

News release

Friday 17 February 2012

Spectris plc : 2011 Preliminary Results

Spectris plc, the productivity-enhancing instrumentation and controls company, announces preliminary results for the year ended 31 December 2011.

Key operational indicators (£m)	2011	2010	Change	Change at CER**	Organic change at CER***
Sales	1,106.2	901.9	+23%	+22%	+15%
Adjusted operating profit*	201.5	142.1	+42%	+40%	+31%
Adjusted profit before tax*	191.6	132.3	+45%		
Adjusted earnings per share*	124.1p	86.6p	+43%		
Adjusted return on sales*	18.2%	15.8%	+2.4pp		
Dividend	33.6p	28.0p	+20%		
Statutory					
Operating profit	175.8	127.9	+37%		
Profit before tax	166.0	119.9	+38%		
Basic earnings per share	108.7p	83.1p	+31%		

* Adjusted figures exclude certain non-operational items, as defined in Note 2

** At constant exchange rates *** At constant exchange rates excluding acquisitions

Highlights

- Record sales and operating profit in all segments
- Operating margins grew by 2.4pp to 18.2%
- Strong growth in all key regions
- Healthy cash conversion of 89%
- Important acquisitions closed during the year provide additional growth and resilience
- Dividend up by 20%

Commenting on the results, John O'Higgins, Chief Executive, said:

"We are very pleased with our performance in 2011. The progress we made on all aspects of our strategy was fundamental to delivering these results."

Chairman's Statement

Introduction

Spectris saw strong trading in 2011, with sales and operating profit at record levels, building on the momentum generated over the past few years, as investment in new products, acquisitions and regional expansion has continued to drive our business growth. Our acquisition initiatives also continued, with the addition of the Omega Engineering business being a particular highlight. This adds a significant strategic growth platform for our Industrial Controls segment.

Reported sales increased by 23% to £1,106.2 million (2010: £901.9 million) and adjusted operating profit* grew by 42% to £201.5 million (2010: £142.1 million). Acquisitions contributed 7% to sales and currency had a positive impact of 1%. Thus on a constant currency organic (like-for-like) basis, sales grew by 15%. On a pro-forma basis, had each of the four acquisitions taken place on the first day of the year, sales would have been £1,218.2 million.

Operating margins increased by 2.4 percentage points to 18.2%. Profit before tax increased by 45% to £191.6 million (2010: £132.3 million) and earnings per share increased by 43% from 86.6 pence to 124.1 pence.

During the year, the group invested £372.1 million in acquisitions and net debt increased by £270.0 million to £356.2 million at the end of December 2011. At 31 December 2011, the group had cash of £41.6 million and undrawn committed facilities of £104.2 million.

The Board is proposing to pay a final dividend of 25.4 pence (2010: 20.9 pence), which, combined with the interim dividend of 8.2 pence, gives a total for the year of 33.6 pence (2010: 28.0 pence), an increase of 20%. The dividend is covered 3.7 times. This is consistent with our policy of making progressive dividend payments based upon affordability and sustainability. The dividend will be paid on 26 June 2012 to shareholders on the register at the close of business on 1 June 2012.

Corporate governance

As a board, we are responsible to the company's shareholders for delivering shareholder value sustainably over the long term through effective management and good governance. We believe that a robust discussion focused on the critical strategic issues and risks is key to

achieving these aims and we are fortunate to have non-executive directors with extensive industry and international experience who can actively contribute to this debate. The Board also seeks to develop and maintain a good understanding of the company's operations by conducting site visits to two locations each year in addition to inviting our presidents and managing directors to present at other meetings. We plan to recruit a further non-executive director during 2012. We recognise the benefits that diversity can bring to our business and this will be a key element of the selection process.

I am pleased to confirm that Spectris is in full compliance with the UK Corporate Governance Code. An evaluation of our Board in 2010 by external consultants confirmed the effectiveness of our governance processes in most dimensions, with some recommendations for expanding the terms of reference for Board committees. These have now been updated, most notably in the case of the Audit and Risk Committee which now more formally includes a review of the group's risk management processes and controls. The Board committees are described more fully in the Corporate Governance section of our annual report and their terms of reference are available on our website. In 2011, an internal assessment of the Board by all members confirmed support for the Board's role, culture and policies.

Outlook

We are very pleased with our performance in 2011. The progress we made on all aspects of our strategy was fundamental to delivering these results. Whilst the current macro-economic outlook remains uncertain, the Board is confident that, as a result of continued investment in new products and applications, together with the growth opportunities and resilience which our recent acquisitions provide, Spectris is strategically well positioned for the year ahead.

*Unless stated otherwise, figures quoted for operating profit, net interest, profit before tax, tax, earnings per share and operating cash flow are adjusted measures – for explanation of adjusted figures and reconciliation to the statutory reported figures see Note 2.

Chief Executive's Review

Introduction

Trading in 2011 was strong across all business segments, regions and most end markets, resulting in record sales and operating profit. On a reported basis, sales for the year were 23% higher than in 2010. Acquisitions contributed 7% and currency 1%, resulting in constant currency organic (like-for-like) sales growth of 15%.

Regionally, sales in Asia Pacific in the year grew by 17% on a like-for-like basis, with continued strength in China, where sales increased by 27%. North America grew by 14% and Europe was up by 13%. Aftersales, service and consumables, which are an important part of our business and provide a large degree of resilience, represented 26% of total group sales.

Adjusted operating margin, at 18.2%, is 2.4pp higher than in 2010, as a result of the growth in sales and continuing good cost control across our businesses, with gross margins increasing by 0.2pp to 58.6%.

Cash conversion was in line with our expectations, with 89% of operating profit converted into operating cash. Capital expenditure increased during the year, mainly due to an investment in The Netherlands, where we opened a new state-of-the-art manufacturing facility.

Strategy

We made significant progress on our strategy during the year. Some of the highlights are illustrated below:

Strengthening market positions through innovation

We maintained our investment in research and development, with expenditure at £75.8 million, or 7% of sales, and we launched a number of new products, technologies and applications across the group, which are described in more detail in the Operating Review which follows. Notable amongst these was the Mastersizer 3000 particle characterisation system from our Materials Analysis segment, launched in September. This combines the highest optical performance with intelligent software, providing greater analysis capabilities

in a compact, sleekly-designed benchtop instrument. The system has been received enthusiastically by customers and has already won a major design award.

Increasing regional expansion with a focus on emerging markets

Sales to Asia increased by 17% compared with the prior year on a like-for-like basis. At 33% of total group sales, this region is now a similar size to Europe. In response to the continued growth in demand, during the year Malvern opened an additional regional sales office in central Shandong province, China, and Beta LaserMike established a direct sales operation in south-east Asia. The acquisition of the industrial business of Sysmex in the fourth quarter of 2010 has provided us with a direct sales presence for materials analysis systems in Japan and improved our market position there.

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

The acquisition of Omega Engineering at the end of September 2011 represents a strategic platform for growth within the Industrial Controls segment, which now represents around 18% of total group sales on a pro-forma basis. Integration of the business into the Industrial Controls segment is proceeding well and results for the first three months of ownership have exceeded our expectations.

Growing existing businesses through acquisition

We made three bolt-on acquisitions during 2011. The acquisition of IRM in August extends our gauging product capabilities in the metals processing market and the acquisition of Sixnet in October expands our position in the industrial networking market. We also acquired key intellectual property and other assets relating to a line of benchtop X-ray analysers for the Materials Analysis segment in October. The bolt-on acquisitions made in 2010 have been successfully integrated into the business and made a good contribution in 2011. In the Test and Measurement segment, the acquisitions of nCode, LDS and Lochard, completed in 2008 and 2009, have accelerated sales in the automotive, aerospace and environmental monitoring markets. Together with the efficiencies achieved following the integration of these businesses, this has resulted in a return on sales for the segment of 15.8%.

Focusing on operational excellence

Initiatives to improve operational efficiency across the group continued to deliver benefits. Our strategic sourcing teams made excellent progress in the year and the value of items sourced or manufactured in lower-cost countries, principally Asia and Eastern Europe, has now increased to approximately 14% of the total spend on materials in cost of goods sold (2010: 11%). We completed two significant investments in 2011 to improve operational efficiency: the first phase of a new enterprise resource planning (ERP) system at our BTG business, which will bring greater integration of all operational aspects of the business into a single management system, and a state-of-the-art manufacturing facility for our PANalytical business in Eindhoven, The Netherlands, which will bring greater efficiency to the production of X-ray tubes. These investments, together with many smaller projects across all of our operations, ensure that our focus on the manufacture and supply of critical components and products is done to the highest levels of quality and efficiency.

Operating Review

Materials Analysis

Overview

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

Segment performance

	2011	2010	% change	% change like-for-like
Sales (£m)	337.5	271.6	+24%	+21%
Profit (£m)	60.9	39.5	+54%	+52%
Return on sales (%)	18.1	14.5	+3.6pp	
% of total group sales	31	30	+1pp	

The metals, minerals and mining sector, the largest end user market for this segment, recovered strongly in 2011. Large investments by mining companies in Australia, South Africa and Brazil all resulted in strong orders for our X-ray analysis equipment. We also saw particular interest in applications for analysing precious metals and rare earth elements. The strategic alliance established in 2010 with French company Sodern, a subsidiary of the EADS group, to distribute their neutron-based cross-belt analysers made good progress and 2011 saw the first orders for a number of these systems. These analysers are used in the cement, minerals and coal industries for real-time characterisation of raw materials and complement the X-ray spectrometers PANalytical supplies to these customers.

We saw good growth in sales to the pharmaceutical sector, both for research into new drugs and in response to stricter regulation and quality control during drug manufacture. A Chinese pharmaceutical research customer purchased our new X-ray research platform, Emyrean, for analysing the active ingredients in tablets in order to optimise drug formulation. This is the first Emyrean system to be installed in China for this application. We saw good sales of our pharmaceutical facility monitoring systems, particularly in North America and China. These systems are used to monitor contamination within sterile environments, thus ensuring the drug is manufactured according to national safety regulations.

Sales to the academic sector and to research institutions worldwide were resilient. This was helped by Latin America and China, where government emphasis on increasing academic leadership and development of the high technology sector resulted in increased funding for research laboratories. Our new X-ray research platform, Emyrean, launched in 2010, continues to be well received by customers and won an award for the best technology innovations in 2011 from R&D Magazine. In a further commendation, Malvern Instruments received the 2011 Queen's Award for Enterprise in the category of International Trade. This is the second year in succession that the company has won a Queen's Award (the 2010 award was in the category of Innovation, for the development of the Zetasizer Nano particle characterisation system).

Steadily increasing demand for our X-ray tubes resulted in projected production capacity limitations and in September we opened a new state-of-the-art manufacturing facility in Eindhoven, The Netherlands, for these critical components of our X-ray instruments.

Segment outlook

The metals, minerals and mining sector has recovered from the slowdown of 2009-2010, and we expect investment to continue due to ongoing demand from emerging markets where infrastructure projects are driving expenditure for construction-related sectors. Academic research in emerging markets will continue to grow as these countries seek to increase the number and quality of academic institutions. Research into new drugs and stricter enforcement of regulations on their manufacture are likely to continue to drive demand for our products from the pharmaceutical industry.

Test and Measurement

Overview

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

Segment performance

	2011	2010	% change	% change like-for-like
Sales (£m)	346.9	297.4	+17%	+16%
Profit (£m)	54.7	34.8	+57%	+56%
Return on sales (%)	15.8	11.7	+4.1pp	
% of total group sales	31	33	-2pp	

The automotive market, a key end user market for this segment, continued to recover. One area of increasing R&D focus is electric cars and we received an order from a major manufacturer of high performance electric cars for torque transducers and data acquisition equipment to test certain drivetrain components. We also received an order for our data acquisition system for endurance testing of tyres for passenger cars and light trucks for a major Korean tyre manufacturer. Our systems are used to measure the internal pressure of the

tyre, the loading force and the speed of rotation in durability tests. Demand was strong for our noise analysis instrumentation for noise source identification, both for customer comfort and for certifying compliance with noise emission regulations. We have also seen significant interest in our noise evaluation technologies from high speed train manufacturers.

Sales to the aerospace market grew strongly. In China, significant investments in the aerospace industry resulted in good demand for our data acquisition products and we received key orders for structural testing of aircraft materials and landing gear for a new narrow-body commercial airliner. Our products are also used for satellite launch simulation and qualification testing and at the beginning of the year, we received an important order from INPE, the National Institute for Space Research in Brazil, for satellite vibration and shock testing.

Consumer demand for electronic items such as smart phones and tablet computers, and the requirement for improved audio quality of these devices, has resulted in manufacturers increasingly adding in-line testing of components to end-of-line testing. In response, we have adapted our acoustic and vibration testing solutions, originally designed for R&D applications, for use on production lines. Furthermore, the increased use of voice control technologies in communication and entertainment systems has led to increased sales of our voice quality evaluation systems.

Our environmental monitoring service business continued to grow in the traditional airport noise monitoring market, and we received new orders from airports around the world as well as renewal contracts for existing customers, including London's Heathrow and Stansted airports. New applications for this business in mining and construction are also proving particularly successful. We signed a number of contracts for noise monitoring systems, including the Crossrail infrastructure project for a new rail link across London. Since much of the construction work will take place in highly built-up areas, with night work required in some instances, noise compliance is a critical consideration for the building contractors.

In the power sector, our solutions are finding increasing application in a number of areas. Growing demand for electrical power and new energy sources has necessitated expansion of the power grid and the replacement of ageing power infrastructure in many countries. We have seen steady demand for our test and measurement solutions from a number of customers

for both component manufacture and independent testing of equipment such as circuit breakers, contactors and transformers. The Genesis HighSpeed family of high-power measurement products is ideally suited to applications in the power industry and provides enhanced test capabilities in full compliance with all relevant international standards. For example, this product is being used at the Kennedy Space Center in Florida to identify where any damage may have occurred following lightning strikes. Our data acquisition systems are also used in the wind energy market and a wind turbine manufacturer in China purchased our high capacity torque transducers for testing gearboxes, generators and main bearings in the design of a large off-shore wind turbine. We also supply noise monitoring equipment to measure the noise produced by wind turbines and their component parts to ensure that they meet regulation on noise levels which applies in many countries. 2011 saw the sale of the first commercial ground-based system with more than 100 microphones for noise source identification of wind turbines. This technology is also used to optimise new designs aimed at lowering noise levels from the blades.

Segment outlook

The automotive sector is showing good growth as new research programmes are established, particularly in Asia, as well as further development of vehicles such as hybrid and electric cars. New aerospace programmes provide opportunities for growth, and as these become more complex, our products will remain in demand for applications such as materials and structural integrity testing of aircraft and, increasingly, satellites. Our products are also increasingly being used for test and measurement applications in other industry sectors such as consumer electronics, energy and rail. Environmental noise monitoring continues to grow as regulation increases and we expect to continue to find more widespread industrial and construction-related applications for our services.

In-line Instrumentation

Overview

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

Segment performance

	2011	2010	% change	% change like-for-like
Sales (£m)	308.9	273.1	+13%	+8%
Profit (£m)	63.8	58.3	+9%	+2%
Return on sales (%)	20.6	21.3	-0.7pp	
% of total group sales	28	30	-2pp	

The In-line Instrumentation segment, which had a strong recovery in 2010, returned to more normalised growth levels during 2011, as expected. Operating margins were 0.7pp lower as a result of sales of service, spare parts and consumables, which are a key feature of this segment, growing more slowly than sales of new products.

Growth was strong in the energy and utilities sector, where customers continued to focus on improving productivity, efficiency and safety. During the year we launched the NanoTrace II series of analysers. Based on technology acquired with the Delta-F business, these instruments measure oxygen at the lowest detection level in the industry (parts per trillion). We also launched the SERVOTOUGH LaserCompact, which uses precision laser diode technology to detect a wide range of gases for applications in the chemical industry and in petrochemical processing. In the power industry, there was good demand for our safety monitoring systems for hydroelectric power stations and we secured orders to install these systems on three large hydroelectric power stations in China, representing our first orders for this application in the region. Our condition monitoring systems were also selected for hydroelectric projects in Austria, Brazil and Turkey. Vibration monitoring provides early detection of a wide range of machine faults and enables targeted maintenance actions to prevent the unplanned shutdown of expensive machinery. Our remote monitoring systems for wind turbine monitoring continued to perform well and we secured orders from China for pilot system installations at two wind farms.

In the pulp and paper industry, several European and North American producers of coated graphic papers curtailed their production rates to adjust for softer demand for print media following a strong recovery in 2010. This effect was offset by strong demand for our coating blades and rods in China where new coated paper capacity came on line. There was also good demand for our instruments, which are used to control consistency and to improve operations across both pulp production and paper manufacturing processes. In the fourth quarter, we

launched a new series of optical brightness transmitters for monitoring and controlling bleaching chemicals, optical brightening agents and dyes. Equipped with a UV light source for fluorescent measurement, these instruments optimise chemical addition and reduce operating costs during the pulping process. We also continue to make good progress in tissue markets and several large tissue manufacturers are now employing our combined technology to improve process productivity and product quality. New blade materials in our coating blades are helping to reduce operating costs and increase uptime and, in a trial at one tissue mill, our new blades achieved a 50% longer lifetime between changes than the conventional blades.

We saw strong demand from the converting industries (web, film, plastics and packaging) for our products. Continued investment by customers in both separator film and coating lines for production of lithium ion batteries, particularly in China, resulted in a significant increase in orders for our infrared measuring systems for this market compared with the prior year. There was also good demand for our scanners for measuring plastic film and we launched a new system for blown film which has been installed at two of the world's largest producers of complex packaging films. Blown film production has become more sophisticated as the industry enters new marketplaces: uniform barrier layer thickness is especially important in films which are converted into high performance packaging films which extend the shelf life of foods and medical products. Using our measurement and control systems to achieve thickness uniformity, manufacturers can reduce the variation in roll film thickness by 40 to 60%. Our UV curing systems had good success in China, with applications including production of metallised plastics and decorating film. The latter is beginning to replace conventional spray coating operations for decorating the plastic housings found on consumer electronics. With the acquisition of the IRM business, we have expanded our product line to include thickness and flatness gauging products for the steel and aluminium industries, with significant potential in China.

In the semiconductor and electronics market, conditions were mixed. Demand for new generation large screen televisions remains subdued; however, demand for smaller, more compact items such as tablet computers and smart phones is growing rapidly. Advances in technology, for example the use of polarising films to improve display and touch panel performance, has resulted in investment in new manufacturing processes and the associated UV curing equipment required to achieve this. In the wire and cable market, demand for

optical fibre, and telecom cable in general, grew strongly as infrastructure investments in China and India continued, together with the continued deployment of fibre to the home in North America. Previously mothballed equipment at customers' sites is being refurbished and upgraded to meet the increase in demand, resulting in good sales of our UV curing equipment and gauging systems.

Segment outlook

Investment activity is expected to continue in hydrocarbon processing worldwide as oil and gas producers seek further productivity and efficiency improvements and as emissions regulations increase compliance requirements. In the metals sector, the acquisition of IRM Group will expand our market position, particularly in the growing China market. Demand from the electronics sector, including flat panel displays, will be driven by smaller, portable devices and demand for optical fibre is expected to continue to grow as infrastructure projects in emerging markets continue. In the pulp and paper industry, current trends are expected to continue, with demand for coated papers declining, mitigated by growing demand for tissue products, particularly in emerging markets. Service and support contracts will continue to be an important feature of this segment as customers seek to ensure uninterrupted production capabilities.

Industrial Controls

Overview

Industrial Controls supplies process measurement, monitoring and control instrumentation and networking products for manufacturing industries. Our products provide track, trace and control solutions during the manufacturing process, instrumentation and displays for process monitoring and control, data interfaces, and rugged Ethernet switches for a broad range of manufacturing industries. Sales are made both directly and indirectly (via distributors) to end users as well as directly to original equipment manufacturers, with a significant proportion of repeat business. The operating companies in this segment are Microscan, Omega Engineering and Red Lion Controls.

Segment performance

	2011	2010	% change	% change like-for-like
Sales (£m)	112.9	59.8	+ 89%	+18%
Profit (£m)	22.1	9.5	+ 132%	+30%
Return on sales (%)	19.6	15.9	+3.7pp	
% of total group sales	10	7	+3pp	

The global manufacturing sector continued to grow strongly and we saw good demand for our industrial measurement, communication and control products, augmented by the Sixnet and Omega Engineering acquisitions.

Our automation products performed well, with high demand for bar code readers and machine vision systems. Track, trace and control technologies are increasingly being adopted in response to the growing requirement, and in some cases regulation, for manufacturers to improve quality, safety and efficiency. We sold our smart cameras to customers in the food industry for validating packaged products to meet food safety standards and to customers in the electronics industry where they are used for process control efficiency during the manufacture of sub-assemblies for consumer electronics. In the pharmaceutical industry, strict regulations regarding product traceability resulted in sales of a number of our products for packaging and labelling applications. In June, we launched the AutoVision product family, comprising smart cameras and software. This suite of track, trace and control products has been very well received and we have sold a number of systems into applications ranging from checking the integrity of car airbag seat covers to reading bar codes on medical instruments.

Integration of the Omega Engineering business, acquired at the end of September, into the Industrial Controls segment is progressing well. The transition to new ownership has proceeded smoothly and a number of actions to enhance productivity and introduce new products are under way. The organisation is being expanded to increase the company's presence in Europe and to establish an operation in China. These actions are expected to accelerate growth in 2012 and beyond. Investments in systems to improve the efficiency of the operations, finance and administration functions are in the planning stage and are expected to be initiated during the course of the year. During 2011, Omega introduced a number of new products to focus on wireless communication. These enable users to monitor and control

processes remotely and are particularly useful for retro-fitting instrumentation in existing process lines.

Red Lion Controls completed the acquisition of Sixnet in October. This has provided new product platforms, and in particular wireless capability, for our industrial automation offering and builds on the networking products of N-Tron acquired in 2010. Integration of Sixnet and N-Tron into Red Lion is proceeding on track, and the enlarged company will be deploying a consolidated go-to-market strategy over the next few months. In its traditional business, Red Lion's operator panels are finding new applications in process industries such as gas production and distribution where they are used for control on drilling rigs and on the compressors which move the gas through miles of cross-country pipeline. Red Lion's technology enables customers to drive productivity improvements through real-time visibility of data and, in October, the company launched the ProductTVity Station, a ready-to-use solution for collecting, recording and displaying critical performance indicators and machine status messages in production facilities.

Segment outlook

Whilst demand from the general manufacturing sector will depend to some extent on the global economy, recent acquisitions have strengthened our position in monitoring, control and communication in the industrial automation and process measurement markets. Omega Engineering will provide good opportunities for growth in emerging markets, particularly China and Latin America.

John O'Higgins

Chief Executive

Financial Review

Introduction

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures exclude certain non-operational items which management has defined in Note 2. Unless otherwise stated, all profit, earnings and operating cash flow figures referred to below are adjusted measures.

Operating performance

	2011	2010	Increase	Like-for-like increase
Sales (£m)	1,106.2	901.9	22.6%	14.9%
Adjusted operating profit (£m)	201.5	142.1	41.8%	30.8%
Operating margin	18.2%	15.8%	+2.4pp	
Statutory				
Sales (£m)	1,106.2	901.9	22.6%	
Operating profit (£m)	175.8	127.9	37.5%	
Operating margin	15.9%	14.2%	+1.7pp	

Reported sales were up 22.6% at £1,106.2 million (2010: £901.9 million). Favourable movements in foreign currency exchange rates contributed approximately £4.8 million (0.5%) and revenue from acquisitions contributed approximately £65.1 million (7.2%). Therefore, on an organic constant currency (like-for-like) basis, sales increased by 14.9% year-on-year.

Operating profit increased by 41.8% to £201.5 million (2010: £142.1 million). Movements in foreign currency exchange rates had a positive effect of approximately £2.0 million (1.4%) and acquisitions contributed an additional £13.6 million (9.6%). The increase in like-for-like operating profit of £43.8 million resulted from higher sales driving an increase in gross margin of £81.0 million, offset by overheads increasing by £37.2 million (predominantly personnel costs). Gross margins increased to 58.6% of sales (+0.2pp) and overheads reduced to 40.4% (-2.2pp), with the result that operating margins increased by 2.4pp from 15.8% to 18.2%.

The year-on-year increase in net finance costs was £0.1 million (from £9.8 million to £9.9 million). This is due to a net increase of £0.8 million in financing charges offset by a reduction in net pension-related costs of £0.7 million. The £0.8 million increase in financing

charges is the net result of an increase in charges arising from higher average net debt mitigated by a reduction in average interest rates.

Profit before tax increased by 45% from £132.3 million to £191.6 million.

Statutory operating profit, after including acquisition-related intangible asset amortisation of £21.8 million (2010: £12.3 million), acquisition-related costs and contingent consideration fair value adjustments of £1.8 million (2010: £1.9 million) and acquisition-related fair value adjustments to inventory of £2.1 million (2010: £nil), increased by 38% from £127.9 million to £175.8 million.

Statutory profit before tax increased by 38.5% from £119.9 million to £166.0 million.

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

	2011	2011	2011	2010	2010	2010
	IFRS (Statutory) £m	Adjust- ments £m	Spectris Adjusted £m	IFRS (Statutory) £m	Adjust- ments £m	Spectris Adjusted £m
Sales	1,106.2	-	1,106.2	901.9	-	901.9
Gross margin	648.7	-	648.7	526.8	-	526.8
Operating profit before acquisition-related items	201.5	-	201.5	142.1	-	142.1
Amortisation of acquisition-related intangibles	(21.8)	21.8	-	(12.3)	12.3	-
Net acquisition-related costs and contingent consideration fair value adjustments	(1.8)	1.8	-	(1.9)	1.9	-
Acquisition-related fair value adjustments to inventory	(2.1)	2.1	-	-	-	-
Operating profit	175.8	25.7	201.5	127.9	14.2	142.1
Profit on disposal of businesses	0.1	(0.1)	-	-	-	-
Unrealised changes in fair value of financial instruments	(0.4)	0.4	-	1.4	(1.4)	-

Net gains on retranslation of short-term inter-company loan balances	0.4	(0.4)	-	0.4	(0.4)	-
Net bank interest payable	(9.8)	-	(9.8)	(9.0)	-	(9.0)
Net IAS19 finance income/(cost)	0.1	-	0.1	(0.5)	-	(0.5)
Other finance costs	(0.2)	-	(0.2)	(0.3)	-	(0.3)
Profit before tax	166.0	25.6	191.6	119.9	12.4	132.3

Acquisitions

The total cost of acquisitions in the year was £377.0 million (2010: £63.0 million), including £18.6 million (2010: £0.8 million) for cash acquired. Included in the total cost of acquisitions is an amount of £4.4 million (2010: £4.1 million) attributable to the fair value of deferred and contingent consideration expected to be paid in future years offset by an estimated purchase price adjustment receivable of £7.1 million. In addition, a further £7.9 million (2010: £4.5 million) was paid in respect of prior year acquisitions, making the net cash outflow in the year £369.0 million (2010: £62.6 million). An amount of £3.1 million (2010: £1.9 million) was spent on related costs (mainly professional fees), which makes the total acquisition-related cash outflow in 2011 £372.1 million (2010: £64.5 million). The acquisitions all took place in the second half of 2011 and contributed £65.1 million (2010: £11.6 million) of incremental sales and £13.6 million (2010: £1.2 million) of operating profit.

Taxation

The effective tax rate on adjusted profits was 24.8% (2010: 24.2%), an increase of 0.6pp, mainly due to a higher proportion of the profits being earned in the more highly taxed USA. On a statutory basis, the effective tax rate was 23.9% (2010: 19.8%). The effective tax rate continues to be below the weighted average statutory tax rate of 28.5% (2010: 27.6%), primarily as a consequence of a tax-efficient inter-company financing structure and research and development tax incentives.

Earnings per share

Earnings per share increased by 43% from 86.6p to 124.1p, reflecting the net impact of a 45% increase in profit before tax slightly offset by the increase in the weighted average number of shares from 115.8 million in 2010 to 116.2 million in 2011 and the increase in the tax rate to 24.8%.

Statutory basic earnings per share increased by 31% from 83.1p to 108.7p. The difference between the two measures is shown in the table below.

	2011	2010
	Pence	Pence
Statutory basic earnings per share	108.7	83.1
Amortisation of acquisition-related intangible assets	18.8	10.6
Acquisition-related costs and contingent consideration fair value adjustments	1.6	1.6
Acquisition-related adjustments to inventory	1.8	-
Profit on disposal of businesses	(0.1)	-
Decrease / (increase) in fair value of cross-currency interest rate swaps	0.3	(1.2)
Net gains on retranslation of short-term inter-company loan balances	(0.3)	(0.3)
Tax effect of the above and other non-recurring items	(6.7)	(7.2)
Earnings per share	124.1	86.6

The weighted average number of shares outstanding during the year was 116.2 million (2010: 115.8 million).

Cash flow

	2011 £m	2010 £m
Operating cash flow		
Operating profit	201.5	142.1
Add back: depreciation and software amortisation	18.0	16.5
Working capital movement	(11.2)	20.1
Capital expenditure	(29.2)	(18.9)
Operating cash flow	179.1	159.8
Operating cash flow conversion*	89%	112%
Non-operating cash flow		
Tax paid	(35.1)	(21.0)
Net interest paid	(12.1)	(10.1)
Dividends paid	(33.8)	(28.9)
Acquisitions of business net of cash	(369.0)	(62.6)
Acquisition-related costs	(3.1)	(1.9)
Disposals	0.1	-
Exercise of share options	0.5	1.9
Exchange	3.4	0.5
Total non-operating cash flow	(449.1)	(122.1)
Operating cash flow	179.1	159.8
Movement in net debt	(270.0)	37.7

* Operating cash flow as a % of operating profit

Excluding acquisitions, the year end trade working capital to sales ratio was 9.9% (2010: 9.8%). Including acquisitions, the year end trade working capital to sales ratio was 12.3%. Average like-for-like trade working capital, expressed as a percentage of sales, decreased to 9.0% (2010: 9.4%), reflecting the continuing focus on working capital management.

Capital expenditure during the year equated to 2.6% of sales (2010: 2.1%) and, at £29.2 million (2010: £18.9 million), was 162% of depreciation and software amortisation (2010: 115%). The increase in capital expenditure is mainly property-related long-term investments, primarily in The Netherlands, where we invested in a new state-of-the-art manufacturing facility.

Overall, net debt increased by £270.0 million (2010: decrease of £37.7 million) from £86.2 million to £356.2 million. Interest cost, excluding the financing charge arising from IAS19, was covered by operating profit 20 times (2009: 15.8 times).

Financing and Treasury

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

As at 31 December 2011, the group had £501 million of committed facilities denominated in different currencies, consisting of £97 million of private placements maturing in October 2013, a five-year £48 million term loan maturing in September 2015, a five-year £354 million revolving credit facility maturing in August 2016 and £2 million from three bank loans secured on property of three of our businesses. The revolving credit facility was signed in August 2011 to finance the Omega Engineering acquisition, to refinance existing debt facilities and for general corporate purposes. £104 million of this facility was undrawn at the year end. In addition, the group had a cash balance of £42 million and other uncommitted facilities, mainly in the form of overdraft facilities at our local operations.

At the year end, the group borrowings amounted to £398 million, 37% of which were at fixed interest rates (2010: 99%). The ageing profile at the year end showed that 1% of the year end borrowing is due to mature within one year (2010: 1%), 24% between one and two years (2010: 1%) and 75% between two and five years (2010: 98%).

Currency

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

After matching currency of revenue with currency of costs wherever practical, forward exchange contracts are used to hedge a proportion (up to 75%) of the remaining forecast net transaction flows where there is reasonable certainty of an exposure. At 31 December 2011,

approximately 57% of the estimated net euro, US dollar and Japanese yen exposures for 2012 were hedged using forward exchange contracts mainly against the Swiss franc, sterling, the euro and the Danish krone.

The largest translational exposures are to the US dollar, euro, Danish krone and Swiss franc. Translational exposures are not hedged. The table below shows the key average exchange rates compared to sterling during 2011 and 2010.

	2011 (average)	2010 (average)
USD	1.60	1.55
EUR	1.15	1.17
JPY	128	135

To demonstrate the transaction and translation currency exposure faced by the group, the table below shows the differences between the group's consolidated revenues and costs for each of the major currencies in 2011 before reflecting the effect of transactional hedges taken out in the year.

Revenue and cost by major currency:

	USD*	EUR*	GBP	JPY	Other	Total
Total sales (£m)	409	417	69	84	127	1,106
% of sales	37%	38%	6%	8%	11%	
Total costs (£m)**	(312)	(342)	(97)	(47)	(116)	(914)
PBT by currency (£m)	97	75	-28	37	11	192
% of PBT	51%	39%	-14%	19%	5%	

* Dollar/euro categories include tracking currencies

** Costs include interest of £3.8m in USD, £6.0m in EUR and £0.1m in GBP

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

Defined benefit pension schemes

The company operates a number of pension schemes throughout the group. The net pension liability in the balance sheet (before taking account of the related deferred tax asset of

£4.0 million) has decreased to £13.1 million (2010: £14.1 million). The movement can be summarised as follows:

	£m
Deficit in defined benefit pension schemes at 1 January 2011	(14.1)
Settlement gain in UK	0.3
Actuarial losses	(2.8)
Contributions in excess of service cost	3.2
Expected return on pension scheme assets net of interest costs on pension scheme liabilities	0.1
Exchange difference and other movements	0.2
Deficit in defined benefit pension schemes at 31 December 2011	(13.1)

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

	UK	Germany	Netherlands	Switzerland	Total
Deficit as at 1 January 2011	(3.7)	(7.1)	(0.4)	(2.9)	(14.1)
Decrease / (increase) in deficit	2.4	0.8	-	(2.2)	1.0
Deficit as at 31 December 2011	(1.3)	(6.3)	(0.4)	(5.1)	(13.1)

The reduction in the UK deficit is mainly due to the favourable asset returns over the period and the deficit contributions (£2.6 million p.a.) paid by the company. This beneficial impact was partially offset by an increase in liabilities due to a lower discount rate (4.7%) as at 31 December 2011 (31 December 2010: 5.4%).

The group has undertaken an Enhanced Transfer Value exercise for certain UK deferred members with a prospective pension entitlement of less than £1,000 p.a. For IAS19 valuation purposes as at 31 December 2011, this has been treated as a settlement, resulting in a gain of £0.3 million credited to the statement of income (difference between the total IAS19 liabilities for the members less the total amount paid from the plan).

The £2.2 million increase in the Swiss deficit arose mainly from an increase in liability due to a lower discount rate used (2011: 2.25%; 2010: 2.75%).

Clive Watson
Group Finance Director

Principal risks and uncertainties

The group has in place processes for identifying, evaluating and managing the key risks which could have an impact upon the group's performance.

The current risks, together with a description of how they relate to the group's strategy and the approach to managing them, are set out in the 2011 Annual Report which will be available on the group's website at www.spectris.com from 19 March 2012.

The group's audit and risk committee conducted its periodic risk review after the year end and concluded that the list of risks set out on pages 8-9 of the 2010 Annual Report and available at www.spectris.com needed to be updated to reflect those risks which the committee believes represent the current principal risks and uncertainties of the company. Specifically, the risk published in the 2010 Annual Report relating to revenue visibility and seasonal fluctuations in trading patterns is no longer considered to be principal in nature (but nonetheless will continue to be monitored).

In addition, the group has also reviewed its potential exposures to the current macro-economic uncertainty relating to the Eurozone economies. We believe that the broad spread of markets in which we operate substantially limits the risk associated with additional instability in any given territory. Whilst the group had sales into Europe of approximately £381 million in 2011 (34% of total group sales), sales into Greece, Ireland, Italy, Portugal and Spain represented just 5% of total sales for the year (approximately £57 million). The group does not have any significant operations or supply chain dependencies within these countries. Similarly, the group does not have any significant liquidity or funding risk in relation to these countries. We continue to monitor the situation and to assess our exposure and the impact on our business to ensure that we are well placed to mitigate the effects of any instability if it arises.

The complete list of principal risks and uncertainties contained in the 2011 Annual Report can now be summarised as follows:

- Acquisition integration
- New product development
- Competitive activity

- Supply chain disruption
- Fluctuations in exchange rates
- Intellectual property
- Political and economic environment
- Compliance with all relevant laws and regulations

The potential impact of these risks on our strategy and financial performance and details of our specific mitigation actions are also detailed in the 2011 Annual Report.

Clive Watson
Finance Director

“Spectris” is a trademark of Spectris plc and is protected by registration in the United Kingdom and other jurisdictions. Other product names referred to in this preliminary results announcement are registered or unregistered trademarks or registered names of Spectris plc or its subsidiary companies and are similarly protected.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011

	Note	2011	2010
		£m	£m
Continuing operations			
Revenue	3	1,106.2	901.9
Cost of sales		(457.5)	(375.1)
Gross profit		648.7	526.8
Indirect production and engineering expenses		(88.0)	(75.4)
Sales and marketing expenses		(238.9)	(206.0)
Administrative expenses		(146.0)	(117.5)
<hr/>			
<i>Operating profit before acquisition-related items</i>		201.5	142.1
<i>Net acquisition-related costs and contingent consideration fair value adjustments</i>		(1.8)	(1.9)
<i>Acquisition-related fair value adjustments to inventory</i>		(2.1)	-
<i>Amortisation of acquisition-related intangible assets</i>		(21.8)	(12.3)
<hr/>			
Operating profit		175.8	127.9
Profit on disposal of businesses		0.1	-
Financial income	4	7.2	8.2
Finance costs	4	(17.1)	(16.2)
<hr/>			
Profit before tax		166.0	119.9
Taxation - UK	5	(2.6)	(5.5)
Taxation - Overseas	5	(37.1)	(18.2)
<hr/>			
Profit after tax for the year from continuing operations attributable to owners of the company		126.3	96.2
<hr/>			
Basic earnings per share	7	108.7p	83.1p
Diluted earnings per share	7	106.9p	81.6p
Interim dividends paid and final dividends proposed for the year (per share)	6	33.60p	28.00p
Dividends paid during the year (per share)	6	29.10p	24.95p

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Reconciliations showing how the adjusted performance measures are derived from those reported under adopted IFRS are set out in Note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	£m	£m
Profit for the year attributable to owners of the company	126.3	96.2
Other comprehensive income:		
Net (loss)/gain on effective portion of changes in fair value of forward exchange contracts	(3.8)	0.7
Foreign exchange movements on translation of overseas operations	(5.5)	1.3
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations	2.0	2.2
Actuarial (loss)/gain arising on pension schemes, net of foreign exchange	(2.6)	2.1
Tax on items recognised directly in other comprehensive income	1.1	0.1
Total comprehensive income for the year attributable to the owners of the company	117.5	102.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £m
Balance at 1 January 2011	6.2	231.4	197.5	75.3	(0.2)	3.1	0.3	513.6
Profit for the year	-	-	126.3	-	-	-	-	126.3
Other comprehensive income:								
Net loss on effective portion of changes in fair value of forward exchange contracts, net of tax	-	-	-	-	(3.4)	-	-	(3.4)
Foreign exchange movements on translation of overseas operations	-	-	-	(5.5)	-	-	-	(5.5)
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations, net of tax	-	-	-	2.0	-	-	-	2.0
Actuarial loss arising on pension schemes, net of exchange and tax	-	-	(1.9)	-	-	-	-	(1.9)
Total comprehensive income for the year	-	-	124.4	(3.5)	(3.4)	-	-	117.5
Distributions to and transactions with owners:								
Equity dividends paid	-	-	(33.8)	-	-	-	-	(33.8)
Share-based payments, net of tax	-	-	6.4	-	-	-	-	6.4
Share options exercised from own shares (treasury) purchased	-	-	0.5	-	-	-	-	0.5
Balance at 31 December 2011	6.2	231.4	295.0	71.8	(3.6)	3.1	0.3	604.2

For the year ended 31 December 2010

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £m
Balance at 1 January 2010	6.2	231.4	119.5	70.9	(0.5)	3.1	0.3	430.9
Profit for the year	-	-	96.2	-	-	-	-	96.2
Other comprehensive income:								
Net gain on effective portion of changes in fair value of forward exchange contracts, net of tax	-	-	-	-	0.3	-	-	0.3
Foreign exchange movements on translation of overseas operations	-	-	-	1.3	-	-	-	1.3
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations, net of tax	-	-	-	3.1	-	-	-	3.1
Actuarial gain arising on pension schemes, net of exchange and tax	-	-	1.7	-	-	-	-	1.7
Total comprehensive income for the year	-	-	97.9	4.4	0.3	-	-	102.6
Distributions to and transactions with owners:								
Equity dividends paid	-	-	(28.9)	-	-	-	-	(28.9)
Share-based payments, net of tax	-	-	7.1	-	-	-	-	7.1
Share options exercised from own shares (treasury) purchased	-	-	1.9	-	-	-	-	1.9
Balance at 31 December 2010	6.2	231.4	197.5	75.3	(0.2)	3.1	0.3	513.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	2011 £m	2010 £m
Assets		
Non-current assets		
Intangible assets:		
<i>Goodwill</i>	544.5	355.1
<i>Other intangible assets</i>	205.9	97.4
	750.4	452.5
Property, plant and equipment	152.7	110.5
Equity-accounted investments	0.6	0.5
Deferred tax assets	20.6	18.4
	924.3	581.9
Current assets		
Inventories	171.8	121.0
Taxation recoverable	4.3	8.5
Trade and other receivables	220.8	194.8
Derivative financial instruments	0.1	2.3
Cash and cash equivalents	41.6	64.7
	438.6	391.3
Total assets	1,362.9	973.2
Liabilities		
Current liabilities		
Short-term borrowings	(2.7)	(1.7)
Derivative financial instruments	(1.7)	-
Trade and other payables	(227.6)	(212.1)
Current tax liabilities	(40.3)	(36.7)
Provisions	(31.9)	(23.4)
	(304.2)	(273.9)
Net current assets	134.4	117.4
Non-current liabilities		
Medium- and long-term borrowings	(383.9)	(135.5)
Derivative financial instruments	(12.8)	(14.9)
Other payables	(11.2)	(17.3)
Retirement benefit obligations	(13.1)	(14.1)
Deferred tax liabilities	(33.5)	(3.9)
	(454.5)	(185.7)
Total liabilities	(758.7)	(459.6)
Net assets	604.2	513.6
Equity		
Issued share capital	6.2	6.2
Share premium	231.4	231.4
Retained earnings	295.0	197.5
Translation reserve	71.8	75.3
Hedging reserve	(3.6)	(0.2)
Merger reserve	3.1	3.1
Capital redemption reserve	0.3	0.3
Total equity attributable to equity holders of the company	604.2	513.6
Total equity and liabilities	1,362.9	973.2

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	<i>Note</i>	2011 £m	2010 £m
Cash flows from operating activities			
Profit after tax		126.3	96.2
Adjustments for:			
Tax	5	39.7	23.7
Profit on disposal of businesses		(0.1)	-
Finance costs	4	17.1	16.2
Financial income	4	(7.2)	(8.2)
Depreciation		14.9	14.4
Amortisation of intangible assets		24.9	14.4
Acquisition-related fair value adjustments to inventory		2.1	-
Contingent consideration fair value adjustments		(1.3)	-
Gain on sale of property, plant and equipment		(0.4)	(0.1)
Equity-settled share-based payment transactions		6.4	6.6
Operating profit before changes in working capital and provisions		222.4	163.2
Increase in trade and other receivables		(7.3)	(18.5)
Increase in inventories		(24.3)	(15.1)
Increase in trade and other payables		9.6	56.6
Increase/(decrease) in provisions and employee benefits		4.0	(10.8)
Corporation tax paid		(35.1)	(21.0)
Net cash from operating activities		169.3	154.4
Cash flows from investing activities			
Purchase of property, plant and equipment and software		(29.2)	(18.9)
Proceeds from sale of property, plant and equipment		0.8	1.4
Acquisition of businesses, net of cash acquired		(369.0)	(62.6)
Proceeds from disposal of businesses		0.1	-
Interest received		0.7	1.0
Net cash flows used in investing activities		(396.6)	(79.1)
Cash flows from financing activities			
Interest paid		(12.8)	(11.1)
Dividends paid	6	(33.8)	(28.9)
Proceeds from exercise of share options (treasury shares)		0.5	1.9
Proceeds from borrowings		295.0	46.8
Repayment of borrowings		(45.8)	(52.8)
Net cash flows generated/ (used) in financing activities		203.1	(44.1)
Net (decrease)/increase in cash and cash equivalents		(24.2)	31.2
Cash and cash equivalents at beginning of year		63.3	33.7
Effect of foreign exchange rate changes		1.4	(1.6)
Cash and cash equivalents at end of year		40.5	63.3

Reconciliation of changes in cash and cash equivalents to movements in net debt

	2011	2010
	£m	£m
Net (decrease)/increase in cash and cash equivalents	(24.2)	31.2
Proceeds from borrowings	(295.0)	(46.8)
Repayment of borrowings	45.8	52.8
Effect of foreign exchange rate changes	3.4	0.5
Movement in net debt	(270.0)	37.7
Net debt at start of year	(86.2)	(123.9)
Net debt at end of year	(356.2)	(86.2)

NOTES TO THE ACCOUNTS

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 preliminary announcement for the year ended 31 December 2011 has been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS). The financial statements are presented in millions of pounds sterling rounded to the nearest one decimal place and are prepared on the historical cost basis except that derivative financial instruments are stated at fair value.

There have been no significant changes in accounting policies from those set out in Spectris plc's Annual Report 2010. The annual financial information presented in the preliminary announcement for the year ended 31 December 2011 is based on, and is consistent with, that in the group's audited Financial Statements for the year ended 31 December 2011.

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2011. None of these have been adopted early in preparing these consolidated financial statements. None of these are anticipated to have any impact on the results or statement of financial position reported in these consolidated financial statements. None of these new standards, amendments to standards and interpretations not yet effective are anticipated to materially change the group's published accounting policies.

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

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

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

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

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

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

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

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

measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The financial statements were approved by the Board of Directors on 17 February 2012.

2. ADJUSTED PERFORMANCE MEASURES

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures exclude certain non-operational items which management has defined as amortisation and impairment of acquisition-related intangible assets, acquisition-related costs and contingent consideration fair value adjustments, acquisition-related fair value adjustments to inventory, profits or losses on termination or disposal of businesses, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 5).

Management has modified the definition of the adjusted performance measures to include acquisition-related fair value adjustments to inventory carried at fair value less cost to sell, to provide an adjusted profit measure that will include results from acquired businesses on a consistent basis over time to assist comparison of performance. This adjustment was not material in the past.

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

	2011	2010
	£m	£m
Adjusted operating profit	175.8	127.9
Operating profit as reported under adopted IFRS	175.8	127.9
Net acquisition-related costs and contingent consideration fair value adjustments	1.8	1.9
Acquisition-related fair value adjustments to inventory	2.1	-
Amortisation of acquisition-related intangible assets	21.8	12.3
Adjusted operating profit	201.5	142.1

	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2011 Total
	£m	£m	£m	£m	£m
Adjusted operating profit by segment - 2011					
Operating profit as reported under adopted IFRS	56.0	48.5	60.3	11.0	175.8
Net acquisition-related costs and contingent consideration fair value	-	0.3	(0.9)	2.4	1.8
Acquisition-related fair value adjustments to inventory	-	-	0.2	1.9	2.1
Amortisation of acquisition-related intangible assets	4.9	5.9	4.2	6.8	21.8
Adjusted operating profit: segment result under adopted IFRS	60.9	54.7	63.8	22.1	201.5

Adjusted operating profit by segment - 2010	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2010 Total £m
Operating profit as reported under adopted IFRS	34.7	28.3	57.1	7.8	127.9
Net acquisition-related costs and contingent consideration fair value	1.2	0.2	0.3	0.2	1.9
Amortisation of acquisition-related intangible assets	3.6	6.3	0.9	1.5	12.3
Adjusted operating profit: segment result under adopted IFRS	39.5	34.8	58.3	9.5	142.1

Return on sales by segment - 2011	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2011 Total
Using operating profit as reported under adopted IFRS	16.6%	14.0%	19.5%	9.7%	15.9%
Using adjusted operating profit	18.1%	15.8%	20.6%	19.6%	18.2%

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

Reconciliation to adjusted profit before tax and adjusted operating profit	Note	2011 £m	2010 £m
Profit before tax as reported under adopted IFRS		166.0	119.9
Add/(deduct):			
Net acquisition-related costs and contingent consideration fair value adjustments		1.8	1.9
Acquisition-related fair value adjustments to inventory		2.1	-
Amortisation of acquisition-related intangible assets		21.8	12.3
Net gains on retranslation of short-term inter-company loan balances	4	(0.4)	(0.4)
Profit on disposal of businesses	3	(0.1)	-
Decrease/(increase) in fair value of cross-currency interest rate swaps	4	0.4	(1.4)
Adjusted profit before tax		191.6	132.3
Adjusted net finance costs (see below)		9.9	9.8
Adjusted operating profit		201.5	142.1

Adjusted net finance costs	2011	2010
	£m	£m
Net interest costs as reported under adopted IFRS	(9.9)	(8.0)
Decrease/(increase) in fair value of cross-currency interest rate swaps	0.4	(1.4)
Net gains on retranslation of short-term inter-company loan balances	(0.4)	(0.4)
Adjusted net finance costs	(9.9)	(9.8)

Adjusted operating cash flow	2011	2010
	£m	£m
Net cash from operating activities under adopted IFRS	169.3	154.4
Acquisition-related costs paid	3.1	1.9
Corporation tax paid	35.1	21.0
Purchase of property, plant and equipment and software	(29.2)	(18.9)
Proceeds from sale of property, plant and equipment	0.8	1.4
Adjusted operating cash flow	179.1	159.8

Adjusted earnings per share	2011	2010
	£m	£m
Profit after tax as reported under adopted IFRS	126.3	96.2
<i>Adjusted for:</i>		
Net acquisition-related costs and contingent consideration fair value adjustments	1.8	1.9
Acquisition-related fair value adjustments to inventory	2.1	-
Amortisation of acquisition-related intangible assets	21.8	12.3
Profit on disposal of businesses	(0.1)	-
Decrease/(increase) in fair value of cross-currency interest rate swaps	0.4	(1.4)
Net gains on retranslation of short-term inter-company loan balances	(0.4)	(0.4)
Tax effect of the above and other non-recurring items	(7.8)	(8.3)
Adjusted earnings	144.1	100.3
Weighted average number of shares outstanding (millions)	116.2	115.8
Adjusted earnings per share (pence)	124.1	86.6

Adjusted diluted earnings per share	2011	2010
Adjusted earnings (as above) (£m)	144.1	100.3
Diluted weighted average number of shares outstanding (millions)	118.1	117.9
Adjusted diluted earnings per share (pence)	122.0	85.1

Basic and diluted earnings per share in accordance with IAS 33 are disclosed in Note 7.

Analysis of net debt for management purposes	2011	2010
	£m	£m
Bank overdrafts	1.1	1.4
Bank loans - secured	1.9	2.2
Bank loans - unsecured	298.3	48.3
Unsecured loan notes	85.3	85.3
Cross-currency interest rate swaps – currency portion	11.2	13.7
Total borrowings	397.8	150.9
Cash balances	(41.6)	(64.7)
Net debt	356.2	86.2

3. OPERATING SEGMENTS

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

- Materials Analysis provides a range of analytical instrumentation to the metals and mining, pharmaceutical and fine chemicals, and electronics industries, and also to academic and research institutions.
- Test and Measurement supplies test, measurement and analysis equipment and software for product design optimisation, manufacturing control and environmental monitoring systems.
- In-line Instrumentation provides process analytical measurement, asset monitoring and on-line controls for both primary processing and the converting industries.
- Industrial Controls supplies process measurement, monitoring and control instrumentation and networking products for manufacturing industries.

Information about reportable segments

	Segment revenue		Inter-segment revenue		External customer revenue		Reportable segment profit	
	2011	2010	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	£m	£m	£m	£m
Materials Analysis	337.5	271.7	-	(0.1)	337.5	271.6	60.9	39.5
Test and Measurement	347.3	298.2	(0.4)	(0.8)	346.9	297.4	54.7	34.8
In-line Instrumentation	309.2	273.7	(0.3)	(0.6)	308.9	273.1	63.8	58.3
Industrial Controls	113.3	60.5	(0.4)	(0.7)	112.9	59.8	22.1	9.5
Eliminate inter-segment sales	(1.1)	(2.2)	1.1	2.2	-	-	-	-
Total continuing operations	1,106.2	901.9	-	-	1,106.2	901.9	201.5	142.1
Net acquisition-related costs and contingent consideration fair value adjustments							(1.8)	(1.9)
Acquisition-related fair value adjustments to inventory							(2.1)	-
Amortisation of acquisition-related intangibles							(21.8)	(12.3)
Operating profit							175.8	127.9
Profit on disposal of businesses*							0.1	-
Financial income*							7.2	8.2
Finance costs*							(17.1)	(16.2)
Profit before tax							166.0	119.9
Tax*							(39.7)	(23.7)
Profit after tax							126.3	96.2

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

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

Geographical Segments

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

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

The following is an analysis of revenue by geographical destination:

	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2011 Total
	£m	£m	£m	£m	£m
UK	11.8	13.1	8.4	3.3	36.6
Germany	20.0	65.7	28.1	7.7	121.5
France	14.1	20.2	9.3	1.8	45.4
Rest of Europe*	56.2	62.5	52.3	6.0	177.0
USA	60.6	52.7	76.2	68.1	257.6
Rest of North America	11.7	4.7	7.9	6.8	31.1
Japan	28.5	29.1	29.6	0.7	87.9
China	46.9	43.9	50.0	8.5	149.3
South Korea	13.6	12.9	6.1	2.7	35.3
Rest of Asia Pacific	40.8	21.9	20.8	5.5	89.0
Rest of the world	33.3	20.2	20.2	1.8	75.5
	337.5	346.9	308.9	112.9	1,106.2

	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2010 Total
	£m	£m	£m	£m	£m
UK	10.5	11.3	7.6	2.0	31.4
Germany	19.0	54.7	26.0	4.8	104.5
France	11.7	18.1	7.8	1.3	38.9
Rest of Europe*	43.8	56.2	46.9	3.5	150.4
USA	55.5	49.5	63.0	34.9	202.9
Rest of North America	8.7	4.9	8.0	2.8	24.4
Japan	19.2	23.5	30.1	0.4	73.2
China	33.0	32.4	41.5	4.3	111.2
South Korea	10.9	11.2	5.1	1.7	28.9
Rest of Asia Pacific	32.3	19.3	18.7	3.3	73.6
Rest of the world	27.0	16.3	18.4	0.8	62.5
	271.6	297.4	273.1	59.8	901.9

*Principally in Denmark and Switzerland

4. FINANCE COSTS AND FINANCIAL INCOME

	2011 £m	2010 £m
Financial income		
Interest receivable	0.7	0.9
Increase in fair value of cross-currency interest rate swaps	-	1.4
Net gains on retranslation of short-term inter-company loan balances	0.4	0.4
Expected return on pension scheme assets	6.1	5.5
	7.2	8.2

	2011 £m	2010 £m
Finance costs		
Interest payable on loans and overdrafts	10.5	9.9
Decrease in fair value of cross-currency interest rate swaps	0.4	-
Interest cost on pension scheme liabilities	6.0	6.0
Other finance costs	0.2	0.3
	17.1	16.2

Net interest costs of £9.8m (2010: £9.0m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £0.7m (2010: £0.9m), and interest payable on loans and overdrafts of £10.5m (2010: £9.9m).

5. TAXATION

	UK £m	Overseas £m	2011 Total £m	UK £m	Overseas £m	2010 Total £m
Current tax charge	6.3	41.9	48.2	4.8	24.5	29.3
Adjustments in respect of current tax of prior years	(0.4)	(1.5)	(1.9)	(0.6)	(6.8)	(7.4)
Deferred tax – origination and reversal of temporary differences	(3.3)	(3.3)	(6.6)	1.3	0.5	1.8
	2.6	37.1	39.7	5.5	18.2	23.7

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the group's profits, is 28.5% (2010: 27.6%). The tax charge for the year is lower than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2011 £m	2010 £m
Profit before taxation	166.0	119.9
Corporation tax at standard rate of 28.5% (2010: 27.6%)	47.3	33.1
Non-taxable income and gains	(3.8)	(2.8)
Non-deductible expenditure	1.8	1.7
Movements on unrecognised deferred tax assets	0.5	0.3
Research and development tax incentives	(3.4)	(2.1)
Other current year tax items	(0.3)	(0.4)
Change in tax rates	(0.1)	(0.1)
Adjustments relating to prior year acquisitions and disposals	-	(4.3)
Other adjustments to prior year current and deferred tax charges	(2.3)	(1.7)
Total taxation	39.7	23.7

Factors that may affect the future tax charge

The group's tax charge in future years is likely to be affected by the proportion of profits arising, and the effective tax rates, in the various territories in which the group operates.

	2011 £m	2010 £m
Tax on items recognised directly in other comprehensive income		
Tax on net (loss)/gain on effective portion of changes in fair value of forward exchange contracts	(0.4)	0.4
Tax on changes in fair value of effective portion of hedges of net investment in overseas operations	-	(0.9)
Tax on actuarial (loss)/gain arising on pension schemes, net of foreign exchange	(0.7)	0.4
Aggregate current and deferred tax credit relating to items that are charged directly to the statement of comprehensive income	(1.1)	(0.1)

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

	2011 £m	2010 £m
Tax on items of income and expense that are excluded from the group's adjusted profit before tax		
Tax (credit)/charge on unrealised change in fair value of cross-currency interest rate swaps	(0.1)	0.4
Tax credit on amortisation of intangible assets	(6.5)	(4.0)
Tax credit on acquisition-related costs	(0.4)	(0.1)
Tax credit on acquisition-related fair value adjustments to inventory	(0.8)	-
Tax credit on retranslation of short-term inter-company loan balances	-	(0.3)
Tax credit relating to prior year acquisitions and disposals	-	(4.3)
Total tax credit	(7.8)	(8.3)

The effective adjusted tax rate for the year was 24.8% (2010: 24.2%) as set out in the reconciliation below:

Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge	2011 £m	2010 £m
Total tax charge on adopted IFRS basis	39.7	23.7
Tax credit on items of income and expense that are excluded from the group's adjusted profit before tax	7.8	8.3
Adjusted tax charge	47.5	32.0
Adjusted profit before tax	191.6	132.3

6. DIVIDENDS

Amounts recognised and paid as distributions to owners of the company in the year	2011 £m	2010 £m
Final dividend for the year ended 31 December 2010 of 20.9p (2009: 17.85p) per share	24.3	20.7
Interim dividend for the year ended 31 December 2011 of 8.2p (2010: 7.1p) per share	9.5	8.2
	33.8	28.9

Amounts arising in respect of the year	2011 £m	2010 £m
Interim dividend for the year ended 31 December 2011 of 8.2p (2010: 7.1p) per share	9.5	8.2
Proposed final dividend for the year ended 31 December 2011 of 25.4p (2010: 20.9p) per share	29.6	24.2
	39.1	32.4

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.

7. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year but adjusted for the effects of dilutive options.

Basic earnings per share	2011	2010
Profit after tax (£m)	126.3	96.2
Weighted average number of shares outstanding (millions)	116.2	115.8
Basic earnings per share (pence)	108.7	83.1

Diluted earnings per share	2011	2010
Profit after tax (£m)	126.3	96.2
Basic weighted average number of shares outstanding (millions)	116.2	115.8
Weighted average number of dilutive 5p ordinary shares under option (millions)	2.6	2.2
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions)	(0.7)	(0.1)
Diluted weighted average number of shares outstanding (millions)	118.1	117.9
Diluted earnings per share (pence)	106.9	81.6

8. COMPANY INFORMATION

The financial information included in the preliminary announcement does not constitute statutory accounts of the group for the years ended 31 December 2011 and 2010. Statutory accounts for the year ended 31 December 2010 have been reported on by the group's auditors and delivered to the registrar of companies. Statutory accounts for the year ended 31 December 2011 have been audited and will be delivered to the Registrar of Companies following the company's Annual General Meeting. The report of the auditors for both years 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 498 (2) or (3) of the Companies Act 2006.

9. ANNUAL REPORT

The annual report will be made available to shareholders on 19 March 2012, either by post or on-line, and will be available to the general public on the company's website at www.spectris.com or on written request to the registered office at Station Road, Egham, Surrey TW20 9NP.