The precious metals processor
The plastics company
The vehicle manufacturer
The life sciences company
The tissue producer
The electronics manufacturer
The aerospace test laboratory
The energy utility

Enhancing productivity

spectris

Spectris plc
Annual report and accounts 2012

Who we are

Spectris is a leading supplier of productivity-enhancing instrumentation and controls.
Our products help customers around the world and across all key manufacturing industries work better, faster, and more efficiently.

What we do

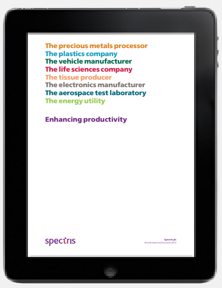
We make highly specialised measuring instruments and controls for some of the most technically demanding industries in the world. Our products and applications help ensure the safety of aircraft materials, render cars quieter and more economical, and make energy greener and cleaner. Everything we do is about making technology more productive, and giving our customers a competitive edge.
We speed up processes, save time, cut waste, and improve accuracy.

Our own competitive edge is provided by innovation. We have unparalleled know-how and expertise in our chosen fields, and many of our products are based on our own proprietary technology and protected by patents. Our businesses target niche markets and sectors where there are high barriers to entry which we can profitably serve. We invest around 7% of our revenue in R&D, and our businesses launch new products and applications every year. Around 40% of our sales come from customers' operating budgets, of which 24% is from consumables and service, collectively reducing our exposure to the capital cycle. Our global network of sales offices and technical centres means we can provide local delivery and service for our customers, wherever they are based.

The way we work is underpinned by our culture and our values, providing a framework everyone understands and respects. We have an energetic, entrepreneurial culture, where people are encouraged to take responsibility and achieve their goals. Our focus on integrity, customers and innovation supports our goal of high performance in delivering products and services which are best in class.

The result? Leading positions in the markets we operate in.

Read online and download our interactive PDF
www.spectris.com



We speed up processes, save time, cut waste, and improve accuracy. Everything we do is about making technology more productive, giving our customers a competitive edge.

Enhancing productivity.

Business review

Governance

Financial statements

Throughout the report we have used the following icons to help navigate to further information.

Links to pages within our website

Links to pages within this report

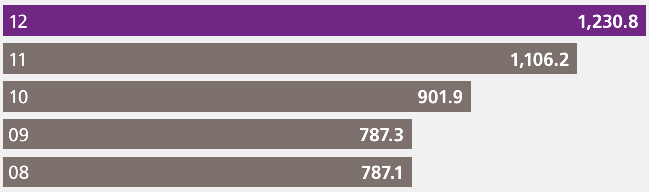
Highlights

The strong results were achieved through the progress we made on all aspects of our strategy.

- Strong operating performance despite challenging environment
- Good growth in Asia and North America
- Recent acquisitions increase resilience through greater exposure to operational expenditure
- Increased R&D investment in new products, technologies and applications
- Return on sales increased to 18.6%
- Continued strong cash conversion of 93%
- Dividend up by 16%

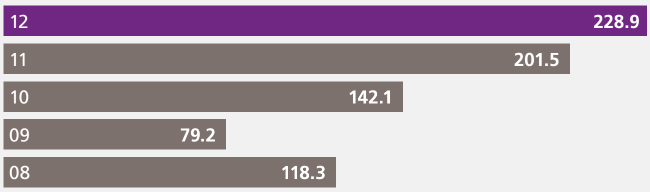
Sales, up 11%

£m



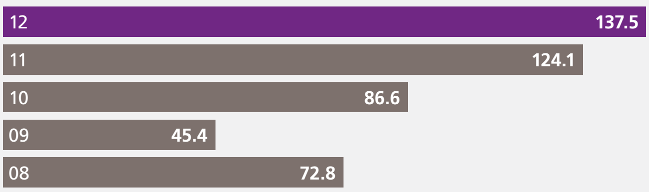
Adjusted operating profit, up 14%

£m



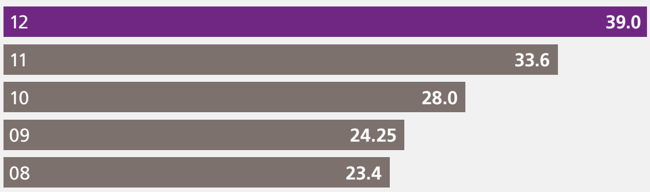
Adjusted earnings per share, up 11%

pence



Dividend, up 16%

pence



Meeting our customers' needs

Our businesses are leaders in their specialised markets and work with multinational blue chip customers to enhance their productivity across all key manufacturing industries.

With offices in more than 150 locations around the world, our global reach allows us to serve our customers closest to where they do business. We continue to strengthen our position by establishing sales and support facilities for our customers, particularly in emerging markets.

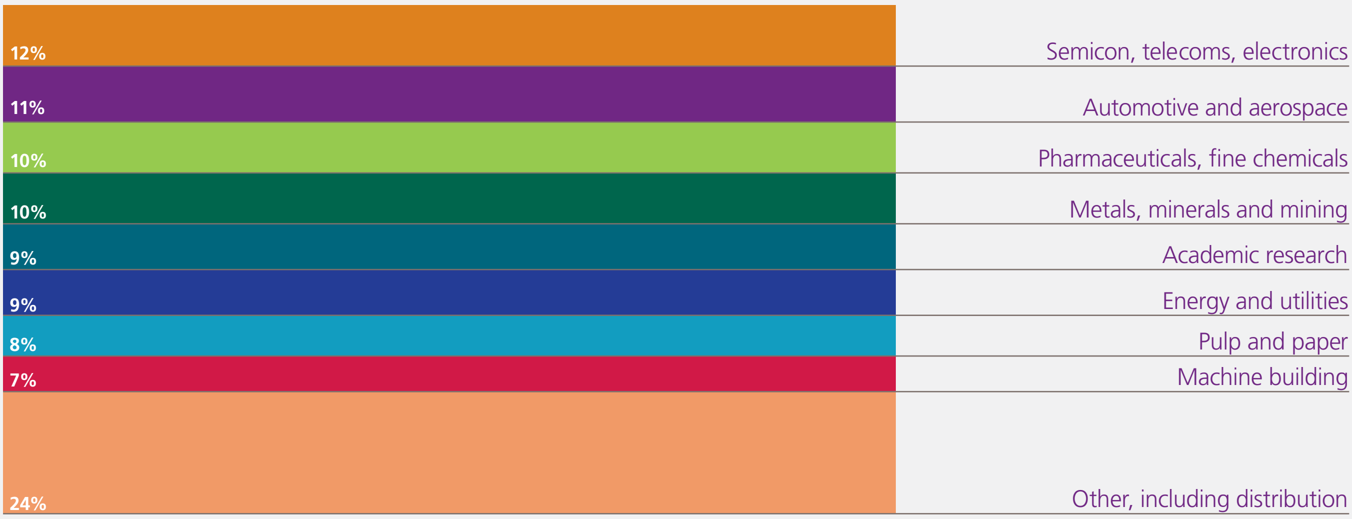
With a significant proportion of our people involved in direct contact with our customers, we pride ourselves on building long-term relationships, some of them lasting more than 50 years.

Our employees work closely with their customers to develop an in-depth knowledge of their sector, business, and processes, and we use this extensive customer insight either to adapt our technology to meet their needs, or create new products specifically tailored to them. In fact, most of our new products have benefited from detailed feedback from our customers in both the early and final stages of development.

But we don't just walk away from our customers once we have sold them a product. Beyond the initial sale, we provide maintenance, training and consultancy support, and replacement consumables.

2012 sales by end user market

% total group reported sales



2012 sales by region

The precious metals processor

"Following our success with the mining plants, we've now installed PANalytical's automated X-ray equipment in our precious metals recycling laboratory and can provide our customers with the fastest and most reliable material tests in the market."

Stillwater Mining Company operates two palladium and platinum mines in Montana, USA. These precious metals are vital components in catalytic converters, and Stillwater is a leader in their recovery and recycling. The company has been an important customer for more than 20 years, using our X-ray instruments to analyse ore samples and ensure that the mining process is fine-tuned for maximum efficiency. Stillwater also has an automated recycling laboratory equipped with four X-ray systems and preparation equipment to improve the efficiency of the sample assay process. This has significantly reduced overhead costs and almost halved sample throughput time.

Materials Analysis segment
page 30

The plastics company

"Beta LaserMike's measurement systems have enabled us to develop a leading-edge, high pressure tubing system that meets the demanding requirements of our customers."

A. Schulman is a leading international supplier of high performance plastic compounds, standard plastics, and specialty powders. These materials are used in a wide range of industrial products and processes. One important new product is the pioneering and cost-effective Schulatube plastic tube system, designed particularly for the automotive industry, which requires extremely precise measurement of the thickness and diameter of the layered tube. With the move towards smaller and more fuel-efficient cars, vehicle manufacturers are looking for plastics with much higher resistance to both heat and pressure. Our advanced measurement systems allow A. Schulman to monitor the exact dimensions of the product during the manufacturing process, ensuring greater quality control, better productivity, and less waste.

In-line Instrumentation segment page 34

The vehicle manufacturer

"Understanding how our customers drive is becoming increasingly important in product development. We often evaluate driver behaviour as a way of improving our vehicles and making them more fuel efficient. Everything we learn will later be used to improve our machines."

Swedish company Volvo Construction Equipment is renowned for its engineering expertise and the excellent driving characteristics of its wheel loaders and other heavy off-road vehicles. Increasing competition means vehicle manufacturers are placing greater emphasis on the product development process, and Volvo is using HBM's test system to help it test loader prototypes under real-life extreme conditions, such as in a quarry. HBM's robust system acquires data such as pressure, strain, and acceleration as the vehicle is loaded and unloaded and moved around, in order to simulate and collect data about the customer's day-to-day driving. The results are used as a basis for developing fuel-efficient vehicles with improved driving characteristics.

Test and Measurement segment page 32

The life sciences company

"Microscan's barcode reading system has enabled our customers to streamline their laboratory workflow and minimise errors."

Miltenyi Biotec, based in Germany, provides a range of products and services aimed at advancing biomedical research. They have integrated Microscan's 2D barcode reading system into their clinical analysers to ensure that the bottles of antibodies used during analysis are detected correctly. Fully automated detection of the bottles, with a barcode containing information such as the sample number, ensures that the correct antibodies and incubation times are used. This streamlines the entire process, saving the researchers valuable time and reducing the chance of errors.

Industrial Controls segment page 36

Our group at a glance

Spectris comprises four highly-efficient and professionally-managed business segments, which reflect the applications and end user industries we serve.

How we work

Our four segments are united by the same purpose, the same values, and the same strategy. They all work according to a strong common framework of controls, management KPIs, financial discipline, and rigorous operating principles, but each business is focused on its own products, markets and customers.

Laboratory/off-line businesses

Our products help customers to improve accuracy and speed of materials analysis in the laboratory and in process manufacturing applications. We also provide test and measuring equipment for research and development applications.

Materials Analysis

Materials Analysis provides products that enable customers to assess structure, composition, quantity and quality of particles and materials, during their R&D process, when assessing raw materials before production, or during the manufacturing process. Our products help customers to improve accuracy and speed of materials analysis in the laboratory and in process quality control.

Sales
£348.1m
2011: £337.5m

Operating profit
£63.1m
2011: £60.9m

Industries:
Mining/metals
Pharmaceuticals/fine chemicals
Academic/research institutes

Operating companies:
Malvern Instruments
Particle Measuring Systems
PANalytical

Test and Measurement

Test and Measurement supplies test, measurement and analysis equipment and software for product design optimisation, manufacturing control, and environmental monitoring systems.

Sales
£345.4m
2011: £346.9m

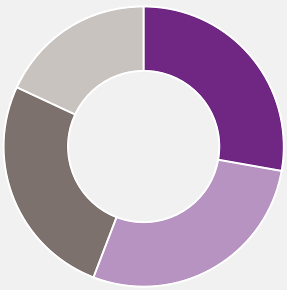
Operating profit
£55.6m
2011: £54.7m

Industries:
Automotive
Aerospace
Consumer electronics
Environmental

Operating companies:
Brüel & Kjær Sound & Vibration
HBM

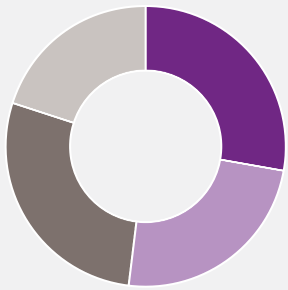
Our group at a glance continued

Group sales



	%
Materials Analysis	28
Test and Measurement	28
In-line Instrumentation	26
Industrial Controls	18

Group profit*



	%
Materials Analysis	28
Test and Measurement	24
In-line Instrumentation	28
Industrial Controls	20

* adjusted operating profit

Process/manufacturing businesses

Our products and applications provide precision measurement and control in challenging operating environments, ensuring process quality, asset uptime, safety, and improved yield. We also provide automation and control products for the discrete manufacturing industries.

In-line Instrumentation

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.

Sales
£320.1m
2011: £308.9m

Operating profit
£63.9m
2011: £63.8m

Industries:
Process industries
Energy/utilities
Pulp & paper
Converting/web/packaging

Operating companies:
Beta LaserMike
Brüel & Kjær Vibro
BTG
Fusion UV Systems*
NDC Infrared Engineering
Servomex

* This business was divested on 31 January 2013

Industrial Controls

Industrial Controls provides products and solutions that monitor, control, inform, track, and trace during the production process.

Sales
£217.2m
2011: £112.9m

Operating profit
£46.3m
2011: £22.1m

Industries:
Manufacturing controls/networking
Distributors
Machine building

Operating companies:
Microscan
Omega Engineering
Red Lion Controls

Revenue is reported. Operating profit is adjusted

Our values

We believe that our values are pivotal to how we operate and essential to our business success and growth, distinguishing us from our competitors.

In summary

Our values underpin the way we work, guide our decision making and shape our culture.

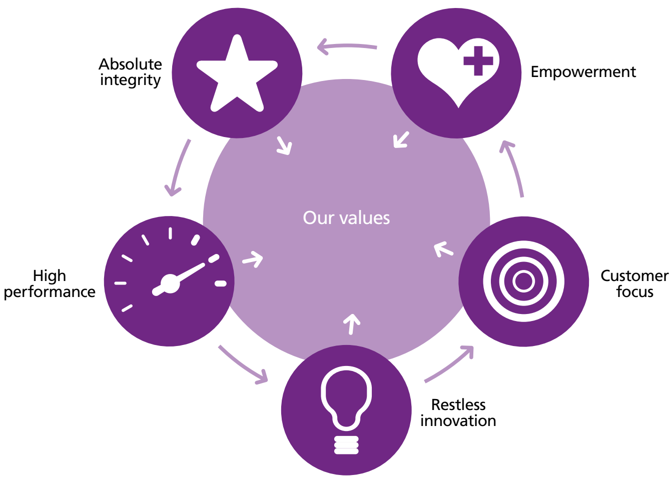
Our values ensure that we can match the quality of our products and services with the quality of our behaviour.

In 2012, we refreshed our values, based on feedback from around the group.

Committed to our values

We currently have around 7,600 employees at over 150 locations across the world, but there is one thing that unites us all: our values. They underpin the way we work, guide our decision making, and shape our culture.

In these pages we look in more detail at what each of the values means, and how they make a real and tangible difference as we live them every day.



Absolute integrity

This means:

- always acting with honesty and transparency in all that we do;
- doing the right thing even if it means losing business;
- keeping our promises and commitments; and
- treating our people and business partners with fairness and respect.

Many companies have integrity as one of their values but, for us, the word 'absolute' is just as important. Because if integrity is absolute it means there are no compromises, even when difficult decisions have to be made, or when there is a temptation to agree to an inappropriate business deal on the basis of its potential profitability.

Values in action:

During 2012 one of our business managers was asked for a 'commission payment' to secure a valuable order. The manager in question was relatively new to the company, but having been given a full induction on the importance of our values and the Code of Business Ethics, he turned the request down, even though he knew the order might be lost as a result. The incident was reported to his manager and the company's leadership team, and they gave their full support for the decision that had been made. Incidentally, we retained the business.

We have also been asked in the past to manipulate our product pricing to make room for kick-backs, but we have always refused.

Empowerment

This means:

- creating an entrepreneurial culture where people can take initiative and succeed;
- challenging our people to grow and reach their highest potential individually and collectively; and
- trusting our people to take personal ownership and accountability, and learn from their experiences.

We have a highly-skilled and talented workforce and we know we will get the most from them by allowing them the scope to use those skills and exploit those talents. Empowerment is all about giving our employees the freedom to succeed. There are countless examples of this in practice, and many of our most significant innovations have been the result of individual employees seeing a new customer need, or seizing a new market opportunity.

See more on our values
www.spectris.com/Values.aspx

Our values continued

Customer focus

This means:

- partnering with our customers to enhance their productivity and performance;
- listening to customer challenges and actively anticipating their future requirements; and
- delivering on our commitments to meet customer needs.

We empower our own people to succeed, and we seek to do exactly the same for our customers. Our products are all about helping them do what they do better, faster, and more efficiently. Given the highly technical nature of many of their processes, we have to be prepared to adapt what we are offering to what they need. We listen to our customers and proactively provide solutions to address their challenges.

Values in action:

Last year one of our businesses was asked to develop a new piece of software for an automotive manufacturer. We did exactly what we were asked for and delivered in record time. However, when the software began to be deployed the customer found an anomaly that prevented it working with their systems as they had predicted. We could have patched together a workable solution, but chose instead to reconfigure the product completely to meet their precise needs, as well as doing it to a very tight deadline. It paid off: the customer recognised that we had gone the extra mile on their behalf, and we have won over US$1.5 million of new orders as a result.

Restless innovation

This means:

- continuously improving products, services and business processes;
- constantly finding ways to enhance personal, customer and product performance to create maximum value; and
- challenging the status quo.

Innovation is what we do. It is the lifeblood of our business and the driving force of our success. We added the word 'restless' because we wanted to capture the idea that innovation is a process not a destination. In the industries we serve, the speed of change is quickening all the time, and we have to anticipate that change, not follow it. For us, restless innovation is also about taking the right risks for the right reasons and in the right way. Coupled with our value of empowerment, this gives our people the maximum opportunity to find new products, applications, services and ways of working, to the benefit of our customers.

Values in action:

Many of our best innovations stem from the work we do with our customers – our deep understanding of their needs allows us to spot unresolved issues, and then use that insight to create profitable new products. A good example is our work with the hydro-power industry. We realised that there was an opportunity to develop a new product that would provide better monitoring of hydro turbines, making them safer and more efficient. By working with our customers from the earliest stages of the design phase, we were able to come up with a unique new product, which has set a new industry standard.

High performance

This means:

- delivering strong and sustainable value for our shareholders;
- performing to the highest standards against the commitments we make internally to one another and externally to our customers;
- developing resilient businesses that are best in class; and
- acting with urgency without compromising quality, safety, the environment, and our integrity.

High performance is what we aspire to, and it is what we will achieve if we can put all our other values into action, in everything we do, across the whole group. It brings together *what* we do, with *how* we do it. High performance means that our businesses can be the fastest-growing gas analysis company in the world, for example, or the world's leading supplier of sound and vibration solutions.

Chairman's statement

The Board is confident that Spectris continues to be strategically well-positioned for 2013 and beyond.

Introduction

We are pleased with the performance and the resilience shown by the group during 2012, which proved to be a challenging year in certain markets and regions. We reported double digit growth in the group's sales, with contributions from the 2011 acquisitions supplementing our organic growth. Profitability increased, driven mainly by new product introductions, value based pricing and better cost management through improved supply chain excellence across the group. This result was achieved notwithstanding higher investments in the development of new products and applications.

Reported sales increased by 11% to £1,230.8 million (2011: £1,106.2 million) and adjusted operating profit* grew by 14% to £228.9 million (2011: £201.5 million). Acquisitions contributed 10% to sales growth, offset by a negative currency impact of 2%. Thus on a constant currency organic (like-for-like) basis, sales grew by 3%. Operating margins increased by 0.4 percentage points to 18.6%. Profit before tax increased by 13% to £217.3 million (2011: £191.6 million) and earnings per share increased by 11% from 124.1 pence to 137.5 pence.

We reduced our net debt by £102 million thanks to strong cash flow conversion, with 93% of our operating profit being converted into operating cash flow due to good working capital management. At the end of December 2012, our net debt stood at £254 million, just over 1.0x our EBITDA of £249 million. On 18 December 2012, we signed an agreement to sell Fusion UV to Heraeus Holding GmbH for a total consideration of US$172 million. This transaction completed on 31 January 2013.

Chairman's statement continued

The Board is proposing to pay a final dividend of 25.5 pence which, combined with the interim dividend of 13.5 pence, gives a total for the year of 39.0 pence (2011: 33.6 pence), an increase of 16%. The dividend is covered 3.5 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 2013 to shareholders on the register at the close of business on 31 May 2013.

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. My role as Chairman is to provide leadership to enable the Board to perform effectively. We believe that a robust discussion focused on the critical strategic issues and risks is key to achieving our aims and we are fortunate to have directors with extensive industry and international experience who can actively contribute to this debate.

We have strengthened the Board with the addition of two new members. In June 2012, we welcomed Martha Wyrsch as a non-executive director. Martha's extensive experience and knowledge of the energy industry, and of the US market generally, is a valuable addition to our Board. In November 2012, we announced that Steve Blair was appointed as an executive director of the Board, effective January 2013. Steve heads the In-line Instrumentation and Industrial Controls business segments and has significant international experience in the industrial controls sector.

The Board also seeks to develop and maintain a good understanding of the company's operations and we hold site visits at key locations each year in addition to inviting our presidents and managing directors to present at other meetings.

Summary and outlook

This strong result was achieved through the progress we made on all aspects of our strategy. We will continue to invest in new products and applications which enhance our customers' productivity, seek further geographic growth opportunities across the group, and improve the resilience of the business through organic and acquisition activities. The Board is confident that Spectris continues to be strategically well-positioned for 2013 and beyond.

John Hughes
Chairman

*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 3.

Chief Executive's review

The continued progress in the execution of our strategy helped us deliver strong 2012 operating performance despite a challenging macro-economic environment.

Introduction

Sales growth on a reported basis was 11%, including 10% from acquisitions and reflecting a 2% adverse impact from foreign exchange movements. Therefore, on a constant currency, organic (like-for-like) basis, sales increased by 3%. The contribution made by each one of our strategic segments is described in some detail in the operating review which follows. Regionally, the growth was led by Asia Pacific which was up 6%, followed by North America which grew 5% whilst Europe declined 1%.

We further reduced our exposure to the capital cycle by increasing the proportion of revenues derived from our customers' operating expenditure budgets; we now estimate that approximately 40% of our sales are exposed to operating budgets, 24% of which come from after-market service and consumables. This increased exposure is mainly attributable to the full year effect of the 2011 acquisitions in our Industrial Controls segment. Operating profit was £228.9 million (2011: £201.5 million), giving an increased operating margin of 18.6% (2011: 18.2%). The improvement in our underlying, like-for-like, gross margin was driven by a combination of new product introductions, value based pricing and better cost management.

Our operating cash conversion continued to be strong, with 93% of operating profit converted into operating cash, leaving us at year end with a net debt to EBITDA ratio of 1.0x.

Strategy

Our strategy comprises five core elements and we made good progress on each of these during the year:

Strengthening market positions through innovation

We increased our investment in research and development ('R&D'), with expenditure of £85.5 million, representing 7% of total sales. This was an increase of 13% over the 2011 level or 11% on a like-for-like basis. Specifically, R&D spending in the Materials Analysis segment increased by around 20% on the previous year (like-for-like), focusing on some promising growth opportunities

Chief Executive's review continued

in pharmaceutical and material science research. This increased spending level is expected to be maintained through 2013 with the benefits materialising in 2014 and beyond. Throughout the year we launched a number of new products, technologies and applications, strengthening our positions in the markets in which we compete.

Increasing regional expansion with a focus on emerging markets
We strengthened our position in emerging markets. Despite a challenging first half comparison, China achieved 7% growth for the full year. Growth in 2012 there was supported by the pharmaceuticals, electronics, metals and R&D sectors. We continue to see good opportunities in China across all of the businesses, particularly within the pharmaceuticals and discrete manufacturing segments. We also saw good demand from other important markets such as Brazil, where demand grew in the automotive, minerals and mining sectors.

Building our presence in key strategic growth areas, both organically and through acquisition
We have made good progress integrating the Omega Engineering business during the year with significant investments made in strengthening the international sales channels and in ramping up new product introduction spending. Following the 2011 acquisitions of Omega and Sixnet, turnover in the Industrial Controls segment has almost doubled in size over the past two years. In addition to the benefits of scale afforded by these acquisitions, their sales depend on customers' operating budgets, thereby reducing our exposure to the capital cycle.

Growing existing businesses through acquisition
We made three bolt-on acquisitions during 2012: DCM for In-line Instrumentation, strengthening our application expertise in the metals and cable markets and providing expansion opportunities outside of the core US domestic market; NoViSim, in the Test and Measurement segment, a developer of noise and vibration simulation software for automotive applications; and Analytical Spectral Devices Inc., a leading manufacturer of Near-Infrared ('NIR') measurement products, extending our position within the Materials Analysis segment. Analytical Spectral Devices' successful NIR solutions for remote sensing, mining and other industrial markets complement our market-leading X-ray instruments for exploration and refining in the mining and materials sector.

Focusing on operational excellence
Our commitment to operational excellence gathered further momentum throughout 2012 through on-going implementation of Lean/Six Sigma principles across our operations. These initiatives provide lasting benefits across the group in the management of operations focusing on sustainability, waste elimination and greater efficiencies in all areas. We obtained positive results from these initiatives directly impacting on gross margins.

During 2012 we continued to embed and refresh our values and Code of Business Ethics across the group, underpinning the way we work. We currently have around 7,600 employees based in over 30 countries with five shared values which drive our business decisions and company culture. This helps to ensure that the way we conduct ourselves, throughout the group, matches the high quality of our products and services.

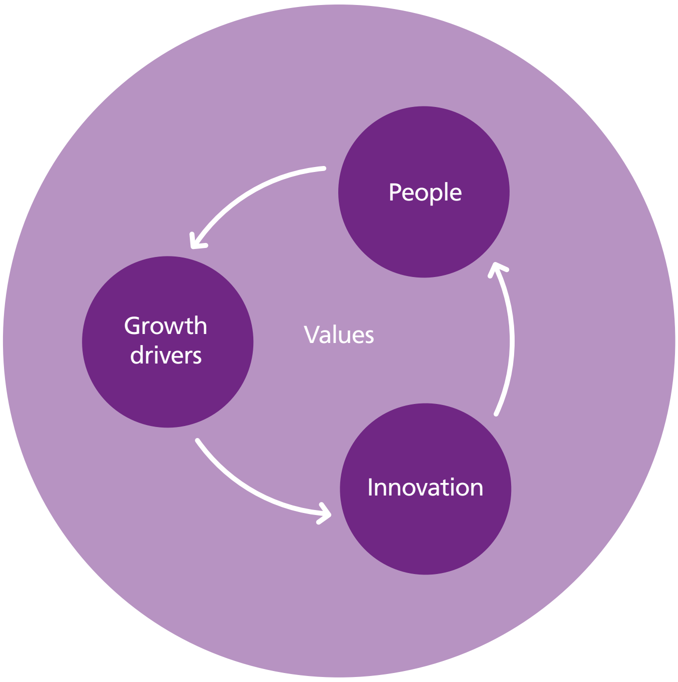
We benefited from our on-going low cost sourcing initiatives from suppliers principally located in the Asian and Eastern European regions, resulting in similar levels of total cost of goods spend as 2011. In addition, actions have been taken to negotiate new service agreements with common suppliers which will yield further significant savings.

John O'Higgins

John O'Higgins
Chief Executive

Business model

We believe that our business model is a key differentiator. It allows our management teams to be more flexible, more inventive, and to anticipate or react quickly to changing customer and market needs.



Our ethos

Our entrepreneurial culture offers a creative working environment with scope for individual responsibility and achievement. We believe that establishing and maintaining an ethical culture is critical to supporting our business model and ensuring our continued business success and growth.

Our values

We want to be a company that our people are proud to work for, where they feel valued, motivated and capable of reaching their full potential. By doing that for our people, we also create a working culture that thrives on high performance. The key in all of this is empowerment, both for the individual, and for our operating companies, which are focused on serving their respective markets and customers.

We believe that our values are pivotal to how we operate and essential to our business success and growth, distinguishing us from our competitors. They underpin the way we work, guide our decision making and shape our culture, ensuring that we can match the quality of our products and services with the quality of our behaviour. You can read more about our values on page 10.

Our approach

We believe that our business model is a key differentiator. It allows our management teams to be more flexible, more inventive, and to anticipate or react quickly to changing customer and market needs.

We have also taken the deliberate decision to out-source those aspects of our business where suppliers can deliver the same quality at a lower cost. Contracting out low value-added tasks such as component production and assembly leaves us free to concentrate on the areas where we have market-leading expertise and competitive advantage, such as application know-how, R&D, product design, and testing. It also means our capital is invested in the most profitable elements of our business. We monitor our costs rigorously, and our purchasing teams work hard to keep costs down while ensuring we maintain the highest standards of quality and performance.

We always keep a strong balance sheet, which gives us the flexibility to move quickly to make acquisitions if an opportunity arises. We also place a high value on cash generation, and this is one of our key performance indicators. We aim to convert a high proportion of our operating profit into cash every year.

Business model continued

People

We employ around 7,600 skilled people, many of whom work directly with customers, which gives them a deep understanding of their business and the productivity challenges they face. The relationships we develop with our customers are one of our most significant competitive advantages, and over 80% of our revenue comes from sales to customers we've been working with for two years or more.

We have strong strategic direction and oversight from the Board, but our local management teams take full accountability and ownership for their own performance. They have different technologies and different customers in different industries with separate channels to market, yet there are still many opportunities to share new ideas and best practice.

Growth drivers

As the business environment becomes ever more competitive and there is growing pressure on scarce resources, companies will be looking for new ways to increase production efficiency, minimise downtime, eliminate waste, and reduce time to market. And they'll need to do all that while maintaining quality and complying with increasingly rigorous environmental and safety regulations. That's where we come in.

Our products typically involve relatively low levels of capital expenditure, but offer substantial and rapid returns. The majority of our sales are to customers who are upgrading existing facilities rather than building new ones. Furthermore, we estimate that approximately 40% of our sales come from our customers' operating budgets which are less susceptible to capital cycles.

When we look at our own business over the next few years, we see Spectris growing both organically and by selective and strategic acquisitions. Our approach to this is agile but disciplined, and we're actively looking both for smaller bolt-on acquisitions that could enhance our existing portfolio, and larger-scale opportunities to enter markets and sectors which are new but complement our existing businesses.

Innovation

Our success is built on intelligent innovation, and we invest around 7% of sales each year in R&D, to ensure we maintain our market-leading positions. We take pride in the fact that our products exemplify the very latest state-of-the-art technology and that so many of our products and applications are proprietary and patent-protected. That sort of know-how is hard to replicate, and very few of our peers can compete with what we can offer.

We work alongside our customers – often literally, within their plants – so we really understand how to apply our products to solve their problems. Likewise, we are inspired by our customers to make new breakthroughs, and involve them at the design stage for new products, and later as we test and refine the products prior to launch.

We offer a full range of services for our products, including installation, training, technical support, calibration and maintenance.

Strategy and objectives

Our objective is to deliver shareholder value sustainably over the long term by supplying productivity-enhancing solutions for our customers. The strategy to achieve this is based on five core elements.

Strategy	Objective	Progress
1 Strengthening market positions through innovation	We invest around 7% of sales each year in R&D in order to maintain our market-leading positions. We work closely with customers to develop solutions which are tailored to their specific requirements. Much of our technology is proprietary and protected by patents or process know-how. New products and applications may be developed in house, by acquiring bolt-on product lines or by collaboration and licensing agreements for proprietary technology in partnership with universities and other institutions.	■ Total expenditure on research and development grew by 11% like-for-like (LFL) to £85.5 million (7% of sales). ■ Specific focus on Materials Analysis segment where a 20% LFL increase in R&D is targeted at growth opportunities in pharmaceutical and material science research. ■ New products, applications and technologies introduced throughout the group to strengthen our positions in the markets in which we compete.
2 Increasing regional expansion with a focus on emerging markets	We seek to grow our businesses around the world, with particular emphasis on industrialising markets such as China, India and Latin America. We continue to establish sales and group support facilities in these regions so that we are able to support our global customers wherever they are based.	■ On a LFL basis, sales to China grew by 7%, Brazil grew by 6% and Middle East by 14%. ■ New laboratory opened in Brazil in response to demand from automotive, minerals and mining sectors.
3 Building our presence in key strategic growth areas, both organically and through acquisition	We aim to grow our existing businesses organically by developing new products as well as pursuing opportunities for growth in new markets, such as nano-technology and life sciences. Acquisitions are targeted at both existing and new markets. Larger acquisitions, such as Omega Engineering, can open up a whole new market for us.	■ Consolidation of Omega and Sixnet into the Industrial Controls segment and building platforms for future growth. ■ Significant investment in strengthening Omega's international channels and in ramping up new product introduction capability.
4 Growing existing businesses through acquisition	We seek to enhance the growth potential of our businesses by pursuing an active but disciplined approach to acquisitions, focusing on businesses which are strong players in specific application areas where there are significant barriers to entry. Where we see opportunities to add to our existing portfolio we can move quickly to seize them, whether that's smaller bolt-on businesses, or larger strategic platform acquisitions.	■ Invested a total consideration of £19.3 million in acquisitions including the cost of three bolt-ons which were acquired during the year: – DCM, strengthening our application expertise in the metals and cable markets and providing expansion opportunities outside of the core US domestic market. – NoViSim, a market-leading provider of noise and vibration simulation software for automotive applications. – Analytical Spectral Devices Inc., a leading manufacturer of near-infrared measurement products for remote sensing, mining and other industrial markets.
5 Focusing on operational excellence	We continue to focus on improving all aspects of our business through a range of actions including: process efficiencies, value pricing, optimising the business mix, cost competitiveness, designing products for low-cost production, reducing inventory and improving supply chain management.	■ On-going low cost sourcing initiatives result in total cost of goods spend at similar levels to 2011. ■ Actions taken to negotiate new service agreements with common suppliers will yield further significant savings. ■ Certification to ISO 14001 and OHSAS 18001 achieved for Head Office.

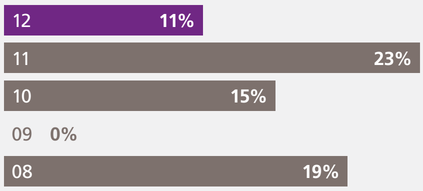
Key performance indicators

We monitor progress against the delivery of our strategic goals via four financial key performance indicators and two non-financial indicators.

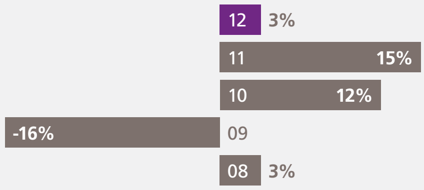
Sales

Sales growth is a measure of how we are growing our business organically. We aim to achieve year-on-year growth in sales, on a like-for-like basis, which excludes the effects of currency translation and acquisitions or divestments.

Total sales growth, continuing businesses



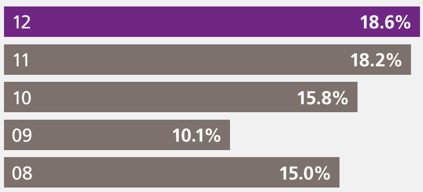
Organic sales growth, continuing businesses, at constant currencies



Return on sales

Return on sales is a measure of improving profitability in our business. Return on sales is defined as adjusted operating profit as a percentage of sales. Our intention is to achieve a mid-teens return on sales margin on average throughout the cycle.

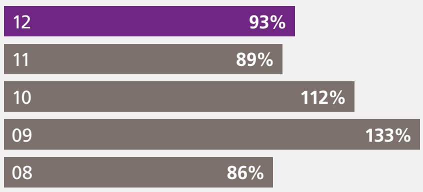
Return on sales, continuing businesses



Cash conversion

We focus on cash generation and use cash conversion as a performance measure as we believe cash represents an effective measure of the quality of our earnings. Our target is to deliver high cash conversion of operating profit in each financial year. Cash conversion is defined by management as adjusted operating cash flow as a percentage of adjusted operating profit.

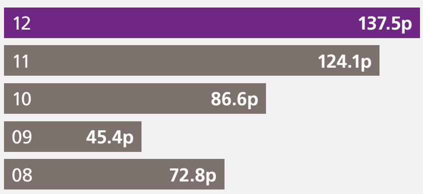
Cash conversion



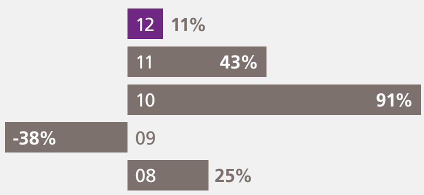
Earnings per share

Earnings per share is a commonly used measure of financial performance for shareholders. We aim to achieve growth in adjusted earnings per share. Adjusted earnings excludes certain non-operational items as defined by management in Note 3. Adjusted earnings per share is defined as the ratio of adjusted earnings for the year to the weighted average number of ordinary shares outstanding during the year.

Adjusted EPS



Growth



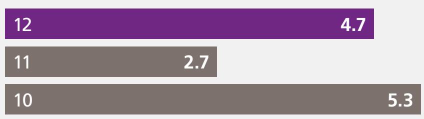
Non-financial indicators

To measure the critical components of our corporate responsibility strategy, we have adopted the following key performance indicators. These are described in more detail in the corporate responsibility report on page 24.

Energy consumption
MWh per £m revenue

*2010 and 2011 figures have been restated as a result of the inclusion of steam usage in the energy calculations.
Excluding acquisitions and disposals made in the year.

Accident Incident Rate
Reportable accidents[1] per 1,000 employees



[1] Work-related accidents/ill health resulting in lost time in excess of 3 days.
Excluding acquisitions and disposals made in the year.

Principal risks and uncertainties

The group has a well-established process for identifying, evaluating and managing significant risks which forms a part of the group's system of internal controls as described in the directors' report.

All significant risks are evaluated with reference to the group's achievement of its strategic objectives as outlined on page 18. The key potential risks and uncertainties facing the group's ability to deliver its strategy, together with mitigating actions, are described below.

Strategy	Risk description	Potential impact and mitigation
1 **Strengthening market positions through innovation**	**New product development** In order to strengthen our market positions and sustain competitive advantage, the group invests significantly in research and development. The development of new technologies and products involves risk including: ■ The product being more expensive or taking longer to develop than originally planned. ■ The market for the product being smaller than originally envisaged. ■ The product failing to reach the commercialisation phase.	*Potential impact* ■ Reduced profitability and cash flow. ■ Loss of market share. ■ Failure to recoup investment in innovation. *Mitigation* ■ Significant investment levels in research and development, maintained at around 7% of sales. ■ Project management disciplines are applied in product development programmes. ■ Work closely with customers to ensure that we develop solutions tailored to their specific needs. ■ New product developments are based on standard platforms, customised through high added-value applications engineering. ■ Extensive customer involvement during product development and prior to product launch (through beta evaluations).
	Intellectual property Our business is focused on the design and manufacture of technologically advanced products and applications. Significant investment in research and development is made towards this end. As a consequence, we own and protect patents, trademarks, trade secrets, copyright information and intellectual property licenses. The risk therefore exists that this intellectual property may be infringed by third parties or that we may inadvertently infringe third-party rights.	*Potential impact* ■ Reduced profitability and cash flow. ■ Loss of market share. ■ Failure to recoup investment in innovation. *Mitigation* ■ Procedures in place requiring all of our businesses to: – maintain a watching brief on new applications; – undertake specific reviews prior to commencing new product development, acquisitions or licenses; and – register intellectual property where appropriate. ■ Maintain a portfolio of intellectual property assets such that no single patent, trade secret or trademark is sufficiently important to present a material risk to the success of the company.

Principal risks and uncertainties continued

Strategy	Risk description	Potential impact and mitigation
2 **Increasing regional expansion with a focus on emerging markets**	**Political and economic risks** We operate in a range of end user markets around the world and may be affected by political, economic or regulatory developments in any of these countries. Material adverse changes in the political and economic environments in the countries in which we operate have the potential to put at risk our ability to carry out our strategy. We believe that the broad spread of markets in which we operate substantially limits the risk associated with additional instability in any given territory. The group continues to review any potential exposures arising from on-going macro-economic uncertainty relating to the eurozone economies. The group does not have any significant operations or supply chain dependencies within those countries where there is a perceived heightened risk. Similarly, the group does not have any significant liquidity or funding risk in relation to these countries.	*Potential impact* ▪ Reduced profitability and cash flow. *Mitigation* ▪ Maintain a broad spread of markets, products and customers to limit risks associated with any given territory. ▪ Ensure we remain structured in such a way that enables us to take prompt action in the event of any material change in the trading environment. ▪ Monitor market intelligence. ▪ Ensure we maintain a strong balance sheet and financial position.
	Laws and regulations We operate in a large number of jurisdictions and, as a consequence, we are subject to numerous domestic and international regulations and restrictions. These include laws and regulations covering product safety, export controls, anti-bribery, competition and false accounting. Any failure by the group or its representatives to comply with relevant laws and regulations could result in civil or criminal liabilities leading to significant fines and penalties or the disqualification of the group from participation in government-related contracts for a period of time. In the event of a failure to comply with export control regulations, the group could also be exposed to restrictions being placed upon its ability to trade.	*Potential impact* ▪ Reduced sales, profitability and cash flow. ▪ Reputational damage. ▪ Diversion of management resources to address any resulting investigation. *Mitigation* ▪ Strong internal control framework, policies and culture. ▪ Formal export controls compliance procedures in place, including strict product classification and transaction screening protocols. ▪ Ethics training provided to all employees. ▪ Regular monitoring of compliance.

Principal risks and uncertainties continued

Strategy	Risk description	Potential impact and mitigation
3 **Building our presence in key strategic growth areas, both organically and through acquisition**	**Competitive activity** The nature of the marketplaces in which we operate means that all of our businesses are exposed to risk from competitor activity.	*Potential impact* ■ Loss of market share. ■ Reduced profitability and cash flow. *Mitigation* ■ Maintain market-leading positions through significant investment in research and development. ■ Diversified portfolio of products and markets limits the overall risk from any single competitor. ■ Maintain ability to react quickly to changes in customer and market demand. ■ Maintain a watching brief on new competitor activity.
4 **Growing existing businesses through acquisition**	**Acquisitions** A key element of our strategy is to grow the business portfolio through acquisition of stand-alone or bolt-on businesses which complement or extend the range of products and applications we can provide. Integrating both the operations and personnel of acquired businesses can be a complex process. Potential risks therefore exist that the planned benefits from the acquisition may not be achieved as a result of problems encountered in integrating the acquired business, incorrect assumptions in the original business case, changing market conditions or deficiencies arising in the due diligence process. Further, the company could be exposed to past acts or omissions of the acquired business.	*Potential impact* ■ Failure to achieve the benefits outlined in the business case. ■ Reduced profitability and cash flow. ■ Unforeseen liabilities. *Mitigation* ■ Rigorous financial and legal assessment of target businesses. ■ Strict authority levels which, subject to size, involve review by the Board for such transactions. ■ Comprehensive representations and warranties in purchase agreements. ■ Extensive integration planning and execution. ■ Regular review against the business case for the acquired businesses. ■ Post-acquisition control reviews.

Principal risks and uncertainties continued

Strategy	Risk description	Potential impact and mitigation
5 **Focusing on operational excellence**	**Supply chain dependencies and disruption** The company is exposed to the risk that some of the components it sources, particularly for custom-built items or older components, are provided by a single supplier and are therefore vulnerable to interruption of supply. The company also manufactures components, from proprietary technologies, at a number of locations. Our ability to supply products to our customers could be adversely impacted by a disaster or other disruptive event at any of these sites. Any interruption to the company's supplies or related increase in costs may result in an adverse effect on the business' financial position and future performance.	*Potential impact* ■ Inability to fulfil customer orders resulting in lost sales and reputational damage. ■ Increased costs reduce profitability. ■ Loss of market share. *Mitigation* ■ Strategic sourcing teams source lower-cost components across a range of markets. ■ Alternative sources of supply actively sought to reduce dependency upon single-source suppliers. ■ Safety stock levels established for critical components. ■ Business continuity plans and disaster prevention measures in place for all material manufacturing locations. ■ Business interruption insurance. ■ Strong contract review process.
	Fluctuations in exchange rates Because of the global nature of our business, we have operations which sell and purchase goods in foreign currencies and whose results we record in a variety of different currencies. We are therefore exposed to any significant changes in exchange rates between a number of different currencies.	*Potential impact* ■ Unexpected variations in the company's results. ■ Reduced profitability and cash flow. *Mitigation* ■ Forward contracts cover up to 75% of forecast exposures up to 18 months ahead. ■ Natural hedging strategy, matching invoicing and purchasing currencies where practical. ■ Foreign currency investments hedged with borrowings in the same currency wherever possible. ■ Regular sensitivity analyses carried out to understand the impact of exchange rate movements on the group's reporting.
	Information security As with most organisations of a similar size and complexity, our businesses face both internal and external information security risks.	*Potential impact* ■ Loss of competitively sensitive data. ■ Being subject to a malicious attack causing system failure, data corruption or loss, or theft of commercial or sensitive data. *Mitigation* ■ Our businesses employ a number of physical, logical and end-user control measures designed to reduce the risk of a breach in information security arising. ■ Our systems are monitored against unauthorised access. ■ A programme of continuous improvement evaluates whether the group's existing controls in this area would benefit from additional strengthening.

Corporate responsibility

Our products are helping our customers to manage their environmental performance, become more efficient, and reduce their use of natural resources.

What corporate responsibility means to Spectris

The concept of ‘corporate responsibility’ (CR) has undergone a radical evolution in the last few years, and now encompasses every aspect of business decision making. It has also become more focused, as companies have understood that it needs to be fully integrated into their processes and policies. To do this, companies need a comprehensive understanding of their specific CR risks, issues, challenges, and opportunities, and these are what we have been reviewing during the course of 2012 at Spectris.

In our case, the indirect effects of our products on our customers’ processes are far more significant than our own direct impacts, both in terms of issues and opportunities. In the years to come, technology will play an increasingly vital role in managing and mitigating the consequences of climate change, and we are particularly well placed to help address these challenges. Our products are already helping our customers manage their environmental performance, become more efficient and reduce their use of natural resources. The development of this area of our business represents a significant long-term strategic opportunity.

That said, we are also aware of the direct impact our business has, especially in the areas of energy use, CO_2 emissions and water consumption, and we are taking actions to address these.

Our Chief Executive, John O’Higgins, has overall accountability for corporate responsibility matters across Spectris.

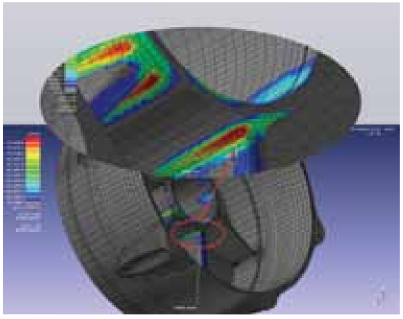
Indirect impacts – pioneering products for a more sustainable future

Our products make precision equipment and complex systems work better, faster, and more efficiently. That is the essence of our business, but also central to the development of more environmentally sustainable industries for the future. We also have particular expertise in sectors which are directly related to the drive towards a low-carbon economy, most notably renewables.

Renewables: Wind

According to a recent report, the level of renewable energy generation is set to be around 60% higher in the period 2011-2017 than it was in the previous six years[1]. Wind energy, in particular, is the fastest-growing energy source in most parts of the world, with a steep rise in offshore generation predicted in Asia. Wind is both resource-efficient and cost-effective, and more than 10% of global electricity consumption could be powered this way by 2020. There are already two clear trends emerging: individual turbines are getting larger, and more are being sited offshore. Consequently, there is an increasing need to reduce component damage and maintenance downtime, as this is both costly and can lead to lengthy loss of production.

Spectris’ equipment is used in the design and testing of new materials for wind turbine blades and towers, to ensure they can withstand the more demanding conditions offshore. Our systems are used for the remote monitoring of wind parks, helping to keep the turbines running by using predictive monitoring to detect and prevent faults. We also produce transducers which can optimise the efficiency of wind power plants, in an environment where an improvement of just a few percentage points can produce savings worth millions.



Case study
One of our customers is Southwest Windpower, a leader in the design and manufacture of small wind turbines. Our specialised software helps them meet the design certification requirements for their products, and improve their long-term durability. They can now more accurately simulate wear and tear associated with 20 years of operation, and make adjustments to their designs to reflect this. The benefit of this is lower overall costs of development, as well as reduced risk.

Renewables: Solar

Solar represents perhaps the ultimate renewable technology, and governments around the world are investing significant technical and financial resources to speed up its deployment. As a result, solar PV generation is set to rise by around 27% per year up to 2017, driven both by large-scale projects in countries with high levels of sunshine, and the installation of more flexible and efficient panels at residential and small industrial sites in many markets across the world. But if solar energy is to become a genuinely competitive and viable source of energy on a significant scale, it will require the ongoing development of better, more cost effective and efficient solar devices.

Our equipment is used to measure the thickness of the photovoltaic cells which are used in the manufacture of solar panels. The panels are constructed as layers of photovoltaic film, and these layers must be of the right thickness and laminated together correctly for maximum efficiency. We are also involved in the development of new technologies which could create even thinner films, which would be cheaper to produce and more efficient.

Renewables: Hydro

Hydropower is currently the largest source of renewable power generation and in 2011 accounted for 80% of total renewable energy generation. Looking forward, it will probably remain the largest contributor to the renewables industry. But hydropower is capital intensive and any problems entail costly repairs and downtime. Minimising the need for maintenance can make an enormous difference to the efficiency and reliability of both turbines and generators.

Our monitoring systems allow the performance of both turbines and generators to be assessed in real time, so that preventative action can be taken to rectify emerging problems before they become serious. We can also predict future faults based on current performance,

Corporate responsibility continued

allowing the operator to correct them. This helps ensure the continuous and reliable operation of the whole plant, at maximum efficiency and minimum cost.

Indirect impacts – helping customers manage their environmental performance

Our products help companies become more efficient in their use of resources, and minimise their environmental impacts. They also make it easier for them to meet the requirements of environmental legislation.

Emissions

The last few years have seen a significant increase in the volume of environmental legislation relating to air pollution from factories and vehicles. Sectors such as oil and gas and heavy industrial manufacturing need to find better ways to reduce these emissions, and automotive manufacturers are developing more fuel-efficient engines with the same aim in mind.

Our systems are used by automotive manufacturers to measure the size of particles in the fuel sprays of car engines, enabling them to develop new engines with more efficient fuel injection systems. We also make gas analysis products to measure pollutants and greenhouse gas emissions from industrial processes and stacks. These products are used worldwide to ensure compliance with environmental legislation and as part of certification testing. Our gas analysers can save power stations anything between 1% and 5% of their fuel costs by improving burning efficiency, which means less energy wasted, less use of natural resources, and lower emissions.

Our AirTrak carbon management service is helping airports to accurately measure and understand the carbon emissions from their operations. AirTrak measures the carbon output from each phase of aviation activity and computes carbon emissions from the actual flight track of every aircraft. Airports can use this information to implement, monitor and measure the success of carbon reducing activities.

Toxic substances

This is another area where the burden of legislation is growing, notably in relation to heavy metal contaminants in foodstuffs, drugs and cosmetics, and in the manufacture and disposal of electrical and electronic products.

Our X-ray systems are used to analyse soil contamination, whether caused by atmospheric conditions such as acid rain, or by deliberate or accidental activities such as fertilizer dressing, spillages, or illegal dumping. The same instrumentation can also measure levels of materials such as lead and cadmium, and analyse the amount of sulphur in fuel to ensure compliance with the appropriate regulations.

Noise pollution

Traffic, low-flying aircraft, construction work, and heavy industrial manufacturing all contribute to increasingly high levels of noise, especially in cities, and as a result many governments are implementing noise abatement legislation. Airport noise, in particular, is stringently monitored, and in many cases is one of the stumbling-blocks to further airport expansion.

Our noise monitoring solutions are ensuring compliance at over 200 airports worldwide, helping their operators maximise their capacity utilisation within the required noise limits. These systems monitor the exact whereabouts of aircraft, and register how much noise they make on arrival and departure. We also make systems for industrial companies, which are especially important for businesses which have to operate within specific limits at particular sites. These include noise mapping and prediction tools, which can play a particularly useful role in environmental impact studies as part of the planning process.

Indirect impacts – ensuring more efficient use of natural resources

We want to help our customers be more sustainable – both in terms of their environmental performance, and their profitability in the long term. A crucial way to do this is to use fewer resources, and thereby save money as well as emissions and waste.

A good example is our work with the cement industry, which is extremely energy-intensive. By using our instruments to analyse the size of the raw material particles, companies in this sector are managing to refine and control their production processes, and reduce both their power requirements and their carbon emissions. In one instance we have helped a customer save 8kWh of energy per ton of cement manufactured, or around 8,000,000 kWh per year, which is enough to power 650 homes for a year, or the equivalent of taking 1,135 cars off the road.

We also help papermakers improve their efficiency by ensuring that the end-product is of the right consistency and quality, thus reducing wastage and the associated energy costs. We do this by assessing the quality of the pulp that goes into the process and by providing the high-tech blades which apply coatings to specialist papers, where quality and uniformity are key to reducing waste. Our products can last up to ten times longer than conventional blades, which means the machines can run for longer and at higher efficiency. We helped one paper mill to cut waste by 30%, or 100 tons of paper per month, the equivalent of €70,000.

Indirect impacts – supply chain management

In 2012 we continued our programme of auditing significant suppliers (based on risk and turnover) against the relevant criteria set out in the social accountability standard SA8000, and since 2011 we have audited 26 of the top suppliers in the Asia Pacific region, with the remaining 15 scheduled for 2013. One particular example is highlighted in the case study on page 26.

This is an ongoing programme in Asia Pacific, and includes both our major existing suppliers and those we begin to work with as the result of an acquisition or a new business development. Where non-conformances are found, we are working with those suppliers to improve their performance. We are also applying the same standard

Corporate responsibility continued

and auditing process to our own three manufacturing facilities in China. SGS, a global leader in certification services, is carrying out these audits and two were conducted in 2012.

Direct impacts – improving our own environmental performance

We outsource a high proportion of product manufacturing, which reduces our direct environmental impact. However, we engage actively with our manufacturing suppliers to ensure that our products are produced responsibly and their processes demonstrate the standards of environmental performance we require.

We do monitor our own use of key sources of energy (electricity, gas, oil, and steam), as well as CO_2 emissions and water consumption. The tables below show our performance. We regard energy consumption relative to revenue as a key performance indicator (KPI).

Energy consumption KPI

MWh per £m revenue*

12	79.6
11	79.5
10	90.5

*Excluding acquisitions and disposals made in the year.

2010 and 2011 figures have been restated as a result of the inclusion of steam usage in the energy calculations.

In addition, we have commenced measurement of Scope 1 and 2 emissions ahead of the mandatory reporting of greenhouse gas emissions in 2013:

Scope 1/Scope 2 emissions

Tonnes CO_2

12	51,031

Although our sites are not large users of water, we recognise the importance of managing this limited natural resource, and we have now commenced measurement of baseline data for our consumption.

Water consumption

Cubic metres

12	144,313

Our business

CR, for Spectris, is not just about our wider social and environmental impacts, but also about the way we run our business internally – the way we treat our people, manage our commercial affairs, and play a positive role in our communities. We have a global Code of Business Ethics which we discuss in more detail on page 28.

Case study
The electronics manufacturer GPV Thailand was the first of our Asian suppliers to receive a Spectris SA8000 certificate. SA8000 is an international standard that encourages organisations to conform to specific standards in relation to social issues such as child and forced labour, discrimination, working hours, and pay. The CEO of GPV, Bo Lybæk, states "GPV adopts the same standards and observes all applicable laws and regulations in the countries in which we operate and the same goes for our suppliers."

Our people

We employ a highly skilled technical workforce of around 7,600 people, at more than 150 locations throughout the world. Intelligent innovation is at the heart of our business, and is the source of our success, and with that in mind we work hard to build a creative working environment which gives scope for individual responsibility and personal achievement. We assess our success in this area by tracking voluntary labour turnover:

Voluntary labour turnover

	2012	2011
Total	**5.84%**	6.91%
Europe	**2.70%**	3.34%
Americas	**5.17%**	5.78%
Asia Pacific	**13.91%**	16.15%

Our compensation and benefits schemes are aligned with the achievement of corporate objectives and are in line with other leading companies in the sector. Initiatives such as our Savings-Related Share Option Scheme are available to all UK employees, and grants to senior management under the group's Performance Share Plan are designed to encourage loyalty and performance.

A more diverse organisation is a more creative organisation, and we value the diversity of our workforce. We recruit, develop, and promote our people based on talent, commitment and achievement, treating everyone equally and fairly, regardless of their race, colour, religion, national origin, gender, sexual orientation, age, disability, or background. We offer a wide variety of training programmes, designed both to enhance technical and professional skills and encourage personal development, so that our people can reach their full potential. Annual performance reviews give employees a chance to discuss their ambitions and training needs, and evaluate their performance against the prior year's targets. A number of our operating companies offer graduate recruitment programmes and student work placements designed to encourage young people studying the sciences to consider a career in industry.

Corporate responsibility continued

We place great value on having a culture of honesty, respect and professional excellence, while maintaining a healthy balance between working and personal lives, with initiatives such as part-time and job-share opportunities which offer flexibility to employees with family commitments. We do not tolerate workplace discrimination or harassment in any form.

Our two principal UK businesses, Malvern and Servomex, have received the Investors in People award for their training, appraisal, employee development and skills programmes.

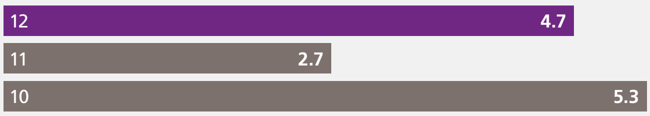
Our full employment policy is published on our website.

Health & Safety

We take the health and safety of our employees seriously and do everything we can to ensure that our sites are safe and productive places to work. We track our accident incident rate as a key performance indicator and our aim is to reduce this to the lowest possible level. We have not had a death or serious work-related injury for in excess of ten years.

Accident incident rate KPI

Reportable accidents per 1,000 employees*



*Excluding acquisitions and disposals made in the year.

We have a group policy on Health & Safety, and each operating company is responsible for implementing this and for complying with any relevant local legislation and regulations. This covers both our own employees and our sub-contractors and – where appropriate – our suppliers. You can read the policy on our website. Independent assessors employed by our insurers audit our Health & Safety policies and procedures at all our major locations every year, and pass on to us any recommendations for improvements, which we then put into practice.

Human rights

Our human rights policy is consistent with the Core Conventions of the International Labour Organization, and we comply with internationally-recognised human rights standards wherever we operate. Our policy covers areas such as non-discrimination, harassment, pay, and forced labour. We include human rights considerations as an integral part of the due diligence process we undertake for any potential acquisition, which ensures that we assess the company's approach to issues such as non-discrimination, equal opportunities, and freedom of association. Our human rights policy is available on our website.

Community involvement

We seek to play a positive role in our communities, as part of our commitment to CR. Our companies support local causes and take part in a range of activities and educational initiatives in their local communities. These include providing apprenticeships and work placements for students, working with local schools and colleges on science projects, and sponsoring scientists attending key conferences.

Total donations to charities and community causes in 2012 were £33,701, of which £6,542 were in the UK (2011: £76,541, of which £10,935 in UK).

We do not give either cash or support-in-kind to political parties or campaigns.

Management systems and certifications

Approximately 60% of our own manufacturing operations by turnover are certified to ISO 14001 and another of our operating companies is working towards certification to ISO 14001 at its key USA-based sites. Our head office achieved certification to ISO 14001:2004 for Environmental Management Systems and OHSAS 18001:2007 for Occupational Health & Safety Management Systems in January 2013.

We commissioned Lloyds Register Quality Assurance (LRQA) to independently verify the data associated with the sustainability performance indicators, voluntary labour turnover and accident incident rate, and the text within the 'Supply chain management process' section. The LRQA Assurance Statement confirming scope, methodology and recommendations is available on our website at *www.spectris.com/Corporate%20responsibility.aspx*

Next steps – areas of focus for 2013/14

We work to a decentralised operating model, as set out on page 16. Our local operating companies take responsibility for managing their own CR activities and impacts and achieving their own targets, within an overall framework established at group level.

Looking ahead, we are considering the feasibility of measuring the greenhouse gas implications of our business travel by air, train, and road. We may also begin to assess the Scope 1 and 2 impacts of our principal suppliers.

Reference page 24
1. OECD/IEA Medium-Term Renewable Energy Market Report, 2012

Ethics

We believe that having a high standard of business ethics makes good business sense.

In summary

New and consistent values adopted across the group.

New Code of Business Ethics launched during the year.

Approximately 500 senior managers participated in ethics leadership engagement sessions.

Taking an ethical approach to business
We believe that having a high standard of business ethics makes good business sense. Absolute integrity is our core value, and we place as much importance on integrity in the way we work as we do on the integrity of the products we sell. We know that we can build a more successful and sustainable company if we have a reputation for fairness and transparency in all our business dealings. It will help us expand our business internationally, comply with increasing regulatory demands, build profitable relationships with business partners, attract and retain talented and committed people, and encourage entrepreneurship in our employees and business units in the confidence that they will always behave according to our values.

This is not something new for Spectris – high standards of ethics have always been central to how we work, and we have operated a well-established and formal ethics programme since 2009. The change in 2012 – which has been significant – was our decision to put our values at the heart of our future growth and success, and make integrity an integral foundation of our business model.

At the start of the year, we reviewed how our values were expressed across the group, and undertook an assessment exercise involving around 230 senior managers and ethics officers, asking them which values they believed would ensure Spectris became a more successful and sustainable business. This feedback was taken to the operating company presidents' meeting in March, and from there we developed a set of values that have been adopted by all our operating companies.

Read more about our values on page 10

Our Code of Business Ethics: 'The Value of Integrity'
Our new Code was shaped by input from our own people, through group-wide employee focus groups and at a Global Ethical Leadership Conference in October 2011. It provides a clear framework for how we do business, and covers areas such as working with partners and other stakeholders, using company assets, and our responsibilities to our communities. It also provides practical guidance and tools for employees to help them deal with the sorts of issues and questions that will arise in their day-to-day work and handle them in the right way.

You can watch a video on why our Code of Business Ethics matters at *www.spectris.com/Values.aspx*

The Code also makes it clear that we expect our business partners and suppliers to uphold the same ethical standards that we do. The Code can be seen on *www.spectris.com* and is available in 18 languages for our employees across the world.

We actively promote a culture of openness, and encourage our employees to discuss any issues that arise in their work and to tell their manager about any concerns they may have, or any possible violations of either the law or our Code. We back this up with an independent hotline (*www.spectrishotline.com*) which allows our people or business partners to report their concerns, anonymously if they prefer. All these calls are investigated by the head of internal audit or the group company secretary as appropriate, and the results are communicated to the audit and risk committee every six months. We make a commitment to protect the careers and reputations of employees who report wrongdoing, as long as they do so in good faith and in the best interests of the group.

We are now undertaking detailed training on the new Code, and since July 2012 approximately 500 managers have taken part in one of a series of two-day workshops, each led by a member of the Spectris executive team and the relevant business president. These have taken place in Shanghai, Tokyo, Seoul, Singapore, New Delhi, São Paulo and Westborough, USA, and at all our individual operating companies, as well as the corporate centre in Egham.

The workshops covered the business case for ethics, an introduction to the Code, our policies on anti-bribery and corruption, and presentations on how the working environment affects decision-making, and how to encourage an open and transparent culture. Honest and candid discussion was actively encouraged, and as a result we have gained useful input on how best to implement the Code and the sort of practical support our people might need. For example, we have put a specific framework in place in Asia in relation

Ethics continued

The Spectris Decisions Guide

This practical tool was developed by two Ethics Officers to help employees facing difficult ethical challenges. It sets out a simple set of questions to help people address the issue in the right way and make the right decision.

to gifts and hospitality, which recognises the cultural value placed on such gifts in these markets but also ensures that any potential risks are identified and managed. We have provided specific training on this to our managers in Asia, so that they are aware what they can and cannot accept, and what approvals are required. We will be running follow-up sessions which will also cover fair competition and be supported by independent lawyers.

These workshops have created a strong sense of shared ownership across the business, and given our managers the tools they need to run face-to-face training with their own teams and anti-bribery training with their own external suppliers. 97% of the managers who took part said they now had the confidence to make decisions consistent with our Code and values, and 97% would raise an ethical concern at work. We will be surveying all our employees on these issues in 2013.

At the end of 2012, the majority of our employees in Asia and Latin America had received in-depth training on our Code, and we aim to have covered the whole group worldwide by June 2013. We also provide additional on-line training and a special programme covering conflicts of interest was run during the year.

All our employees are now required to sign up to the new Code after their training. Senior managers have to renew this once a year, confirming that they actively promote an ethical and transparent culture.

Leadership from the top

The Board receives regular updates on any ethical issues arising in the businesses, and details of the ethics programme formed part of the Board's annual strategy meeting in November 2012. In March 2012, one of the three days of the operating company presidents' global meeting was dedicated to discussions on values and ethics.

During 2012 we became a subscriber to the Institute of Business Ethics, which provides its members with access to new trends in best practice in this area.

Operating review
Materials Analysis

Highlights

Fastest-growing segment on a like-for-like basis.

Increased R&D investment by 20% on a like-for-like basis, targeting pharmaceuticals and material sectors.

Acquisition of ASD brings portable and benchtop technology to material analysis.

Financial highlights

Sales
£m

Operating profit
£m

Return on sales
%

Materials Analysis provides products that enable customers to assess structure, composition, quantity and quality of particles and materials, during their R&D process, when assessing raw materials before production, or during the manufacturing process.

Our products help customers to improve accuracy and speed of materials analysis in the laboratory and in process quality control. Our key customers here are leaders in the mining, cement, pharmaceutical, chemicals, and electronics industries. The operating companies in this segment are Malvern Instruments, PANalytical and Particle Measuring Systems.

Segment performance

	2012	2011	% change	% change like-for-like
Sales (£m)	**348.1**	337.5	+3%	+5%
Operating profit (£m)	**63.1**	60.9	+4%	+4%
Return on sales (%)	**18.1**	18.1	–	-0.2pp
% of total group sales	**28**	31		
After sales (%)	**29**	28		

Materials Analysis was our fastest-growing segment during 2012. It was a good year with strong growth in Asia, especially in Japan, Australia, India and South East Asia. Brazil also performed strongly, recording double digit growth. Although we saw some slowing in the mineral and mining and R&D markets, this was more than compensated for by strong growth both in the pharmaceuticals and electronics markets.

Operating review continued

New product: Zetasizer Nano ZSP

The latest addition to Malvern's market-leading instruments, the Zetasizer Nano ZSP brings unique protein measurement options for pharmaceutical and biopharmaceutical applications. The instrument also enables a brand new type of measurement – microrheology – which allows the rheological characterisation of weakly-structured and highly strain-sensitive materials.

We increased our R&D spend in this segment by 16% on a reported basis (+20% like-for-like) to 7.1% of sales compared to 6.3% in 2011. Products and applications under development are in life science and new material research applications where, for example, we are focusing on more efficient systems to analyse protein-based molecules to facilitate the development of exciting new therapies for the future. We expect a number of new product launches resulting from these investments from 2014.

In December, we acquired Analytical Spectral Devices Inc., which extends our presence in the growing market segments for portable field and benchtop instruments used in the mining and materials sector. In the case of mining companies, for example, such equipment is used extensively in the preliminary analysis of material carried out at the exploration site, thus avoiding the need to transport multiple samples back to a central laboratory.

In 2012, we opened a new demonstration laboratory in São Paulo, Brazil, offering customers the ability to run tests using our equipment for their specific applications before purchasing.

Segment outlook

We expect the growth in life sciences to continue. During 2012, the US Food and Drug Administration approved 39 new drugs, the most in 16 years and, according to research, an average of 35 new medicines will reach the market each year until 2016, bringing good opportunities for our instrumentation. The mining sector slowed down in the later part of 2012, as anticipated, and we expect that this trend will continue during the first half of 2013. We also see potential in the emerging nano-materials sector, creating demand from academic research institutions, as well as in-house R&D laboratories in the pharmaceutical and advanced materials sectors.

Operating review continued
Test and Measurement

Highlights

Strong demand from electronics and telecoms markets.

Good growth in China and Russia.

NoViSim acquisition increases simulation software offering.

Financial highlights

Sales

£m

Operating profit

£m

Return on sales

%

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

	2012	2011	% change	% change like-for-like
Sales (£m)	**345.4**	346.9	–	+3%
Operating profit (£m)	**55.6**	54.7	+2%	+7%
Return on sales (%)	**16.1**	15.8	+0.3pp	+0.6pp
% of total group sales	**28**	31		
After sales (%)	**19**	19		

This segment made good progress during the year, helped by strong demand from the electronics and telecoms markets and continued growth in automotive. We also made important in-roads in the aerospace and defence market where our water-cooled vibration test platform is firmly established as the standard for satellite qualifications testing.

On a regional basis, we saw strong growth in North America in the automotive and telecoms test equipment sectors and also saw good growth in China and Russia. Profitability in this segment increased to 16.1% return on sales, absorbing the adverse translational impact of a weaker euro. Gross margins also expanded in this segment.

Operating review continued

New product: PMX

HBM's innovative data acquisition and control system is designed for use in production control and industrial test benches. It enables precise acquisition of parameters such as force, torque, vibration, pressure, strain and temperature. With real-time communication via industrial Ethernet, PMX is ideally suited for modern production plants.

We recently introduced the PMX System for industrial process measurement and control which has already won a number of awards. This innovative system is designed for data acquisition and control in production control and industrial test benches. It enables precise acquisition of force, torque, vibration, pressure, strain, temperature, voltage, current and other parameters. With real-time communication via industrial Ethernet, the product is ideally suited for modern production plants.

We continue to develop and offer products designed to make the R&D process more efficient, as well as products that continuously monitor performance. We see significant new opportunities for our data acquisition system, QuantumX. This product can now serve a wider range of end markets covering several different applications. Sales of QuantumX grew 71% in 2012 and the new ESA (experimental stress analysis) module had some important project wins in aerospace applications.

In August, we acquired NoViSim. This company has expertise in noise and vibration simulation software for the car industry. NoViSim's products allow customers to optimise the noise and vibration performance of vehicles by the use of simulation during the design phase. More importantly, the customer can thus understand the impact of drivetrain and vehicle design changes immediately without the need for prototyping and road testing.

Segment outlook

Electronics and telecoms remained strong during the year and we anticipate that this trend will continue with the growth in demand for portable computing, communications and personal entertainment devices. The automotive sector is also expected to show good growth especially in Japan and Korea where research programmes for further development and investment in hybrid and electric cars continue. On-going aerospace programmes provide additional opportunities for growth. We believe that our innovative products and applications for test and measurement will remain in demand as programmes are being deployed in these industries.

Operating review continued

In-line Instrumentation

Highlights

Good overall segment performance in sales and profitability.

Increased focus on building resilient revenues.

Good progress in Middle East and Asia.

Financial highlights

Sales

£m

Operating profit

£m

Return on sales

%

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. Our key customers here are in the electronics, petrochemicals, oil and gas, pulp and paper, energy, manufacturing, automotive, and medical industries. The operating companies in this segment are Beta LaserMike, Brüel & Kjær Vibro, BTG, NDC Infrared Engineering, Servomex and Fusion UV Systems.

Segment performance

	2012	2011	% change	% change like-for-like
Sales (£m)	**320.1**	308.9	+4%	+4%
Operating profit (£m)	**63.9**	63.8	–	+5%
Return on sales (%)	**20.0**	20.6	-0.6pp	+0.4pp
% of total group sales	**26**	28		
After sales (%)	**39**	41		

This segment performed well overall for the year with like-for-like growth in sales and profitability. Regionally, we experienced good demand from Asia Pacific, Japan and China in particular. Brazil was also strong throughout the year. By end market, the electronics and telecoms sectors, as well as the energy and utilities market, were strongest. System sales in the on-line gauging systems solutions were particularly good in the first part of 2012, which contributed to this segment's revenue growth.

The pulp and paper sector recovered in the second half, mainly driven by stronger performance in China and following a weak performance at the start of the year. The tissue segment in this market continues to perform well globally and our market-leading high performance creping blades, in-line instrumentation and application services are providing tissue manufacturers with the means to enhance their productivity while increasing their yield and tissue uniformity.

Process gas analysis solutions for industrial gas production and hydrocarbon processing continue to show good growth globally. Additionally, with air quality improvement set to become a primary investment catalyst in developing economies, we are placing significant resources in combustion efficiency and emissions analysis. During the year we received an order in Brazil for a large medical gas pharmacopeia compliance system for one of the top three global industrial gas suppliers, and also a first time order in India with

Operating review continued

New product: VIBROPORT 80

This is the latest generation of portable vibration measuring instruments from Brüel & Kjær Vibro. Its extensive measurement capabilities make it the ideal choice for early detection and diagnosis of incipient faults in bearings, shafts and gears on a wide range of machines in the petrochemical, power and process industries.

Reliance for a Vinyl Chloride Monomer (VCM) system. Amongst other successful product launches during 2012 our SERVOPRO MultiExact with TruRef Thermo-Conductivity Detector (TCD) was well received. This product is designed to ensure product purity and process control excellence in industrial gas production.

Our business specialising in the supply of products and services for machine vibration analysis had another record year. In 2012, we launched the new VIBROPORT 80 platform, a powerful portable analyser and balancer instrument. We also enjoyed good performance within the hydro-electric generation sector and made significant headway into the growing Latin America hydro market. In the wind turbine industry, we delivered a record number of monitoring systems to the market, surpassing 5,000 cumulative monitoring system orders in August 2012. Simultaneously, our market-leading remote wind turbine diagnostic service hubs were expanded to include Shanghai and Houston; thereby providing true 24x7 coverage in conjunction with our centre of excellence in Copenhagen.

On a reported basis, operating profit was flat on last year, unfavourably impacted by currency and the results of the bolt-on acquisitions, IRM and DCM. DCM's results are down partly due to slower than expected market conditions but are primarily attributable to the costs of integrating the business. IRM's results are a direct consequence of its exposure to the metals sector which experienced a sudden and sharp slowdown in the global steel market. This was severe and has acted as a catalyst to accelerate our integration plans and develop the business, which remains strategically relevant and well-positioned to benefit when markets recover.

Our UV systems business performed strongly throughout the year; however, consistent with our approach to actively manage our portfolio of products and companies, we announced in December 2012 that we had signed an agreement to sell Fusion UV to Heraeus Holding GmbH for a total cash consideration of US$172 million. This transaction was completed on 31 January 2013.

Segment outlook

Conditions continue to improve in this segment's end markets driven by good progress in the Middle East and Asia and steady growth across the oil and gas, petrochemicals and power sectors. Despite a sharp downturn in the steel segment we expect to see signs of recovery during 2013. Flat panel display investment is expected to remain solid in Asia due to strong global demand. The hydro-electric power sector is an important market for our condition monitoring systems, especially in Latin America and Asia. We also see some potential in North America where demand will increase with future growth in shale gas extraction. An increased focus on building resilient revenues underpins this segment's high profitability and we anticipate that this will continue.

Operating review continued
Industrial Controls

Highlights

Focus on investing for future growth.

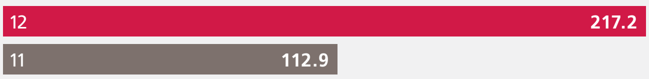
A year of consolidation and international expansion.

Good momentum in core North American market, with China set to become significant for the future.

Financial highlights

Sales

£m



Operating profit

£m

Return on sales

%

Industrial Controls provides products and solutions that measure, monitor, control, inform, track, and trace during the production process.

Our key customers here include industrial manufacturing, automotive, electronics, packaging, and life sciences. Sales in this segment are mainly financed through customers' operating expenditure budgets and therefore cyclicality associated with exposure to capital expenditure is limited. The operating companies in this segment are Microscan, Omega Engineering and Red Lion Controls.

Segment performance

	2012	2011	% % change	% change like-for-like
Sales (£m)	**217.2**	112.9	+93%	–
Operating profit (£m)	**46.3**	22.1	+109%	+7%
Return on sales (%)	**21.3**	19.6	+1.7pp	+1.5pp
% of total group sales	**18**	10		
After sales (%)	**1**	1		

This segment has almost doubled in size as a result of the Omega and Sixnet acquisitions. North America sales were up 3% (like-for-like) despite a challenging industrial climate, offset by declines in Europe and Asia. Profit was strong, rising 7% on a like-for-like basis, helped by improvements in the gross margin and operational efficiencies.

In 2012, we focused on investing for future growth and international expansion in our Omega business, in keeping with the original strategic rationale for the acquisition. Within twelve months under our ownership we opened a completely new facility in Shanghai, offering a full product range and technical support via a local customer call centre and on-line, web-based sales channel. On a global basis, Omega's on-line sales continue to outgrow the traditional channels and now comprise approximately 35% of their sales by volume and 25% by value.

New market: Omega in China

During 2012, we focused on investing for future growth and international expansion in our Omega business and in September we opened a completely new facility in Shanghai, China, offering a full product range and technical support via a local customer call centre and on-line, web-based sales channel.

The programme to fully integrate both our industrial networking acquisitions, N-Tron and Sixnet, into our Red Lion Controls business was largely completed by year end. The launch of the combined entity was well received by our customers who now have access to a complete product range from machine display to local and remote rugged Ethernet networks. The products are now harmonised under a single brand, facilitating cross-selling opportunities, and the manufacturing centres have been consolidated, bringing cost savings and operational efficiencies to the segment.

Our automatic identification and machine vision business launched a significant update of its market-leading machine vision application software. AutoVISION 2.0 provides powerful new features, building on the success of the previous release. This software combines a simplified user interface with an expanded toolset for inspection, error proofing, and identification applications. AutoVISION 2.0 is both flexible and scalable should application requirements change over time, protecting the customer's investment.

Segment outlook

2012 was a year of consolidation in this segment. Looking ahead, we expect to start realising the benefits of Omega's global expansion where, specifically, China looks set to become a significant market for the future, whilst the core North American market shows good signs of continued momentum. We will also benefit from our expanded industrial networking business resulting from the successful integration of Sixnet and N-Tron into the Red Lion business. Demand for improved factory automation, including vision applications, will continue to grow on a worldwide basis.

Financial review

Reported sales increased by 11.3% to £1,230.8 million. Like-for-like sales increased by 3.3%. Adjusted operating profit increased by 13.6% to £228.9 million, or 5.6% on a like-for-like basis.

Introduction

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures enable them to assess the underlying trading performance of the businesses. Adjusted figures exclude certain non-operational items which management has defined in Note 3. Unless otherwise stated, all profit, earnings and operating cash flow figures referred to below are adjusted measures.

Operating performance

	2012	2011	Increase	Like-for-like increase
Sales (£m)	**1,230.8**	1,106.2	11.3%	3.3%
Adjusted operating profit (£m)	**228.9**	201.5	13.6%	5.6%
Operating margin (%)	**18.6**	18.2	0.4pp	0.4pp
Statutory				
Sales (£m)	**1,230.8**	1,106.2	11.3%	
Operating profit (£m)	**196.5**	175.8	11.8%	
Operating margin (%)	**16.0**	15.9	0.1pp	

Reported sales were up 11.3% at £1,230.8 million (2011: £1,106.2 million). Acquisitions contributed approximately £106.7 million (9.6%) partly offset by the impact of unfavourable foreign exchange movements which reduced sales by approximately £18.6 million (1.6%). Therefore, on an organic constant currency (like-for-like) basis, sales increased by 3.3% year-on-year.

Operating profit increased by £27.4 million (+13.6%) to £228.9 million (2011: £201.5 million) with £21.2 million (+10.5%) coming from acquisitions, reduced by the impact of foreign exchange movements negatively impacting operating profit by £5.2 million (-2.5%). Like-for-like operating profit, therefore, increased by £11.4 million (+5.6%) from a combination of like-for-like sales growth and improved underlying operating margins. Although reported gross margins decreased to 57.9% of sales (-0.7pp), this was caused by the negative effects of foreign exchange (0.5pp) and the dilutive effects of acquisitions (0.6pp). On a like-for-like basis gross margins increased by 0.4pp thanks to new product introductions, value based pricing, procurement initiatives and other operational efficiencies more than offsetting inflationary cost increases. Reported overheads reduced to 39.3% (-1.1pp) of sales, with foreign exchange contributing 0.3pp and acquisitions 0.8pp, resulting in a like-for-like overheads to sales ratio in line with that reported for 2011. Reported and like-for-like operating margins increased by 0.4pp from 18.2% to 18.6%.

The year-on-year increase in net finance costs was £1.7 million (from £9.9 million to £11.6 million). This is due to a net increase of £2.3 million in financing charges offset by a reduction in net pension-related and other finance costs of £0.6 million. The £2.3 million increase in financing charges is the net result of an increase in charges arising from higher average net debt from 2011 acquisitions mitigated by a reduction in average interest rates.

Financial review continued

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

	2012 IFRS (Statutory) £m	2012 Adjustments £m	2012 Spectris Adjusted £m	2011 IFRS (Statutory) £m	2011 Adjustments £m	2011 Spectris Adjusted £m
Sales	**1,230.8**	**–**	**1,230.8**	1,106.2	–	1,106.2
Gross margin	**712.8**	**–**	**712.8**	648.7	–	648.7
Operating profit before acquisition-related items	**228.9**	**–**	**228.9**	201.5	–	201.5
Amortisation of acquisition-related intangibles	**(27.0)**	**27.0**	**–**	(21.8)	21.8	–
Net acquisition-related costs and contingent consideration fair value adjustments	**(0.9)**	**0.9**	**–**	(1.8)	1.8	–
Acquisition-related fair value adjustments to inventory	**(4.5)**	**4.5**	**–**	(2.1)	2.1	–
Operating profit	**196.5**	**32.4**	**228.9**	175.8	25.7	201.5
Profit on disposal of businesses	**–**	**–**	**–**	0.1	(0.1)	–
Unrealised changes in fair value of financial instruments	**0.9**	**(0.9)**	**–**	(0.4)	0.4	–
Net gains on retranslation of short-term inter-company loan balances	**0.9**	**(0.9)**	**–**	0.4	(0.4)	–
Net bank interest payable	**(12.1)**	**–**	**(12.1)**	(9.8)	–	(9.8)
Net IAS 19 finance income	**0.5**	**–**	**0.5**	0.1	–	0.1
Other finance costs	**–**	**–**	**–**	(0.2)	–	(0.2)
Profit before tax	**186.7**	**30.6**	**217.3**	166.0	25.6	191.6

Profit before tax increased by 13% from £191.6 million to £217.3 million.

Statutory operating profit, after including acquisition-related intangible asset amortisation of £27.0 million (2011: £21.8 million), acquisition-related costs and contingent consideration fair value adjustments of £0.9 million (2011: £1.8 million) and acquisition-related fair value adjustments to inventory of £4.5 million (2011: £2.1 million), increased by 12% from £175.8 million to £196.5 million.

Statutory profit before tax increased by 12% from £166.0 million to £186.7 million.

Acquisitions

The total cost of acquisitions in the year was £19.3 million (2011: £377.0 million), including £0.5 million (2011: £18.6 million) for cash acquired. Included in the total cost of acquisitions is an amount of £8.7 million (2011: net receivable of £2.7 million) attributable to the fair value of deferred and contingent consideration expected to be paid in future years. In addition, a further net £5.4 million (2011: £7.9 million) was paid in respect of prior year acquisitions, making the net cash outflow in the year £15.5 million (2011: £369.0 million). An amount of £0.7 million (2011: £3.1 million) was spent on related costs (mainly professional fees), which makes the total acquisition-related cash outflow in 2012 £16.2 million (2011: £372.1 million). Acquisitions contributed £106.7 million (2011: £65.1 million) of incremental sales and £21.2 million (2011: £13.6 million) of operating profit.

Divestments

On 18 December 2012, an agreement was signed to sell the Fusion UV business ('Fusion') to Heraeus Holding GmbH for a total cash consideration of US$172 million on a debt and cash-free basis, subject to a working capital adjustment. Accordingly, the assets and liabilities of this business are reported as held for sale. The sales and operating profit contributed by Fusion in 2012 amounted to £53.6 million (2011: £41.8 million) and £11.5 million (2011: £8.3 million) respectively.

The transaction closed on 31 January 2013 for a total consideration of US$174 million including an estimated working capital adjustment which is expected to be finalised during 2013.

Taxation

The effective tax rate on adjusted profits was 25.9% (2011: 24.8%), an increase of 1.1pp, mainly due to a higher proportion of the group's profits being earned in the more highly taxed USA. On a statutory basis, the effective tax rate of 24.3% (2011: 23.9%) continues to be below the weighted average statutory tax rate of 29.4% (2011: 28.5%), primarily as a consequence of research and development tax incentives and a tax-efficient financing structure.

Earnings per share

Earnings per share increased by 11% from 124.1p to 137.5p, reflecting the net impact of a 13% increase in profit before tax slightly offset by the increase in the weighted average number of shares from 116.2 million in 2011 to 117.1 million in 2012 and the increase in the tax rate to 25.9% (2011: 24.8%).

Financial review continued

Statutory basic earnings per share increased by 11% from 108.7p to 120.7p. The difference between the two measures is shown in the table below.

	2012 Pence	2011 Pence
Statutory basic earnings per share	**120.7**	108.7
Amortisation of acquisition-related intangible assets	**23.0**	18.8
Acquisition-related costs and contingent consideration fair value adjustments	**0.8**	1.6
Acquisition-related adjustments to inventory	**3.8**	1.8
Profit on disposal of businesses	**–**	(0.1)
(Increase)/decrease in fair value of cross-currency interest rate swaps	**(0.8)**	0.3
Net gains on retranslation of short-term inter-company loan balances	**(0.8)**	(0.3)
Tax effect of the above and other non-recurring items	**(9.2)**	(6.7)
Earnings per share	**137.5**	124.1

The weighted average number of shares outstanding during the year was 117.1 million (2011: 116.2 million).

Cash flow

Operating cash flow	2012 £m	2011 £m
Operating profit	**228.9**	201.5
Add back: depreciation and software amortisation	**20.6**	18.0
Working capital and other movement	**(6.8)**	(11.2)
Capital expenditure	**(28.8)**	(29.2)
Operating cash flow	**213.9**	179.1
Operating cash flow conversion*	**93%**	89%
Non-operating cash flow		
Tax paid	**(52.6)**	(35.1)
Net interest paid	**(11.5)**	(12.1)
Dividends paid	**(45.6)**	(33.8)
Acquisition of businesses net of cash	**(15.5)**	(369.0)
Acquisition-related costs	**(0.7)**	(3.1)
Disposals	**–**	0.1
Exercise of share options	**0.5**	0.5
Exchange	**13.6**	3.4
Total non-operating cash flow	**(111.8)**	(449.1)
Operating cash flow	**213.9**	179.1
Movement in net debt	**102.1**	(270.0)

* Operating cash flow as a % of operating profit

The year-end trade working capital to sales ratio was 11.5% (2011: 12.3%). Average trade working capital, expressed as a percentage of sales, increased to 11.2% (2011: 9.0%), a 2.2pp increase, of which 1.2pp arose from acquisitions and 1.0pp arose from growth in core working capital requirements, bringing the ratio back to more sustainable levels.

Capital expenditure during the year equated to 2.3% of sales (2011: 2.6%) and, at £28.8 million (2011: £29.2 million), was 140% of depreciation and software amortisation (2011: 162%).

Overall, net debt decreased by £102.1 million (2011: increase of £270.0 million) from £356.2 million to £254.1 million. Interest cost, excluding the financing charge arising from IAS 19, was covered by operating profit 18.9 times (2011: 20.2 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 2012, the group had £479 million of committed facilities denominated in different currencies, consisting of £94 million of private placements maturing in October 2013, a five-year £47 million term loan maturing in September 2015 and a five-year £338 million revolving credit facility maturing in August 2016. £185 million of the revolving credit facility was undrawn at the year end. In addition, the group had a cash balance of £41 million and other uncommitted facilities, mainly in the form of overdraft facilities at local operations.

At the year end, the group's borrowings amounted to £295 million, 48% of which were at fixed interest rates (2011: 37%). The ageing profile at the year-end showed that 32% of the year-end borrowing is due to mature within one year (2011: 1%), 0% between one and two years (2011: 24%) and 68% between two and five years (2011: 75%).

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 2012, approximately 49% of the estimated net euro, US dollar and Japanese yen exposures for 2013 were hedged using forward exchange contracts mainly against the Swiss franc, pound sterling, the euro and the Danish krone.

Financial review continued

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 2012 and 2011.

	2012 (average)	2011 (average)
USD	**1.58**	1.60
EUR	**1.23**	1.15
JPY	**126**	128

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 2012 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)	517	407	72	91	144	1,231
% of sales	42	33	6	7	12	100
Total costs (£m)**	(391)	(326)	(86)	(65)	(146)	(1,014)
PBT by currency (£m)	126	81	(14)	26	(2)	217
% of PBT	58	37	(6)	12	(1)	100

* Dollar/euro categories include tracking currencies
** Costs include interest of £6.7m in USD, £5.3m in EUR and £(0.4)m 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 effect on the impact of foreign exchange.

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 £3.5 million) has decreased to £12.0 million (2011: £13.1 million). The movement can be summarised as follows:

	£m
Net deficit in defined benefit pension schemes at 1 January 2012	**(13.1)**
Actuarial losses	**(0.7)**
Contributions in excess of current service cost	**2.1**
Past service costs in UK	**(1.1)**
Expected return on pension scheme assets net of interest costs on pension scheme liabilities	**0.5**
Exchange difference and other movements	**0.3**
Net deficit in defined benefit pension schemes at 31 December 2012	**(12.0)**

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

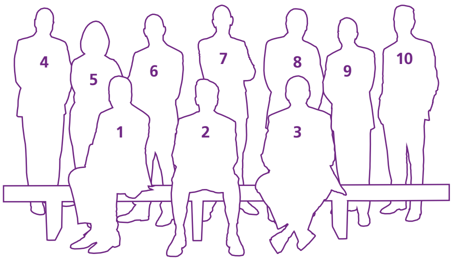
	UK	Germany	Netherlands	Switzerland	Total Overseas	**Net Total**
Deficit as at 1 January 2012 (£m)	(1.3)	(6.3)	(0.4)	(5.1)	(11.8)	**(13.1)**
Decrease/ (increase) in deficit (£m)	5.2	(1.1)	(1.1)	(1.9)	(4.1)	**1.1**
Deficit as at 31 December 2012 (£m)	3.9	(7.4)	(1.5)	(7.0)	(15.9)	**(12.0)**

The UK plan deficit of £1.3 million at 31 December 2011 has become a surplus of £3.9 million at 31 December 2012. This is primarily due to favourable asset valuations since 31 December 2011, contributions paid by the company up to 30 June 2012 (£1.6 million) and also arises from a difference in the plan's membership compared to the mortality assumptions made. The company ceased the deficit recovery contributions from 1 July 2012.

The UK past service cost of £1.1 million is in respect of future pension increases granted to Servomex members for pre-1 July 1995 service.

Clive Watson
Group finance director

Board of directors



1. John Hughes
2. John O'Higgins
3. Clive Watson
4. Roger Stephens
5. Martha Wyrsch
6. Peter Chambré
7. Russell King
8. Steve Blair
9. Jim Webster
10. John Warren

Board of directors continued

John Hughes CBE
Chairman

Appointed
June 2007. Appointed Chairman in May 2008

Committees
Nomination (chairman), Remuneration

Relevant experience
John Hughes was formerly executive vice-president and chief operating officer of defence, aerospace and electronic systems company Thales Group SA.

External appointments
Non-executive chairman of Sepura plc and Telecity Group plc. Non-executive director of Vitec Group plc and CSG International, Inc. (a NASDAQ-listed company). Chairman of privately-held businesses Just Eat and Aircom International. Special advisor for Oakley Capital Corporate Finance. Ambassador for the Alzheimer's Society.

John O'Higgins
Chief Executive

Appointed
January 2006

Committees
Nomination

Relevant experience
Before joining Spectris, John O'Higgins worked for Honeywell in a number of management roles, most recently as president of automation and control solutions, Asia Pacific. John began his career at Daimler Benz in Stuttgart. He has engineering degrees from University College Dublin and Purdue University and an MBA from INSEAD.

External appointments
Non-executive director of Exide Technologies, a company listed on NASDAQ.

Clive Watson
Group finance director

Appointed
October 2006

Relevant experience
Clive Watson was previously chief financial officer and executive vice president for business support at Borealis. Prior to this, he was group finance director at Thorn Lighting Group and before that group finance director Europe with Black & Decker. Clive is a member of the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Tax.

External appointments
Non-executive director of Spirax-Sarco Engineering plc.

John Warren
Non-executive director

Appointed
March 2006

Committees
Nomination, Remuneration,
Audit and risk (chairman)
Senior independent director

Relevant experience
John Warren was previously group finance director of WH Smith PLC and United Biscuits plc and a non-executive director of Arla Foods UK plc, BPP Holdings plc, RAC plc, Uniq plc and Rexam plc.

External appointments
Non-executive director of The Rank Group Plc, Bovis Homes Group PLC, 4imprint Group plc, Greencore Group PLC and Welsh Water, a privately-owned company.

Martha Wyrsch
Non-executive director

Appointed
June 2012

Committees
Nomination, Remuneration,
Audit and risk

Relevant experience
Martha Wyrsch was formerly president of Vestas Americas, a subsidiary of Vestas Wind Systems A/S. Before joining Vestas, Martha was president and CEO of Spectra Energy Transmission. Previously she held the position of president and CEO of Duke Energy Gas Transmission and prior to this vice president and general counsel of Duke Energy.

External appointments
Non-executive director of SPX Corporation, a company quoted on the New York Stock Exchange.

Peter Chambré
Non-executive director

Appointed
August 2006

Committees
Nomination, Remuneration,
Audit and risk

Relevant experience
Peter Chambré was formerly chief executive officer of Cambridge Antibody Technology Group plc and prior to that was chief operating officer of Celera Genomics Group and chief executive of Bespak plc.

External appointments
Chairman of Xellia Pharmaceuticals AS, OneMed AB, 7TM Pharma A/S, Cancer Research Technology Ltd, and immatics biotechnologies GmbH, all private companies.

Russell King
Non-executive director

Appointed
October 2010

Committees
Nomination, Remuneration (chairman),
Audit and risk

Relevant experience
Russell King was previously chief strategy officer of Anglo American PLC and a non-executive director of Anglo Platinum Ltd. Prior to that he spent over 20 years in senior roles at ICI, gaining worldwide experience in its fertiliser, petrochemical and paint businesses.

External appointments
Non-executive director of Aggreko plc. Non-executive chairman of GeoProMining Ltd, a privately-owned mining company operating in the CIS.

Steve Blair
Business group director

Appointed
May 2011. Appointed to Board in January 2013

Relevant experience
Steve Blair was previously president, Invensys Operations Management for North America. Prior to joining Invensys, he held various management positions at Silvertech Ltd. and Computing Devices Co. Ltd. Steve has a degree in Electronic Engineering from the University of Sheffield.

Jim Webster
Business group director

Appointed
October 1993

Relevant experience
Before joining Spectris, Jim Webster worked for Raychem Corporation in a number of management roles, most recently as general manager of the European Wire and Cable Division. Jim began his career as a financial analyst in the automotive industry. He has a metallurgy degree from Leeds University and has attended the Advanced Management Programme at INSEAD.

Roger Stephens
Head of commercial & company secretary

Appointed
January 1997

Relevant experience
Roger Stephens is responsible for legal and governance matters and commercial projects across the group. Prior to joining Spectris, Roger held commercial roles in the power and construction sectors, specialising in contract negotiation, litigation and claims resolution, IP exploitation and property development.

Directors' report

The directors present their report and accounts for the year ended 31 December 2012.

Principal activities
Spectris designs, develops and markets productivity-enhancing instrumentation and controls. The businesses are grouped into four segments for management and segmental reporting purposes: Materials Analysis, Test and Measurement, In-line Instrumentation, and Industrial Controls. Further details of the trading companies within each segment can be found in the operating review (pages 30 to 37). Developments in the group's business activities are discussed in the Chairman's statement (page 12), the Chief Executive's review (page 14) and the business review (pages 2 to 41).

Acquisitions
During the year the following acquisitions were made: (i) Certain of the trade and assets of DCM Industries Inc., based in Hayward, California, a leading provider of measurement solutions for wire and cable applications. The business has been integrated into Beta LaserMike in the In-line Instrumentation segment; (ii) NoViSim Limited, a company based in the UK, which extends the group's capabilities in noise and vibration test-based simulation software for the automotive industry. This business has been integrated into Brüel & Kjær in the Materials Analysis segment; (iii) Analytical Spectral Devices Inc., a leading manufacturer of near-infrared instrumentation solutions and applications expertise for materials measurement and research. Analytical Spectral Devices Inc. will become part of the Materials Analysis segment, and will be integrated within PANalytical.

The total cost of acquisitions during the year was £19.3 million. Of this, £8.7 million is attributable to the fair value of deferred and contingent consideration expected to be paid in future years.

Disposals
On 19 December 2012, the company announced the signing of an agreement for the sale of the Fusion UV business (part of the In-line Instrumentation segment) to Heraeus Holding GmbH for US$172 million, subject to a working capital adjustment. The transaction completed on 31 January 2013.

Share capital
The share capital of the company comprises ordinary shares of 5p each; each share carries the right to one vote at general meetings of the company. The authorised and issued share capital of the company, together with movements in the company's issued share capital during the year, is shown in Note 24 on page 107. The Articles of Association ('Articles') of the company, available on the company's website, contain provisions governing the ownership and transfer of shares.

At the 2012 annual general meeting, shareholders authorised the directors to make market purchases of the company's ordinary shares up to a maximum number of 11,649,000 shares, representing approximately 10% of the issued share capital of the company, and to either cancel the shares or hold them as Treasury shares which may then be cancelled, sold for cash, or transferred for the purposes of the company's share plans, depending on the best interests of the company's shareholders at the time. No such purchases were made during the year. At the close of business on 19 February 2013, the company had 125,005,123 ordinary shares in issue, of which 7,584,232 were held in Treasury. During the year 1,021,685 shares were transferred out of Treasury to meet the company's obligations under its share plans and no shares were cancelled out of Treasury. An authority to make further market purchases of the company's ordinary shares, if believed appropriate, will be sought at the forthcoming annual general meeting although the Board has no present intention of so doing.

Included in the special business of the 2013 annual general meeting are proposals to renew the directors' authority to allot shares up to prescribed limits.

At 19 February 2013, interests notified to the company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

Black Rock Inc.
11,584,115 shares (9.88% material interest)

Standard Life Investments Limited
9,371,996 shares (7.99% material interest)

Massachusetts Financial Services Company
5,611,725 shares (4.84% material interest)

F & C Asset Management plc
5,212,550 shares (4.45% material interest)

Legal & General Group Plc
3,557,546 shares (3.02% material interest)

Directors' report continued

Takeovers directive
Pursuant to Section 992 of the Companies Act 2006, which implements the EU Takeovers Directive, the company is required to disclose certain additional information. The disclosures not covered elsewhere in this annual report are as follows:

The company's Articles give power to the Board to appoint directors, but require directors to submit themselves for election at the first annual general meeting following their appointment, and for annual re-election at subsequent annual general meetings.

The Board of directors is responsible for the management of the business of the company and may exercise all the powers of the company subject to the provisions of the relevant statutes and the company's Articles. The Articles contain specific provisions and restrictions regarding the company's power to borrow money. Powers relating to the issuing and buying back of shares are also included in the Articles, and such authorities are renewed by shareholders each year at the annual general meeting.

There are a number of agreements that take effect, alter or terminate upon a change of control of the group following a takeover, such as bank loan agreements and company share plans. None of these are deemed to be significant in terms of their potential impact on the business of the group as a whole. In addition, there is a service contract between the company and one of its directors which provides for compensation for loss of office or employment following a change of control of the group (please refer to the directors' remuneration report on page 58 for further explanation). It is also possible that funding arrangements for the group's defined benefit pension arrangements would need to be enhanced following a change of control if that resulted in a weakening of the employer covenant.

Dividend
Results for the group are set out in the consolidated income statement on page 68 and in the supporting notes. A final dividend of 25.5p per ordinary share is proposed for the year to 31 December 2012 (2011: 25.4p). With the interim dividend, this makes a total for the year of 39.0p (2011: 33.6p). The final dividend will be paid on 26 June 2013 to shareholders on the register on 31 May 2013.

Research and development
Expenditure committed to research and development is focused on new product development, applications engineering and process integration. Costs are expensed as incurred, except where the expenditure meets certain strict criteria for capitalisation. In the year to 31 December 2012, amounts expensed totalled £85.5 million (2011: £75.8 million), and no expenditure met the criteria for capitalisation (2011: £nil).

Fixed assets
Whilst the market values of some properties differ from book values, the directors believe that the differences are not material.

Payment of suppliers
The group's policy on payment of suppliers is to ensure that terms of payment accord with contractual and legal obligations. The company had nil trade creditors at the year end (2011: £nil).

Contractual arrangements
The company has no contractual or other arrangements which are essential to the business of the company, nor any key customers or major suppliers upon which it is dependent.

Directors
The directors of the company are named on pages 42 and 43.

In accordance with the requirement of the UK Corporate Governance Code, all the directors resigned at the 2012 annual general meeting, put themselves up for re-election and were re-elected.

The directors' total remuneration for the year and their interests in the shares of the company and its subsidiaries at 31 December 2012 are disclosed in the directors' remuneration report on pages 52 to 66.

In accordance with Section 236 of the Companies Act 2006 the directors disclose a qualifying third-party indemnity provision entered into between the company and its directors and officers which was in force at the date of approval of this report. This indemnity gives contractual force to the Indemnity of Officers provision contained in the company's Articles.

Auditor
Separate resolutions to re-appoint KPMG Audit Plc as auditor and to authorise the directors to agree its remuneration will be proposed at the annual general meeting.

Annual general meeting
The notice of annual general meeting to be held at Great Fosters, Stroude Road, Egham, Surrey, TW20 9UR, on Friday, 19 April 2013 at 12.30 p.m., is contained in a separate letter from the Chairman accompanying this report.

Directors' report continued

Corporate governance

UK Corporate Governance Code statement of compliance
Spectris plc is subject to the UK Corporate Governance Code ('the Code'), as appended to the Listing Rules of the UK Listing Authority. The Code sets out principles and provisions relating to the good governance of companies.

Corporate governance has been and remains the responsibility of the whole Board. This statement describes how the company applied the principles and complied with the provisions of the Code during 2012. The Board considers that it was throughout the year and continues to be in full compliance with the provisions set out in the Code.

Additionally, the Board has considered the September 2012 new UK Corporate Governance Code ('the new Code'), which applies to accounting periods beginning on or after 1 October 2012. It is the Board's policy to be an early adopter of revisions to the Code and the Board has complied with the additional provisions of the new Code to the extent possible.

Board composition and procedures
The Board meets formally at regular intervals throughout the year to consider developments in relation to the company's strategy and long-term objectives and to review trading results and operational and business issues. In particular, it deals with those matters reserved to it for decision, including annual financial planning, the acquisition and disposal of businesses, major capital expenditure, the appointment and, where necessary, removal of directors and Board and senior management succession. Additional meetings are convened as required to consider specific topics requiring immediate decision. Usually, at least two meetings each year are held at operating locations and encompass a detailed review of the relevant business. Through these meetings, the induction process on appointment, and the access given to the company's operations and its staff, all directors gain the detailed knowledge of the company required for them to discharge their duties. Operational decisions are delegated by the Board to senior management at trading company level, over which the executive directors exercise supervision. All directors receive detailed progress reports one week prior to each Board meeting.

The Board currently comprises the Chairman, four executive directors and four non-executive directors. The Board considers its non-executive directors (Peter Chambré, Russell King, John Warren and Martha Wyrsch) to be independent, in that none of them is or has ever been, the holder of an executive office with the company. The positions of Chairman, Chief Executive and senior independent director are held by separate individuals and, in accordance with the Code, the Board has adopted written profiles for the first two of these. The non-executive directors have all had senior experience in other organisations and offer independent judgement on Board matters. The Chairman's other significant UK listed company interests are as non-executive chairman of Sepura plc and Telecity Group plc and non-executive director of Vitec Group plc and CSG International, Inc. (the latter company being quoted on NASDAQ). Mr Hughes is also chairman of privately-held businesses Just Eat and Aircom International. The Board has formally reviewed the Chairman's other commitments and confirms that it believes that the Chairman's obligations to the company are unaffected by these directorships.

There are procedures for individual Board members to receive induction and training as appropriate and to solicit independent professional advice at the group's expense where specific expertise is required in the course of exercising their duties. The Chairman reviews and agrees with each director their training and development needs annually. All directors have access to the company secretary, who is responsible for ensuring compliance with appropriate statutes and regulations.

The Board delegates specific responsibilities to Board committees, notably the finance, nomination, remuneration and audit and risk committees. The terms of reference for these committees are published on the company's website and the following additional documents are available to shareholders on application to the company secretary:

- schedule of matters reserved for decision by the Board;
- responsibilities of the Chairman, the Chief Executive and the non-executive directors;
- relations with shareholders;
- performance evaluation; and
- procedure for taking independent professional advice.

The Board has adopted the Institute of Chartered Secretaries and Administrators' Guidance Note of September 2009 on Board Meeting Etiquette.

Directors' report continued

Under the Companies Act 2006, a director must avoid a situation where he or she has, or may have, a direct or indirect interest that conflicts, or may conflict, with the company's interests. During the year, in accordance with the powers and duties of directors laid down in the company's Articles, directors were asked to declare any such conflict or potential conflict of interest to the Board, and to request the Board's authorisation of any matter which otherwise might have given rise to a conflict of interest. No such conflicts have been declared.

Board and committee meeting attendance 2012

	Board	Remuneration committee	Audit and risk committee	Nomination committee
Total meetings during year	10	3	3	3
J L M Hughes (Chairman)	9	3	N/A	3
J A Warren (senior independent director)	10	3	3	3
P A Chambré	10	3	3	3
R J King	10	3	3	3
M B Wyrsch	3	1	1	1
J E O'Higgins (Chief Executive)	10	N/A	N/A	3
C G Watson	10	N/A	N/A	N/A
J C Webster	10	N/A	N/A	N/A

M B Wyrsch held office for part of the year only. She attended three of the four Board, one of the two remuneration committee and all of the audit and risk and nomination committee meetings (one meeting for each of these committees) which she was eligible to attend.

S Blair was appointed to the Board on 7 January 2013, but was in attendance at all Board meetings in 2012.

Nomination committee and diversity

The nomination committee consists of the Chairman, Chief Executive and all non-executive directors. It is chaired by the Chairman, save in the event of discussions relating to his succession, when the senior independent director takes the chair.

Following a decision of the Board that the appointment of a new director is appropriate, the duty of the committee is to present for Board consideration suitably qualified candidate(s). In making such recommendations, the committee evaluates the balance of skills, knowledge and experience on the Board and develops a description of the role and required capabilities. Due regard is given to the benefits of diversity on the Board and consideration is given to the time commitment expected for the Chairman and non-executive director positions. The Board uses external search firms to identify potential non-executive directors and they conduct the process systematically, utilising the evaluation of the committee and against a set of skills and competences developed from the strategic needs of the business today and in coming years, whilst also taking into account the present strengths and any perceived gaps in the knowledge of the Board. Candidates are then identified for interview. The committee also makes recommendations to the Board regarding the re-election and/or re-appointment of any director. Similar selection processes apply for the appointment of a chairman.

Recommendations are also made to the Board concerning succession plans for both executive and non-executive directors and, in particular, for the key roles of Chairman and Chief Executive. The committee also recommends to the Board suitable candidates for the position of senior independent director.

The nomination committee meets as the need arises. Its terms of reference can be found on the company's website.

The Board has considered the Davies Review 'Women on boards' and the associated consultation by the Financial Reporting Council on whether to make further changes to the UK Corporate Governance Code, requiring boards to establish a gender diversity policy. Whilst the Board is opposed to numerical targets or quotas to address the representation of specific groups, it recognises the strategic and business benefits of having a balanced board. Due regard is therefore given to the benefits of diversity as part of the Board's normal refreshment process, with appointments made from candidates with the appropriate mix of skills, knowledge and experience, regardless of gender or otherwise. On 1 June 2012, Martha Wyrsch was appointed to the Board as a non-executive director. A suitably diverse range of candidates was presented to the nomination committee for this appointment. The executive search firm engaged in the recruitment was Egon Zehnder, which adheres to the Voluntary Code of Conduct for Executive Search Firms. Egon Zehnder has also provided Board evaluation services to the company. On 7 January 2013, Steve Blair was appointed to the Board as an executive director. Mr Blair was recruited to the company as business group director in May 2011.

Directors' report continued

As part of our culture of respect, we believe that people with varied backgrounds and perspectives add creativity to our company and therefore we encourage diversity in the workplace. The Board recognises the benefits of all facets of diversity, including experience and perspective, both at board level and throughout our business. Spectris operates globally in more than 30 countries and is focused on growing its presence in industrialising economies such as China, India and Latin America, and across a broad base of end user markets. We will continue to strengthen our existing group-wide inclusion policies to attract and retain the most talented and appropriate people, reflecting the different markets and regions in which we operate.

Operation of the Board and its evaluation

The operation of the Board and its committees is reviewed by the Board as a whole annually. The executive directors' and company secretary's performance is appraised annually against objectives established for the prior year. The contributions of the Chairman and non-executive directors are reviewed annually by the senior independent director and the Chairman, respectively, prior to their being proposed to shareholders for re-election. Additionally, the Chairman periodically holds meetings with the non-executive directors and the non-executives have the opportunity to meet at least once a year without the Chairman present, in a meeting led by the senior independent director. In considering the Chairman's performance, his other public company interests were specifically addressed and found to be of benefit to the Board, in that he brings experiences and insights gained from these interests which assist the Board in its deliberations.

An externally-facilitated evaluation of the operation and performance of the Board and its committees was conducted in 2010 by Egon Zehnder. Egon Zehnder also provides executive search services to the company. Internal evaluations followed during 2011 and 2012. The 2012 evaluation included submissions from all Board members focused upon the strategic areas identified during the 2011 evaluation, in order to measure progress. This approach encouraged detailed narrative responses from each director, which were then followed up with one-on-one discussions with the company secretary. A summary of the submissions received was considered at the October Board meeting and emerging themes discussed. These included the group's business strategy, risk appetite, management development and the alignment of the remuneration strategy with the business strategy. A number of areas for further debate and action were recorded. The overall conclusion was that the Board operated in an open, collegiate, and supportive manner, both in formal meetings and in the informal discussions that take place between Board members. An externally-facilitated evaluation will be conducted in 2013. The facilitator for this evaluation has yet to be determined. In addition to the areas identified for further debate and action, mentioned above, the 2013 evaluation will focus on the balance of skills, experience, independence and knowledge of the Board, its diversity (including gender), how the Board works together as a unit and the factors relevant to its effectiveness.

Shareholder relations

Spectris conducts regular dialogue with institutional shareholders and divulges such information as is permitted within the guidelines of the Listing Rules. The content of presentations made after results announcements may be accessed by individual investors on the group's website, *www.spectris.com*.

All shareholders are invited to participate in the annual general meeting, where the Chairman, the Chief Executive and the chairmen of the audit and risk and remuneration committees are available to answer questions. The results of proxy votes are declared at the annual general meeting after each resolution has been dealt with on a show of hands. These are then published on the group's website.

The Board is kept informed of the views of major shareholders through periodic reports from the Chief Executive and the company's joint brokers, JP Morgan Cazenove and Jefferies Hoare Govett. The Chairman and non-executive directors have the opportunity to attend the bi-annual analyst presentations.

Shareholders representing in excess of 2.5% of the company's issued share capital receive a standing invitation to meet the Chairman, the senior independent director or new non-executive directors. Such meetings would supplement if necessary, but not replace, the regular meetings with the Chief Executive and group finance director.

Audit and risk committee

The audit and risk committee comprises the non-executive directors, Peter Chambré, Russell King, John Warren and Martha Wyrsch, and is chaired by John Warren, who has recent and relevant financial experience as the former group finance director of both United Biscuits plc and WH Smith PLC. Mr Warren is also the current chairman of the audit committees of Bovis Homes Group PLC, The Rank Group Plc, 4imprint Group plc, and Welsh Water. Mr Warren is a chartered accountant, Mr Chambré holds a bachelor of science degree, Mr King holds a bachelor of arts degree and Mrs Wyrsch holds a doctorate in law. The committee met three times during 2012 to consider the effectiveness of the group's internal controls, policies and procedures, the process of internal audit, and the conduct and outcome of the external audit. Its meetings are normally attended by the Chairman, the Chief Executive, the group finance director, the company secretary and the external and internal auditors. All executive directors attend the year-end audit and risk committee meeting. Processes requiring the disclosure of relevant information by individual directors to the auditor have been adopted. The committee confers annually with both the head of internal audit and the external auditor without the attendance of executive directors. Additionally, both the external audit partner and the head of internal audit have the right of direct access to the audit and risk committee chairman. The committee's terms of reference can be found on the company's website.

Directors' report continued

The committee is responsible for making recommendations to the Board in relation to the appointment of the external auditor and then for approving the external auditor's remuneration, terms of engagement and scope of work.

The committee has also adopted procedures governing and restricting the appointment of the external auditor for non-audit services. Services having the potential to impair the independence of the auditor are precluded, including:

- book-keeping or other services related to the accounting records or financial statements of Spectris plc;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution in kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser, or investment banking services;
- legal services and expert services unrelated to the audit;
- human resource, executive recruitment services and payroll administration services;
- expert services unrelated to the audit (advocacy in litigation proceedings, other than tax matters);
- tax services to a person in a financial reporting oversight role; and
- services on a contingent fee basis where:
  i. the contingent fee is material to the audit firm or the partner's profit-sharing pool; or
  ii. the outcome of these services is dependent on a future or contemporary audit judgement relating to a material matter in the audit statements.

A cumulative annual cap of £250,000 is established for all other non-audit services (save for acquisition due diligence and taxation services) above which all engagements are subject to prior approval by the audit and risk committee.

The head of internal audit is employed by the group to perform internal control reviews across the group according to a work programme agreed by the committee. The head of internal audit is assisted in this by five further internal auditors. The nature and scope of the group's internal control review resources is reviewed by the audit and risk committee annually. The audit and risk committee receives reports twice a year on the results of internal control reviews.

The committee has considered the risk of the withdrawal of their auditor, KPMG Audit Plc, from the market in their risk evaluation and planning and has concluded that the risk is small. In the event that the company's auditor did exit the market, a replacement appointment would be made from audit firms of equivalent standing. KPMG Audit Plc was appointed as the company's auditor on 12 May 1998, but the lead audit partner has changed three times subsequently. It is now the policy of the committee to put the external audit contract out to tender at least every ten years. The next tender will be no later than the planned rotation of the current audit partner in 2016. However, KPMG Audit Plc's in-depth understanding of the company's operations is presently considered by the committee to be of benefit to both the company and its shareholders.

There are no contractual obligations that restrict the committee's choice of auditor.

Internal controls

The Board is ultimately responsible for the group's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risk of failure to meet business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Consistent with the guidance provided for directors on internal control by the Financial Reporting Council ('Internal Control: Revised Guidance for Directors on the Combined Code'), the Board confirms that there is an ongoing process for identifying, evaluating and managing assessed significant risks faced by the group, that this has been in place for the year under review and up to the date of approval of the annual report and accounts, that this process has been reviewed by the Board during the year and that the group accords with the guidance. The Board affirms the importance it attaches to the continuous review and application of the guidance, the regular and systematic assessment of the risks facing the group, and the value of embedding risk management and internal control systems within its business processes. The group has an internal audit function which reviews the design and effectiveness of internal controls across the group's operations, including financial, operational and compliance controls.

Directors' report continued

The processes which the Board and the audit and risk committee have applied in reviewing the effectiveness of the group's system of internal controls are summarised below:

- an established process is in place whereby each business unit regularly assesses, evaluates and reports risks of group significance. Each business unit is required to document how it is managing and mitigating these risks;
- the regular review of the status of risks and corresponding mitigating actions ensure that risk management is embedded in day-to-day management processes and decision making as well as in the annual strategic planning cycle;
- the effectiveness of risk management and mitigation is reviewed regularly by the executive directors and twice yearly by the audit and risk committee;
- in addition, the executive directors consider those risks to the group's strategic objectives which are not addressed within the business units and develop appropriate approaches to managing and mitigating those risks;
- annual financial plans for each business unit, significant capital investments or contractual commitments and major acquisitions or divestments are all subject to review and approval by the Board;
- a Group Accounting and Policies Manual sets out the minimum standards and procedures to be applied in relation to those risk areas which are regarded as significant in a group context;
- a process of self-assessment of compliance with the Manual and reporting thereon has been established, providing for a documented trail of accountability from business unit presidents and finance directors to the audit and risk committee. The necessary actions are taken by the audit and risk committee to remedy any failings or weaknesses identified by its review of the internal control system; and
- the executive directors report to the Board on changes in the business and external environment which present significant risks. The group finance director provides the Board with monthly financial information which includes key performance indicators and information on the group's operating segments. Regular reports on significant legal, ethics, compliance issues and insurance matters are received from the company secretary.

Going concern

Having reviewed the group's plans and available financial facilities, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the group's accounts.

Business review

The information that fulfils the requirements of the Business review, as required by Section 417 of the Companies Act 2006, and which should be treated as forming part of this report by reference, is included in the following sections of the annual report:

- Chairman's statement on pages 12 and 13.
- Chief Executive's review on pages 14 and 15.
- Group overview on pages 8 and 9.
- Operating review on pages 30 to 37, which includes a review of the external environment.
- Principal risks and uncertainties are described on pages 20 to 23.
- Details of the principal operating subsidiaries are set out on pages 30 to 37.
- Financial review on pages 38 to 41.
- Corporate responsibility on pages 24 to 27, which includes the company's policy on treatment of its employees.

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law, and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Directors' report continued

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 group and parent company, and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group, and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report, and corporate governance statement that complies with that law and those regulations.

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

The directors who held office at the date of approval of this 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 he or she 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.

Responsibility statement of the directors in respect of the annual report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the information that is cross-referred from the business review section of the directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Roger Stephens

Roger Stephens
Secretary
20 February 2013

Directors' remuneration report

Letter from Russell King, chairman of the remuneration committee.

Dear Shareholder,
As the chairman of the remuneration committee, I am pleased to present to you the 2012 directors' remuneration report.

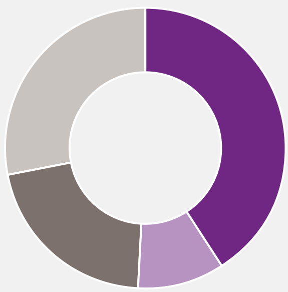
Remuneration strategy

The policy of linking total reward closely to the performance of Spectris continues to be a strong principle underlying your committee's consideration of executive remuneration. We aim to ensure that the company continues to attract, motivate and retain high calibre management capable of delivering the best possible performance for shareholders, commensurate with appropriate risk considerations. Accordingly, a significant part of the executive directors' overall package is conditional upon the attainment of demanding growth-related performance conditions. Further, the performance conditions attaching to short and long-term incentives are aligned with and drive the group's strategic objectives.

The key elements of the executive directors' remuneration arrangements are:

- base salary and total remuneration set at or modestly below the median of UK quoted companies of comparable size, subject to adjustment up or down to reflect the experience and performance of individual incumbents;
- on-target and maximum annual bonus of, respectively, 50% and 100% of salary, only payable on achievement of stretching profit and individual objectives, with any bonus in excess of 60% being applied to the purchase of Spectris shares until a two times base salary shareholding is achieved;
- annual awards under the company's performance share plan of up to 125% of salary, with vesting after three years based 50% upon total shareholder return relative to the FTSE 250 index and 50% upon earnings per share growth, with retention of all shares arising, net of tax, until a shareholding of two times base salary is achieved; and
- benefits provided on a market competitive basis.

The anticipated reward mix for the Chief Executive, finance director and business group director is shown in the chart below. This assumes performance share plan awards with a value on grant equal to 125% of the director's base salary leading to an expected vesting of 55% of the award (68.75% of base salary) and an annual bonus on-plan expectation of 50% of salary.



	%
Base pay	41
Pension	10
Annual bonus	21
Performance share plan	28

2012 remuneration

The Spectris executive team has produced creditable results for 2012 in uncertain macro-economic conditions and following a record year in 2011. The salary reviews declared in last year's report (2.5% for Messrs O'Higgins and Webster and 5% for Mr Watson) were deferred at the request of the executive

Directors’ remuneration report continued

directors pending greater economic clarity and were only released for implementation effective 1 July 2012, with no backdating. Adjusted profit before tax rose by 13% during the year, producing a payment under this element of the annual bonus plan of 47%.

The company has enjoyed good absolute and relative growth over the years 2010 to 2012, with adjusted EPS increasing by 303%, the share price by 279%, and the annual dividend by 61% over that period. Consequently, the performance share plan awards maturing on 8 March 2013 are expected to show vesting at the upper end of both the EPS and TSR ranges.

Whilst only a snapshot in time, at the end of 2012 the performance share plan grants maturing in 2014 were on track for full vesting on the EPS performance condition (59% growth over the two years 2011 and 2012) and near full vesting on the TSR (performance above upper quintile) performance condition. The grants made in February 2012 are at a very early point in their three-year performance period, but with 11% growth in EPS during 2012 and TSR at above median to end 2012 they are so far on track to achieve some level of vesting.

The aggregate pre-tax pay achieved by each executive director in 2012 was as follows:

	Base salary £’000	Pension contributions + in lieu supplements £’000	Benefits in kind + expenses £’000	2012 Bonus £’000	Share awards £’000	**2012 Total £’000**	2011 Total £’000
J E O’Higgins	506	127	19	359	1,984*	**2,995**	1,481
C G Watson	318	79	19	228	1,298*	**1,942**	1,226
J C Webster	271	68	21	187	1,141	**1,688**	1,073

* The share awards for J E O’Higgins and C G Watson were not exercised during the year. Their value is derived from the average of the company’s share price over the final three months of 2012 and includes notional dividends during 2012, applied as additional award shares.

This table has been prepared in order to comply with the proposed new Department of Business Innovation and Skills (‘BIS’) regulations and therefore differs from the current statutory disclosure included on page 63.

Future reviews

The committee’s remuneration advisers, FIT Remuneration Consultants LLP, conducted the biennial benchmarking review of director salaries during the year. Based on the results of that review, your committee determined that the salary increases below should be implemented with effect from 1 January 2013.

Director	2013 base salary	Increase over 2012
J L M Hughes (Chairman)	£180,000	+9%*
J E O’Higgins (Chief Executive)	£527,875	+3%
C G Watson (Group finance director)	£335,300	+3%
J C Webster (Business group director)	£283,000	+3%

* being the first increase since 1 January 2011

Steve Blair joined the Board as business group director on 7 January 2013 and for 2013 will be paid a salary of £270,400.

As noted last year, your committee continues to be aware that the current maximum level of annual award under the performance share plan has, at 125% of salary, fallen materially behind market norms. Whilst I had anticipated submitting proposals to members at the 2013 annual general meeting, your committee has commenced a more fundamental review of the performance conditions attaching to grants in order to ensure that they align with and drive the Board’s strategy for growth. I now anticipate revised proposals being put to the 2014 annual general meeting.

Disclosure

Shareholders will be aware that, as part of the government’s review of executive pay in listed companies, the Department of Business, Innovation and Skills (‘BIS’) is consulting on changes to the way in which directors’ remuneration is disclosed to shareholders in the directors’ remuneration report. These changes will apply to all financial years ending after October 2013 and will, therefore, take effect for the company’s 2013 directors’ remuneration report. BIS has been deliberately non-prescriptive on a number of the details required to be disclosed, encouraging investors and companies to engage in a dialogue, so that guidance on the proposed disclosures can be produced prior to October 2013. It is the committee’s policy to be an early adopter of developing best practice. Accordingly, additional disclosures have been incorporated in this year’s directors’ remuneration report to the extent possible, and based on the committee’s interpretation of the likely outcome of the on-going consultation.

I hope that you will support the advisory vote on the 2012 directors’ remuneration report at the annual general meeting.

Yours sincerely

Russell King
Chairman of the remuneration committee
20 February 2013

Directors' remuneration report continued

The directors present their remuneration report for the year ended 31 December 2012.

Remuneration committee

The committee is responsible for recommending to the Board the broad policy for the remuneration of the Chairman, the Chief Executive, the executive directors and the company secretary. The remuneration of non-executive directors is reserved to the Chairman and executive directors.

The remuneration committee comprises Russell King (chairman), Peter Chambré, John Warren and Martha Wyrsch, being the non-executive directors (all of whom are independent). The Chairman, John Hughes, was a member of the committee during 2012 but, effective 2013, is only in attendance at committee meetings. No member of the committee is a serving executive at another listed company. The Chief Executive may be in attendance by invitation and the committee takes into consideration his recommendations regarding the remuneration of his executive colleagues. The Chief Executive is not involved in discussions concerning his own remuneration.

Within the terms of the policy agreed by the Board, the committee determines:

- total individual remuneration packages including, where appropriate, bonuses and share-based incentives;
- targets for any performance-related incentives;
- the scope of any pension arrangements;
- contractual terms of engagement and any payments to be made on termination;
- any major changes in employee benefit structures throughout the company; and
- the policy for authorising claims for expenses from the Chairman and Chief Executive.

The committee also monitors the level and structure of remuneration for all other members of the executive committee and business unit presidents or managing directors.

The terms of reference of the remuneration committee can be found on the company's website and are available on request.

FIT Remuneration Consultants LLP was appointed in August 2011 to advise the committee on various aspects of the Chairman's and executive directors' remuneration. FIT Remuneration Consultants LLP has no other connection with the company. Hewitt New Bridge Street separately provide services to the company in compiling IFRS 2 'Share Based Payment' reporting on the company's share plans and Total Shareholder Return (TSR) performance calculations in relation to the company's Performance Share Plan. FIT Remuneration Consultants LLP was paid £42,597 in respect of services undertaken in 2012 (2011: £14,660). Hewitt New Bridge Street was paid £33,847 in respect of services undertaken in 2012 (2011: £51,817). Both FIT Remuneration Consultants LLP and Hewitt New Bridge Street are members of the Remuneration Consultants Group and adhere to its Code of Conduct.

Remuneration policy

The Board, in considering the recommendations of the remuneration committee, complied throughout the year with the provisions of the UK Corporate Governance Code (including the principles for performance-related remuneration set out in Section D). The policy objective is to ensure that the high calibre individuals required at board level are: i) fairly and competitively remunerated and ii) incentivised in a manner which aligns with and drives the group's strategic objectives in a manner compatible with its risk policies and internal control systems.

The remuneration committee regularly reviews the balance between fixed and variable pay and the performance conditions attaching to short and long-term incentives.

Policy elements

The table opposite describes each element of the pay package applicable to the executive directors.

Directors' remuneration report continued

Element of remuneration package	Relevance to the company's short and long-term strategic objectives	Operation	Maximum potential value	Performance metrics	Implementation of policy
Base salary	Competitive fixed remuneration that enables Spectris to attract and retain key executives.	Reviewed annually. Benchmarked biennially against relevant comparators.	Not applicable to this element.	Reflects the role and the director's skills, performance and experience, referenced to a level at or modestly below the comparator group's median.	Increased the Chief Executive's salary to £527,875, the group finance director's to £335,300 and the business group director's to £283,000 (all 3% increases) with effect from 1 January 2013.
Annual bonus	Drives short-term profit performance. Incentivises executives to achieve specific pre-determined and stretching objectives relevant to Spectris and the individual's personal responsibilities.	Bonus potential is set at a market competitive level. Bonus payments in excess of 60% of salary must be used to acquire shares in Spectris until a minimum holding of two times base salary is achieved. Payable in cash. Subject to clawback provisions.	100% of salary.	Determined by reference to adjusted profit before tax (75% potential) and personal (25% potential) targets. Assessed annually.	The following bonus levels were achieved (as a percentage of salary): ■ Chief Executive: 70% ■ Group finance director: 70% ■ Business group director: 68%
The Spectris Performance Share Plan	Drives the delivery of sustained compound annual growth in earnings per share ('EPS') and relative out-performance in total shareholder return ('TSR').	Awards made annually, with a three-year vesting duration. Subject to clawback provisions.	125% of salary.	50% of each award is subject to an EPS target and 50% to a TSR target. Subject to the underpin that the committee must satisfy itself that the company's TSR growth is reflective of its underlying financial performance. Measured over a three-year performance period.	2012 (and anticipated 2013) awards made to executive directors over shares equal to 125% of the director's basic salary. 2009 awards maturing in the year vested in full.
Recruitment awards	Enabling Spectris to recruit key executives.	Any awards determined at the time of recruitment by the committee to reflect the individual circumstances.	Any recruitment awards calculated by reference to the size of any outstanding awards forgone at the former employer.	Vesting conditions based on Spectris performance would normally be attached.	No recruitment awards were made during the year.

Directors' remuneration report continued

Element of remuneration package	Relevance to the company's short and long-term strategic objectives	Operation	Maximum potential value	Performance metrics	Implementation of policy
Pension and benefits in kind	Market competitive defined contribution pension and benefits in kind, enabling Spectris to attract and retain key executives.	Benefits in kind include company cars, private fuel and medical expenses, life and disability insurance. Cash supplements in lieu of company pension contributions are made to one executive director. Pension and benefits in kind are benchmarked periodically.	25% of salary, company pension contribution and/or cash in lieu.	Not applicable to this element.	No changes were made to these remuneration elements within the year.
Termination payments	Following market practice enabling Spectris to recruit and retain key executives and to protect the company from payments for failure.	It is the practice of the committee to consider treatment on termination having regard to the relevant facts and circumstances. Any future service contracts will take into account relevant published guidance.	Mr O'Higgins' and Mr Watson's contracts of employment contain an option, at the sole discretion of the Board, for the contract to be terminated by way of payments in lieu of notice equivalent to 1.4 times monthly base salary payable over the notice period. Mr Webster's contract does not contain this option but does provide, on a change in control of the group, for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration – salary, bonus and benefits) in the event of termination by the employer within 12 months of such change.	Ordinarily no bonus payments would be made and all share awards would lapse following resignation. Under certain circumstances, however, (e.g. 'good leaver' or change in control) bonus entitlements may be payable and are calculated to the date of termination only. Under these circumstances awards made under the Performance Share Plan will be time pro-rated and subject to the application of the performance conditions at the measurement date.	No compensation payments on termination of employment were made during the year.

Directors' remuneration report continued

Salaries
Base salaries are established by reference to surveys of the terms offered by comparable UK quoted companies – principally according to market capitalisation but also within a specific sector group for additional and relevant calibration. The starting point for consideration of such comparative surveys is the scope of the position and associated performance of the Chairman, each executive director and the company secretary. Excluding his own position and performance, the Chief Executive is responsible for the definition of the scope of each role and assessment of the performance of each executive director, for consideration and approval by the remuneration committee. Salaries for the executive directors are set at competitive levels, typically modestly below the market median, although the remuneration committee reserves the flexibility to respond to individual circumstances which may cause salaries to be set at higher or lower levels. The Chairman's remuneration is reviewed by the committee biennially.

Annual bonuses
To align remuneration with shareholders' interests, a proportion of executive directors' potential total remuneration is related to annual corporate performance. Bonuses of up to 100% of base salary are achievable upon the attainment of demanding adjusted profit before tax (75% potential) and personal (25% potential) targets set in relation to carefully considered business plans. Bonus payments commence only at a level which shows an acceptable financial result in the context of economic circumstances and market expectations, with an 'on-plan' performance yielding a payment of half the maximum potential. Targets for maximum outturn are set at highly stretching, albeit attainable, levels.

The performance conditions used to determine bonus achievement were selected by the committee with the emphasis on driving growth in annual adjusted profit before tax and aspiring to meet or exceed stretching targets, to the benefit of shareholders. The remaining bonus component aims to reward the achievement of significant and demanding personal performance objectives.

The Spectris Performance Share Plan
The remuneration committee keeps under review the company's share-based incentive arrangements and takes advice on market practice. The committee is of the view that offering the opportunity to be awarded and then retain shares in the company is an important part of motivating and rewarding senior management by enabling them to participate in the future growth in value of the company. The Spectris Performance Share Plan (the 'Plan') is intended to support this objective and to facilitate the retention of key employees over the longer term.

Under the Plan, annual awards of shares are made which may vest at the end of a three-year period subject to continued employment, the satisfaction of challenging performance conditions and justification of vesting in the context of the overall financial performance of the company. The maximum award of performance shares that can be made to a participant in any financial year is limited, under the rules of the Plan approved in 2006, to shares with a market value equal to 125% of the participant's salary.

The committee's current policy is to determine awards to executive directors by reference to a base award over shares worth 125% of salary, which may be flexed downwards from year to year depending on corporate and personal performance. For awards in excess of 100% of salary, the committee stipulates, in accordance with undertakings provided on approval of the Plan, that the percentage of an award that will vest for threshold performance will be limited to 25% of a participant's base salary rather than 25% of the number of shares subject to an award, with pro-rata straight line vesting from this lower point up to 100% of the award.

The committee has kept the Plan under review and is conscious that an award of 125% of salary has fallen materially below market norms. The operation of the Plan and the associated performance conditions will be further reviewed during 2013, with the intention of submitting proposals to shareholders at the 2014 annual general meeting.

Awards to executive directors are currently structured so that half of the award is subject to an adjusted earnings per share ('EPS') target and half subject to a total shareholder return ('TSR') target. Each condition operates over a fixed three-year period with no opportunity for retesting. These performance criteria are summarised in the tables below.

Company EPS performance	% of award that vests (expressed as a percentage of one-half of the total number of shares subject to an award)
Consumer Prices Index ('CPI') + 12% compound per annum ('c.p.a.')	100%
Between CPI + 5% and 12% c.p.a.	Pro-rata straight line between 25% and 100%
CPI + 5% c.p.a.	25%
Less than CPI + 5% c.p.a.	0%

Company TSR performance relative to the FTSE 250 (excluding investment trusts)	% of award that vests (expressed as a percentage of one-half of the total number of shares subject to an award)
Upper quintile or above	100%
Between upper quintile and median	Pro-rata straight line between 25% and 100%
Median	25%
Below median	0%

Directors' remuneration report continued

It is the intention of the committee that all future share-based incentives granted to executive directors should be made solely under the Plan. Executive directors may, however, also continue to participate in grants made under the Spectris Savings Related Share Option Scheme which is applicable to all UK employees.

An earnings per share growth target was selected by the committee for the Spectris Performance Share Plan because this represents the portion of the company's post-tax profit that is allocated to each of its shares and therefore serves to incentivise sustained longer-term profit growth in excess of the Consumer Prices Index. A total shareholder return target was also chosen because this compares growth in the company's share price and dividends to a specific group of peer companies, currently the FTSE 250 Index (excluding investment trusts), of which the company is a constituent member.

Clawback provisions
Clawback provisions were introduced from January 2011 to enable variable remuneration to be reclaimed under exceptional circumstances. Such provisions relate to bonus payments and to awards made under the company's Performance Share Plan, were there to be any miscalculation of entitlement, misstatement of accounts, or incidence of fraud.

Non-executive directors
Non-executive directors' fees are also reviewed biennially and agreed by the Chairman and executive directors with reference to market practice. The base fee is supplemented by allowances for chairmanship of the audit and risk and remuneration committees and the pension scheme trustee board. There is no participation in bonus, share plan, or pension arrangements. All non-executive directors' conditions of appointment provide for a six-month period of notice and are renewable at each annual general meeting, subject to review prior to proposal for re-election. There is a presumption that appointments will not continue beyond nine years in office, at which time non-executive directors cease to be regarded as independent under the UK Corporate Governance Code.

Service contracts
All executive directors have rolling contracts subject to 12 months' notice of termination by either party, or to summary notice in the event by the director of serious breach of obligations, dishonesty, serious misconduct or other conduct bringing the company into disrepute.

Mr O'Higgins', Mr Watson's and Mr Blair's contracts of employment also contain an option, at the sole discretion of the Board, for the contract to be terminated by way of payments in lieu of notice equivalent to 1.4 times monthly base salary, for the outstanding months of the notice period (which was reduced, in 2011, from the previous level of 1.65 times to exclude any element of compensation for loss of bonus) and in full and final settlement of all employment related claims. In such circumstances, the director also becomes subject to a contractual best endeavours obligation to seek alternative employment and full mitigation reflective of any earnings from a new position (reducing the payments otherwise due from the company during the notice period). Additionally, bonus entitlements are calculated to the date of termination only. The phased payment provision, subject to reduction as explained above, applies in lieu of all remuneration and benefits otherwise payable during the notice period and in full and final settlement of all employment-related claims. The 0.4 times uplift on monthly salary accounts for the 25% employer pension contribution; company car, insurance and fuel benefits; mobile telephone provision; life, disability and medical expenses insurances; and settlement of any statutory employment claims that may arise from termination. No other payments would be made, including any payment for forward bonus expectation. Whether the Board elects to apply this payment in lieu option would depend on the circumstances underlying termination and the best interests of shareholders at the time.

Mr Webster's contract, concluded in 1998, does not contain this option but does provide, on a change in control of the group, for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration – salary, bonus and benefits) in the event of termination by the employer within 12 months of such change. Termination payments in other circumstances would be a matter for negotiation and remain, at the discretion of the committee, subject to mitigation and/or reduction for accelerated payment.

The committee is aware of the best practice expectations set out in the 2008 ABI/NAPF joint statement on executive contracts and severance and has noted the update to the NAPF policy that was published in January 2009. This guidance, and any future revisions, will be taken into account before agreeing any future service contracts. The committee is committed to continuous review of its policies in the best interests of shareholders.

Directors' remuneration report continued

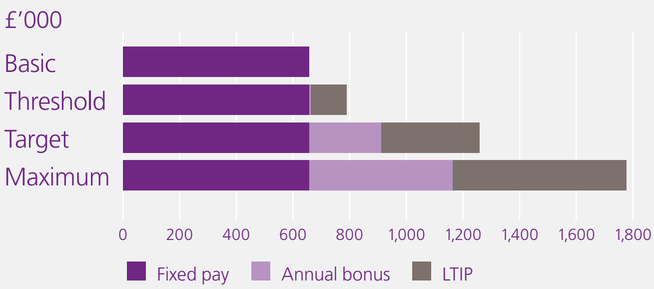
The following table sets out a summary of the directors' service contracts or terms of appointment. Executive directors' service contracts provide, subject to statutory rights, for automatic termination on the director reaching the age of 65.

	Date of contract	Expiry date	Notice period	Length of service at 20 February 2013
Executive directors				
J E O'Higgins	01.01.06	03.02.29	12 months	7 years 1 month
C G Watson	01.10.06	04.02.23	12 months	6 years 4 months
J C Webster	27.03.98	21.06.15	12 months	19 years 4 months
S Blair	14.06.11	05.11.24	12 months	1 year 9 months
Non-executive directors				
P A Chambré	01.08.06	Renewable at each AGM	6 months	6 years 6 months
J L M Hughes	01.06.07	Renewable at each AGM	6 months	5 years 8 months
R J King	12.10.10	Renewable at each AGM	6 months	2 years 4 months
J A Warren	07.03.06	Renewable at each AGM	6 months	6 years 11 months
M B Wyrsch	01.06.12	Renewable at each AGM	6 months	8 months

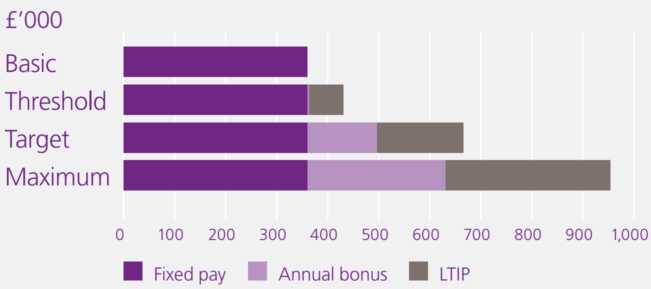
Range of remuneration expectations

The following graphs show what remuneration each of the executive directors are expected to receive if their performance fails to meet threshold (basic), meets threshold, attains target or achieves maximum.

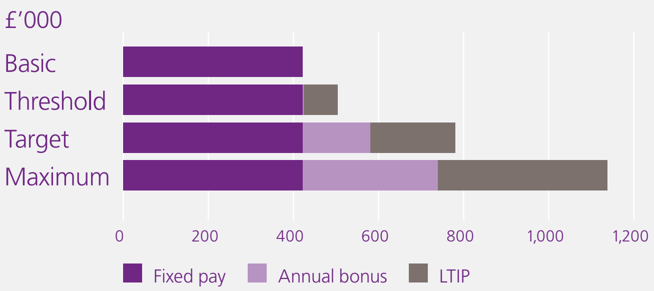
Chief Executive's remuneration



Business group director's remuneration



Group finance director's remuneration



Notes

Fixed pay includes: base salary, pension, pension salary supplement, benefits in kind and taxable expenses.

Annual bonus is based on a percentage of base salary: at threshold level this is 1%; at target level this is 50%; at maximum level this is 100%.

LTIP is based on a percentage of base salary: at threshold level this is 25%; at target level this is 68.75%; at maximum level this is 125%; all percentages being based upon share price at date of grant.

Directors' remuneration report continued

Relative importance of spend on pay
The following graph shows the percentage change in profit, dividends and overall expenditure on group pay in the reporting period, compared to the previous ten years.

Consideration of conditions elsewhere in the group
The committee is sensitive to the need to set directors' remuneration having regard to pay and employment conditions in the group as a whole and is satisfied that the approach taken by the company is fair and reasonable in light of current market practice and the best interests of shareholders. The levels of remuneration and annual increase awarded to the senior management teams of each of the group's operating businesses are taken into consideration, notwithstanding that those reflect such businesses' particular trading position and the geographical and technical employment markets in which they operate.

The base salary of the Chief Executive increased by 2.5% during 2012. This compares to a 3.2% increase awarded on average during 2012 to presidents of the group's trading companies. Your committee considers this group to be the most appropriate comparator as they are the immediate tier of management below board level.

The company did not consult with employees in drawing up this report.

Consideration of shareholders' views
No specific views expressed by shareholders either at the 2012 annual general meeting or otherwise during the financial year were taken into account in the formulation of remuneration policy. The 2011 directors' remuneration report was supported by 96% of those registering votes by proxy in advance of the 2012 annual general meeting.

Implementation of remuneration policy

Directors' remuneration and interests

Single total figure of remuneration
The single figure for the remuneration of each director who has served during the year is as follows:

	2012 Base salary/fees £'000	2012 Pension contributions + in lieu supplements £'000	2012 Benefits in kind + expenses £'000	2012 Bonus £'000	2012 Share awards £'000	**2012 Total £'000**
J E O'Higgins	506	127	19	359	1,984	**2,995**
C G Watson	318	79	19	228	1,298	**1,942**
J C Webster	271	68	21	187	1,141	**1,688**
J L M Hughes	165	–	–	–	–	**165**
P A Chambré	42	–	–	–	–	**42**
R J King	50	–	–	–	–	**50**
J A Warren	67	–	–	–	–	**67**
M B Wyrsch	29	–	–	–	–	**29**

Directors' remuneration report continued

Salaries
In 2011 the committee decided that a base salary increase of 2.5% (5% for Mr Watson) should be awarded to the executive directors at 1 January 2012. However, in light of the then uncertain macro-economic environment, the executive directors requested that implementation of this increase should be deferred until such time as the outlook became clearer. The salary increase was implemented at 1 July 2012 and not backdated.

The executive directors' salaries were reviewed effective 1 January 2013; an increase of 3% being awarded. Increases of 9% to £180,000 for the Chairman and 19% to £50,000 for the non-executive directors (both last reviewed on 1 January 2011 and the next review being 1 January 2015) reflect the company's increase in market capitalisation, driven by operational performance, rather than inflation in the external comparators. There was no change to the £8,000 supplement paid for committee chairmanship.

Bonuses
Bonuses achieved in respect of 2012 performance, based on the targets set at the start of the financial year, were as follows (as a percentage of salary at 31 December 2012):

J E O'Higgins	70%
C G Watson	70%
J C Webster	68%

Within the above bonus payments for Mr O'Higgins, Mr Watson and Mr Webster, 47% related to the profitability target and the balance to achievement of personal objectives.

The profitability bonus range established by the committee for 2012 was as follows:

Bonus level	0%	37.5%	75%
Adjusted profit before tax	£192m	£213m	£230m

The personal objectives covered a range of areas for each director. The Chief Executive's objectives focused upon strategy execution, acquisition activity, deployment of group values, operational excellence, investor relations and working capital control. The group finance director's objectives included working capital, financing facilities, audit/risk reviews, organisational changes within the finance function and tax optimisation.

Performance Share Plan
The 2009 award maturing in March 2012 vested in full against both the EPS and TSR targets. The TSR performance condition is measured independently by Hewitt New Bridge Street. The EPS outcome is verified by the company's auditor and the calculation of achievement against the growth condition is presented to and approved by the committee.

The TSR condition is also subject to an underpin that the committee must satisfy itself that the company's TSR growth is reflective of its underlying financial performance. The committee was content, at the point the 2009 award vested in 2012, that the company's TSR growth was reflective of its underlying financial performance.

Pension contributions and benefits in kind
The executive directors have contractual entitlement to a defined contribution pension contribution of 25% of base salary. In light of the reduced pension lifetime allowance of £1.5 million and the introduction of a maximum pension contribution allowance of £50,000 p.a., the executive directors are entitled, at their option, to a taxable salary supplement in lieu of some or all of such pension contributions.

Company car and health insurance benefits are also made available to executive directors, subject to income tax.

Loss of office payments
No compensation payments on termination of employment were made during the year.

Directors' shareholdings
Each executive director is, subject to personal circumstances, required to build a retained shareholding in Spectris plc greater than two times base salary in value within a five-year period from appointment. Executive directors are required to apply the post-tax benefit of any vested Plan awards or any bonus payments exceeding 60% of base salary to the acquisition of shares until this required level of shareholding is achieved. There is no requirement for non-executive directors to own shares in the company.

Directors' remuneration report continued

The table below shows the executive directors' current shareholding:

Name	Share ownership guideline level (% of salary)	Current shareholding level (% of salary)	Shareholding level as % of guideline
J E O'Higgins	200%	609%	305%
C G Watson	200%	391%	195%
J C Webster	200%	1,157%	578%
S Blair	200%	nil	nil

Statement of shareholder voting

At the 2012 annual general meeting, shareholders voted as follows on the directors' remuneration report advisory vote:

For	84,551,053	96%
Against	2,598,559	3%
Abstentions	773,832	1%

External appointments

Executive directors may retain any payments received in respect of external non-executive appointments. Such appointments are limited to one per director at any time and are subject to the approval of the Board. Mr O'Higgins is a non-executive director of NASDAQ-listed Exide Technologies and was paid a fee of US$71,500 during 2012. Mr Watson is a non-executive director of Spirax-Sarco Engineering plc and was paid a fee of £52,000 during 2012. No other external directorships are held by the executive directors.

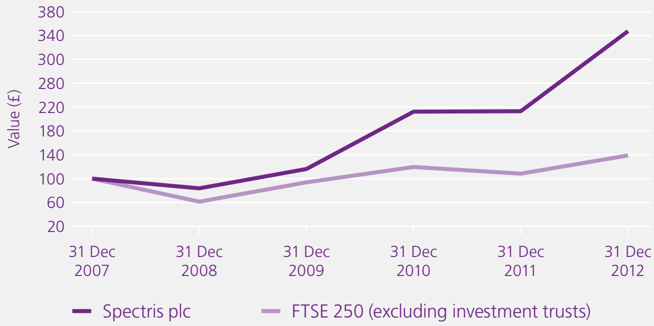
Remuneration below board level

Remuneration for presidents of the group's trading companies is set at competitive levels to reflect the size, complexity and geographic locations of these businesses. Base salaries fall within a range between £141,000 and £306,000. Additionally, the group's presidents participate in share awards under the Spectris Performance Share Plan (typically over 60% of base salary) and in profit-related bonus arrangements linked to base salary and payable against their business annual operating profit after exchange, plus or minus a financing charge/credit arising from changes in working capital over the year. On plan performance delivers a c. 30% of base salary bonus with the upper limit of the payment range delivering 50% of base salary.

Total shareholder return

The following graph indicates the value by the end of 2012 of £100 invested in Spectris plc 5p ordinary shares on 31 December 2007 compared with the value of £100 invested in the FTSE 250 index (excluding investment trusts) over the same period. The graph was selected as the most appropriate comparison measure because the company is a constituent member of the FTSE 250 index and the members of the FTSE 250 (excluding investment trusts) form the comparator group for the purposes of the TSR performance test under the Spectris Performance Share Plan.

Total shareholder return



The graph above shows the value, at 31 December 2012, of £100 invested in Spectris plc on 31 December 2007 compared with the value of £100 invested in the FTSE 250 index (excluding investment trusts) over the same period.

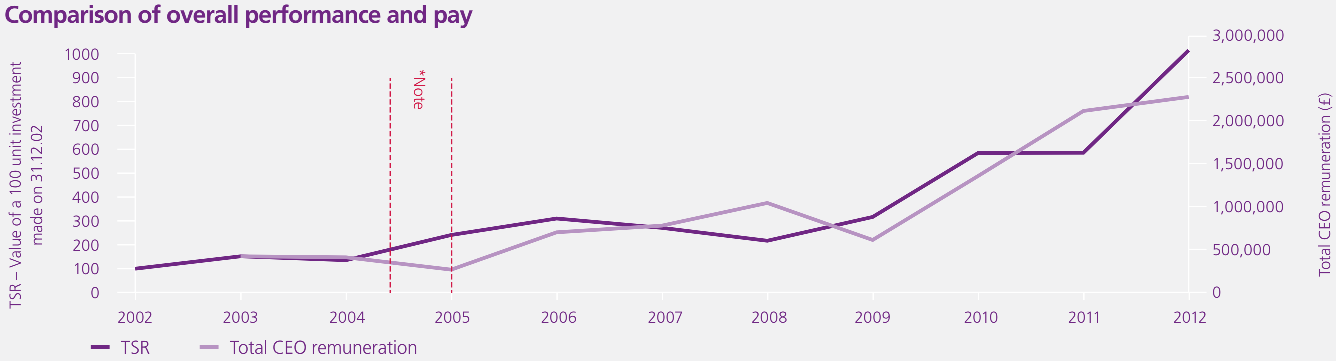
Source: Thomson Reuters

Directors' remuneration report continued

Comparison of overall performance and pay

The graph below shows TSR on a holding of shares with £100 value over the previous ten years compared with Chief Executive remuneration (fixed pay, bonus and LTIP) over that period.

Comparison of overall performance and pay



***Note**

H D Nilsson resigned as CEO on 25 May 2005.

J W Poulter (then Chairman) appointed acting CEO on 25 May 2005. Resigned as CEO on 31 December 2005.

J E O'Higgins appointed CEO on 1 January 2006.

Share awards are valued at date of vesting rather than at date of exercise.

The company's auditor is required to report on the information contained in the following sections (a) to (e).

(a) Emoluments of directors excluding pension contributions (£'000)

	Salary and/ or fees	Bonus	Pension salary supplement	Benefits in kind	Taxable expenses	**2012 Total**	2011 Total
Executive directors							
J E O'Higgins	506	359	77	14	5	**961**	1,075
C G Watson	318	228	71	14	5	**636**	660
J C Webster	271	187	68	21	–	**547**	616
Non-executive directors							
P A Chambré	42	–	–	–	–	**42**	42
J L M Hughes	165	–	–	–	–	**165**	165
R J King	50	–	–	–	–	**50**	50
J A Warren	67	–	–	–	–	**67**	67
M B Wyrsch	29	–	–	–	–	**29**	–
	1,448	774	216	49	10	**2,497**	2,675

Benefits in kind include company cars, private fuel and medical expenses insurance. Taxable expenses relate to allowances paid in lieu of company cars and private fuel.

For Mr King and Mr Warren, their base fee of £42,000 per annum was increased by an additional fee of £8,000 per annum for their chairmanship of, respectively, the remuneration and audit and risk committees. Additionally, Mr Warren received a fee of £16,500 for his chairmanship of Spectris Pension Trustees Limited.

Directors' remuneration report continued

(b) Directors' pensions

Company contributions to defined contribution plans:

	2012 £'000	2011 £'000
J E O'Higgins	**50**	69
C G Watson	**8**	57
J C Webster	**–**	6
Total	**58**	132

(c) Directors' total remuneration

	2012 £'000	2011 £'000
Aggregate emoluments	**2,497**	2,675
Company pension contributions to defined contribution schemes	**58**	132
Gains made on exercise of share-based incentives	**1,156**	1,297
	3,711	4,104

(d) Directors' interests in options to purchase ordinary shares under the Spectris Savings Related Share Option Scheme ('SAYE')

	Date granted	Options held 1 Jan 12	Granted during the year	Exercise price (p)	Exercised during the year	Share price at date of exercise (p)	Lapsed during the year	Options held 31 Dec 12	Date exercisable	Expiry date
J E O'Higgins										
SAYE	Oct 2009	1,255	–	723	1,255	1,954	–	–	Dec 2012	Jun 2013
	Oct 2012	–	530	1,695	–		–	530	Dec 2015	Jun 2016
Total		**1,255**	**530**		**1,255**		**–**	**530**		

Directors' remuneration report continued

(e) Directors' share awards under the Spectris Performance Share Plan

	Number of shares subject to award at 1 Jan 12	Date granted	Exercise price (p)	Granted during the year	Addition of reinvested dividends*	Exercised during the year	Market price at exercise (p)	Lapsed during the year	Number of shares subject to award at 31 Dec 12	Market value of each share at date of award (p)	Date exercisable	Expiry date
J E O'Higgins												
	28,999	Feb 2008	5		710				29,709	786.5	Feb 2011	Feb 2018
	96,600	Feb 2009	5		11,788				108,388	434.5	Feb 2012	Feb 2019
	65,400	Mar 2010	5						65,400	818.5	Mar 2013	Mar 2020
	44,600	Apr 2011	5						44,600	1,401.0	Apr 2014	Apr 2021
		Feb 2012	5	36,780					36,780	1,699.2	Feb 2015	Feb 2022
	235,599								**284,877**			
C G Watson												
	63,200	Feb 2009	5		7,712				70,912	434.5	Feb 2012	Feb 2019
	42,800	Mar 2010	5						42,800	818.5	Mar 2013	Mar 2020
	27,600	Apr 2011	5						27,600	1,401.0	Apr 2014	Apr 2021
		Feb 2012	5	22,800					22,800	1,699.2	Feb 2015	Feb 2022
	133,600								**164,112**			
J C Webster												
	57,500	Feb 2009	5		5,477	(62,977)	1816.25		–	434.5	Feb 2012	Feb 2019
	38,900	Mar 2010	5						38,900	818.5	Mar 2013	Mar 2020
	23,900	Apr 2011	5						23,900	1,401.0	Apr 2014	Apr 2021
		Feb 2012	5	19,710					19,710	1,699.2	Feb 2015	Feb 2022
	120,300								**82,510**			
Total	**489,499**			**79,290**	**25,687**	**(62,977)**			**531,499**			

*Under the terms of the Performance Share Plan, notional dividends of the company are applied over award shares during the performance period and exercise period to date of exercise, thereby increasing the number of award shares granted. These additional award shares are subject to application of the performance criteria attaching to the award.

Directors' remuneration report continued

Mr Blair, appointed a director on 7 January 2013, has 32,730 shares under option under the Spectris Performance Share Plan.

The above awards were made as conditional rights to acquire shares (structured as nominal cost options) and the number of shares awarded was based on the mid-market closing price of the company's shares on the business day prior to the date of grant. In respect of the 2012 award, for each of Mr O'Higgins, Mr Watson, Mr Webster and Mr Blair, the value of the award was equivalent to 125% of their base salaries at the date of grant. Following satisfaction, in whole or part, of the performance criteria attaching to the awards (as summarised on page 57), the directors may call for the release to them of the vested shares during the above-shown exercise periods.

The awards granted to Mr O'Higgins, Mr Watson and Mr Webster in 2009 of 96,600, 63,200 and 57,500 award shares, respectively, became exercisable during the year. Mr Webster exercised his award in full. The awards had two performance conditions attaching to them. The TSR target was met in full (50% of the award) and the EPS target was met in full (50% of the award). In determining the level of vesting against the TSR target, the committee took into account the company's underlying financial performance. The awards were satisfied from the company's treasury shares.

The Spectris Performance Share Plan operates within the dilution limits laid down by the Association of British Insurers. 3.8% of the 5% limit has been utilised.

Mr Webster retained 16,690 shares arising from the exercise of his 2009 award on 26 March 2012 and sold 46,287 shares. The gain on exercise was £1,140,671.

Mr O'Higgins exercised his 2009 SAYE option on 3 December 2012. The gain on exercise was £15,449.

The aggregate gains on exercise for all directors under the company's share plans were thus £1,156,120 (2011: £1,297,477).

(f) Directors' interests
The following directors or their families had beneficial interests in the ordinary shares of the company:

	Shareholdings	
	2012 31 Dec	2012 1 Jan (or date of appointment)
J L M Hughes	**8,000**	8,000
J E O'Higgins	**132,574**	131,319
P A Chambré	**5,584**	5,451
R J King	**3,000**	3,000
J A Warren	**3,000**	3,000
C G Watson	**54,000**	52,982
J C Webster	**135,000**	118,310
M B Wyrsch	**–**	–

There were no changes to the above interests between the year end and the date of this report.

No director had during the year, or at the end of the year, any material interest in any contract of significance to the group's business.

At 31 December 2012 the middle market closing share price on the London Stock Exchange was £20.49. The highest share price in the year was £20.50 and the lowest was £13.02.

Loans to directors
During the year there were no outstanding loans to any director.

By order of the Board

Russell King
Chairman of the committee
20 February 2013

Company Registration No. 2025003

Independent auditor's report

To the members of Spectris plc

We have audited the financial statements of Spectris plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows, the parent company balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on pages 50 and 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 50, in relation to going concern;
- the part of the corporate governance statement on page 46 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Richard Broadbelt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

20 February 2013

Consolidated income statement

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Continuing operations			
Revenue	5	**1,230.8**	1,106.2
Cost of sales		**(518.0)**	(457.5)
Gross profit		**712.8**	648.7
Indirect production and engineering expenses		**(95.4)**	(88.0)
Sales and marketing expenses		**(265.3)**	(238.9)
Administrative expenses		**(155.6)**	(146.0)
Operating profit before acquisition-related items		**228.9**	201.5
Net acquisition-related costs and contingent consideration fair value adjustments		**(0.9)**	(1.8)
Acquisition-related fair value adjustments to inventory		**(4.5)**	(2.1)
Amortisation of acquisition-related intangible assets		**(27.0)**	(21.8)
Operating profit	3, 6	**196.5**	175.8
Profit on disposal of businesses	26	**–**	0.1
Financial income	9	**8.5**	7.2
Finance costs	9	**(18.3)**	(17.1)
Profit before tax		**186.7**	166.0
Taxation – UK	10	**(4.4)**	(2.6)
Taxation – Overseas	10	**(41.0)**	(37.1)
Profit after tax for the year from continuing operations attributable to owners of the parent company		**141.3**	126.3
Basic earnings per share	12	**120.7p**	108.7p
Diluted earnings per share	12	**119.2p**	106.9p
Interim dividends paid and final dividends proposed for the year (per share)	11	**39.0p**	33.6p
Dividends paid during the year (per share)	11	**38.9p**	29.1p

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 3.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year attributable to owners of the parent company		**141.3**	126.3
Other comprehensive income:			
Net gain/(loss) on effective portion of changes in fair value of forward exchange contracts		**3.8**	(3.8)
Foreign exchange movements on translation of overseas operations		**(26.3)**	(5.5)
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations		**4.9**	2.0
Actuarial loss arising on pension schemes, net of foreign exchange	8	**(0.4)**	(2.6)
Tax on items recognised directly in other comprehensive income	10	**(1.1)**	1.1
Total comprehensive income for the year attributable to owners of the parent company		**122.2**	117.5

Consolidated statement of changes in equity

For the year ended 31 December 2012

	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 2012	**6.2**	**231.4**	**295.0**	**71.8**	**(3.6)**	**3.1**	**0.3**	**604.2**
Profit for the year	**–**	**–**	**141.3**	**–**	**–**	**–**	**–**	**141.3**
Other comprehensive income:								
Net gain on effective portion of changes in fair value of forward exchange contracts, net of tax	**–**	**–**	**–**	**–**	**2.8**	**–**	**–**	**2.8**
Foreign exchange movements on translation of overseas operations	**–**	**–**	**–**	**(26.3)**	**–**	**–**	**–**	**(26.3)**
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations, net of tax	**–**	**–**	**–**	**4.9**	**–**	**–**	**–**	**4.9**
Actuarial loss arising on pension schemes, net of foreign exchange and tax	**–**	**–**	**(0.5)**	**–**	**–**	**–**	**–**	**(0.5)**
Total comprehensive income for the year	**–**	**–**	**140.8**	**(21.4)**	**2.8**	**–**	**–**	**122.2**
Distributions to and transactions with owners:								
Equity dividends paid	**–**	**–**	**(45.6)**	**–**	**–**	**–**	**–**	**(45.6)**
Share-based payments, net of tax	**–**	**–**	**9.8**	**–**	**–**	**–**	**–**	**9.8**
Share options exercised from own shares (treasury) purchased	**–**	**–**	**0.5**	**–**	**–**	**–**	**–**	**0.5**
Balance at 31 December 2012	**6.2**	**231.4**	**400.5**	**50.4**	**(0.8)**	**3.1**	**0.3**	**691.1**

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 foreign 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

Consolidated statement of financial position

As at 31 December 2012

	Note	**2012** **£m**	2011 £m
ASSETS			
Non-current assets			
Intangible assets:			
Goodwill	13	**526.7**	544.5
Other intangible assets	14	**191.5**	205.9
		718.2	750.4
Property, plant and equipment	15	**152.5**	152.7
Equity-accounted investments		**0.6**	0.6
Deferred tax assets	23	**16.9**	20.6
Retirement benefit assets	8	**3.9**	–
		892.1	924.3
Current assets			
Inventories	16	**163.8**	171.8
Taxation recoverable		**6.2**	4.3
Trade and other receivables	17	**208.8**	220.8
Derivative financial instruments	20	**2.4**	0.1
Cash and cash equivalents	18	**40.8**	41.6
		422.0	438.6
Assets held for sale	26	**17.6**	–
		439.6	438.6
Total assets		**1,331.7**	1,362.9
LIABILITIES			
Current liabilities			
Short-term borrowings	19	**(82.8)**	(2.7)
Derivative financial instruments	20	**(12.5)**	(1.7)
Trade and other payables	21	**(207.9)**	(227.6)
Current tax liabilities		**(29.7)**	(40.3)
Provisions	22	**(26.4)**	(31.9)
		(359.3)	(304.2)
Liabilities held for sale	26	**(9.2)**	–
		(368.5)	(304.2)
Net current assets		**71.1**	134.4
Non-current liabilities			
Medium- and long-term borrowings	19	**(200.3)**	(383.9)
Derivative financial instruments	20	**–**	(12.8)
Other payables	21	**(19.7)**	(11.2)
Retirement benefit obligations	8	**(15.9)**	(13.1)
Deferred tax liabilities	23	**(36.2)**	(33.5)
		(272.1)	(454.5)
Total liabilities		**(640.6)**	(758.7)
Net assets		**691.1**	604.2
EQUITY			
Issued share capital	24	**6.2**	6.2
Share premium		**231.4**	231.4
Retained earnings		**400.5**	295.0
Translation reserve		**50.4**	71.8
Hedging reserve		**(0.8)**	(3.6)
Merger reserve		**3.1**	3.1
Capital redemption reserve		**0.3**	0.3
Total equity attributable to equity holders of the parent company		**691.1**	604.2
Total equity and liabilities		**1,331.7**	1,362.9

The financial statements on pages 68 to 117 were approved by the Board of directors on 20 February 2013 and were signed on its behalf by:

Clive Watson
Group finance director

Company Registration No. 2025003

Consolidated statement of cash flows

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities			
Profit after tax		**141.3**	126.3
Adjustments for:			
Tax	10	**45.4**	39.7
Profit on disposal of businesses	26	**–**	(0.1)
Finance costs	9	**18.3**	17.1
Financial income	9	**(8.5)**	(7.2)
Depreciation	15	**17.5**	14.9
Amortisation of intangible assets	14	**30.1**	24.9
Acquisition-related fair value adjustments to inventory		**4.5**	2.1
Contingent consideration fair value adjustments		**–**	(1.3)
Gain on sale of property, plant and equipment	6	**(0.1)**	(0.4)
Acquisition costs not yet paid		**0.2**	–
Equity-settled share-based payment transactions	7	**6.2**	6.4
Operating profit before changes in working capital and provisions		**254.9**	222.4
Increase in trade and other receivables		**(1.2)**	(7.3)
Increase in inventories		**(1.7)**	(24.3)
(Decrease)/increase in trade and other payables		**(5.5)**	9.6
(Decrease)/increase in provisions and employee benefits		**(6.7)**	4.0
Income tax paid		**(52.6)**	(35.1)
Net cash generated from operating activities		**187.2**	169.3
Cash flows from investing activities			
Purchase of property, plant and equipment and software		**(28.8)**	(29.2)
Proceeds from sale of property, plant and equipment		**2.2**	0.8
Acquisition of businesses, net of cash acquired	28	**(15.5)**	(369.0)
Proceeds from disposal of businesses	26	**–**	0.1
Interest received		**0.5**	0.7
Net cash flows used in investing activities		**(41.6)**	(396.6)
Cash flows from financing activities			
Interest paid		**(12.0)**	(12.8)
Dividends paid	11	**(45.6)**	(33.8)
Proceeds from exercise of share options (treasury shares)		**0.5**	0.5
Proceeds from borrowings		**–**	295.0
Repayment of borrowings		**(87.1)**	(45.8)
Net cash flows (used in)/generated from financing activities		**(144.2)**	203.1
Net increase/(decrease) in cash and cash equivalents		**1.4**	(24.2)
Cash and cash equivalents at beginning of year		**40.5**	63.3
Effect of foreign exchange rate changes		**(2.1)**	1.4
Cash and cash equivalents at end of year	18	**39.8**	40.5

Reconciliation of changes in cash and cash equivalents to movements in net debt	Note	2012 £m	2011 £m
Net increase/(decrease) in cash and cash equivalents		**1.4**	(24.2)
Proceeds from borrowings		**–**	(295.0)
Repayment of borrowings		**87.1**	45.8
Effect of foreign exchange rate changes		**13.6**	3.4
Movement in net debt		**102.1**	(270.0)
Net debt at start of year	19	**(356.2)**	(86.2)
Net debt at end of year	19	**(254.1)**	(356.2)

Notes to the accounts

1. Accounting policies

General information

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

These financial statements are presented in millions of pounds sterling rounded to the nearest one decimal place. Foreign operations are included in accordance with the policies set out below.

Statement of compliance and basis of preparation

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS). The company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'); these are presented on pages 118 to 124.

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at fair value.

The group's business activities, together with factors likely to affect its future development, performance and position are set out in the business review on pages 2 to 41. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 38 to 41. In addition, Note 2 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The company has considerable financial resources and has a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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, and 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; and
- 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 estimates and associated assumptions used are continually evaluated and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Estimates that have the most significant effect on the amounts recognised in the financial statements are in the following areas:

- business combinations in relation to the determination of the fair value of acquired assets and liabilities (Note 28);
- goodwill in relation to the assumptions underpinning impairment testing (Note 13);
- retirement benefit schemes in relation to the assumptions used to value plan assets and liabilities (Note 8); and
- provisions and contingent liabilities in relation to determining the quantum and timing of management's best estimate of outflows (Notes 22 and 29).

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

New standards and interpretations not yet adopted

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2012 and have not been applied in preparing these consolidated financial statements. Except for those below, none of these are anticipated to have any impact on the results or consolidated statement of financial position reported in these consolidated financial statements. The group does not plan to adopt these standards early.

Notes to the accounts continued

1. Accounting policies continued

IAS 1 (Amended) 'Presentation of Financial Statements' amends the presentation of 'other comprehensive income' and is effective for periods commencing on or after 1 July 2012. The main change from this amendment is to require companies to group items presented in 'other comprehensive income' on the basis of whether they are potentially classifiable to the consolidated income statement subsequently (reclassification adjusted). The amendment does not address which items are presented in 'other comprehensive income'.

IAS 19 (Revised) 'Employee Benefits' is effective for periods commencing on or after 1 January 2013. The principal change requires the replacement of the expected return on assets and the interest charge on pension scheme liabilities with a net financing cost based on the discount rate. Under IAS 19 (Revised) the additional net finance cost for 2012 would have been approximately £0.9m and for 2013 the net finance cost is expected to be approximately £0.2m.

None of these new standards, amendments to standards and interpretations not yet effective are anticipated to materially change the group's published accounting policies.

Basis of consolidation

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

Associates are accounted for using the equity method of accounting and are recognised initially at cost.

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

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

Foreign currency transactions

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

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

Interest-bearing borrowings

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

Derivative financial instruments and hedge accounting

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

Derivative financial instruments are presented as current or non-current based on their contracted maturity dates.

Cash flow hedge accounting

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

Derivative financial instruments are carried in the consolidated statement of financial position at fair value. Where a derivative financial instrument is designated in a cash flow hedge relationship with a highly probable forecast transaction, the effective part of any gain or loss arising is recognised in the hedging reserve via the consolidated statement of comprehensive income. The ineffective part of any gain or loss is recognised in the consolidated income statement. When the forecast transaction subsequently occurs and results in the recognition of a financial asset or liability that impacts on the consolidated income statement, the associated cumulative gain or loss is removed from the hedging reserve and presented within the consolidated income statement. When the forecast transaction subsequently occurs and results in the recognition of a non-financial asset or liability, the associated cumulative gain or loss is removed from the hedging reserve and included within the initial cost of the non-financial asset or liability.

Notes to the accounts continued

1. Accounting policies continued

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

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

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

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

Business combinations and goodwill
The group applies IFRS 3 (Revised) 'Business Combinations' for transactions arising after 1 January 2010. This changed the group's definition of the cost of business combinations and the treatment of contingent consideration. The subsequent accounting for contingent consideration depends on whether this was initially recognised as equity or as a liability and whether the event is considered a measurement period adjustment. Transaction costs on a business combination are expensed as incurred.

For transactions relating to acquisitions before 1 January 2010 subsequent adjustments to contingent consideration are made against goodwill, and the transaction costs on a business combination were included in the cost of acquisition and thus capitalised.

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

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed. From 1 January 2004, goodwill is allocated on acquisition to cash-generating units that are anticipated to benefit from the combination, and is no longer amortised but is tested annually for impairment. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. This estimate of recoverable amount is determined at each consolidated statement of financial position date. The group's identified cash-generating units are smaller than reportable segments.

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

Assets and liabilities held for sale
Assets, liabilities and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged in respect of assets classified as held for sale.

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

Notes to the accounts continued

1. Accounting policies continued

Segmental reporting
An operating segment is a distinguishable component of the group that is engaged in business activities from which it may earn revenues and incur expenses, and whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Reportable segments are operating segments that either meet the thresholds and conditions set out in IFRS 8 'Operating Segments' or are considered by the Board to be appropriately designated as reportable segments.

Segment results are the results reviewed by the chief operating decision maker and represent adjusted operating profits (for definitions, see Note 3), and include an allocation of head office expenses. Segment result excludes tax and financing items.

Segment assets comprise: goodwill, other intangible assets, property, plant and equipment, inventories, trade and other receivables. Segment liabilities comprise: trade and other payables, provisions and other payables, which can be reasonably attributed to the reported operating segments. Unallocated items represent corporate and deferred taxation balances, defined benefit scheme liabilities and all components of net debt.

Intangible assets
The cost of acquiring software (including associated implementation costs where applicable) that is not specific to an item of property, plant and equipment is classified as an intangible asset.

Self-funded research and development costs are charged to the consolidated income statement in the year in which they are incurred unless development expenditure meets certain strict criteria for capitalisation. These criteria include demonstration of the technical feasibility and intent of completing a new intangible asset that will be available for sale and that the asset will generate probable future economic benefits. From the point where expenditure meets the criteria, development costs are capitalised and amortised over their useful economic lives. The directors consider that, due to the nature of projects undertaken, the proportion of development costs incurred that meets the criteria for capitalisation is immaterial.

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

Intangible assets arising from a business combination are recognised at fair value.

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

- Software – 3 to 5 years.
- Patents and contractual rights – up to 10 years, dependent upon the nature of the underlying contractual right.
- Technology – up to 10 years, dependent upon the nature of the underlying technology acquired.
- Trade names – up to 20 years.
- Customer related – 3 to 10 years, dependent upon the underlying contractual arrangements and specific circumstances such as customer retention experience.

Property, plant and equipment
Property, plant and equipment is stated at cost (which from 1 January 2009 includes capitalised borrowing costs where appropriate) less accumulated depreciation and impairment losses. The group recognises in the carrying amount of property, plant and equipment the additions that are appropriate to capitalise and the subsequent costs of replacing the parts of such items when there are future economic benefits that will flow to the group and its cost can be measured reliably. Cost includes expenditure that is directly attributable to the acquisition of the asset cost. All other costs are recognised in the consolidated income statement as an expense as they are incurred.

Depreciation is recognised in the consolidated 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 life. The depreciation charge is revised where useful lives are different from previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Land is not depreciated. Estimated useful lives are as follows:

- Freehold and long-leasehold property – 20 to 40 years.
- Short-leasehold property – over the period of the lease.
- Plant and equipment – 3 to 20 years.

Notes to the accounts continued

1. Accounting policies continued

Impairment of tangible and intangible assets excluding goodwill
The carrying amount of the group's assets is reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Any intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired. The group currently has no such assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment loss recognised as an operating expense immediately.

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

Trade and other receivables
Trade and other receivables are initially recognised at their fair value and are subsequently reduced by appropriate allowances for estimated irrecoverable amounts. Discounting is applied to long-term accounts receivable to take into account the time value of money, where it is expected to have a material impact.

Inventories
Inventories and work in progress are carried at the lower of cost and net realisable value. 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 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.

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

Trade and other payables
Trade and other payables are initially recognised at fair value.

Provisions
A provision is recognised in the consolidated statement of financial position when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of 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 group's liability taking into account the time value of money, where material. 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.

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

Notes to the accounts continued

1. Accounting policies continued

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated income statement on a straight-line basis over the average number of years until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the consolidated income statement. Similarly, any cost or income relating to the curtailment or settlement of a pension scheme is recognised as a cost or income immediately in the consolidated income statement.

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

In certain countries, the group participates in industry-wide defined benefit-type pension arrangements. In such circumstances, it is not possible to determine the amount of any surplus or deficit attributable to the group and the pension costs are accounted for as if the arrangements were defined contribution schemes. These are not material to the group and, accordingly, no additional disclosures are provided.

Other employee benefits
Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year in which these associated services are rendered by employees of the group.

The group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to market yields at the consolidated statement of financial position date on high quality corporate bonds that have maturity dates approximating to the terms of the group's obligations.

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

Revenues
Revenues comprise sales to outside customers after discounts and excluding Value Added Tax and similar sales taxes.

Revenue from the sale of goods is recognised in the consolidated income statement when the significant risk and rewards of ownership of the goods have been transferred to the customer, which is typically on delivery. For contracts that involve a significant element of installation or testing of equipment, revenue is recognised at the point of customer acceptance. Revenue from services rendered is recognised in the consolidated income statement in proportion to the measurement of the stage of completion of services rendered as at the consolidated statement of financial position date. This is assessed by reference to the amount of time incurred in proportion to the total expected time to be taken to deliver the service.

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

The group has an immaterial amount of activity accounted for under IAS 11, 'Construction Contracts' and accordingly the applicable disclosures for these types of contracts are not provided.

Interest payable and receivable
Interest payable comprises the interest payable on borrowings calculated using the effective interest method. Interest receivable is recognised in the consolidated income statement as it accrues.

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

Rentals payable under operating leases are charged to the consolidated 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.

Notes to the accounts continued

1. Accounting policies continued

Taxation
Tax on the profit or loss for the year comprises both current and deferred tax. Tax is recognised in the consolidated 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 consolidated statement of comprehensive income or consolidated 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 consolidated statement of financial position date, and any adjustments to tax payable in respect of prior years.

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

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

2. Financial risk management

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

In accordance with its treasury policy, the group does not hold or use derivative financial instruments for trading or speculative purposes. Such instruments are only used to manage the risks arising from operating or financial assets or liabilities or highly probable future transactions. The quantitative analysis of financial risk is included in Note 20.

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

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

The group's translational exposures to foreign currency risks can relate both to the consolidated income statement and net assets of overseas subsidiaries. The group's policy is not to hedge the translational exposure that arises on consolidation of the consolidated income statement of overseas subsidiaries. The group finances overseas company investments partly through the use of foreign currency borrowings in order to provide a natural hedge of foreign currency risk arising on translation of the group's foreign currency subsidiaries. The quantitative analysis of foreign currency risk is included in Note 20.

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

As at 31 December 2012, the majority of the group's borrowings attract floating rates of interest linked to LIBOR and therefore the group's principal interest rate risk is a cash flow risk. The quantitative analysis of interest rate risk is included in Note 20.

Notes to the accounts continued

2. Financial risk management continued

(c) Liquidity risk
Liquidity risk represents the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. The group manages this risk through the use of regularly updated cash flow and covenant compliance forecasts and a liquidity headroom analysis which is used to determine funding requirements. Adequate committed lines of funding are maintained from high quality investment grade lenders. The facilities committed to the group as at 31 December 2012 are set out in Note 19.

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

The group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the consolidated statement of financial position are net of appropriate allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment. Trade receivables are subject to credit limits and control and approval procedures in the operating companies. Due to its large geographic base and number of customers, the group is not exposed to material concentrations of credit risk on its trade receivables. The quantitative analysis of credit risk to receivables is included in Note 17.

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

The group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, as shown in Note 20.

Capital management
The Board considers equity shareholders' funds together with committed debt facilities as capital for the purposes of funding the group's operations. Total managed capital at 31 December is:

	2012 £m	2011 £m
Equity shareholders' funds (page 71)	**691.1**	604.2
Committed debt facilities	**478.5**	500.9
	1,169.6	1,105.1

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

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

The Board encourages employees to hold shares in the company. This is carried out through a Save As You Earn option scheme in the UK, as well as performance share plans. Full details of these schemes are given in the share-based payments note (Note 25) of these accounts.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings, the advantages and security afforded by a sound capital position and the benefits of an implied investment grade credit rating.

The main financial covenants in the company's debt facilities are the ratio of net debt to adjusted earnings before interest, tax, depreciation and amortisation and the ratio of finance charges to adjusted earnings before interest, tax and amortisation. Covenant testing is completed twice a year based on the half-year and year-end financial statements. At 31 December 2012, the company had, and is expected to continue to have, significant headroom under these financial covenant ratios.

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

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

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

Notes to the accounts

3. Adjusted performance measures

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believes these measures enable them to assess the underlying trading performance of the businesses. 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 10).

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

Adjusted operating profit	Note	**2012 £m**	2011 £m
Operating profit as reported under adopted IFRS		**196.5**	175.8
Net acquisition-related costs and contingent consideration fair value adjustments	28	**0.9**	1.8
Acquisition-related fair value adjustments to inventory	28	**4.5**	2.1
Amortisation of acquisition-related intangible assets	14	**27.0**	21.8
Adjusted operating profit		**228.9**	201.5

Adjusted operating profit by segment – 2012	Note	**Materials Analysis £m**	**Test and Measurement £m**	**In-line Instrumentation £m**	**Industrial Controls £m**	**Total £m**
Operating profit as reported under adopted IFRS		**57.0**	**50.3**	**60.7**	**28.5**	**196.5**
Net acquisition-related costs and contingent consideration fair value adjustments		**0.1**	**0.1**	**0.3**	**0.4**	**0.9**
Acquisition-related fair value adjustments to inventory		**–**	**–**	**0.2**	**4.3**	**4.5**
Amortisation of acquisition-related intangible assets		**6.0**	**5.2**	**2.7**	**13.1**	**27.0**
Adjusted operating profit: segment result	4	**63.1**	**55.6**	**63.9**	**46.3**	**228.9**

Adjusted operating profit by segment – 2011	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	Total £m
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 adjustments		–	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	4	60.9	54.7	63.8	22.1	201.5

Return on sales by segment – 2012	**Materials Analysis**	**Test and Measurement**	**In-line Instrumentation**	**Industrial Controls**	**Total**
Using operating profit as reported under adopted IFRS	**16.4%**	**14.6%**	**19.0%**	**13.1%**	**16.0%**
Using adjusted operating profit	**18.1%**	**16.1%**	**20.0%**	**21.3%**	**18.6%**

Return on sales by segment – 2011	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	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%

Notes to the accounts continued

3. Adjusted performance measures continued

Reconciliation to adjusted profit before tax and adjusted operating profit	Note	2012 £m	2011 £m
Profit before tax as reported under adopted IFRS		**186.7**	166.0
Add/(deduct):			
Net acquisition-related costs and contingent consideration fair value adjustments	28	**0.9**	1.8
Acquisition-related fair value adjustments to inventory	28	**4.5**	2.1
Amortisation of acquisition-related intangible assets	14	**27.0**	21.8
Net gains on retranslation of short-term inter-company loan balances	9	**(0.9)**	(0.4)
Profit on disposal of businesses	26	**–**	(0.1)
(Increase)/decrease in fair value of cross-currency interest rate swaps	20	**(0.9)**	0.4
Adjusted profit before tax		**217.3**	191.6
Adjusted net finance costs (see below)		**11.6**	9.9
Adjusted operating profit		**228.9**	201.5

Adjusted net finance costs	Note	2012 £m	2011 £m
Net interest costs as reported under adopted IFRS	9	**(9.8)**	(9.9)
(Increase)/decrease in fair value of cross-currency interest rate swaps	20	**(0.9)**	0.4
Net gains on retranslation of short-term inter-company loan balances	9	**(0.9)**	(0.4)
Adjusted net finance costs		**(11.6)**	(9.9)

Adjusted operating cash flow	Note	2012 £m	2011 £m
Net cash from operating activities under adopted IFRS		**187.2**	169.3
Acquisition-related costs paid	28	**0.7**	3.1
Income tax paid		**52.6**	35.1
Purchase of property, plant and equipment and software		**(28.8)**	(29.2)
Proceeds from sale of property, plant and equipment		**2.2**	0.8
Adjusted operating cash flow		**213.9**	179.1

Adjusted earnings per share	Note	2012 £m	2011 £m
Profit after tax as reported under adopted IFRS		**141.3**	126.3
Adjusted for:			
Net acquisition-related costs and contingent consideration fair value adjustments	28	**0.9**	1.8
Acquisition-related fair value adjustments to inventory	28	**4.5**	2.1
Amortisation of acquisition-related intangible assets	14	**27.0**	21.8
Profit on disposal of businesses	26	**–**	(0.1)
(Increase)/decrease in fair value of cross-currency interest rate swaps	20	**(0.9)**	0.4
Net gains on retranslation of short-term inter-company loan balances	9	**(0.9)**	(0.4)
Tax effect of the above and other non-recurring items	10	**(10.8)**	(7.8)
Adjusted earnings		**161.1**	144.1
Weighted average number of shares outstanding (millions)	12	**117.1**	116.2
Adjusted earnings per share (pence)		**137.5**	124.1

Adjusted diluted earnings per share	Note	2012	2011
Adjusted earnings (as above) (£m)		**161.1**	144.1
Diluted weighted average number of shares outstanding (millions)	12	**118.5**	118.1
Adjusted diluted earnings per share (pence)		**135.9**	122.0

Basic and diluted earnings per share in accordance with IAS 33 'Earnings Per Share' are disclosed in Note 12.

Notes to the accounts continued

3. Adjusted performance measures continued

Analysis of net debt for management purposes	Note	2012 £m	2011 £m
Bank overdrafts	19	**1.0**	1.1
Bank loans – secured	19	**–**	1.9
Bank loans – unsecured	19	**200.3**	298.3
Unsecured loan notes	19	**81.8**	85.3
Cross-currency interest rate swaps – currency portion	20	**11.8**	11.2
Total borrowings		**294.9**	397.8
Cash balances	18	**(40.8)**	(41.6)
Net debt		**254.1**	356.2

4. 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 products that enable customers to assess structure, composition, quantity and quality of particles and materials, during their R&D process, when assessing raw materials before production, or during the manufacturing process. Our key customers are in the mining, cement, pharmaceutical, chemicals, and electronics industries.
- 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.
- In-line Instrumentation provides process analytical measurement, asset monitoring and on-line controls for both primary processing and the converting industries. Our key customers are in the electronics, petrochemicals, oil and gas, pulp and paper, energy, manufacturing, automotive, and medical industries.
- Industrial Controls provides products and solutions that monitor, control, inform, track and trace during the production process. Our key customers include industrial manufacturing, automotive, electronics, packaging, and life sciences.

Further details of the nature of these segments and the products and services they provide are contained in the business review on pages 2 to 41.

	Segment revenue		Inter-segment revenue		External customer revenue		Reportable segment profit	
Information about reportable segments	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Materials Analysis	**347.8**	337.5	**0.3**	–	**348.1**	337.5	**63.1**	60.9
Test and Measurement	**345.8**	347.3	**(0.4)**	(0.4)	**345.4**	346.9	**55.6**	54.7
In-line Instrumentation	**320.4**	309.2	**(0.3)**	(0.3)	**320.1**	308.9	**63.9**	63.8
Industrial Controls	**217.8**	113.3	**(0.6)**	(0.4)	**217.2**	112.9	**46.3**	22.1
Eliminate inter-segment sales	**(1.0)**	(1.1)	**1.0**	1.1	**–**	–	**–**	–
Total continuing operations	**1,230.8**	1,106.2	**–**	–	**1,230.8**	1,106.2	**228.9**	201.5
Net acquisition-related costs and contingent consideration fair value adjustments							**(0.9)**	(1.8)
Acquisition-related fair value adjustments to inventory							**(4.5)**	(2.1)
Amortisation of acquisition-related intangibles							**(27.0)**	(21.8)
Operating profit							**196.5**	175.8
Profit on disposal of businesses*							**–**	0.1
Financial income*							**8.5**	7.2
Finance costs*							**(18.3)**	(17.1)
Profit before tax							**186.7**	166.0
Tax*							**(45.4)**	(39.7)
Profit after tax							**141.3**	126.3

* Not allocated to reportable segments in reporting to the chief operating decision maker.

Notes to the accounts continued

4. Operating segments continued

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.

	Carrying amount of segment assets		Carrying amount of segment liabilities**	
	2012 £m	2011 £m	2012 £m	2011 £m
Materials Analysis	**299.2**	346.6	**(115.8)**	(107.6)
Test and Measurement	**329.9**	433.2	**(78.2)**	(94.4)
In-line Instrumentation	**226.2**	291.8	**(46.7)**	(50.1)
Industrial Controls	**404.6**	224.7	**(19.4)**	(18.6)
Total segment assets and liabilities	**1,259.9**	1,296.3	**(260.1)**	(270.7)
Cash and borrowings*	**40.8**	41.6	**(283.1)**	(386.6)
Derivative financial instruments*	**2.4**	0.1	**(12.5)**	(14.5)
Pension asset/(liability)*	**3.9**	–	**(15.9)**	(13.1)
Taxation (including amounts disclosed within assets and liabilities held for sale)*	**24.7**	24.9	**(69.0)**	(73.8)
Consolidated total assets and liabilities	**1,331.7**	1,362.9	**(640.6)**	(758.7)

*Not allocated to reportable segments in reporting to the chief operating decision maker.

**Segment liabilities are presented here on a voluntary basis.

	Additions to non-current assets		Depreciation and amortisation		Impairment charges	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Materials Analysis	**31.9**	18.7	**10.7**	10.3	**–**	–
Test and Measurement	**8.9**	9.9	**12.6**	13.1	**–**	–
In-line Instrumentation	**9.7**	12.4	**8.2**	8.4	**–**	–
Industrial Controls	**(2.9)**	345.8	**16.1**	8.0	**–**	–
	47.6	386.8	**47.6**	39.8	**–**	–

Geographical segments

The group's operating 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 £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2012 Total £m
UK	**11.5**	**11.9**	**8.3**	**6.9**	**38.6**
Germany	**23.1**	**61.1**	**24.1**	**11.1**	**119.4**
France	**11.0**	**20.4**	**8.5**	**2.3**	**42.2**
Rest of Europe	**54.3**	**58.2**	**50.3**	**8.7**	**171.5**
USA	**62.2**	**62.6**	**77.1**	**147.8**	**349.7**
Rest of North America	**13.6**	**5.5**	**7.5**	**13.6**	**40.2**
Japan	**29.9**	**28.8**	**32.3**	**1.4**	**92.4**
China	**49.1**	**45.7**	**58.2**	**9.6**	**162.6**
South Korea	**10.9**	**12.8**	**10.0**	**3.9**	**37.6**
Rest of Asia Pacific	**49.0**	**20.4**	**22.3**	**8.5**	**100.2**
Rest of the world	**33.5**	**18.0**	**21.5**	**3.4**	**76.4**
	348.1	**345.4**	**320.1**	**217.2**	**1,230.8**

Notes to the accounts continued

4. Operating segments continued

	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2011 Total £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

The following is an analysis of the carrying amount of non-current segment assets, analysed by the geographical area in which the assets are located.

	Non-current assets	
	2012 £m	2011 £m
UK	**81.7**	80.1
Germany	**26.7**	27.5
France	**0.2**	0.2
Rest of Europe*	**283.7**	281.6
USA	**420.3**	450.6
Rest of North America	**5.7**	5.9
Japan	**1.7**	4.1
China	**7.4**	10.1
South Korea	**0.2**	0.2
Rest of Asia Pacific	**38.0**	41.6
Rest of the world	**5.7**	1.8
	871.3	903.7
Retirement benefit assets**	**3.9**	–
Deferred taxation**	**16.9**	20.6
Total non-current assets	**892.1**	924.3

*Principally in Denmark and Switzerland.

**Not allocated to reportable geographical area in reporting to the chief operating decision maker.

5. Revenue

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

	2012 £m	2011 £m
Sale of goods	**1,082.8**	963.6
Services rendered	**148.0**	142.6
Revenue	**1,230.8**	1,106.2

No individual customer accounted for more than 2% of external revenue in either 2012 or 2011.

Spectris does not have the necessary information readily available to disclose the revenue from external customers for each product and service, or each group of similar products and services, and the cost to develop this would be excessive.

Notes to the accounts continued

6. Operating profit

Operating profit has been arrived at after charging:

	2012 £m	2011 £m
Net foreign exchange losses	**2.2**	0.3
Research and development expenditure	**85.5**	75.8
Depreciation of property, plant and equipment	**17.5**	14.9
Amortisation of intangible assets	**30.1**	24.9
Gain on sale of property, plant and equipment	**(0.1)**	(0.4)

Auditor's remuneration	2012 £m	2011 £m
Fees payable to the company's auditor for audit of the company's annual accounts	**0.5**	0.6
Fees payable to the company's auditor and its associates for other services:		
– the audit of the company's subsidiaries, pursuant to legislation	**1.1**	1.1
– audit-related assurance services*	**0.1**	–
– tax compliance services	**0.3**	0.2
– tax advisory services	**0.3**	0.2
– corporate finance related**	**–**	0.6
– other services	**0.1**	–
	2.4	2.7

*Review of the half-year financial statements.

**Services related to acquisitions.

7. Employee costs

Employee costs, including directors' remuneration, comprise:

	Note	2012 £m	2011 £m
Wages and salaries		**326.6**	295.6
Social security costs		**61.3**	50.4
Defined benefit pension plans: current service cost	8	**1.1**	0.9
Defined benefit pension plans: past service cost	8	**1.1**	–
Defined benefit pension plans: settlements	8	**–**	(0.3)
Defined contribution pension plans	8	**11.1**	10.4
Equity-settled share-based payment expense		**6.2**	6.4
Cash-settled share-based payment expense		**1.3**	0.9
		408.7	364.3

Where it is not possible to incentivise managers of the group's operating companies 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 reporting date if sooner.

Directors' remuneration	2012 £m	2011 £m
Short-term benefits	**2.5**	2.7
Post-employment benefits	**0.1**	0.1
Equity-settled share-based payment expense	**0.9**	1.0
	3.5	3.8

Further details of directors' remuneration and share options are given in the directors' remuneration report on pages 52 to 66.

Average number of employees	2012 Number	2011 Number
Production and engineering	**3,735**	3,270
Sales and marketing	**2,881**	2,534
Administrative	**745**	643
	7,361	6,447

Notes to the accounts continued

8. Retirement benefit schemes

Spectris plc operates funded defined benefit and defined contribution pension plans for the group's qualifying employees in the UK. In addition, 11 overseas subsidiaries (2011: 11 overseas subsidiaries) in three overseas countries provide defined benefit plans. Other UK and overseas subsidiaries have their own defined contribution plans invested in independent funds.

Defined contribution plans

The total cost of the defined contribution plans for the year ended 31 December 2012 was £11.1m (2011: £10.4m). There were no outstanding or prepaid contributions to these plans as at 31 December 2012 or 31 December 2011.

Defined benefit plans

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

Plan name	Date of last full actuarial valuation
German:	
Brüel & Kjær GmbH	31 December 2012
Brüel & Kjær Vibro GmbH	31 December 2012
BTG Instruments GmbH (formerly BTG Mütek GmbH)	31 December 2012
Spectris Germany GmbH (formerly Spectris GmbH Sensoren und Systeme)	31 December 2012
Hottinger Baldwin Messtechnik GmbH	31 December 2012
PANalytical GmbH	31 December 2012
Dutch:	
HBM Netherlands BV	31 December 2012
Brüel & Kjær BV	31 December 2012
Brüel & Kjær Vibro AS, Dutch Branch (formerly Brüel & Kjær Vibro BV)	31 December 2012
Hottinger Baldwin Messtechnik GmbH, Dutch Branch	31 December 2012
Swiss:	
BTG Eclépens SA	31 December 2012
UK:	
Spectris Pension Plan	31 December 2011

Where applicable, the valuations were updated to 31 December 2012 for IAS 19 'Employee Benefits' purposes by qualified independent actuaries.

The total company contributions made to the defined benefit plans during the year ended 31 December 2012 were £3.2m (2011: £4.1m). Contributions for 2013 are expected to be as follows:

Plan name	Expected 2013 contributions £m
German:	
Spectris Germany GmbH	0.1
Hottinger Baldwin Messtechnik GmbH	0.4
Dutch:	
HBM Netherlands BV	0.2
Hottinger Baldwin Messtechnik GmbH, Dutch Branch	0.1
Swiss:	
BTG Eclépens SA	1.3
	2.1

The above contribution rates are subject to review at future valuations and periodic certifications of the schedule of contributions. Contributions paid in the year to the Spectris Pension Plan (UK) were £1.6m (2011: £2.6m) and the final shortfall was fully paid in the year. As a result, the decision was made to cease contributions from 1 July 2012.

8. Retirement benefit schemes continued

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

UK plans	2012 % p.a.	2011 % p.a.
Discount rate	**4.30**	4.70
Salary increases	**4.30**	4.50
Pension increases in payment:		
RPI maximum 5% (LPI)*	**2.80**	2.90
RPI maximum 3%	**2.30**	2.40
RPI maximum 2.5%	**2.00**	2.10
RPI minimum 3%, maximum 5%	**3.50**	3.60
CPI maximum 5%	**2.00**	2.10
Pension increases in deferment:		
RPI	**2.80**	3.00
CPI	**1.90**	2.10
Inflation assumption:		
RPI	**2.80**	3.00
CPI	**1.90**	2.10

*LPI is Limited Price Indexation

Mortality rate assumptions:
Pensioner life expectancy assumed in the 31 December 2012 valuation is based on the following table:

Current and future pensioners	92% S1PMA/96% S1PFA centred in 2006, future improvements in line with CMI_2011 with a long-term rate of improvement of 1% per annum

Samples of the ages which pensioners are assumed to live to are as follows:

	Males	Females
Pensioner aged 65 in 2012	87.0	89.0
Pensioner aged 65 in 2022	88.2	90.6

German plans	2012 % p.a.	2011 % p.a.
Discount rate	**3.10**	4.70
Salary increases	**3.00**	3.00
Pension increases in payment	**2.00**	2.00
Inflation assumption	**2.00**	2.00

Mortality rate assumptions:
Pensioner life expectancy assumed in the 31 December 2012 valuation is based on the following tables:

Current pensioners and future pensioners	Dr K Heubeck pension tables 2005 G

Samples of the ages which pensioners are assumed to live to are as follows:

	Males	Females
Pensioner aged 65 in 2012	83.6	87.7
Pensioner aged 65 in 2022	84.9	89.0

8. Retirement benefit schemes continued

Dutch plans	2012 % p.a.	2011 % p.a.
Discount rate	**3.10**	5.20
Salary increases	**3.00**	3.00
Inflation assumption	**2.00**	2.00

Mortality rate assumptions:
Pensioner life expectancy assumed in the 31 December 2012 valuation is based on the following tables:

Current pensioners and future pensioners	A.G. Prognosetafel 2012–2062 tables

Samples of the ages which pensioners are assumed to live to are as follows:

	Males	Females
Pensioner aged 65 in 2012	85.3	87.8
Pensioner aged 65 in 2022	86.5	88.5

Swiss plans	2012 % p.a.	2011 % p.a.
Discount rate	**2.00**	2.25
Salary increases	**1.00**	1.00
Inflation assumption	**1.00**	1.00

Mortality rate assumptions:
Pensioner life expectancy assumed in the 31 December 2012 valuation is based on the following tables:

Current pensioners and future pensioners	BVG 2010 P12

Samples of the ages which pensioners are assumed to live to are as follows:

	Males	Females
Pensioner aged 65 in 2012	86.2	88.7
Pensioner aged 65 in 2022	87.2	89.6

	UK plans		Overseas plans		Total	
Amounts recognised in the consolidated income statement	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Current service cost	**–**	–	**1.1**	0.9	**1.1**	0.9
Interest cost	**4.8**	5.1	**0.9**	0.9	**5.7**	6.0
Expected return on scheme assets	**(5.7)**	(5.6)	**(0.5)**	(0.5)	**(6.2)**	(6.1)
Settlement gain (UK)	**–**	(0.3)	**–**	–	**–**	(0.3)
Past service cost	**1.1**	–	**–**	–	**1.1**	–
	0.2	(0.8)	**1.5**	1.3	**1.7**	0.5

On materiality grounds, the current service cost is recognised solely in administrative expenses in the consolidated income statement. The interest cost and expected return on scheme assets are recognised in finance costs and financial income, respectively, in the consolidated income statement. Actuarial losses or gains are recognised in the consolidated statement of comprehensive income.

During the year, insurance premiums for death-in-service benefits were paid amounting to £0.4m (2011: £0.3m).

The total return on scheme assets in the year was £10.5m (2011: £12.3m).

Notes to the accounts continued

8. Retirement benefit schemes continued

Amounts recognised in the consolidated statement of comprehensive income	UK plans		Overseas plans		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Actuarial gains/(losses) recognised in the current year	**3.8**	(1.0)	**(4.5)**	(1.8)	**(0.7)**	(2.8)
Foreign exchange gains/(losses) in the current year	**–**	–	**0.3**	0.2	**0.3**	0.2
Total gains/(losses) recognised in the current year	**3.8**	(1.0)	**(4.2)**	(1.6)	**(0.4)**	(2.6)
Cumulative actuarial losses since 1 January 2004	**(31.3)**	(35.1)	**(9.9)**	(5.7)	**(41.2)**	(40.8)

Amounts recognised in the consolidated statement of financial position	UK plans		Overseas plans		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Present value of defined benefit obligations	**(105.3)**	(104.3)	**(33.9)**	(28.5)	**(139.2)**	(132.8)
Fair value of scheme assets	**109.2**	103.0	**18.0**	16.7	**127.2**	119.7
Net surplus/(deficit) in schemes	**3.9**	(1.3)	**(15.9)**	(11.8)	**(12.0)**	(13.1)

Reconciliation of movement in net deficit	UK plans		Overseas plans		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
At 1 January	**(1.3)**	(3.7)	**(11.8)**	(10.4)	**(13.1)**	(14.1)
Expected return on plan assets	**5.7**	5.6	**0.5**	0.5	**6.2**	6.1
Contributions from sponsoring company	**1.6**	2.6	**1.6**	1.5	**3.2**	4.1
Current service cost	**–**	–	**(1.1)**	(0.9)	**(1.1)**	(0.9)
Interest cost	**(4.8)**	(5.1)	**(0.9)**	(0.9)	**(5.7)**	(6.0)
Actuarial gains/(losses)	**3.8**	(1.0)	**(4.5)**	(1.8)	**(0.7)**	(2.8)
Settlement gain (UK)	**–**	0.3	**–**	–	**–**	0.3
Foreign exchange difference	**–**	–	**0.3**	0.2	**0.3**	0.2
Past service cost	**(1.1)**	–	**–**	–	**(1.1)**	–
At 31 December	**3.9**	(1.3)	**(15.9)**	(11.8)	**(12.0)**	(13.1)

Analysis of movement in the present value of the defined benefit obligation	UK plans		Overseas plans		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
At 1 January	**104.3**	96.9	**28.5**	26.0	**132.8**	122.9
Current service cost	**–**	–	**1.1**	0.9	**1.1**	0.9
Interest cost	**4.8**	5.1	**0.9**	0.9	**5.7**	6.0
Actuarial losses	**0.1**	7.0	**4.9**	2.0	**5.0**	9.0
Settlement gain (UK)	**–**	(0.3)	**–**	–	**–**	(0.3)
Foreign exchange difference	**–**	–	**(0.7)**	(0.3)	**(0.7)**	(0.3)
Contributions from scheme members	**–**	–	**0.8**	0.8	**0.8**	0.8
Benefits paid	**(5.0)**	(4.4)	**(1.6)**	(1.8)	**(6.6)**	(6.2)
Past service cost	**1.1**	–	**–**	–	**1.1**	–
At 31 December	**105.3**	104.3	**33.9**	28.5	**139.2**	132.8

Analysis of defined benefit obligation	UK plans		Overseas plans		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Present value of unfunded defined benefit obligation	**–**	–	**6.8**	5.9	**6.8**	5.9
Present value of funded defined benefit obligation	**105.3**	104.3	**27.1**	22.6	**132.4**	126.9

Notes to the accounts continued

8. Retirement benefit schemes continued

Reconciliation of movement in fair value of plan assets	UK plans 2012 £m	UK plans 2011 £m	Overseas plans 2012 £m	Overseas plans 2011 £m	Total 2012 £m	Total 2011 £m
At 1 January	**103.0**	93.2	**16.7**	15.6	**119.7**	108.8
Expected return on plan assets	**5.7**	5.6	**0.5**	0.5	**6.2**	6.1
Actuarial gains	**3.9**	6.0	**0.4**	0.2	**4.3**	6.2
Foreign exchange difference	**–**	–	**(0.4)**	(0.1)	**(0.4)**	(0.1)
Contributions from sponsoring company	**1.6**	2.6	**1.6**	1.5	**3.2**	4.1
Contributions from scheme members	**–**	–	**0.8**	0.8	**0.8**	0.8
Benefits paid	**(5.0)**	(4.4)	**(1.6)**	(1.8)	**(6.6)**	(6.2)
At 31 December	**109.2**	103.0	**18.0**	16.7	**127.2**	119.7

Analysis of the scheme assets and expected rate of return

UK plans	Expected return 2012 %	Expected return 2011 %	Fair value of assets 2012 £m	Fair value of assets 2011 £m
Equity instruments	**7.5**	7.5	**27.4**	32.1
Debt instruments	**5.3**	5.3	**81.4**	67.3
Other assets	**3.0**	3.0	**0.4**	3.6
	5.8	5.9	**109.2**	103.0

German plans	Expected return 2012 %	Expected return 2011 %	Fair value of assets 2012 £m	Fair value of assets 2011 £m
Insurance policies	**3.1**	4.7	**1.3**	1.3

Dutch plans	Expected return 2012 %	Expected return 2011 %	Fair value of assets 2012 £m	Fair value of assets 2011 £m
Insurance policies	**3.1**	4.7	**2.4**	1.2

Swiss plans	Expected return 2012 %	Expected return 2011 %	Fair value of assets 2012 £m	Fair value of assets 2011 £m
Insurance policies	**2.0**	2.5	**14.3**	14.2

The overall expected return on assets is calculated as the weighted average of the expected return on each individual asset class. The expected return on equity instruments is the sum of inflation, dividend yield and economic growth, less investment expenses. The return on debt instruments is based on the current market yield on bonds. The expected return on other assets reflects market conditions for interest rate swaps.

History of experience adjustments	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	**(139.2)**	(132.8)	(122.9)	(117.3)	(98.5)
Fair value of scheme assets	**127.2**	119.7	108.8	93.8	90.0
Deficit in the scheme	**(12.0)**	(13.1)	(14.1)	(23.5)	(8.5)
Experience adjustment on scheme liabilities					
Amount (£m)	**3.0**	(1.2)	(2.3)	(23.0)	10.0
Percentage of scheme liabilities (%)	**2.2**	(0.9)	(1.9)	(19.6)	10.2
Experience adjustment on scheme assets					
Amount (£m)	**4.3**	6.2	4.7	3.3	(8.0)
Percentage of scheme assets (%)	**3.4**	5.2	4.3	3.5	(9.0)

Notes to the accounts continued

9. Finance costs and financial income

Financial income	Note	2012 £m	2011 £m
Interest receivable		**0.5**	0.7
Increase in fair value of cross-currency interest rate swaps	20	**0.9**	–
Net gains on retranslation of short-term inter-company loan balances		**0.9**	0.4
Expected return on pension scheme assets		**6.2**	6.1
		8.5	7.2

Finance costs	Note	2012 £m	2011 £m
Interest payable on loans and overdrafts		**12.6**	10.5
Decrease in fair value of cross-currency interest rate swaps	20	**–**	0.4
Interest cost on pension scheme liabilities		**5.7**	6.0
Other finance costs		**–**	0.2
		18.3	17.1

Net interest costs of £12.1m (2011: £9.8m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £0.5m (2011: £0.7m) and interest payable on loans and overdrafts of £12.6m (2011: £10.5m).

10. Taxation

	2012			2011		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Current tax charge	**5.3**	**44.3**	**49.6**	6.3	41.9	48.2
Adjustments in respect of current tax of prior years	**(0.3)**	**(2.7)**	**(3.0)**	(0.4)	(1.5)	(1.9)
Deferred tax – origination and reversal of temporary differences	**(0.6)**	**(0.6)**	**(1.2)**	(3.3)	(3.3)	(6.6)
	4.4	**41.0**	**45.4**	2.6	37.1	39.7

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the group's profits, is 29.4% (2011: 28.5%). The tax charge for the year is lower than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2012 £m	2011 £m
Profit before taxation	**186.7**	166.0
Corporation tax at standard rate of 29.4% (2011: 28.5%)	**54.9**	47.3
Non-taxable income and gains	**(5.7)**	(3.8)
Non-deductible expenditure	**2.0**	1.8
Movements on unrecognised deferred tax assets	**0.3**	0.5
Research and development tax incentives	**(3.8)**	(3.4)
Other current year tax items	**0.4**	(0.3)
Change in tax rates	**0.1**	(0.1)
Other adjustments to prior year current and deferred tax charges	**(2.8)**	(2.3)
Total taxation	**45.4**	39.7

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.

Tax on items recognised directly in other comprehensive income	2012 £m	2011 £m
Tax on net gain/(loss) on effective portion of changes in fair value of forward exchange contracts	**1.0**	(0.4)
Tax on actuarial gain/(loss) arising on pension schemes, net of foreign exchange	**0.1**	(0.7)
Aggregate current and deferred tax charge/(credit) relating to items that are charged directly to the consolidated statement of comprehensive income	**1.1**	(1.1)

Notes to the accounts continued

10. Taxation continued

Tax on items recognised directly in the consolidated statement of changes in equity	2012 £m	2012 £m
Tax on share-based payments	**(3.6)**	(0.1)
Aggregate current and deferred tax credit on items recognised directly in the consolidated statement of changes in equity	**(3.6)**	(0.1)

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

Tax on items of income and expense that are excluded from the group's adjusted profit before tax	2012 £m	2011 £m
Tax charge/(credit) on unrealised change in fair value of cross-currency interest rate swaps	**0.2**	(0.1)
Tax credit on amortisation of intangible assets	**(9.1)**	(6.5)
Tax credit on acquisition-related costs	**(0.1)**	(0.4)
Tax credit on acquisition-related fair value adjustments to inventory	**(1.6)**	(0.8)
Tax credit on retranslation of short-term inter-company loan balances	**(0.2)**	–
Total tax credit	**(10.8)**	(7.8)

The effective adjusted tax rate for the year was 25.9% (2011: 24.8%) as set out in the reconciliation below.

Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge	Note	2012 £m	2011 £m
Total tax charge on adopted IFRS basis		**45.4**	39.7
Tax credit on items of income and expense that are excluded from the group's adjusted profit before tax		**10.8**	7.8
Adjusted tax charge		**56.2**	47.5
Adjusted profit before tax	3	**217.3**	191.6

11. Dividends

Amounts recognised and paid as distributions to owners of the parent company in the year	2012 £m	2011 £m
Final dividend for the year ended 31 December 2011 of 25.4p (2010: 20.9p) per share	**29.8**	24.3
Interim dividend for the year ended 31 December 2012 of 13.5p (2011: 8.2p) per share	**15.8**	9.5
	45.6	33.8

Amounts arising in respect of the year	2012 £m	2011 £m
Interim dividend for the year ended 31 December 2012 of 13.5p (2011: 8.2p) per share	**15.8**	9.5
Proposed final dividend for the year ended 31 December 2012 of 25.5p (2011: 25.4p) per share	**29.9**	29.6
	45.7	39.1

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.

Notes to the accounts continued

12. 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. The key features of share option contracts are described in Note 25.

Basic earnings per share	2012	2011
Profit after tax (£m)	**141.3**	126.3
Weighted average number of shares outstanding (millions)	**117.1**	116.2
Basic earnings per share (pence)	**120.7**	108.7

Diluted earnings per share	2012	2011
Profit after tax (£m)	**141.3**	126.3
Basic weighted average number of shares outstanding (millions)	**117.1**	116.2
Weighted average number of dilutive 5p ordinary shares under option (millions)	**2.1**	2.6
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)**	(0.7)
Diluted weighted average number of shares outstanding (millions)	**118.5**	118.1
Diluted earnings per share (pence)	**119.2**	106.9

13. Goodwill

Cost	Note	£m
At 1 January 2011		392.4
Recognised on acquisitions	28	195.8
Adjustments to contingent consideration for transactions under IFRS 3 (2004)	28	(1.0)
Foreign exchange difference		(6.5)
At 31 December 2011		580.7
Recognised on acquisitions	28	5.7
Recognition of acquired intangible assets	28	(0.2)
Adjustments to contingent consideration for transactions under IFRS 3 (2004)	28	(1.2)
Measurement period adjustments to fair values	28	(4.1)
Foreign exchange difference		(18.8)
At 31 December 2012		**562.1**

Accumulated amortisation and impairment losses	£m
At 1 January 2011	37.3
Foreign exchange difference	(1.1)
At 31 December 2011	36.2
Foreign exchange difference	(0.8)
At 31 December 2012	**35.4**

Carrying amount	£m
At 31 December 2012	**526.7**
At 31 December 2011	544.5
At 1 January 2011	355.1

Notes to the accounts continued

13. Goodwill continued

In accordance with the requirements of IAS 36 'Impairment of Assets', goodwill is allocated at acquisition to the group's cash-generating units, which are represented by the group's trading businesses, that are expected to benefit from that business combination. The most significant elements of the group's total consolidated goodwill of £526.7m at 31 December 2012 are allocated to PANalytical: £97.7m (2011: £95.0m), BTG: £52.2m (2011: £53.6m), HBM: £64.9m (2011: £66.9m), Brüel & Kjær Sound & Vibration: £71.0m (2011: £73.2m) and Omega Engineering: £163.0m (2011: £174.7m). Bolt-on acquisitions are quickly integrated into existing group companies with the result that it is not appropriate to consider their individual performance when determining cash-generating units and performing goodwill impairment testing. Each cash-generating unit is assessed for impairment annually and whenever there is a specific indication of impairment. For all cash-generating units, there were no indications of impairment in 2012.

As part of the annual impairment test review, the carrying amount of goodwill (for all businesses excluding Omega Engineering) has been assessed with reference to value in use to perpetuity, reflecting the projected cash flows of each cash-generating unit based on actual operating results, the most recent budget for the next financial year, and strategic review projections for 2014 and 2015 reviewed by management.

The key assumptions on which the value in use calculations are based relate to business performance over the next three years, long-term growth rates beyond 2015 and the discount rates applied. The forecast cash flows include management's latest estimates on sales volumes and pricing, production and other costs. There are no individually significant business level cash flow assumptions in respect of any business that materially impact the impairment testing. The key judgements are the level of revenue and operating margins anticipated and the proportion of operating profit converted to cash in each year. Growth rates for the years beyond 2015 are assumed to be 2.5% (2011: 2.5%), which is considered to be at or below long-term market trends for each business. The cash flow projections have been discounted using cash generating unit specific pre-tax discount rates between 13% and 18% (2011: 13% and 18%). These rates have been determined by taking the size of business and specific geographic and industry risk factors into account. No impairment charge has been required to be recognised in either 2012 or 2011.

The directors do not consider that there are any reasonable possible sensitivities for these businesses that could arise in the next 12 months that could result in an impairment charge arising. For illustration, the directors have continued to consider the following specific individual sensitivities:

- a 2% increase in the pre-tax discount rate applied to each business would result in an impairment of £nil (2011: £nil);
- if the long-term growth rate assumption was reduced to 1% no impairment would arise (2011: £nil); and
- if the cash flow projections of all businesses were reduced by 25% for the next two years no impairment would arise (2011: £nil).

The directors consider that operating results in 2012 confirm that none of the group's brought-forward trading businesses have suffered permanent diminutions in value as a result of recent difficult economic conditions.

Reflecting the fact that it represents 31% of total goodwill, the directors consider the goodwill related to the Omega Engineering business to be individually significant and accordingly have provided additional commentary for this business. As the group's most recent stand-alone acquisition, the lowest level of headroom on goodwill impairment testing among the cash-generating units at 31 December 2012 is in respect of the Omega Engineering business, which was acquired in October 2011. Having regard to trading activity post acquisition and the conservative assumptions built into the projected cash flows, the directors do not believe there is a significant risk of material impairment of goodwill arising in the next 12 months. The pre-tax discount rate applied to the cash flows is 16% with a long-term growth rate assumption of 2.5% per annum and a long-term conversion of operating profit to cash of 90%. Reflecting the highly dispersed customer base, wide range of industries served and extensive product list, no other individual assumptions have been identified that are material to this assessment.

Notes to the accounts continued

14. Other intangible assets

Cost	Note	Patents and contractual rights £m	Trade names £m	Technology £m	Customer-related intangibles £m	Software £m	Total £m
At 1 January 2011		17.0	–	55.2	56.9	29.4	158.5
Additions		–	–	–	–	2.7	2.7
Transfers from property, plant and equipment	15	–	–	–	–	2.5	2.5
Recognised on acquisitions	28	3.2	63.3	43.7	19.2	0.2	129.6
Disposals		–	–	–	–	(0.3)	(0.3)
Foreign exchange difference		0.2	0.3	–	0.3	(0.3)	0.5
At 31 December 2011		20.4	63.6	98.9	76.4	34.2	293.5
Additions		–	–	–	–	3.4	3.4
Transfer from property, plant and equipment	15	–	–	–	–	1.6	1.6
Recognised on acquisitions	28	–	–	10.7	7.7	–	18.4
Reclassified to assets held for sale	26	–	–	(0.1)	–	(2.1)	(2.2)
Disposals		–	–	–	–	(0.5)	(0.5)
Foreign exchange difference		(0.7)	(2.7)	(2.8)	(2.8)	(0.9)	(9.9)
At 31 December 2012		**19.7**	**60.9**	**106.7**	**81.3**	**35.7**	**304.3**

Accumulated amortisation and impairment losses	Note	Patents and contractual rights £m	Trade names £m	Technology £m	Customer-related intangibles £m	Software £m	Total £m
At 1 January 2011		11.2	–	11.7	15.7	22.5	61.1
Disposals		–	–	–	–	(0.3)	(0.3)
Charge for the year		1.2	0.8	9.1	10.7	3.1	24.9
Transfers from property, plant and equipment	15	–	–	–	–	1.9	1.9
Foreign exchange difference		–	–	0.1	0.3	(0.4)	–
At 31 December 2011		12.4	0.8	20.9	26.7	26.8	87.6
Disposals		–	–	–	–	(0.5)	(0.5)
Charge for the year		1.9	3.1	12.4	9.6	3.1	30.1
Reclassified to assets held for sale	26	–	–	–	–	(1.9)	(1.9)
Transfers from property, plant and equipment	15	–	–	–	–	0.6	0.6
Foreign exchange difference		(0.4)	(0.1)	(0.6)	(1.3)	(0.7)	(3.1)
At 31 December 2012		**13.9**	**3.8**	**32.7**	**35.0**	**27.4**	**112.8**

Carrying amount	Note	Patents and contractual rights £m	Trade names £m	Technology £m	Customer-related intangibles £m	Software £m	Total £m
At 31 December 2012		**5.8**	**57.1**	**74.0**	**46.3**	**8.3**	**191.5**
At 31 December 2011		8.0	62.8	78.0	49.7	7.4	205.9
At 1 January 2011		5.8	–	43.5	41.2	6.9	97.4

Of the total amortisation charge of £30.1m (2011: £24.9m), the amount attributable to the amortisation of acquisition-related intangible assets was £27.0m (2011: £21.8m).

The transfers from property, plant and equipment to software in 2012 and 2011 relate to identifiable software assets.

The group has no internally generated intangible assets from development as the criteria for the recognition as an asset under IAS 38 'Intangible Assets' are not met.

The trade names and technology assets recognised on the acquisition of Omega Engineering in 2011, and included within the Industrial Controls reporting segment, are considered significant by the directors as they represent 100% (2011: 100%) of total trade names and 32.6% (2011: 36.1%) of total technology, respectively. The carrying amount of the trade name intangible at 31 December 2012 is £57.1m (2011: £62.8m) and is amortised over 20 years with the remaining amortisation period being 18.8 years. The carrying amount of the technology intangible at 31 December 2012 is £24.1m (2011: £28.1m) and is amortised over 10 years with the remaining amortisation period being 8.8 years.

Notes to the accounts continued

15. Property, plant and equipment

Cost	Note	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 1 January 2011		98.0	11.4	142.2	251.6
Additions		9.8	0.8	15.9	26.5
Recognised on acquisitions	28	25.4	0.1	7.7	33.2
Disposals		(0.2)	(0.4)	(6.7)	(7.3)
Transfers to other intangible assets	14	–	–	(2.5)	(2.5)
Foreign exchange difference		(1.9)	0.1	(1.5)	(3.3)
At 31 December 2011		131.1	12.0	155.1	298.2
Additions		8.4	1.4	15.6	25.4
Recognised on acquisitions	28	–	–	0.4	0.4
Measurement period adjustment to fair value	28	(0.2)	–	–	(0.2)
Disposals		(3.8)	(0.8)	(6.9)	(11.5)
Reclassified to assets held for sale	26	–	(2.2)	(5.2)	(7.4)
Transfers to plant and equipment		(0.5)	–	0.5	–
Transfers to other intangible assets	14	–	–	(1.6)	(1.6)
Foreign exchange difference		(3.8)	(0.4)	(5.0)	(9.2)
At 31 December 2012		**131.2**	**10.0**	**152.9**	**294.1**

Accumulated depreciation and impairment	Note	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 1 January 2011		30.9	7.5	102.7	141.1
Charge for the year		2.9	1.3	10.7	14.9
Disposals		(0.1)	(0.4)	(6.4)	(6.9)
Transfers to intangible assets	14	–	–	(1.9)	(1.9)
Foreign exchange difference		(0.8)	0.1	(1.0)	(1.7)
At 31 December 2011		32.9	8.5	104.1	145.5
Charge for the year		3.8	1.4	12.3	17.5
Disposals		(2.4)	(0.7)	(6.3)	(9.4)
Reclassified to assets held for sale	26	–	(2.0)	(4.6)	(6.6)
Transfers to other intangible assets	14	–	–	(0.6)	(0.6)
Foreign exchange difference		(1.2)	(0.4)	(3.2)	(4.8)
At 31 December 2012		**33.1**	**6.8**	**101.7**	**141.6**

Carrying amount	Note	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 31 December 2012		**98.1**	**3.2**	**51.2**	**152.5**
At 31 December 2011		98.2	3.5	51.0	152.7
At 1 January 2011		67.1	3.9	39.5	110.5

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £1.2m (2011: £3.9m).

No borrowing costs met the required criteria for capitalisation during the year (2011: £nil).

The group has pledged land and buildings having a carrying amount of approximately £nil (2011: £1.9m) to secure bank loans granted to the group.

Notes to the accounts continued

16. Inventories

	2012 £m	2011 £m
Raw materials	**62.2**	67.2
Work in progress	**28.7**	29.4
Finished goods	**72.9**	75.2
	163.8	171.8

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

Inventory is stated after charging impairments of £4.5m (2011: £1.6m) and crediting reversals of previous impairments of £2.7m (2011: £1.7m). Impairments and reversals of impairments are included within operating profit.

The calculation of the group's inventory provision requires the use of various estimates and assumptions in relation to the impact of technology and market changes on future demand for on-hand inventory across a vast number of individual product lines. Reversals of previous inventory provisions arise when these estimates prove pessimistic and actual product demand is higher than assumed. This normally occurs when the product life cycle is longer than anticipated. There are no individually significant provision reversals. The directors do not consider there to be significant levels of estimation risk in the determination of inventory provisions with regard to the total value of inventory.

Inventory carried at fair value less cost to sell is £0.7m (2011: £19.2m) due to the acquisitions described in Note 28.

In 2012, raw materials and changes in finished goods and work in progress recognised within cost of sales amounted to £336.7m (2011: £301.4m).

17. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**171.5**	191.4
Prepayments and accrued income	**19.6**	12.3
Other receivables	**17.7**	17.1
	208.8	220.8

Included within prepayments and accrued income and other receivables above are amounts receivable in more than one year of £5.3m (2011: £6.3m).

Trade receivables are non-interest bearing. Standard credit terms provided to customers differ according to business and country, and are typically between 30 and 60 days. Trade receivables and other receivables are stated after net impairments recognised and utilised during the year of £4.7m (2011: £4.5m) and reversals of impairments of £2.9m (2011: £2.2m). Impairments and reversals of impairments are included within operating profit.

The maximum exposure to credit risk for trade receivables at 31 December by geographic region was:

	2012 £m	2011 £m
UK	**6.4**	7.7
Germany	**18.9**	19.1
France	**9.9**	10.9
Rest of Europe	**32.5**	37.8
USA	**42.4**	47.2
Rest of North America	**6.8**	7.6
Japan	**11.5**	17.1
China	**10.8**	12.9
South Korea	**3.7**	4.9
Rest of Asia Pacific	**14.0**	14.2
Rest of the world	**14.6**	12.0
	171.5	191.4

Notes to the accounts continued

17. Trade and other receivables continued

Impairment losses

The ageing of trade receivables and related impairment provisions at 31 December was:

	2012 Gross £m	2012 Impairment £m	2011 Gross £m	2011 Impairment £m
Not past due	**123.4**	**0.4**	141.3	0.6
One month past due	**34.7**	**0.1**	35.0	0.2
Two months past due	**9.0**	**0.1**	10.4	0.1
Three months past due	**5.0**	**0.1**	5.2	0.2
Over three months past due	**11.1**	**11.0**	9.7	9.1
	183.2	**11.7**	201.6	10.2

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

	2012 £m	2011 £m
Balance at 1 January	**10.2**	7.8
Impairment loss recognised	**5.1**	5.4
Impairment loss utilised	**(0.4)**	(0.9)
Impairment loss released	**(2.9)**	(2.2)
Reclassified to assets held for sale	**(0.2)**	–
Foreign exchange difference	**(0.1)**	0.1
Balance at 31 December	**11.7**	10.2

An impairment has been recorded against the trade receivables that the group believes may not be recoverable. In the case of trade receivables that are past due, management makes an assessment of the risk of non-collection, taking into account factors such as any disputes, or other factors delaying payment, and the risk of bankruptcy or other failure of the customer to meet their obligations. For trade receivables that are not past due, taking into account good historic collection experience, management records an impairment charge only where there is a specific risk of non-collection. All trade receivables past due for more than 120 days have been fully provided in line with the group's credit risk policy. There is no material unprovided risk in relation to EU countries.

The fair value of trade and other receivables approximates to its carrying amount due to the short-term maturities associated with these items. There is no impairment risk identified with regards to prepayments and accrued income or other receivables where no amounts are past due.

18. Cash and cash equivalents

Analysis of balances of cash and cash equivalents	Note	2012 £m	2011 £m
Cash balances		**40.8**	41.6
Bank overdrafts	19	**(1.0)**	(1.1)
Cash and cash equivalents in the consolidated statement of cash flows		**39.8**	40.5

The group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 20.

Notes to the accounts continued

19. Borrowings

Current	Effective interest rate	Earlier of repricing date or maturity date	**2012 £m**	2011 £m
Bank loans – secured			**–**	1.6
Bank overdrafts		on demand	**1.0**	1.1
Unsecured loan notes – 2003 $100m	6.08%	15 October 2013	**61.5**	–
Unsecured loan notes – 2003 €25m	5.56%	15 October 2013	**20.3**	–
			82.8	2.7

Non-current	Effective interest rate	Earlier of repricing date or maturity date	**2012 £m**	2011 £m
Bank loans – secured			**–**	0.3
Bank loans – unsecured	1.69%	14 August 2016	**153.8**	249.7
Bank loans unsecured – $75.6m	3.12%	10 September 2015	**46.5**	48.6
Unsecured loan notes – 2003 $100m	6.08%	15 October 2013	**–**	64.4
Unsecured loan notes – 2003 €25m	5.56%	15 October 2013	**–**	20.9
Total unsecured borrowings			**200.3**	383.6
Total non-current borrowings			**200.3**	383.9

At 31 December 2012, the group had available £184.6m (2011: £104.2m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Unsecured loan notes

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

Under adopted IFRS, where cross-currency interest rate swaps are used, the value of the underlying US dollar borrowing is presented in this borrowings note and the value of the related cross-currency interest rate swaps is presented separately within derivative financial instruments in Note 20. For management purposes, the value attributed to the portion of the swap arrangements that converts US dollar borrowings into euro borrowings is viewed as part of the group's net debt, as analysed below.

Analysis of net debt	Note	**2012 £m**	2011 £m
Bank overdrafts		**1.0**	1.1
Bank loans – secured		**–**	1.9
Bank loans – unsecured		**200.3**	298.3
Unsecured loan notes		**81.8**	85.3
Cross-currency interest rate swaps – currency portion	20	**11.8**	11.2
Total borrowings		**294.9**	397.8
Cash balances	18	**(40.8)**	(41.6)
Net debt		**254.1**	356.2

Notes to the accounts continued

20. Financial instruments

Fair value and carrying amount of financial instruments	2012 Carrying amount £m	2012 Fair value £m	2011 Carrying amount £m	2011 Fair value £m
Trade and other receivables excluding prepayments	**189.2**	**189.2**	208.5	208.5
Trade and other payables excluding deferred income	**(203.7)**	**(203.7)**	(215.2)	(215.2)
Cash and cash equivalents	**40.8**	**40.8**	41.6	41.6
Floating rate borrowings	**(154.2)**	**(154.2)**	(250.6)	(250.6)
Fixed rate borrowings	**(128.9)**	**(134.7)**	(136.0)	(143.7)
Forward exchange contracts	**2.4**	**2.4**	(1.6)	(1.6)
Cross-currency interest rate swaps	**(12.5)**	**(12.5)**	(12.8)	(12.8)
	(266.9)	**(272.7)**	(366.1)	(373.8)

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

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

The fair value of forward exchange contracts outstanding as at 31 December 2012 is a net asset of £2.4m (2011: liability of £1.6m) of which £2.1m has been credited to the hedging reserve (2011: £1.7m debit) and £0.3m credited to the consolidated income statement (2011: £0.1m credit). These contracts mature over periods not exceeding 18 months. A summary of the movements in the hedging reserve during the year is presented below. There was no ineffectiveness arising with regards to cash flow hedges in either 2012 or 2011.

Analysis of movements in hedging reserve	2012 £m	2011 £m
At 1 January	**(3.6)**	(0.2)
Amounts removed from the consolidated statement of changes in equity and included in the consolidated income statement during the year	**(0.2)**	(2.5)
Amounts recognised in the consolidated statement of changes in equity during the year	**3.0**	(0.9)
At 31 December	**(0.8)**	(3.6)

The fair value of forward exchange contracts is determined using discounted cash flow techniques based on readily available market data and represents a Level 2 measurement in the fair value hierarchy under IFRS 7 'Financial Instruments: Disclosures'.

The amount included in the consolidated income statement is split between revenue and administrative expenses depending on the nature of the hedged item.

The following table shows the contractual forward exchange contracts hedging designated transactional exposures. These contracts mature in the next 18 months, therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 18 months.

Forward exchange contracts at 31 December	2012	2011
Foreign currency sale amount (£m)	**94.3**	110.2
Percentage of total:		
US dollar	**31%**	34%
Euro	**41%**	37%
Japanese yen	**24%**	27%
Other	**4%**	2%

Notes to the accounts continued

20. Financial instruments continued

Cross-currency interest rate swaps

The value of the group's cross-currency interest rate swaps can effectively be split into two components: a portion that is attributable to converting a 100m US dollar-denominated borrowing liability into a euro-denominated borrowing liability (the currency portion) – the value of this portion changes as currency exchange rates change – and a portion that is attributable to converting fixed-rate US dollar interest payments into fixed-rate euro interest payments (the interest portion) – the value of this portion of the swap changes as US dollar-variable interest rates, euro-variable interest rates and foreign currency exchange rates change.

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

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

Fair value of cross-currency interest rate swaps	Currency portion £m	Interest portion £m	Total value £m
As at 1 January 2011	(13.7)	(1.2)	(14.9)
Change in fair value recognised in the consolidated statement of comprehensive income	2.5	–	2.5
Change in fair value recognised in the consolidated income statement	–	(0.4)	(0.4)
As at 31 December 2011	(11.2)	(1.6)	(12.8)
Change in fair value recognised in the consolidated statement of comprehensive income	(0.6)	–	(0.6)
Change in fair value recognised in the consolidated income statement	–	0.9	0.9
As at 31 December 2012	**(11.8)**	**(0.7)**	**(12.5)**

Together with the group's €25m borrowing, this combination of the underlying US dollar borrowings and cross-currency interest rate swap has been designated as a net investment hedge of the group's net investment in its European businesses. However, the interest portion of the swap is ineffective in this hedging relationship. Accordingly, the change in value of the currency portion of the swap is recognised together with the change in value of the underlying US dollar borrowings in the consolidated statement of comprehensive income, and the change in value of the interest portion of the swap is recognised in the consolidated income statement within financing costs. The group's US$75.6m borrowings have been designated as a net investment hedge of the group's net investment in its US businesses.

The fair value of cross-currency interest rate swaps is determined using discounted cash flow techniques based on readily available market data and represents a Level 2 measurement in the fair value hierarchy under IFRS 7 'Financial Instruments: Disclosures'. The principal borrowing amounts match exactly with the related unsecured loan note borrowings as described in Note 19.

A maturity profile of the gross cash flows related to financial liabilities is:

Maturity of financial liabilities	2012 Bank loans and overdrafts £m	2012 Secured bank loans £m	2012 Unsecured loans £m	2012 Cross currency swap £m	2012 Total £m	2011 Bank loans and overdrafts £m	2011 Secured bank loans £m	2011 Unsecured loans £m	2011 Cross currency swap £m	2011 Total £m
Due within one year	**1.0**	**–**	**90.9**	**12.3**	**104.2**	1.1	1.6	12.0	0.4	15.1
Due between one and two years	**–**	**–**	**4.4**	**–**	**4.4**	–	0.2	97.5	11.6	109.3
Due between two and five years	**–**	**–**	**209.0**	**–**	**209.0**	–	0.1	321.0	–	321.1
	1.0	**–**	**304.3**	**12.3**	**317.6**	1.1	1.9	430.5	12.0	445.5

Trade and other payables (Note 21) are substantially due within one year.

It is not expected that the cash flows described above could occur significantly earlier or at substantially different amounts.

Notes to the accounts continued

20. Financial instruments continued

Interest rate exposure of financial assets and liabilities by currency	Financial assets Fixed rate £m	Financial assets Floating rate £m	Financial assets Non-interest bearing £m	Financial assets Total £m	Financial liabilities Fixed rate £m	Financial liabilities Floating rate £m	Financial liabilities Total £m	2012 Net financial assets/ (liabilities) £m
Sterling	–	–	**0.8**	**0.8**	–	–	–	**0.8**
Euro	–	**7.2**	**6.6**	**13.8**	**(93.7)**	**(0.1)**	**(93.8)**	**(80.0)**
US dollar	–	**6.8**	**4.5**	**11.3**	**(46.5)**	**(154.1)**	**(200.6)**	**(189.3)**
Other	**1.5**	**5.6**	**7.8**	**14.9**	**(0.5)**	–	**(0.5)**	**14.4**
	1.5	**19.6**	**19.7**	**40.8**	**(140.7)**	**(154.2)**	**(294.9)**	**(254.1)**

Interest rate exposure of financial assets and liabilities by currency	Financial assets Fixed rate £m	Financial assets Floating rate £m	Financial assets Non-interest bearing £m	Financial assets Total £m	Financial liabilities Fixed rate £m	Financial liabilities Floating rate £m	Financial liabilities Total £m	2011 Net financial assets/ (liabilities) £m
Sterling	–	–	0.8	0.8	–	–	–	0.8
Euro	–	10.9	3.2	14.1	(96.6)	–	(96.6)	(82.5)
US dollar	–	10.4	1.9	12.3	(48.6)	(250.6)	(299.2)	(286.9)
Other	0.8	7.0	6.6	14.4	(2.0)	–	(2.0)	12.4
	0.8	28.3	12.5	41.6	(147.2)	(250.6)	(397.8)	(356.2)

The above exposures are net of the cross-currency interest rate swap.

Sensitivity analysis

At 31 December 2012 it is estimated that a general increase of one percentage point in interest rates would decrease the group's profit before tax by approximately £1.3m (2011: decrease of £2.2m).

Based on foreign exchange translational exposures for the year ended 31 December 2012 it is estimated that a ten percentage point weakening in the value of the US dollar against pounds sterling would have decreased the group's profit before tax by approximately £6.9m (2011: £4.5m), a ten percentage point weakening in the value of the euro/Danish krone against pounds sterling would have decreased the group's profit before tax by approximately £7.0m (2011: £6.2m) and a ten percentage point weakening in the value of the Swiss franc against pounds sterling would have decreased the group's profit before tax by approximately £1.7m (2011: £2.2m). In addition, a ten percentage point weakening in the value of the US dollar against pounds sterling would have decreased the group's net assets by approximately £53.8m (2011: £48.8m) and a ten percentage point weakening in the value of the euro/Danish krone against pounds sterling would have decreased the group's net assets by approximately £58.5m (2011: £54.0m); exposures to other foreign currencies are not considered to have a material impact on net assets.

21. Trade and other payables

Current	2012 £m	2011 £m
Trade payables	**80.3**	91.9
Accruals	**73.8**	94.2
Deferred income	**23.9**	23.6
Other non-trade payables	**29.9**	17.9
	207.9	227.6

Non-current		
Other non-trade payables	**19.7**	11.2

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

The effect of discounting on non-current amounts is not material.

Notes to the accounts continued

22. Provisions

	Note	Reorganisation £m	Product warranty £m	Legal, contractual and other £m	Total £m
At 1 January 2012		**2.0**	**10.6**	**19.3**	**31.9**
Additional provision in the year		**0.2**	**4.4**	**3.7**	**8.3**
Acquired on acquisition		**0.6**	**0.1**	**–**	**0.7**
Measurement period adjustments to fair values	28	**–**	**–**	**1.2**	**1.2**
Utilised during the year		**(1.1)**	**(4.5)**	**(1.0)**	**(6.6)**
Released during the year		**(0.1)**	**(1.0)**	**(7.2)**	**(8.3)**
Reclassified to liabilities held for sale		**–**	**(0.2)**	**–**	**(0.2)**
Foreign exchange difference		**(0.1)**	**(0.3)**	**(0.2)**	**(0.6)**
At 31 December 2012		**1.5**	**9.1**	**15.8**	**26.4**

Provisions are all presented as current liabilities.

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

Reorganisation
Reorganisation provisions relate to committed restructuring plans in place within the business and represent the directors' best estimate of the cost to complete the restructuring. Costs are expected to be incurred within one year and there is little judgement in determining the amount.

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

Legal, contractual and other
Legal, contractual and other comprises mainly amounts provided against open legal and contractual disputes arising from trade. The company has, on occasion, been required to take legal or other actions to protect its intellectual property rights, to enforce commercial contracts or otherwise and similarly to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent management's best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain, reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent the directors' best estimate of the cost of settling future obligations although there is a higher degree of judgement involved. Unless specific evidence exists to the contrary, these provisions are shown as current.

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

Notes to the accounts continued

23. Deferred tax

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

The movement on the deferred tax account is shown below.

	Note	2012 £m	2011 £m
At 1 January		**12.9**	(14.5)
Foreign exchange difference		**(0.4)**	0.3
Acquisition of subsidiary undertakings		**6.4**	34.9
Reclassified as assets held for sale		**1.6**	–
Deferred tax on changes in fair value of forward exchange contracts recognised in the consolidated statement of comprehensive income		**1.0**	(0.7)
Deferred tax on actuarial gains and losses on pension schemes recognised in the consolidated statement of comprehensive income		**0.1**	(0.8)
Deferred tax on share-based payments recognised in equity		**(1.1)**	0.3
Charged to the consolidated income statement in the year	10	**(1.2)**	(6.6)
At 31 December		**19.3**	12.9
Comprising:			
Deferred tax liabilities		**36.2**	33.5
Deferred tax assets		**(16.9)**	(20.6)
		19.3	12.9

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

Net deferred tax (assets)/liabilities	Accelerated tax depreciation £m	Accruals and provisions £m	Tax losses £m	Unrealised profit on inter-company transactions £m	Pension schemes £m	Goodwill and intangible assets £m	Other £m	2012 Total £m
At 1 January 2012	**1.8**	**(24.7)**	**(1.0)**	**(7.6)**	**(4.0)**	**48.5**	**(0.1)**	**12.9**
Foreign exchange difference	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Acquisition of subsidiary undertakings	**–**	**–**	**–**	**–**	**–**	**6.4**	**–**	**6.4**
Reclassified as assets held for sale	**–**	**1.4**	**–**	**0.2**	**–**	**–**	**–**	**1.6**
Deferred tax on changes in fair value of forward exchange contracts recognised in the consolidated statement of comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**1.0**	**1.0**
Deferred tax on actuarial loss on pension schemes recognised in the consolidated statement of comprehensive income	**–**	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**
Deferred tax on share-based payments recognised in equity	**–**	**–**	**–**	**–**	**–**	**–**	**(1.1)**	**(1.1)**
Charged/(credited) to the consolidated income statement	**3.4**	**3.5**	**0.1**	**1.3**	**0.4**	**(9.7)**	**(0.2)**	**(1.2)**
At 31 December 2012	**5.2**	**(19.8)**	**(0.9)**	**(6.1)**	**(3.5)**	**44.8**	**(0.4)**	**19.3**

Notes to the accounts continued

23. Deferred tax continued

Net deferred tax (assets)/liabilities	Accelerated tax depreciation £m	Accruals and provisions £m	Tax losses £m	Unrealised profit on inter-company transactions £m	Pension schemes £m	Goodwill and intangible assets £m	Other £m	2011 Total £m
At 1 January 2011	(2.4)	(14.3)	(2.6)	(6.3)	(3.5)	13.3	1.3	(14.5)
Foreign exchange difference	–	0.3	–	–	–	–	–	0.3
Acquisition of subsidiary undertakings	–	–	–	–	–	34.9	–	34.9
Deferred tax on changes in fair value of forward exchange contracts recognised in the consolidated statement of comprehensive income	–	–	–	–	–	–	(0.7)	(0.7)
Deferred tax on actuarial loss on pension schemes recognised in the consolidated statement of comprehensive income	–	–	–	–	(0.8)	–	–	(0.8)
Deferred tax on share-based payments recognised in equity	–	–	–	–	–	–	0.3	0.3
Charged/(credited) to the consolidated income statement	4.2	(10.7)	1.6	(1.3)	0.3	0.3	(1.0)	(6.6)
At 31 December 2011	1.8	(24.7)	(1.0)	(7.6)	(4.0)	48.5	(0.1)	12.9

Unrecognised temporary differences

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

	2012 £m	2011 £m
Tax losses	**18.2**	23.1
Other temporary differences	**7.3**	9.0
	25.5	32.1

The UK corporation tax rate was reduced to 24% from 26% with effect from 1 April 2012. The rate reduction had no material impact on the financial statements as at 31 December 2012.

A further phased reduction in the UK tax rate to 21% is planned but has not yet been substantively enacted. No account will be taken of the expected further rate reduction until substantive enactment of these changes. However, for indicative purposes only, had the UK main corporate tax rate been reduced to 21% the net impact on recognised deferred tax assets and liabilities at 31 December 2012 would not have been material.

It is likely that the unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption such that no UK tax would be due upon remitting these earnings to the UK. However £30.5m (2011: £34.9m) of those earnings may still result in a tax liability, principally as a result of the dividend withholding taxes levied by the overseas tax jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £1.6m (2011: £1.8m), of which only £0.2m has been provided as the group is able to control the timing of the dividends. It is not expected that further amounts will crystallise in the foreseeable future.

Notes to the accounts continued

24. Share capital and reserves

	2012 Number of shares	2012 £m	2011 Number of shares	2011 £m
Authorised:				
Ordinary shares of 5p each	**210.0**	**10.5**	210.0	10.5
Issued and fully paid:				
At 1 January	**125.0**	**6.2**	125.0	6.2
At 31 December	**125.0**	**6.2**	125.0	6.2

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

Other reserves

Movements in reserves are set out in the consolidated statement of changes in equity. The retained earnings reserve also includes own shares purchased by the company and treated as treasury shares (see Note 27). The nature and purpose of other reserves forming part of equity are as follows:

Translation reserve

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

Hedging reserve

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

Merger reserve

This reserve arose on the acquisition of Servomex Limited in 1999, a purchase satisfied substantially by the issue of share capital and therefore eligible for merger relief under the provisions of section 612 of the Companies Act 2006.

Capital redemption reserve

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

Notes to the accounts continued

25. Share-based payments

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

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

Under the Performance Share Plan (unapproved share options as defined by HMRC), the exercise price is the nominal cost of the company's shares. Awards to Spectris plc executives and senior managers are subject to performance criteria; 50% of the award being based on fulfilment of an adjusted earnings growth target (EPS) and 50% subject to a total shareholder return target (TSR). Awards made to executives and senior managers of the group's operating companies in 2008 and 2009 have performance criteria subject to EPS in respect of 50% of the award and operating company profit targets in respect of 50% of the award. For awards made in 2010, 2011 and 2012, the performance criteria is EPS in respect of 33.33% of the award and operating company profit targets in respect of 66.67% of the award. Operating company manager awards are entirely subject to operating company profit targets. Awards vest after a period of three years and must be exercised during the seven-year period following vesting.

During 2011 and 2012, Performance Share Plan options were granted that were approved share options as defined by HMRC. The performance criteria and vesting conditions are consistent with the unapproved options granted described above.

The approved share options are linked to the unapproved share options in order to benefit from the tax-exempt status of approved share option grant(s) to a value not exceeding £30,000. Should there be a gain on exercise under the approved options, such gain will cause a proportionate reduction in the number and value of the linked unapproved options. Should there be no gain on exercise under the approved options, these options are then forfeited and the linked unapproved options may be exercised in full, to the extent their performance criteria are met.

Share options outstanding at the end of the year

SAYE – year of grant	Exercise price £	Contractual life of options	**2012 Number '000s**	2011 Number '000s
2008	7.66	Nil	**–**	8
2009	7.23	1 year	**5**	49
2010	10.19	2 years	**17**	18
2011	13.81	3 years	**31**	33
2012	16.95	4 years	**39**	–
			92	108

Executive Share Option Scheme – year of grant	Exercise price £	Contractual life of options	**2012 Number '000s**	2011 Number '000s
2004	4.06–4.62	–	**–**	5
2005	5.89	–	**–**	5
			–	10

Notes to the accounts continued

25. Share-based payments continued

Performance Share Plan (unapproved) – year of grant	Exercise price £	Contractual life of options	2012 Number '000s	2011 Number '000s
2007	0.05	5 years	**3**	10
2008	0.05	6 years	**77**	198
2009	0.05	7 years	**421**	1,348
2010	0.05	8 years	**888**	897
2011	0.05	9 years	**645**	657
2012	0.05	10 years	**636**	–
			2,670	3,110

Performance Share Plan (approved) – year of grant	Exercise price £	Contractual life of options	2012 Number '000s	2011 Number '000s
2011	11.30	9 years	**7**	7
2012	17.31	10 years	**78**	–
			85	7

Movements in the year

	2012			2011		
SAYE	Number '000s	Weighted average exercise price £	Value of shares £m	Number '000s	Weighted average exercise price £	Value of shares £m
At 1 January	**108**	**9.77**	**1.1**	112	7.95	0.9
Granted	**39**	**16.95**	**0.7**	33	13.81	0.5
Exercised	**(50)**	**7.33**	**(0.4)**	(33)	7.77	(0.3)
Forfeited	**(5)**	**11.00**	**(0.1)**	(4)	8.58	–
At 31 December	**92**	**14.09**	**1.3**	108	9.77	1.1
Exercisable at 31 December	**5**	**7.23**	**0.04**	8	7.66	0.06

	2012			2011		
Executive Share Option Scheme	Number '000s	Weighted average exercise price £	Value of shares £m	Number '000s	Weighted average exercise price £	Value of shares £m
At 1 January	**10**	**4.98**	**0.05**	72	3.92	0.28
Exercised	**(10)**	**4.98**	**(0.05)**	(61)	3.75	(0.23)
Forfeited	**–**	**–**	**–**	(1)	3.75	–
At 31 December	**–**	**–**	**–**	10	4.98	0.05
Exercisable at 31 December	**–**	**–**	**–**	10	4.98	0.05

	2012			2011		
Performance Share Plan (unapproved)	Number '000s	Weighted average exercise price £	Value of shares £m	Number '000s	Weighted average exercise price £	Value of shares £m
At 1 January	**3,110**	**0.05**	**0.15**	3,066	0.05	0.15
Shares granted	**653**	**0.05**	**0.03**	657	0.05	0.03
Additions of reinvested dividends	**127**	**0.05**	**0.01**	55	0.05	–
Exercised	**(1,031)**	**0.05**	**(0.05)**	(346)	0.05	(0.02)
Forfeited	**(189)**	**0.05**	**(0.01)**	(322)	0.05	(0.01)
At 31 December	**2,670**	**0.05**	**0.13**	3,110	0.05	0.15
Exercisable at 31 December	**501**	**0.05**	**0.03**	208	0.05	0.01

Notes to the accounts continued

25. Share-based payments continued

Performance Share Plan (approved)	2012 Number '000s	2012 Weighted average exercise price £	2012 Value of shares £m	2011 Number '000s	2011 Weighted average exercise price £	2011 Value of shares £m
At 1 January	**7**	**11.30**	**0.08**	–	–	–
Shares granted	**79**	**17.31**	**1.37**	7	11.30	0.08
Exercised	**–**	**–**	**–**	–	–	–
Forfeited	**(1)**	**17.31**	**(0.02)**	–	–	–
At 31 December	**85**	**16.82**	**1.43**	7	11.30	0.08
Exercisable at 31 December	**–**	**–**	**–**	–	–	–

Share-based payment expense

Share options are valued using the stochastic option pricing model (also known as the Monte Carlo model), with support from an independent remuneration consultant. The TSR performance condition was included in the calculation of fair value under the Performance Share Plan. For options granted in 2011 and 2012, the fair value of option granted and the assumptions used in the calculation are as follows:

	SAYE		Performance Share Plan (unapproved)		Performance Share Plan (approved)	
	2012	2011	**2012**	2011	**2012**	2011
Weighted average share price at date of grant (£)	**18.27**	10.39	**17.48**	13.91	**17.50**	10.39
Weighted average exercise price (£)	**16.95**	13.81	**0.05**	0.05	**17.31**	11.30
Expected volatility	**32.4%**	42.1%	**35.4%**	41.0%	**35.4%**	42.0%
Expected life	**3.25 yrs**	3.25 yrs	**3 yrs**	3 yrs	**3 yrs**	3 yrs
Risk-free rate	**0.4%**	0.9%	**0.5%**	1.8%	**0.5%**	0.8%
Expected dividends (expressed as a yield)	**2.1%**	2.8%	**0%**	0%-2.3%	**1.9%**	2.8%
Fair value per option (£)	**3.62**	1.57				
Weighted average fair values at date of grant (£)						
Equity-settled (TSR condition)			**11.32**	9.25	**3.76**	1.83
Equity-settled (Profit condition)			**17.00**	13.92	**3.78**	2.24
Equity-settled (EPS condition)			**16.95**	13.82	**3.78**	2.24
Cash-settled (Profit condition)			**17.40**	13.37		
Cash-settled (EPS condition)			**17.38**	13.37		
Weighted average fair values at 31 December (£)						
Cash-settled (Profit condition)			**19.62**	12.19		
Cash-settled (EPS condition)			**19.62**	12.19		

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

The weighted average share price at the date of exercise for unapproved share options exercised under the Performance Share Plan in 2012 was £17.56 (2011: £13.72). The weighted average fair value of cash settled options outstanding at 31 December 2012 is £20.06 for the EPS condition (2011: £12.58).

The group recognised a total charge of £7.5m (2011: £7.3m) in the consolidated income statement, of which £6.2m (2011: £6.4m) related to equity-settled, share-based payment transactions.

Notes to the accounts continued

26. Disposal of businesses

Assets and liabilities held for sale

During the ordinary course of the group's strategic review process, a decision was taken to dispose of the Fusion UV business ('Fusion') to Heraeus Holding GmbH ('Heraeus'), which formed part of the In-line Instrumentation segment. On 18 December 2012 an agreement was signed to sell Fusion for a total cash consideration of US$172m on a debt and cash-free basis, subject to a working capital adjustment. The sale is conditional, amongst other things, upon obtaining normal regulatory clearances in the relevant jurisdictions in which Fusion and Heraeus operate. Thus, as at 31 December 2012, the assets and liabilities of this business are presented in the group's accounts as held for sale and are stated at the lower of their carrying amount and fair value less cost to sell. There was no gain or loss as a result of the classification as held for sale.

On 31 January 2013, Spectris disposed of the Fusion business for a total consideration of US$174m including an estimated working capital adjustment which is expected to be finalised during 2013.

Assets held for sale	Note	2012 £m	2011 £m
Other intangible assets	14	**0.3**	–
Property, plant and equipment	15	**0.8**	–
Deferred tax assets	23	**1.6**	–
Inventory		**5.2**	–
Trade and other receivables		**9.7**	–
		17.6	–

Liabilities held for sale	Note	2012 £m	2011 £m
Trade and other payables		**(5.9)**	–
Current tax liabilities		**(3.1)**	–
Provisions	22	**(0.2)**	–
		(9.2)	–

The Fusion business does not meet the definition of a discontinued operation given in IFRS 5 'Non-Current Assets Held For Sale and Discontinued Operations' and therefore, accordingly, no disclosures in relation to discontinued operations are required.

Cumulative income or expense included in other comprehensive income

There are no cumulative income or expenses included in other comprehensive income relating to the disposal group.

Disposals

The group did not divest any businesses during 2012.

On 1 January 2011, the group divested a sales operation in the Netherlands for a profit of £0.1m. The total consideration was £0.1m net of transaction costs.

Notes to the accounts continued

27. Treasury shares

At 31 December 2012, the group held 7,612,379 treasury shares (2011: 8,634,064). 1,021,685 of these shares were issued to satisfy options exercised by employees which were granted under the group's share schemes (2011: 439,696). No shares were repurchased by the group during the year (2011: nil) and no shares were cancelled during the year (2011: nil).

28. Acquisitions

On 21 February 2012, the group acquired certain of the trade and assets of DCM, a company based in the USA, which extends the group's capabilities in cable testing equipment, for a total consideration of £0.7m. The excess of the fair value of the consideration paid over the fair value of the tangible net assets acquired is represented by technology-based intangibles of £0.6m. This business has been integrated into the In-line Instrumentation segment.

On 6 August 2012, the group acquired 100% of the share capital of NoViSim Limited, a company based in the UK, which extends the group's capabilities in noise and vibration test-based simulation software for the automotive industry, for a total consideration of £2.0m (£1.9m net of cash acquired), including £1.4m contingent on future performance of the business and the completion of certain post-acquisition activities. The excess of the fair value of the consideration paid over the fair value of the tangible net assets acquired is represented by technology-based intangibles and goodwill of £1.8m and £0.4m, respectively. The goodwill arising is considered to represent the value of the acquired workforce and related know-how. This business has been integrated into the Test and Measurement segment.

On 14 December 2012, the group acquired 100% of the share capital of Analytical Spectral Devices Inc, a company based in the USA, which extends the group's capabilities into near-infrared (NIR) instrumentation solutions and application expertise for materials measurement and research, for a total consideration of £16.6m (£16.2m net of cash acquired), including £7.3m contingent consideration which is the expected pay-out and is based on achieving growth in sales targets for the 36-month period ending 31 December 2015. The excess of the fair value of the consideration paid over the fair value of the tangible net assets acquired is represented by technology-based intangibles, customer related intangibles and goodwill of £8.3m, £7.7m and £5.3m, respectively. The goodwill arising is considered to represent the value of the acquired workforce and related know-how. This business has been integrated into the Materials Analysis segment.

The assets and liabilities acquired as a result of the above transactions, together with the aggregate purchase consideration, are summarised below. The revenue and operating profit contribution from the acquisitions in the year to the group's results for the year were £1.2m and £0.4m loss, respectively. Group revenue and operating profit would have been £1,240.0m and £195.2m, respectively, (adjusted operating profit: £229.7m), had each of these acquisitions taken place on the first day of the year.

On an acquisition prior to 1 January 2010, the deferred and contingent consideration has been revised to reflect the decreased earn-out payments amounting to £1.2m that were accrued at 31 December 2011 but are now not required. This resulted in a decrease to goodwill of £1.2m. Deferred and contingent consideration is held within other non-trade payables on the consolidated statement of financial position; there have been no other changes to the fair value of contingent consideration in the year.

Acquisition-related costs of £0.9m (2011: £3.1m) have been recognised in the consolidated income statement under IFRS 3 (Revised) 'Business Combinations' and included within administrative expenses. Acquisition-related costs have been excluded from the adjusted operating profit and acquisition costs paid of £0.7m have been excluded from adjusted operating cash flow (see Note 3).

Notes to the accounts continued

28. Acquisitions continued

The following fair value tables are provisional, reflecting the timing of the acquisitions, and are expected to be finalised within 12 months of the acquisition date.

Net assets acquired under 2012 acquisitions	Book value £m	Adjustments £m	2012 Fair value £m
Intangible fixed assets	0.1	18.3	18.4
Tangible fixed assets	0.4	–	0.4
Deferred tax asset	0.1	–	0.1
Inventories	1.1	(0.2)	0.9
Trade and other receivables	1.5	–	1.5
Trade and other payables	(1.0)	–	(1.0)
Provisions	(0.6)	(0.1)	(0.7)
Deferred tax liabilities	–	(6.5)	(6.5)
Cash	0.5	–	0.5
Net assets acquired	2.1	11.5	13.6
Goodwill			5.7
Total consideration in respect of 2012 acquisitions			19.3
Total consideration			19.3
Adjustment for cash acquired			(0.5)
Net consideration in respect of 2012 acquisitions			18.8

Analysis of cash outflow in the consolidated statement of cash flows	
Total consideration in respect of 2012 acquisitions	19.3
Adjustment for cash acquired on 2012 acquisitions	(0.5)
Deferred and contingent consideration on 2012 acquisitions to be paid in future years	(8.7)
Cash paid in 2012 in respect of 2012 acquisitions	10.1

Prior year acquisitions	
Purchase price adjustment re prior year acquisition*	(0.2)
Deferred and contingent consideration in relation to prior years' acquisitions:	
Accrued at 31 December 2011	5.6
Cash paid in 2012 in respect of prior years' acquisitions	5.4
Net cash outflow relating to acquisitions	15.5

*A reduced purchase price of £0.2m in relation to prior year acquisitions has been received during the year based on updated expectations.

Notes to the accounts continued

28. Acquisitions continued

Due to their contractual due dates, the fair value of receivables acquired (shown above) approximates the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

There are no material contingent liabilities recognised in accordance with paragraph 23 of IFRS 3 (Revised).

None of the goodwill arising on acquisitions in the year is expected to be amortised and deductible for tax purposes.

In accordance with IFRS 3 (Revised), the group has taken advantage of revising the provisional fair values within 12 months of acquisition. The total impact of these changes is a credit of £4.1m to goodwill and has been recorded in the current year as it is not deemed material to either the 2011 or 2012 financial statements.

The following tables represent the finalisation of the fair values relating to the 2011 acquisitions:

Net assets acquired under 2011 acquisitions	Book value £m	Adjustments £m	2011 Fair value £m
Intangible fixed assets	0.2	129.4	129.6
Tangible fixed assets	14.0	19.0	33.0
Deferred tax asset	1.8	(1.6)	0.2
Inventories	30.5	3.9	34.4
Trade and other receivables	20.3	(0.2)	20.1
Trade and other payables	(12.4)	(1.1)	(13.5)
Provisions	(1.2)	(0.8)	(2.0)
Deferred tax liabilities	–	(35.1)	(35.1)
Cash	18.6	–	18.6
Net assets acquired	71.8	113.5	185.3
Goodwill			191.7
Total consideration in respect of 2011 acquisitions			377.0

Analysis of cash outflow in the consolidated statement of cash flows	
Total consideration in respect of 2011 acquisitions	377.0
Adjustment for cash acquired on 2011 acquisitions	(18.6)
Deferred and contingent consideration on 2011 acquisitions to be paid in future years	(4.4)
Working capital adjustment receivable in future years	7.1
Cash paid in 2011 in respect of 2011 acquisitions	361.1

Prior years' acquisitions	
Purchase price adjustment re prior year acquisition*	0.7
Deferred and contingent consideration in relation to prior years' acquisitions:	
Accrued at 31 December 2010	7.2
Cash paid in 2011 in respect of prior years' acquisitions	7.9
Net cash outflow relating to acquisitions	369.0

*An additional purchase price of £0.7m in relation to prior year acquisitions was paid during the prior year based on updated expectations.

Notes to the accounts continued

28. Acquisitions continued

Net assets acquired for significant 2011 acquisitions

Net assets acquired for Omega Engineering	Book value £m	Adjustments £m	2011 Fair value £m
Intangible fixed assets	–	95.6	95.6
Tangible fixed assets	11.4	18.7	30.1
Deferred tax asset	1.3	(1.1)	0.2
Inventories	24.9	3.8	28.7
Trade and other receivables	14.4	(0.1)	14.3
Trade and other payables	(6.6)	(0.5)	(7.1)
Provisions	–	(1.7)	(1.7)
Deferred tax liabilities	–	(33.0)	(33.0)
Cash	13.5	–	13.5
Net assets acquired	58.9	81.7	140.6
Goodwill			170.0
Total consideration			310.6
Adjustment for cash acquired			(13.5)
Net consideration			297.1

Net assets acquired for Sixnet	Book value £m	Adjustments £m	2011 Fair value £m
Intangible fixed assets	0.2	23.4	23.6
Tangible fixed assets	1.5	(0.1)	1.4
Deferred tax asset	0.5	(0.5)	–
Inventories	3.1	0.1	3.2
Trade and other receivables	4.2	(0.1)	4.1
Trade and other payables	(3.5)	–	(3.5)
Provisions	(0.1)	–	(0.1)
Deferred tax liabilities	–	(0.8)	(0.8)
Cash	0.9	–	0.9
Net assets acquired	6.8	22.0	28.8
Goodwill			18.6
Total consideration			47.4
Adjustment for cash acquired			(0.9)
Net consideration			46.5

Notes to the accounts continued

29. Contingent liabilities

Royal Bank of Scotland
Spectris plc and its UK subsidiaries are party to a cross-guarantee arrangement to support trade finance facilities provided by the bank. They are also party to a cross-guarantee arrangement that allows individual subsidiaries to borrow from the bank on overdraft within the overall borrowing limit agreed with the bank. Spectris plc has provided a parent company guarantee to support trade finance facilities provided by the bank to its subsidiaries in various countries outside of the UK and USA. Spectris plc has also provided a parent company guarantee to support overdraft and intra-day facilities provided by the bank to its subsidiaries who participate in the cross-border euro zero-balance pooling arrangement. An amount of £15.1m (2011: £15.3m) was outstanding at 31 December 2012.

JP Morgan Chase NA
Spectris plc has provided a parent company guarantee to JP Morgan Chase NA to support trade finance facilities provided by the bank to its subsidiaries in the USA. An amount of £0.3m (2011: £0.9m) was outstanding at 31 December 2012.

Other banks
Group companies have, in the normal course of business, provided bonds and guarantees through local banking arrangements amounting to £8.1m (2011: £9.0m).

Legal
Refer to Note 22 'Provisions'.

30. Operating lease arrangements

	2012		2011	
Total commitments under non-cancellable operating leases	**Property £m**	**Other £m**	Property £m	Other £m
Not later than one year	**11.3**	**4.4**	9.6	3.4
Later than one year and not later than five years	**25.9**	**4.9**	26.4	6.2
Later than five years	**5.5**	**–**	5.6	–
	42.7	**9.3**	41.6	9.6

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

During the year £13.9m (2011: £10.8m) was recognised in the consolidated income statement in respect of operating lease rental payments.

31. Capital commitments

At 31 December 2012, the group had entered into contractual commitments for the acquisition of property, plant and equipment and software amounting to £2.0m (2011: £3.1m) which have not been accrued.

32. Related party transactions

Key management personnel are defined for the purpose of disclosure under IAS 24 'Related Party Disclosures' as the members of the Board of directors as identified on pages 42 and 43. It is the Board of directors who have responsibility for planning, directing and controlling the activities of the group. Details of the directors' remuneration are included in the directors' remuneration report on pages 52 to 66.

Notes to the accounts continued

33. Subsidiary undertakings

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

Spectris plc holds 100% of the ordinary share capital of all the subsidiaries either directly or indirectly through intermediate holding companies.

	Country of incorporation
Brüel & Kjær EMS Pty Ltd (formerly Lochard Limited)	Australia
Spectris China Limited	China
Brüel & Kjær Sound & Vibration Measurement A/S	Denmark
Brüel & Kjær Vibro A/S	Denmark
Hottinger Baldwin Messtechnik GmbH	Germany
Spectris Company Limited	Japan
BTG Eclépens SA	Switzerland
PANalytical BV	The Netherlands
Malvern Instruments Limited	UK
Servomex Group Limited	UK
Brüel & Kjær VTS Limited (formerly LDS Test and Measurement Limited)	UK
Beta LaserMike Inc	USA
Fusion UV Systems Inc	USA
Microscan Systems Inc	USA
NDC Infrared Engineering Inc	USA
Particle Measuring Systems Inc	USA
Red Lion Controls Inc	USA
Omega Engineering Inc	USA
Sixnet Holdings LLC	USA

34. Post balance sheet events

On 31 January 2013, Spectris disposed of the Fusion UV business for a total consideration of US$174m including an estimate of the working capital adjustment which is expected to be finalised during 2013.

Company balance sheet

As at 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Intangible fixed assets	37	**0.9**	1.1
Tangible fixed assets	38	**3.3**	2.1
Fixed asset investments	39	**255.0**	251.4
		259.2	254.6
Current assets			
Debtors	40	**407.7**	498.9
Cash at bank		**1.3**	5.3
		409.0	504.2
Creditors: due within one year			
Other creditors	41	**(173.0)**	(130.7)
Net current assets		**236.0**	373.5
Debtors: due after more than one year			
Debtors	42	**295.4**	307.3
Total assets less current liabilities		**790.6**	935.4
Creditors: due after more than one year			
Medium- and long-term borrowings	43	**(319.7)**	(429.4)
Derivative financial instruments	44	**(12.6)**	(12.8)
		(332.3)	(442.2)
Provisions for liabilities and charges	45	**(2.0)**	(2.7)
Net assets		**456.3**	490.5
Capital and reserves			
Called up share capital	46	**6.2**	6.2
Share premium account	47	**231.4**	231.4
Merger reserve	47	**3.1**	3.1
Capital redemption reserve	47	**0.3**	0.3
Special reserve	47	**34.1**	34.1
Profit and loss account	47	**181.2**	215.4
Equity shareholders' funds		**456.3**	490.5

The financial statements on pages 118 to 124 were approved by the Board of directors on 20 February 2013 and were signed on its behalf by:

Clive Watson
Group finance director

Company Registration No. 2025003

Notes to the company accounts

35. Accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. In accordance with the exemption provided by Section 408 of the Companies Act 2006, the company has not presented its own profit and loss account.

The company has taken the exemption available in respect of the requirements of FRS 29, 'Financial Instruments: Disclosures'.

Basis of accounting
The accounts are prepared on the historical cost basis, except that derivative financial instruments are stated at fair value as described below.

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

Cross-currency interest rate swaps
The company takes advantage of cross-currency interest rate swaps for some of its US dollar-denominated private placement borrowings. The swaps have the effect of converting fixed-rate US dollar borrowings into fixed-rate euro-denominated borrowings.

The underlying US dollar borrowings are required to be presented separately in the balance sheet from the cross-currency interest rate swaps. In addition, the fair value of the cross-currency interest rate swap is required to be recognised in full on the balance sheet. All changes in value are recognised in the profit and loss account.

Financial guarantees
Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements 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.

Foreign currencies
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 profit and loss account. 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.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at historic cost.

Depreciation is calculated to write off the difference between the cost or valuation of fixed assets and their residual value over their estimated useful lives on a straight-line basis. Land is not depreciated. Estimated useful lives are as follows:

- Freehold property – 20 to 40 years
- Leasehold improvements – over the period of the lease
- Office equipment – 3 to 5 years

Intangible fixed assets and amortisation
Intangible fixed assets purchased by the company are capitalised at their cost.

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

- Software – 3 to 5 years

Fixed asset investments
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Trade and other receivables
Trade and other receivables are initially recognised at fair value and subsequently measured at their amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Notes to the company accounts continued

35. Accounting policies continued

Trade and other payables
Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred Tax'.

Leasing
Annual payments under operating leases are charged to the profit and loss account on an accruals basis.

Post-retirement benefits
The company participates in group-operated, defined contribution and defined benefit pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The company is unable to identify its share of the group defined benefit scheme's underlying assets and liabilities and therefore accounts for it as a defined contribution scheme. The amounts charged against profits represent contributions payable to the schemes in respect of the accounting year.

Share-based payments
The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled, share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity. In cases where a subsidiary is recharged for the share-based payment expense, no such increase in investment is recognised.

Cash flow statement
The company has not presented a separate cash flow statement in accordance with the exemption provided by FRS 1 (Revised) 'Cash Flow Statements', as its cash flows are included within the cash flows of the group, as set out elsewhere in this annual report.

36. Employee costs and other information

Employee costs, including directors' remuneration	2012 £m	2011 £m
Wages and salaries	**6.3**	6.1
Social security costs	**2.8**	2.0
Defined benefit pension plans	**0.8**	1.6
Defined contribution pension plans	**0.2**	0.3
Share-based payment expense	**1.8**	1.7
	11.9	11.7

	2012 Number	2011 Number
Average number of employees	**37**	33

Directors' remuneration
Further details of directors' remuneration and share options are given in Note 7 to the group's consolidated financial statements and in the directors' remuneration report on pages 52 to 66.

Auditor's fees
Details regarding the remuneration of the company's auditor are included in Note 6 to the group's consolidated financial statements under 'Fees payable to the company's auditor for the audit of the company's annual accounts'.

Notes to the company accounts continued

37. Intangible fixed assets

Cost	Software costs £m
At 1 January 2012	**2.9**
Additions	**0.4**
At 31 December 2012	**3.3**
Amortisation	
At 1 January 2012	**1.8**
Charge for the year	**0.6**
At 31 December 2012	**2.4**
Net book value	
At 31 December 2012	**0.9**
At 31 December 2011	1.1

38. Tangible fixed assets

Cost	Freehold property £m	Leasehold improvements £m	Office equipment £m	Total £m
At 1 January 2012	**1.9**	**0.5**	**0.6**	**3.0**
Additions	**1.3**	**–**	**0.1**	**1.4**
Disposals	**–**	**(0.5)**	**(0.2)**	**(0.7)**
At 31 December 2012	**3.2**	**–**	**0.5**	**3.7**
Depreciation				
At 1 January 2012	**–**	**0.4**	**0.5**	**0.9**
Charge for the year	**0.1**	**0.1**	**–**	**0.2**
Disposals	**–**	**(0.5)**	**(0.2)**	**(0.7)**
At 31 December 2012	**0.1**	**–**	**0.3**	**0.4**
Net book value				
At 31 December 2012	**3.1**	**–**	**0.2**	**3.3**
At 31 December 2011	1.9	0.1	0.1	2.1

39. Fixed asset investments

Cost	Investments in subsidiary undertakings £m
At 1 January 2012	**321.0**
Additions	**3.6**
At 31 December 2012	**324.6**
Provision for impairment	
At 1 January 2012	**69.6**
At 31 December 2012	**69.6**
Net book value	
At 31 December 2012	**255.0**
At 31 December 2011	251.4

Further details regarding the investments in subsidiaries are given in Note 33 to the group's consolidated financial statements.

Notes to the company accounts continued

40. Debtors

Amounts falling due within one year	2012 £m	2011 £m
Amounts owed by group undertakings	**400.1**	493.1
Other debtors	**0.6**	0.3
Prepayments and accrued income	**2.3**	2.6
Corporation tax	**3.4**	1.2
Deferred tax asset	**1.3**	1.5
Derivative financial instrument	**–**	0.2
	407.7	498.9

Derivative financial instrument asset represents the value of forward exchange contracts at the year end. Further details regarding the company's forward exchange contracts are set out in Note 20 of the group's consolidated financial statements.

41. Creditors: due within one year

	2012 £m	2011 £m
Amounts owed to group undertakings	**166.1**	122.2
Accruals and deferred income	**6.9**	8.5
	173.0	130.7

Further details regarding the company's borrowings are set out in Note 19 of the group's consolidated financial statements.

42. Debtors: due after more than one year

	2012 £m	2011 £m
Medium- and long-term debtors:		
Amounts owed by group undertakings	**295.4**	307.3
	295.4	307.3

43. Creditors: due after more than one year

	2012 £m	2011 £m
Medium- and long-term borrowings:		
Amounts owed to group undertakings	**37.6**	45.9
Unsecured bank loans	**200.3**	298.3
Unsecured loan notes	**81.8**	85.2
	319.7	429.4

Further details regarding the company's borrowings are set out in Note 19 of the group's consolidated financial statements.

44. Derivative financial instruments

	2012 £m	2011 £m
Cross-currency interest rate swaps	**12.5**	12.8
Derivative financial instrument	**0.1**	–
	12.6	12.8

Derivative financial instrument liability represents the value of forward exchange contracts at the year end. Further details regarding the company's cross-currency interest rate swaps and forward exchange contracts are set out in Note 20 of the group's consolidated financial statements.

Notes to the company accounts continued

45. Provisions for liabilities and charges

	£m
At 1 January 2012	2.7
Utilised during the year	(0.7)
At 31 December 2012	**2.0**

Provisions represent the directors' best estimate of settling various potential claims against the company arising in the ordinary course of business.

46. Share capital

	2012		2011	
	Number of shares	£m	Number of shares	£m
Authorised:				
Ordinary shares of 5p each	**210.0**	**10.5**	210.0	10.5
Issued and fully paid:				
At 1 January	**125.0**	**6.2**	125.0	6.2
At 31 December	**125.0**	**6.2**	125.0	6.2

No ordinary shares were issued upon exercise under share option schemes during the year (2011: nil).

Share options have been granted to subscribe for ordinary shares of Spectris plc. Full details of share options currently in issue, including those issued during the year, together with information regarding the basis of calculation of the share-based payment expense, is contained in Note 25 to the group's consolidated financial statements.

The company recognised total expenses of £1.8m related to equity-settled share-based payment transactions in 2012 (2011: £1.7m). In addition, the company recognised a charge of £4.4m (2011: £4.7m) related to equity-settled, share-based transactions for certain employees of other group companies.

47. Reserves

	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Total £m
At 1 January 2012	231.4	3.1	0.3	34.1	215.4	484.3
Profit for the year	–	–	–	–	4.7	4.7
Equity dividends paid	–	–	–	–	(45.6)	(45.6)
Share-based payments	–	–	–	–	6.2	6.2
Share options exercised from own shares (treasury) purchased	–	–	–	–	0.5	0.5
At 31 December 2012	**231.4**	**3.1**	**0.3**	**34.1**	**181.2**	**450.1**

The purpose of the merger reserve and capital redemption reserve is detailed in Note 24 of the group's consolidated financial statements. The special reserve was created historically following the cancellation of an amount of share premium for the purpose of writing off goodwill. The special reserve is not distributable.

48. Reconciliation of movement in equity shareholders' funds

	2012 £m	2011 £m
Profit for the year	**4.7**	30.0
Equity dividends paid in the year	**(45.6)**	(33.8)
Share-based payments	**6.2**	6.4
Share options exercised from own shares (treasury) purchased	**0.5**	0.5
Net (decrease)/increase in equity shareholders' funds	**(34.2)**	3.1
Opening equity shareholders' funds	**490.5**	487.4
Closing equity shareholders' funds	**456.3**	490.5

Notes to the company accounts continued

49. Pensions

The company operates the Spectris Pension Plan, a UK defined benefit pension plan that is closed to new members. Further details of the Spectris Pension Plan are contained in Note 8 to the group's consolidated financial statements. The company is unable to identify its share of the Plan's underlying assets and liabilities and therefore accounts for the Plan as a defined contribution scheme. In accordance with the schedule of contributions in place for the Spectris Pension Plan for the financial year ended 31 December 2012, employer contributions were £1.6m per annum. The actuary certified in 2012 that this level of contribution was adequate for the purposes of securing the statutory funding objective. Contributions paid in the year to the Spectris Pension Plan were £0.8m (2011: £1.6m) and the final shortfall was fully paid during the year. As a result, the decision was made to cease contributions from 1 July 2012. Contributions paid in the year to defined contribution plans were £0.2m (2011: £0.3m). The Enhanced Transfer Value exercise undertaken in 2011, for certain UK deferred members with a prospective pension entitlement of less than £1,000 per annum, was completed this year and the total cost was £0.3m.

50. Related party disclosures

The company has taken advantage of the exemption under FRS 8, 'Related Party Disclosures', not to disclose related party transactions between the company and wholly-owned subsidiaries.

There are no material transactions with directors and other related parties of the company except those relating to remuneration and share dealing disclosed in the director's remuneration report, enclosed within this annual report.

51. Commitments

	Land and buildings	
Annual commitments for operating leases expiring	**2012 £m**	2011 £m
Between one to two years	–	0.2

52. Contingent liabilities

There are no contingent liabilities as at the year end. The cross guarantee arrangements to support trade finance facilities are stated in Note 29 of the group's consolidated financial statements.

Shareholder information

Financial calendar

Annual general meeting and Interim management statement	19 April 2013
Record date for 2012 final dividend	31 May 2013
2012 final dividend payable	26 June 2013
2013 interim results	26 July 2013
Interim management statement	18 October 2013
2013 preliminary results	February 2014

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Cléa Rosenfeld

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The registrars provide a range of shareholder services online at *www.shareview.co.uk*

Share price information
The company's ordinary shares are listed on the London Stock Exchange. The latest share price is available via the company's website at *www.spectris.com*

Email news service
To receive details of press releases and other announcements as they are issued, register with the email alert service on the company's website at *www.spectris.com*

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