	37.5	29.7	42.7	8.4	118.3
Restructuring and post-acquisition integration charges		0.3	0.9	(0.1)	0.5	1.6
Adjusted operating profit before restructuring and post-acquisition integration charges		37.8	30.6	42.6	8.9	119.9

Notes to the Interim Financial Statements continued

2. Adjusted performance measures continued

	Note	2009 Half year £m	2008 Half year £m	2008 Full year £m
Reconciliation of adjusted operating profit				
Profit before tax as reported under adopted IFRS		8.6	39.1	106.1
Amortisation of acquisition-related intangible assets		3.2	1.7	4.6
Net (gains)/losses on retranslation of short-term inter-company loan balances	6	(1.1)	3.4	0.6
Profit on disposal of businesses	4	–	(0.3)	(0.3)
Unrealised change in fair value of cross-currency interest rate swaps	6	3.6	(1.3)	(0.9)
Adjusted profit before tax		14.3	42.6	110.1
Adjusted net interest (see below)		5.7	3.8	8.2
Adjusted operating profit		20.0	46.4	118.3
Adjusted net interest				
Net interest costs as reported under adopted IFRS		(8.2)	(5.9)	(7.9)
Change in fair value of cross-currency interest rate swaps		3.6	(1.3)	(0.9)
Net gains on retranslation of short-term inter-company loan balances		(1.1)	3.4	0.6
Adjusted net interest costs		(5.7)	(3.8)	(8.2)
Operating cash flow				
Net cash from operating activities under adopted IFRS		20.4	41.3	99.1
Corporation tax paid		17.7	11.5	24.0
Purchase of property, plant and equipment		(6.6)	(11.3)	(21.9)
Proceeds from sale of property, plant and equipment		1.3	–	0.9
Operating cash flow for management purposes		32.8	41.5	102.1
Adjusted earnings per share				
Profit after tax as reported under adopted IFRS		7.5	27.2	81.1
Adjusted for:				
Amortisation of acquisition-related intangible assets		3.2	1.7	4.6
Profit on disposal of businesses	4	–	(0.3)	(0.3)
Unrealised change in fair value of cross-currency interest rate swaps	6	3.6	(1.3)	(0.9)
Net (gains)/losses on retranslation of short-term inter-company loan balances	6	(1.1)	(3.4)	0.6
Tax effect of the above	7	(2.3)	–	(1.1)
Adjusted earnings		10.9	30.7	84.0
Weighted average number of shares outstanding (millions)		115.3	115.5	115.4
Adjusted earnings per share (pence)		9.4	26.6	72.8

Adjusted diluted earnings per share	Note	2009 Half year	2008 Half year	2008 Full year
Adjusted earnings (as above) (£m)		10.9	30.7	84.0
Diluted weighted average number of shares outstanding (millions)	8	115.4	115.9	116.2
Adjusted diluted earnings per share (pence)		9.4	26.5	72.2

Basic and diluted earnings per share in accordance with IAS 33 are disclosed in Note 8.

Analysis of net debt for management purposes	2009 Half year £m	2008 Half year £m	2008 Full year £m
Bank overdrafts	8.0	8.4	9.6
Bank loans – secured	2.6	2.2	3.1
Bank loans – unsecured	58.5	–	50.0
Unsecured loan notes	127.5	107.5	145.9
Cross-currency interest rate swaps – currency portion	16.4	21.4	17.9
Total borrowings	213.0	139.5	226.5
Cash balances	(33.9)	(49.0)	(64.4)
Net debt	179.1	90.5	162.1

3. Operating segments

The group has four reportable segments, which are the group's strategic business units. These reportable segments remain unchanged from the 31 December 2008 consolidated accounts.

Information about reportable segments

	External customer revenue			Reportable segment profit before income tax		
	2009 Half year £m	2008 Half year £m	2008 Full year £m	2009 Half year £m	2008 Half year £m	2008 Full year £m
Materials Analysis	116.1	115.6	253.2	10.1	13.5	37.5
Test and Measurement	126.1	113.5	254.9	(6.2)	11.5	29.7
In-line Instrumentation	107.4	108.3	233.3	15.5	16.8	42.7
Industrial Controls	21.9	21.1	45.7	0.6	4.6	8.4
Total	371.5	358.5	787.1	20.0	46.4	118.3
Amortisation of acquisition-related intangibles				(3.2)	(1.7)	(4.6)
Operating profit				16.8	44.7	113.7
Profit on disposal of business				–	0.3	0.3
Financial income				4.0	4.5	7.8
Finance costs				(12.2)	(10.4)	(15.7)
Profit before tax				8.6	39.1	106.1
Tax				(1.1)	(11.9)	(25.0)
Profit after tax				7.5	27.2	81.1

Reportable segment profit is consistent with that presented to the Chief Operating Decision Maker.

Notes to the Interim Financial Statements continued

3. Operating segments continued

Geographical information

The group's reportable segments 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.

	2009	2008	2008
	Half year	Half year	Full year
	£m	£m	£m
UK	15.3	13.4	30.3
Continental Europe	140.2	142.6	301.9
North America	88.1	81.1	178.0
Japan	23.8	27.6	60.1
China	40.3	30.0	68.8
Rest of Asia Pacific	38.9	39.6	90.3
Rest of the world	24.9	24.2	57.7
	371.5	358.5	787.1

4. Disposal of businesses

During the period the group did not divest any businesses. In the period to 30 June 2008 and 31 December 2008 a gain of £0.3m arose in relation to the Luxtron divestment in 2002.

5. Acquisitions

On 6 February 2009, the group acquired 100% of the share capital of Lochard Limited, a company servicing the airport industry, as well as environmental noise and air quality monitoring and management. The assets and liabilities acquired, together with the aggregate purchase consideration, are summarised below. The profit contribution of the acquired company to the group's results for the period was £0.4m. Group revenue and operating profit would have been £372.7m and £17.2m, respectively, had the acquisition taken place on the first day of the year. Fair values are provisional at 30 June 2009.

The allocation of the residual balance of goodwill between goodwill and the fair value of intangible assets on the Lochard and LDS (acquired in December 2008) acquisitions are yet to be finalised. Where the fair value of acquired intangible assets has been provisionally identified, the residual goodwill represents the synergies that can be achieved through the integration of the acquired entity into the group, the future potential to develop new technologies, and the potential future relationships and contracts.

	Book value	Fair value	2009
	£m	adjustments	Half year
Net assets acquired	£m	£m	Fair value
Intangible fixed assets	1.9	8.6	10.5
Tangible fixed assets	0.9	–	0.9
Deferred tax asset	1.3	–	1.3
Inventories	2.0	–	2.0
Trade and other receivables	1.8	–	1.8
Trade and other payables	(4.5)	–	(4.5)
Deferred tax liabilities	(0.6)	(2.6)	(3.2)
Cash	0.2	–	0.2
Net assets acquired	3.0	6.0	9.0
Goodwill			14.5
Total consideration			23.5
Adjustment for cash acquired			(0.2)
Net consideration			23.3
Analysis of cash outflow in consolidated cash flow statement			
Total consideration			23.5
Deferred and contingent consideration to be paid in future years			(3.4)
Cash paid (including directly attributable costs)			20.1
Prior year acquisitions			
Purchase price adjustment re prior year acquisition			–
Deferred consideration in relation to prior year acquisitions			6.5
			6.5
Total cash outflow relating to acquisitions			26.6
Cash acquired on acquisition			(0.2)
Net cash outflow relating to acquisitions			26.4

Notes to the Interim Financial Statements continued

5. Acquisitions continued

In the first half of 2008, the group acquired Viscotek Corporation and a number of distributors in markets where a direct presence was sought. The assets and liabilities acquired, together with the aggregate purchase consideration, are summarised below.

	Book value £m	Fair value adjustments £m	2008 Half year Fair value £m
Net assets acquired			
Intangible fixed assets	–	–	–
Tangible fixed assets	0.2	(0.1)	0.1
Inventories	0.7	–	0.7
Trade and other receivables	3.8	–	3.8
Trade and other payables	(2.2)	(0.2)	(2.4)
Deferred tax liabilities	(1.3)	–	(1.3)
Cash	1.7	–	1.7
Net assets acquired	2.9	(0.3)	2.6
Goodwill			7.9
Total consideration			10.5
Adjustment for cash acquired			(1.7)
Net consideration			8.8
Analysis of cash outflow in consolidated cash flow statement			
Total consideration			10.5
Deferred and contingent consideration to be paid in future years			(2.3)
Cash paid (including directly attributable costs)			8.2
Prior year acquisitions			
Purchase price adjustment re prior year acquisition			0.2
Deferred consideration in relation to prior year acquisitions			1.0
			1.2
Total cash outflow relating to acquisitions			9.4
Cash acquired on acquisition			(1.7)
Net cash outflow relating to acquisitions			7.7

6. Finance costs and financial income

	2009 Half year £m	2008 Half year £m	2008 Full year £m
Financial income			
Bank interest receivable	0.2	0.6	1.6
Change in fair value of cross-currency interest rate swaps	–	1.3	0.9
Net gain on retranslation of short-term inter-company loan balances	1.1	–	–
Expected return on pension scheme assets	2.7	2.6	5.3
	4.0	4.5	7.8
Finance costs			
	2009 Half year £m	2008 Half year £m	2008 Full year £m
Interest payable on bank loans and overdrafts	5.5	0.2	9.7
Interest payable on other loans	0.2	4.1	0.1
Total interest payable	5.7	4.3	9.8
Unrealised change in fair value of cross-currency interest rate swaps	3.6	–	–
Net losses on retranslation of short-term inter-company loan balances	–	3.4	0.6
Interest cost on pension scheme liabilities	2.9	2.7	5.3
	12.2	10.4	15.7

Net interest costs of £5.5m (30 June 2008: £3.7m; 31 December 2008: £8.2m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £0.2m (30 June 2008: £0.6m; 31 December 2008: £1.6m), and interest payable on bank loans and other loans and overdrafts of £5.7m (30 June 2008: £4.3m; 31 December 2008: £9.8m).

7. Tax on profit on ordinary activities

The taxation charge for the six months to 30 June 2009 is based on an estimate of the effective rate of taxation for the current year. The effective rate of taxation applied to adjusted profits before tax for the half year is 24% (30 June 2008: 28%; Year ended 31 December 2008: 23.7%). A reconciliation of the tax charge on adjusted profits to the actual tax charge is presented below:

	2009 Half year £m	2008 Half year £m	2008 Full year £m
The tax charge is analysed as follows:			
Tax charge on adjusted profits before tax at effective rate	3.4	11.9	26.1
Tax credit on amortisation of intangible assets	(1.0)	(0.3)	(1.4)
Tax (credit)/charge on unrealised gain on change in fair value of financial instruments	(1.0)	0.4	0.3
Tax charge on foreign exchange losses arising from short-term financing activities	(0.3)	(0.2)	(0.1)
Tax charge on profit on disposal of business	–	0.1	0.1
Reported tax charge	1.1	11.9	25.0

8. Earnings per share

Earnings per share and diluted earnings per share are calculated as follows:

Basic earnings per share	2009 Half year	2008 Half year	2008 Full year
Profit after tax (£m)	7.5	27.2	81.1
Weighted average number of shares outstanding (millions)	115.3	115.5	115.4
Basic earnings per share (pence)	6.5	23.5	70.3

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.

The calculation of diluted earnings per share of 6.5p (30 June 2008: 23.5p; 31 December 2008: 69.8p) is based on the group profit of £7.5m (30 June 2008: £27.2m; 31 December 2008: £81.1m) and on the diluted weighted average number of 5p ordinary shares in issue during the year of 115.4 million (30 June 2008: 115.9 million; 31 December 2008: 116.2 million).

9. Dividends

The interim dividend of 6.4p per share (2008 interim dividend: 6.4p) will be payable on 13 November 2009 to ordinary shareholders on the register at the close of business on 23 October 2009.

The final 2008 dividend of 17.0p per share (2007 final dividend: 15.25p) was paid on 24 June 2009 to ordinary shareholders on the register at the close of business on 5 June 2009.

10. Treasury shares

During the period the group repurchased nil (30 June 2008: 1.4 million; 31 December 2008: 1.4 million) shares for a consideration of £nil (30 June 2008: £9.3m; 31 December 2008: £9.3m). 81,882 of these shares were issued to satisfy options exercised by the employees which were granted under the group's share scheme (30 June 2008: 18,923; 31 December 2008: 21,363) for a consideration of £10,104 (30 June 2008: £nil; 31 December 2008: £120,408). No shares were cancelled during the year (30 June 2008: nil; 31 December 2008: nil).