

**Malvern Panalytical Limited**  
**(formerly Malvern Instruments Limited)**  
**Annual report and financial**  
**statements**

**Registered number 01020602**  
**For the year ended 31 December 2018**



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## Strategic report

Malvern Panalytical Limited (the "Company") creates innovative, customer-focused solutions and services that enhance efficiency and deliver tangible economic impact through chemical, physical and structural analysis of materials. We are able to progress this goal by exploiting the latest technological developments, including artificial intelligence and predictive analytics. This enables scientists and engineers in a wide range of industries and organizations to solve the challenges associated with maximizing productivity, developing better quality products and getting them to market faster.

The Directors present the Strategic Report, the Directors' Report and the audited Financial Statements for the year ended 31 December 2018.

### Review of the company's business

Strong sales growth across all regions, as well as the acquisition of the Panalytical Limited assets and product line have helped to lift the total revenue to £142,931,000 (2017: £122,821,000).

Gross profit increased to £80,517,000 (2017: £71,211,000), but due to the additional sales of the Panalytical Limited products which are manufactured overseas, the gross profit percentage decreased to 56% (2017: 58%). The Operating profit increased to £28,788,000 (2017: £23,595,000) as a result of the increased sales and gross profit, and control of overheads.

The Company has acquired the business and trade assets of Panalytical Limited at the start of the year. As a result of the combination of the two businesses, and to retain the strong identity that both businesses have in their respective markets, we have chosen to rename the enlarged company Malvern Panalytical Limited. This should enhance the product portfolio of the Company, as well as create cross selling opportunities and other synergies.

### Key performance indicators (KPIs)

The Directors are of the opinion that analysis of the Company using KPIs is not appropriate for an understanding of the development, performance or position of the business of the Company. For further information about KPIs, please refer to the Spectris plc Annual Report and Accounts 2018.

### Principal risks and uncertainties facing the company

Risk management is a high priority. Processes are designed to identify, mitigate and manage risk. The Board are ultimately responsible for risk management.

The key risks to our business, in terms of opportunity and threat, are still centred around the developments within the emerging markets of Asia and Latin America as well as and combined with our ability to recognise and harness new technologies for existing and new applications.

#### *Trading risks*

The successful launch of new products and expansion into new markets and applications is key to obtaining growth and fending off increasing competition around traditional core technologies.

#### *Exchange risks*

The Company seeks to mitigate this risk through the provision of forward contracts.

#### *Financial risks*

The Company transacted in financial instruments during the year. Full details of the Spectris policies and procedures surrounding financial risks, financial instruments and details of such transactions can be found in the Spectris plc Annual Report and Accounts 2018.

## Strategic Report *(continued)*

### *Intellectual property risks*


Malvern Panalytical Limited protects its intellectual property through patents registered in key geographical markets and by monitoring infringements and challenges within those markets.

### *Future developments*

The Director's are not aware of any likely major changes in the Company's activities in the next year.

There have been no subsequent events since the end of the year.

Approved by order of the Board



**RW Prestidge**  
*Director*

Enigma Business Park  
Groveswood Road  
Malvern  
Worcestershire  
WR14 1XZ

15 October 2019

## Directors' report

### Results and dividends

The Company made a profit after tax in the year of £26,890,000 (2017: £21,678,000).

The Directors did not propose an interim dividend for the year ended 31 December 2018 (2017: £nil). The Directors have not proposed a final dividend (2017: £nil).

### Directors

The following served as Directors during the year and up to the date of this report, unless otherwise shown:

Dr DJ Bishop	Resigned 12 March 2018
RW Prestidge	
DM Roberts	Resigned 12 March 2018
G Simcock	Resigned 12 March 2018
RD Innocent	Resigned 12 March 2018
EP O'Lionaird	Resigned 25 April 2019
TA Mulder	

### Disclosure of information to auditor

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Charitable donations

A total of £1,250 was donated to registered charities during 2018 (2017: £11,000).

### Research and Development

The Company's products are regarded by the Directors as advanced technology, and as such require constant updating and renewal to remain competitive. It is the policy of the Company to devote significant funds each year towards the exploitation of new technology within our field. The amount of this expenditure is given in note 3 to the financial statements.

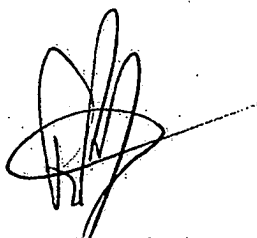
### Employee Consultation

The Directors regard employee involvement and effective communication as essential to maintain productive relationships, achieve improved performance and ensure commitment to the Company's business objectives. Discussions take place regularly with the employees on a wide range of issues. Additionally, all employees are briefed throughout the year on the current business status and the immediate outlook through a range of communication forums including face to face "Town Hall" meetings held by the President, and regular updates via the Company Intranet.

### Employment of disabled persons

The Company gives full consideration to employing disabled persons and making reasonable adjustments where necessary. Employees who become disabled are given every opportunity and assistance to continue in their employment or to be trained for other suitable positions.

Approved by order of the Board:



RW Prestidge  
Director

Enigma Business Park  
Groveswood Road  
Malvern  
Worcestershire  
WR14 1XZ

15 October 2019

## Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent auditors' report to the members of Malvern Panalytical Limited

### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of Malvern Panalytical Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

## Responsibilities of directors

As explained more fully in the Directors' Responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.



#### Matters on which we are required to report by exception

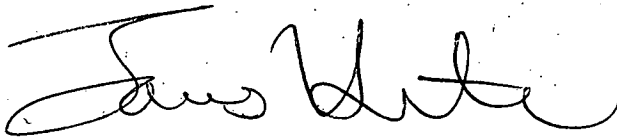
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

#### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



James Hunter FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Reading, United Kingdom

15 October 2019

**Income Statement**  
*for the year ended 31 December 2018*

	<i>Note</i>	<b>2018 £000</b>	<b>2017 £000</b>
Revenue	2	142,931	122,821
Cost of sales		(62,414)	(51,610)
<b>Gross profit</b>		<b>80,517</b>	<b>71,211</b>
Distribution costs		(1,520)	(1,142)
Administrative expenses		(44,455)	(46,474)
Impairment charge		(5,754)	-
<b>Operating profit</b>	3	<b>28,788</b>	<b>23,595</b>
Interest receivable and similar income	6	463	74
<b>Profit before taxation</b>		<b>29,251</b>	<b>23,669</b>
Taxation charge	7	(2,361)	(1,991)
<b>Profit for the financial year</b>		<b>26,890</b>	<b>21,678</b>

All results in the current and preceding financial year relate to continuing activities.

The notes on pages 12 to 31 form an integral part of these financial statements.

**Statement of Comprehensive Income**  
*for year ended 31 December 2018*

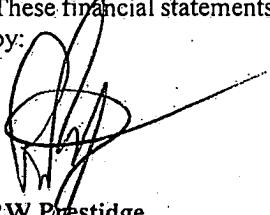
	2018 £000	2017 £000
Profit for the financial year	26,890	21,678
Other comprehensive (expense)/income		
Items that are or may be reclassified subsequently to profit or loss:		
Net (loss)/gain on effective portion of changes in fair value of cash flow hedges	(1,527)	2,349
Tax on items above	260	(400)
Other comprehensive (expense)/income for the year, net of tax	(1,267)	1,949
Total comprehensive income for the year	25,623	23,627

**Statement of Financial Position**  
*at 31 December 2018*

	<i>Note</i>	<b>2018</b> £000	<b>2017</b> £000
<b>Fixed assets</b>			
Intangible assets	8	11,219	17,525
Property, plant & equipment	9	12,028	11,088
Investments	10	3,007	3,007
		<u>26,254</u>	<u>31,620</u>
<b>Current assets</b>			
Inventories	11	16,620	11,052
Trade and other receivables	12	150,326	110,414
Financial instruments		-	721
Deferred tax		858	-
Cash and cash equivalents		-	2,217
		<u>167,804</u>	<u>124,404</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	13	(30,935)	(16,546)
Financial instruments		-	-
Corporation tax		(3,274)	(2,871)
Cash and cash equivalents		(1,057)	-
		<u>132,538</u>	<u>104,987</u>
<b>Net current assets</b>		<u>132,538</u>	<u>104,987</u>
<b>Total assets less current liabilities</b>		<u>158,792</u>	<u>136,607</u>
<b>Creditors: amounts falling due after more than one year</b>			
Trade and other payables	13	(304)	(325)
Financial instruments		(1,055)	-
Deferred tax	7	-	(380)
		<u>157,433</u>	<u>135,902</u>
<b>Net assets</b>		<u>157,433</u>	<u>135,902</u>
<b>Capital and reserves</b>			
Share capital	14	272	272
Capital redemption reserve		109	109
Cash flow hedge reserve		(787)	480
Retained earnings		157,839	135,041
		<u>157,433</u>	<u>135,902</u>
<b>Shareholders' funds</b>		<u>157,433</u>	<u>135,902</u>

The notes on pages 12 to 31 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 15 October 2019 and were signed on its behalf by:

  
RW Prestidge  
Director

Company number: 01020602

**Statement of Changes in Equity**  
*for the year ended 31 December 2018*

	Share capital	Capital redemption reserve	Cash flow hedge reserve	Retained Earnings	Total equity
	£000	£000	£000	£000	£000
<b>Balance at 1 January 2017</b>	272	109	(1,469)	112,776	111,688
Profit for the year	-	-	-	21,678	21,678
Other comprehensive income:					
Net loss/gain on effective portion on changes in fair value of cash flow hedges, net of tax	-	-	1,949	-	1,949
<b>Total comprehensive income for the year</b>	-	-	1,949	21,678	23,627
Transactions with owners recorded directly in equity:					
Share based payments	-	-	-	587	587
<b>Balance at 31 December 2017</b>	272	109	480	135,041	135,902
Adoption of IFRS 9 & IFRS 15 (see note 1)	-	-	-	(4,109)	(4,109)
<b>Balance at 1 January 2018 (restated)</b>	272	109	480	130,932	131,793
Profit for the year	-	-	-	26,890	26,890
Other comprehensive (expense)/income:					
Net loss/gain on effective portion of changes in fair value of cash flow hedges, net of tax	-	-	(1,267)	-	(1,267)
<b>Total comprehensive income for the year</b>	-	-	(1,267)	26,890	25,623
Transactions with owners recorded directly in equity:					
Share based payments, net of tax	-	-	-	17	17
<b>Balance at 31 December 2018</b>	272	109	(787)	157,839	157,433

## Notes to the financial statements (forming part of the financial statements)

### 1 Accounting policies

Malvern Panalytical Limited (the "Company") is a company incorporated and domiciled in the UK. It is a private company limited by shares registered in England and Wales. The registered number is 01020602 and the registered address is Enigma Business Park, Grovewood Road, Malvern, Worcestershire WR14 1XZ.

#### *Basis of preparation*

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, property, plant and equipment and intangible assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Spectris plc are available to the public as set out in note 18, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share-based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company has taken advantage of the exemption set out in section 400 of the Act not to prepare group accounts.

The financial statements have been prepared on the historical cost basis, except for revaluation of certain properties and financial instruments which are held at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are set out below.

## Notes (continued)

### 1 Accounting policies (continued)

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

#### New standards and interpretations adopted

In the current year the Company has applied a number of new standards and amendments to IFRSs issued by the International Accounting Standards Board. Details of the new standards that have had a material impact on the Company's Statement of Financial Position are set out below.

#### IFRS 15 'Revenue from Contracts with Customers'

The Company has adopted IFRS 15 'Revenue from Contracts with Customers' using the modified retrospective approach, which means that the cumulative impact on adoption has been recognised in retained earnings as of 1 January 2018. Comparatives have not been restated. IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers, and it replaced the separate model for goods and services of IAS 18 'Revenue'. Revenue is derived from a single performance obligation which is either the sale of goods or the provision of services.

The overall impact on transition on 1 January 2018 for the Company is as follows:

	Decrease in retained earnings £000	Increase in deferred income £000	Increase in inventories £000	Decrease in net current and deferred tax net liabilities £000
Company	(4,343)	8,086	2,724	1,019

If IFRS 15 had not been adopted, the revenue for the year ending 31 December 2018 would have decreased by £1,706,000, operating profit would have decreased by £799,000 and profit after tax decreased by £647,000. This is due to the point at which revenue is recognised being driven by a more customer centric approach of ensuring customer acceptance.

#### IFRS 9 'Financial Instruments'

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. There is no requirement to restate comparatives.

IFRS 9 provides a new impairment model for financial assets, which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as is the case under IAS 39. This requires the Company to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Company is applying the simplified approach and records lifetime expected losses on all trade receivables.

At 1 January 2018, the Company reviewed and assessed the amounts due from customers for the above changes, which resulted in the following overall impact on transition on 1 January 2018:

	Increase in retained earnings £000	Increase in trade and other receivables £000	Increase in current and deferred tax net liabilities £000
Company	234	289	(55)

The £55,000 in current and deferred tax net liabilities consists of a £55,000 increase in current tax liabilities. This is due to reduction in provision based on expected future credit losses.

## Notes (continued)

### 1 Accounting policies (continued)

#### Intangible assets

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

The Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. This is not in accordance with the UK Companies Act which requires goodwill to be amortised over its useful economic life. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Software	– 3 to 5 years.
Patents, contractual rights, technology	– Up to 10 years.
Customer-related and trade names	– 3 to 20 years.



## Notes (continued)

### 1 Accounting policies (continued)

#### *Property, plant and equipment*

Property, plant and equipment assets are stated at cost less accumulated depreciation and impairment losses. The cost comprises the purchase price paid and any costs directly attributable to bringing it into working condition for its intended use.

Depreciation is recognised in the income statement on a straight-line basis to write off the cost, less the estimated residual value (which is reviewed annually), of property, plant and equipment over its estimated useful economic life. Depreciation commences on the date the assets are ready for use within the business and the asset carrying values are reviewed for impairment when there is an indication that they may be impaired. The depreciation charge is revised where useful lives are different from those previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Estimated useful lives are as follows:

Freehold and long leasehold property	– 40 years.
Plant and equipment	– 3 to 20 years.
Freehold land is not depreciated.	

#### *Investments*

Investments in subsidiaries and other investments are stated at historical cost, less provision for any impairment in value.

#### *Inventories*

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

#### *Trade and other receivables*

Trade and other receivables are carried at original invoice amount (which is considered a reasonable proxy for fair value) and are subsequently held at amortised cost less provision for impairment. The provision for impairment of receivables is based on lifetime expected credit losses. Lifetime expected credit losses are calculated by assessing historic credit loss experience, adjusted for factors specific to the receivable and operating company. The movement in the provision is recognised in the Income Statement.

#### *Cash and cash equivalents*

Comprises cash at bank and in hand and short-term deposits held on call or with maturities of less than three months at inception.

#### *Trade and other payables*

Trade and other payables are carried at the amounts expected to be paid to counterparties.

#### *Provisions*

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources, that can be reliably measured, will be required to settle the obligation. In respect of warranties, a provision is recognised when the underlying products or services are sold. Provisions are recognised at an amount equal to the best estimate of the expenditure required to settle the Company's liability. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefit is probable. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such a plan will be carried out.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Leasing*

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

#### *Taxation*

Tax on the profit or loss for the year comprises both current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised either in other comprehensive income or directly in equity, in which case tax is recognised in the Statement of Comprehensive Income or the Statement of Changes in Equity, respectively.

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

Deferred tax is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantively enacted by the statement of financial position date.

However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### *Foreign currency translation*

The functional currency for the Company is determined with reference to the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses on settlement of foreign currency transactions are translated at the rate prevailing at the date of the transactions, or the translation of monetary assets and liabilities at period end exchange rates, and are charged/credited to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

#### *Financial instruments*

##### *Recognition*

The Company recognises financial assets and liabilities on its Statement of Financial Position when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

##### *Measurement*

When financial assets and liabilities are initially recognised, they are measured at fair value, being the consideration given or received plus directly attributable transaction costs. In determining estimated fair value, investments are valued at quoted bid prices on the trade date. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

Originated loans and receivables are initially recognised in accordance with the policy stated above and subsequently re-measured at amortised cost using the effective-interest method. Allowance for impairment is estimated on a case-by-case basis.

## Notes (continued)

### 1 Accounting policies (continued)

The Company uses derivative financial instruments such as forward foreign exchange contracts to hedge risks associated with foreign exchange fluctuations. These are designated as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts deferred in equity are reclassified to the Income Statement in the periods when the hedged item is recognised in the Income Statement, in the same line of the Income Statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the Income Statement.

#### *Derecognition*

A financial asset is derecognised when the Company loses control over the contractual rights to the cash flows from the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. Originated loans and receivables are derecognised on the date they are transferred by the Company.

#### *Impairment of financial assets*

The Company assesses at each Statement of Financial Position reporting date whether there is any objective evidence that a financial asset, or group of financial assets, is impaired. A financial asset, or group of financial assets, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For trade receivables the Company recognises impairment provisions based on lifetime expected credit losses.

#### *Employee benefits*

The Company operates defined contribution pension schemes.

#### *Defined contribution scheme*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised in the income statement in the periods during which services are rendered by employees.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Employee benefits (continued)*

##### *Short term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

##### *Share based payments*

Certain employees of the Company receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined by an external consultant and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each statement of financial position reporting date up to the vesting date, at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

Where it is not possible to incentivise managers of the Company with equity-settled options, they are issued with cash-settled options. The charge for these awards is adjusted to reflect the expected and actual levels of options that vest and the fair value is based on either the share price at date of exercise or the share price at the statement of financial position date if sooner.

##### *Revenue*

Revenue is measured based on the fair value of the consideration specified in a contract with a customer, net of returns and discounts, and excludes amounts collected on behalf of third parties, value added tax and other sales-related taxes. The Company recognises revenue when it transfers control of a product or service to a customer.

The Company's major revenue streams are provision of services, sales of goods without installation, sales of goods with simple installation and sales of goods with complex installation.

Revenue from the provision of services, including ongoing support, servicing and maintenance, is recognised in line with the delivery of the service, either at a point in time or, for some ongoing services, over time.

Revenue from the sale of goods, where the goods are not required to be installed, is recognised at a point in time when legal title transfers to the customer, usually on delivery.

When the sale of goods is combined with installation, revenue recognition depends upon the nature of the installation. Simple installations are those which the customer perceives as a separate performance obligation within the overall contract to deliver goods, whereas complex installations are those for which the installation is an integral part of the delivery of the goods.

Revenue is recognised for simple installations separately from the delivery of goods, and only at a point in time when the installation has occurred.

For complex installations, revenue is normally deferred until installation is complete. For a small number of complex installations, revenue is recognised before installation when: a) a significant period of time has elapsed since delivery of the product; b) an installation date has not been agreed despite multiple attempts to arrange; and c) payment has been received from the customer. Significant judgement is required for these installations. Revenue from these arrangements represents approximately 1% of the segment's total sales.

## Notes (continued)

### 1 Accounting policies (continued)

Occasionally, the initial contract covers both the supply of goods and ongoing support, servicing and maintenance. For such contracts, revenue is allocated across each of the individual components in line with their relative price and value of the performance obligation and each element is accounted for as described above.

Payment is normally due immediately at the point that the performance obligation is completed. For some of the segment's business the customer may make partial payment in advance. Such payments are recognised as contract liabilities until the performance obligation has been satisfied.

Sales-related warranties associated with the products cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications.

#### *Interest receivable and similar income*

Interest receivable and similar income comprises interest income on cash and funds invested and is recognised in the income statement as it accrues.

#### *Government grants*

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

## Notes (continued)

### 7 Taxation (continued)

#### (b) Tax relating to items charged/(credited) to other comprehensive income

	2018 £000	2017 £000
<i>Deferred tax</i>		
Tax on effective portion of change in fair value of cash flow hedges	(260)	400
Change in tax rates	-	-
Total deferred tax (credit)/charge	(260)	400
Total tax (credit)/charge	(260)	400

#### (c) Tax relating to items (credited)/charged directly to the Statement of Changes in Equity

	2018 £000	2017 £000
<i>Current tax</i>		
Share based payments (credited)/charged	(9)	(62)
Total current tax credit/(charge)	(9)	(62)
<i>Deferred tax</i>		
Share based payments	-	30
Total deferred tax charge	-	30
Total tax credit/(charge) to the Statement of Changes in Equity	46	(32)

#### (d) Reconciliation of the total tax charge

The tax charge in the income statement for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The difference is explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	29,251	23,669
Corporation tax at standard rate of 19% (2017: 19.25%)	5,558	4,556
<i>Effects of:</i>		
Non-taxable income	(1,019)	-
Non-deductible expenditure	26	129
UK patent box incentives	(2,350)	(2,063)
Other current year items	87	(15)
Change in tax rate	-	-
Adjustments to of prior year current and deferred tax charges	58	(616)
Total tax charge reported in the income statement	2,361	1,991

## Notes (continued)

### 7 Taxation (continued)

#### (e) Change in corporation tax rate

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 15th September 2016 and confirmed by the Finance Act 2019 when it received Royal Assent in February 2019. Deferred tax at 31 December 2017 has been calculated based on these rates.

#### (f) Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2018 £000	2017 £000
<i>Deferred tax liability</i>		
Temporary differences relating to intangible assets	-	(500)
Temporary differences relating to property, plant and equipment	-	(43)
Temporary differences relating to revaluation of cash flow hedges	-	(99)
	-	(642)
<i>Deferred tax asset</i>		
Temporary differences relating to intangible assets	367	-
Temporary differences relating to property, plant and equipment	46	-
Share based payments	247	227
Other temporary differences	38	35
Temporary differences relating to revaluation of cash flow hedges	160	-
Disclosed on the statement of financial position	858	262
Deferred tax asset	858	-
Deferred tax liability	-	(380)

#### Deferred tax in the income statement

	2018 £000	2017 £000
Temporary differences relating to intangible assets	(867)	(321)
Temporary differences relating to property, plant and equipment	(37)	43
Other temporary differences	(22)	(51)
Change in tax rates	-	-
Adjustment in respect of prior year	(52)	(241)
Deferred tax credit to the income statement	(978)	(570)

Notes (continued)

8 Intangible assets

	Goodwill	Technology	Patents	Other intangible assets	Software	Total
	£000	£000	£000	£000	£000	£000
<b>Cost</b>						
At beginning of year	13,724	13,599	2,234	6,307	9,288	45,152
Additions	-	-	-	-	366	366
Acquired	2,150	-	-	-	-	2,150
Disposals	-	-	-	-	(796)	(796)
At end of year	15,874	13,599	2,234	6,307	8,858	46,872
<b>Amortisation and impairment</b>						
At beginning of year	6,776	8,739	2,234	4,405	5,473	27,627
Charged in year	-	1,567	-	735	766	3,068
Impairment	3,784	803	-	1,167	-	5,754
Disposals	-	-	-	-	(796)	(796)
At end of year	10,560	11,109	2,234	6,307	5,443	35,653
<b>Net book value</b>						
At 31 December 2018	5,314	2,490	-	-	3,415	11,219
At 31 December 2017	6,948	4,860	-	1,902	3,815	17,525

Intangible assets other than goodwill are being amortised over a period between 5 and 7 years, being the Directors' estimate of the useful economic lives.

The Company has no internally generated intangible assets from development expenditure as the criteria for the recognition as an asset under IAS38 "Intangible Assets" have been met (2017: None).

As part of the annual impairment review, the carrying amount of goodwill has been assessed with reference to value in use to perpetuity, reflecting the projected cash flows based on actual operation results, the most recent budget for the next financial year as approved by the board, and strategic review projections.

Following the annual impairment review, the Goodwill, Technology and Other Intangible assets related to the Resonant Mass product line were fully impaired to nil value. The circumstances that led to this were a considerable drop in future revenue projections compared to the original business case.

Goodwill of £2,150,000 was acquired as part of the Panalytical Ltd asset purchase. This relates to X-Ray analysis equipment, and is supported by our projected cash flows based on these products.

Goodwill is allocated to two cash-generating units that are anticipated to benefit from the acquisition. These were:

	2018 £000	2017 £000
Resonant Mass	-	3,784
Nano particle tracking	3,164	3,164
X-Ray analysis equipment	2,150	-
	<u>5,314</u>	<u>6,948</u>



## Notes (continued)

### 9 Property, plant and equipment

	Freehold land and buildings £000	Plant, equipment and motor vehicles £000	Total £000
<b>Cost</b>			
At beginning of year	8,237	9,983	18,220
Additions	-	2,153	2,153
Acquired	-	184	184
Disposals	-	(748)	(748)
At end of year	8,237	11,572	19,809
<b>Depreciation</b>			
At beginning of year	2,282	4,850	7,132
Charge for the year	150	1,200	1,350
Disposals	-	(701)	(701)
At end of year	2,432	5,349	7,781
<b>Net book value</b>			
At 31 December 2018	5,805	6,223	12,028
At 31 December 2017	5,955	5,133	11,088

Included in the total net book value of freehold land and buildings is £1,875,000 (2017: £1,875,000) in respect of freehold land which is not depreciated.

No borrowing costs met the required criteria for capitalisation during the year (2017: £Nil).

### 10 Investments

<b>Cost</b>	£000
At beginning and end of year	3,007
<b>Impairment</b>	
At beginning and end of year	-
<b>Net book value</b>	
At 31 December 2018	3,007
At 31 December 2017	3,007

The company has the following investments in subsidiaries:

Name of company	Registered office address	Class of shares held	Ownership
Malvern-Amil Instruments Private Ltd	Naimex House, A-8 Mohan Co-op Inell Estate, Mathura Road, New Delhi-110044, India	Ordinary	99.9%
Nanosight Limited	Enigma Business Park, Grovewood Road, Malvern, Worcestershire WR14 1XZ	Ordinary	100%

## Notes (continued)

### 11 Inventories

	2018 £000	2017 £000
Raw materials	10,753	9,074
Work in progress	1,328	630
Finished stocks	4,539	1,348
	<u>16,620</u>	<u>11,052</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £62,414,000 (2017: £51,559,000). The write-down of stocks to net realisable value amounted to £Nil (2017: £Nil).

### 12 Trade and other receivables

	2018 £000	2017 £000
<i>Amounts falling due within one year</i>		
Trade debtors	16,715	13,155
Amounts owed by group undertakings	120,961	94,019
Other debtors	12,570	3,144
Prepayments and accrued income	80	96
	<u>150,326</u>	<u>110,414</u>

Amounts owed by Group undertakings are in relation to interest bearing intra-group loans which are financial arrangements on an arm's length basis, or trading balances with other companies within the Group.

### 13 Trade and other payables

	2018 £000	2017 £000
<i>Amounts falling due within one year</i>		
Trade creditors	7,538	7,622
Other creditors including taxation and social security	13,452	6,330
Accruals and deferred income	9,945	2,594
	<u>30,935</u>	<u>16,546</u>
<i>Amounts falling due after more than one year</i>		
Other creditors	304	325
	<u>304</u>	<u>325</u>

## Notes (continued)

### 18 Contingent liabilities

With certain other members of the Spectris Group, the Company has guaranteed facilities made available to Spectris plc, in respect of which the following amounts were outstanding at 31 December 2018:

	2018 £000	2017 £000
Royal Bank of Scotland	2,517	2,342

Where the Company enters into financial guarantee contract to guarantee the indebtedness of other companies within its group the Company considers these to be insurance arrangements in accordance with the requirements of IFRS 4 and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Malvern Panalytical Limited and other UK subsidiaries of the Spectris Group are party to a cross-guarantee arrangement to support trade finance facilities entered into in the normal course of business. They are also party to a cross-guarantee arrangement that allows individual subsidiaries to borrow from the bank on overdraft within the overall borrowing limit of the Spectris Group.

### 19 Ultimate parent company

The Company's ultimate holding company is Spectris plc which is incorporated in England & Wales.

The consolidated accounts of this company are available to the public and may be obtained from :  
Spectris plc, Heritage House, Church Road, Egham, Surrey, TW20 9QD.