Spectris plc
Annual Report and Accounts 2013

Interactive PDF

User guide
This PDF allows you to find information and navigate around this document more easily.

Links in this PDF
Words and numbers that are underlined are links – clicking on them will take you to further information within the document or to a web page (which opens in a new window) if they are a url (e.g spectris.com).

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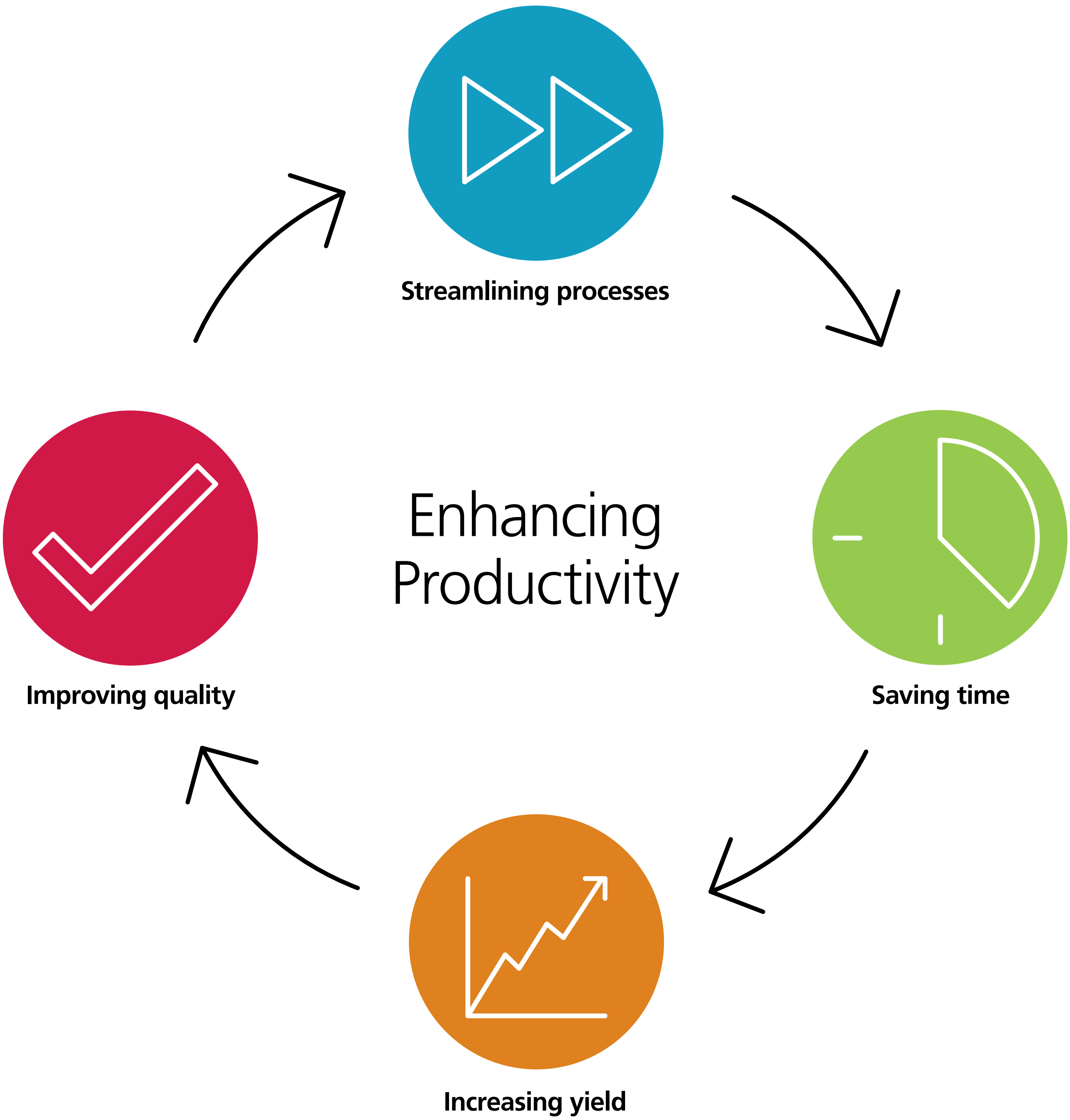

Streamlining processes
Enhancing Productivity
Improving quality
Saving time
Increasing yield

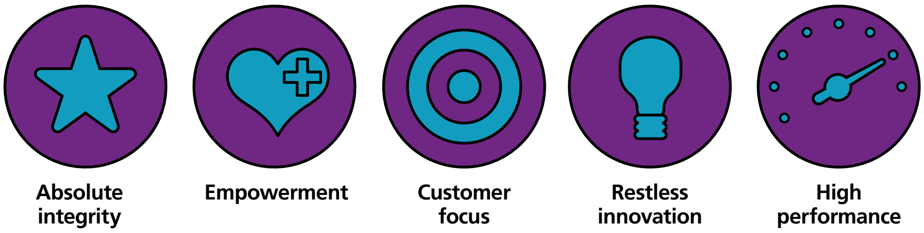
Who we are

Spectris is a leading supplier of productivity-enhancing instrumentation and controls. Our businesses are leaders in the markets they serve, with recognised brands and award-winning products.

Our values

The way we work is underpinned by our values, providing a framework which all of our people understand and respect.

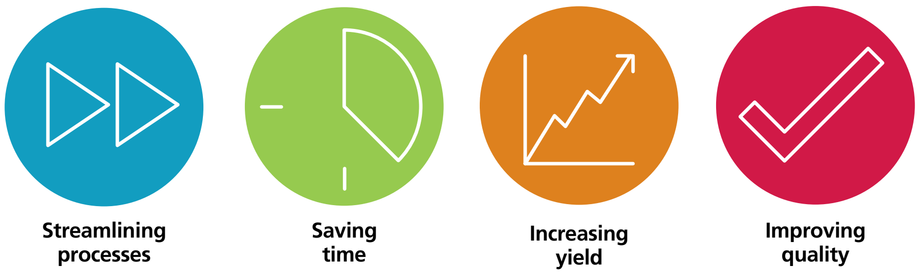
Read more about our values and Code of Business Ethics
Page 26



What we do

We make highly-specialised measuring instruments and controls for some of the most technically demanding industrial applications. Our products and services aim to enhance customers' productivity by helping them to work better, faster, and more efficiently.

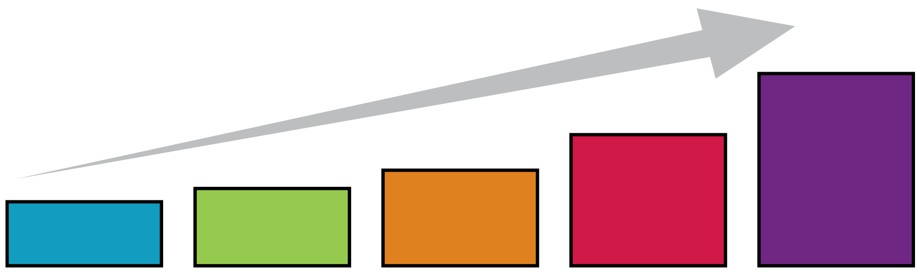
Read more about our approach
Page 12



How we do it

With a workforce of highly-skilled people, we continue to develop creative solutions that give our customers a distinct competitive edge. We also grow our business through acquisitions.

Read more about our strategy
Page 14



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

Links to pages within our website

Quick read summary

Links to pages within this report

Key highlights

Read more online, or download the interactive PDF
www.spectris.com

Integrated reporting

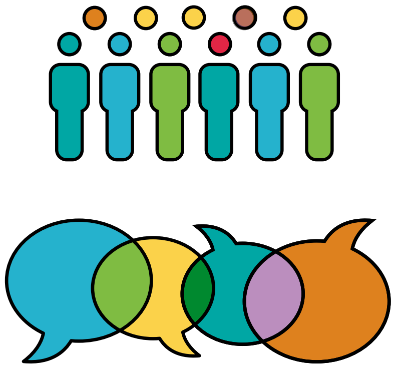
Corporate responsibility information is integrated throughout our Annual Report and Accounts. This reflects how managing our environmental, economic and social impacts is central to how we do business. It also provides readers with greater clarity on the relationship between our financial and non-financial key performance indicators.

Who our customers are

We serve a broad spectrum of blue-chip customers across all key manufacturing industries.

We work closely with them, adapting our technology to meet their needs. We also provide aftermarket service in the form of maintenance, training and consultancy support, and consumables.

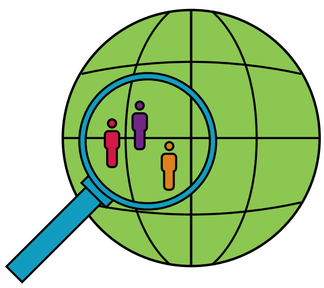
Read more about our customers
Page 3



Where we are

We are headquartered in the UK and have around 7,400 people in over 30 countries worldwide. Our people have unparalleled know-how and expertise in their chosen fields and our global network of sales offices and technical centres provides local delivery and service for our customers, wherever they are based.

Read more about our businesses
Page 28



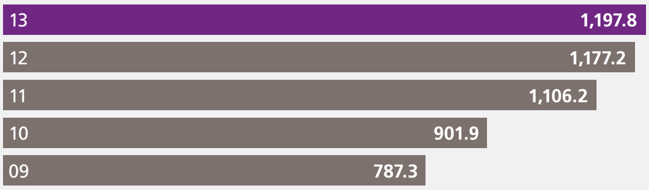
Highlights

We are pleased with the performance of the business in 2013 despite unpredictable trading conditions.

- Good performance in challenging markets with improved conditions in H2
- R&D investment in Materials Analysis generates new products
- Omega international expansion proceeding well
- Adjusted earnings per share up 2%
- Net debt reduced by £150 million to £104 million
- Dividend up by 10%

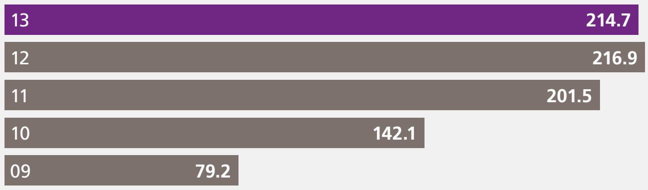
Sales, up 2%

£m



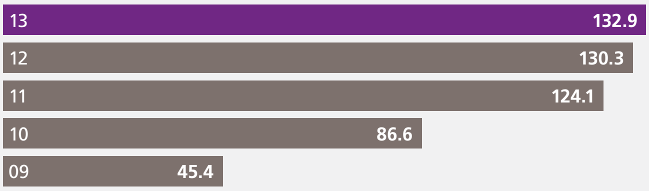
Adjusted operating profit, down 1%

£m



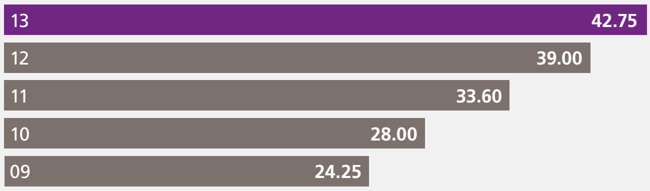
Adjusted earnings per share, up 2%

pence



Dividend, up 10%

pence



The adjusted performance measures represent the statutory results excluding certain non-operational items and the trading results and impact of disposal of the Fusion UV business on 31 January 2013. The sales and adjusted measures above exclude Fusion for 2013 and 2012 but years prior to 2012 have not been restated.

Key highlights

Strategic Report
Governance
Financial Statements

Meeting our Customers' Needs

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

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.

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 to adapt our technology to meet their needs. In fact, most of our new products have benefited from detailed feedback from our customers in both the early and final stages of development.

After the initial product sale, we provide a range of aftermarket services including maintenance, training, consultancy support, and consumables. In 2013, aftermarket service represented 25% of total Group sales.

2013 sales by end-user market

Percentage total Group reported sales

Automotive and aerospace	12%
Metals, minerals and mining	11%
Pharmaceuticals and fine chemicals	11%
Semicon, telecoms, electronics	9%
Academic research	9%
Energy and utilities	9%
Pulp and paper	8%
Machine building	8%
Other, including distribution	23%

2013 sales by region

Percentage total Group reported sales

Europe	32%
North America	31%
Asia Pacific	30%
Rest of the world	7%

Streamlining processes

For leading metal refineries

Faster analysis

PANalytical's X-Ray analysis equipment is used to determine the purity of fine gold. The system enables faster analysis time with lower labour costs and can be run unattended, minimising the exposure of staff to lead oxide waste, a toxic by-product of the alternative fire assay method.

CLIENT: THE PERTH MINT
BUSINESS SEGMENT: MATERIALS ANALYSIS

Read more on Materials Analysis
Page 28

Saving time

In the aerospace industry

Speeding up time to market

HBM's optical strain gauges saved a significant amount of time in structural testing of new wing designs in the development of small to medium-sized jet passenger aircraft.

CLIENT: JAPAN AEROSPACE EXPLORATION AGENCY
BUSINESS SEGMENT: TEST AND MEASUREMENT

Read more on
Test and Measurement
Page 30

Increasing yield

In the energy industry

Improved process efficiency

Installation of a SERVOPRO 4900 Continuous Emissions Analyser in a network of Russian pumping stations has optimised turbine performance, while keeping pollution under control. Servomex customer Spektr installed the analysers for Gazprom, who benefited from the improved process efficiency whilst reducing costs and emissions.

CLIENT: SPEKTR MOSCOW
BUSINESS SEGMENT: IN-LINE INSTRUMENTATION

Read more on In-line Instrumentation
Page 32

Improving quality

In the food and drink industry

100% traceability

Microscan's vision technology helped Del Monte Foods to increase overall traceability of its products, resulting in cost savings for the company and better quality products for the consumer.

CLIENT: DEL MONTE FOODS
BUSINESS SEGMENT: INDUSTRIAL CONTROLS

Read more on Industrial Controls
Page 34

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 corporate 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 as well as academic research applications. We also provide test and measuring equipment for research and development applications.

Materials Analysis

Materials Analysis provides products that enable customers to determine structure, composition, quantity and quality of particles and materials, during their research and product development processes, when assessing materials before production, or during the manufacturing process. Our products help customers to improve accuracy and speed of materials analysis in the laboratory. We see a growing demand for the application of our solutions in quality and process control.

Sales
£362.4m
2012: £348.1m

Operating profit
£63.3m
2012: £63.0m

Industries:
Metals, minerals & mining
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. 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 the consumer electronics industry, our equipment and software enable customers to refine the performance and accuracy of their products and to test them in the production process. In the environmental monitoring market, the desire for higher standards of community comfort is creating additional demand.

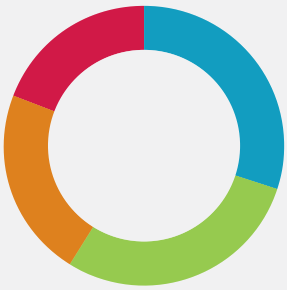
Sales
£348.7m
2012: £345.4m

Operating profit
£54.8m
2012: £55.4m

Industries:
Automotive
Aerospace
Consumer electronics
Environmental noise monitoring

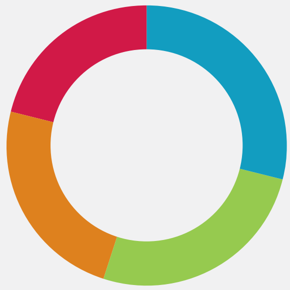
Operating companies:
Brüel & Kjær Sound & Vibration
HBM

Group sales



	%
Materials Analysis	30
Test and Measurement	29
In-line Instrumentation	22
Industrial Controls	19

Group profit



	%
Materials Analysis	29
Test and Measurement	26
In-line Instrumentation	24
Industrial Controls	21

Sales are reported. Operating profit is adjusted.

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*
£265.7m
2012: £266.5m

Operating profit*
£51.2m
2012: £52.3m

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

Operating companies:
Beta LaserMike
Brüel & Kjær Vibro
BTG
NDC Infrared Engineering
Servomex

Industrial Controls

Industrial Controls provides products and solutions that measure, monitor, control, inform, track, and trace during the production process. Sales in this segment are mainly financed through customers' operating expenditure budgets, so this segment is the least exposed to the industrial capital expenditure cycle.

Sales
£221.0m
2012: £217.2m

Operating profit
£45.4m
2012: £46.2m

Industries:
General manufacturing
Industrial distributors
Machine builders

Operating companies:
Microscan
Omega Engineering
Red Lion Controls

* Excludes Fusion UV.

Chairman's and Chief Executive's Review

We are pleased with the performance of the business in 2013 despite unpredictable trading conditions. During 2014, we will continue to invest in our key growth programmes, new product pipeline and R&D.

John O'Higgins
Chief Executive

John Hughes
Chairman

Results overview

Trading and macro-economic conditions were unpredictable throughout the year, but we are pleased with the overall performance of the business. The trading conditions experienced in the second half of the year were encouraging. Operating margins remained robust, thanks largely to a stable pricing environment and our ability to manage our discretionary cost base. Despite challenging markets, we maintained our key growth programmes, including an accelerated R&D budget to position our Materials Analysis businesses for growth in the pharmaceutical and material science sectors, and the continuing international expansion of the Omega Engineering business. We maintained our strategic focus across the Group, including strengthening our presence in developing high growth regions of the world and launching new products and applications across the portfolio. Acquisition activity was less than usual with three bolt-on acquisitions completed, including two within the Materials Analysis segment.

Reported sales* grew by 2% to £1,197.8 million (2012: £1,177.2 million) with equal contributions, of just under 1% each, coming from acquisitions and foreign currency exchange movements. As a result, on a constant currency organic basis (like-for-like), sales for 2013 were broadly flat. On a reported basis, adjusted operating profit** declined by 1% to £214.7 million (2012: £216.9 million) and like-for-like operating profit decreased by 3%. Operating margins declined by 0.5 percentage points to 17.9%, principally as a consequence of adverse product mix. Interest charges were down in the year due to reduced debt levels, with the net result that profit before tax increased by 1% from £204.3 million to £205.6 million.

Regionally, sales to Europe grew 2% on a like-for-like basis, Asia Pacific increased 1% while North America declined 3%, mainly due to deferral of orders and a general lack of investments in academic research. Sales in the rest of the world grew by 4% with good trading activity recorded in South America and Africa. We exited the year with a strong performance in Asia Pacific and saw tentative signs of improvement in North America with fourth quarter sales up by 2%. Sales of aftermarket service and consumables grew by 7% on a like-for-like basis, and increased as a percentage of total revenue from 23% to 25%. More detail on the contribution made by each of the strategic segments can be found in the Operating Review on pages 28 to 35.

Financial position and dividend

Operating cash flow was solid with 86% of our operating profit being converted into cash and this, combined with the post-tax proceeds received on the sale of our Fusion UV business, resulted in net debt being reduced by £150.0 million. At the end of December 2013, our net debt stood at £104.1 million, just over 0.4 times the EBITDA of £236.3 million.

The Board is proposing to pay a final dividend of 28.0 pence per share which, combined with the interim dividend of 14.75 pence per share, gives a total of 42.75 pence per share for the year, an increase of 10%. The dividend is covered 3.1 times. This is consistent with our policy of making progressive dividend payments based upon affordability and sustainability. The dividend will be paid on 25 June 2014 to shareholders on the register at the close of business on 30 May 2014.

Strategy

We have a clearly defined strategy and made good progress against our objectives during the year. We continued to invest in new product development, increasing our R&D spend by 6% to £88.1 million (+4% like-for-like increase over 2012). Most of this increase was channelled to our Materials Analysis segment with a 12% like-for-like increase in R&D spend to address the growth opportunities identified 18 months ago. We are starting to see the benefits of this initiative with new products launched towards the end of the year and more are scheduled in 2014. We also launched new products across our other three segments which strengthen our market positions.

Our regional expansion programme in emerging markets continued as we increased our direct presence in a number of emerging markets including Indonesia, the Middle East and Brazil. We established a legal entity in Russia with a new office in Moscow to support our recently-established direct selling operation in the region. On the back of its highly successful launch in China in 2012, our Omega business expanded its presence in a number of other new territories including Korea, Singapore, Brazil and Mexico. We also opened a new office in Japan in January 2014.

Management and Board

After 20 years at Spectris, Jim Webster announced his intention to retire from his role as Business Group Director at the end of the first half of 2014. Additionally, Steve Blair gave notice of his intention to resign from the Company to join e2v technologies as Chief Executive and left the Board on 25 February 2014.

Eoghan O'Lionaird joined us on 3 February 2014 and will assume Jim Webster's responsibilities for the Materials Analysis and Test and Measurement segments. During the second quarter of 2014, at a date to be confirmed, Jo Hallas will join the Executive team as Business Group Director for the In-line Instrumentation and Industrial Controls segments. Both Eoghan and Jo come to Spectris with a wealth of worldwide management experience within the engineering sector.

Following Jeremy Morcom's departure earlier in 2013, we welcomed Robin Stopford last September to the Executive team, as Head of Corporate Development.

We thank Jim, Steve and Jeremy for their valuable contributions to Spectris.

Spectris' values

Our values are central to Spectris, guiding our decision-making and ensuring that we always comply with the highest standards, wherever we are in the world. 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. We want our employees to feel empowered to contribute to the growth of our group and we have created a culture of integrity that thrives on high performance. We believe that our values are pivotal to our success and growth and this has been demonstrated by the relentless commitment given by all our employees across the globe during the year.

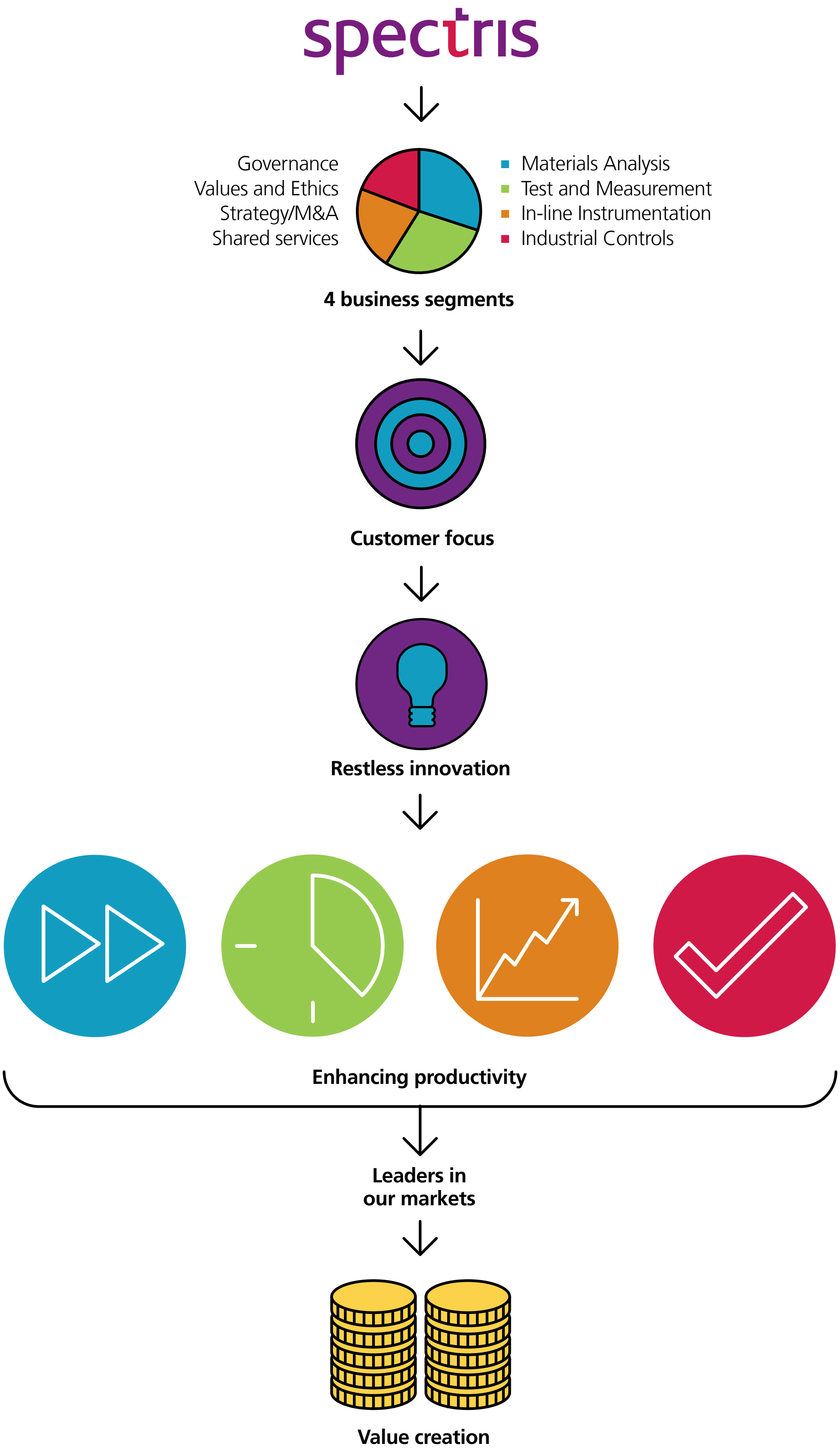
Summary and outlook

We are pleased with the performance of the business in 2013 despite unpredictable trading conditions. During 2014, we will continue to invest in our key growth programmes, new product pipeline and R&D. In addition, as previously highlighted, a return to sustainable growth will lead to a gradual reversal of the discretionary cost savings made in 2013. Overall, our broad geographic and end-market exposures, strong financial position, and on-going investment in the business provide the Board of Spectris with confidence that the Company is well positioned for 2014 and beyond.

* The numbers stated in this report have been restated to exclude the trading results and impact of the disposal of the Fusion UV business which was disposed of on 31 January 2013.
** Unless otherwise stated, figures quoted for operating profit, net interest, profit before tax, tax, earnings per share and operating cash flow are adjusted measures – for an explanation of adjusted figures and reconciliation to the statutory reported figures see Note 3 to the Financial Statements.

Our Business Model

We believe that our business model is a key differentiator, allowing our businesses to be responsive to the market and to develop strategies specific to their customers' needs.



Spectris Group
- Governance
- Values and Ethics
- Strategy/M&A
- Shared services

Four business segments
- Strong management
- P&L ownership
- Speed and flexibility
- Asset-light manufacturing

Customer focus
- Long-term relationships
- Differentiated solutions
- Mainly direct routes to market
- Aftermarket care

Restless innovation
- High barriers to entry
- Deep expertise and application knowledge

Enhancing productivity
- Streamlining processes
- Saving time
- Increasing yield
- Improving quality

Leaders in our markets
- Specialised end markets
- Limited pricing pressure
- Breadth of geographies

Value creation
- Highly cash generative
- Operational excellence
- Sustainability

We believe that our business model is a key differentiator. Our management teams all work according to a strong common framework of values, management KPIs, financial controls and risk management processes but each business is focused on its own products, markets and customers. It allows the businesses to be responsive to the market and to develop strategies specific to their customers' needs. Our model is based on direct routes to market and, with a significant proportion of our employees involved in direct contact with our customers, we pride ourselves on building long-term business relationships.

Spectris Group

The Spectris Board and Executive Management provide strategic direction, oversight and central support in certain areas such as legal, tax, treasury and corporate development, as well as managing the central purchasing function. Each business is focused on the relevant technologies, products and services for customers in their chosen markets whilst still being able to take full advantage of being part of a larger organisation. Our values define how we operate and are essential to our business success. 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. We have a disciplined approach to mergers and acquisitions, actively screening for bolt-on opportunities that could enhance our existing operating companies as well as for new stand-alone businesses within the Group.

Our operating companies manage all aspects of their financial performance, including costs and cash, carefully. We provide central support for purchasing and other supply chain initiatives which can be beneficial to the majority of our operating companies.

Four business segments

Spectris comprises four strategic segments which reflect the end-user industries and applications we serve. We believe that our operating company structure is a key differentiator. It allows our management teams to be more flexible, more inventive, and to anticipate or react to changing customer and market needs. Our entrepreneurial culture offers a creative and collaborative working environment within a well-defined control framework, enabling fully aligned accountability. Our business is not capital intensive and we outsource much of our manufacturing where suppliers can deliver high quality at a competitive cost. Contracting out lower value-added tasks such as component production and assembly ensures that we can concentrate on the areas where we have market-leading expertise and competitive advantage, such as R&D, product design, application know-how and functional testing.

Customer focus

We employ over 3,000 highly-qualified people who work directly with customers, representing almost 40% of our total workforce. This gives us a deep understanding of our customers' businesses 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 who have purchased from us in the preceding two years. We work alongside our customers – often within their plants – in order to help install our products and ensure that the maximum benefits are achieved. This proximity can be the inspiration for new products and we often involve key customers in the development and testing phases. We offer a full range of services for our products, including installation, training, technical support, calibration and maintenance.

Restless innovation

We invest around 7% of sales each year in R&D. New products serve to protect our market position and enhance organic growth by providing innovative solutions to customers' problems. Our businesses develop appropriate strategies to protect and maximise the value of this technology. Bolt-on acquisitions provide an alternative route to new technology and many of our smaller acquisitions bring new products and the associated inventors.

Enhancing productivity

Our businesses focus on value-enhancing solutions for our customers. Many of these involve a focus on improving our customers' development and manufacturing processes, with a tangible and measurable return on investment delivered by our products and services. Shortening development cycles, improving design quality, enhancing manufacturing yield, minimising input costs, and improving factory productivity through automation and measurement are all typical applications of our products.

Leaders in our markets

We aspire to be leaders in the markets we serve. We focus on niche markets with high barriers to entry that include proprietary technology, in-house engineering know-how, customer process application expertise and global service capability. Our businesses serve major global manufacturing industries around the world and we derive significant revenues from industrialising economies.

Value creation

Our strategy and KPIs, as set out on pages 14 to 17, are aimed at profitable growth and generating strong free cash flow. This is central to creating long-term value for all stakeholders. We achieve these results through our focus on our strategic initiatives, operational and leadership capabilities, and enhancing productivity for our customers. By operating according to our core values of absolute integrity, empowerment, customer focus, restless innovation and high performance, we believe that our business model will continue to provide sustainable returns for the foreseeable future.

Strategy and Objectives

Our objective is to deliver shareholder value sustainably over the long term by supplying productivity-enhancing solutions for our customers.

Our strategy is based on five core elements:

1. Strengthening market positions through innovation
2. Increasing regional expansion with a focus on emerging markets
3. Building our presence in key strategic growth areas, both organically and through acquisition
4. Growing existing businesses through acquisition
5. Focusing on operational excellence

The progress we made on our strategic objectives during 2013 is summarised below:

Strategic objective	Overview	Progress
1. Strengthening market positions through innovation	Innovation is at the heart of our business and we invest around 7% of sales each year in maintaining that competitive advantage.	■ £88.1 million invested in research and development (approx 7% of sales), a like-for-like increase of 4% over 2012. ■ Investments in the Materials Analysis segment represented 34% of our total R&D investment, a like-for-like increase of 12%. ■ First new products launched from our additional investment programme in the Materials Analysis segment. ■ New technologies and applications launched across the Group to strengthen our leading positions in our chosen markets.
2. Increasing regional expansion with a focus on emerging markets	We seek to expand our businesses internationally, with particular emphasis on emerging markets such as China, India and South America.	■ We expanded our Omega Engineering business with presence in six new territories: Italy, Spain, Singapore, Korea, Brazil and Mexico. ■ Our gas analysis business also expanded its operations in Italy, Russia, the Middle East and Brazil, giving more direct routes to market.
3. Building our presence in key strategic growth areas, both organically and through acquisition	We aim to grow our existing business organically by developing new products, as well as pursuing opportunities for growth in new markets. Acquisitions are targeted in both existing and new markets.	■ Early benefits realised from our additional investments in the Materials Analysis and Industrial Controls segments. Continued strategic growth initiatives in other segments with significant new products and applications launched in the year.

Strategic objective	Overview	Progress
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, both of smaller bolt-on businesses and larger strategic platforms. We focus on businesses which are strong players in specific application areas where there are significant barriers to entry.	■ Acquisition of NanoSight, a leader in the design and development of instrumentation for particle size measurement for life sciences research. This strengthens our bioscience technologies within the Materials Analysis segment. ■ Acquisition of the trade and assets of Naneum Limited, which develops and markets instruments for the detection and characterisation of airborne particulate matter and also fits well into our Materials Analysis segment. Nano-ID NPC10 is a jointly-developed new instrument that utilises patented technology and is capable of detecting contamination down to 10 nanometres in size. ■ PROdry business acquired, giving our In-line Instrumentation business, BTG, enhanced expertise in tissue process consulting to help customers achieve enhanced efficiency and productivity.
5. Focusing on operational excellence	We 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.	■ Lean/Six Sigma implementation continued in new product development and support functions as well as manufacturing. ■ Major projects launched using best practice learned from existing implementations and shared around the Group. ■ Selectively outsourced non-critical engineering and sustaining activities. ■ Purchases in lower-cost countries, located predominantly in the Asian and Eastern European regions, increased by 16% year-on-year and now represent 15% of our total cost of goods sold.

Key Performance Indicators

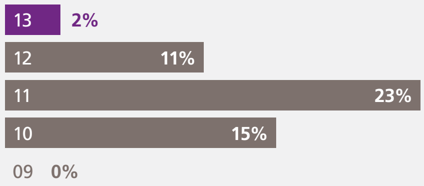
We monitor progress of the delivery of our strategic goals against five financial and two non-financial key performance indicators.

We have selected the financial key performance indicators because we believe that they are at the foundation of creating shareholder value.

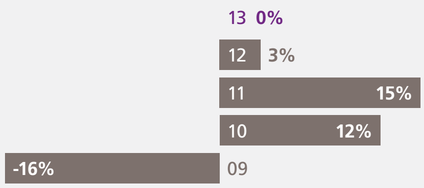
1. Sales

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



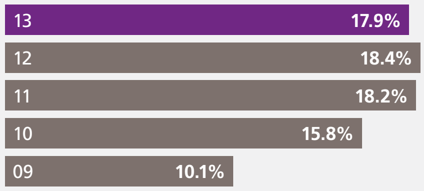
Organic sales growth, continuing businesses, at constant currencies



2. 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.

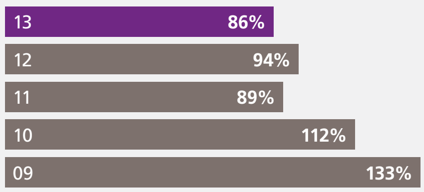
Return on sales, continuing businesses



3. 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.

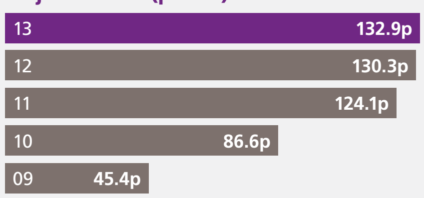
Cash conversion



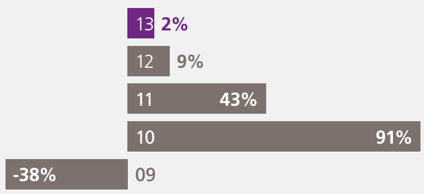
4. Earnings per share

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 per share excludes certain non-operational items as defined by management in Note 3 to the Financial Statements. 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 (pence)



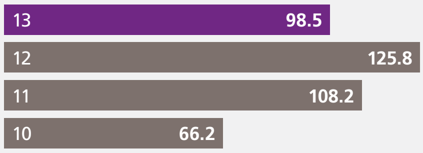
Growth



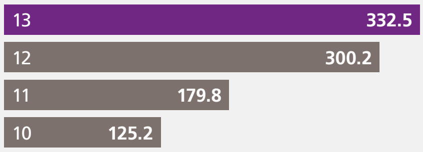
5. Economic profit

Economic profit is a commonly-used measure demonstrating the extent to which a company is generating a return on assets in excess of the Company's Weighted Average Cost of Capital ('WACC'). We have defined economic profit as the annual result derived from deducting a capital charge (applied to average capital employed) from adjusted operating profit, aggregated over a three-year period. The capital charge has been set at 12.5%, slightly in excess of our 2013 pre-tax WACC (11.0%). Average capital employed is the average monthly value of intangible assets (pre-amortisation), net tangible assets and working capital. Our intention is to consistently create shareholder value by generating pre-tax returns on these assets in excess of the capital charge. A graduated capital charge is applied in respect of acquisitions completed during the three-year period. This new performance condition will enhance focus on capital efficiency in the normal control of working capital and capital expenditure and also the effective pricing and integration of acquisitions. The decline in annual economic profit from 2012 to 2013 is mainly as a result of the disposal of the Fusion business and the effect of the graduation in the capital charge from acquisitions completed in prior years.

Annual economic profit (£m)



Three-year aggregate economic profit (£m)



6. Energy consumption

We monitor our use of key sources of energy (electricity, gas, oil and steam) and record this as energy consumption relative to revenue. Details of greenhouse gas emissions are on page 25.

MWh per £m revenue

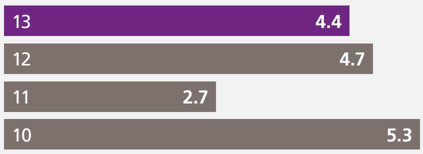
*2010 and 2011 figures have been restated as a result of the inclusion of steam usage in the energy calculations.

Excluding acquisitions and disposals made in the year.

7. Accident Incident Rate (AIR)

We monitor and measure work-related accidents or ill-health resulting in lost time in excess of three days. The resulting data is expressed as reportable accidents per 1,000 employees, and records the health and safety situation throughout the Group.

Reportable accidents per 1,000 employees



Excluding acquisitions and disposals made in the year.

KPIs 1 to 4 exclude the Fusion UV business in 2013 and 2012. Years prior to 2012 have not been restated. KPIs 6 and 7 are described in more detail in the Corporate Responsibility Report on pages 24 and 25.

Principal Risks and Uncertainties

We recognise that managing risk effectively forms a key part of our day-to-day operations and is also a requirement for achieving our strategic objectives.

The Group has a well-established process which delivers visibility and accountability for risk management across our businesses. This process forms part of the Group's overall internal control framework as described on page 46.

Our approach to risk management incorporates both bottom-up and top-down elements to the identification, evaluation and management of risks and all risks are evaluated with reference to the Group's achievement of its strategic objectives as outlined on pages 14 and 15.

Our business units are required to undertake formal risk management reviews at least twice per year. This involves the use of a consistent framework for the assessment of significant risks with respect to impact, likelihood and the time frame in which the risk could materialise. Risks are assessed both before and after the effect of controls and mitigating actions has been taken into account.

Our business units are also required to evaluate the status of a number of higher-impact risks. This ensures consideration is given to risks which may not necessarily be preoccupations when viewed from a day-to-day, operational perspective, but which may be capable of having a significant impact on operations were they to materialise.

Overall ownership for each risk, together with responsibility for all associated mitigating actions, is clearly assigned and communicated.

The resulting risk registers are then subject to review on an on-going basis as part of regular operational reviews. This regular review of the status of risks and corresponding mitigating actions ensures that risk management is embedded in day-to-day management processes and decision-making as well as in the annual strategic planning cycle.

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 these. The effectiveness of the Group's overall risk management and mitigation processes is reviewed regularly by the Executive Directors and twice yearly by the Audit and Risk Committee.

The key potential risks and uncertainties facing the Group's ability to deliver its strategy, together with mitigating actions, are described below. These are consistent with those reported in 2012.

Strategic objective	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 makes significant investments 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 product failing to reach the commercialisation phase. ■ The market for the product being smaller than originally envisaged.	*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).

Strategic objective	Risk description	Potential impact and mitigation
1. **Strengthening market positions through innovation** (continued)	**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 licences. The risk therefore exists that our 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 third-party patent applications; – undertake specific freedom-to-operate technical reviews prior to commencing new product development, acquisitions or licences; – 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 on-going success of the Company.
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 execute our strategy.	*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, fair 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

Strategic objective	Risk description	Potential impact and mitigation
3. **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. Integration of the operations and personnel of an acquired business 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 during integration of the acquired business, incorrect assumptions made in the business case, changing market conditions, or issues which were not identified during 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.
4. **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.
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 ageing products, are provided by a single supplier and are therefore vulnerable to interruption of supply.	*Potential impact* ■ Inability to fulfil customer orders resulting in lost sales and reputational damage. ■ Increased costs reduce profitability. ■ Loss of market share.

Strategic objective	Risk description	Potential impact and mitigation
5. Focusing on operational excellence (continued)	The Company also manufactures components using 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 any related increase in costs may result in an adverse effect on the business' financial position and future performance.	*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 variety of 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 monitoring, including sensitivity analyses 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 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. ■ Relevant employees receive on-line and face-to-face awareness training.

Corporate Responsibility

Corporate responsibility encompasses all aspects of business decision-making and, as such, is fully integrated into our strategy, policies and processes in order that Spectris can continue to deliver shareholder value in a sustainable manner.

Introduction

The key opportunities for our business stem from our principal objective of helping customers to increase yield, improve quality, save time and streamline processes. This enables a wide range of manufacturers to reduce their impact on the environment whilst improving their productivity and reducing costs.

This report focuses on those areas which are considered to be material by our customers, our shareholders and our employees, and which are important to the success of our business at a Group level. These areas comprise: developing products which help our customers to be more sustainable; engaging and retaining our employees; human rights; ethics; and minimising our own impact on the environment, for example by monitoring energy usage. Since we do very little manufacturing in-house, our direct emissions are relatively low and our business in general does not use a significant amount of water. Community involvement and decisions on charitable donations and sponsorship are undertaken by local management teams, and may vary from one company to another, depending on business and regional priorities.

Opportunities for business growth stem from the issues our customers are seeking to address. These include the requirement to use less energy (driven by higher power costs and energy taxes) and regulatory pressures (carbon taxes, landfill taxes, disposal of harmful substances, limits on vehicle/industrial emissions). As a result, we continue to innovate in order to provide appropriate products and services to our customers. Our unique understanding of our customers' business, together with our commitment to aftermarket service, results in long-standing customer relationships. We will continue to work in partnership to develop new products to help meet the demands driven by increasing focus on the environment and sustainability.

Our business

We have always placed a high priority on the standards by which we do business, because we believe that how we work is as important as what we do. In recent years, we have improved our governance processes and oversight, and enhanced our Code of Business Ethics. There is more on this on page 26.

Our values are pivotal to how we operate and essential to our business success and growth. They underpin the way we work, guide our decision-making and shape our culture. You can read more about our values on our website.

The business of sustainability

At Spectris, sustainability isn't just how we do business, it is the business we are in. Our products help our clients become more sustainable, both economically and environmentally, because they are designed to improve productivity, reduce waste, and save time, money and resources, including reducing power consumption. In our view, it is a virtuous circle: our products make a significant contribution to the achievement of a lower carbon world, and these products, in turn, drive our own economic success and future growth.

The key risks to our sustainability strategy include changes in regulation, affecting both the products our customers require and the manufacture of our own products. For example, regulations concerning the use and correct disposal of certain materials used in the manufacture of our products may lead to increased costs and potential fines for non-compliance; and increasing environmental (carbon) taxes may impact profitability. Furthermore, loss of key employees may delay projects, leading to loss of business; new products may not be as successful as originally projected, leading to loss of revenue; and having operations in many developing areas of the world presents ethical risks resulting from a different perception of the way business may be conducted. These risks are mitigated by the use of formal reviews throughout the business which are regularly monitored and updated and by detailed management systems and processes.

Minimising energy use

There are few industries more energy-intensive than cement manufacture, but our materials analysis instruments can help streamline the process, by assessing the shape and size of raw material particles prior to production. This can generate substantial reductions in energy use and hence carbon emissions.

Another important sector for us is paper-making. We manufacture instruments that assess and test the quality, consistency and colour of pulp before it enters the production process, thereby reducing waste and improving quality. We also make durable high-precision ceramic blades which ensure that speciality papers and packaging receive exactly the right quantity and consistency of coating, which again reduces waste.

Supporting renewables

Renewable energy generation remains a major focus for governments, and green sources of power such as wind, solar and hydro continue to attract significant investment. In many cases they are the fastest-growing energy sources, especially in the developing world. We have world-leading expertise in the design and testing of new materials for wind turbine blades and towers, and as a growing number of turbines are sited offshore, it is vital that they can withstand these conditions without requiring constant maintenance. Our systems can monitor turbine performance remotely, to ensure that the turbines are set up correctly for optimum performance and schedule preventive maintenance. This minimises wear and tear, prevents damage and optimises efficiency, saving both time and money.

Hydropower is the largest renewable source for power generation on a global basis, providing approximately 20% of the world's total electricity supply. As with offshore wind, maintaining the machinery involved can be expensive and time-consuming, and small improvements in efficiency can translate into major savings. Our instrumentation can monitor turbines and generators in real time, to predict and prevent problems before they require a full shutdown to be repaired.

We also have a presence in the solar energy sector, where our equipment helps ensure that the layers of photovoltaic film in solar panels are the correct thickness for maximum efficiency.

Cutting emissions

Governments around the world are implementing ever stronger legislation in relation to air quality, especially in cities. As a result, industries such as oil and gas and large-scale manufacturing are facing the challenge of reducing their emissions, and automotive manufacturers are developing more fuel-efficient engines which will emit fewer particulates. Our instruments can measure the size of fuel particles, which helps to produce more efficient injection systems. Our gas analysis products can measure pollutants, enabling combustion processes to be optimised, thereby reducing greenhouse gas emissions generated by industrial processes. This helps ensure compliance with environmental legislation and often forms part of certification testing.

Reducing noise

With noise pollution a growing problem, especially in cities, our market-leading sensors can identify and monitor noise and vibration, and thereby help to reduce it. We have expertise in monitoring airport noise, which is a highly regulated area and is preventing many airports from expanding. Our noise mapping and prediction systems are in place at more than 200 airports worldwide, helping operators to maximise their capacity utilisation within required noise limits. We are now extending this know-how to other heavy industries, such as construction, mining, heavy industrial, and transport.

Eliminating toxic substances

Elimination of toxic substances is another area where legislative requirements are becoming more onerous, especially in relation to heavy metal contaminants in foodstuffs, drugs and cosmetics, and in the production and disposal of electrical devices and electronics. Our X-ray systems can analyse soil samples for these contaminants, and help determine the cause of the problem, whether caused by acid rain, industrial accident, or deliberate dumping. The same instrumentation can also detect substances such as lead and cadmium in products, and analyse the levels of sulphur in fuel.

Improving safety

Our safety monitoring systems enable the performance of turbines and generators to be monitored in real time so that preventive action can be taken before any faults become serious. We also supply gas analysis instrumentation to industrial customers to measure harmful or explosive gases, enabling them to monitor areas at risk from hazardous emissions or potential explosions.

Working with our supply chain

We collaborate on sustainability both up and down our value chain, working both with our customers and our suppliers. We encourage our suppliers to reduce their own impact on the environment, and share our own expertise to help them do that. We have strict criteria for selecting our suppliers, and expect them to share our principles and meet our standards.

Increasingly, our customers are asking us to provide information on how we manage our supply chain. Our strategic sourcing team work alongside local managers to carry out regular inspections at our suppliers' sites and we use the SA 8000:2008 Social Accountability standard to assess key suppliers against criteria such as workers' rights, workplace conditions, and health, safety and the environment. In the Asia Pacific region, 42 of our top suppliers have been audited to date. Where non-conformances have been found, suppliers have been very co-operative in implementing any improvements necessary.

Our people

A positive and entrepreneurial culture

Spectris is an extremely specialised and technical business, and we rely on the skills and expertise of our 7,400 people, many of whom are highly qualified engineers and technicians. We have built our success on a combination of operational excellence and intelligent innovation, and we know that such innovation requires a way of working which is open, positive and respectful, and supports the development of new ideas, and the taking of reasonable and measured risks.

Diversity and equality

Ours is a diverse business, with operations at more than 130 locations throughout the world, and employees from over 30 different countries and cultures. We recruit, develop, and promote our people based on their talent, commitment and achievement; everyone

Case study: A diverse workforce

Patricia Liu, Managing Director of Asia Pacific for Omega Engineering, is based in Singapore. Having spent five years in academia, she then worked at Hewlett-Packard for 15 years, before taking up her current role with Omega in March 2013. "What attracted me to Omega was that it was setting up its operation in Asia," Patricia says. "I was taken on to lead the Company's expansion in the region and, in less than a year, we've opened in three new territories in quick succession. In many ways it's like being an entrepreneur – I'm growing a business from scratch, with all the excitement that always offers." There are fewer women in the engineering sector, particularly in senior roles, but Patricia says that "engineering is no different from any other business – you have to be good at what you do, and you have to work hard. People often ask how I got my big career break. I tell them, 'the harder you work, the luckier you get'. I'm here to do a good job, and help others do a good job. Some of our products may be used in the space industry, but my job is definitely not rocket science."

is treated equally and fairly whatever their race, colour, religion, national origin, gender, sexual orientation, age, or background. We value this diversity, believing it adds considerably to our working culture. We do not tolerate discrimination or harassment in any form. Disabled persons are recruited, trained and promoted on the basis of aptitude and ability. If employees become disabled, every effort is made to retain them and, when necessary, re-train them for appropriate posts.

We encourage our employees to maintain a healthy balance between their working and personal lives, and offer flexible part-time and job-share opportunities to employees with family commitments, where possible.

In that spirit, we would like Spectris to have a better balance between male and female employees. This is a common challenge in our sector, and the trend over time is towards a more even balance between the genders, as more young women choose to study science and technical subjects. The table below shows the number of Spectris employees by gender and management status:

	Male	Female	Total
Directors*	8***	1	9
Management**	134	23	157
Other	5,135	2,109	7,244
Total	5,277	2,133	7,410
% of total	71.2%	28.8%	100%

* Includes Non-executive Directors of the Company.
** The new reporting guidelines are not specific on the definition of 'management'. We have defined this as Company employees who are Presidents or Managing Directors and their immediate (line 1) reports who are Directors or Vice-Presidents.
*** Data as at 31 December 2013. Includes S Blair, who resigned as a Director on 25 February 2014.

Training, development and compensation

Our training programmes help our employees to develop both personally and professionally, and reach their full potential. We carry out annual performance reviews to assess each individual's training needs, and assess their performance against the previous year's targets. We also run a number of graduate recruitment programmes and student work placements at operating company level. Our two principal UK businesses, Malvern and Servomex, have received the Investors in People award for their training, appraisal, employee development and skills programmes.

At PANalytical, a new management development programme was implemented in 2013. The interactive training model focuses on leadership skills and, especially, performance appraisal, and is designed to help managers and supervisors conduct effective appraisals and identify appropriate training and development to enable their staff to set goals and objectives and develop their potential. 2014 will see leadership competencies added to the programme.

Our Omega Engineering business runs an 'Omega University' where new team members from around the world (most recently from the newly-established offices in Brazil and Asia Pacific) go to the US for six weeks for training. Omega also runs Leadership Training classes at its major locations.

Our compensation and benefits schemes are in line with other leading companies in our sector, and levels of pay and rewards are dependent on the achievement of individual and corporate objectives. Our Savings-Related Share Option Scheme is available to all UK employees, and grants to senior management worldwide under our Performance Share Plan are designed to reward loyalty and performance.

We work hard to build a creative working environment for our people with scope for individual responsibility and personal achievement. We assess our success in this area by monitoring the rate of voluntary staff turnover.

Voluntary staff turnover

	2013	2012	2011
Total	**5.98%**	5.84%	6.91%
Europe	**3.23%**	2.70%	3.34%
Americas	**6.07%**	5.17%	5.78%
Asia Pacific	**12.15%**	13.91%	16.15%

Our full employment policy is published on our website.

Health and Safety

As a responsible employer, we take the health and safety of our employees seriously. We are proud to have an excellent record of safety in our workplaces, but we remain vigilant and track our accident incident rate as a key performance indicator. We have not had a death or serious work-related injury for over ten years.

Accident Incident Rate KPI

	2013	2012	2011	2010
Reportable accidents per 1,000 employees*	**4.4**	4.7	2.7	5.3

*Work-related accidents or ill health resulting in lost time in excess of three days. Excluding acquisitions and disposals made in the year.

Each of our operating companies is responsible for implementing the Group-wide Health and Safety policy, and in some cases there are additional local regulations they also have to comply with. Our Group policy covers our own employees and sub-contractors and – where appropriate – our suppliers. You can read the full policy on our website. All our major locations are audited annually by independent assessors for their compliance with Health and Safety policy and procedures. Any recommendations for improvements are put into practice.

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Human rights

Our human rights policy is consistent with the Core Conventions of the International Labor Organization, and we comply with internationally-recognised human rights standards at all our sites. The policy includes our position on non-discrimination, harassment, pay, and forced labour. Human rights considerations are also included in the due diligence process we undertake before any potential acquisition, which ensures that whenever we are considering buying another business, we are fully informed of their approach in areas such as non-discrimination, equal opportunities, and freedom of association. Our full human rights policy is available on our website.

The environment

Minimising our own environmental impacts

We have lower environmental impacts than might be expected of a company in our sector, because we outsource a high proportion of product manufacturing. We still take responsibility for our manufacturing, however, by working actively with the relevant suppliers to ensure that our products are made in a responsible manner, and meet our environmental performance standards (ISO 14001/SA 8000 assessments).

Increasingly, our customers are asking us to provide information on how we manage our carbon usage. We monitor our use of key sources of energy (electricity, gas, oil, and steam). The tables below show our performance. We have made energy consumption relative to revenue a key performance indicator.

Energy consumption KPI

	2013	2012	2011	2010
MWh per £m revenue	**77.6**	79.6	79.5	90.5

Excluding acquisitions and disposals made in the year.

We are also required to report on greenhouse gas emissions (GHGs), as below:

Greenhouse gas emissions (tonnes CO_2)

	2013	2012
Scope 1	**3,030**	2,934
Scope 2	**37,024**	40,533
Scope 3	**7,152**	7,564
Total gross emissions	**47,206**	51,031
Total carbon emissions per £m revenue	**39.27**	41.46

Notes

1. Raw Scope 1 and Scope 2 data is measured and reported by all Spectris' operations worldwide. This data is converted into carbon emissions tonnes CO_2e using the conversion factors from the 2013 DEFRA/DEC Guidelines for GHG Reporting.

2. Due to the changes introduced to Defra's 2013 conversion factors, there is a reduction in our Scope 2 emissions due to the disaggregation of electricity, gas and oil emissions associated with electricity transmission and distribution (T&D) losses and Well to Tank (WTT) which have now been officially classified as Scope 3. The 2012 emissions have been restated to provide a like-for-like comparison with 2013 emissions.

3. Data on vehicle emissions, refrigerant gases and other GHG processes is not readily available, however processes have been put in place to enable reporting for 2014. In addition, we have also introduced processes to report Scope 3 air travel emissions. Whilst this is not yet a legal obligation, we understand the importance of this in determining, and reducing, our total carbon footprint.

4. Our reporting processes, and the above data derived from them, are verified by Lloyds Register Quality Assurance.

5. Excluding acquisitions and disposals made in the year.

We also provide environmental data to the Carbon Disclosure Project, a not-for-profit organisation which collects data from companies around the world and compares their disclosure and emissions reduction performance.

Management systems and certification

Approximately 60% of our own manufacturing operations by turnover are certified to ISO 14001:2004 for Environmental Management Systems, including our head office which achieved certification to both ISO 14001:2004 and OHSAS 18001:2007 Occupational Health & Safety Management Systems in January 2013.

Lloyds Register Quality Assurance (LRQA) have independently verified the data associated with energy consumption, GHG emissions, voluntary labour turnover, 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

Looking ahead

We will continue to grow our business in a sustainable way both by developing products and services which help our customers to reduce their impact on the environment and by looking at our own processes and those of our suppliers in order to lower our direct impact.

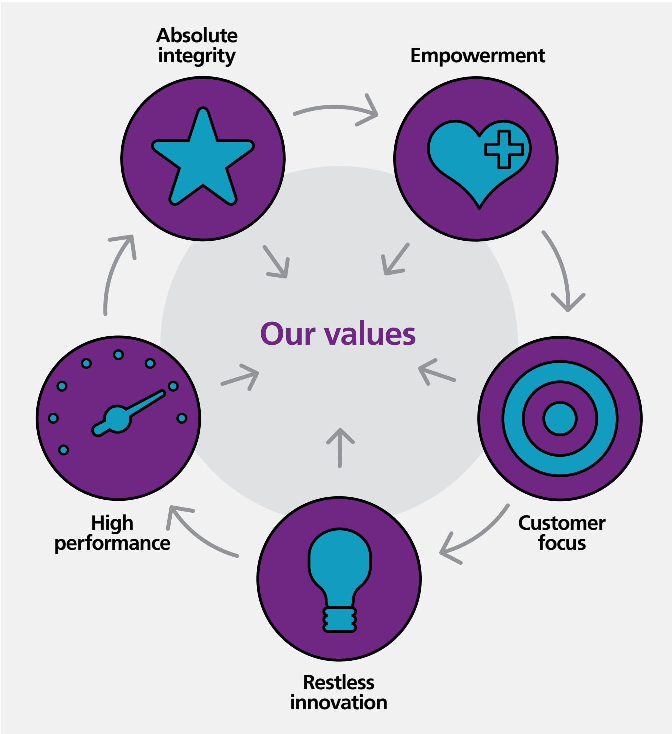
Business ethics will remain central to the way we operate, and in 2014 we will be looking in more detail at how we apply our Code of Business Ethics to our relationships with third-party partners and suppliers. The training and development of our own people will again be an important area of focus and investment in the coming year.

We will continue to audit our supply chain in Asia Pacific against the SA 8000 standard, and support our businesses in applying our ethical and technical standards to their own supply chains.

Ethics

We believe that an ethical approach to business is integral to achieving our business strategy, as well as a vital element of effective risk management.

Spectris comprises four business segments which reflect the different applications and end-user industries we serve, but we share the same values and the same commitment to managing our business according to the highest ethical standards.



Our Code of Business Ethics ('the Code') and continuous engagement with employees continue to be the cornerstone of our ethics programme. The Code provides a clear framework for how we do business, and covers areas such as working together, working with partners and other stakeholders, working with company assets, and working with information. It also includes a section on our responsibilities to our communities. The Code provides guidance on who to go to for advice and where and how to raise concerns.

During the year, we continued to work on embedding ethical culture across the Group, with the main areas of focus on providing refresher and tailored face-to-face training to employees, the launch of a formalised group-wide third-party due diligence framework and developing on-line training modules.

Training, engagement and support

We completed our ethics leadership engagement sessions that commenced during 2012 in January 2013, with over 500 senior managers across the Group participating. At the end of June 2013, 96% of employees had received face-to-face training from their managers and the remainder have since been trained. Mandatory face-to-face ethics training forms part of the induction process for all of our new employees. Upon receiving training, every employee is required to confirm that they have received and understand the Code.

Face-to-face training is reinforced by e-learning modules. In 2014, all employees will be expected to complete a bespoke Code of Business Ethics on-line course. All employees that utilise the Group's IT systems will complete an Information Security module and selected employees will undertake Export Controls and Fair Competition training. These bespoke tools focus on helping employees apply the principles of the Code to the practical challenges of their day-to-day work.

Our Code requires senior managers to create and foster an open and ethical culture and lead by example, and they are required to provide certification to that effect annually. For certification purposes, senior management includes the Executive team, operating company Presidents as well as the Regional Presidents for Asia and South America, the Finance and Administrative Head in Russia, Vice-Presidents, Country Managers and Senior Sales Managers and Ethics Officers. 100% of senior managers had confirmed compliance for the period ended 31 December 2013 as at the date of this report.

A culture of openness

We actively encourage a culture of openness, and managers make themselves available to employees so they can discuss any issues that arise in the course of their work, and raise any concerns. This is especially important if they believe there has been a possible violation of either the law or our Code. We also have an independent hotline (*www.spectrishotline.com*) which gives our people, business partners and other third parties the option to report concerns, anonymously if they wish. All reports are followed up and investigated and the results are communicated to the Audit and Risk Committee. 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.

Our interactive Decisions Guide

We received a positive response from employees following the introduction of our 'Decisions Guide' in 2012, and we have developed this into an interactive app for tablets and smartphones. The Guide is a practical tool which sets out a simple set of questions to help employees address an issue in the right way and reach the right decision. The app also sets out our values, provides contact details for all our Ethics Officers as well as the hotline details. The app will be launched during 2014.

Ethical issues

During the year, concerns were raised by a Korean employee concerning the activities of a small number of local managers in relation to infringements of fair competition laws. Our internal audit and legal teams, advised by external counsel, carried out a rigorous investigation. The infringements have been brought to the attention of the local fair competition authority and the employees concerned are no longer employed by the Group.

Our internal audit processes also uncovered unethical and fraudulent activity committed by a sales leader at one of our businesses in China. Again, the employee concerned is no longer employed by the Group.

Third-party management

We have a specific framework governing how we manage relationships with third parties. This is designed to help us assess not just the commercial viability of a business relationship, but also any potential anti-bribery risks that it might pose. During 2013, we formalised this framework and developed a consistent risk assessment and due diligence process for all of our businesses. Having the same process across the whole group ensures that we manage relationships consistently and potential integrity risks are dealt with at the earliest possible opportunity with appropriate mitigation. This framework will be implemented during 2014 with initial focus on our sales channel.

Case study: Rolling out the Code

Servomex is a good example of how the operating businesses within Spectris have taken on the Group values and Code of Business Ethics, where they are seen as integral to achieving their business growth aspirations.

As Chuck Hurley, President of Servomex says, "We were first introduced to the new Code of Business Ethics at a leadership engagement session in Beijing. Everyone in the leadership team had pretty much the same reaction: this way of working was already at the heart of what we do every day. Once the leadership team had undergone training, it was rolled out to all employees. Everyone had a chance to engage with the issues, and we made sure that the materials were directly relevant to the sort of decisions our people have to make every day. We wanted business ethics to be something that everyone takes ownership of, and that's definitely happened. I'm really proud of this – proud of how we did it, and how everyone responded, and every new employee now goes through the same process when they join."

Operating Review

Materials Analysis

Highlights

- Reported sales up 4%, including a 2% contribution from the ASD and NanoSight acquisitions
- Good sales growth to the pharmaceutical sector
- Increased spend in R&D started to yield results with new product launches

Reported sales increased by 4% with a 2 percentage point contribution from acquisitions. Like-for-like sales for this segment grew by 2% in the year, operating profit declined by 1% and operating margins were down by 0.4 percentage points, mainly as a result of increased R&D spending.

The additional R&D spending in this segment over the past 18 months has started to yield results with new product launches. Amongst these is the Viscosizer 200, which facilitates automated viscosity measurement and molecular sizing during bio-pharmaceutical formulation development using very small sample volumes. In September, we acquired NanoSight, a UK-based leading provider of particle size measurement instrumentation for material research, providing high resolution quantitative analysis of nano-particle materials, which is highly complementary to our existing measurement capabilities.

Sales into the pharmaceutical sector performed well in 2013. Pharmaceutical manufacturers continue to invest in emerging markets and we received large orders from Brazil and China. We saw strong growth in China, boosted by investments in instruments needed to secure compliance with the Good Manufacturing Process regulations for pharmaceutical companies as well as increasing domestic growth in healthcare.

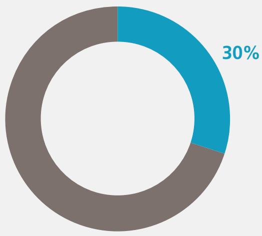
Although sales to minerals and mining customers grew in 2013, this was on the back of a strong opening order book. As expected, demand in the metals sector weakened during the year, driven in part by overcapacity in China but also, more generally, as a result of reduced capital expenditure. We also saw lower investment levels from customers in the mining sector and, as a consequence, we took actions to reduce our cost base through a combination of restructuring actions and temporary cost-saving measures.

Sales
£m

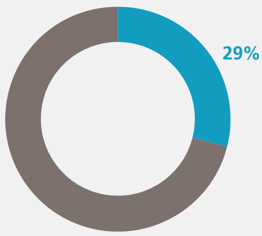
Operating profit
£m

Return on sales
£m

% Group sales



% Group profit



Read more about Materials Analysis on our website
www.spectris.com

Following the acquisition of Analytical Spectral Devices Inc. in late 2012, we launched the TerraSpec Halo during the year. The Halo, a new handheld infrared spectrometer, represents the lightest and fastest 'all-in-one' near infrared instrument available for exploration geology. In October 2013, we launched a new X-Ray Fluorescence ('XRF') benchtop system, the Epsilon 1. This product is a fully integrated energy dispersive XRF analyser consisting of a spectrometer and built-in touch-screen computer, offering dedicated solutions for applications in the petrochemical, mining and academic research sectors.

Sales to the academic research market declined in Asia and North America as government spending cuts impacted university budgets. However, this was partly compensated by growth in Europe where we saw increased spending throughout the region with strong growth recorded in Germany.

Segment outlook

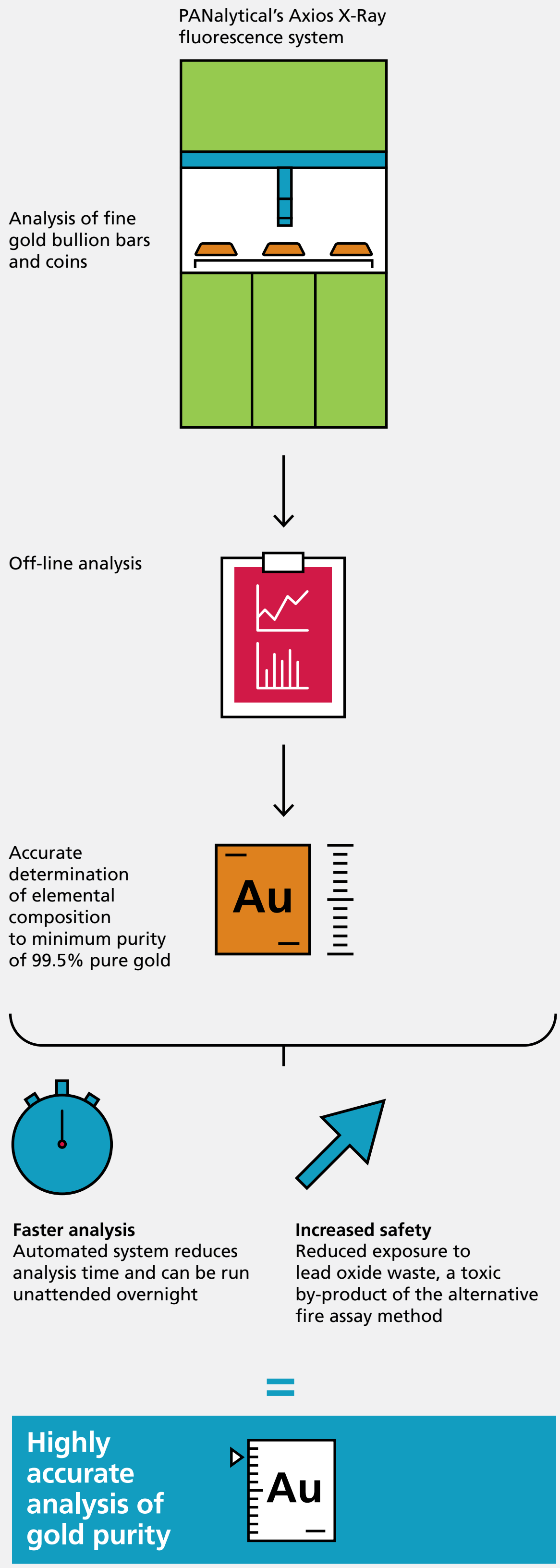
We expect that new product introductions will provide growth in the pharmaceutical sector, albeit partly offset by slower growth in China as the boost provided by regulatory compliance with new manufacturing regulations trails off. Against this backdrop, we intend to maintain current levels of R&D spending in this segment in order to capture further growth opportunities. Academic research is likely to face continuing funding constraints in some regions but this has, in the past, proved to be a resilient sector. In the metals and mining sector, the weak order intake experienced throughout 2013 will translate into lower sales in 2014. In anticipation of this decline, the cost reduction actions we took in 2013 lowered our cost base and this lower cost base will be maintained until the timing of the recovery becomes clearer.

CASE STUDY | CLIENT: THE PERTH MINT

Streamlining processes

PANalytical's X-Ray analysis equipment is used to determine the purity of fine gold. The system enables faster analysis time with lower labour costs and can be run unattended, minimising the exposure of staff to lead oxide waste, a toxic by-product of the alternative fire assay method.

The process



Operating Review continued

Test and Measurement

Highlights

- Strong sales growth to the aerospace market
- Cautious buying behaviour from automotive customers
- Service business increasing in importance in this segment

Reported sales in this segment grew by 1% with foreign currency exchange movements contributing almost 2 percentage points. Like-for-like sales declined by 1% in the year against a particularly strong comparative prior year. Operating margins were down by 0.4 percentage points, mainly as a consequence of the lower sales volume and adverse product mix.

Demand from the aerospace market was strong and we secured some important orders, including a noise and vibration testing system for Airbus and significant contract wins from original equipment manufacturers for regional and executive aircraft. In 2013, we delivered a static engine testing system to Pratt & Whitney and the successful qualification of their newest engine has opened up other opportunities for similar systems. We have seen good demand for our vibration test systems for communication satellites, particularly in Russia. We also saw good growth in demand for our engineering software products, which help manufacturers to accelerate time to market and reduce life-cycle costs. As an example, our nCode Automation software helped one of our customers to reduce engine testing time from two months to just one week.

Direct sales to the automotive market were down as customers, particularly in the first half of the year, remained cautious and order cycle times were consequently longer than usual. However, we are now seeing better demand from China, Brazil and India through direct sales channels as well as through systems integrator channels. New opportunities continue to develop in electric powertrain testing as well as vehicle noise and vibration optimisation. As part of our Noise Vibration and Harshness ('NVH') simulator product range, we developed a solution which provides active real-time vehicle interior noise management. Our Sonoscout product, a portable NVH in-vehicle data recorder, which we launched in the first half of 2013 following our NoViSim acquisition in 2012, has already delivered good results.

Sales

£m

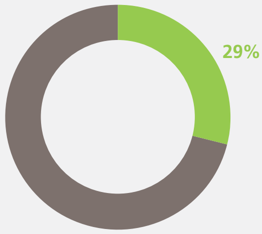
Operating profit

£m

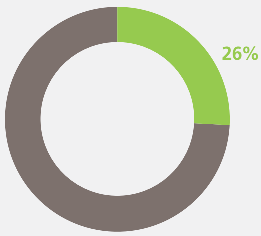
Return on sales

£m

% Group sales



% Group profit



Read more about Test and Measurement on our website at *www.spectris.com*

Sales to the consumer electronics market declined, partly against a strong comparative period in the first half of 2012 when we booked several large projects. However, our products continue to find applications in production quality control as well as R&D testing for devices such as smartphones and other audio devices.

Demand for our environmental noise monitoring services continued to be strong with growth coming from significant contract wins including Manchester Airport Group, Hong Kong Airport and all the Port Authority of New York and New Jersey airports. New opportunities for our Noise Sentinel industrial noise monitoring system included several mines in Brazil and Australia as well as a port operation and oil refinery in Canada.

In the latter part of 2013, we booked several important orders for our recently-launched PMX data acquisition and control system which provides precise acquisition of parameters such as force, vibration, pressure and strain. Applications have included on-line monitoring of wind turbine towers and quality control in automotive component production.

Segment outlook

The investment climate looks set to be more positive for the automotive sector in 2014, as new car developments continue and vehicle manufacturers expand testing in emerging markets such as Brazil, China and India. We expect to see solid demand from the aerospace market with growth coming from the deployment of new applications as well as continued investments from existing customers. We should see some recovery in demand from the consumer electronics market, supplemented by demand for our production quality and testing applications for tablet computers and smartphones. Our environmental noise monitoring systems business will continue to contribute to an increased proportion of service business in this segment.

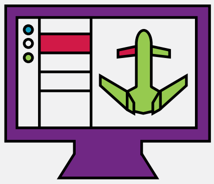
CASE STUDY — **CLIENT: JAPAN AEROSPACE EXPLORATION AGENCY**

Saving time

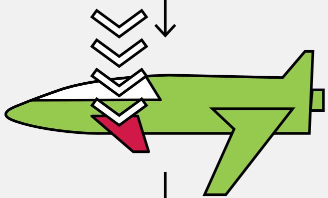
HBM's optical strain gauges saved a significant amount of time in structural testing of new wing designs in the development of small to medium-sized jet passenger aircraft.

The process

HBM's optical strain gauge systems undertake structural testing

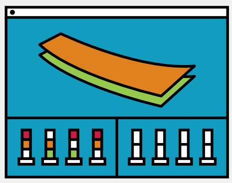


Canard wing design tested by applying variable loads

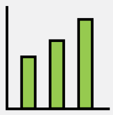


Data capture and analysis

Graphical display of structural deformation helps predict premature failure of aircraft structure



Faster results
Optical strain gauges speed up testing set up times and provide real-time measurement



Improved product performance
Structural analysis helps researchers to understand the effects of impact damage on the advanced composite structures for the next generation of aircraft

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Speeds up new product development process

Operating Review continued

In-line Instrumentation

Highlights

- Good growth in pulp and paper helped by tissue customers
- Segment performance helped by resilience of aftermarket service
- Several new products launched

Reported sales for the year were broadly flat compared to 2012 with foreign currency exchange movements providing some modest support. Like-for-like sales for the segment declined 1% for the year, impacted mainly by longer order cycles and customers' capital expenditure deferrals. Operating margins for the year were down by 0.5 percentage points as a consequence of the lower sales volume and the cost of restructuring.

Pulp and paper performed well and we continue to see strong growth in demand for tissue, packaging and pulp applications, which more than compensate for declines in the graphic paper markets. We launched a range of fibre-line automation products which improve productivity, efficiency, and fibre quality whilst providing higher returns on investment for customers than conventional alternatives. In November, we acquired the PROdry business. This company has expertise in tissue process consulting and assists tissue manufacturers in achieving greater efficiency and productivity.

In the energy and utilities markets, sales were up for the year with good demand in Asia Pacific but partly offset by declines in North America and Europe. Additionally, investment in this sector continues to grow in the Middle East and we have opened new offices to better support local customers. More than half of the new hydro power plants worldwide being built are in South America and we have booked another large order for a project in this region. We also received a significant order for our safety and condition monitoring system VC6000 for a greenfield refinery project in Vietnam. Industrial gas markets presented good growth opportunities during 2013 and we launched NanoChrome in the fourth quarter. NanoChrome is a specialist ultra high purity analyser for gases used in the semiconductor market and this product is already undergoing customer trials in the US and in Asia.

Sales

£m

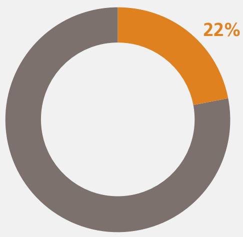
Operating profit

£m

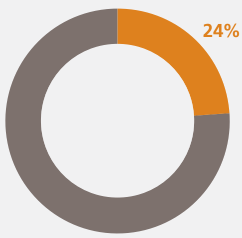
Return on sales

£m

% Group sales



% Group profit



All numbers stated in this segment exclude the trading results and impact of the disposal of the Fusion UV business which was disposed of on 31 January 2013.

Read more about In-line Instrumentation on our website at *www.spectris.com*

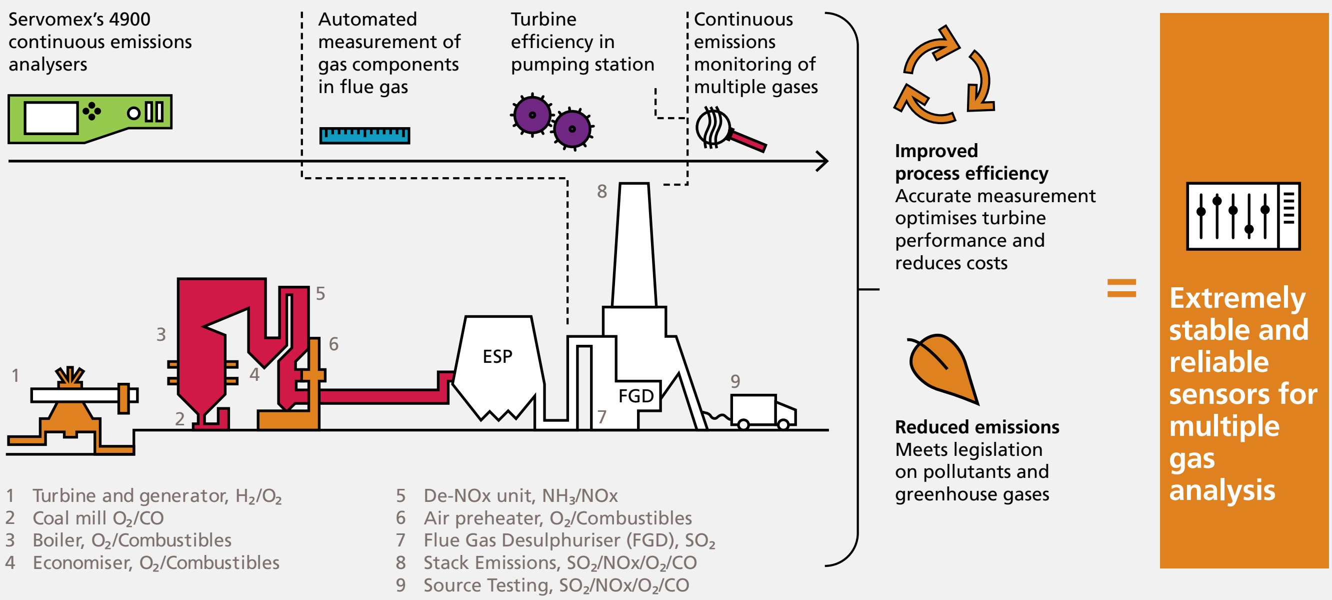
CASE STUDY

CLIENT: SPEKTR MOSCOW

Increasing yield

Installation of a SERVOPRO 4900 continuous emissions analyser in a network of Russian pumping stations has optimised turbine performance, whilst reducing costs and emissions.

The process



Converting, web and packaging industries (which include plastic, nylon and film) slowed in 2013. Asia declined but we saw encouraging signs of growth in North America and Europe in the latter half of the year. We are pleased with the immediate success of the new MiniTrak product, a compact scanner which provides critical measurements from constrained machine locations and having applications in rubber and nylon production. There was also good demand for our scanners from the food industry.

Segment outlook

We are seeing good growth opportunities in the Middle East and North America, specifically in oil and gas and petrochemicals. We also see potential in the pulp industry in South America, Indonesia and China, and continued growth in demand from tissue manufacturers worldwide.

Operating Review continued
Industrial Controls

Highlights

- Initial launch of Omega business in Europe, Asia and South America now largely completed
- Good growth in Asia
- Segment well positioned for future growth

Reported sales were up 2% for the year, favourably impacted by foreign currency exchange effects. Like-for-like sales for this segment were broadly flat over the same period last year. Operating margins were down compared to the previous year, with a favourable mix being outweighed by our investment in the geographical expansion of the Omega Engineering business.

We started to see the benefits of the integration of our industrial automation and communication businesses following the recent acquisitions of SixNet and N-Tron. The enhanced focus in key markets has already provided good results. A new family of Graphite™ display products was launched in the second half of 2013. It is the newest generation of Human Machine Interfaces ('HMI') and provides the industry with the first rugged HMI solution to combine a wide range of versatile plug-in modules with protocol conversion, data logging and web-based monitoring and control. The new range is particularly suited to the oil and gas and utilities markets and the product has already been recognised in China with four industry awards. Also in China, we won a large multiple product order for the monitoring and communication networks for a major oil and gas corporation for one of its oil field and pipeline infrastructure projects.

It was a year of significant development for the Omega Engineering business. We expanded our presence in six new territories: Italy, Spain, Singapore, Korea, Brazil and Mexico. The Chinese office, opened in 2012, performed very well in its first full year. We also opened a new office in Japan in January 2014.

Sales

£m

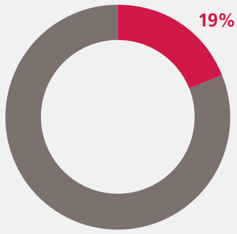
Operating profit

£m

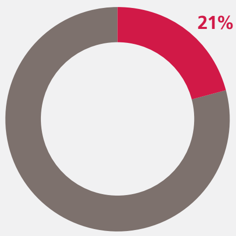
Return on sales

£m

% Group sales



% Group profit

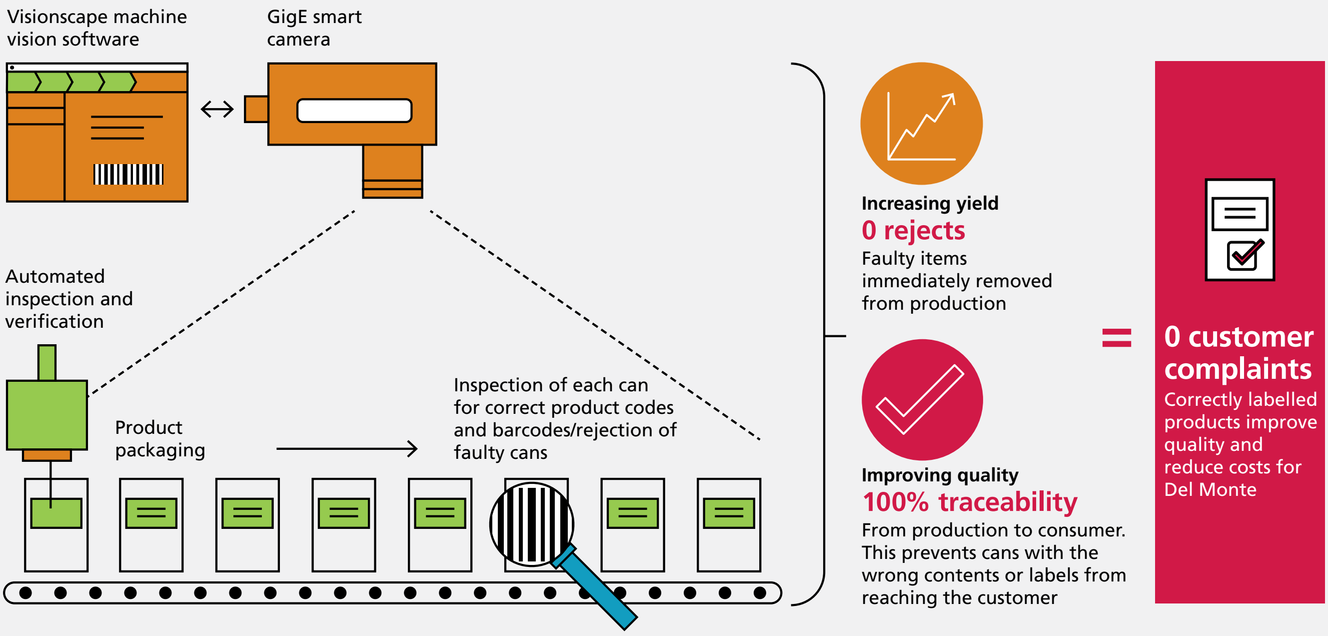


Read more about Industrial Controls on our website at *www.spectris.com*

Strategic Report
Governance
Financial Statements

CASE STUDY	CLIENT: DEL MONTE FOODS
Improving quality	Microscan's inspection solution enables a product to be tracked from the canning process to the consumer, ensuring the contents and packaging labels are correct and preventing costly product recalls.

The process



The robust activity seen in the clinical and original equipment manufacturer markets during the first half eased during the second half as customers substantially reduced inventory levels. However, our packaging barcode products performed well, driven by food and beverage and fast moving consumer goods customers adopting ISO code verification. We are seeing increasing activity as a result of the Produce Traceability Initiative ('PTI') in North America. The PTI is an industry-wide effort to improve traceability throughout the food supply chain, and an example of how our products are used is shown in the case study above. During the second half of the year, we launched additional software enhancements, including German and Chinese language versions, for our smart camera inspection system, AutoVISION.

Segment outlook

We will continue to benefit from our expanded industrial networking business as well as the increased demand for greater factory automation. In addition, our short-cycle business is expected to further mitigate exposure to cyclicality associated with capital expenditure budgets. The global expansion of our Omega Engineering business, combined with the benefits provided by the integration of our industrial automation and communication businesses, positions our Industrial Controls segment well for the future.

Financial Review

Reported sales increased by 1.8% to £1,197.8 million. Like-for-like sales increased by 0.2%. Adjusted operating profit decreased by 1.0% to £214.7 million, with a decrease of 2.7% on a like-for-like basis.

Clive Watson
Group Finance Director

Introduction

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 in Note 3 of the Financial Statements. Unless otherwise stated, figures quoted for operating profit, net interest, profit before tax, tax, earnings per share and operating cash flow are adjusted measures restated for IAS 19 (Revised) 'Employee Benefits' (see Note 1). In addition, all adjusted income statement and operating cash flow measures have been restated to exclude the trading results and impact of the disposal of the Fusion UV business ('Fusion') which was disposed of on 31 January 2013.

Operating performance

	2013	2012[1]	Change	Like-for-like change[2]
Sales (£m)	**1,197.8**	1,177.2	+1.8%	+0.2%
Adjusted operating profit (£m)	**214.7**	216.9	-1.0%	-2.7%
Operating margin (%)	**17.9**	18.4	-0.5pp	-0.5pp
Statutory[3]				
Sales (£m)	**1,202.0**	1,230.8	-2.3%	
Operating profit (£m)	**185.9**	196.0	-5.2%	
Operating margin (%)	**15.5**	15.9	-0.4pp	

(1) The 2012 comparatives have been restated following the adoption of IAS 19 (Revised) 'Employee Benefits' (see Note 1).
(2) At constant exchange rates and excluding acquisitions.
(3) The statutory figures include the results of the Fusion UV business which was disposed of on 31 January 2013.

Reported sales were up 1.8% to £1,197.8 million (2012: £1,177.2 million). The year-on-year contribution to sales from acquisitions was £8.7 million (+0.7%) and favourable foreign exchange movements (primarily arising from the strengthening of the US Dollar and Euro, partly offset by the weakening of the Japanese Yen against Sterling) contributed a further £10.0 million (+0.9%), with the result that, on an organic constant currency like-for-like ('LFL') basis, sales increased by 0.2% compared to 2012.

Following the challenging start to the year, the Group took action to reduce its cost base through a combination of temporary cost-saving measures and restructuring actions to protect profitability. Restructuring costs of £2.9 million were incurred during the year with benefits of £5.9 million arising in 2013. In addition, we identified £7.7 million of discretionary cost savings, taking the net benefit from our cost-saving programme to £10.7 million for the year. Despite the cost-saving measures taken, the Group has continued to invest in its previously announced growth programmes in innovation (R&D +4% LFL) and in the continued international expansion of Omega Engineering.

Reported gross margins were in line with 2012 at 58.1% of sales, benefiting from foreign exchange (0.4pp) and acquisitions (0.1pp), with the result that LFL gross margins declined by 0.5pp. Further down the income statement, selling, general and administration costs were broadly flat on a LFL basis compared to 2012, with the net benefit from our cost-savings programmes offsetting inflationary cost increases and funding our growth investment programmes in research and development and the international expansion of Omega. As a result of the foregoing, LFL operating profit declined by 2.7% and reported and LFL operating margins decreased by 0.5pp to 17.9%.

Net finance costs for the year decreased by £3.5 million to £9.1 million (2012: £12.6 million). This reduction is mainly due to lower average net debt levels compared to 2012, primarily as a result of the sale of the Fusion business in January 2013 and continued strong operating cash generation, with an operating cash flow conversion rate of 86% for the year (2012: 94%). Furthermore, the Group benefited from a reduction in the weighted average interest rate on debt as market interest rates remained at historic lows and £95 million equivalent of higher margin US private placement debt was refinanced with a new seven-year term loan on significantly more favourable terms at the beginning of October.

Profit before tax increased by 0.6% from £204.3 million to £205.6 million.

Statutory operating profit, after including acquisition-related intangible asset amortisation of £28.9 million (2012: £27.0 million) and net acquisition-related costs and fair value adjustments of £0.7 million (2012: £5.4 million), decreased by 5.2% from £196.0 million to £185.9 million.

Statutory profit before tax increased by 47% from £185.2 million in 2012 to £271.7 million in 2013, primarily reflecting the profit on disposal of Fusion of £98.3 million.

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

	2013			2012		
	IFRS (Statutory) £m	**Adjustments(1) £m**	**Spectris Adjusted £m**	IFRS (Statutory)(2) £m	Adjustments(1),(2) £m	Spectris Adjusted(2) £m
Sales	**1,202.0**	**(4.2)**	**1,197.8**	1,230.8	(53.6)	1,177.2
Gross margin	**697.6**	**(2.1)**	**695.5**	712.8	(28.2)	684.6
Operating profit before acquisition-related items	**215.5**	**(0.8)**	**214.7**	228.4	(11.5)	216.9
Amortisation of acquisition-related intangibles	**(28.9)**	**28.9**	**–**	(27.0)	27.0	–
Net acquisition-related costs and fair value adjustments	**(0.7)**	**0.7**	**–**	(5.4)	5.4	–
Operating profit	**185.9**	**28.8**	**214.7**	196.0	20.9	216.9
Profit on disposal of businesses	**98.3**	**(98.3)**	**–**	–	–	–
Increase in fair value of cross-currency interest rate swaps	**0.7**	**(0.7)**	**–**	0.9	(0.9)	–
Net (loss)/gain on retranslation of short-term inter-company loan balances	**(4.1)**	**4.1**	**–**	0.9	(0.9)	–
Net bank interest payable	**(8.6)**	**–**	**(8.6)**	(12.1)	–	(12.1)
Net IAS 19 (Revised) finance income	**(0.2)**	**–**	**(0.2)**	(0.5)	–	(0.5)
Other finance costs	**(0.3)**	**–**	**(0.3)**	–	–	–
Profit before tax	**271.7**	**(66.1)**	**205.6**	185.2	19.1	204.3

(1) Adjustments to sales, gross margin and operating profit before acquisition-related items represent the results of the Fusion business.
(2) The 2012 comparatives have been restated following the adoption of IAS 19 (Revised) 'Employee Benefits' (see Note 1).

Acquisitions

On 27 September 2013, the Group acquired NanoSight Limited, a company based in the UK, for a total consideration of £16.4 million (£14.6 million net of cash acquired), which extends the Group's capabilities in particle size measurement instrumentation. In addition, the Group acquired certain of the trade and assets of a previously held associate, Naneum Limited, for £1.3 million. Both of these acquisitions are part of the Materials Analysis segment.

The total cost of acquisitions in the year was £17.7 million (2012: £15.6 million), including £1.8 million (2012: £0.5 million) for cash acquired. Included in the total cost of acquisitions is an amount of £0.5 million (2012: £5.0 million) attributable to the fair value of deferred and contingent consideration which is expected to be paid in future years. In addition, a further net £1.5 million (2012: £5.4 million) was paid in respect of prior year acquisitions, making the net cash outflow in the year £16.9 million (2012: £15.5 million). Furthermore, an amount of £1.3 million (2012: £0.7 million) was spent on acquisition-related legal and professional fees, which makes the total acquisition-related cash outflow for the year £18.2 million (2012: £16.2 million). Acquisitions contributed £8.7 million (2012: £106.7 million) of incremental sales and £0.4 million (2012: £21.2 million) of incremental operating profit during the year.

Divestments

In line with the agreement signed on 18 December 2012, on 31 January 2013 the Group disposed of Fusion, which was part of the In-line Instrumentation segment, for a total cash consideration of US$175 million (£105 million). The post-tax proceeds from the disposal were used to pay down debt.

The sales and operating profit contributed by Fusion in 2013 amounted to £4.2 million (2012: £53.6 million) and £0.8 million (2012: £11.5 million), respectively.

Taxation

The effective tax rate on adjusted profits was 23.6% (2012: 25.3%), a decrease of 1.7pp, mainly due to a reduction in the weighted average statutory tax rate on adjusted profits and a reduction in the Group's on-going tax risk profile. On a statutory basis, the effective tax rate of 26.4% (2012: 24.3%) continues to be below the weighted average statutory tax rate of 30.9% (2012: 29.4%), primarily as a consequence of research and development tax incentives and a tax-efficient financing structure.

Earnings per share

Earnings per share increased by 2% from 130.3 pence to 132.9 pence, reflecting the net impact of the 0.6% increase in profit before tax and the 1.7pp reduction in the effective tax rate being offset by the increase in the weighted average number of shares from 117.1 million in 2012 to 118.2 million in 2013.

Statutory basic earnings per share increased by 41% from 119.7 pence to 169.2 pence. The difference between the two measures is shown in the table below.

	2013 Pence	2012(1) Pence
Statutory basic earnings per share	**169.2**	119.7
Amortisation of acquisition-related intangible assets	**24.4**	23.0
Net acquisition-related costs and fair value adjustments	**0.6**	4.6
Profit on disposal of businesses	**(83.2)**	–
Increase in fair value of cross-currency interest rate swaps	**(0.6)**	(0.8)
Net loss/(gain) on retranslation of short-term inter-company loan balances	**3.5**	(0.8)
Tax effect of the above and other non-recurring items	**19.4**	(9.1)
Divested businesses	**(0.4)**	(6.3)
Earnings per share	**132.9**	130.3

(1) The 2012 comparatives have been restated following the adoption of IAS 19 (Revised) 'Employee Benefits' (see Note 1).

Cash flow

Operating cash flow	**2013 £m**	2012 £m
Operating profit	**215.5**	228.4
Add back: depreciation and software amortisation	**21.6**	20.6
Working capital and other movements	**(18.0)**	(6.3)
Capital expenditure	**(31.7)**	(28.8)
Operating cash flow	**187.4**	213.9
Operating cash flow conversion(1)	**86%**	94%
Non-operating cash flow		
Tax paid	**(64.1)**	(52.6)
Net interest paid	**(9.4)**	(11.5)
Dividends paid	**(47.7)**	(45.6)
Acquisition of businesses, net of cash	**(16.9)**	(15.5)
Acquisition-related costs	**(1.3)**	(0.7)
Disposals	**106.0**	–
Exercise of share options	**0.3**	0.5
Foreign exchange	**(4.3)**	13.6
Total non-operating cash flow	**(37.4)**	(111.8)
Operating cash flow	**187.4**	213.9
Movement in net debt	**150.0**	102.1

(1) Operating cash flow as a percentage of operating profit, excluding Fusion.

The year-end trade working capital to sales ratio increased to 12.7% from 11.3% in 2012. This increase was primarily due to phasing in the fourth quarter of the year which resulted in a higher level of trade receivables compared to 2012. Average trade working capital, expressed as a percentage of sales, increased to 11.5% (2012: 11.0%), a 0.5pp increase, of which 0.3pp arose due to foreign exchange and 0.2pp arose from growth in core working capital requirements, bringing the ratio back to more sustainable levels. Capital expenditure during the year equated to 2.6% of sales (2012: 2.4%) and, at £31.7 million (2012: £28.8 million), was 147% of depreciation and software amortisation (2012: 140%), due to on-going investments in infrastructure projects in Switzerland and the Netherlands, and a new ERP system for one of our operating companies in the USA.

Overall, net debt decreased by £150.0 million (2012: decrease of £102.1 million) from £254.1 million to £104.1 million. Interest costs, excluding the financing charge arising from IAS 19 (Revised), were covered by operating profit 25.0 times (2012: 17.9 times).

Financing and treasury

The Group finances its operations from both retained earnings and third-party borrowings, with the majority of year-end net debt being at fixed rates of interest.

As at 31 December 2013, the Group had £457 million of committed facilities denominated in different currencies, consisting of a five-year £46 million term loan maturing in September 2015, a five-year £332 million revolving credit facility maturing in August 2016, and a seven-year £79 million term loan maturing in October 2020. £311 million of the revolving credit facility was undrawn at the year end. In addition, the Group had a cash balance of £44 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 £148 million, 84% of which was at fixed interest rates (2012: 48%). The ageing profile at the year end showed that 1% of year-end borrowings is due to mature within one year (2012: 32%), 31% between one and two years (2012: 0%), 14% between two and five years (2012: 68%) and 54% in greater than five years (2012: 0%).

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 the currency of revenue with the 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 2013, approximately 57% of the estimated net Euro, US Dollar and Japanese Yen exposures for 2014 were hedged using forward exchange contracts, mainly against the Swiss Franc, Sterling, the Euro and the Danish Krone.

The largest translational exposures are to the US Dollar, Euro, Danish Krone and Swiss Franc. Translational exposures are not hedged. The table below shows the key average exchange rates compared to Sterling during 2013 and 2012.

	2013 (average)	2012 (average)
USD	**1.56**	1.58
EUR	**1.18**	1.23
JPY	**153**	126

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 2013 before reflecting the effect of transactional hedges taken out in the year.

Revenue and cost by major currency:

	USD(1)	EUR(1)	GBP	JPY	Other	**Total**
Total sales (£m)	480	437	70	59	152	**1,198**
% of sales	40%	36%	6%	5%	13%	**100%**
Total costs (£m)(2)	(360)	(347)	(103)	(32)	(150)	**(992)**
PBT by currency (£m)	120	90	(33)	27	2	**206**
% of PBT	58%	44%	(16%)	13%	1%	**100%**

(1) Dollar/Euro categories include tracking currencies.
(2) Costs include interest of £3.9m in USD, £5.1m in EUR and £0.1m in GBP.

The above table is for overall guidance only, as the phasing of income and the movement in the monthly average exchange rates during the year can have a significant 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 Consolidated Statement of Financial Position (before taking account of the related deferred tax asset of £2.2 million) has decreased to £8.2 million (2012: £11.4 million, restated following the adoption of IAS 19 (Revised) 'Employee Benefits' (see Note 1)).

The movement can be summarised as follows:

	£m
Net deficit in defined benefit pension schemes at 31 December 2012 as previously reported	**(12.0)**
Impact of adopting IAS 19 (Revised)	**0.6**
Net deficit at 31 December 2012, restated	**(11.4)**
Actuarial gains	**3.7**
Contributions in excess of current service cost	**0.4**
Scheme administration costs	**(0.4)**
Expected return on pension scheme assets, net of interest costs on pension scheme liabilities	**(0.2)**
Exchange difference and other movements	**(0.3)**
Net deficit in defined benefit pension schemes at 31 December 2013	**(8.2)**

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

£m	UK	Germany	Netherlands	Switzerland	Total overseas	**Net total**
Surplus/(deficit) as at 1 January 2013(1)	3.9	(7.4)	(1.5)	(6.4)	(15.3)	**(11.4)**
Increase/(decrease) in surplus/(deficit)	3.3	0.2	(0.3)	–	(0.1)	**3.2**
Surplus/(deficit) as at 31 December 2013	7.2	(7.2)	(1.8)	(6.4)	(15.4)	**(8.2)**

(1) The opening balances have been restated following the adoption of IAS 19 (Revised) 'Employee Benefits' (see Note 1).

The UK plan surplus of £3.9 million at 31 December 2012 has increased to £7.2 million at 31 December 2013. This improvement is primarily due to favourable asset valuations which increased by £10.2 million during the year, compared to a £6.9 million increase in the present value of the liability. The net deficit for the overseas plans was largely unchanged compared to the prior year.

The Strategic Report was approved by the Board of Directors on 27 February 2014.

By order of the Board

Roger Stephens

Roger Stephens
Company Secretary

Corporate Governance Report

At Spectris, we are committed to maintaining high standards of corporate governance, both at Board level and throughout the Group.

This Corporate Governance Report and the Nomination and Audit and Risk Committee Reports on pages 44 to 51 form the Directors' Report. Disclosures elsewhere in the Annual Report and Accounts are cross-referenced where appropriate. Taken together, they fulfil the combined requirements of company law, the Disclosure and Transparency Rules and the Listing Rules.

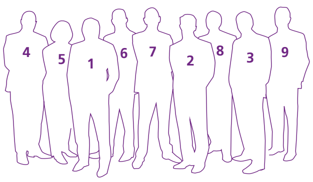
UK Corporate Governance Code statement of compliance
At Spectris we are committed to maintaining high standards of corporate governance, both at Board level and throughout the Group. We see this as fundamental to the effective and responsible management of the business and for the delivery of shareholder value over the long term. Time is allocated at Board and Committee meetings to considering governance issues.

We particularly emphasise the strong relationship that exists between ethics and governance and the role of the Board in demonstrating ethical leadership. The ethical standards we require are set out in our Code of Business Ethics, which is communicated to all our employees and business partners.

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. The edition of the Code published in September 2012 applied throughout our financial year ending 31 December 2013, but the Financial Conduct Authority has yet to change the Listing Rules and therefore requires that certain compliance statements are made in relation to the predecessor edition of the Code, issued in June 2010. This report describes how the Company applied the principles and complied with the provisions of both editions of the Code during 2013.

The Board considers that it was throughout the year and continues to be in full compliance with the provisions set out in both editions of the Code.

The Board



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

John Hughes CBE
Chairman

Appointed
June 2007. Appointed Chairman in May 2008

Committees
Nomination (chairman)

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 CSG International, Inc. (a NASDAQ-listed company). Chairman of privately-held business Just Eat. Special adviser for Oakley Capital. Ambassador for the Alzheimer's Society.

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.

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 Limited. 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
Chairman of GeoProMining Investment, a director of Sorrett Advisors Limited and a non-executive director and chairman of the remuneration committee of Aggreko plc.

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.

Martha Wyrsch
Non-executive Director

Appointed
June 2012

Committees
Nomination, Remuneration, Audit and Risk

Relevant experience
Martha Wyrsch is executive vice president and general counsel of Sempra Energy, a company quoted on the New York Stock Exchange. Martha was formerly president of Vestas Americas, a subsidiary of Vestas Wind Systems A/S and prior to that she was president and CEO of Spectra Energy Transmission.

External appointments
Non-executive director of SPX Corporation, a company quoted on the New York Stock Exchange, and a director of Cristo Rey Network, an educational foundation in the USA. She also serves on the board of the Southern California Gas Company, a US publicly-traded company.

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, Rank Group plc and Rexam plc.

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

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 Taxation.

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

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 immatics biotechnologies GmbH, 7TM Holdings ApS and 7TM Pharma AS, as well as director of OneMed Sverige AB, OneMed Holding AB and Cancer Research Technology Limited.

Roger Stephens
Head of Commercial and 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.

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. Two meetings were held during the year at operating locations and encompassed a detailed review of the relevant business. In June, the Board visited Particle Measuring Systems in Boulder, Colorado, and also whilst there received a presentation from the President of Microscan Systems. In November, the Board visited Red Lion Controls in York, Pennsylvania, and also whilst there received a presentation from the President of Omega Engineering. Through these meetings, the induction process on appointment, and the access given to the Company's operations and its staff, all Directors maintain their detailed knowledge of company operations, as required for them to discharge their duties. Authority for operational decisions is 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, three 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 bring expertise and independent judgement on Board matters. The Chairman's other significant listed company interests are as non-executive chairman of Sepura plc and Telecity Group plc and non-executive director of CSG International, Inc. (the latter company being quoted on NASDAQ). Mr Hughes is also chairman of privately-held business Just Eat. The Board has formally reviewed the Chairman's other commitments and confirms that it believes that the Chairman's obligations to the Company are properly fulfilled notwithstanding 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 discharging 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 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.

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.

The names of all Directors of the Company at any time during the year are shown below.

Board and Committee meeting attendance 2013

	Board	Remuneration Committee	Audit and Risk Committee	Nomination Committee
Total meetings during year	**8**	**6**	**3**	**3**
J L M Hughes (Chairman)	8	1*	N/A	3
J A Warren (Senior Independent Director)	8	6	3	3
P A Chambré	8	6	3	3
R J King	8	6	3	3
M B Wyrsch	8	6	3	3
J E O'Higgins (Chief Executive)	8	N/A	N/A	3
S Blair	8	N/A	N/A	N/A
C G Watson	8	N/A	N/A	N/A
J C Webster	8	N/A	N/A	N/A

* Mr Hughes stepped down from the Remuneration Committee following its January meeting.

Effectiveness

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 performances are 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-executive Directors 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.

During the year the triennial externally-facilitated review of the Board and its Committees was undertaken by Armstrong Bonham Carter, an external adviser. Armstrong Bonham Carter provides no other services to the Company. This comprised a process of structured interviews with all Directors, the Company Secretary, the Group Deputy Secretary, the Head of Internal Audit, the external audit partner and the external remuneration consultant. An overview was presented to both the Board and the Nomination Committee in January 2014, the overall conclusion being that the Board is performing efficiently, and that there is an appropriate balance of skills, experience, independence and knowledge of the Company, to enable the Directors to discharge their duties and responsibilities effectively. Certain specific recommendations relating to the further development of Group strategy will be brought forward for discussion during 2014.

Nomination Committee Report

Letter from John Hughes, Chairman of the Nomination Committee.

John Hughes
Chairman of the
Nomination Committee

Dear Shareholder,

I am pleased to present to you on behalf of the Nomination Committee our report which summarises our work during the year, as well as setting out our membership and responsibilities. The Board has delegated authority to the Committee to assist it with the review of the Company's leadership needs to ensure its continued ability to compete effectively in the marketplace. The main focus of our work in 2013 was assisting the Board with the recruitment of three Executive Committee members. Eoghan O'Lionaird was appointed Business Group Director in February 2014 ahead of Jim Webster's retirement at the end of June 2014 and Jo Hallas, who will have responsibility for our In-line Instrumentation and Industrial Controls segments, replacing Steve Blair, joins us during the second quarter of this year. Robin Stopford joined the Executive team as Head of Corporate Development in November last year.

In making these appointments to the Board and the Executive team, we considered carefully a range of candidates to ensure that the Group's leadership has the appropriate representation of skills, experience and perspectives to serve our current and future strategic aspirations.

At our meeting in January this year, we considered the effectiveness and contribution of individual Directors during the past year and recommended to the Board that each be put forward for re-election at the 2014 Annual General Meeting, save for Steve Blair who stepped down from the Board on 25 February 2014. I hope you will join me in supporting the re-election of the Directors at the Annual General Meeting, where I will be happy to answer any questions you may have on the work of the Committee.

Yours faithfully,

John Hughes
Chairman of the Nomination Committee
27 February 2014

Membership and responsibilities

The Nomination Committee is appointed by the Board. Its members are the Chairman, the Chief Executive and all of the Non-executive Directors. It is chaired by the Chairman of the Board, save in the event of discussions relating to his succession, when the Senior Independent Director would take the chair.

The Committee's primary responsibilities are to:

- regularly review the size, structure and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board for any changes;
- consider succession planning arrangements for Directors and senior Executives, taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the near future;
- be responsible for identifying and nominating candidates to fill Board vacancies as and when they arise and to make recommendations to the Board for the appointment, re-appointment or replacement of Directors;
- evaluate the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment; and
- review the results of the Board performance evaluation process insofar as these relate to the composition of the Board and the Committee's effectiveness.

Full terms of reference are available to view on the Company's website.

Activities during the year

The Committee met three times during the year and meetings were attended by all eligible members. Further details are set out on page 43.

A significant proportion of our work this year focused on assisting the Board with the search and selection of a number of key senior appointments. Following the Board's decision that a new appointment is appropriate, we work with external search firms to present for Board consideration suitably qualified candidates. In doing so, we evaluate the balance of skills, knowledge and experience on the Board and the Executive team and develop a description of the role and required capabilities. This process was followed for the appointments of Robin Stopford, Eoghan O'Lionaird and Jo Hallas, with external search firm Egon Zehnder providing support with each appointment. Egon Zehnder adheres to the Voluntary Code of Conduct for Executive Search Firms and provided no other services to the Company during the year.

Following consideration of the composition of the Board and the range of industry experiences represented, the Committee recommended to the Board that the recruitment of an additional Non-executive Director would be beneficial. A search process has been initiated.

Steve Blair joined the Company in May 2011 and after two successful years as Business Group Director, he left the Board on 25 February 2014 to take up the position of chief executive of e2v technologies plc. Following his resignation, the Committee commenced the search for a replacement with the requisite skills and experience required to assume responsibility for the In-line Instrumentation and Industrial Controls segments. Following a detailed search process, Jo Hallas will be joining as Business Group Director later this year.

On 3 February 2014, Eoghan O'Lionaird joined the Company as Business Group Director to take charge of the Materials Analysis and Test and Measurement segments ahead of Jim Webster's retirement at the end of June.

Following the resignation of the previous incumbent, the Board decided that the appointment of a new Head of Corporate Development was necessary and a search for suitably qualified candidates with industrial corporate and strategic development experience was instigated. On 5 November 2013 Robin Stopford joined the Executive Committee as Head of Corporate Development.

In addition to identifying candidates to fill these vacancies, the Committee also reviewed succession management plans at Director level more generally.

The Board's debate on diversity is drawn broadly around both experience of the end-user markets and regional cultures served by the Company, and breadth of perspectives more generally. We recognise that diversity of representation at Board level and throughout our business is crucial for sustainable growth, particularly as we expand our presence in industrialising economies and across a broad base of end-user markets.

All Directors are subject to election by shareholders at the first Annual General Meeting following their appointment by the Board. In accordance with the UK Corporate Governance Code, all Directors are then subject to annual re-election. Each Director retires at the Annual General Meeting and, if considered appropriate by the Board, is proposed for re-election. In determining whether a Director should be proposed for re-election at the 2014 Annual General Meeting, the Board took into account the Committee's advice based on the results of a peer group review of each Director's contribution to the Board's effectiveness, which formed part of the externally-facilitated Board evaluation. This review confirmed that all Directors continue to be effective and demonstrate commitment to their roles and the Committee has accordingly recommended their re-election.

The Committee also reviewed the results of the Board evaluation as it related to its own effectiveness. In order to improve the Committee's effectiveness, it was agreed that the Committee should have at least three regular meetings scheduled in the annual Board calendar.

Accountability

The Board is ultimately responsible for the Group's system of internal controls and for reviewing its effectiveness.

Internal controls

Consistent with the guidance provided for directors on internal control by the Financial Reporting Council ('Internal Control: Revised Guidance for Directors'), the Board confirms that a) there is an on-going process for identifying, evaluating and managing assessed significant risks faced by the Group, b) this has been in place for the year ended 31 December 2013 and up to the date of approval of the Annual Report and Accounts, and c) this process has been reviewed by the Board during the year.

The Board recognises that internal control is a dynamic process. Therefore, the Group's internal control framework, including the risk management processes, are subject to on-going review and improvements are made to ensure that, where appropriate, the framework is adapted to the Group's changing risk profile or in order to address any weaknesses identified in the control framework itself.

The key elements of the Group's internal controls are described below:

- Day-to-day operational activities are conducted within an established internal control framework comprising clear rules, policies, lines of responsibility and delegated authorities.
- A Group Accounting, Policies and Procedures Manual (the Manual) provides a common control framework and sets out the minimum standards, procedures and internal controls to be applied in relation to managing technical, commercial and financial risks.
- Annual strategic and financial plans are established for each business unit and are subject to review and approval. Performance against the plans is subject to on-going review by the Executive Directors and the Group has a comprehensive system for reporting performance to the Board.
- Significant capital investments or contractual commitments and major acquisitions or divestments are all subject to a clear process for appraisal, review and approval by the Board.

The processes which the Board and the Audit and Risk Committee have applied in reviewing the effectiveness of the Group's internal control framework include the following:

- The Executive Directors report to the Board on changes in the business and external environment which present significant risks.
- The Executive Directors provide the Board with monthly trading and 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, including summaries of any reports received through the Group's Ethics Hotline.
- 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 senior management to the Audit and Risk Committee.
- The Group has an internal audit function which reviews the design and operating effectiveness of internal controls across the Group's operations, including financial, operational and compliance controls. The Audit and Risk Committee receives regular reports on the output of internal audit activity including the operation of, and issues arising from, the Group's internal controls and procedures.
- The Group's approach to risk management is described on page 18 of the Principal Risks and Uncertainties section. The effectiveness of risk management and mitigation is reviewed regularly by the Executive Directors and twice yearly by the Audit and Risk Committee.

The Board notes that, as with all such systems, the Group's internal control framework is designed to manage rather than eliminate risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Audit and Risk Committee Report

Letter from John Warren, Chairman of the Audit and Risk Committee.

John Warren
Chairman of the Audit and Risk Committee

Dear Shareholder,

Audit committees have long been charged with the critical role of ensuring the integrity of Financial Statements and, where required, testing the efficacy of internal control and risk management systems. The recent revisions to the UK Corporate Governance Code serve to highlight this further, particularly the new duties to:

- review the annual report and accounts at the board's request, and advise whether it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy;
- ensure that the external audit is put out to tender at least once every ten years to enable the quality and effectiveness of the existing services to be assessed; and
- report formally to the board and shareholders on how it has discharged its responsibilities.

It is therefore an opportune time for me and my fellow Committee members to present to you our report explaining how we have fulfilled our duties. The Committee has an annual work programme which supports key events in the Group's financial reporting cycle and reviews the effectiveness of the Group's internal control framework, and our report highlights the key issues dealt with during the year.

We assess the Committee's effectiveness as part of the normal annual Board evaluation. This year, the review formed part of the externally-facilitated Board review process. The review included discussions with Committee members, members of the Executive team, the Head of Internal Audit, the Group Deputy Secretary and our external audit partner. I am pleased to report that the Committee is considered to be operating effectively.

Looking forward, our key priorities for 2014 include scrutiny of the Group's cyber security defences and examination of the full range of third-party assurance activity across the Group in order to understand the impact on the Group's risk profile.

Yours faithfully,

John Warren
Chairman of the Audit and Risk Committee
27 February 2014

Audit and Risk Committee Report continued

Membership and responsibilities

The Committee is appointed by the Board and comprises John Warren (chairman), Peter Chambré, Russell King and Martha Wyrsch. John Warren is a chartered accountant and has recent and relevant financial experience, having been the former group finance director of both United Biscuits plc and WH Smith PLC and currently chairs the audit committees of Bovis Homes Group PLC, Welsh Water, 4imprint Group plc and Greencore Group plc. The Committee benefits greatly from Mr Warren's skilled leadership and the wide-ranging expertise of the other Committee members. Full biographical details are on page 41. The Group Deputy Secretary acts as secretary to the Committee.

The Committee operates under terms of reference approved by the Board which are available on the Company's website. These were reviewed during the year and a number of changes approved as follows:

- reinforcing the Committee's responsibility to maintain dialogue with the key individuals involved in the Company's governance outside formal scheduled meetings;
- ensuring financial reports are fair, balanced and understandable; and
- putting the external auditing service contract out to tender at least once every ten years.

Activities during the year

The Committee met three times in 2013 to coincide with key dates in the financial reporting cycle. Committee members' attendance can be found on page 43. The Group Deputy Secretary and Group Finance Director worked with the Chairman to set each meeting's agenda. Executives and other senior management were invited to attend as appropriate to provide updates on operational and strategic matters, participate in debate and answer questions posed by the Committee.

	Internal audit	Risk management and assurance inc. ethics	Financial reporting	External auditor independence	Accounting, technical and corporate governance updates*
Chief Executive	●	●	●		
Group Finance Director	●	●	■ ●	●	
Business Group Directors	●	●	●		
Company Secretary		●	■		■
Group Deputy Secretary		■			■
Head of Internal Audit	■	■			●
External Auditor**	●	●	■ ●	■	■

■ Presented reports ● Participated in debate/answered Committee questions

* Committee members also receive regular technical updates from KPMG's Audit Committee Institute.
** The external auditors met with the Chairman of the Committee in advance of the February and July 2013 meetings and the February 2014 meeting, and had a private session with the Committee without management present.

Strategic Report
Governance
Financial Statements

The following matters were considered by the Committee at their scheduled meetings:

January 2013	February 2013	July 2013
■ 2012 year-end issues including legal and divestment provisions and the going concern statements. ■ The 2012 internal audit review and 2013 plan. ■ The Group's risk landscape including material operating company risks. ■ Whistleblowing reports and associated investigations. ■ Business continuity plans.	■ The full-year Financial Statements including the external auditor's report. ■ Defined benefit plan valuations and control measures. ■ The external auditor's objectivity and independence. ■ The policy on the provision of non-audit services by the external auditors.	■ The interim Financial Statements and issues raised by management and the external auditors. ■ The 2013 external audit strategy and scope. ■ Update on the internal audit review and resourcing within the internal audit function. ■ Update on the business ethics programme and review of whistleblowing reports. ■ Risk management review and significant legal issues.

January 2014	February 2014
■ 2013 year-end issues including legal and divestment provisions, Weighted Average Cost of Capital, impairment and the going concern statements. ■ 2013 internal audit review and 2014 plan. ■ 2013 draft Audit and Risk Committee report and draft external auditor's Audit Opinion, both in new format. ■ Business ethics programme – areas of focus in 2014 and review of whistleblowing reports.	■ The full-year Financial Statements including the external auditor's report. ■ Fair, balanced and understandable assessment. ■ External auditor's objectivity, effectiveness and independence. ■ Defined benefit plan, valuations and control measures. ■ Update on information security measures.

A number of these are discussed in further detail below.

Financial reporting

After discussion with both management and the external auditor, the Committee determined that the key risks of misstatement in the Group's Financial Statements for 2013 related to: provisions, given the judgemental nature of the assessment and estimation, together with the assessment of goodwill and intangible assets for impairment.

These issues were discussed with management during the year and with the external auditor at the time the Committee reviewed and agreed the external auditor's Group audit plan, when the auditor reviewed the half year interim Financial Statements in July 2013 and also at the conclusion of the 2013 audit of the Financial Statements.

Impairment of goodwill and other intangible assets

As more fully explained in Note 13 to the Financial Statements, the total carrying amount of goodwill and other intangible assets at 31 December 2013 is £698.5 million. During the year, management reassessed the Weighted Average Cost of Capital ('WACC') calculation and the long-term growth rates to be applied in determining the discounted value of the projected cash flows of the cash-generating units as more fully explained in Note 13 to the Accounts. This resulted in the nominal post-tax WACC rate for the Group being reduced to 8.4% (2012: 9.4%) and long-term growth rates being increased to 4% (2012: 2.5%). The Committee reviewed the calculations and were satisfied that the changes were warranted.

Management assessed the carrying value of goodwill and other intangible assets (including detailed calculations of value in use for those cash-generating units whose recoverable amount is not significantly greater than its carrying amount) to ensure the carrying values are supported by forecast future discounted cash flows. No impairment charges were required as a result of the impairment assessment.

The external auditor explained the results of their own review of the estimate of value in use, including their challenge of management's underlying cash flow projections as well as the updated long-term growth assumptions and discount rates. On the basis of their audit work, no impairments were identified. Following discussion, the Committee were satisfied that the approach taken by management was appropriate and that there was no requirement to record any impairment in the accounts.

Provisions

Working capital provisions

Provisions are made to write down slow-moving and obsolete inventory 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. The assessment used to calculate the provisions needed requires the application of judgement by management.

The Group's approach to trade receivables is for the initially recognised fair value to be reduced by appropriate allowances for estimated irrecoverable amounts. The application of this approach requires judgement by management in respect of amounts which are deemed irrecoverable. Further information about our exposure to credit risk and the quality of our receivables is set out in Note 16.

Management confirmed to the Committee that there have been no significant changes to the approach used to estimate working capital provisions from the prior year.

The external auditor explained to the Committee the work they had conducted during the year. On the basis of their audit work, the external auditor reported no material inconsistencies or misstatements. Following discussion, the Committee were satisfied that the judgements that had been exercised were appropriate and that therefore the provisions were appropriately stated at the year end.

Tax provisions

Provisions held in respect of tax risks are included within current and deferred tax liabilities depending on the underlying circumstances of the provision. Significant management judgement is exercised in arriving at the amounts to be provided.

Management confirmed to the Committee that the provisions recorded at 31 December 2013 represent their best estimate of the likely financial exposure faced by the Group.

The external auditor explained to the Committee the work they had conducted during the year, including how their audit procedures were focused on those provisions with the highest level of judgement on recognition criteria and/or measurement. The Committee discussed with both management and the external auditor the key judgements which had been made and were satisfied that they were reasonable and that, accordingly, the provision amounts recorded were appropriate.

Other provisions (including product warranty, legal and divestment-related provisions)

As further explained in Note 1 to the Financial Statements, a provision is recognised in the Financial Statements 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. Provisions are recognised at an amount equal to management's best estimate of the expenditure required to settle the Group's liability taking into account the time value of money, where this is considered material.

On legal and contractual exposures, the Committee received reports in July 2013 and January 2014 from the Head of Commercial and Company Secretary outlining the open legal and contractual disputes and best estimate of the expected costs associated with such matters.

Management confirmed to the Committee that the provisions recorded at 31 December 2013 represented their best estimate of the likely financial exposure faced by the Group.

The external auditor explained to the Committee the work they had conducted during the year, which supported the carrying value of the provisions. Following discussion of the key assumptions and judgements, the Committee concluded that the carrying values were reasonable in the circumstances.

Further information about the specific categories of provisions held by the Group is set out in Note 21 to the Financial Statements.

Misstatements

Management confirmed to the Committee that they were not aware of any material or immaterial misstatements made intentionally to achieve a particular presentation.

The Committee confirms that as a result of the presentations made to the Committee by the external auditors and the ensuing discussions and questioning of the external auditors by Committee members, it is satisfied that the external auditors have fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting where necessary with the auditors, the Committee is satisfied that the Financial Statements appropriately address critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

Fair, balanced and understandable

In February 2013, the Committee considered a "fair, balanced and understandable" readiness assessment which identified a number of areas for improvement in our processes to ensure the integrity of our Annual Report and Accounts. These included strengthening the process for determining whether appropriate weight is given to positive as well as negative news and setting relevant materiality thresholds to determine what information should be disclosed. In August 2013, members of the Annual Report and Accounts project team attended a session hosted by the external auditors focused on how to achieve better business reporting. The processes for the compilation of our Annual Report and Accounts have been strengthened. An extensive verification exercise was undertaken to ensure factual accuracy, and comprehensive reviews of the draft Annual Report and Accounts were undertaken by Executive and senior management. An advanced draft of the Annual Report and Accounts was reviewed by the Committee at our January 2014 meeting, with the final draft being reviewed by the Committee prior to it being considered by the Board. Following discussions at our February 2014 meeting, we have advised the Board that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

Oversight of internal audit and risk management

The Committee took responsibility for reviewing the Group's internal controls through engagement with the Head of Internal Audit who is employed to perform control reviews across the Group according to a work programme agreed by the Committee. The 2013 internal audit plan was established based on a number of factors including maintaining an appropriate level of audit coverage of the Group's core financial processes through rotational site visits and providing the Committee reasonable assurance that controls for certain key areas of risk management such as compliance with laws and regulations operate effectively.

The Head of Internal Audit is assisted in this work by five further internal auditors who are located in key strategic locations of the United States, Asia and the UK in order to strengthen the audit coverage. In addition, the internal audit function draws upon external resources as deemed necessary.

The Committee debated and agreed the adequacy of internal assurance resources at its meetings in July 2013 and January 2014, during which the progress on the internal audit plan was also examined.

Each business unit regularly assesses, evaluates and reports risks of Group significance against established criteria with respect to the impact, likelihood and time frame of each identified risk. In addition, each business unit is required to document how it is managing and mitigating these risks. A summary of the status of risks and corresponding mitigating actions is reviewed by the Committee at least twice a year.

Further information on the Group's risk management framework is contained on page 18 in the Strategic Report.

External auditor – appointment, effectiveness and independence

The Committee is responsible for overseeing the selection process relating to the appointment of the external auditor, making recommendations to the Board for the auditor's reappointment and approving the external auditor's remuneration, their terms of engagement and scope of work. Reappointment of the external auditor is considered by the Committee each year following a review of the external auditor's effectiveness.

KPMG Audit Plc was appointed as the Company's auditor on 12 May 1998, but the lead audit partner has changed three times subsequently in line with rotation requirements. The current audit partner is Richard Broadbelt, who was appointed on 19 April 2012. It is the Committee's current policy 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. There are no contractual obligations that restrict the Committee's choice of auditor.

To assess the effectiveness of the external auditor, the Committee reviewed the fulfilment of the agreed audit plan, reports of major issues arising from the audit process and commentary from the Group Finance Director, Group finance and internal audit, and operating company management teams.

The Committee has procedures governing and restricting the appointment of the external auditor for non-audit services. Services which have the potential to, or appear to, impair their independence, for example, involvement in activities that require making judgements or decisions which are the responsibility of management, are expressly precluded. The policy, which is available on the Company's website, was refreshed during the year to make the following principal changes:

- a more comprehensive list of excluded services, also addressing services provided on a contingent fee basis;
- increased the limits for fees requiring pre-approval from £100,000 to £150,000 in respect of individual engagements; and
- increased the annual cumulative cap from £200,000 to £250,000.

The Committee considers it essential to rigorously impose the cumulative annual cap for non-audit services (save for acquisition due diligence and taxation services), above which all engagements are subject to the Committee's prior approval. For instance, in July, the Group Finance Director submitted to the Committee a request to approve the engagement of KPMG's tax and legal services in relation to a corporate restructuring project. KPMG was selected to provide these services following a competitive tender process, and the Committee approved the engagement given the nature of the advisory services, the fee level being within the annual cumulative cap and KPMG's knowledge of the Group. Non-audit fees for the year amounted to £0.4 million. Further details are included in Note 6 to the Accounts.

The external auditor's full-year report to the Committee contained a statement on their independence, arrangements to manage conflicts of interest and scale of non-audit services provided which was assessed by the Committee.

The cumulative cap, periodic refreshment of the external audit team and review of their work, together with the ten-year re-tendering of the external audit service contract is considered by the Committee to be appropriate controls to mitigate threats to the independence and objectivity of the external auditor.

The Committee has considered the risk of the withdrawal of their auditor from the market in their risk evaluation and planning and has concluded that the risk is insignificant. In the event that the Company's auditor did exit the market, a replacement appointment would be made from audit firms of equivalent standing.

Whistleblowing policy and process

Details of the Group's whistleblowing policy are provided within the Ethics report on page 26. Alleged breaches of the Code of Business Ethics are investigated and followed up, with summary reports communicated to the Committee on a six-monthly basis. A refreshed whistleblowing, escalation and incident management protocol was circulated to the operating company management teams during the year.

Information security

An information security programme was established in 2012 to evaluate whether the Group's existing controls would benefit from additional strengthening. Remediation steps have been taken across the Group during the year to improve security against external attacks. Penetration testing was conducted, which enabled security teams to identify and remediate potential vulnerabilities. In addition, an information security campaign is being deployed globally to ensure employees understand the value and sensitivity of the information they possess and how to protect it. The Committee will be scrutinising the Group's information security defences in 2014.

Shareholder Relations

Spectris has a comprehensive Investor Relations programme designed to assist existing and potential investors in understanding the Group. These meetings are attended by the Chief Executive, the Group Finance Director, and the Head of Corporate Affairs. Spectris conducts regular dialogue with institutional shareholders and discloses such information as is permitted within the guidelines of the Listing Rules. Investor Relations events undertaken during 2013 included:

- Meetings with analysts to present the Preliminary and Interim results, hosted by the Chief Executive and the Group Finance Director. Webcasts and presentations of these are made available via the Group's website. The Chairman and Non-executive Directors have the opportunity to attend these presentations. Post results announcements, management offers meetings to UK and overseas institutions.
- Meetings with existing and prospective institutional shareholders in the UK, the USA and Europe.
- Brokers' conferences, which provide additional opportunities to meet with institutional investors.
- Regular contact is maintained with shareholders outside 'close periods'.

Shareholders are invited to the Company's Annual General Meeting and have the opportunity to meet and question the Chairman and Board members. The results of proxy votes are available at the Annual General Meeting. These are then published on the Group's website.

Shareholders representing in excess of 2.5% of the Company's issued share capital receive a standing invitation to meet with the Chairman, the Senior Independent Director, or Non-executive Directors. Such meetings supplement if necessary, but do not replace, the regular meetings with the Chief Executive and the Group Finance Director. The Board is kept informed of the views, needs and expectations of shareholders through periodic reports including, but not limited to, market feedback on Investor Relations, shareholding analysis and consensus.

Other Statutory Information

Acquisitions
During the year, the following acquisitions were made: (i) NanoSight Limited, a leader in the design and development of particle size measurement instrumentation for a total consideration of £16.4 million (£14.6 million net of cash acquired); (ii) certain trade and other assets of a previously held associate, Naneum Limited, for £1.3 million: this company specialises in the detection and characterisation of airborne nanoparticles; (iii) the trade and software-related assets of PROdry Technology Inc., a US business with expertise in tissue process consulting.

The total cost of acquisitions during the year was £18.2 million with a further £0.5 million deferred and expected to be paid in future years. Included within the £18.2 million is £1.5 million which was paid in respect of prior year acquisitions and £1.3 million which was spent on acquisition-related legal and professional fees.

Disposals
In January 2013, the Company completed the sale of the Fusion UV business (part of the In-Line Instrumentation segment) to Heraeus Holding GmbH for US$175 million.

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 23 on page 113. The Articles of Association of the Company, available on the Company's website, contain provisions governing the ownership and transfer of shares.

At the 2013 Annual General Meeting, shareholders authorised the Directors to make market purchases of the Company's ordinary shares up to a maximum number of 11,742,000 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 26 February 2014, the Company had 125,005,123 ordinary shares in issue, of which 6,333,316 were held in Treasury. During the year 1,268,125 shares were transferred out of Treasury to meet the Company's obligations under its share plans with no shares being 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 2014 Annual General Meeting are proposals to renew the Directors' authority to allot shares up to prescribed limits.

At 26 February 2014, interests notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised the below. All significant holdings are held by institutional investors.

Black Rock, Inc.
11,750,765 shares (9.99% material interest)

Massachusetts Financial Services Company
5,952,015 shares (5.02% material interest)

Standard Life Investments Limited
5,914,919 shares (4.99% material interest)

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

The Capital Group Companies, Inc.
3,561,440 (3.03% material interest)

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 of Association ('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 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. Required amendments to the Articles are approved by shareholders in 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. 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 76 and in the supporting notes. A final dividend of 28.0p per ordinary share is proposed for the year to 31 December 2013 (2012: 25.5p). With the interim dividend, this makes a total for the year of 42.75p (2012: 39.0p). The final dividend will be paid on 25 June 2014 to shareholders on the register on 30 May 2014.

Directors

The Directors of the Company are named on page 41.

In accordance with the requirement of the UK Corporate Governance Code, each Director resigned at the 2013 Annual General Meeting and submitted themselves for election or re-election, with all Directors being elected or re-elected.

The Directors' total remuneration for the year and their interests in the shares of the Company and its subsidiaries at 31 December 2013 are disclosed in the Directors' Remuneration Report on pages 55 to 72.

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

Our auditor, KPMG Audit Plc, has instigated an orderly wind down of its business. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning their appointment will be put to the forthcoming Annual General Meeting of the Company. A resolution will also be proposed authorising the Directors to determine the auditor's remuneration.

Annual General Meeting

The Notice of Annual General Meeting to be held at Great Fosters, Stroude Road, Egham, Surrey, TW20 9UR, on Friday, 25 April 2014 at 12.30 p.m., is contained in a separate letter from the Chairman accompanying this report.

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.

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.

Other Statutory Information 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 Strategic Report, 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 the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Responsibility statement of the Directors in respect of the Annual Report and Accounts

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 Strategic 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 that they face.

By order of the Board

Roger Stephens
Secretary
27 February 2014

Directors' Remuneration Report

Letter from Russell King, Chairman of the Remuneration Committee.

Russell King
Chairman of the
Remuneration Committee

Dear Shareholder,

I am pleased to present to you the 2013 Directors' Remuneration Report. As you may be aware, this is the first report to be prepared under the reporting regime introduced this year by the Department for Business, Innovation & Skills. Last year, we sought to anticipate these requirements but the final regime, of necessity, requires a number of further changes to the layout of this report. I hope that you will agree that we have made a complex part of the Annual Report as clear and useful as possible. In particular, I have sought to highlight all of the key aspects in this covering letter to the more formal report.

Format of report

Over the following pages we have set out:

- the Company's forward-looking Directors' remuneration policy which, for the first time, is subject to a separate vote by shareholders at our 2014 AGM and, it is anticipated, every third year thereafter; and
- details of the implementation of our reward policy in 2013 including:
  - the governance surrounding pay decisions in 2013, members of the Committee and advisers to the Committee in 2013; and
  - details of what was paid, vested or awarded (conditional upon the application of performance tests) to Executive Directors in respect of the financial year ended 31 December 2013.

While various best practice guidelines recognise that companies may wish to build sufficient flexibility into any policy to anticipate future inflationary pressures, the Committee wishes to maintain its previous approach of only reviewing its remuneration framework every three years (other than the annual salary reviews) and, going forward, will align that review to the three-year life of the approved policy. On this basis, the Company will not reserve discretion to increase annual bonus or performance share plan ('PSP') award levels over the life of this policy. In addition, I personally also wish to assure you that your Committee is satisfied that the new arrangements proposed for 2014 and onwards (as explained later in this letter) are appropriate and that there is no intent, assuming no further material growth in the Company's FTSE ranking, to increase the Executive Directors' salaries over the life of this policy by more than average UK wage inflation.

General approach to remuneration strategy

Our policy of linking total reward closely to the performance of Spectris continues to underpin your Committee's consideration of executive remuneration. We aim to ensure that:

- the Company can attract, motivate and retain high calibre management capable of delivering the best possible performance for shareholders, commensurate with appropriate risk considerations;
- the cost to shareholders is no more than is necessary; and
- the arrangements are suitably aligned to the delivery of that success with a significant part of the Executive Directors' overall potential package being conditional upon the attainment of demanding performance conditions focused upon the delivery of sustainable profit growth and aligned with the Group's strategic objectives.

While your Committee wishes to maintain a generally conservative approach to executive pay levels, as I explained in my letter last year, it has been aware for some years that the overall quantum has fallen too far below the equivalent amounts available elsewhere and has considered this alongside a broader review of the applicable performance conditions.

Over recent years, despite the global recessionary environment, the Company has continued to perform well, with strong organic growth and value-enhancing acquisitions resulting in superior levels of return to shareholders. Whilst trading has been more difficult in 2013, the Board is committed to continuing that trend. Our remuneration strategy has been consciously conservative and has remained consistent for a number of years whilst the Company's success has led to it rising up the FTSE rankings (from 187 five years ago to 113 at the end of the 2013 financial year, achieving a 447% total shareholder return ('TSR') for our shareholders over that period). This has resulted in remuneration levels now being significantly behind the market. For example, the median level of total variable remuneration for chief executive officers of similar sized companies, as evidenced by a recent benchmarking study carried out by FIT Remuneration Consultants LLP, the Committee's remuneration advisers, was 325% of salary compared to our present level of 225% of salary.

Approach from 2014 onwards

Your Committee is committed to maintaining a conservative approach to senior executive remuneration and, therefore, no change to the current policy stance of maintaining moderately below median overall pay is proposed. However, having looked at comparative data, we consider it necessary to make material increases to remuneration packages in order to achieve even this policy. We believe that the best way of retaining and motivating the Executive team, and thereby to deliver upon our growth strategy, is to make a modest improvement to the annual bonus plan, move to higher levels of award under the PSP, and introduce a third, Economic Profit based, performance condition to awards under that plan.

Following consultation with all major shareholders, it is therefore proposed that each Executive Director's annual bonus opportunity should be increased to 125% of base salary (from 100%) and that future PSP awards for each Executive Director should be set at a limit of 200% of base salary (from 125%). A resolution will accordingly be put to the 2014 AGM to extend the life of the PSP for a further ten years, with an increase in the individual limit to the new level. Should approval be given for the PSP to be extended in this way, the current 200% of base salary share ownership guideline will be increased to 300%.

Going forward, therefore, PSP awards will be split as follows:

	Earnings Per Share ('EPS')	Total Shareholder Return ('TSR')	Economic Profit ('EP')
Proportion of award	1/3	1/3	1/3
Purpose	To reward the delivery of absolute growth in EPS over the three financial years commencing in the year of grant.	To reward the delivery of superior relative growth in TSR over the three years from grant.	To reward the consistent delivery of absolute growth in profits after reflecting the cost of capital invested in generating those profits over the three financial years commencing in the year of grant.
Measure	Growth in EPS in the final year of the performance period compared with the year prior to grant. EPS is defined as normalised EPS of the Company as disclosed in its full-year Financial Statements.	Measurement of the Company's TSR (share price plus reinvested dividends) relative to the constituents of the FTSE 250 (excluding investment trusts) over the performance period.	Meeting a targeted aggregate level of EP over the performance period. EP is defined as adjusted operating profit (being pre-tax and interest) less (capital employed x the Company's weighted average cost of capital ('WACC')). The WACC charge for the initial grant will be set at 12.5%, except that lower transitional rates will be applied for subsequent acquisitions. To protect shareholders, any impairment of goodwill over a performance period will be added back to capital employed.
Targets	CPI + 5% p.a. – 20% vesting CPI + 13% p.a. – 100% vesting (up from CPI + 12% p.a. previously)	Median – 20% vesting Upper quintile – 100% vesting	2014 – 2016 £260 million – 20% vesting £340 million – 100% vesting
Discretion	Consistent with market practice, this measure is assessed on a formulaic basis.	This element is also subject to an underpin that requires the Committee to be satisfied that TSR is reflective of the underlying financial performance of the Company.	Recognising that the measure is new for the Company, the Committee will monitor outcomes to ensure that they achieve the original objectives and may adjust the vesting accordingly. Any exercise of discretion will be justified in the next Directors' Remuneration Report.

The EP targets will be set by the Committee for each award after considering a range of inputs, including internal business plans and consensus forecasts. It is intended that the targets should be at least as challenging to achieve as the TSR and EPS performance condition ranges. This new performance condition will enhance focus on capital efficiency in the normal control of working capital and capital expenditure and also, particularly, the effective pricing and integration of acquisitions, thereby generating shareholder value.

To ensure that the Executive team is paid close to market levels (but in no case as high as median), it has been determined that the Chief Executive's and Group Finance Director's salaries should increase by 6% as from 1 January 2014. The salary for the Business Group Director will increase by 3.2%. The salaries for the Executive Directors will therefore be as follows:

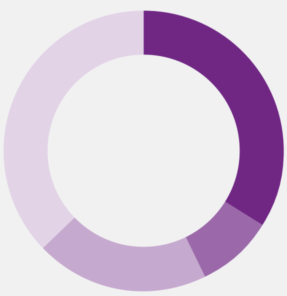
Director	2014 base salary
J E O'Higgins (Chief Executive)	£559,500
C G Watson (Group Finance Director)	£355,400
J C Webster (Business Group Director)	£292,000*

*which reduced to £146,000 from 1 February 2014.

Mr S Blair, Business Group Director, resigned from the Board effective 25 February 2014 and was not considered for a salary review at 1 January 2014. Mr J C Webster will retire from the Board at, or before, 30 June 2014 after over 20 years' service and was awarded a normal increase. In the period from 1 February 2014 to his retirement, Mr J C Webster has agreed to a halving of his salary to reflect his reduced time commitment over this period to retirement.

Following these one-off adjustments, and as referred to above, I anticipate that increases over the next two years will be confined to UK wage inflation generally.

The anticipated reward mix after the above changes for the Chief Executive, Group Finance Director and Business Group Director will be as shown in the chart below. This assumes Performance Share Plan awards with a value on grant equal to 200% of the Director's base salary leading to an expected vesting of 55% of the award (110% of base salary) and an annual bonus on-target expectation of 60% of salary.



2013 out-turn

The Spectris Executive team has produced creditable results for 2013 in uncertain macro-economic conditions with shareholders receiving a TSR over the year of some 27%. However, adjusted profit before tax fell during the year, albeit in part as a result of the Fusion UV disposal, and there was therefore only a very modest payment of 1.5% under the 75% of the annual bonus plan assessed by reference to this measure. Good progress was achieved against the personal measures set in respect of 2013, reflecting significant progress on strategic milestones and, accordingly, an average bonus for Executive Directors of 14.2% out of the 25% of total potential assessed against such measures was paid.

The Company has enjoyed good absolute and relative growth over the years 2011 to 2013, with adjusted EPS increasing by 53%, the share price by 92%, and the annual dividend per share by 53% over that period. Consequently, the PSP awards maturing on 11 April 2014 are expected to show vesting toward the upper half of both the EPS and TSR ranges.

Whilst only a snapshot in time, at the end of 2013, the PSP grants maturing in 2015 were on track for above median TSR vesting, although are unlikely to vest on the EPS performance condition due to the high 2011 base year EPS out-turn. The grants made in February 2013 are too early in their three-year performance period to make reliable predictions as to outcome.

The overall pay of the Executive Directors is set out on page 68 of this report. As a result of the significantly reduced bonus out-turn, the overall result is a reduction of the Chief Executive's total pay of some 22%.

I hope that you will agree that your Committee has taken appropriate steps on your behalf to set an appropriate remuneration strategy for the Company linked to the experience of our shareholders and that you will support the various resolutions on remuneration-related matters being put to you at the Annual General Meeting.

Yours faithfully

Russell King
Chairman of the Remuneration Committee
27 February 2014

The Directors present their Remuneration Report for the year ended 31 December 2013.

Remuneration Committee

The Committee is responsible for recommending to the Board the 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). No member of the Committee is a serving executive at another UK listed company. The Chairman and Chief Executive may be in attendance by invitation and the Committee takes into consideration their recommendations regarding the remuneration of their executive colleagues. Neither are involved in discussions concerning their own remuneration.

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

- total individual remuneration packages, including bonuses and share-based incentives for the Executive Directors;
- targets for any performance-related incentives;
- the scope of any pension arrangements;
- contractual terms of engagement and any payments to be made on termination for the Executive Directors; 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 ('FIT') was appointed in August 2011 to advise the Committee on various aspects of the Chairman's and Executive Directors' remuneration. FIT's Mr J Lee provides such advice to the Committee. Neither FIT nor Mr Lee provides any other services to the Company. New Bridge Street ('NBS') separately provides 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. NBS does not provide any other services to the Company. FIT was paid £58,909 in respect of services undertaken in 2013 (2012: £42,597). NBS was paid £28,298 in respect of services undertaken in 2013 (2012: £33,847). These fees were charged on the basis of each firm's standard terms of business. Both FIT and NBS are members of the Remuneration Consultants Group and adhere to its Code of Conduct. The firms were appointed by the Committee following appropriate consideration of their experience and their knowledge of the Company's business. The Committee is therefore satisfied that the advice which it received, and continues to receive, is objective and independent.

Remuneration policy implementation statement

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 Directors' remuneration policy, if approved by shareholders at the 2014 AGM, will be implemented in the 2014 financial year and seeks to ensure that the high calibre individuals required at board level are a) fairly and competitively remunerated and b) 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.

Directors' remuneration policy

The Company intends that, subject to shareholder approval, the following Directors' remuneration policy will take effect from 25 April 2014, being the date of the AGM.

The table below describes each component of the remuneration package applicable to the Executive Directors:

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 triennially against relevant comparators.	The current intent is to limit any increases for Executive Directors to the average increase for general UK wage inflation, although the Committee reserves the right to award increases in excess of this should it consider that to be appropriate. The general policy is to limit salaries to the median for the roles. However, as a formal cap is required, no increase will be made if it would take an Executive Director's salary above (or, if already above, further above) 110% of the median level of the salaries of executives with that role within a comparator group of companies which, when or shortly prior to when the increase is proposed, are ranked by market capitalisation within plus or minus 20 companies of Spectris.	Reflects both 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 £559,500, the Group Finance Director's to £355,400 and the Business Group Director's to £292,000 with effect from 1 January 2014 (with the latter then reduced on 1 February 2014 to £146,000).
Annual bonus	Drives short-term profit performance. Incentivises Executive Directors to achieve specific pre-determined 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 the minimum holding of three times base salary is achieved. Payable in cash. Clawback provisions enable variable remuneration to be reclaimed under exceptional circumstances, were there to be any miscalculation of entitlement, misstatement of accounts, or incidence of fraud.	Increased to 125% of salary from 2014 (previously 100%).	The performance measures to be applied will be assessed annually and may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. Once set, performance measures will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions. A minimum (threshold) level of performance will result in a 1% of salary bonus. At target this is 60% of salary and at maximum, this will be 125% of salary.	The following bonus levels were achieved on 2013 performance: Chief Executive: 20.0%; Group Finance Director: 16.0%; Business Group Directors: 17.6% and 9.3%. Performance measures for 2014's annual bonus are determined by reference to adjusted profit before tax (80% of potential) and personal targets (20% of potential) as further described in the notes following this table. This increases the previous weighting on financial measures from 75% of bonus potential.

Element of remuneration package	Relevance to the Company's short and long-term strategic objectives	Operation	Maximum potential value	Performance metrics	Implementation of policy*
The Spectris Performance Share Plan ('PSP')	Drives the delivery of sustained compound annual growth in Earnings Per Share ('EPS'), relative out-performance in Total Shareholder Return ('TSR'), and increased Economic Profit ('EP').	Awards made annually, with a three-year vesting duration. The Committee may modify the terms for future awards provided they are not, in the view of the Committee, overall more favourable to participants. Subject to similar clawback provisions as described above for annual bonus. Awards may be made in the standard form of awards to receive shares for nil or nominal cost (with the shares either being delivered automatically at vesting or being delivered at a time following vesting at the individual's choice), forfeitable awards of shares or in the form of cash-based conditional awards. The Company also has scope to satisfy the above awards using an HMRC approved Executive Share Option Scheme (which permits market value share options to be awarded subject to the HMRC's limit of, currently, £30,000). The Company will honour the vesting of all awards granted under previous policies in accordance with the terms of such awards.	Subject to shareholder approval, to increase to 200% of salary from 2014 (currently 125%). Notional reinvestment of dividends will apply from date of grant to date of vesting.	The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). Once set, the performance conditions will generally remain unaltered, except that the Committee will have a standard ability to vary the terms of existing performance conditions to take account of technical changes, for example changes in accounting standards or the takeover of a company in the TSR comparator group, or if an event occurs that causes the Committee to consider that the performance condition can no longer achieve its original purpose. However, the amended performance condition will have to be, in the Committee's view, no less challenging as a result of the change. Specifically for the proposed Economic Profit performance measure for PSP awards in 2014 and potentially future years, recognising that the measure is new for the Company, the Committee will monitor outcomes to ensure that the performance condition achieves the original objectives and may adjust the vesting accordingly. Any exercise of discretion will be justified in the next Directors' Remuneration Report.	2013 awards were made to Executive Directors over shares equal to 125% of the Director's base salary and subject to the EPS and TSR performance conditions. 2010 awards maturing in the year vested in full. Details of the proposed performance measures and performance targets for PSP awards to be made in 2014 are described in the Committee chairman's letter. A minimum level of performance against each performance measure will result in 20% of that portion of the award vesting, with maximum performance delivering 100% vesting. Pro-rata straight line vesting operates between these percentages.

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 or allowances, private fuel and medical expenses, life and disability insurance. Pension and benefits in kind are benchmarked periodically.	25% of salary company pension contribution and/or taxable allowance in lieu. It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits and so a monetary limit of £30,000 p.a. post tax per Executive Director has been set for the duration of this policy although, clearly, the Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Committee considers to be appropriate in all the circumstances. Where the requirements of the business involve a Director relocating, the Company may make a payment towards related expenses of up to £60,000. While not practice to date, the Committee may award additional expatriate allowances if such a relocation is to outside the UK of up to a further £30,000 p.a. A departing gift may be provided up to a value of £2,500 per Director.	Not applicable to this element.	No changes were made to these remuneration elements within the year.
All-employee share plans	The Spectris Savings Related Share Option Scheme is operated to encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of shareholders.	Individuals may save up to a maximum of £250 per month (or such other level as permitted by the relevant legislation – this is due to increase to £500 per month from April 2014) for a fixed period of three years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company. There is flexibility to set an exercise price at a discount (currently capped at 20%) to the market price set at the launch of each scheme although Spectris does not currently offer such a discount.	Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees.	Consistent with normal practice, such awards are not subject to performance conditions.	Grants of options are ordinarily made to Group employees on an annual basis.

Element of remuneration package	Relevance to the Company's short and long-term strategic objectives	Operation	Maximum potential value	Performance metrics	Implementation of policy*
Share ownership guidelines	To encourage share ownership by the Executive Directors and ensure their interests are aligned with shareholders.	Executive Directors are required to apply the post-tax benefit of any vested PSP awards or any bonus payments exceeding 60% of base salary to the acquisition of shares until the required level of shareholding is achieved.	Each Executive Director is, subject to personal circumstances, required to build a retained shareholding in Spectris plc of at least two times base salary in value within a five-year period from appointment. If the amendments to the PSP proposed at the 2014 AGM are approved, this guideline will be increased to three times base salary.	Not applicable to this element.	

*This column does not technically form part of the policy but assists with understanding.

Notes

1. Rationale for performance measures chosen.

   a. Annual bonus – The performance conditions used to determine bonus achievement are 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.

   b. PSP – the rationale for the EPS, TSR and EP performance measures that will apply to PSP awards to be made in 2014 is set out in detail in the letter from the chairman of the Remuneration Committee at the start of this report.

2. Differences between the policy on remuneration for Directors from the policy on remuneration of other employees.

   Where the Company's pay policy for the Executive Directors differs to its pay policies for groups of employees, this reflects the appropriate market rate position for the relevant roles.

3. While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by Spectris or another) and business travel for Directors may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.

The table below describes the remuneration policy applicable to the Chairman and the Non-executive Directors:

Element of remuneration package	Relevance to the Company's short and long-term strategic objectives	Operation	Maximum potential value	Performance metrics	Implementation of policy
Fees	Competitive fees that enable Spectris to attract able and experienced directors.	Reviewed biennially and determined by reference to market practice. Base fee is supplemented by allowances for chairmanship of the Audit and Risk and Remuneration Committees, travel allowance and chairmanship of the Pension Scheme Trustee board. The Board reserves the right to vary the basis for setting fees (such as introducing Committee membership fees) should it consider that to be appropriate, and should it choose to establish a Senior Independent Director role in the future, an additional fee may be payable to the Director fulfilling that position. There is no participation in bonus, share plan, or pension arrangements. The Company reserves the ability to provide the Company Chairman with certain benefits in kind and/or a contribution towards the provision of office facilities where appropriate, although the current Chairman does not presently receive such benefits. A departing gift may be provided up to a value of £2,500 per Director.	The aggregate fees of the Chairman and Non-executive Directors will not exceed the limit from time to time prescribed within the Articles.	Not applicable to this element.	The Chairman's fee and the Non-executive Directors' fees were increased from 1 January 2013 and will next be reviewed with effect from 1 January 2015. Their current fees are: ■ Chairman: £180,000 inclusive of all Committee fees ■ Base fee: £50,000 ■ Chair of each of Audit and Risk and Remuneration Committees: £8,000 ■ Travel supplement for US-based Director: £7,500 (M B Wyrsch) ■ Additional fee for chairing the Spectris Pension Trustees Limited board (J A Warren): £17,500. The aggregate fees of the Chairman and Non-executive Directors will not exceed the limit from time to time prescribed within the Articles (currently £500,000 p.a.) including where this limit is extended in the policy period by amendments to the Articles approved by the Company's shareholders in general meeting.

Notes

1. It is not the policy of the Company to provide benefits to the Chairman or the Non-executive Directors. However, while the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by Spectris or another) and business travel for Directors may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.

Recruitment remuneration

The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives to strengthen the management team and secure the skill sets to deliver the Company's strategic aims.

- In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to look to the general policy for Executive Directors as set out above and structure a package in accordance with that policy. Consistent with the new regulations, the caps contained within the general policy for fixed pay technically do not apply to a recruit, although the Committee would not envisage exceeding such caps in practice.
- Ignoring any special recruitment arrangements which may prove to be necessary, the annual bonus and long-term incentive arrangements will operate (including the maximum award levels) as detailed in the general policy in relation to any newly appointed Executive Director.
- For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.
- For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.
- Where it is necessary to make a recruitment-related pay award to an external candidate, the Company will not pay more than is in the view of the Committee necessary. Details of any recruitment-related awards will be appropriately disclosed.
- All awards for external appointments, whether under the annual bonus, PSP or otherwise, to compensate for awards forfeited on leaving their previous employer, will be capped at the commercial value of the amount forfeited and will take account of the nature, time-horizons and performance requirements of those awards. In particular, the Committee's starting point will be to ensure that any awards being forfeited which remain subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement requirements and any awards with service requirements are bought out with similar terms. However, exceptionally, the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the view of the Committee, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited. It will only include guaranteed or non-pro-rated amounts under the annual bonus where the Committee considers that it is necessary to secure the recruitment. All such awards for external appointments will take account of the nature, time-horizons and performance requirements for any remuneration relinquished by the individual when leaving a previous employer, and will only include guaranteed sums where the Committee considers that it is necessary to secure the recruitment.
- For the avoidance of doubt, such buy-out awards to compensate for awards forfeited are not subject to a formal cap and may be made under Listing Rule 9.4.2. The Committee has not placed a maximum limit on any such awards which it may be necessary to make as it is not considered to be in shareholders' interests to set any expectations for prospective candidates regarding such awards. Any recruitment-related awards which do not replace awards with a previous employer will be subject to the limits for incentive pay as stated in the general policy.

A new Chairman or Non-executive Director would be recruited on terms consistent with the main policy for such Directors.

Termination arrangements

It is the practice of the Committee to consider the treatment on termination having regard to the relevant facts and circumstances. The contracts permit the Committee to make payment on a monthly basis with payments reducing or ceasing if the individual finds another position during the notice period and termination arrangements will normally follow this approach. However, the Committee reserves the power to negotiate a single lump-sum payment on termination if it considers that to be in the interests of the Company and will have full regard to the duty to mitigate if it does so.

Ordinarily, no bonus payments would be made and all share awards would lapse following termination. Under certain circumstances, however (e.g. 'good leaver' provisions covering retirement and ill-health), bonus entitlements may be payable, calculated to the date of termination only. Additionally, awards made under the PSP will remain exercisable subject to time pro-rating and the application of the performance conditions at the measurement date (which will not be brought forward except on a change of control). The Committee also retains a standard ability to vary the application of time pro-rating for PSP awards where it considers it fair and reasonable to do so.

In addition, and consistent with market practice, in the event of termination of an Executive Director, the Company may pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees would be disclosed as part of the detail of termination arrangements. Should it become necessary to make additional payments in respect of such professional fees that were not ascertained at the time of reporting, the Company may do so up to a level of a further £10,000. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

The Committee may also, after taking appropriate legal advice, sanction the payment of additional sums in settlement of potential legal claims.

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' and Mr Watson'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. This was reduced, in 2011, from the previous level of 1.65 times to exclude any element of compensation for loss of bonus and is 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 in this event full mitigation applies reflective of any earnings from a new position (reducing the payments otherwise due from the Company during the notice period). This phased payment provision, subject to reduction as explained above, applies in lieu of all remuneration and benefits otherwise payable during the notice period. The 0.4 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. Whether the Board elects to apply this payment in lieu option will depend on the circumstances underlying termination and its assessment of the best interests of shareholders at the time. Any bonus payment to a good leaver will be calculated to the date of termination only.

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 remuneration – salary, bonus and benefits – for the notice period) 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. Following the year end, it was announced that Mr Webster will retire from the Board in the first half of 2014. As this is a retirement after over 20 years' service, he will not receive any compensation payments and will simply receive his salary and fixed benefits to the time of retirement. He will be eligible for a pro-rated (for both time and the reduction in his salary) bonus for the period of employment in 2014 at the on-target level provided he continues to perform at a good level and fulfils the various tasks set by the Board, including assisting with the transition to the new management structure. He will also retain all outstanding PSP awards (which remain subject to performance conditions and will be pro-rated for time).

Mr Blair ceased to be a Director on 25 February 2014, having served notice in October 2013. Again, no compensation payments will be made and he will simply receive his salary and fixed benefits to the time of cessation. He will not be considered for a bonus for 2014 and all outstanding PSP awards have lapsed. He was considered for a bonus for 2013 on the normal basis.

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 subsequent updates to the NAPF policy. 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.

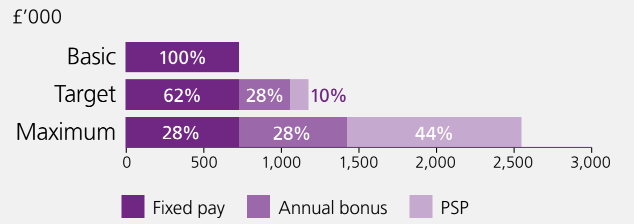
The following table sets out a summary of the Directors' service contracts or terms of appointment. Executive Directors' service contracts provide, subject to statutory rights, for automatic termination on the Director reaching the age of 65.

	Date of contract	Expiry date	Notice period	Length of service at 27 February 2014
Executive Directors				
J E O'Higgins	1.1.06	3.2.29	12 months	8 years 1 month
C G Watson	1.10.06	4.2.23	12 months	7 years 4 months
J C Webster	27.3.98	21.6.15	12 months	20 years 4 months
Non-executive Directors				
P A Chambré	1.8.06	renewable at each AGM	6 months	7 years 6 months
J L M Hughes	1.6.07	renewable at each AGM	6 months	6 years 8 months
R J King	12.10.10	renewable at each AGM	6 months	3 years 4 months
J A Warren	7.3.06	renewable at each AGM	6 months	7 years 11 months
M B Wyrsch	1.6.12	renewable at each AGM	6 months	1 year 8 months

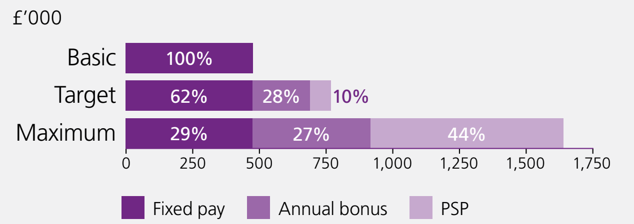
Non-executive Directors
All Non-executive Directors' conditions of appointment provide for a six-month period of notice and are renewable at each Annual General Meeting, subject to review prior to proposal for re-election. There is a presumption that appointments will not continue beyond nine years in office, at which time Non-executive Directors cease to be regarded as independent under the UK Corporate Governance Code.

Range of remuneration expectations
The following graphs show the remuneration each of the Executive Directors is expected to receive if their performance fails to meet threshold (basic), attains target or achieves maximum under the revised proposals for variable remuneration to be approved at the 2014 AGM.

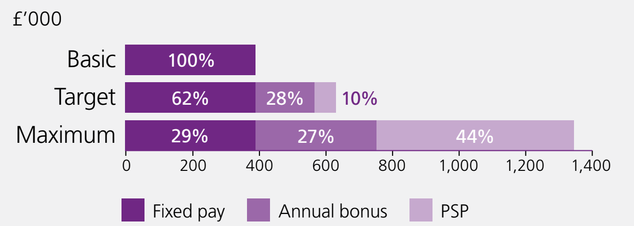
Chief Executive's remuneration



Group Finance Director's remuneration



Business Group Director's remuneration



Notes
Fixed pay includes: base salary, pension, pension salary supplement, all-employee share plan participation, benefits in kind and taxable expenses.

Annual bonus is based on a percentage of base salary: at target level this is 60%; at maximum level this is 125%.

PSP is based on a percentage of base salary: at target level this is 20%; at maximum level this is 200%; all percentages being based upon share price at date of grant and exclude the impact of dividend re-investment.

Each bar shows the percentage of the total comprised by each of the parts.

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 Presidents of each of the Group's operating businesses are taken into consideration, notwithstanding that these reflect such businesses' particular trading position and the geographical and technical employment markets in which they operate.

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 £148,000 and £330,000. Additionally, the Group's Presidents participate in share awards under the PSP (typically over 60% of base salary) and in profit-related bonus arrangements linked to base salary and payable according to their business's achievement of 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 approximately 30% bonus, with the upper limit of the profit range delivering 100% of base salary.

Below this level, a range of different incentive arrangements apply as appropriate to the business, geography and level.

The Company did not consult with employees in drawing up this report and no remuneration comparison measures were used.

Consideration of shareholders' views
The revised proposals for the Executive Directors' remuneration were the subject of consultation with all shareholders having a holding in excess of 2% of the issued share capital and with NAPF, ABI and ISS/RREV. The 2012 Directors' Remuneration Report was supported by 89% of those registering votes by proxy in advance of the 2013 AGM as can be seen from the table below:

	For		Against		Abstain	
	No.	%	No.	%	No.	%
To approve the Directors' Remuneration Report for the year ended 31 December 2012	73,871,078	89%	6,989,858	8%	2,242,234	3%

Implementation of remuneration policy

Directors' remuneration and interests

KPMG Audit plc, the Company's external auditor, is required to report if certain information disclosed below has been prepared in accordance with the Companies Act 2006. The information subject to audit is clearly identified below.

Single total figure of remuneration (subject to audit)
The single figure for the remuneration of each Director who served during the year is as follows:

£'000		J E O'Higgins	C G Watson	J C Webster	S Blair	J L M Hughes	P A Chambré	R J King	J A Warren	M B Wyrsch
A. Base salary/fees	**2013**	**528**	**335**	**283**	**270**	**180**	**50**	**58**	**76**	**58**
	2012	506	318	271	N/A	165	42	50	67	29
B. Taxable benefits	**2013**	**19**	**20**	**21**	**14**	**–**	**–**	**–**	**–**	**–**
	2012	19	19	21	N/A	–	–	–	–	–
C. Bonus	**2013**	**106**	**54**	**50**	**25**	**–**	**–**	**–**	**–**	**–**
	2012	359	228	187	N/A	–	–	–	–	–
D. Performance Share Plan and Save As You Earn	**2013**	**1,387**	**888**	**792**	**N/A**	**–**	**–**	**–**	**–**	**–**
	2012	1,765	1,149	1,045	N/A	–	–	–	–	–
E. Pension-related benefits	**2013**	**132**	**83**	**71**	**68**	**–**	**–**	**–**	**–**	**–**
	2012	127	79	68	N/A	–	–	–	–	–
Total	**2013**	**2,172**	**1,380**	**1,217**	**377**	**180**	**50**	**58**	**76**	**58**
	2012	2,776	1,793	1,592	N/A	165	42	50	67	29

The total aggregate base salaries, fees, benefits, cash bonuses and share schemes for all Directors in 2013 was £5,568,000 (2012: £6,514,000).

Annual bonus was achievable up to 100% of base salary, based on profit before tax (75% potential) and personal (25% potential) targets. Bonuses achieved in respect of 2013 performance, based on the targets set at the start of the financial year, were as follows (as a percentage of salary at 31 December 2013):

J E O'Higgins	20.0%
C G Watson	16.0%
J C Webster	17.6%
S Blair	9.3%

Within the above bonus payments for Mr O'Higgins, Mr Watson, Mr Webster and Mr Blair, 1.5% related to the profitability target and the balance to achievement of personal objectives.

The profitability bonus range established by the Committee for 2013 reflected the disposal of Fusion UV and was as follows:

Bonus level	0%	37.5%	75%
Adjusted profit before tax	£205m	£220m	£235m

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. The Business Group Directors' objectives included working capital and business segment strategic development.

No amount of bonus was deferred.

Similar targets have been set for 2014 and the Committee will report those targets in next year's report (considering the financial targets to be commercially sensitive prior to the end of the financial year).

Taxable benefits are company cars, private fuel, allowances paid in lieu of company cars and private fuel, medical expenses insurance and travel allowance.

PSP values for 2013 represent:

- The actual value at vesting of those shares subject to a TSR performance condition (date of vesting in 2013: 8 March) for the 2010 PSP grant; and
- The number of shares expected to vest in respect of the portion of the 2011 PSP award subject to an EPS growth condition measured to 31 December 2013 and anticipated to vest in 2014, multiplied by the three-month average share price to 31 December 2013 (2336p). The targets for the EPS growth condition were as shown in the following section. An outcome equivalent to EPS growth at CPI, plus 3.3% compound p.a. was achieved, giving 100% vesting.

PSP values for 2012 represent:

- The actual value at vesting of those shares subject to a TSR performance condition (date of vesting in 2012: 25 February) for the 2009 PSP grant; and
- The number of shares vested on 8 March 2013 in respect of the portion of the 2010 PSP award subject to an EPS growth condition measured to 31 December 2012, multiplied by the share price on 8 March 2013 (2374p).

Mr S Blair, who was appointed a Director on 7 January 2013, had 46,750 shares under option under the PSP. These lapsed on the announcement of his resignation from Spectris in November 2013. Of these, 14,020 shares under option were granted subsequent to his appointment as a Director; as the granting and lapsing occurred in the same year, no remuneration or clawback is included in the above table.

Performance Share Plan
Awards to date 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%

As referred to in the letter from the Committee chairman, for awards made in 2014, the minimum level of performance achievement will result in 20% of the award vesting.

The 2010 award maturing in March 2013 vested in full against both the EPS and TSR targets. The TSR performance condition is measured independently by 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 relative TSR performance is reflective of its underlying financial performance. The Committee was so satisfied in relation to the 2010 award which vested in 2013.

The proposed Economic Profit performance condition for awards post the 2014 AGM would have the following vesting range:

Aggregate Economic Profit over the performance period	% of award subject to the Economic Profit condition vesting
Less than £260 million	Nil
£260 million	20%
Between £260 million and £340 million	Between 20% and 100% on a straight line basis
£340 million or more	100%

Pension entitlements (subject to audit)
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 £1.25 million and the introduction of a maximum pension contribution allowance of £40,000 p.a. (both from April 2014), the Executive Directors are entitled, at their option, to a taxable salary supplement in lieu of some or all of such pension contributions.

Directors' shareholdings (subject to audit)
Each Executive Director is, subject to personal circumstances, required to build a retained shareholding in Spectris plc of at least 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 PSP 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

Should the proposed changes to the PSP be approved at the 2014 AGM, the share retention requirement will increase to three times base salary.

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%	1,128%	564%
C G Watson	200%	807%	404%
J C Webster	200%	1,896%	948%

The following Directors or their families had beneficial interests in the ordinary shares of the Company:

	Shareholdings	
	2013 31 Dec	2013 1 Jan (or date of appointment)
J L M Hughes	**8,000**	8,000
J E O'Higgins	**256,574**	132,574
S Blair	**393**	–
P A Chambré	**5,694**	5,584
R J King	**3,000**	3,000
J A Warren	**3,000**	3,000
C G Watson	**116,602**	54,000
J C Webster	**112,570**	135,000
M B Wyrsch	**3,000**	–

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

External appointments

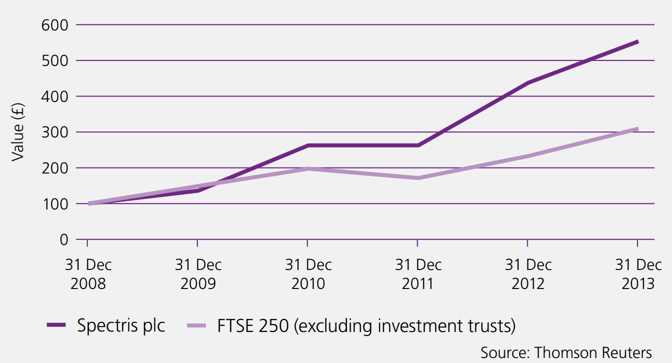
Executive Directors may retain any payments received in respect of external non-executive appointments. Such appointments are limited to one per Director at any time and are subject to the approval of the Board. Mr O'Higgins is a Non-executive Director of NASDAQ-listed Exide Technologies and was paid a fee of US$99,500 during 2013. Mr Watson is a Non-executive Director of Spirax-Sarco Engineering plc and was paid a fee of £53,000 during 2013. No other external directorships are held by the Executive Directors.

Performance graph and table

The table below shows the total remuneration of the Chief Executive over a five-year period, as well as the bonus award and Performance Share Plan vesting rates against maximum opportunity for that period.

J E O'Higgins	Single figure of total remuneration £'000	Bonus award rates against maximum opportunity %	PSP vesting rates against maximum opportunity %
2013	**2,172**	**20**	**100**
2012	2,995	70	100
2011	1,481	100	100
2010	1,104	95	89
2009	849	0	33

The below graph shows TSR on a holding of shares with £100 value over the previous five years compared with that of the FTSE 250 as a whole.

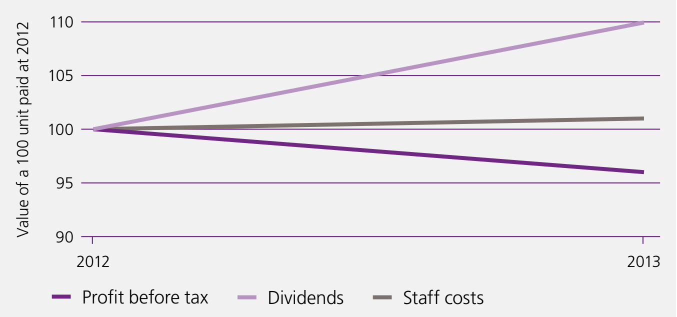


Percentage change in the remuneration of the Chief Executive

The base salary and taxable benefits of the Chief Executive increased by 4.3% and 0%, respectively, in 2013. The 2013 bonus of the Chief Executive (paid in March 2014) reduced by 70.5% compared to 2012. This compares to a 2.5% base salary increase awarded on average to Presidents of the Group's trading companies, an increase in their taxable benefits of 19.8% and a reduction in their bonuses of 62.6%, in 2013. Your Committee considers this group to be the most appropriate comparator as they are the immediate tier of management below Board level.

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 prior financial year.



As the Company's principal measure of profitability, adjusted profit before tax was chosen by the Directors as a comparator to the spend on pay. Adjusted profit before tax is calculated by taking the statutory profit before tax and adjusting it for certain non-operational items defined by the Company.

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

	Date granted	Options held 1 Jan 13	Granted during the year	Exercise price (p)	Exercised during the year	Face value of option at date of grant (£)	Share price at date of exercise (p)	Lapsed during the year	Options held 31 Dec 13	Date exercisable	Expiry date
J E O'Higgins											
SAYE	Oct 2012	530	–	1,695	–	8,983		–	530	Dec 2015	Jun 2016
Total		**530**				**8,983**			**530**		

Directors' share awards under the Spectris Performance Share Plan (subject to audit)

	Number of shares subject to award at 1 Jan 13	Date granted	Exercise price (p)	Granted during the year	Addition of reinvested dividends*	Face value of award at date of grant (£)	Exercised during the year	Market price at exercise (p)	Lapsed during the year	Number of shares subject to award at 31 Dec 13	Market value of each share at date of award (p)	Performance period end date/date exercisable	Expiry date
J E O'Higgins													
	29,709	Feb 2008	5			233,661	(29,709)	1,907.5		–	786.5	Feb 2011	Feb 2018
	108,388	Feb 2009	5			470,945	(108,388)	2,097.9		–	434.5	Feb 2012	Feb 2019
	65,400	Mar 2010	5		4,943	535,299	(62,817)	2,114.6		–	818.5	Mar 2013	Mar 2020
		Mar 2010	5				(7,526)	2,097.9		–			
	44,600	Apr 2011	5			624,846				44,600	1,401.0	Apr 2014	Apr 2021
	36,780	Feb 2012	5			624,965				36,780	1,699.2	Feb 2015	Feb 2022
		Feb 2013	5	27,370		659,617				27,370	2,410.0	Feb 2016	Feb 2023
	284,877									**108,750**			
C G Watson													
	70,912	Feb 2009	5			308,112	(70,912)	1,907.5		–	434.5	Feb 2012	Feb 2019
	42,800	Mar 2010	5		3,802	350,318	(46,602)	2,080.0		–	818.5	Mar 2013	Mar 2020
	27,600	Apr 2011	5			386,676				27,600	1,401.0	Apr 2014	Apr 2021
	22,800	Feb 2012	5			387,417				22,800	1,699.2	Feb 2015	Feb 2022
		Feb 2013	5	17,390		419,099				17,390	2,410.0	Feb 2016	Feb 2023
	164,112									**67,790**			
J C Webster													
	38,900	Mar 2010	5		2,940	318,396	(41,840)	2,129.3		–	818.5	Mar 2013	Mar 2020
	23,900	Apr 2011	5			334,839				23,900	1,401.0	Apr 2014	Apr 2021
	19,710	Feb 2012	5			334,912				19,710	1,699.2	Feb 2015	Feb 2022
		Feb 2013	5	14,670		353,547				14,670	2,410.0	Feb 2016	Feb 2023
	82,510									**58,280**			
Total	**531,499**			**59,430**	**11,685**	**6,342,649**	**(367,794)**			**234,820**			

25% of award shares are receivable on achievement of minimum performance and 100% for maximum.

* Under the terms of the PSP, notional dividends of the Company are applied over award shares during the performance period and exercise period to date of exercise (which will reduce to date of vesting for 2014 grants onwards), 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, had 46,750 shares under option under the PSP. These lapsed upon the announcement of his resignation from Spectris in November 2013.

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 average of the mid-market closing price of the Company's shares over the five business days prior to the date of grant, which was 2,410p for the 2013 awards. For each of Mr O'Higgins, Mr Watson, Mr Webster and Mr Blair, the value of the 2013 award was equivalent to 125% of their base salaries. Details of the performance measures applicable to 2013 PSP awards are set out in the earlier section describing the PSP. The face value is the maximum number of shares that would vest multiplied by the share price at the date of grant. If the base targets are not achieved, no shares vest.

The awards granted to Mr O'Higgins, Mr Watson and Mr Webster in 2010 of 65,400, 42,800 and 38,900 shares, respectively, became exercisable during the year and were exercised 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 PSP operates within the dilution limits laid down by the Association of British Insurers. 3.8% of the 5% limit has been utilised.

Mr O'Higgins exercised and retained all 29,709 shares arising from the second part of his 2008 award on 19 April 2013. The gain on exercise was £565,213.

Mr O'Higgins retained 33,140 shares arising from the part exercise of his 2010 award on 21 May 2013 and sold 29,677 shares. The gain on exercise was £1,325,200.

Mr O'Higgins retained 61,151 shares arising from the exercise of the second part of his 2010 award (7,526 shares) and the exercise of his 2009 award (108,388 shares) on 22 May 2013 and sold 54,763 shares. The gain on exercise was £2,426,010.

Mr Watson retained 41,000 shares arising from the exercise of his 2009 award on 19 April 2013 and sold 29,912 shares. The gain on exercise was £1,349,100.

Mr Watson retained 23,102 shares arising from the exercise of his 2010 award on 30 May 2013 and sold 23,500 shares. The gain on exercise was £966,991.

Mr Webster sold all 41,800 shares arising from the exercise of his 2010 award on 20 May 2013. The gain on exercise was £888,811.

The aggregate gains on exercise for all Directors under the Company's share plans were thus £7,521,325 (2012: £1,156,120).

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

Interest in contracts
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.

Share price
At 31 December 2013, the middle market closing share price on the London Stock Exchange was 2,561p. The highest share price in the year was 2,561p and the lowest was 1,834p.

Loans to Directors
During the year there were no outstanding loans to any Director.

By order of the Board

Russell King
Chairman of the Remuneration Committee
27 February 2014

Company No. 2025003

Independent Auditor's Report

To the members of Spectris plc only

Opinions and conclusions arising from our audit

1. Our opinion on the Financial Statements is unmodified
We have audited the Financial Statements of Spectris plc for the year ended 31 December 2013 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. 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 2013 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU);
- the Parent Company Financial Statements have been properly prepared in accordance with UK Accounting Standards;
- 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.

2. Our assessment of risks of material misstatement
In arriving at our audit opinion above on the Group Financial Statements the risks of material misstatement that had the greatest effect on our Group audit were as follows:

Goodwill and other intangibles:
Refer to page 49 (Audit and Risk Committee Report), page 83 (accounting policy) and page 103 (financial disclosures).

- *The risk:* The Group's cash-generating units operate across a wide range of markets, products and geographies. The assessment of the recoverability of the goodwill attributable to these cash-generating units is reliant on the future performance of the Group across these areas. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit is concentrated on.
- *Our response:* In this area our audit procedures included, among others, using our own valuation specialists to the extent necessary to assist us in evaluating the key assumptions and methodologies used by the Group, in particular those related to more recent acquisitions. We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, margins, profit to cash conversion, cost inflation, foreign exchange and discount rates and applied sensitivities to the assumptions used by the Group. We compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. For more recent acquisitions we also compared actual results post acquisition to the results in the business case supporting the transaction. We also assessed whether the Group's disclosures (see Note 13) about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill.

Working capital provisions:
Refer to page 49 (Audit and Risk Committee Report), pages 84 and 85 (accounting policy) and page 111 (financial disclosures).

- *The risk:* The Group has significant inventory and trade receivable balances and management has to apply judgement to assess the level of provisions required to write down slow-moving and obsolete inventory items to their net realisable value and to write down the value of trade receivables to their recoverable amounts. In respect of inventory provisions each company in the Group is required to apply a methodology to calculate an inventory provision that management feels is appropriate to the specific business. The Group's credit risk policy requires a full provision to made against all trade receivables that are over 120 days past due. The level of judgement involved in determining whether a provision should be recognised and then in determining the methodology to be used in calculating the best estimate of the recoverable amount, coupled with the fact that provision movements impact earnings, results in working capital provisions being one of the key judgemental areas that our audit is concentrated on.
- *Our response:* In this area our audit procedures included, among others, considering the appropriateness of the provisions recorded against trade receivable balances and the appropriateness of the Group's credit risk policy to fully provide against all trade receivables past due by more than 120 days, with reference to the ageing of customer balances, past history of recovery, cash received post the year end, economic conditions and the concentration of counter-party risk. In respect of inventory provisions we considered the appropriateness of the methodology used to calculate the provisions in the context of our understanding of the individual businesses in the Group with reference to the ageing and nature of inventory, past usage, forecast future usage, observing physical inventory counts, economic conditions and assessing the impact of new product launches and technology. We compared the methodology and assumptions used by the Group in calculating the inventory provision to those used in prior years; as part of this we considered whether we would expect a change to the methodology and assumptions used, and also considered the historical accuracy of provisions made by the Group by examining the reversal of previously recorded provisions. We also considered the adequacy of the Group's disclosures in respect of working capital provisions.

Tax provisions:
Refer to page 50 (Audit and Risk Committee Report), page 85 (accounting policy) and page 100 (financial disclosures).

- *The risk:* Accruals for tax contingencies require the Directors to make judgements and estimates in relation to tax issues and exposures. This is one of the key judgemental areas that our audit is concentrated on due to the Group operating in a number of tax jurisdictions, the complexities of transfer pricing and other international tax legislation and the time taken for tax matters to be agreed with the tax authorities.

- *Our response:* In this area our audit procedures included, among others, the use of our own international and local tax specialists to assess the Group's tax positions, its correspondence with the relevant tax authorities and to analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts. We have also considered the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

Other provisions (including product warranty, legal and divestment-related provisions):
Refer to page 50 (Audit and Risk Committee Report), page 85 (accounting policy) and page 111 (financial disclosures).

- *The risk:* Provisions are recorded based on management's best estimate of the Group's ultimate liability to settle an obligation. Like other companies in this sector, events that have typically led to claims in the past include product performance, commercial disputes, alleged patent infringements and divestments. The level of judgement involved in determining whether the recognition criteria are met and then in calculating the best estimate, coupled with the size of the total provisions balance and the fact movements impact earnings, results in provisions being one of the key judgemental areas that our audit is concentrated on.
- *Our response:* We have discussed with the Directors the basis for their best estimates, challenged the basis used with reference to the latest available corroborative information, obtained selected third-party confirmations and corroborated the provisions recorded in light of our understanding of the business gained throughout the audit process. We also assessed whether the Group's disclosures about provisions and the movements in the year were appropriate.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group Financial Statements as a whole was set at £11 million. This has been determined with reference to a benchmark of Group profit before tax, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. Materiality represents 4% of Group profit before tax and 6% of Group profit before tax adjusted for the profit on disposal of businesses as disclosed on the face of the Consolidated Income Statement.

We agreed with the Audit and Risk Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.4 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at the key reporting components in the following countries: Australia, Belgium, China, Denmark, France, Germany, the Netherlands, Singapore, Spain, Sweden, Switzerland, United Kingdom and the USA. In addition, specified audit procedures were performed by the Group audit team over other reporting components as part of the audit for Group reporting purposes. These other reporting components, typically smaller in size, were selected at short notice to give an element of unpredictability in our overall scope of work. In aggregate our audit procedures covered 79% of total Group revenue; 92% of Group profit before tax; and 78% of total Group assets. The segment disclosure in Note 4 sets out the individual significance of a specific country.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These local materiality levels were set individually for each component and ranged from £0.1 million to £2.6 million.

Detailed audit instructions were sent to all the component auditors in the above locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team performed the audit work and were physically present at five out of six reporting components in scope in the USA, the Group's single largest geographical market. In addition, the Group audit team physically visited key reporting components in the following countries: Brazil, Denmark, Singapore and the United Kingdom. Telephone meetings were also held with the auditors at these locations and all of the other locations that were not physically visited.

The remaining 21% of revenue, 8% of Group profit before tax and 22% of total Group assets is represented by 174 reporting components around the world. None of these 174 reporting components individually represented more than 4% of revenue, profit before tax or total Group assets. Local statutory audits are performed at a limited number of these components but generally these are completed after the date of this report.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception
Under International Standards on Auditing (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit and Risk Committee Report does not appropriately address matters communicated by us to the Audit and Risk Committee.

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 53, in relation to going concern; and
- the part of the Corporate Governance Statement on page 40 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities
As explained more fully in the Directors' Responsibilities Statement set out on page 54, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at *www.frc.org.uk/auditscopeukprivate*. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at *www.kpmg.com/uk/auditscopeukco2013a*, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Richard Broadbelt (Senior Statutory Auditor)
for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
27 February 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 £m	2012 Restated* £m
Continuing operations			
Revenue	5	**1,202.0**	1,230.8
Cost of sales		**(504.4)**	(518.0)
Gross profit		**697.6**	712.8
Indirect production and engineering expenses		**(96.9)**	(95.4)
Sales and marketing expenses		**(268.0)**	(265.3)
Administrative expenses		**(146.8)**	(156.1)
Operating profit before acquisition-related items		**215.5**	228.4
Net acquisition-related costs and fair value adjustments		**(0.7)**	(5.4)
Amortisation of acquisition-related intangible assets		**(28.9)**	(27.0)
Operating profit	3, 6	**185.9**	196.0
Profit on disposal of businesses	25	**98.3**	–
Financial income	9	**1.2**	2.3
Finance costs	9	**(13.7)**	(13.1)
Profit before tax		**271.7**	185.2
Taxation – UK	10	**(4.2)**	(4.1)
Taxation – Overseas	10	**(67.5)**	(40.9)
Profit after tax for the year from continuing operations attributable to owners of the Parent Company		**200.0**	140.2
Basic earnings per share	12	**169.2p**	119.7p
Diluted earnings per share	12	**168.5p**	118.3p
Interim dividends paid and final dividends proposed for the year (per share)	11	**42.75p**	39.00p
Dividends paid during the year (per share)	11	**40.25p**	38.90p

* Details of the restatement are disclosed in Note 1.

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 2013

	Note	**2013 £m**	2012 £m
Profit for the year attributable to owners of the Parent Company		**200.0**	140.2
Other comprehensive income:			
Items that will not be reclassified to the Consolidated Income Statement:			
Re-measurement of net defined benefit liability, net of foreign exchange	8	**3.4**	2.3
Tax on items above	10	**(0.9)**	(0.6)
		2.5	1.7
Items that are or may be reclassified subsequently to the Consolidated Income Statement:			
Net gain on effective portion of changes in fair value of forward exchange contracts		**0.7**	3.8
Foreign exchange movements on translation of overseas operations		**(8.5)**	(26.3)
Currency translation differences transferred to profit on disposal of businesses		**(1.5)**	–
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations		**–**	4.9
Tax on items above	10	**(0.1)**	(1.0)
		(9.4)	(18.6)
Total comprehensive income for the year attributable to owners of the Parent Company		**193.1**	123.3

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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 2013	6.2	231.4	400.5	50.4	(0.8)	3.1	0.3	691.1
Impact of change in accounting policy (see Note 1)	–	–	0.5	–	–	–	–	0.5
Restated balance at 1 January 2013	6.2	231.4	401.0	50.4	(0.8)	3.1	0.3	691.6
Profit for the year	–	–	200.0	–	–	–	–	200.0
Other comprehensive income:								
Net gain on effective portion of changes in fair value of forward exchange contracts, net of tax	–	–	–	–	0.6	–	–	0.6
Foreign exchange movements on translation of overseas operations	–	–	–	(8.5)	–	–	–	(8.5)
Foreign exchange gain on disposal of businesses taken to income statement	–	–	–	(1.5)	–	–	–	(1.5)
Re-measurement of net defined benefit liability, net of foreign exchange and tax	–	–	2.5	–	–	–	–	2.5
Total comprehensive income for the year	–	–	202.5	(10.0)	0.6	–	–	193.1
Transactions with owners recorded directly in equity:								
Equity dividends paid by the Company	–	–	(47.7)	–	–	–	–	(47.7)
Share-based payments, net of tax	–	–	6.8	–	–	–	–	6.8
Share options exercised from own shares (treasury) purchased	–	–	0.3	–	–	–	–	0.3
Balance at 31 December 2013	6.2	231.4	562.9	40.4	(0.2)	3.1	0.3	844.1

For the year ended 31 December 2012 – restated	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, as previously reported	6.2	231.4	295.0	71.8	(3.6)	3.1	0.3	604.2
Impact of change in accounting policy (see Note 1)	–	–	(0.6)	–	–	–	–	(0.6)
Restated balance at 1 January 2012	6.2	231.4	294.4	71.8	(3.6)	3.1	0.3	603.6
Profit for the year	–	–	140.2	–	–	–	–	140.2
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
Re-measurement of net defined benefit liability, net of foreign exchange and tax	–	–	1.7	–	–	–	–	1.7
Total comprehensive income for the year	–	–	141.9	(21.4)	2.8	–	–	123.3
Transactions with owners recorded directly in equity:								
Equity dividends paid by the Company	–	–	(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	401.0	50.4	(0.8)	3.1	0.3	691.6

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	2013 £m	2012 Restated £m
ASSETS			
Non-current assets			
Intangible assets:			
Goodwill	13	**521.0**	526.7
Other intangible assets	13	**177.5**	191.5
		698.5	718.2
Property, plant and equipment	14	**159.0**	152.5
Equity-accounted investments		**–**	0.6
Deferred tax assets	22	**17.0**	16.8
Retirement benefit assets	8	**7.2**	3.9
		881.7	892.0
Current assets			
Inventories	15	**162.0**	163.8
Taxation recoverable		**1.9**	6.2
Trade and other receivables	16	**215.8**	208.8
Derivative financial instruments	19	**3.6**	2.4
Cash and cash equivalents	17	**43.8**	40.8
		427.1	422.0
Assets held for sale	25	**–**	17.6
		427.1	439.6
Total assets		**1,308.8**	1,331.6
LIABILITIES			
Current liabilities			
Short-term borrowings	18	**(2.2)**	(82.8)
Derivative financial instruments	19	**–**	(12.5)
Trade and other payables	20	**(194.0)**	(207.9)
Current tax liabilities		**(32.6)**	(29.7)
Provisions	21	**(21.0)**	(26.4)
		(249.8)	(359.3)
Liabilities held for sale	25	**–**	(9.2)
		(249.8)	(368.5)
Net current assets		**177.3**	71.1
Non-current liabilities			
Medium- and long-term borrowings	18	**(145.7)**	(200.3)
Other payables	20	**(14.8)**	(19.7)
Retirement benefit obligations	8	**(15.4)**	(15.3)
Deferred tax liabilities	22	**(39.0)**	(36.2)
		(214.9)	(271.5)
Total liabilities		**(464.7)**	(640.0)
Net assets		**844.1**	691.6
EQUITY			
Share capital	23	**6.2**	6.2
Share premium		**231.4**	231.4
Retained earnings		**562.9**	401.0
Translation reserve		**40.4**	50.4
Hedging reserve		**(0.2)**	(0.8)
Merger reserve		**3.1**	3.1
Capital redemption reserve		**0.3**	0.3
Total equity attributable to equity holders of the Parent Company		**844.1**	691.6
Total equity and liabilities		**1,308.8**	1,331.6

The Financial Statements on pages 76 to 121 were approved by the Board of Directors on 27 February 2014 and were signed on its behalf by:

Clive Watson
Group Finance Director

Company Registration No. 2025003

Strategic Report
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Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 £m	2012 Restated £m
Cash flows from operating activities			
Profit after tax		**200.0**	140.2
Adjustments for:			
Taxation	10	**71.7**	45.0
Profit on disposal of businesses	25	**(98.3)**	–
Finance costs	9	**13.7**	13.1
Financial income	9	**(1.2)**	(2.3)
Depreciation	14	**18.1**	17.5
Amortisation of intangible assets	13	**32.4**	30.1
Acquisition-related fair value adjustments		**(0.4)**	4.5
Loss/(gain) on sale of property, plant and equipment	6	**0.2**	(0.1)
Acquisition costs not yet paid		**–**	0.2
Equity-settled share-based payment transactions	7	**2.3**	6.2
Operating cash flow before changes in working capital and provisions		**238.5**	254.4
Increase in trade and other receivables		**(6.1)**	(1.2)
Decrease/(increase) in inventories		**0.7**	(1.7)
Decrease in trade and other payables		**(11.5)**	(5.5)
Decrease in provisions and employee benefits		**(5.2)**	(6.2)
Net income taxes paid		**(64.1)**	(52.6)
Net cash flows generated from operating activities		**152.3**	187.2
Cash flows from investing activities			
Purchase of property, plant and equipment and software		**(31.7)**	(28.8)
Proceeds from sale of property, plant and equipment		**1.4**	2.2
Acquisition of businesses, net of cash acquired	27	**(16.9)**	(15.5)
Proceeds from disposal of businesses	25	**106.0**	–
Interest received		**0.3**	0.5
Net cash flows generated from/(used in) investing activities		**59.1**	(41.6)
Cash flows from financing activities			
Interest paid		**(9.7)**	(12.0)
Dividends paid	11	**(47.7)**	(45.6)
Proceeds from exercise of share options (treasury shares)		**0.3**	0.5
Proceeds from borrowings		**80.4**	–
Repayment of borrowings		**(233.8)**	(87.1)
Net cash flows used in financing activities		**(210.5)**	(144.2)
Net increase in cash and cash equivalents		**0.9**	1.4
Cash and cash equivalents at beginning of year		**39.8**	40.5
Effect of foreign exchange rate changes		**0.9**	(2.1)
Cash and cash equivalents at end of year	17	**41.6**	39.8

Reconciliation of changes in cash and cash equivalents to movements in net debt	Note	2013 £m	2012 £m
Net increase in cash and cash equivalents		**0.9**	1.4
Proceeds from borrowings		**(80.4)**	–
Repayment of borrowings		**233.8**	87.1
Effect of foreign exchange rate changes		**(4.3)**	13.6
Movement in net debt		**150.0**	102.1
Net debt at start of year	18	**(254.1)**	(356.2)
Net debt at end of year	18	**(104.1)**	(254.1)

Notes to the Accounts

1. Basis of Preparation and Summary of Significant Accounting Policies

a) Basis of preparation

Basis of accounting

The Consolidated Financial Statements have been prepared on a historical cost basis modified by the revaluation of financial assets and derivatives held at fair value. The Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union (adopted IFRS), and in accordance with the provisions of the Companies Act 2006.

The Financial Statements set out on pages 76 to 121 have been prepared using consistent accounting policies, except for the adoption of new accounting standards and interpretations noted below. No revisions to adopted IFRS that became applicable in 2013 had a significant impact on the Group Financial Statements.

These Financial Statements are presented in millions of Sterling rounded to the nearest one decimal place.

Basis of consolidation

The Consolidated Financial Statements set out the Group's financial position as at 31 December 2013 and the Group's financial performance for the year ended 31 December 2013.

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Associates are accounted for using the equity method of accounting and are initially recognised at cost.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and financial position are set out in the Strategic Report on pages 2 to 39. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 36 to 39. 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 Group's net debt balance at 31 December 2013 was £104.1m (2012: £254.1m), with available undrawn committed borrowing facilities of £311.0m (2012: £184.6m).

The Board has reviewed sensitivity analysis on the Group's forecasts to 30 June 2015, the maturity profile of its financial facilities and liabilities (Notes 18 and 19) and the ability of the Group to refinance these obligations as they fall due. The principal liquidity and solvency risk is mitigated through its financial risk management policies (Note 2). For the foreseeable future, the Board has a high level of confidence that the Group will have the necessary liquid resources to meet its liabilities as they fall due and will be able to sustain its business model, strategy and operations and remain solvent, including the impact of reasonable scenarios. For this reason, it continues to adopt the going concern basis in preparing the Group Financial Statements. There are no key sensitivities identified in relation to this conclusion.

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 2013 and have, therefore, not been applied in preparing these Consolidated Financial Statements. Except for those below, none of these are anticipated to have a significant impact on the results or Consolidated Statement of Financial Position reported in these Consolidated Financial Statements.

Change in accounting policies

Amendments to IAS 19 'Employee Benefits': the principal change is that the financing on post-retirement benefits is calculated on the net surplus or deficit using an 'AA' corporate bond rate. In addition, it will not be permissible to recognise administrative expenses relating directly to the administration of defined benefit pension schemes as a deduction to the expected return on scheme assets within net finance costs, with the costs instead being recognised as administrative expenses in the Consolidated Income Statement.

1. Basis of Preparation and Summary of Significant Accounting Policies continued

The following tables summarise the effect of the adoption of IAS 19 (Revised) on the Group's Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows for the year ended 31 December 2012.

Impact on Consolidated Income Statement	2012 £m
Administrative expenses	(0.5)
Finance income	(1.0)
Tax credit	0.4
Overall decrease in profit after tax for the year	(1.1)

Impact on Consolidated Statement of Comprehensive Income	2012 £m
Profit for the year attributable to owners of the Parent Company	(1.1)
Re-measurement of the defined benefit liability/(asset), net of foreign exchange	2.7
Tax charge on items that will not be reclassified to income statement	(0.5)
Overall increase in other comprehensive income	1.1

Impact on Consolidated Statement of Financial Position	2012 £m
Deferred tax asset	(0.1)
Retirement benefit obligations	0.6
Overall increase in retained earnings	0.5

Impact on Consolidated Statement of Cash Flows	2012 £m
Profit after tax	(1.1)
Tax credit	(0.4)
Financial income	1.0
Increase in provisions and employee benefits	0.5
Overall impact on cash flow	–

If IAS 19 (Revised) had not been adopted, the impact on the results for 2013 would have been an increase in profit after tax for the year of £1.3m with the corresponding reduction in other comprehensive income. Basic and diluted earnings per share for 2013 would have been 1.1 pence higher.

New standards adopted during the year

The Group has adopted IFRS 13 'Fair Value Measurement' as of 1 January 2013, which replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'.

As a result of the amendment to IAS 1 'Presentation of Financial Statements' in relation to the presentation of items of other comprehensive income, the Group has modified the presentation of its Consolidated Statement of Other Comprehensive Income, to present separately items that would be reclassified to the Consolidated Income Statement in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of IFRS 13 and the amendment to IAS 1 has had no impact on the income statement, recognised assets, liabilities and comprehensive income of the Group.

Significant accounting judgements and estimates

In preparing the Consolidated Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an on-going basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

1. Basis of Preparation and Summary of Significant Accounting Policies continued

Information about significant areas of judgements, estimates and assumptions is included in the following notes:

- Note 8 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including future inflation, salary increases and mortality, and the obligation is then discounted to its present value using an assumed discount rate. The pension deficit has been calculated using the assumptions set out in Note 8;
- Note 13 – Impairment of goodwill. The carrying amount of goodwill has been tested for impairment by estimating the value in use of the cash-generating units to which it has been allocated. Note 13 outlines the significant assumptions made in performing the impairment tests;
- Note 15 – Provisions against inventory. Judgement is applied to assess the level of provisions required to write down slow-moving, excess and obsolete inventory to their net realisable value;
- Note 16 – Provisions for impairment of trade receivables. Judgement is applied to assess whether a trade receivable is recoverable or not, and whether the level of provision required to write down the value of the receivable to its recoverable amount is appropriate;
- Notes 21 and 28 – Provisions and contingent liabilities in relation to determining the risk-adjusted probability, quantum and timing of management's best estimate of future payments;
- Note 22 – Deferred tax. The recognition of deferred tax assets is dependent on assessments of future taxable income in the relevant countries concerned; and
- Note 27 – Business combinations in relation to the determination of the provisional fair value of acquired assets and liabilities at the date of acquisition.

b) Summary of significant accounting policies
The accounting policies set out below have been applied consistently by Group entities to all years presented in these Financial Statements.

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 in the Consolidated Income Statement.

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 acquisition 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.

Goodwill arising on the acquisition of a business is tested annually for impairment. Goodwill is not amortised, and any impairment losses are not subsequently reversed. The net book value of goodwill at the date of transition to IFRS has been treated as deemed cost. On the subsequent disposal or discontinuance of a previously acquired business, the relevant goodwill is dealt with in the Consolidated Income Statement except for the goodwill already charged to reserves. From 1 January 2004, goodwill is allocated on acquisition to cash-generating units that are anticipated to benefit from the combination. Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit to which the goodwill relates and comparing it against the net book value. This estimate of recoverable amount is determined at each statement of financial position date. The Group's identified cash-generating units are smaller than the reportable operating segments in Note 4.

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.

Intangible assets and amortisation
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.

1. Basis of Preparation and Summary of Significant Accounting Policies continued

Intangible assets arising from a business combination that are separable from goodwill are recognised initially at fair value at the date of acquisition. Other acquired intangible assets (including software not specific to an item of property, plant and equipment) are initially recognised at cost (plus any associated implementation costs where applicable).

Subsequent expenditure is capitalised only when it increases the future economic benefits, otherwise it is expensed as incurred.

Amortisation of intangible assets is charged to administration expenses in the Consolidated Income Statement on a straight-line basis over the shorter of the estimated useful economic life (determined on an asset by asset basis) or underlying contractual life. The estimated useful lives are as follows:

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

Property, plant and equipment and depreciation

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

Depreciation is recognised in the 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 economic life. Depreciation commences on the date the assets are ready for use within the business and the asset carrying values are reviewed for impairment when there is an indication that they may be impaired. The depreciation charge is revised where useful lives are different from those previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. 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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for their intended use are capitalised as part of the cost of the respective asset.

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.

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.

1. Basis of Preparation and Summary of Significant Accounting Policies continued

Trade and other receivables

Trade receivables are carried at original invoice amount which is considered a reasonable proxy for fair value, less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the original carrying amount and the recoverable amount, being the present value of expected cash flows receivable. The amount of the provision is recognised in the Consolidated Income Statement.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and in hand and short-term deposits held on call or with maturities of less than three months at inception. 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 carried at the amounts expected to be paid to counterparties.

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. 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.

Leasing

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.

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 the 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 statement of financial position date, and any adjustments to tax payable in respect of prior years.

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and their corresponding tax bases. No provision is made for deferred tax which would become payable on the distribution of retained profits by overseas subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantively enacted by the statement of financial position date. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

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

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

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.

Notes to the Accounts continued

1. Basis of Preparation and Summary of Significant Accounting Policies continued

Foreign currency translation

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

On consolidation, income statements of subsidiaries are translated into Sterling, at average rates of exchange. Statement of financial position items are translated into Sterling at year end exchange rates. Exchange differences on the retranslation are taken to the translation reserve within equity. Exchange differences on foreign currency borrowings designated as a hedge of the net investment in a foreign operation are reported in the Consolidated Statement of Comprehensive Income. All other exchange differences are charged or credited to the Consolidated Income Statement in the year in which they arise. On disposal of an overseas subsidiary, any cumulative exchange movements relating to that subsidiary held in the translation reserve are transferred to the Consolidated Income Statement.

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 below.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are measured 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.

Financial instruments

Recognition

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

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

Measurement

When financial assets and liabilities are initially recognised, they are measured at fair value, being the consideration given or received plus directly attributable transaction costs.

In determining estimated fair value, investments are valued at quoted bid prices on the trade date. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

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

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

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

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

1. Basis of Preparation and Summary of Significant Accounting Policies continued

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

Derecognition
A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Originated loans and receivables are derecognised on the date they are transferred by the Group.

Impairment of financial assets
The Group assesses at each Consolidated Statement of Financial Position reporting date whether there is any objective evidence that a financial asset, or group of financial assets, is impaired. A financial asset, or group of financial assets, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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.

Employee benefits
The Group operates defined benefit post-retirement benefit schemes and defined contribution pension schemes.

Defined benefit plans
The Group's net obligation recognised in the Consolidated Statement of Financial Position in respect of defined benefit schemes is calculated separately for each plan as the present value of schemes' liabilities less the fair value of schemes' assets. The operating and financing costs of defined benefit schemes are recognised separately in the Consolidated Income Statement. Operating costs comprise the current service cost, scheme administrative expense, any gains or losses on settlement or curtailments, and past service costs where benefits have vested. Finance items comprise the unwinding of the discount on net asset/deficit. Actuarial gains or losses comprising changes in schemes' liabilities due to experience and changes in actuarial assumptions are recognised in the Consolidated Statement of Comprehensive Income.

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.

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

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.

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

Share-based payments
Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is

1. Basis of Preparation and Summary of Significant Accounting Policies continued

determined by an external consultant and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each Consolidated Statement of Financial Position reporting date up to the vesting date, at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

Where it is not possible to incentivise managers of the 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 statement of financial position date if sooner.

Own shares
Own equity instruments which are re-acquired (own shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the Consolidated Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration paid to acquire such equity instruments is recognised within equity.

Dividends
Dividends are recognised as a liability in the period in which they are approved by shareholders.

Revenues
Revenues comprise sales to external 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 on-going 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.

Interest payable and receivable
Interest payable comprises the interest payable on borrowings calculated using the effective interest method. Interest receivable comprises interest income on cash and funds invested and is recognised in the Consolidated Income Statement as it accrues.

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. The central treasury department operates as a service centre to the Group and not as a profit centre.

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 19.

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

2. Financial Risk Management continued

The Group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts. Forward exchange contracts are used to hedge highly probable transactions which can be forecast to occur typically up to 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 19.

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 2013, the majority of the Group's borrowings attract fixed rates of interest linked to LIBOR and therefore the Group's principal interest rate risk is a fair value risk. Quantitative analysis of interest rate risk is included in Note 19.

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 2013 are set out in Note 18.

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 16.

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 19.

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:

	2013 £m	2012 £m
Equity shareholders' funds (page 79)	**844.1**	691.6
Committed debt facilities	**456.7**	478.5
	1,300.8	1,170.1

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 the 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 Note 24.

2. Financial Risk Management continued

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings, 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 2013, 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.

3. Adjusted Performance Measures

Spectris plc 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 as amortisation and impairment of acquisition-related intangible assets, acquisition-related costs and contingent consideration fair value adjustments, acquisition-related fair value adjustments, 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). In addition, all income statement and operating cash flow figures have been restated to exclude the trading results and impact of the disposal of the Fusion UV business which was disposed of on 31 January 2013.

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

Sales	2013 £m	2012 £m
Sales as reported under adopted IFRS	**1,202.0**	1,230.8
Divested businesses	**(4.2)**	(53.6)
Sales excluding divested businesses	**1,197.8**	1,177.2

Sales by segment	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	Total 2013 £m
Sales as reported under adopted IFRS		**362.4**	**348.7**	**269.9**	**221.0**	**1,202.0**
Divested businesses		**–**	**–**	**(4.2)**	**–**	**(4.2)**
Sales excluding divested businesses	4	**362.4**	**348.7**	**265.7**	**221.0**	**1,197.8**

Sales by segment	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	Total 2012 £m
Sales as reported under adopted IFRS		348.1	345.4	320.1	217.2	1,230.8
Divested businesses		–	–	(53.6)	–	(53.6)
Sales excluding divested businesses	4	348.1	345.4	266.5	217.2	1,177.2

The following is an analysis of revenue by geographical destination:

	2013 £m	2012 £m
UK	**39.9**	38.0
Germany	**125.4**	118.6
France	**46.3**	42.2
Rest of Europe	**177.8**	169.1
USA	**336.9**	337.0
Rest of North America	**36.3**	39.4
Japan	**61.3**	76.2
China	**159.5**	150.3
South Korea	**33.7**	33.6
Rest of Asia Pacific	**100.9**	97.5
Rest of the world	**79.8**	75.3
	1,197.8	1,177.2

3. Adjusted Performance Measures continued

Adjusted operating profit	Note	2013 £m	2012 Restated £m
Operating profit as reported under adopted IFRS		**185.9**	196.0
Net acquisition-related costs and fair value adjustments		**0.7**	5.4
Amortisation of acquisition-related intangible assets	13	**28.9**	27.0
Adjusted operating profit		**215.5**	228.4
Divested businesses		**(0.8)**	(11.5)
Adjusted operating profit excluding divested businesses		**214.7**	216.9

Adjusted operating profit by segment – 2013	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2013 Total £m
Operating profit as reported under adopted IFRS		**54.7**	**49.4**	**49.3**	**32.5**	**185.9**
Net acquisition-related costs and fair value adjustments		**0.3**	**–**	**–**	**0.4**	**0.7**
Amortisation of acquisition-related intangible assets		**8.3**	**5.4**	**2.7**	**12.5**	**28.9**
Adjusted operating profit: segment result	4	**63.3**	**54.8**	**52.0**	**45.4**	**215.5**
Divested businesses		**–**	**–**	**(0.8)**	**–**	**(0.8)**
Adjusted operating profit excluding divested businesses: segment result		**63.3**	**54.8**	**51.2**	**45.4**	**214.7**

Adjusted operating profit by segment – 2012 restated	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2012 Total £m
Operating profit as reported under adopted IFRS		56.9	50.1	60.6	28.4	196.0
Net acquisition-related costs and fair value adjustments		0.1	0.1	0.5	4.7	5.4
Amortisation of acquisition-related intangible assets		6.0	5.2	2.7	13.1	27.0
Adjusted operating profit: segment result	4	63.0	55.4	63.8	46.2	228.4
Divested businesses		–	–	(11.5)	–	(11.5)
Adjusted operating profit excluding divested businesses: segment result		63.0	55.4	52.3	46.2	216.9

Net acquisition-related costs and fair value adjustments comprises of acquisition costs of £1.1m (2012: £0.9m) that have been recognised in the Consolidated Income Statement under IFRS 3 (Revised) 'Business Combinations', fair value adjustments to inventory of £0.1m (2012: £4.5m) and other fair value adjustments, resulting in a credit of £0.5m (2012: £nil). Net acquisition-related costs and fair value adjustments are included within administrative expenses. Acquisition-related costs have been excluded from the adjusted operating profit and acquisition costs paid of £1.3m have been excluded from adjusted operating cash flow.

Return on sales by segment – 2013	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2013 Total
Using operating profit as reported under adopted IFRS	**15.1%**	**14.2%**	**18.3%**	**14.7%**	**15.5%**
Using adjusted operating profit	**17.5%**	**15.7%**	**19.3%**	**20.6%**	**17.9%**
Using adjusted operating profit excluding divested businesses	**17.5%**	**15.7%**	**19.3%**	**20.6%**	**17.9%**

Return on sales by segment – 2012 restated	Materials Analysis	Test and Measurement	In-line Instrumentation	Industrial Controls	2012 Total
Using operating profit as reported under adopted IFRS	16.3%	14.5%	18.9%	13.1%	15.9%
Using adjusted operating profit	18.1%	16.0%	19.9%	21.3%	18.6%
Using adjusted operating profit excluding divested businesses	18.1%	16.0%	19.6%	21.3%	18.4%

Reconciliation to adjusted profit before tax and adjusted operating profit	Note	2013 £m	2012 Restated £m
Profit before tax as reported under adopted IFRS		**271.7**	185.2
Add/(deduct):			
Net acquisition-related costs and fair value adjustments		**0.7**	5.4
Amortisation of acquisition-related intangible assets	13	**28.9**	27.0
Profit on disposal of businesses	25	**(98.3)**	–
Increase in fair value of cross-currency interest rate swaps	19	**(0.7)**	(0.9)
Net loss/(gain) on retranslation of short-term inter-company loan balances	9	**4.1**	(0.9)
Adjusted profit before tax		**206.4**	215.8
Divested businesses		**(0.8)**	(11.5)
Adjusted profit before tax excluding divested businesses		**205.6**	204.3
Adjusted net finance costs (see below)		**9.1**	12.6
Adjusted operating profit excluding divested businesses		**214.7**	216.9

3. Adjusted Performance Measures continued

Adjusted net finance costs	Note	2013 £m	2012 Restated £m
Net interest costs as reported under adopted IFRS	9	**(12.5)**	(10.8)
Increase in fair value of cross-currency interest rate swaps	19	**(0.7)**	(0.9)
Net loss/(gain) on retranslation of short-term inter-company loan balances	9	**4.1**	(0.9)
Adjusted net finance costs		**(9.1)**	(12.6)
Divested businesses		**–**	–
Adjusted net finance costs excluding divested businesses		**(9.1)**	(12.6)

Adjusted operating cash flow	2013 £m	2012 £m
Net cash from operating activities under adopted IFRS	**152.3**	187.2
Acquisition-related costs paid	**1.3**	0.7
Net income taxes paid	**64.1**	52.6
Purchase of property, plant and equipment and software	**(31.7)**	(28.8)
Proceeds from sale of property, plant and equipment	**1.4**	2.2
Adjusted operating cash flow	**187.4**	213.9
Divested businesses	**(2.6)**	(9.1)
Adjusted operating cash flow excluding divested businesses	**184.8**	204.8

Adjusted earnings per share	Note	2013 £m	2012 Restated £m
Profit after tax as reported under adopted IFRS		**200.0**	140.2
Adjusted for:			
Net acquisition-related costs and fair value adjustments		**0.7**	5.4
Amortisation of acquisition-related intangible assets	13	**28.9**	27.0
Profit on disposal of businesses	25	**(98.3)**	–
Increase in fair value of cross-currency interest rate swaps	19	**(0.7)**	(0.9)
Net loss/(gain) on retranslation of short-term inter-company loan balances	9	**4.1**	(0.9)
Tax effect of the above and other non-recurring items	10	**22.8**	(10.8)
Adjusted earnings		**157.5**	160.0
Profit after tax on divested businesses		**(0.5)**	(7.4)
Adjusted earnings excluding divested businesses		**157.0**	152.6
Weighted average number of shares outstanding (millions)	12	**118.2**	117.1
Adjusted earnings per share (pence)		**133.3**	136.6
Adjusted earnings per share excluding divested businesses (pence)		**132.9**	130.3

Adjusted diluted earnings per share	Note	2013	2012 Restated
Diluted weighted average number of shares outstanding (millions)	12	**118.7**	118.5
Adjusted diluted earnings per share (pence)		**132.7**	135.0
Adjusted diluted earnings per share excluding divested businesses (pence)		**132.3**	128.8

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

Analysis of net debt for management purposes	Note	2013 £m	2012 £m
Bank overdrafts	18	**2.2**	1.0
Bank loans – unsecured	18	**145.7**	200.3
Unsecured loan notes	18	**–**	81.8
Cross-currency interest rate swaps – currency portion	19	**–**	11.8
Total borrowings		**147.9**	294.9
Cash balances	17	**(43.8)**	(40.8)
Net debt		**104.1**	254.1

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 and to assist in making decisions to be allocated to each segment and assess performance. The segment results include an allocation of head office expenses. The following summary describes the operations in each of the Group's reportable segments:

- Materials Analysis provides products that enable customers to determine 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. Key customers are leaders in academic research, mining, cement, pharmaceutical, chemical 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. 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 measure, monitor, control, inform, track, and trace during the production process. 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 Strategic Report on pages 28 to 35.

Information about reportable segments	**Materials Analysis £m**	**Test and Measurement £m**	**In-line Instrumentation £m**	**Industrial Controls £m**	**2013 Total £m**
Segment revenues	**362.6**	**349.2**	**270.0**	**221.5**	**1,203.3**
Inter-segment revenue	**(0.2)**	**(0.5)**	**(0.1)**	**(0.5)**	**(1.3)**
External revenue	**362.4**	**348.7**	**269.9**	**221.0**	**1,202.0**
Reportable segment profit for continuing operations	**63.3**	**54.8**	**52.0**	**45.4**	**215.5**
Net acquisition-related costs and fair value adjustments	**(0.3)**	**–**	**–**	**(0.4)**	**(0.7)**
Amortisation of acquisition-related intangibles	**(8.3)**	**(5.4)**	**(2.7)**	**(12.5)**	**(28.9)**
Operating profit	**54.7**	**49.4**	**49.3**	**32.5**	**185.9**
Profit on disposal of businesses*					**98.3**
Financial income*					**1.2**
Finance costs*					**(13.7)**
Profit before tax					**271.7**
Tax*					**(71.7)**
Profit after tax					**200.0**

	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2012 Restated Total £m
Segment revenues	347.8	345.8	320.4	217.8	1,231.8
Inter-segment revenue	0.3	(0.4)	(0.3)	(0.6)	(1.0)
External revenue	348.1	345.4	320.1	217.2	1,230.8
Reportable segment profit for continuing operations	63.0	55.4	63.8	46.2	228.4
Net acquisition-related costs and fair value adjustments	(0.1)	(0.1)	(0.5)	(4.7)	(5.4)
Amortisation of acquisition-related intangibles	(6.0)	(5.2)	(2.7)	(13.1)	(27.0)
Operating profit	56.9	50.1	60.6	28.4	196.0
Financial income*					2.3
Finance costs*					(13.1)
Profit before tax					185.2
Tax*					(45.0)
Profit after tax					140.2

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

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.

4. Operating Segments continued

	Carrying amount of segment liabilities 2013 £m	Carrying amount of segment liabilities 2012 Restated £m	Carrying amount of segment assets 2013 £m	Carrying amount of segment assets 2012 Restated £m
Materials Analysis	**304.2**	299.2	**(92.2)**	(115.8)
Test and Measurement	**321.6**	329.9	**(75.8)**	(78.2)
In-line Instrumentation	**214.3**	226.2	**(42.0)**	(46.7)
Industrial Controls	**395.2**	404.6	**(19.8)**	(19.4)
Total segment assets and liabilities	**1,235.3**	1,259.9	**(229.8)**	(260.1)
Cash and borrowings	**43.8**	40.8	**(147.9)**	(283.1)
Derivative financial instruments	**3.6**	2.4	**–**	(12.5)
Pension asset/(liability)	**7.2**	3.9	**(15.4)**	(15.3)
Taxation (including amounts disclosed within assets and liabilities held for sale)	**18.9**	24.6	**(71.6)**	(69.0)
Consolidated total assets and liabilities	**1,308.8**	1,331.6	**(464.7)**	(640.0)

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 current and deferred taxation balances, defined benefit scheme assets and liabilities, derivative financial instruments and all components of net debt.

	Additions to non-current assets 2013 £m	Additions to non-current assets 2012 £m	Depreciation and amortisation 2013 £m	Depreciation and amortisation 2012 £m
Materials Analysis	**6.6**	31.9	**13.6**	10.7
Test and Measurement	**8.8**	8.9	**13.4**	12.6
In-line Instrumentation	**22.2**	9.7	**7.7**	8.2
Industrial Controls	**8.1**	(2.9)	**15.8**	16.1
	45.7	47.6	**50.5**	47.6

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	2013 Total £m
UK	**11.8**	**13.4**	**7.5**	**7.2**	**39.9**
Germany	**26.1**	**61.9**	**26.7**	**10.8**	**125.5**
France	**12.6**	**22.6**	**9.0**	**2.1**	**46.3**
Rest of Europe	**60.0**	**64.0**	**44.8**	**9.2**	**178.0**
USA	**63.6**	**59.7**	**64.9**	**149.9**	**338.1**
Rest of North America	**11.1**	**4.3**	**7.5**	**13.5**	**36.4**
Japan	**24.1**	**22.8**	**14.2**	**1.3**	**62.4**
China	**57.2**	**45.0**	**47.0**	**10.9**	**160.1**
South Korea	**11.8**	**13.0**	**5.3**	**3.8**	**33.9**
Rest of Asia Pacific	**48.0**	**21.4**	**23.5**	**8.7**	**101.6**
Rest of the world	**36.1**	**20.6**	**19.5**	**3.6**	**79.8**
	362.4	**348.7**	**269.9**	**221.0**	**1,202.0**

4. Operating Segments continued

	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

	Non-current assets	
	2013 £m	2012 Restated £m
UK	**89.8**	81.7
Germany	**27.7**	26.7
France	**0.1**	0.2
Rest of Europe*	**291.8**	283.7
USA	**397.5**	420.3
Rest of North America	**5.3**	5.7
Japan	**1.4**	1.7
China	**7.1**	7.4
South Korea	**0.3**	0.2
Rest of Asia Pacific	**30.6**	38.0
Rest of the world	**5.9**	5.7
	857.5	871.3
Retirement benefit assets **	**7.2**	3.9
Deferred taxation **	**17.0**	16.8
Total non-current assets	**881.7**	892.0

* Principally in Denmark and Switzerland.

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

5. Revenue

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

	2013 £m	2012 £m
Sale of goods	**1,042.8**	1,082.8
Services rendered	**159.2**	148.0
Revenue	**1,202.0**	1,230.8

No individual customer accounted for more than 2% of external revenue in either 2013 or 2012.

6. Operating Profit

Operating profit has been arrived at after charging:

	2013 £m	2012 £m
Net foreign exchange losses	**1.4**	2.2
Research and development expenditure	**88.5**	85.5
Depreciation of property, plant and equipment	**18.1**	17.5
Amortisation of intangible assets	**32.4**	30.1
Loss/(gain) on sale of property, plant and equipment	**0.2**	(0.1)

Auditor's remuneration	2013 £m	2012 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.5**	0.5
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**	0.1
– tax compliance services	**–**	0.3
– tax advisory services	**0.2**	0.3
– other services	**0.1**	0.1
	2.0	2.4

* Review of the half year Financial Statements.

7. Employee Costs

Employee costs, including Directors' remuneration, comprise:

	Note	2013 £m	2012 £m
Wages and salaries		**335.7**	326.6
Social security costs		**62.9**	61.3
Defined benefit pension plans:			
– current service cost	8	**1.1**	1.3
– past service cost	8	**–**	1.1
Defined contribution pension plans	8	**11.2**	11.1
Equity-settled share-based payment expense		**2.3**	6.2
Cash-settled share-based payment expense		**0.8**	1.3
		414.0	408.9

Directors' remuneration	2013 £m	2012 £m
Short-term benefits	**2.4**	2.5
Post-employment benefits	**0.1**	0.1
Equity-settled share-based payment expense	**0.9**	0.9
	3.4	3.5

Further details of Directors' remuneration and share options are given in the Directors' Remuneration Report on pages 55 to 72.

Average number of employees	2013 Number	2012 Number
Production and engineering	**3,646**	3,735
Sales and marketing	**2,958**	2,881
Administrative	**740**	745
	7,344	7,361

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 (2012: 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 benefit plans

The UK, German, Dutch and Swiss plans provide pensions in retirement, death and in some cases disability benefits to members. The pension benefit is linked to members' final salary at retirement and their service life. Since 31 December 2009, the UK plan has been closed to new members.

The UK plan is administered by a pension fund, but the overseas plans are held by several insurance companies that are legally separated from the Group. The UK plan is managed by a Board of Trustees that represents both employees and employer, who are required to act in the best interest of the plans' participants and are responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the various funds.

The UK plan exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk, but the risk of the overseas plans is limited as the benefits have been reinsured with various insurance companies. Inflation and interest rate hedges are taken out to mitigate against risks arising on the UK plan.

The overseas plans are funded by the Group's overseas subsidiaries, and the UK plan has been funded in the past by both the Group's UK subsidiaries and the Company. The investments of the UK plan are invested in accordance with Section 40 of the Pensions Act 1995. Although the Act permits 5% of the plan's assets to be invested in 'employer-related investments', the Trustees have elected that none of the plan assets are to be invested directly in Spectris plc shares.

The funding requirements are based on the funds' actuarial measurement framework set out in the funding policies of the various plans. Employees are not required to contribute to the plans and the German plan is unfunded.

The Group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (including minimum funding requirements) of the plans of the respective jurisdictions, the present value of the refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination has been made on a plan-by-plan basis. As such, no decrease in the defined benefit asset was necessary at 31 December 2013 and December 2012.

The last full actuarial valuation for the UK plan was 31 December 2011; for the German and Swiss plans it was 31 December 2013 and for the Dutch plans it was 31 December 2012. Where applicable, the valuations were updated to 31 December 2013 for IAS 19 (Revised) 'Employee Benefits' purposes by qualified independent actuaries.

The total Company contributions made to the defined benefit plans during the year ended 31 December 2013 were £1.5m (2012: £3.2m). Contributions for 2014 are expected to be £0.6m for the German plan and £1.0m for the Swiss plan.

The above contribution rates are subject to review at future valuations and periodic certifications of the schedule of contributions. Contributions to the Spectris Pension Plan (UK) ceased from 1 July 2012.

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

	2013		2012	
	UK plan % p.a.	**Overseas plans % p.a.**	UK plan % p.a.	Overseas plans % p.a.
Discount rate	**4.3**	**2.3 – 3.5**	4.3	2.0 – 3.1
Salary increases	**5.0**	**1.0 – 3.0**	4.3	1.0 – 3.0
Pension increases in payment	**2.3 – 3.8**	**0.0 – 2.0**	1.9 – 3.5	0.0 – 2.0
Pension increases in deferment	**2.6 – 3.5**		1.9 – 2.8	
Inflation assumption	**2.6 – 3.5**	**1.0 – 2.0**	1.9 – 2.8	1.0 – 2.0
Interest credit rate		**0.0 – 2.3**		0.0 – 2.0

The weighted average duration of the defined benefit obligation at 31 December 2013 was 15.4 years (2012: 15.4 years).

Notes to the Accounts continued

8. Retirement Benefit Schemes continued

Pensioner life expectancy assumed in the 31 December 2013 valuation is based on the following tables.

UK plan	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
German plans	Dr K Heubeck pension tables 2005 G
Dutch plans	A.G. Prognosetafel 2012-2062 tables
Swiss plan	BVG 2010 P12

Samples of the ages which pensioners are assumed to live to are as follows:	Male	Female
Pensioners aged 65 in 2013	83.7 – 87.0	87.8 – 89.1
Pensioners aged 65 in 2023	85.1 – 87.6	88.6 – 89.9

	UK plans		Overseas plans		Total	
Amounts recognised in the Consolidated Income Statement	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Current service cost	**–**	–	**1.1**	1.3	**1.1**	1.3
Net interest (income)/cost	**(0.2)**	–	**0.4**	0.5	**0.2**	0.5
Administrative cost	**0.3**	0.2	**0.1**	0.1	**0.4**	0.3
Past service cost	**–**	1.1	**–**	–	**–**	1.1
	0.1	1.3	**1.6**	1.9	**1.7**	3.2

The current and past service costs are recognised solely in administrative expenses in the Consolidated Income Statement. The net interest cost on the net defined benefit obligation is recognised in finance costs 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 amounting to £0.4m (2012: £0.4m) were paid.

The total return on scheme assets in the year was £15.9m (2012: £10.5m).

	UK plans		Overseas plans		Total	
Amounts recognised in the Consolidated Statement of Comprehensive Income	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Actuarial gains/(losses) recognised in the current year	**3.4**	4.9	**0.3**	(2.9)	**3.7**	2.0
Foreign exchange gains/(losses) in the current year	**–**	–	**(0.3)**	0.3	**(0.3)**	0.3
Total gains/(losses) recognised in the current year	**3.4**	4.9	**–**	(2.6)	**3.4**	2.3
Cumulative actuarial losses since 1 January 2004	**(26.8)**	(30.2)	**(8.3)**	(8.3)	**(35.1)**	(38.5)

	UK plans		Overseas plans		Total	
Amounts recognised in the Consolidated Statement of Financial Position	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Present value of defined benefit obligations	**(112.2)**	(105.3)	**(36.2)**	(33.3)	**(148.4)**	(138.6)
Fair value of scheme assets	**119.4**	109.2	**20.8**	18.0	**140.2**	127.2
Net surplus/(deficit) in schemes	**7.2**	3.9	**(15.4)**	(15.3)	**(8.2)**	(11.4)

	UK plans		Overseas plans		Total	
Reconciliation of movement in net deficit	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
At 1 January	**3.9**	(1.3)	**(15.3)**	(12.4)	**(11.4)**	(13.7)
Current service cost	**–**	–	**(1.1)**	(1.3)	**(1.1)**	(1.3)
Net interest income/(cost)	**0.2**	–	**(0.4)**	(0.5)	**(0.2)**	(0.5)
Scheme administrative cost	**(0.3)**	(0.2)	**(0.1)**	(0.1)	**(0.4)**	(0.3)
Past service cost	**–**	(1.1)	**–**	–	**–**	(1.1)
Contributions from sponsoring company	**–**	1.6	**1.5**	1.6	**1.5**	3.2
Actuarial gains/(losses)	**3.4**	4.9	**0.3**	(2.9)	**3.7**	2.0
Foreign exchange difference	**–**	–	**(0.3)**	0.3	**(0.3)**	0.3
At 31 December	**7.2**	3.9	**(15.4)**	(15.3)	**(8.2)**	(11.4)

8. Retirement Benefit Schemes continued

Analysis of movement in the present value of the defined benefit obligation	UK plans 2013 £m	UK plans 2012 £m	Overseas plans 2013 £m	Overseas plans 2012 £m	Total 2013 £m	Total 2012 £m
At 1 January	**105.3**	104.3	**33.3**	29.1	**138.6**	133.4
Current service cost	**–**	–	**1.1**	1.3	**1.1**	1.3
Interest cost	**4.4**	4.8	**0.7**	0.9	**5.1**	5.7
Past service cost	**–**	1.1	**–**	–	**–**	1.1
Contributions from scheme members	**–**	–	**0.8**	0.8	**0.8**	0.8
Actuarial (gains)/losses – financial	**8.2**	4.0	**(1.2)**	2.3	**7.0**	6.3
Actuarial losses – demographic	**–**	0.5	**–**	–	**–**	0.5
Actuarial (gains)/losses – experience	**(0.6)**	(4.4)	**0.8**	1.2	**0.2**	(3.2)
Benefits paid	**(5.1)**	(5.0)	**0.1**	(1.6)	**(5.0)**	(6.6)
Foreign exchange difference	**–**	–	**0.6**	(0.7)	**0.6**	(0.7)
At 31 December	**112.2**	105.3	**36.2**	33.3	**148.4**	138.6

Analysed as:

Present value of unfunded defined benefit obligation	**–**	–	**6.6**	6.8	**6.6**	6.8
Present value of funded defined benefit obligation	**112.2**	105.3	**29.6**	26.5	**141.8**	131.8

Reconciliation of movement in fair value of plan assets	UK plans 2013 £m	UK plans 2012 £m	Overseas plans 2013 £m	Overseas plans 2012 £m	Total 2013 £m	Total 2012 £m
At 1 January	**109.2**	103.0	**18.0**	16.7	**127.2**	119.7
Return on plan assets	**4.6**	4.8	**0.3**	0.4	**4.9**	5.2
Scheme administration cost	**(0.3)**	(0.2)	**(0.1)**	(0.1)	**(0.4)**	(0.3)
Contributions from sponsoring company	**–**	1.6	**1.5**	1.6	**1.5**	3.2
Contributions from scheme members	**–**	–	**0.8**	0.8	**0.8**	0.8
Actuarial gains/(losses)	**11.0**	5.0	**(0.1)**	0.6	**10.9**	5.6
Benefits paid	**(5.1)**	(5.0)	**0.1**	(1.6)	**(5.0)**	(6.6)
Foreign exchange difference	**–**	–	**0.3**	(0.4)	**0.3**	(0.4)
At 31 December	**119.4**	109.2	**20.8**	18.0	**140.2**	127.2

Analysis of plan assets

Fair value of assets	UK plans 2013 £m	UK plans 2012 £m	Overseas plans 2013 £m	Overseas plans 2012 £m	Total 2013 £m	Total 2012 £m
Equity instruments	**29.0**	27.4	**–**	–	**29.0**	27.4
Corporate bonds	**77.4**	81.4	**–**	–	**77.4**	81.4
Government bonds	**8.1**	–	**–**	–	**8.1**	–
Other assets	**4.9**	0.4	**–**	–	**4.9**	0.4
Insurance policies	**–**	–	**20.8**	18.0	**20.8**	18.0
	119.4	109.2	**20.8**	18.0	**140.2**	127.2

Sensitivity analysis

The table below shows the sensitivity of the Consolidated Statement of Financial Position to changes in the significant pension assumptions:

	Change in assumption	Impact on scheme liabilities UK plan 2013	Impact on scheme liabilities Overseas plans 2013
Discount rate	Increase by 1%	Decrease by £16.3m	Decrease by £5.1m
Rate of price inflation (RPI)	Increase by 1%	Increase by £10.8m	Increase by £1.2m
Assumed life expectancy at age 65	Increase by 1 year	Increase by £3.0m	Increase by £0.9m

Defined contribution plans

The total cost of the defined contribution plans for the year ended 31 December 2013 was £11.2m (2012: £11.1m). There were no outstanding or prepaid contributions to these plans as at 31 December 2013 or 31 December 2012.

9. Finance Costs and Financial Income

Financial income	Note	2013 £m	2012 Restated £m
Interest receivable		**0.5**	0.5
Increase in fair value of cross-currency interest rate swaps	19	**0.7**	0.9
Net gains on retranslation of short-term inter-company loan balances		**–**	0.9
		1.2	2.3

Finance costs	2013 £m	2012 Restated £m
Interest payable on loans and overdrafts	**9.1**	12.6
Net losses on retranslation of short-term inter-company loan balances	**4.1**	–
Net interest cost on pension scheme liabilities	**0.2**	0.5
Other finance costs	**0.3**	–
	13.7	13.1

Net interest costs of £8.6m (2012: £12.1m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £0.5m (2012: £0.5m) and interest payable on loans and overdrafts of £9.1m (2012: £12.6m).

10. Taxation

	2013			2012		
	UK £m	Overseas £m	Total £m	UK Restated £m	Overseas Restated £m	Total Restated £m
Current tax charge	**5.4**	**70.1**	**75.5**	5.0	44.2	49.2
Adjustments in respect of current tax of prior years	**(1.3)**	**(3.0)**	**(4.3)**	(0.3)	(2.7)	(3.0)
Deferred tax – origination and reversal of temporary differences	**0.1**	**0.4**	**0.5**	(0.6)	(0.6)	(1.2)
	4.2	**67.5**	**71.7**	4.1	40.9	45.0

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the Group's profits, is 30.9% (2012: 29.4%). The tax charge for the year is lower than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2013 £m	2012 Restated £m
Profit before taxation	**271.7**	185.2
Corporation tax at standard rate of 30.9% (2012: 29.4%)	**84.0**	54.4
Non-taxable income and gains	**(6.1)**	(5.7)
Non-deductible expenditure	**1.0**	2.0
Movements on unrecognised deferred tax assets	**–**	0.3
Research and development tax incentives	**(3.7)**	(3.8)
Other current year tax items	**–**	0.5
Change in tax rates	**(0.2)**	0.1
Other adjustments to prior year current and deferred tax charges	**(3.3)**	(2.8)
Total taxation	**71.7**	45.0

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	2013 £m	2012 £m
Tax on net gain on effective portion of changes in fair value of forward exchange contracts	**0.1**	1.0
Tax on actuarial gain arising on pension schemes, net of foreign exchange	**0.9**	0.6
Aggregate current and deferred tax charge relating to items that are charged directly to the Consolidated Statement of Comprehensive Income	**1.0**	1.6

10. Taxation continued

Tax on items recognised directly in the Consolidated Statement of Changes in Equity	2013 £m	2012 £m
Tax on share-based payments	**(4.5)**	(3.6)
Aggregate current and deferred tax credit on items recognised directly in the Consolidated Statement of Changes in Equity	**(4.5)**	(3.6)

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	2013 £m	2012 £m
Tax charge on unrealised change in fair value of cross-currency interest rate swaps	**0.2**	0.2
Tax credit on amortisation of intangible assets	**(9.8)**	(9.1)
Tax credit on acquisition-related costs	**(0.3)**	(0.1)
Tax charge/(credit) on acquisition-related fair value adjustments	**0.2**	(1.6)
Tax credit on retranslation of short-term inter-company loan balances	**(0.5)**	(0.2)
Tax charge on profit of disposal of businesses	**33.0**	–
Total tax charge/(credit)	**22.8**	(10.8)

The effective adjusted tax rate for the year was 23.6% (2012: 25.3%) as set out in the reconciliation below.

Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge	Note	2013 £m	2012 Restated £m
Total tax charge on adopted IFRS basis		**71.7**	45.0
Tax (charge)/credit on items of income and expense that are excluded from the Group's adjusted profit before tax		**(22.8)**	10.8
Adjusted tax charge		**48.9**	55.8
Divested businesses		**(0.3)**	(4.1)
Adjusted tax charge excluding divested businesses		**48.6**	51.7
Adjusted profit before tax excluding divested businesses	3	**205.6**	204.3

11. Dividends

Amounts recognised and paid as distributions to owners of the Parent Company in the year	2013 £m	2012 £m
Final dividend for the year ended 31 December 2012 of 25.50p (2011: 25.40p) per share	**30.2**	29.8
Interim dividend for the year ended 31 December 2013 of 14.75p (2012: 13.50p) per share	**17.5**	15.8
	47.7	45.6

Amounts arising in respect of the year	2013 £m	2012 £m
Interim dividend for the year ended 31 December 2013 of 14.75p (2012: 13.50p) per share	**17.5**	15.8
Proposed final dividend for the year ended 31 December 2013 of 28.00p (2012: 25.50p) per share	**33.2**	29.9
	50.7	45.7

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.

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 24.

Basic earnings per share	2013	2012 Restated
Profit after tax (£m)	**200.0**	140.2
Weighted average number of shares outstanding (millions)	**118.2**	117.1
Basic earnings per share (pence)	**169.2**	119.7

Diluted earnings per share	2013	2012 Restated
Profit after tax (£m)	**200.0**	140.2
Basic weighted average number of shares outstanding (millions)	**118.2**	117.1
Weighted average number of dilutive 5p ordinary shares under option (millions)	**0.7**	2.1
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions)	**(0.2)**	(0.7)
Diluted weighted average number of shares outstanding (millions)	**118.7**	118.5
Diluted earnings per share (pence)	**168.5**	118.3

13. Goodwill and Other Intangible Assets

Cost	Note	Goodwill £m	Patents, contractual rights and technology £m	Customer-related and trade names £m	Software £m	Total £m
At 1 January 2012		580.7	119.3	140.0	34.2	874.2
Additions		–	–	–	3.4	3.4
Recognised on acquisitions	27	5.7	10.7	7.7	–	24.1
Transfers from property, plant and equipment	14	–	–	–	1.6	1.6
Other movements		(5.5)	–	–	–	(5.5)
Reclassified to assets held for sale	25	–	(0.1)	–	(2.1)	(2.2)
Disposals		–	–	–	(0.5)	(0.5)
Foreign exchange difference		(18.8)	(3.5)	(5.5)	(0.9)	(28.7)
At 31 December 2012		562.1	126.4	142.2	35.7	866.4
Additions		–	–	–	6.3	6.3
Recognised on acquisitions	27	3.2	11.2	3.8	–	18.2
Transfer from property, plant and equipment	14	–	–	–	0.2	0.2
Other movements		(4.0)	–	–	–	(4.0)
Disposals		–	–	–	(1.5)	(1.5)
Foreign exchange difference		(4.1)	(2.6)	(4.4)	0.3	(10.8)
At 31 December 2013		**557.2**	**135.0**	**141.6**	**41.0**	**874.8**
Accumulated amortisation and impairment losses						
At 1 January 2012		36.2	33.3	27.5	26.8	123.8
Charge for the year		–	14.3	12.7	3.1	30.1
Transfers from property, plant and equipment	14	–	–	–	0.6	0.6
Reclassified to assets held for sale	25	–	–	–	(1.9)	(1.9)
Disposals		–	–	–	(0.5)	(0.5)
Foreign exchange difference		(0.8)	(1.0)	(1.4)	(0.7)	(3.9)
At 31 December 2012		35.4	46.6	38.8	27.4	148.2
Charge for the year		–	15.1	13.8	3.5	32.4
Disposals		–	–	–	(1.5)	(1.5)
Foreign exchange difference		0.8	(1.4)	(2.4)	0.2	(2.8)
At 31 December 2013		**36.2**	**60.3**	**50.2**	**29.6**	**176.3**
Carrying amount						
At 31 December 2013		**521.0**	**74.7**	**91.4**	**11.4**	**698.5**
At 31 December 2012		526.7	79.8	103.4	8.3	718.2

Goodwill

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

The Group's identified cash-generating units are smaller than the four reportable segments, being the 13 operating companies. Bolt-on acquisitions are quickly integrated into existing Group companies and therefore not considered separately.

The most significant elements of goodwill are as follows:

	2013		2012	
	Goodwill	**Pre-tax discount rate**	Goodwill	Pre-tax discount rate
Omega Engineering	**160.1**	**14.4%**	163.0	16.0%
PANalytical	**94.2**	**12.7%**	97.7	13.9%
Brüel & Kjær Sound & Vibration	**67.9**	**12.6%**	71.0	13.9%
HBM	**65.3**	**13.0%**	64.9	14.4%
BTG	**52.7**	**12.4%**	52.2	13.7%

As part of the annual impairment review, the carrying amount of goodwill has been assessed with reference to value in use to perpetuity, reflecting the projected cash flows of each cash-generating unit based on actual operating results, the most recent budget for the next financial year as approved by the Board, and strategic review projections for 2015 and 2016.

13. Goodwill and Other Intangible Assets continued

The key assumptions on which the value in use calculations are based relate to business performance over the next three years, projected long-term growth rates beyond 2016 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. Foreign exchange rates are based on forecast rates at the time the budget and strategic review projections are prepared. Growth rates for the years beyond 2015 are assumed to be 4.0% (2012: 2.5%), based on the historic operating profit growth over the last ten years. The cash flow projections have been discounted using cash-generating unit specific pre-tax discount rates between 12% and 16% (2012: 13% and 18%). These rates have been determined by taking the size of business and specific geographic and industry risk factors into account. The reduction in the discount rates compared to the prior year is due to a reduction in the market risk premium and risk-free rate as well as a reduction in the cost of debt funding. Following the annual impairment review, no impairment charge was recognised in either 2013 or 2012.

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. For illustration, the Directors have considered the following specific individual sensitivities:

- a two percentage point (pp) increase in the pre-tax discount rate applied to each cash-generating unit would result in an impairment of £nil (2012: £nil);
- if the long-term growth rate assumption was reduced by 2.5pp to 1.5% (2012: reduced by 1.5pp to 1.0%), no impairment would arise (2012: £nil); and
- if the cash flow projections of all cash-generating units were reduced by 25% for the next two years, no impairment would arise (2012: £nil).

Other intangible assets
The Directors consider that operating results in 2013 confirm that none of the Group's brought forward trading businesses has suffered a permanent diminution in value as a result of recent difficult economic conditions.

Of the total amortisation charge of £32.4m (2012: £30.1m), the amount attributable to the amortisation of acquisition-related intangible assets was £28.9m (2012: £27.0m).

The transfers from property, plant and equipment to software in 2013 and 2012 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' have not been met (2012: nil).

The trade names and technology assets recognised on the acquisition of Omega Engineering in 2011, and included within the Industrial Controls reportable segment, are considered significant by the Directors as they represent 58.1% (2012: 51.2%) of total customer-related and trade names, and 30.1% (2012: 33.0%) of total patents, contractual rights and technology, respectively. The carrying amount of the trade name intangible at 31 December 2013 is £53.1m (2012: £57.1m) and is being amortised over 20 years with the remaining amortisation period being 17.8 years. The carrying amount of the technology intangible at 31 December 2013 is £21.0m (2012: £24.1m) and is being amortised over 10 years with the remaining amortisation period being 7.8 years.

14. Property, Plant and Equipment

Cost	Note	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 1 January 2012		131.1	12.0	155.1	298.2
Additions		8.4	1.4	15.6	25.4
Recognised on acquisitions	27	–	–	0.4	0.4
Transfers to plant and equipment		(0.5)	–	0.5	–
Transfers to other intangible assets	13	–	–	(1.6)	(1.6)
Other movements		(0.2)	–	–	(0.2)
Reclassified to assets held for sale	25	–	(2.2)	(5.2)	(7.4)
Disposals		(3.8)	(0.8)	(6.9)	(11.5)
Foreign exchange difference		(3.8)	(0.4)	(5.0)	(9.2)
At 31 December 2012		131.2	10.0	152.9	294.1
Additions		6.1	1.4	17.9	25.4
Recognised on acquisitions	27	–	–	0.1	0.1
Transfers to other intangible assets	13	–	–	(0.2)	(0.2)
Disposals		(0.1)	(0.3)	(12.9)	(13.3)
Foreign exchange difference		1.5	(0.3)	0.1	1.3
At 31 December 2013		**138.7**	**10.8**	**157.9**	**307.4**

Accumulated depreciation and impairment	Note	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 1 January 2012		32.9	8.5	104.1	145.5
Charge for the year		3.8	1.4	12.3	17.5
Transfers to other intangible assets	13	–	–	(0.6)	(0.6)
Reclassified to assets held for sale	25	–	(2.0)	(4.6)	(6.6)
Disposals		(2.4)	(0.7)	(6.3)	(9.4)
Foreign exchange difference		(1.2)	(0.4)	(3.2)	(4.8)
At 31 December 2012		33.1	6.8	101.7	141.6
Charge for the year		3.8	1.1	13.2	18.1
Disposals		(0.1)	(0.3)	(11.7)	(12.1)
Foreign exchange difference		0.6	(0.3)	0.5	0.8
At 31 December 2013		**37.4**	**7.3**	**103.7**	**148.4**

Carrying amount	Note	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 31 December 2013		**101.3**	**3.5**	**54.2**	**159.0**
At 31 December 2012		98.1	3.2	51.2	152.5

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £3.0m (2012: £1.2m).

No borrowing costs met the required criteria for capitalisation during the year (2012: £nil).

15. Inventories

	2013 £m	2012 £m
Raw materials	**60.0**	62.2
Work in progress	**26.1**	28.7
Finished goods	**75.9**	72.9
	162.0	163.8

In the ordinary course of business, the Group makes provision for slow-moving, excess and obsolete inventory to write it down to its net realisable value based on an assessment of technological and market developments specific to that business, and an analysis of historic and projected usage on an individual item basis.

Inventory is stated after charging £8.9m (2012: £10.0m) in respect of inventory provisions and crediting £3.1m (2012: £2.7m) relating to the reversal of previously recognised provisions.

Inventory carried at fair value less cost to sell is £nil (2012: £0.7m) due to the acquisitions described in Note 27.

Raw materials and changes in finished goods and work in progress recognised within cost of sales amounted to £323.9m (2012: £336.7m).

16. Trade and Other Receivables

	2013 £m	2012 £m
Trade receivables	**181.0**	171.5
Prepayments and accrued income	**14.7**	19.6
Other receivables	**20.1**	17.7
	215.8	208.8

Included within prepayments and accrued income and other receivables are amounts receivable in more than one year of £4.2m (2012: £5.3m).

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 the recognition of provisions for impairment of £3.6m (2012: £5.1m) and the reversal of previously recognised provisions for impairment of £5.0m (2012: £2.9m).

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

	2013 £m	2012 £m
UK	**8.3**	6.4
Germany	**17.4**	18.9
France	**11.0**	9.9
Rest of Europe	**36.9**	32.5
USA	**44.2**	42.4
Rest of North America	**6.4**	6.8
Japan	**9.9**	11.5
China	**12.5**	10.8
South Korea	**5.4**	3.7
Rest of Asia Pacific	**16.4**	14.0
Rest of the world	**12.6**	14.6
	181.0	171.5

Impairment losses
A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect amounts due from customers according to the original terms of sale.

16. Trade and Other Receivables continued

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

	2013 Gross £m	2013 Impairment £m	2012 Gross £m	2012 Impairment £m
Not past due	**133.2**	**0.3**	123.4	0.4
One month past due	**31.6**	**0.6**	34.7	1.1
Two months past due	**10.5**	**0.5**	9.0	0.7
Three months past due	**5.2**	**0.5**	5.0	0.3
Over three months past due	**10.2**	**7.8**	11.1	9.2
	190.7	**9.7**	183.2	11.7

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

	2013 £m	2012 £m
Balance at 1 January	**11.7**	10.2
Impairment loss recognised	**3.6**	5.1
Impairment loss utilised	**(0.5)**	(0.4)
Impairment loss released	**(5.0)**	(2.9)
Reclassified to assets held for sale	**–**	(0.2)
Foreign exchange difference	**(0.1)**	(0.1)
Balance at 31 December	**9.7**	11.7

An impairment provision has been recorded against the trade receivables that the Group believes may not be recoverable. All trade receivables past due for more than 120 days have been fully provided in line with the Group's credit risk policy.

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.

17. Cash and Cash Equivalents

Analysis of balances of cash and cash equivalents	Note	2013 £m	2012 £m
Cash balances		**43.8**	40.8
Bank overdrafts	18	**(2.2)**	(1.0)
Cash and cash equivalents in the Consolidated Statement of Cash Flows		**41.6**	39.8

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 19.

18. Borrowings

Current	Effective interest rate	Earlier of repricing date or maturity date	2013 £m	2012 £m
Bank overdrafts		on demand	**2.2**	1.0
Unsecured loan notes – 2003 \$100m	6.08%	15 October 2013	**–**	61.5
Unsecured loan notes – 2003 €25m	5.56%	15 October 2013	**–**	20.3
			2.2	82.8

Non-current	Effective interest rate	Earlier of repricing date or maturity date	2013 £m	2012 £m
Bank loans – unsecured	1.69%	14 August 2016	**21.1**	153.8
Bank loans unsecured – \$75.6m	3.12%	10 September 2015	**45.7**	46.5
Bank loans unsecured – €94.8m	2.56%	14 October 2020	**78.9**	–
Total unsecured borrowings			**145.7**	200.3

At 31 December 2013, the Group had available £311.0m (2012: £184.6m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Unsecured loan notes

The unsecured loan notes and cross-currency interest rate swaps which had the effect of converting this US Dollar borrowing into fixed interest Euro-denominated debt were repaid in full on redemption in October 2013.

18. Borrowings continued

Under adopted IFRS, where cross-currency interest rate swaps are used, the value of the underlying US Dollar borrowing is presented separately to the value of the related cross-currency interest rate swap. The underlying US Dollar borrowings are presented in this Note and the cross-currency interest rate swap is presented within derivative financial instruments in Note 19. 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	2013 £m	2012 £m
Bank overdrafts		**2.2**	1.0
Bank loans – unsecured		**145.7**	200.3
Unsecured loan notes		**–**	81.8
Cross-currency interest rate swaps – currency portion	19	**–**	11.8
Total borrowings		**147.9**	294.9
Cash balances	17	**(43.8)**	(40.8)
Net debt		**104.1**	254.1

19. Financial Instruments

Fair value and carrying amount of financial instruments	2013 Level 2 fair value £m	2013 Carrying amount £m
Trade and other receivables excluding prepayments		**201.1**
Trade and other payables excluding deferred income		**(184.1)**
Cash and cash equivalents		**43.8**
Floating rate borrowings		**(23.3)**
Fixed rate borrowings	**(124.8)**	**(124.6)**
Forward exchange contracts	**3.6**	**3.6**
		(83.5)

Fair value and carrying amount of financial instruments	2012 Level 2 fair value £m	2012 Carrying amount £m
Trade and other receivables excluding prepayments		189.2
Trade and other payables excluding deferred income		(203.7)
Cash and cash equivalents		40.8
Floating rate borrowings		(154.2)
Fixed rate borrowings	(134.7)	(128.9)
Forward exchange contracts	2.4	2.4
Cross-currency interest rate swaps	(12.5)	(12.5)
		(266.9)

The above tables show the fair value measurement of financial instruments by level following the fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities; and
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

At 31 December 2013, all financial instruments were held at level 2 fair value measurement. There were no movements between level 1 and level 2 of the fair value hierarchy in the year.

The fair value of cash and cash equivalents, receivables and payables approximates to the carrying amount because of the short maturity of these instruments.

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 are estimated by discounting the future contracted cash flow, using appropriate yield curves, to the net present values.

19. Financial Instruments continued

The fair value of forward exchange contracts and the cross-currency interest rate swaps are determined using discounted cash flow techniques based on readily available market data.

The fair value of forward exchange contracts outstanding as at 31 December 2013 is a net asset of £3.6m (2012: £2.4m), of which £2.9m has been credited to the hedging reserve (2012: £2.1m credit) and £0.7m credited to the Consolidated Income Statement (2012: £0.3m credit). These contracts mature over periods typically not exceeding 18 months. A summary of the movements in the hedging reserve during the year is presented below. In accordance with IFRS, all of the cash flow hedges in 2013 and 2012 were deemed to be effective.

Analysis of movements in hedging reserve net of tax	2013 £m	2012 £m
At 1 January	**(0.8)**	(3.6)
Amounts removed from the Consolidated Statement of Changes in Equity and included in the Consolidated Income Statement during the year	**(3.5)**	(0.2)
Amounts recognised in the Consolidated Statement of Changes in Equity during the year	**4.1**	3.0
At 31 December	**(0.2)**	(0.8)

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 typically mature in the next 18 months and, therefore, the cash flows and resulting effect on profit and loss are expected to occur within this time period.

Forward exchange contracts at 31 December	2013	2012
Foreign currency sale amount (£m)	**97.0**	94.3
Percentage of total:		
US Dollar	**38%**	31%
Euro	**40%**	41%
Japanese Yen	**19%**	24%
Other	**3%**	4%

Cross-currency interest rate swaps

The Group's cross-currency interest rate swaps were all settled at maturity in October 2013. 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 2012	(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)
Change in fair value recognised in the Consolidated Statement of Comprehensive Income	11.8	–	11.8
Change in fair value recognised in the Consolidated Income Statement	–	0.7	0.7
As at 31 December 2013	**–**	**–**	**–**

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

	2013			2012			
Maturity of financial liabilities	Bank loans and overdrafts £m	Unsecured loans £m	Total £m	Bank loans and overdrafts £m	Unsecured loans £m	Cross-currency swap £m	Total £m
Due within one year	**2.2**	**3.8**	**6.0**	1.0	90.9	12.3	104.2
Due between one and two years	**–**	**49.5**	**49.5**	–	4.4	–	4.4
Due between two and five years	**–**	**27.8**	**27.8**	–	209.0	–	209.0
Due in more than five years	**–**	**82.9**	**82.9**	–	–	–	–
	2.2	**164.0**	**166.2**	1.0	304.3	12.3	317.6

Trade and other payables (Note 20) 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.

19. Financial Instruments continued

Interest rate exposure of financial assets and liabilities by currency	Financial assets				Financial liabilities			2013 Net financial assets/ (liabilities) £m
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	–	**0.4**	**1.7**	**2.1**	–	–	–	**2.1**
Euro	–	**6.5**	**3.7**	**10.2**	**(78.9)**	–	**(78.9)**	**(68.7)**
US Dollar	–	**12.5**	**3.9**	**16.4**	**(45.7)**	**(22.1)**	**(67.8)**	**(51.4)**
Other	**0.8**	**4.5**	**9.8**	**15.1**	–	**(1.2)**	**(1.2)**	**13.9**
	0.8	**23.9**	**19.1**	**43.8**	**(124.6)**	**(23.3)**	**(147.9)**	**(104.1)**

Interest rate exposure of financial assets and liabilities by currency	Financial assets				Financial liabilities			2012 Net financial assets/ (liabilities) £m
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £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)

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

Sensitivity analysis

The tables below show the Group's sensitivity to foreign exchange rates and interest rates. The US Dollar, Euro/Danish Krone and Swiss Franc represent the main foreign exchange translational exposures for the Group. The Group's borrowings are primarily in US Dollars and Euros.

Impact on foreign exchange translational exposures against Sterling	2013		2012	
	Decrease in equity £m	Decrease in profit before tax £m	Decrease in equity £m	Decrease in profit before tax £m
10% weakening in the US Dollar	**67.3**	**6.2**	53.8	6.9
10% weakening in the Euro/Danish Krone	**61.1**	**5.1**	58.5	7.0
10% weakening in the Swiss Franc	**3.0**	**2.0**	3.0	1.7

Impact of interest rate movements				
1% (100 basis points) increase in interest rates	–	–	–	1.3

20. Trade and Other Payables

Current	2013 £m	2012 £m
Trade payables	**74.8**	80.3
Accruals	**71.6**	73.8
Deferred income	**24.7**	23.9
Other non-trade payables	**22.9**	29.9
	194.0	207.9

Non-current		
Other non-trade payables	**14.8**	19.7

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

The effect of discounting on non-current payables is not considered to be material.

21. Provisions

	Reorganisation £m	Product warranty £m	Legal, contractual and other £m	**Total £m**
At 1 January 2013	1.5	9.1	15.8	**26.4**
Additional provision in the year	0.3	6.2	2.1	**8.6**
Utilised during the year	(1.2)	(3.9)	(2.0)	**(7.1)**
Released during the year	–	(0.7)	(6.1)	**(6.8)**
Foreign exchange difference	–	(0.1)	–	**(0.1)**
At 31 December 2013	**0.6**	**10.6**	**9.8**	**21.0**

Provisions are all presented as current liabilities.

Reorganisation
Reorganisation provisions relate to committed restructuring plans in place within the business. 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 included within the Group's standard terms and conditions. Warranty commitments typically apply for a 12-month period, but can extend to 36 months. These extended warranties are not significant.

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 most 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. The reduction in the provision during the year is due to a lower legal risk profile in the Group. 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 is assessed as remote.

22. Deferred Tax

The movement on the deferred tax account is shown below.

	Note	2013 £m	2012 Restated £m
At 1 January		**19.4**	12.9
Foreign exchange difference		**(0.6)**	(0.4)
Acquisition of subsidiary undertakings	27	**3.1**	6.4
Other acquisition-related		**(0.3)**	–
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		**0.2**	1.0
Deferred tax on actuarial gains and losses on pension schemes recognised in the Consolidated Statement of Comprehensive Income		**0.9**	0.2
Deferred tax on share-based payments recognised in equity		**(0.2)**	(1.1)
Credited to the Consolidated Income Statement	10	**(0.5)**	(1.2)
At 31 December		**22.0**	19.4
Comprising:			
Deferred tax liabilities		**39.0**	36.2
Deferred tax assets		**(17.0)**	(16.8)
		22.0	19.4

The total deferred tax charge in the year of £0.5m recognised in the Consolidated Income Statement includes an amount of £1.0m which was charged in respect of deferred tax balances which were previously included within assets held for sale.

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 other intangible assets £m	Other £m	2013 Total £m
At 1 January 2013	**5.2**	**(19.8)**	**(0.9)**	**(6.1)**	**(3.4)**	**44.8**	**(0.4)**	**19.4**
Foreign exchange difference	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Acquisition of subsidiary undertakings	**–**	**–**	**–**	**–**	**–**	**2.8**	**–**	**2.8**
Deferred tax on changes in fair value of forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Deferred tax on actuarial loss on pension schemes recognised in the Consolidated Statement of Comprehensive Income	**–**	**–**	**–**	**–**	**0.9**	**–**	**–**	**0.9**
Deferred tax on share-based payments recognised in equity	**–**	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Charged/(credited) to the Consolidated Income Statement	**(0.9)**	**5.2**	**(0.1)**	**1.0**	**0.3**	**(3.9)**	**(2.1)**	**(0.5)**
At 31 December 2013	**4.3**	**(14.6)**	**(1.0)**	**(5.1)**	**(2.2)**	**43.1**	**(2.5)**	**22.0**

22. 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 other intangible assets £m	Other £m	2012 Restated 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	–	–	–	–	0.2	–	–	0.2
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)	(3.4)	44.8	(0.4)	19.4

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.

	2013 £m	2012 £m
Tax losses	**2.1**	18.2
Other temporary differences	**0.8**	7.3
	2.9	25.5

The UK corporation tax rate was reduced to 23% from 24% with effect from 1 April 2013. Further phased reductions in the UK tax rate to 20% effective from 1 April 2015 (21% from 1 April 2014) were substantively enacted in the UK Finance Act 2013.

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, £29.6m (2012: £30.5m) 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 (2012: £1.6m), of which only £0.3m 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.

23. Share Capital and Reserves

	2013		2012	
	Number of shares	**£m**	Number of shares	£m
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 carries 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 26). 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.

23. Share Capital and Reserves continued

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.

24. Share-based Payments

The Save As You Earn Share (SAYE) Option Scheme was set up in order to provide Executives and selected employees with options to purchase ordinary shares in the Company. Under the SAYE 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 SAYE Scheme.

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 subsequent to 2010, 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.

Since 2011, the Company has also granted Performance Share Plan options 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 grants 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 is met.

Share options outstanding at the end of the year

SAYE – Year of grant	Exercise price £	Contractual life of options	**2013 Number Thousands**	2012 Number Thousands
2009	7.23	Nil	**–**	5
2010	10.19	1 year	**2**	17
2011	13.81	2 years	**29**	31
2012	16.95	3 years	**35**	39
2013	22.45	4 years	**23**	–
			89	92

Performance Share Plan (unapproved) – Year of grant	Exercise price £	Contractual life of options	**2013 Number Thousands**	2012 Number Thousands
2007	0.05	4 years	**1**	3
2008	0.05	5 years	**8**	77
2009	0.05	6 years	**40**	421
2010	0.05	7 years	**113**	888
2011	0.05	8 years	**552**	645
2012	0.05	9 years	**552**	636
2013	0.05	10 years	**460**	–
			1,726	2,670

24. Share-based Payments continued

Performance Share Plan (approved) – Year of grant	Exercise price £	Contractual life of options	**2013 Number Thousands**	2012 Number Thousands
2011	11.30	8 years	**7**	7
2012	17.31	9 years	**72**	78
2013	23.78	10 years	**26**	–
			105	85

Movements in the year

SAYE	**2013 Number Thousands**	**2013 Weighted average exercise price £**	**2013 Value of shares £m**	2012 Number Thousands	2012 Weighted average exercise price £	2012 Value of shares £m
At 1 January	**92**	**14.09**	**1.3**	108	9.77	1.1
Granted	**23**	**22.45**	**0.5**	39	16.95	0.7
Exercised	**(20)**	**9.52**	**(0.2)**	(50)	7.33	(0.4)
Forfeited	**(6)**	**15.48**	**(0.1)**	(5)	11.00	(0.1)
At 31 December	**89**	**17.23**	**1.5**	92	14.09	1.3
Exercisable at 31 December	**2**	**10.19**	**0.02**	5	7.23	0.04

Performance Share Plan (unapproved)	**2013 Number Thousands**	**2013 Weighted average exercise price £**	**2013 Value of shares £m**	2012 Number Thousands	2012 Weighted average exercise price £	2012 Value of shares £m
At 1 January	**2,670**	**0.05**	**0.13**	3,110	0.05	0.15
Shares granted	**488**	**0.05**	**0.02**	653	0.05	0.03
Addition of reinvested dividends	**72**	**0.05**	**0.01**	127	0.05	0.01
Exercised	**(1,306)**	**0.05**	**(0.06)**	(1,031)	0.05	(0.05)
Forfeited	**(198)**	**0.05**	**(0.01)**	(189)	0.05	(0.01)
At 31 December	**1,726**	**0.05**	**0.09**	2,670	0.05	0.13
Exercisable at 31 December	**162**	**0.05**	**0.01**	501	0.05	0.03

Performance Share Plan (approved)	**2013 Number Thousands**	**2013 Weighted average exercise price £**	**2013 Value of shares £m**	2012 Number Thousands	2012 Weighted average exercise price £	2012 Value of shares £m
At 1 January	**85**	**16.82**	**1.43**	7	11.30	0.08
Shares granted	**26**	**23.78**	**0.62**	79	17.31	1.37
Exercised	**–**	**–**	**–**	–	–	–
Forfeited	**(6)**	**17.81**	**(0.11)**	(1)	17.31	(0.02)
At 31 December	**105**	**18.47**	**1.94**	85	16.82	1.43
Exercisable at 31 December	**–**	**–**	**–**	–	–	–

24. Share-based Payments continued

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 2012 and 2013, the fair value of options granted and the assumptions used in the calculation are as follows:

	SAYE		Performance Share Plan (unapproved)		Performance Share Plan (approved)	
	2013	2012	**2013**	2012	**2013**	2012
Weighted average share price at date of grant (£)	**22.21**	18.27	**23.65**	17.48	**23.54**	17.50
Weighted average exercise price (£)	**22.45**	16.95	**0.05**	0.05	**23.78**	17.31
Expected volatility	**33.2%**	32.4%	**n/a**	35.4%	**33.0%**	35.4%
Expected life	**3.45 yrs**	3.25 yrs	**3 yrs**	3 yrs	**3 yrs**	3 yrs
Risk-free rate	**0.9%**	0.4%	**0.4%**	0.5%	**0.4%**	0.5%
Expected dividends (expressed as a yield)	**1.8%**	2.1%	**0%**	0%	**1.6%**	1.9%
Fair value per option (£)	**4.25**	3.62				
Weighted average fair values at date of grant (£):						
Equity-settled (TSR condition)			**14.69**	11.32	**4.58**	3.76
Equity-settled (Profit condition)			**23.26**	17.00	**4.63**	3.78
Equity-settled (EPS condition)			**23.43**	16.95	**4.64**	3.78
Cash-settled (Profit condition)			**23.52**	17.40		
Cash-settled (EPS condition)			**23.50**	17.38		
Cash-settled (TSR condition)			**15.39**	–		
Weighted average fair values at 31 December (£):						
Cash-settled (Profit condition)			**24.69**	19.62		
Cash-settled (EPS condition)			**24.69**	19.62		
Cash-settled (TSR condition)			**12.99**	–		

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 2013 was £21.82 (2012: £17.56). The weighted average fair value of cash-settled options outstanding at 31 December 2013 is £25.07 for the EPS condition (2012: £20.06).

The Group recognised a total charge of £3.1m (2012: £7.5m) in the Consolidated Income Statement, of which £2.3m (2012: £6.2m) related to equity-settled share-based payment transactions.

25. Disposal of Businesses

In line with the agreement signed 18 December 2012, on 31 January 2013, the Group disposed of the Fusion business, part of the In-line Instrumentation segment, for a final consideration of US$175m.

Effect of disposal on the financial position of the Group	Note	2013 £m
Other intangible assets	13	**0.3**
Property, plant and equipment		**0.9**
Deferred tax assets	22	**0.5**
Inventory		**5.1**
Trade and other receivables		**8.1**
Cash		**1.8**
Trade and other payables		**(5.6)**
Current tax liabilities		**(0.6)**
Provisions		**(0.2)**
Net assets divested		**10.3**
Consideration received, satisfied in cash		**110.2**
Cash disposed of		**(1.8)**
Transaction expenses		**(3.1)**
Net cash inflow		**105.3**
Cash received net of transaction expenses		**107.1**
Net assets disposed of		**(10.3)**
Currency translation differences transferred from translation reserve		**1.5**
Profit on disposal of businesses		**98.3**

The sale of the Fusion business did not meet the definition of a discontinued operation given in IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations' and, therefore, no disclosures in relation to discontinued operations have been made.

The Group did not divest of any businesses during 2012.

Disposal of associate
On 19 February 2013, the Group acquired certain trade and assets that resulted in a deemed disposal of its 31.2% associate investment in Naneum Limited for £0.7m in cash. The Group's share of the associate's results up to the date of the disposal and the gain/(loss) on disposal was not considered material.

26. Treasury Shares

At 31 December 2013, the Group held 6,344,254 treasury shares (2012: 7,612,379). During the year 1,268,125 of these shares were issued to satisfy options exercised by employees which were granted under the Group's share schemes (2012: 1,021,685). No shares were repurchased by the Group during the year (2012: nil) and no shares were cancelled during the year (2012: nil).

27. Acquisitions

On 19 February 2013, the Group acquired certain of the trade and assets of a previously held associate, Naneum Limited, a company based in the UK, for a total consideration of £1.3m, including £0.5m contingent consideration which is the expected royalty payments based on 6% of expected sales over a seven-year period. This extends the Group's capabilities in aerosol monitoring instruments. 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 £1.3m. This business has been integrated into the Materials Analysis segment.

On 27 September 2013, the Group acquired 100% of the share capital of NanoSight Limited, a company based in the UK, for a total consideration of £16.4m (£14.6m net of cash acquired). This extends the Group's capabilities in particle size measurement instrumentation. The excess of the fair value of the consideration paid over the fair value of the net assets acquired is represented by technology-based intangibles of £9.9m and customer-related intangibles of £3.8m. Goodwill of £3.2m has been recognised as a consequence of the requirement to recognise a deferred tax liability on the fair value adjustments. This business has been integrated into the Materials Analysis segment.

In November 2013, the Group acquired the trade and software-related assets of PROdry Technology Inc., a US business with expertise in tissue process consulting. The acquisition has not been accounted for under IFRS3 (Revised) as it is deemed immaterial, and has been treated as an acquisition of software within intangible assets. The fair value of the net assets acquired is not materially different from the book value. The business is being integrated into the In-line Instrumentation segment.

The assets and liabilities acquired as a result of the above transactions, together with the aggregate purchase consideration, are summarised in the table below. The revenue and operating profit contribution from the acquisitions in the year to the Group's results for the year were £1.5m and £0.2m, respectively. Group revenue and operating profit would have been £1,206.5m and £186.1m (adjusted operating profit: £214.1m), respectively, had each of these acquisitions taken place on the first day of the financial year.

27. 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 2013 acquisitions	Book value £m	Adjustments £m	2013 Fair value £m
Intangible fixed assets	–	15.0	15.0
Tangible fixed assets	0.1	–	0.1
Deferred tax asset	0.1	–	0.1
Inventories	0.5	0.1	0.6
Trade and other receivables	1.2	–	1.2
Trade and other payables	(1.1)	–	(1.1)
Provisions	–	–	–
Deferred tax liabilities	–	(3.2)	(3.2)
Cash	1.8	–	1.8
Net assets acquired	2.6	11.9	14.5
Goodwill			3.2
Total consideration in respect of 2013 acquisitions			17.7

Total consideration	17.7
Adjustment for cash acquired	(1.8)
Net consideration in respect of 2013 acquisitions	15.9

Analysis of cash outflow in Consolidated Statement of Cash Flows	
Total consideration in respect of 2013 acquisitions	17.7
Adjustment for cash acquired on 2013 acquisitions	(1.8)
Deferred and contingent consideration on 2013 acquisitions to be paid in future years	(0.5)
Cash paid in 2013 in respect of 2013 acquisitions	15.4

Acquisitions prior to 2013	
Purchase price adjustment in relation to prior year acquisition	0.1
Deferred and contingent consideration in relation to prior years' acquisitions:	
– accrued at 31 December 2012	1.4
Cash paid in 2013 in respect of prior years' acquisitions	1.5
Net cash outflow relating to acquisitions	16.9

Due to their contractual due dates, the fair value of receivables acquired approximates to 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 IFRS 3 (Revised).

27. Acquisitions continued

The following tables represent the finalisation of the fair values relating to the 2012 acquisitions:

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	0.4	–	0.4
Inventories	1.1	(0.2)	0.9
Taxation recoverable	0.2	–	0.2
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	2.6	11.5	14.1
Goodwill			1.5
Total consideration in respect of 2012 acquisitions			15.6

Total consideration	15.6
Adjustment for cash acquired	(0.5)
Net consideration in respect of 2012 acquisitions	15.1

Analysis of cash outflow in Consolidated Statement of Cash Flows	
Total consideration in respect of 2012 acquisitions	15.6
Adjustment for cash acquired on 2012 acquisitions	(0.5)
Deferred and contingent consideration on 2012 acquisitions to be paid in future years	(5.0)
Cash paid in 2012 in respect of 2012 acquisitions	10.1

Prior years' acquisitions	
Purchase price adjustment in relation to 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 was received during the prior year based on updated expectations.

28. 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 £12.5m (2012: £15.1m) was outstanding at 31 December 2013.

Other banks
Group companies have, in the normal course of business, provided bonds and guarantees through local banking arrangements amounting to £5.0m (2012: £8.4m).

29. Operating Lease Arrangements

Total commitments under non-cancellable operating leases	2013 Property £m	2013 Other £m	2012 Property £m	2012 Other £m
Not later than one year	**10.5**	**4.5**	11.3	4.4
Later than one year and not later than five years	**20.3**	**5.0**	25.9	4.9
Later than five years	**4.9**	**–**	5.5	–
	35.7	**9.5**	42.7	9.3

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

During the year £14.4m (2012: £13.9m) was recognised in the Consolidated Income Statement in respect of operating lease rental payments.

30. Capital Commitments

At 31 December 2013, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and software amounting to £1.6m (2012: £2.0m) which have not been accrued.

31. 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 page 41. 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 page 68. There are no other related party transactions.

32. Subsidiary Undertakings

The following are the Group's principal subsidiary undertakings. They operate mainly in the countries of incorporation. All of 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 Sound & Vibration Measurement A/S	Denmark
Brüel & Kjær Vibro A/S	Denmark
Hottinger Baldwin Messtechnik GmbH	Germany
BTG Eclépens SA	Switzerland
PANalytical BV	The Netherlands
Malvern Instruments Limited	UK
Servomex Group Limited	UK
Beta LaserMike 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

33. Post Balance Sheet Events

There were no post balance sheet events.

Company Balance Sheet

As at 31 December 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Intangible fixed assets	36	**0.7**	0.9
Tangible fixed assets	37	**3.1**	3.3
Fixed asset investments	38	**431.6**	255.0
		435.4	259.2
Current assets			
Debtors	39	**397.1**	407.7
Cash at bank		**2.9**	1.3
		400.0	409.0
Creditors: due within one year			
Other creditors	40	**(210.1)**	(173.0)
Net current assets		**189.9**	236.0
Debtors: due after more than one year			
Debtors	41	**145.6**	295.4
Total assets less current liabilities		**770.9**	790.6
Creditors: due after more than one year			
Medium- and long-term borrowings	42	**(216.0)**	(319.7)
Derivative financial instruments	43	**(0.1)**	(12.6)
		(216.1)	(332.3)
Provisions for liabilities and charges	44	**–**	(2.0)
Net assets		**554.8**	456.3
Capital and reserves			
Called up share capital	45	**6.2**	6.2
Share premium account	46	**231.4**	231.4
Merger reserve	46	**3.1**	3.1
Capital redemption reserve	46	**0.3**	0.3
Special reserve	46	**34.1**	34.1
Profit and loss account	46	**279.7**	181.2
Equity shareholders' funds		**554.8**	456.3

The Financial Statements on pages 122 to 128 were approved by the Board of Directors on 27 February 2014 and were signed on its behalf by:

Clive Watson
Group Finance Director

Company Registration No. 2025003

Notes to the Company Accounts

34. 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.

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
- 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.

Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost.

34. Accounting Policies continued

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.

35. Employee Costs and Other Information

Employee costs, including Directors' remuneration	2013 £m	2012 £m
Wages and salaries	**6.2**	6.3
Social security costs	**2.1**	2.8
Defined benefit pension plans	**–**	0.8
Defined contribution pension plans	**0.2**	0.2
Share-based payment expense	**1.1**	1.8
	9.6	11.9

	2013 Number	2012 Number
Average number of employees	**39**	37

Directors' remuneration
Further details of Directors' remuneration and share options are given in Note 7 to the Group Consolidated Financial Statements and in the Directors' Remuneration Report on pages 55 to 72.

Auditor's fees
Details regarding the remuneration of the Company's auditor are included in Note 6 to the Group Consolidated Financial Statements under 'Fees payable to the Company's auditor for the audit of the Company's Annual Accounts'.

36. Intangible Fixed Assets

Cost	Software £m
At 1 January 2013	**3.3**
Additions	**0.2**
At 31 December 2013	**3.5**
Amortisation	
At 1 January 2013	**2.4**
Charge for the year	**0.4**
At 31 December 2013	**2.8**
Net book value	
At 31 December 2013	**0.7**
At 31 December 2012	0.9

37. Tangible Fixed Assets

Cost	Freehold property £m	Office equipment £m	Total £m
At 1 January 2013	**3.2**	**0.5**	**3.7**
Additions	**0.1**	**–**	**0.1**
At 31 December 2013	**3.3**	**0.5**	**3.8**
Depreciation			
At 1 January 2013	**0.1**	**0.3**	**0.4**
Charge for the year	**0.2**	**0.1**	**0.3**
At 31 December 2013	**0.3**	**0.4**	**0.7**
Net book value			
At 31 December 2013	**3.0**	**0.1**	**3.1**
At 31 December 2012	3.1	0.2	3.3

38. Fixed Asset Investments

Cost	Investments in subsidiary undertakings £m
At 1 January 2013	**324.6**
Additions	**364.3**
Disposals	**(187.7)**
At 31 December 2013	**501.2**
Provision for impairment	
At 1 January 2013	**69.6**
At 31 December 2013	**69.6**
Net book value	
At 31 December 2013	**431.6**
At 31 December 2012	255.0

The additions and disposals during the year were part of a Group-wide reorganisation.

Further details regarding the investments in subsidiaries are given in Note 32 to the Group Consolidated Financial Statements.

39. Debtors

Amounts falling due within one year	2013 £m	2012 £m
Amounts owed by group undertakings	**390.2**	400.1
Other debtors	**0.6**	0.6
Prepayments and accrued income	**1.7**	2.3
Corporation tax	**4.0**	3.4
Deferred tax asset	**0.6**	1.3
	397.1	407.7

40. Creditors: Due Within One Year

	2013 £m	2012 £m
Amounts owed to group undertakings	**205.7**	166.1
Accruals and deferred income	**4.4**	6.9
	210.1	173.0

41. Debtors: Due After More Than One Year

	2013 £m	2012 £m
Amounts owed by group undertakings	**145.6**	295.4
	145.6	295.4

42. Creditors: Due After More Than One Year

	2013 £m	2012 £m
Medium- and long-term borrowings:		
Amounts owed to group undertakings	**70.3**	37.6
Unsecured bank loans	**145.7**	200.3
Unsecured loan notes	**–**	81.8
	216.0	319.7

Further details regarding the Company's borrowings are set out in Note 18 of the Group Consolidated Financial Statements.

43. Derivative Financial Instruments

	2013 £m	2012 £m
Cross-currency interest rate swaps	**–**	12.5
Derivative financial instruments	**0.1**	0.1
	0.1	12.6

The derivative financial instrument liability represents the value of forward exchange contracts at the year end. Further details are set out in Note 19 of the Group Consolidated Financial Statements.

44. Provisions for Liabilities and Charges

	£m
At 1 January 2013	**2.0**
Utilised during the year	**(2.0)**
At 31 December 2013	**–**

Provisions represent the Directors' best estimate of settling various potential claims against the Company arising in the ordinary course of business.

45. Share Capital

	2013		2012	
	Number of shares million	**£m**	Number of shares million	£m
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 (2012: 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 24 to the Group Consolidated Financial Statements.

The Company recognised total expenses of £1.1m related to equity-settled share-based payment transactions in 2013 (2012: £1.8m). In addition, the Company recognised a charge of £1.2m (2012: £4.4m) related to equity-settled share-based transactions for certain employees of other Group companies.

46. 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 2013	**231.4**	**3.1**	**0.3**	**34.1**	**181.2**	**450.1**
Profit for the year	**–**	**–**	**–**	**–**	**143.6**	**143.6**
Equity dividends paid	**–**	**–**	**–**	**–**	**(47.7)**	**(47.7)**
Share-based payments	**–**	**–**	**–**	**–**	**2.3**	**2.3**
Share option exercised from own shares (treasury) purchased	**–**	**–**	**–**	**–**	**0.3**	**0.3**
At 31 December 2013	**231.4**	**3.1**	**0.3**	**34.1**	**279.7**	**548.6**

The purpose of the merger reserve and capital redemption reserve is detailed in Note 23 of the Group 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.

47. Reconciliation of Movement in Equity Shareholders' Funds

	2013 £m	2012 £m
Profit for the year	**143.6**	4.7
Equity dividends paid in the year	**(47.7)**	(45.6)
Share-based payments	**2.3**	6.2
Share options exercised from own shares (treasury) purchased	**0.3**	0.5
Net increase/(decrease) in equity shareholders' funds	**98.5**	(34.2)
Opening equity shareholders' funds	**456.3**	490.5
Closing equity shareholders' funds	**554.8**	456.3

48. Pensions

The Company operates the Spectris Pension Plan, a UK defined benefit pension plan that is closed to new members. Further details of Spectris Pension Plan are contained in Note 8 to the Group 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 2012 a final shortfall payment was made, and as a result, the decision was made to cease contributions from 1 July 2012. In accordance with the Schedule of Contributions in place for Spectris Pension Plan for the financial year ended 31 December 2013, employer contributions were £nil per annum. The actuary certified in 2013 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 £nil (2012: £0.8m). Contributions paid in the year to defined contribution plans were £0.2m (2012: £0.2m).

Notes to the Company Accounts continued

49. 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 Directors' Remuneration Report within this Annual Report.

50. 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 28 of the Group Consolidated Financial Statements.

Shareholder Information

Financial Calendar

Annual General Meeting and Interim Management Statement	25 April 2014
Record date for 2013 final dividend	30 May 2014
2013 final dividend payable	25 June 2014
2014 Interim Results	25 July 2014
Interim Management Statement	24 October 2014
2014 Preliminary Results	February 2015

Company Secretary
R J Stephens, FCIS

Head of Corporate Affairs
Cléa Rosenfeld

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The registrars provide a range of shareholder services on-line 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*

E-mail News Service
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Report designed by Bostock and Pollitt Limited
Print production by Arbiter Drucken

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