spectris

ENHANCING
PRODUCTIVITY

IMPROVING
PERFORMANCE

Spectris plc
Annual Report and Accounts for the
year ended 31 December 2011

Spectris is a leading supplier of productivity-enhancing instrumentation and controls. Our products, applications and services help customers to improve product quality and performance, improve core manufacturing processes, reduce downtime and wastage and reduce time to market. Our businesses are leaders in the markets they serve, providing solutions for customers across a wide range of industries.

Investment Proposition

- Spectris comprises four strategic segments which reflect the end user industries and applications we serve.
- Our businesses are strong players in niche markets where there are significant barriers to entry.
- Our products typically involve low capital expenditure but provide significant and rapid payback for customers.
- Our businesses serve all the major global manufacturing industries and we derive significant revenues in the high growth economies.

Read more about our worldwide operations here 2

- Our product pipeline is underpinned by research and development, which accounts for around 7% of sales each year.
- Year-on-year sales growth, on a like-for-like basis, has averaged mid-single digits since 2003. This has been supplemented by growth from acquisitions averaging around 4% per annum.
- Our businesses have low capital requirements and are highly cash generative.
- Our dividend policy is to make progressive payments based on affordability and sustainability.
- We have an experienced Board and Executive management team, a clear strategic direction and a proven business model.

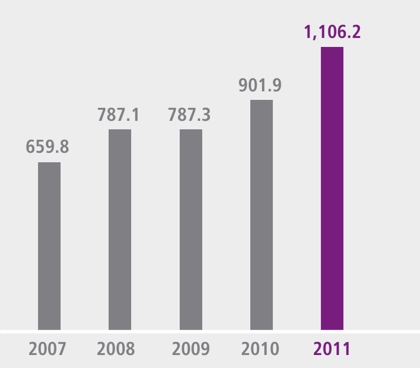
Read more about our business model 6

Read more online at
www.spectris.com

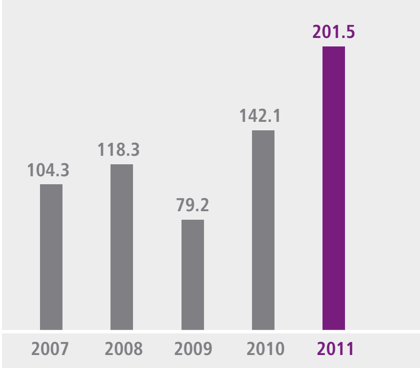
Highlights

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

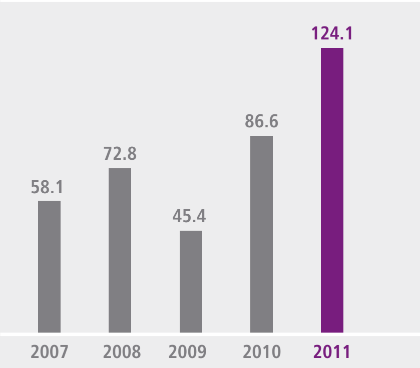
Sales
(£m)
up 23%



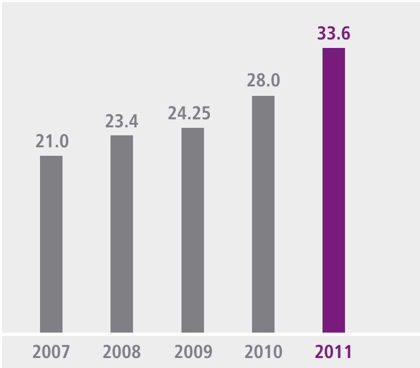
Adjusted operating profit*
(£m)
up 42%



Adjusted earnings per share*
(pence)
up 43%



Dividend
(pence)
up 20%



* Adjusted figures exclude certain non-operational items, as defined in Note 3

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

Whilst the current macro-economic outlook remains uncertain, the Board is confident that, as a result of continued investment in new products and applications, together with the growth opportunities and resilience which our recent acquisitions provide, Spectris is strategically well positioned for the year ahead."

John O'Higgins
Chief Executive

Group Overview

Our customers are typically multinational, blue chip companies across a diverse range of end user markets.

We have sales and service offices located around the world, providing local delivery and service for our customers.

Key strategic events in 2011

North America

1 Acquisition of Omega Engineering (Stamford, CT) provides new strategic growth platform for Industrial Controls segment.

2 Acquisitio[illegible]et brings ad[illegible] netw[illegible]apability to [illegible]al Controls [illegible]ent (Albany, NY).

Europe

3 A[illegible]n of IRM [illegible]ege, Belgium) [illegible]ds capabilities in [illegible]etals processing market for In-line Instrumentation segment.

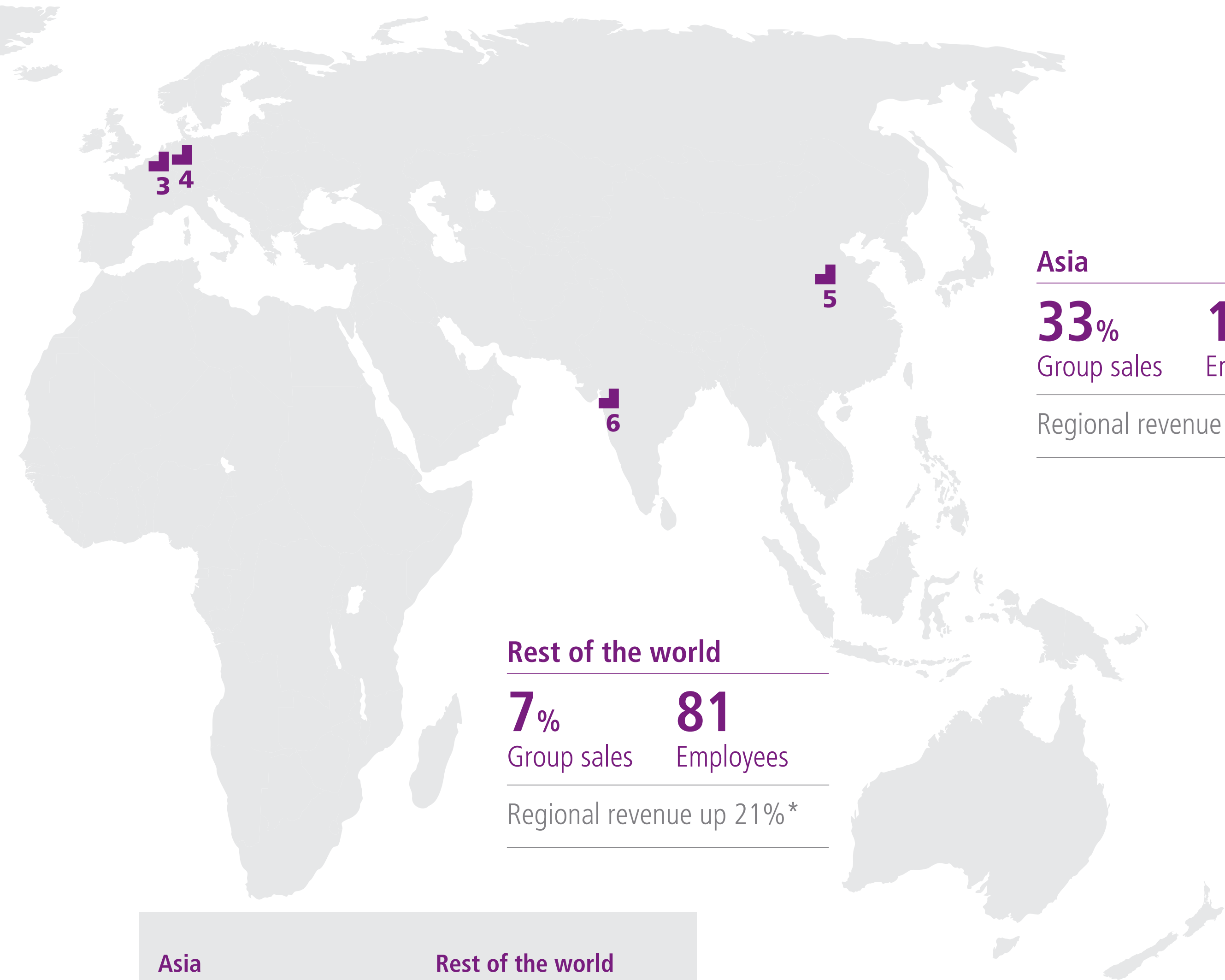
4 State-of-the-art manufacturing facility opened for X-ray tube production (Eindhoven, The Netherlands).

Europe

34% Group sales

3,534 Employees

Regional revenue up 17%*



Asia

33% Group sales

1,540 Employees

Regional revenue up 26%*

Rest of the world

7% Group sales

81 Employees

Regional revenue up 21%*

Asia

5 Additional regional sales office opened for Malvern (Zibo, central Shandong province, China).

6 New systems engineering centre opened for Servomex (Mumbai, India).

Rest of the world

7 Relocation of Spectris Brazil office to a new facility (São Paulo, Brazil).

* % increase in reported sales compared with prior year

Read more online at
www.spectris.com

Group Overview continued

The group comprises four business segments which reflect the applications and end user industries we serve.

LABORATORY/OFF-LINE

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

MATERIALS ANALYSIS

Group contribution

31% Sales*

30% Profit*

Provides a range of analytical instrumentation and systems for particle and material characterisation.

Applications
> Material characterisation
> Contamination detection
> Quality control

Industries
> Pharma/fine chemicals
> Metals/mining
> Semiconductor/electronics
> Research institutes

Operating companies
> Malvern Instruments
> PANalytical
> Particle Measuring Systems

Malvern's new Mastersizer 3000 is a much more compact benchtop instrument than its predecessor yet delivers greater sizing capability. Designed following extensive customer consultation, routine particle sizing has been made simpler and more automated so that all users, whether experienced or not, can quickly and easily make reliable measurements. Accessories include the novel Aero dry powder dispersion unit, which enables measurement of materials from cement to fragile pharmaceuticals.

TEST AND MEASUREMENT

Group contribution

31% Sales*

27% Profit*

Supplies test, measurement and analysis equipment and software for product design optimisation, manufacturing control and environmental monitoring.

Applications
> Measurement
> Data acquisition and processing
> Simulation

Industries
> Automotive
> Aerospace
> Consumer electronics
> Environmental

Operating companies
> Brüel & Kjær Sound & Vibration
> HBM

HBM's new espressoDAQ series of compact, USB-based data acquisition modules are designed to reliably measure parameters such as force, pressure, temperature or voltage. Designed for "plug and measure" operation, the modules are powered via the USB interface of a laptop and deliver instant measurement results. The espressoDAQ family is ideally suited for mobile use, for example by test engineers in the service sector.

* Figures shown are % of reported sales and adjusted operating profit

PROCESS/MANUFACTURING

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

Group contribution

28% Sales*

32% Profit*

Provides process analytical measurement, asset monitoring and on-line controls for both primary processing and the converting industries.

Applications
> Quality control
> Process technology
> Safety

Industries
> Process industries
> Pulp and paper
> Energy
> Converting

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

The new SERVOTOUGH FluegasExact 2700 from Servomex is the world's first combustion gas analyser with an integrated in-line flow sensor and features the company's advanced zirconia technology to provide accurate combustion gas measurements. Designed for operation in extreme environments, the FluegasExact measures oxygen and combustibles in flue gases to improve combustion efficiency and reduce emissions. It is ideal for controlling a range of combustion processes used in the hydrocarbon processing and power generation industries, including use in process heaters, utility boilers, incinerators and furnaces.

INDUSTRIAL CONTROLS

Group contribution

10% Sales*

11% Profit*

Industrial Controls supplies process measurement, monitoring and control instrumentation and networking products for manufacturing industries.

Applications
> Product tracking
> Machine interface
> Process control
> Industrial networking

Industries
> Manufacturing controls/networking
> Machine building
> Distributors

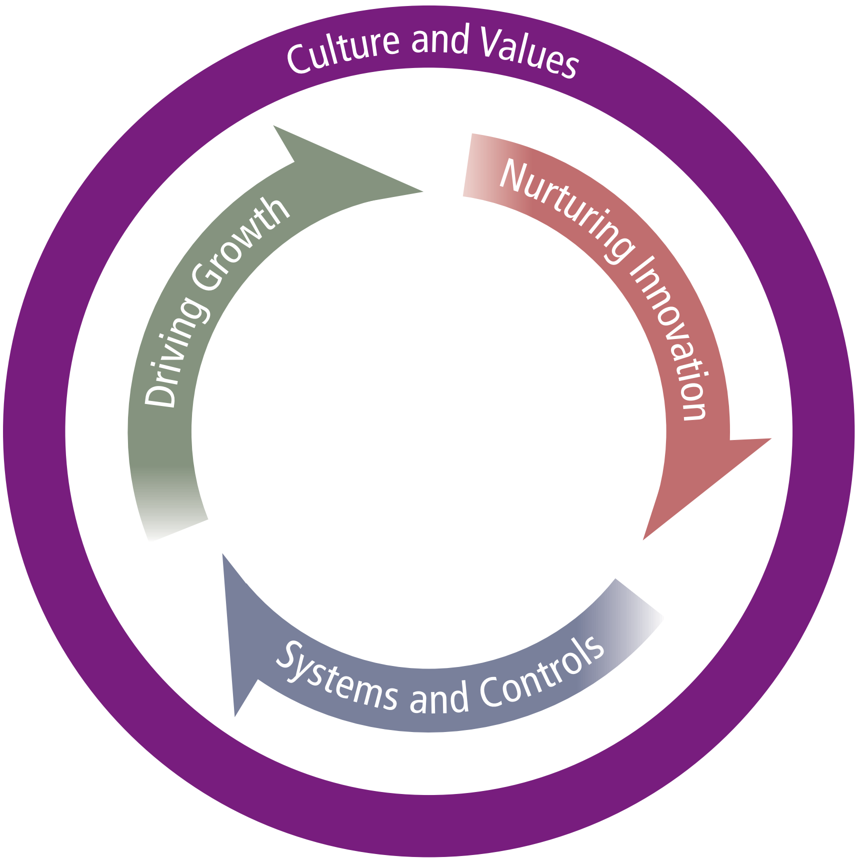
Operating companies
> Microscan
> Omega Engineering
> Red Lion Controls

The Omega business, acquired at the end of September, provides a broad range of process measurement and control instrumentation. During 2011, the company introduced a new wireless sensor system, the wSeries transmitters. Designed for demanding industrial applications and harsh outdoor environments, these small devices communicate via a standard Wi-Fi network, measuring voltage and current, temperature, humidity, and barometric pressure. Charts and graphs can be viewed over an ethernet network or via the internet from any computer, tablet, or smart phone with a web browser. Using Omega's own server software, the wireless sensor system can be easily integrated with Omega's data acquisition and automation systems, as well as with third-party systems, creating a complete measurement solution.

Business Model

Spectris is a leading supplier of productivity-enhancing instrumentation and controls. Our products, applications and services help customers across a wide range of industries to improve their products and processes.

We aim to achieve superior value for shareholders sustainably over the long term through delivering against our strategic objectives: strengthening our market positions through innovation, expanding our regional operations, building our presence in key strategic growth areas, growing our businesses (both organically and through acquisition), and focusing on operational excellence.



CULTURE AND VALUES

Our group philosophy is one of autonomy, with our operating companies entrusted and empowered to run and manage their businesses. We believe that establishing and maintaining an ethical culture is critical to supporting our business model and ensuring our continued business success and growth.

Central to our culture are our core values of Honesty, Empowerment, Ownership, Delivery and Speed, which underpin the way we work. These are part of our Code of Business Ethics, which provides a framework for how we do business and includes a clear policy on anti-bribery and corruption as well as dealings with customers, suppliers, colleagues, conflicts of interest and human rights.

Read more about our values in the Spectris Code of Business Ethics at **www.spectris.com/Corporate%20 responsibility.aspx**

Find out more

Use your phone's bar code app and go directly to the strategy page on our website.

Did you know?

Our barcode readers are used to decode and check the print quality and integrity of QR codes in industrial applications.

DRIVING GROWTH

Powerful revenue growth drivers

Our products typically involve relatively low capital expenditure for customers, but provide a significant and rapid payback. Customer benefits include improving production efficiency, reducing downtime, eliminating wastage, reducing time to market, and ensuring compliance with safety, environmental and quality regulations. In addition, after-sales service and support is an important part of our business and over 25% of our revenue is derived from consumables and services.

Broad portfolio of customers and markets

We have a broad spread of markets, products and customers, as shown on the following pages. This balance of geographical spread and end user industries helps to limit the risks from any adverse changes in the political or economic environment and also enables us to manage foreign exchange rate fluctuations and purchasing trends better. We seek to grow our businesses around the world, with particular emphasis on industrialising markets such as China, India and Latin America.

Strong financial position

We maintain a strong balance sheet, which gives us the flexibility to pursue our strategic objectives. We focus on cash generation and our target is to deliver high cash conversion of operating profit in each financial year.

Acquisitions

We seek to enhance our growth potential by pursuing an active but disciplined approach to acquisitions, both through the purchase of complementary companies (bolt-on acquisitions), and by building our presence in new growth areas via the acquisition of substantial new businesses which are compatible with our strategic profile (platform acquisitions).

Leading industry positions

All of our businesses are leading players in niche markets, with strong brands and long-term customer relationships. Our experienced engineers work with customers to understand the business and productivity challenges they face. Much of our technology and applications know-how is proprietary and patent-protected, providing significant barriers to entry.

NURTURING INNOVATION

Strong customer focus

We work closely with our customers to understand the challenges they face and develop solutions which are tailored to their specific requirements. We involve professional users in the design of new products, ensuring that we understand their needs and convert this knowledge into innovation in products and processes. We offer a full range of services for our products, including installation, training, technical support, calibration and maintenance.

Research and development

Research and development underpins our business strategy and we invest around 7% of sales each year in research and development in order to maintain our market-leading positions. Our commitment to constant innovation means that our products incorporate the very latest in technology and, as a consequence, we own patents, trademarks and intellectual property licenses. As part of the process of bringing new products to market, we involve our customers extensively during the development phase and, through beta evaluations, prior to product launch.

Employees

We employ a highly skilled technical workforce in our offices around the world. Our entrepreneurial culture offers a creative working environment with scope for individual responsibility and achievement and we are committed to providing equal employment opportunities, competitive remuneration, and training and development programmes.

Product manufacturing

We focus on our core competencies of research and development, product design, and assembly and test, whilst outsourcing the majority of component and sub-assembly production to qualified suppliers. As a result, our businesses are capital efficient. Low cost sourcing initiatives by the group's strategic purchasing teams help to drive down the costs of procurement whilst optimising quality and supply chain performance.

Best practice transfer

Despite the specific industry and technology focus of each of the businesses, considerable emphasis is placed on knowledge sharing across the group and the transfer of best practice. This can be especially valuable when entering new end user markets or geographical regions.

SYSTEMS AND CONTROLS

Operating structure

We are organised in a way that combines the benefits of a multinational group whilst maintaining the entrepreneurial culture of our operating companies. Our decentralised operating structure is a key differentiator and the focus on accountability and ownership at local level ensures that management teams can focus on their priorities and react quickly to changing customer and market needs. Each business unit has responsibility for all aspects of its business and for developing, and meeting, its business growth plans. Within each business segment, each operating company has developed its own brands and sales and service channels, tailored to its target industrial markets.

Central to our approach is a lean group structure which, together with the Board, sets the strategy and drives and monitors its implementation. In addition, the centre provides knowledge, advice and selective support services such as legal, tax and treasury, mergers and acquisitions, emerging market infrastructure and best practice sharing among businesses.

Control framework

The group has developed a robust internal control framework in keeping with our operating model, values and culture. This comprises common policies, procedures, principles and processes and provides the minimum requirement for the controls the businesses should have in place. The Code of Business Ethics provides additional guidance to employees on how we conduct business and is designed to ensure that all employees make decisions that are consistent with our values and that help us meet our many commitments.

Each operating company implements internal controls built off this central framework and consistent with the size and complexity of its business. The effectiveness of the internal control framework is routinely monitored through a combination of certification, self-assessment and a rolling programme of reviews by internal and external audit functions, complemented by a sound risk management process, as outlined on page 44.

Marketplace

We operate in niche markets across a diverse range of industries. Our products typically involve relatively low expenditure for customers but provide a significant and rapid payback.

We aim to build long-term relationships with our customers and work with them to understand their business and the productivity challenges they face.

Customer benefits:

- IMPROVING PRODUCTIVITY AND EFFICIENCY
- REDUCING TIME TO MARKET
- IMPROVING PRODUCT QUALITY AND PERFORMANCE
- REDUCING DOWNTIME AND WASTAGE
- ENSURING COMPLIANCE WITH SAFETY, QUALITY AND ENVIRONMENTAL LEGISLATION
- HELPING TO BRING NEW PRODUCTS TO MARKET

Examples of customer benefits achieved:

> Automotive manufacturer reduced noise testing times by 75% with sound analysis equipment

> Mineral processing company increased throughput by 60% with in-line particle size analyser

> Tissue manufacturer increased profitability by around £4 million and improved product quality by changing from steel blades to high-performance creping blades

> Product assembly process cut from overnight to just one minute using UV curing system

> Coin producer increased output by 20% using force measurement technology

> Animal feed producer generated additional production worth around €600,000 per year by continuous oil and moisture measurement

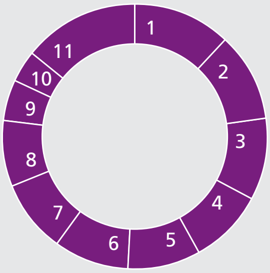
> Liquefied natural gas plant avoided catastrophic turbine failure using remote vibration monitoring to diagnose machine fault

> Research institute used X-ray analysis to develop new lithium ion rechargeable batteries with longer lifetimes and faster recharging capability

Read more online at
www.spectris.com

2011 Sales by end user market

% total group reported sales



1.	Automotive and aerospace	12%
2.	Metals, minerals and mining	11%
3.	Pharmaceuticals, fine chemicals	10%
4.	Academic research	9%
5.	Machine building	9%
6.	Pulp and paper	9%
7.	Semicon, telecoms, electronics	9%
8.	Energy and utilities	8%
9.	Web, print and packaging	5%
10.	Environment	4%
11.	Other, incl. distribution	14%

Spectris operates in a wide range of end user markets around the world. This balanced portfolio of industries and geographies, where no end user market accounts for more than 12% of sales, and no single customer accounts for more than 2% of sales, provides a degree of resilience against material adverse economic trading conditions in the countries in which we operate.

The majority of our sales come from upgrades to customers' existing production facilities, rather than the addition of new capacity. In addition to participating in the growing markets of many of our customers, we also seek to identify opportunities in new markets, for example nanotechnology and life sciences.

We aim to grow our businesses around the world, with particular emphasis on industrialising markets, and establish sales and support facilities in these regions so that we are able to support our global customers wherever they are based.

Case study

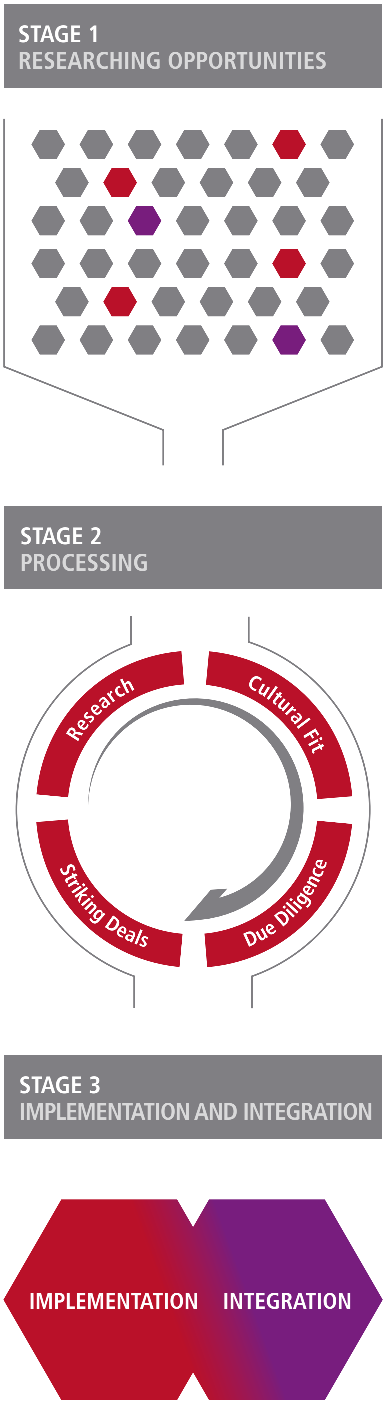
Brüel & Kjær helps Renault to reduce testing times

Under pressure to reduce costs yet develop ever more sophisticated vehicles, reducing development times, and thus time to market, is a key challenge for the automotive industry. The Renault Group in France are using Brüel & Kjær's data acquisition system to analyse powertrain noise (from the engine, transmission, drive shaft, suspension and wheels) in order to meet vehicle regulations and legislation and also customer expectations. Brüel & Kjær's solution has provided greater test efficiency and reduced the time spent on characterising a complete powertrain from five days to just one to two days.

Acquisition Strategy

Acquisitions are a central part of Spectris' strategy, with all but one of the companies currently owned by Spectris having been acquired since the company was first floated on the London Stock Exchange in 1988.

Over this period, our portfolio has undergone a significant evolution into today's group of 14 specialised, market-leading instrumentation, controls and process technology companies operating globally in diverse industrial markets.



Objective

The objective of our acquisition strategy is to create shareholder value by growing and enhancing existing businesses through the purchase of complementary companies, referred to as bolt-on acquisitions, and by building our presence in new growth areas via the acquisition of substantial new businesses which are compatible with our strategic profile. The latter category are referred to as platform acquisitions. Whether we are looking at a bolt-on or a platform opportunity, an acquisition candidate must exhibit the same characteristics and fundamental business strengths that exist in our current businesses and which underpin our group:

- Productivity-enhancing instrumentation and controls for industrial and academic customers based on specialised technology and superior application knowledge.
- Focus on critical applications with direct impact on the customer's process performance, energy consumption, asset utilisation, quality, product performance or other value-enhancing parameters.
- High margins reflecting significant value added for the customer.
- Emphasis on products and services whose cost is small within the overall cost of the customer's application.
- Proven ability to grow the market and capitalise on growth markets.
- Substantial aftermarket revenues and/or service component.
- Strong, entrepreneurial management able to capitalise on Spectris' operating culture which stresses empowerment, responsibility and autonomy for our businesses.

In recent years, bolt-on acquisitions have been the most frequent type of acquisition, with four to five such deals typically completed each year, and we expect this pattern to continue. By their nature, platform acquisition opportunities which have the necessary business characteristics and are substantial enough to be a worthwhile new growth platform for Spectris arise infrequently, although we completed one such acquisition, of Omega Engineering, during the year. Spectris identifies potential acquisition opportunities from many sources and we regularly acquire businesses from private owners, other corporations and financial owners such as private equity and venture capital institutions.

Bolt-on acquisitions

Bolt-on acquisitions typically provide growth opportunities, bring additional technology, applications, routes to market or geographic presence to one of our companies and can take the form of an acquisition of an entire business, the purchase of a product line, the purchase of intellectual property, or anything in between. As a result, our bolt-on acquisitions vary greatly in size from the very small up to the purchase of substantial businesses valued up to £50 million or more. Whatever the size of the acquisition, Spectris' approach is always to build upon a proven, successful business or a technology with demonstrated potential.

Our approach to creating value from bolt-on acquisitions is similarly focused on recognising and creating opportunities arising from the acquired business having a complementary or adjacent nature to one of our existing businesses. Manufacturing consolidation and cost-cutting initiatives, while not overlooked, are generally of secondary importance to the growth aspects in any bolt-on acquisition. Instead, we look to integrate the acquired business with an existing company whilst retaining the strengths of both.

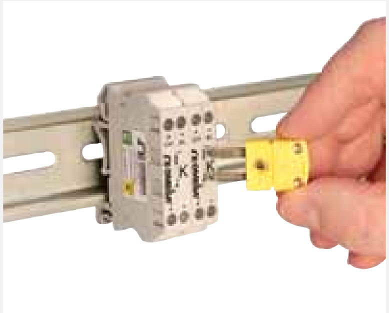
As an illustration of how we add value, it is quite common for innovative, technology-led industrial instrumentation companies to achieve success on a national or perhaps regional scale but run out of momentum when faced with the multiple challenges and investment requirements of becoming a global business. We are able to address these challenges, in many cases by exploiting existing infrastructure and sales channels within Spectris, and rapidly take such businesses to a new level, thus creating growth and value for our shareholders while preserving the qualities of the business that made it successful in the first place. There are many other ways in which we can benefit from bolt-on acquisitions but, in general, we create value from bolt-ons by applying our resources, routes to market, customer relationships, application knowledge, management expertise and global presence to the acquired business to achieve superior results.

Platform acquisitions

In addition to making regular bolt-on acquisitions, Spectris will occasionally identify an opportunity to acquire a much larger business which provides productivity-enhancing products and services to industrial customers and which fits the strategic profile outlined above. However, to qualify as a viable platform acquisition, there also must be a significant opportunity for Spectris to add value to such a business so we will look for potential to develop the business organically and to add value through subsequent bolt-on acquisitions. Any acquisition of this type is likely to be stand-alone in nature with the business becoming a new company within our portfolio rather than being integrated into an existing company. Adding value to a platform acquisition can be achieved in a variety of ways, some of which, such as accelerated internationalisation and developing existing customer and industry relationships, are akin to the opportunities we see on bolt-ons but on a larger scale, while other value-creating opportunities commonly derive from our focus on operational excellence and strengthening market positions through innovation in keeping with our overall strategy.

Case study

Omega Engineering



On 30 September 2011, we completed the acquisition of the Omega Engineering business for a total consideration of US$485 million (approximately £311 million). Formerly privately owned, the company is headquartered in Stamford, Connecticut, USA, has five manufacturing facilities and two distribution/sales facilities and employs around 700 people. Omega is now a stand-alone business in the Industrial Controls segment.

Omega is a leading provider of sensors and controls for industrial testing and measurement applications, for controlling temperature, humidity, pressure, strain, force, flow, level, pH and conductivity. The company has a highly successful, defensible business model tailored to the needs of well-defined portions of the process control and industrial automation sectors. With strong, well-known brands (Omega and Newport), a loyal blue chip customer base, a broad intellectual property portfolio and high levels of repeat business, Omega has resilient revenue and earnings characteristics. The company is an excellent strategic and cultural fit for Spectris and a significant expansion of the product offering in the Industrial Controls segment and is expected to bring growth and margin opportunities under Spectris' ownership.

Since the acquisition was completed, an experienced president has been appointed, financial reporting processes have been upgraded, efforts are underway to benefit from sales opportunities with other Spectris companies (Omega already sells some Spectris group products) and opportunities in the supply chain are being pursued. The majority of Omega's sales are to the US domestic market currently and actions have already been initiated to grow sales in international markets, particularly China and Europe.

Case study

LDS Test and Measurement

LDS Test and Measurement was acquired from SPX Corporation in December 2008 for a consideration of $86 million (on a debt and cash-free basis). The company is a leading provider of electro-dynamic vibration test systems for the automotive, aerospace, defence, and electronics markets, and of data acquisition products. The data acquisition and instrumentation products became part of HBM, extending their range of testing applications and generating new sales opportunities for HBM. The vibration and controller products became part of Brüel & Kjær Sound & Vibration and the Royston, England, based company has now been integrated and renamed the Vibration Testing Systems business unit. The company's products are used in the most demanding applications, from laboratory testing and structural analysis through to testing of complete systems. As a result of the acquisition, Brüel & Kjær are now able to offer complete vibration, acoustic and data acquisition and analysis solutions to their customers. Since the acquisition, a number of contracts have been secured with major aerospace manufacturers for complete system solutions, for example for satellite testing, and with automotive manufacturers where the systems are used, for example, to test hybrid vehicle batteries.

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	Achievements
Strengthening market positions through innovation	We invest around 7% of sales each year in research and development in order to maintain our market-leading positions. We work closely with customers to develop solutions which are tailored to their specific requirements. Much of our technology is proprietary and protected by patents or process know-how. New products and applications may be developed in house, by acquiring bolt-on product lines or by collaboration and licensing agreements for proprietary technology in partnership with universities and other institutions.	> Expenditure on research and development grew by 17% to £75.8 million, or 7% of sales. > Significant number of new products, applications and technologies introduced throughout the group. Amongst these is the award-winning Mastersizer 3000 particle size analyser, featuring highly sophisticated optics to simplify and automate particle sizing, and whose compact benchtop design is the product of extensive customer research. Also the recipient of an award is the new BT55 series of optical brightness transmitters. These feature an innovative light-emitting system for monitoring and controlling the pulp process and enable papermakers to rapidly improve their process and significantly reduce costs.
Increasing regional expansion with a focus on emerging markets See Group Overview page 2	We seek to grow our businesses around the world, with particular emphasis on industrialising markets such as China, India and Latin America. We continue to establish sales and group support facilities in these regions so that we are able to support our global customers wherever they are based.	> On a like-for-like basis, sales to China grew by 27% and sales to Latin America grew by 28%. > New systems engineering centre opened in Mumbai, India. > Additional regional office opened in Zibo, central Shandong province, China.
Growing existing businesses through acquisition	We seek to enhance the growth potential of our businesses by pursuing an active but disciplined approach to acquisitions, focusing on businesses which are strong players in specific application areas where there are significant barriers to entry.	> Invested £66.4 million (including cash acquired of £5.1 million) in three bolt-on acquisitions: – A small product line addition to the Materials Analysis segment. – IRM Group, a leading manufacturer of high technology measuring systems for the metals processing industry. – Sixnet, a leading manufacturer of flexible industrial Ethernet switch, automation and wireless solutions for the industrial market.
Building our presence in key strategic growth areas, both organically and through acquisition See case study page 11	We aim to grow our existing businesses organically by developing new products as well as pursuing opportunities for growth in new markets, such as nanotechnology and life sciences. Acquisitions are targeted at both existing and new markets.	> Product development programmes focused on building positions in our key market segments. > Acquisition of Omega Engineering, a leading provider of sensors and controls for industrial testing and measurement applications, adds a significant strategic growth platform to our Industrial Controls segment. > Aftersales, service and consumables are an important part of our business, representing 26% of sales.
Focusing on operational excellence	We continue to focus on improving all aspects of our business through a range of actions including: process efficiencies, value pricing, optimising the business mix, cost competitiveness, designing products for low-cost production, reducing inventory and improving supply chain management.	> Components sourced or manufactured in lower-cost countries increased to approx. 14% of the total cost of materials for goods sold. > Implementation of ERP system at our BTG operation. > Opening of state-of-the-art manufacturing facility in Eindhoven, The Netherlands, for X-ray tube manufacture.

Read more online at
www.spectris.com

Key Performance Indicators

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

Sales

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

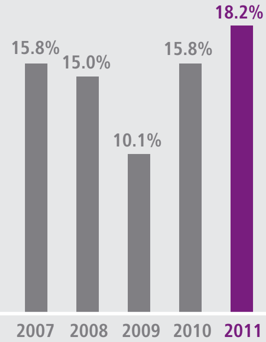
Total sales growth, continuing businesses

Organic sales growth, continuing businesses, at constant currencies

Return on sales

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

Return on sales, continuing businesses



Cash conversion

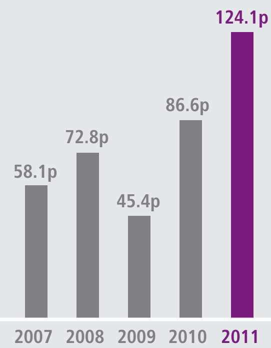
We focus on cash generation and use cash conversion as a performance measure as we believe cash represents an effective measure of the quality of our earnings. Our target is to deliver high cash conversion of operating profit in each financial year. Cash conversion is defined by management as adjusted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

Cash conversion

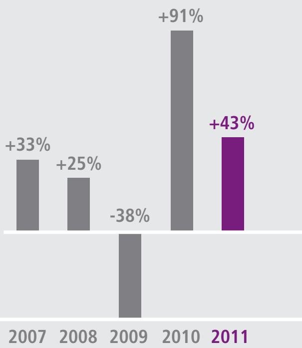
Earnings per share

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

Adjusted EPS (pence)



Growth (%)



Non-financial KPIs

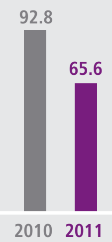
To measure the critical components of our Corporate Responsibility strategy, we have adopted the following key performance indicators. These are described in more detail in the Corporate Responsibility report on pages 32 to 37.

NB. Acquisitions are excluded in the year of acquisition

1 Work-related accidents/ill health resulting in lost time in excess of 3 days

Energy consumption

MWh per £m revenue



Accident Incident Rate

Reportable accidents[1] per 1,000 employees

Principal Risks and Uncertainties

The group has a well-established process for identifying, evaluating and managing significant risks which forms a part of the group's system of internal controls as described in the Directors' Report on page 44.

Risk description	Potential impact	Mitigation
1. Strengthening market positions through innovation		
New product development		
In order to strengthen our market positions and sustain competitive advantage, the group invests significantly in research and development. The development of new technologies and products involves risk including: > The product being more expensive or taking longer to develop than originally planned > The market for the product being smaller than originally envisaged > The product failing to reach the production phase	> Reduced profitability and cash flow > Loss of market share > Failure to recoup investment in innovation	> Significant investment levels in research and development, maintained at around 7% of sales > Project management disciplines are applied in product development programmes > Working closely with customers to ensure that we develop solutions tailored to their specific needs > New product developments are based on standard platforms, customised through high added-value applications engineering > Extensive customer involvement during product development and prior to product launch (through beta evaluations)
Intellectual property		
Our business is focused on the design and manufacture of technologically advanced products and applications. Significant investment in research and development is made towards this end. As a consequence, we own and protect patents, trademarks, trade secrets, copyright information and intellectual property licenses. The risk therefore exists that this intellectual property may be infringed by third parties or that we may inadvertently infringe third-party rights.	> Reduced profitability and cash flow > Loss of market share > Failure to recoup investment in innovation	> Procedures in place requiring all of our businesses to: – maintain a watching brief on new applications – undertake specific reviews prior to commencing new product development, acquisitions or licenses – register intellectual property where appropriate > Maintain a portfolio of intellectual property assets such that no single patent, trade secret or trademark is sufficiently important to present a material risk to the success of the company
2. Increasing regional expansion with a focus on emerging markets		
Political and economic risks		
We operate in a range of end user markets around the world and may be affected by political, economic or regulatory developments in any of these countries. Material adverse changes in the political and economic environments in the countries in which we operate have the potential to put at risk our ability to carry out our strategy. Specifically, the group has reviewed its potential exposures to the current macro-economic uncertainty relating to the Eurozone economies. We believe that the broad spread of markets in which we operate substantially limits the risk associated with additional instability in any given territory. Whilst the group had sales into Europe of approximately £381 million in 2011 (34% of total group sales), sales into Greece, Ireland, Italy, Portugal and Spain represented just 5% of total sales for the year (approximately £57 million). The group does not have any significant operations or supply chain dependencies within these countries. Similarly, the group does not have any significant liquidity or funding risk in relation to these countries.	> Reduced profitability and cash flow	> Maintaining a broad spread of markets, products and customers limits risks associated with any given territory > Ensure we remain structured in such a way that enables us to take prompt action in the event of any material change in the trading environment > Monitor market intelligence > Ensure we maintain a strong balance sheet and financial position
Laws and regulations		
We operate in a large number of jurisdictions and, as a consequence, we are subject to numerous domestic and international regulations and restrictions. These include laws and regulations covering product safety, export controls, anti-bribery, competition and false accounting. Any failure by the group or its representatives to comply with relevant laws and regulations could result in civil or criminal liabilities leading to significant fines and penalties or the disqualification of the group from participation in government-related contracts for a period of time. In the event of a failure to comply with export control regulations, the group could also be exposed to restrictions being placed upon its ability to trade.	> Reduced sales, profitability and cash flow > Reputational damage > Diversion of management resources to address any resulting investigation	> 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

All significant risks are evaluated with reference to the group's achievement of its strategic objectives as outlined on page 12. The key potential risks and uncertainties facing the group's ability to deliver its strategy, together with mitigating actions, are described below.

Risk description	Potential impact	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. Integrating both the operations and personnel of acquired businesses can be a complex process. Potential risks therefore exist that the planned benefits from the acquisition may not be achieved as a result of problems encountered in integrating the acquired business, incorrect assumptions in the original business case, changing market conditions or deficiencies arising in the due diligence process. Further, the company could be exposed to past acts or omissions of the acquired business.	> Failure to achieve the benefits outlined in the business case > Reduced profitability and cash flow > Unforeseen liabilities	> 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.	> Loss of market share > Reduced profitability and cash flow	> 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 older components, are provided by a single supplier and are therefore vulnerable to interruption of supply. The company also manufactures components, from proprietary technologies, at a number of locations. Our ability to supply products to our customers could be adversely impacted by a disaster or other disruptive event at any of these sites. Any interruption to the company's supplies or related increase in costs may result in an adverse effect on the business' financial position and future performance.	> Inability to fulfil customer orders resulting in lost sales and reputational damage > Increased costs reduce profitability > Loss of market share	> Strategic sourcing teams source lower-cost components across a range of markets > Alternative sources of supply actively sought to reduce dependency upon single-source suppliers > Safety stock levels established for critical components > Business continuity plans and disaster prevention measures in place for all material manufacturing locations > Business interruption insurance > Strong contract review process
Fluctuations in exchange rates		
Because of the global nature of our business, we have operations which sell and purchase goods in foreign currencies and whose results we record in a variety of different currencies. We are therefore exposed to any significant changes in exchange rates between a number of different currencies.	> Unexpected variations in the company's results > Reduced profitability and cash flow	> Forward contracts cover up to 75% of forecast exposures up to 18 months ahead > Natural hedging strategy, matching invoicing and purchasing currencies where practical > Foreign currency investments hedged with borrowings in the same currency wherever possible > Regular sensitivity analyses carried out to understand the impact of exchange rate movements on the group's reporting

Chairman's Statement

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

John Hughes
Chairman

Dear Shareholder,

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

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

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

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

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

Corporate governance

As a board, we are responsible to the company's shareholders for delivering shareholder value sustainably over the long term through effective management and good governance. We believe that a robust discussion focused on the critical strategic issues and risks is key to achieving these aims and we are fortunate to have non-executive directors with extensive industry and international experience who can actively contribute to this debate. The Board also seeks to develop and maintain a good understanding of the company's operations by conducting site visits to two locations each year in addition to inviting our presidents and managing directors to present at other meetings. We plan to recruit a further non-executive director during 2012. We recognise the benefits that diversity can bring to our business and this will be a key element of the selection process.

I am pleased to confirm that Spectris is in full compliance with the UK Corporate Governance Code. An evaluation of our Board in 2010 by external consultants confirmed the effectiveness of our governance processes in most dimensions,

£1,106.2m
Sales up 23%

33.6p
Dividend up 20%

with some recommendations for expanding the terms of reference for Board committees. These have now been updated, most notably in the case of the audit and risk committee which now more formally includes a review of the group's risk management processes and controls. The Board committees are described more fully in the Corporate Governance section of our annual report and their terms of reference are available on our website. In 2011, an internal assessment of the Board by all members confirmed support for the Board's role, culture and policies.

Outlook

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

John Hughes
Chairman

* Unless stated otherwise, figures quoted for operating profit, net interest, profit before tax, tax, earnings per share and operating cash flow are adjusted measures – for explanation of adjusted figures and reconciliation to the statutory reported figures see Note 3.

Chief Executive's Review

We maintained our investment in research and development, with expenditure at 7% of sales, and launched a number of new products, technologies and applications across the group.

John O'Higgins
Chief Executive

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

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

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

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

Strategy

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

Strengthening market positions through innovation

We maintained our investment in research and development, with expenditure at £75.8 million, or 7% of sales, and we launched a number of new products, technologies and applications across the group, which are described in more detail in the Operating Review which follows. Notable amongst these was the Mastersizer 3000 particle characterisation system from our Materials Analysis segment, launched in September. This combines the highest optical performance with intelligent software, providing greater analysis capabilities in a compact, sleekly-designed benchtop instrument. The system has been received enthusiastically by customers and has already won a major design award.

Increasing regional expansion with a focus on emerging markets

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

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

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

£75.8m

Expenditure on R&D up 17%

27%

Increase in sales to China

Growing existing businesses through acquisition
We made three bolt-on acquisitions during 2011. The acquisition of IRM in August extends our gauging product capabilities in the metals processing market and the acquisition of Sixnet in October expands our position in the industrial networking market. We also acquired key intellectual property and other assets relating to a line of benchtop X-ray analysers for the Materials Analysis segment in October. The bolt-on acquisitions made in 2010 have been successfully integrated into the business and made a good contribution in 2011.

In the Test and Measurement segment, the acquisitions of nCode, LDS and Lochard, completed in 2008 and 2009, have accelerated sales in the automotive, aerospace and environmental monitoring markets. Together with the efficiencies achieved following the integration of these businesses, this has resulted in a return on sales for the segment of 15.8%.

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

John O'Higgins
Chief Executive

Operating Review

Materials Analysis

Highlights

> Strong recovery in metals and mining

> Demand from pharmaceutical market driven by new drug research and regulatory enforcement

> Academic/R&D markets strong, helped by initiatives in emerging markets to invest in academic leadership

> New facility opened for X-ray tube manufacture

£337.5m

Sales up 24%

£60.9m

Operating profit up 54%

18.1%

Return on sales up 3.6pp

Overview

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

Segment performance

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

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

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

Case study

PANalytical helps KETI to develop longer-life batteries

The Korea Electronics Technology Institute (KETI) is a government body leading research into electronics for Korean companies such as Samsung SDI. One key project is to develop a new lithium ion rechargeable battery to provide more powerful and lighter power cells for devices such as mobile phones, laptops, and electric cars. The research involves adding different materials such as iron or manganese to the existing lithium cobalt oxide technology to improve the performance of the battery. KETI used PANalytical's Empyrean X-ray diffraction system to study changes in the size and structure of crystals inside the battery cell as the quantities of iron and manganese were adjusted. The result was a rechargeable battery with improved lifetime, superior charge/discharge cycling and low discharge losses.

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

Segment outlook

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

Operating Review continued

Test and Measurement

Highlights

> Good demand from automotive market; new project wins for noise analysis and torque measurement

> New aerospace projects for structural testing of materials in China and vibration testing for satellites in Brazil

> Successful expansion of noise monitoring services into new applications

> Good progress in other markets, e.g. consumer electronics, power

Overview

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

Segment performance

The automotive market, a key end user market for this segment, continued to recover. One area of increasing R&D focus is electric cars and we received an order from a major manufacturer of high performance electric cars for torque transducers and data acquisition equipment to test certain drivetrain components. We also received an order for our data acquisition system for endurance testing of tyres for passenger cars and light trucks for a major Korean tyre manufacturer. Our systems are used to measure the internal pressure of the tyre, the loading force and the speed of rotation in durability tests. Demand was strong for our noise analysis instrumentation for noise source identification both for customer comfort and for certifying compliance with noise emission regulations. We have also seen significant interest in our noise evaluation technologies from high speed train manufacturers.

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

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

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

£346.9m

Sales up 17%

£54.7m

Operating profit up 57%

15.8%

Return on sales up 4.1pp

Case study

World's fastest sailing boat uses HBM's measurement technology

French sailor Alain Thébault wanted to build the fastest sailing boat in the world. But "flying" over the ocean with a boat demands innovative materials and technologies and so Alain relied on HBM's measurement technology to help develop his ultra-fast trimaran, the Hydroptère. The main challenge was to develop aerodynamic hydrofoils providing sufficient lift above the surface of the water without causing turbulence and able to withstand a pressure of 45 tons. HBM's instrumentation was installed on board to measure stability, speed, drag, vibration and oscillation, as well as the wear of the materials used. Alain's speed of 51.36 knots (95 km/h) successfully broke the absolute world speed record for a sail-powered vessel.

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

Segment outlook

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

Operating Review continued

In-line Instrumentation

Highlights

> Energy and utilities projects include chemical plant, hydro and wind power installations

> Continued success in tissue applications offsetting decline in traditional coated papers

> Strong demand for web, film and packaging solutions

> Investments in optical fibre and telecoms cable continue, especially in emerging markets

Overview

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

Segment performance

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

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

In the pulp and paper industry, several European and North American producers of coated graphic papers curtailed their production rates to adjust for softer demand for print media following a strong recovery in 2010. This effect was offset by strong demand for our coating blades and rods in China where new coated paper capacity came on line. There was also good demand for our instruments, which are used to control consistency and to improve operations across both pulp production and paper manufacturing processes. In the fourth quarter, we launched a new series of optical brightness transmitters for monitoring and controlling bleaching chemicals, optical brightening agents and dyes. Equipped with a UV light source for fluorescent measurement, these instruments optimise chemical addition and reduce operating costs during the pulping process. We also continue to make good progress in tissue markets and several large tissue manufacturers are now employing our combined technology to improve process productivity and product quality. New blade materials in our coating blades are helping to reduce operating costs and increase uptime and, in a trial at one tissue mill, our new blades achieved a 50% longer lifetime between changes than the conventional blades.

We saw strong demand from the converting industries (web, film, plastics and packaging) for our products. Continued investment by customers in both separator film and coating lines for production of lithium ion batteries, particularly in China, resulted in a significant increase in orders for our infrared measuring systems for this market compared with the prior year. There was also good demand for our scanners for measuring plastic film

£308.9m
Sales up 13%

£63.8m
Operating profit up 9%

20.6%
Return on sales down 0.7pp

and we launched a new system for blown film which has been installed at two of the world's largest producers of complex packaging films. Blown film production has become more sophisticated as the industry enters new marketplaces: uniform barrier layer thickness is especially important in films which are converted into high performance packaging films which extend the shelf life of foods and medical products. Using our measurement and control systems to achieve thickness uniformity, manufacturers can reduce the variation in roll film thickness by 40 to 60%. Our UV curing systems had good success in China, with applications including production of metallised plastics and decorating film. The latter is beginning to replace conventional spray coating operations for decorating the plastic housings found on consumer electronics. With the acquisition of the IRM business, we have expanded our product line to include thickness and flatness gauging products for the steel and aluminium industries, with significant potential in China.

In the semiconductor and electronics market, conditions were mixed. Demand for new generation large screen televisions remains subdued; however, demand for smaller, more compact items such as tablet computers and smart phones is growing rapidly. Advances in technology, for example the use of polarising films to improve display and touch panel performance, has resulted in investment in new manufacturing processes and the associated UV curing equipment required to achieve this. In the wire and cable market, demand for optical fibre, and telecom cable in general, grew strongly as infrastructure investments in China and India continued, together with the continued deployment of fibre to the home in North America. Previously mothballed equipment at customers' sites is being refurbished and upgraded to meet the increase in demand, resulting in good sales of our UV curing equipment and gauging systems.

Segment outlook

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

Case study

Brüel & Kjær Vibro helps China to expand renewable energy generation

China's long reliance on coal to generate its electricity is changing as the country plans to expand its hydropower capacity in a concerted effort to reduce carbon dioxide emissions. Brüel & Kjær Vibro's safety monitoring systems are being used to monitor the generating units at three hydropower stations. Vibration monitoring provides early detection of a wide range of machine faults, enabling targeted maintenance actions to prevent the unplanned shutdown of expensive machinery. At the Xiaowan Dam, the world's tallest double-arch dam and the second-largest hydroelectric power station in China, Brüel & Kjær Vibro's monitoring systems are used on the six 700 MW installed hydro turbine generator units.

Operating Review continued

Industrial Controls

Highlights

> Strategic acquisitions contribute to good growth in sales

> Integration actions delivering results, e.g. productivity improvements, and sales ahead of expectations

> Strong demand for track, trace and control applications for product traceability

> Automation products finding new applications in process industries

£112.9m

Sales up 89%

£22.1m

Operating profit up 132%

19.6%

Return on sales up 3.7pp

Overview

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

Segment performance

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

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

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

Red Lion Controls completed the acquisition of Sixnet in October. This has provided new product platforms, and in particular wireless capability, for our industrial automation offering and builds on the networking products of N-Tron acquired in 2010. Integration of Sixnet and N-Tron into Red Lion is proceeding on

Case study

Microscan's vision system helps to meet packaging regulations

Pharmaceutical manufacturers must meet stringent labelling requirements to ensure safety and prevent counterfeiting. The data on the label must be accurate and legible throughout the supply chain. US company, Modular Packaging Systems, designs and manufactures tablet counters and fillers and uses Microscan's machine vision system to detect and verify labels in the bottle filling line. One camera verifies that the date/batch code and barcode on each label is correct and a second camera checks each bottle to detect any missing labels. Bottles with labels that do not meet the required specifications and unlabelled bottles are rejected further down the line.

track, and the enlarged company will be deploying a consolidated go-to-market strategy over the next few months. In its traditional business, Red Lion's operator panels are finding new applications in process industries such as gas production and distribution where they are used for control on drilling rigs and on the compressors which move the gas through miles of cross-country pipeline. Red Lion's technology enables customers to drive productivity improvements through real-time visibility of data and, in October, the company launched the ProducTVity Station, a ready-to-use solution for collecting, recording and displaying critical performance indicators and machine status messages in production facilities.

Segment outlook

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

Financial Review

Reported sales were up 22.6% at £1,106.2 million. On a like-for-like basis, sales increased by 14.9%. Adjusted operating profit increased by 41.8% to £201.5 million.

Clive Watson
Group finance director

Introduction

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

Operating performance

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

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

The year-on-year increase in net finance costs was £0.1 million (from £9.8 million to £9.9 million). This is due to a net increase of £0.8 million in financing charges offset by a reduction in net pension-related costs of £0.7 million. The £0.8 million increase in financing charges is the net result of an increase in charges arising from higher average net debt mitigated by a reduction in average interest rates.

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

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

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

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

£201.5m

Operating profit up 42%

18.2%

Operating margins up 2.4pp

£191.6m

Profit before tax up 45%

124.1p

Earnings per share up 43%

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

	2011 IFRS (Statutory) £m	2011 Adjustments £m	2011 Spectris Adjusted £m	2010 IFRS (Statutory) £m	2010 Adjustments £m	2010 Spectris Adjusted £m
Sales	**1,106.2**	**–**	**1,106.2**	901.9	–	901.9
Gross margin	**648.7**	**–**	**648.7**	526.8	–	526.8
Operating profit before acquisition-related items	**201.5**	**–**	**201.5**	142.1	–	142.1
Amortisation of acquisition-related intangibles	**(21.8)**	**21.8**	**–**	(12.3)	12.3	–
Net acquisition-related costs and contingent consideration fair value adjustments	**(1.8)**	**1.8**	**–**	(1.9)	1.9	–
Acquisition-related fair value adjustments to inventory	**(2.1)**	**2.1**	**–**	–	–	–
Operating profit	**175.8**	**25.7**	**201.5**	127.9	14.2	142.1
Profit on disposal of businesses	**0.1**	**(0.1)**	**–**	–	–	–
Unrealised changes in fair value of financial instruments	**(0.4)**	**0.4**	**–**	1.4	(1.4)	–
Net gains on retranslation of short-term inter-company loan balances	**0.4**	**(0.4)**	**–**	0.4	(0.4)	–
Net bank interest payable	**(9.8)**	**–**	**(9.8)**	(9.0)	–	(9.0)
Net IAS 19 finance income/(cost)	**0.1**	**–**	**0.1**	(0.5)	–	(0.5)
Other finance costs	**(0.2)**	**–**	**(0.2)**	(0.3)	–	(0.3)
Profit before tax	**166.0**	**25.6**	**191.6**	119.9	12.4	132.3

Acquisitions

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

Taxation

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

Earnings per share

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

Financial Review continued

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

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

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

Cash flow

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

* Operating cash flow as % of operating profit

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

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

Overall, net debt increased by £270.0 million (2010: decrease of £37.7 million) from £86.2 million to £356.2 million. Interest cost, excluding the financing charge arising from IAS 19, was covered by operating profit 20 times (2010: 15.8 times).

Financing and treasury

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

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

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

Currency

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

After matching currency of revenue with currency of costs wherever practical, forward exchange contracts are used to hedge a proportion (up to 75%) of the remaining forecast net transaction flows where there is reasonable certainty of an exposure. At 31 December 2011, approximately 57% of the estimated net euro, US dollar and Japanese yen exposures for 2012 were hedged using forward exchange contracts mainly against the Swiss franc, sterling, the euro and the Danish krone.

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

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

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

Revenue and cost by major currency:

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

* Dollar/euro categories include tracking currencies
† Costs include interest of £3.8m in USD, £6.0m in EUR and £0.1m in GBP

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

Defined benefit pension schemes

The company operates a number of pension schemes throughout the group. The net pension liability in the balance sheet (before taking account of the related deferred tax asset of £4.0 million) has decreased to £13.1 million (2010: £14.1 million). The movement can be summarised as follows:

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

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

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

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

The group has undertaken an Enhanced Transfer Value exercise for certain UK deferred members with a prospective pension entitlement of less than £1,000 p.a. For IAS 19 valuation purposes as at 31 December 2011, this has been treated as a settlement, resulting in a gain of £0.3 million credited to the statement of income (difference between the total IAS 19 liabilities for the members less the total amount paid from the plan).

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

Clive Watson
Group finance director

Corporate Responsibility

Introduction

Spectris is a leading supplier of productivity-enhancing instrumentation and controls. We employ around 7,500 people working from over 130 locations in more than 30 countries around the world. Our products are used to monitor and control research and manufacturing processes, enabling customers in a wide range of industries to enhance their productivity and thereby also reduce their environmental impact.

We are committed to creating business growth through adding such value for our customers, whilst also ensuring that our own impact on the environment is minimised. Corporate responsibility (CR) underpins our business strategy, and our primary corporate value of honesty and integrity influences all of our dealings with our customers, employees and communities in which we operate. The core areas of our CR strategy are corporate governance, environment and climate change, our people, our communities, customers and suppliers.

To measure the critical components of our CR strategy, we have adopted the following key performance indicators:

Energy consumption

	2011	2010
MWh per £m revenue	**65.6**	92.8

Accident Incident Rate

	2011	2010
Reportable accidents per 1,000 employees	**2.7**	5.3

Opportunities

Climate change, in particular, provides opportunities to develop new products which contribute to reducing our customers' impact on the environment, for example by lowering energy consumption or raw material usage. We recently helped a major cement company to achieve a 20-30% reduction in CO_2 emissions per tonne of cement by developing a new type of clinker with a lower carbon footprint (see case study on page 33). Our products are also used in the development of renewable energy technologies, for example the design and testing of new materials for wind turbine blades, solar panels and lithium ion batteries for electric vehicles. Our systems are also used for remote monitoring of wind turbines and hydroelectric power stations.

Independent accreditation

Spectris continues to meet the criteria for membership of the FTSE4Good index, the leading responsible investment benchmark. The FTSE4Good inclusion criteria are enhanced regularly and demand continued improvement in order to maintain inclusion in the index. The criteria are assessed on a regular basis by the independent research organisation EIRIS.

FTSE4Good

Approximately 60% of our manufacturing operations (by turnover) are certified to the international environmental standard ISO 14001.

In 2011, as part of our commitment to environmental responsibility, we commenced participation in the Carbon Disclosure Project, an independent not-for-profit organisation reporting on corporate climate change information. We were pleased to be placed in the top third of all FTSE 350 companies responding.

Our environmental reporting processes have been established by external consultants WS Atkins.

We have commenced a programme to audit significant suppliers against relevant criteria stipulated in the social accountability standard SA8000 and to date have audited the top 50% of key suppliers in Asia. A number of the suppliers audited have committed to gaining full SA8000 certification.

Corporate governance

Details of how the company complied with the principles of the UK Corporate Governance Code during 2011 are described in detail in the Directors' Report.

Overall responsibility for developing corporate policies on environmental, social, ethical and health and safety matters, and for reviewing their effectiveness, lies with the Spectris Board of directors and, in particular, the Chief Executive. These policies are mandated across all business units and applied within each particular business, taking account of local legislation and regulation. All policies are reviewed periodically and any updates are communicated to the operating companies. Each year we require the president and finance director of each operating company to confirm that their business has complied in full with our corporate policies. Any instances of non-compliance must be reported. There were no material cases of non-compliance in 2011.

This certification forms an integral part of the company's system of internal controls, and is regularly reviewed by the group's internal audit function and considered annually by the company's external auditors. Compliance testing is a formal part of internal audit reviews. Through a structured review process, the internal audit function undertakes visits to group locations on a rotational basis. These visits involve an assessment of the business' key internal controls as well as compliance with the group's policies and procedures. The results of internal audits and any cases of non-compliance are reported to the audit and risk committee.

Environment and climate change

Our core business of providing instruments and controls for the design and manufacturing processes of major industrial companies helps our customers to reduce their environmental impact in a number of ways. We offer our customers products and technologies to reduce energy consumption, make more efficient use of resources, and control emissions. Furthermore, a number of our products are critical to the development, manufacture and maintenance of renewable energy generation technologies, as described above. Examples of the use of Spectris' products having a direct beneficial contribution to the environment are shown on our website.

We also take the continuing reduction in our own environmental impact seriously, as set out in our environmental policy, which is published on our website. We endeavour to employ non-polluting technology wherever possible in our operations and take steps to reduce our energy consumption further. Design processes take into account the operational lifetime of every product and end-of-life removal or disposal. Consideration is also given to environment-friendly production, packaging and shipping.

Environmental management systems

Approximately 60% of Spectris' manufacturing operations (by turnover) are certified to ISO 14001. In 2011, Brüel & Kjær's facility at Royston, England (formerly the LDS Test and Measurement business, which was acquired in 2008), successfully achieved ISO 14001 certification.

No significant environmental incidents were recorded in 2011 and the company received no environmental fines. In 2007, we reported that investigative studies into a small area of contaminated land at Almelo in The Netherlands, resulting from activities prior to ownership by PANalytical, had been made and a remediation programme discussed with the Dutch authorities. This programme has now been agreed and removal of the contaminated soil, followed by pumping and filtering/cleaning of the contaminated water will commence during 2012.

PANalytical helps to reduce carbon footprint in cement production

Cement production is responsible for around 5% of global man-made CO_2 emissions. A large proportion of these emissions result from the decarbonisation of limestone at high temperatures to produce clinker, the basic component of cement. Having already reduced its carbon footprint by modernising installations, substituting fossil fuels with alternative fuel sources and using additives to produce less carbon intensive blended cements, one possible way for the cement industry to make significant future improvements is to develop completely new cement types. Project AETHER™ is a project being led by Lafarge, world leader in building materials, to develop a new class of cements which require much less limestone and less energy to produce than conventional Portland cements. The project has received funding from the European Community's LIFE+ environmental programme. A first industrial demonstration trial to produce AETHER clinkers was carried out in 2011 at Lafarge's cement plant in Burgundy, France, using PANalytical's XRD and XRF analysers and software for quality control and analysis. This trial confirmed that AETHER clinkers could be produced at lower temperatures and using significantly less energy than conventional Portland cement clinker, generating 20-30% less CO_2 per tonne of cement. Independent testing is now ongoing to assess the mechanical performance and durability of mortars and concretes made with AETHER cements.

Climate change

Overall, Spectris has a low climate change impact, as our products do not require substantial manufacturing processes at our facilities. Nevertheless, we take the need to manage our carbon emissions seriously and also acknowledge responsibility for our suppliers, working with them to help reduce their impact on the environment. Although we fall below the threshold for full participation in the UK CRC Energy Efficiency Scheme and are only required to submit an information disclosure, we are working to improve our environmental performance and reduce our carbon emissions. With the help of environmental consultants WS Atkins, we undertook a sustainability and responsibility review in 2010 and during 2011 we put in place actions across the group in response to their recommendations, which are detailed below.

Our sustainability objectives are designed to improve our environmental performance and increase the importance of health and safety, human rights and ethics across the group. Roger Stephens, company secretary, has overall responsibility for setting and monitoring the sustainability strategy. The managing directors and presidents of our business units are responsible for implementing the strategy at a local level.

Energy

With regard to the environment, our initial priority is to focus on accurate measurement and monitoring of three key parameters: electricity, gas and water. In order to better understand and manage our energy use, we have established a Key Performance Indicator relating to energy consumption.

Energy consumption

MWh per £m revenue

We estimate that the above energy consumption metric covers 100% of our operations. Acquisitions are excluded in the year of acquisition.

Actions to deliver progress are focused on internal initiatives, rather than group-wide targets, with the emphasis on businesses with the greatest opportunities to improve. As a result, we made good progress on reducing energy usage in 2011, with actions around the group including installing energy-saving lighting and motion sensors and more energy-efficient air conditioning systems at a number of sites. Fusion UV Systems, one of our most intensive energy-using businesses, has upgraded the facilities for life testing of their equipment at their North American headquarters to be more efficient and this has enabled them to reduce electricity consumption. Fusion aims to reduce energy usage by 30% over the next three years. At our HBM facility in Germany, electricity consumption has reduced despite a 15% increase in production. PANalytical's new X-ray tube facility at Eindhoven, The Netherlands, which opened in September 2011, and which has been designed to modern building standards, is expected to reduce consumption of gas and electricity per m^2 by 10% compared with the old building. At PANalytical's Almelo site in The Netherlands, gas consumption in 2011 was 30% lower than in the prior year and

Corporate Responsibility continued

electricity consumption for testing of high power instruments has also been reduced following changes to production processes.

Water
As Spectris products do not require substantial manufacturing processes, our sites are not large users of water. Nevertheless, we recognise the importance of managing this limited natural resource, particularly in certain parts of the world, and we seek accurate site-specific water reports for all of our largest facilities. The data collection exercise has already shown results in China, where evidence of abnormally high consumption at one of our production facilities enabled system modifications and a significant reduction in water usage. At our Fusion UV Systems' site in North America, overall water usage has been reduced by 50% following installation of a chiller/recirculation system used in bulb manufacturing. At our site in The Netherlands, consumption of cooling water for a specific production process has been reduced by 90% using closed circuit cooling.

Employees
We employ a highly skilled technical workforce of around 7,500 people, in more than 130 locations throughout the world, and are committed to providing our staff with a creative working environment with scope for individual responsibility and achievement. Compensation and benefits, which are in line with other leading companies in the sector, are designed to reward the achievement of objectives.

Our employment policy is published on our website.

As part of our culture of respect, we believe that people with varied backgrounds and perspectives add creativity to the company and thus we encourage diversity in the workplace. We are committed to providing equal employment opportunities in terms of recruitment and employment, training and development, and promotion, regardless of race, colour, religion, national origin, gender, sexual orientation, age, disability or military veteran status.

The Board has discussed the recommendations in the Davies Report 'Women on Boards'. The Board recognises the benefits of all facets of diversity, including experience and perspective, both at Board level and throughout our business. Any search firm engaged in a senior executive or non-executive search assignment will be required to adhere to the principles set out in the Voluntary Code of Conduct for Executive Search Firms. However, the Board does not believe it would be helpful to establish specific employment targets relating to diversity.

Spectris operates globally in more than 30 countries and is focused on growing its presence in industrialising economies such as China, India and Latin America and across a broad base of end user markets. We will continue to strengthen our existing group-wide inclusion policies to attract and retain the most talented and appropriate people, particularly reflecting the different markets and geographies in which we operate.

Our value of treating others with respect carries over to our policy against workplace discrimination and harassment. We strive to create a culture of honesty, respect and professional excellence whilst maintaining a healthy balance between working and personal lives, with initiatives such as part-time and job share opportunities providing family-friendly working conditions. Employee surveys are carried out in a number of companies to measure the views of employees on company issues and action plans agreed to address the issues raised. Initiatives such as the Savings Related Share Option Scheme, available to all UK employees, and grants under the group's Performance Share Plan made to senior management across the group, are designed to encourage loyalty and performance.

A commitment to training and personal development emphasises the importance of retaining staff throughout the group and ensuring that all employees are encouraged to realise their full potential. Annual reviews provide feedback on performance, set objectives and identify training and development opportunities. Data on employee turnover is monitored by individual businesses and reported to the Board on an annual basis. Malvern and Servomex, our two principal UK businesses, have received the Investors in People award for their programmes of training, appraisal, employee development and skills recognition.

Graduate recruitment programmes and student work placements exist in a number of our companies, providing opportunities for young people, particularly scientists, to be introduced to the business environment.

Health and safety
We take health and safety seriously and strive to provide a workplace at all of our sites where all employees feel safe and protected from harm. Our policies regarding workplace health and safety are implemented throughout the group, with each operating company responsible for compliance with local legislation and regulations and ensuring that the highest standards of health and safety are achieved by its employees and by sub-contractors and suppliers. The company's health and safety policy can be viewed on our website.

Audits of health and safety policies and procedures are undertaken at all major locations by external assessors acting on behalf of the group's insurers on an annual basis and recommendations are made for improving practices where appropriate.

Any serious health and safety incidents are required to be reported by the managing director of the business in an accident report to the company secretary, who reports on such issues to the Board. All accidents are thoroughly investigated and appropriate corrective and

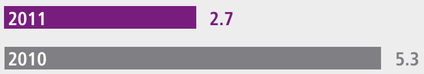
Malvern Instruments' scientist receives Award

In November, Dr E. Neil Lewis, Chief Technology Officer at Malvern Instruments, was awarded the prestigious Ernst Abbe Memorial Award of the New York Microscopical Society in recognition of his outstanding contributions to the science of microscopy, specifically for the development of chemical imaging microscopy. Dr. Lewis (above, right) was founder and president of Spectral Dimensions, Inc (SDI), the company Malvern Instruments acquired in 2006.

preventative actions put in place. No work-related serious injuries or deaths have been reported in the last ten years. Nevertheless, we have established a formal system to monitor the health and safety situation throughout the group by reporting work-related accidents or ill-health resulting in lost time in excess of 3 days. The resulting data is shown below expressed as a Key Performance Indicator.

Accident Incident Rate (AIR)

Reportable accidents[1] per 1,000 employees



[1] Work-related accidents/ill health resulting in lost time in excess of 3 days
Acquisitions are excluded in the year of acquisition

Our aim is to reduce the AIR to the lowest possible level and we are working closely with our operating companies to achieve this. Within the above figure, there were five significant work-related incidents resulting in lost time in excess of 20 working days. These comprised two employees with stress-related conditions, one employee who suffered a fractured thumb whilst operating a machine, one employee who was hit by a steel cable in the workplace and one employee who slipped and fell in the office car park.

Human rights

Spectris believes in the fundamental rights of people in all parts of the world and is committed to adopting internationally recognised human rights standards wherever it operates. The company's human rights policy, which is available on our website, is consistent with the Principles of Human Rights as set out in the International Labour Organization's Core Conventions, and includes policies on non-discrimination, harassment, pay and forced labour.

BTG wins Palme d'Or

In September, BTG's new PeakTotal2 in-line transmitter won the Palme d'Or for Innovation from ATIP, the French paper association, for its unique ability to measure total consistency and ash content. At the heart of the new transmitter is an innovative light-emitting system that measures reflectance from the slurry at very high frequency, using advanced signal processing. The resulting data provides highly accurate information about the fibre, fines, and filler content of the pulp, with results unaffected by pulp colour or brightness levels, helping paper manufacturers to reduce operating costs.

The BTG team (L to R): Bernard Rodriguez, Didier Conjeaud, Philippe Genest, Gwénaël Tartarat-Bardet, and Claude Vallier.

Spectris takes its commitments to human rights seriously and our operating companies are required to ensure that all employees are aware of the policy and understand it. The Code of Business Ethics also contains a section on human rights and employees are required to ensure that all company operations adhere to these important standards. Pay practices are monitored to ensure they are non-discriminatory.

The region president is responsible for ensuring that the highest ethical standards are maintained in all of our Asia-based operations. Spectris has a number of sales offices in China and also factories which supply high quality weighing components and particle characterisation instruments. These comprise modern facilities, employ skilled workers, adopt employment conditions consistent with best local practice, and pay wages that are higher than average for the area.

Advanced Production Facilities

HBM's modern strain gauge manufacturing facility at Suzhou, China, is identical to its European counterparts with regard to the advanced equipment used, safe working conditions and environmental awareness.

Spectris considers human rights as part of its due diligence process for acquisitions, ensuring that the core labour rights, including non-discrimination, equal opportunities and freedom of association, of the company to be acquired are taken into account.

Ethics

Our group philosophy is one of autonomy, with our operating companies entrusted and empowered to run and manage their businesses. We believe that establishing and maintaining an ethical culture is critical to supporting our business model and ensuring our continued business success and growth. Since 2009, we have had a well-established formal Ethics Programme (the 'Programme') made up of a number of elements.

Our Code of Business Ethics (the 'Code') is a central element of our Programme. Our core values as set out in the Code underpin the way we work. The Code applies to all our employees and is available in the 15 languages relevant to our operations. It provides a framework for how we do business and includes a clear policy on anti-bribery and corruption as well as dealings with customers, suppliers, colleagues, conflicts of interest and human rights. A copy of our Code is available within the corporate responsibility section on our website.

The Spectris Board and senior management team are fully committed to responsible business conduct and demonstrate visible leadership in this area. John O'Higgins, Chief Executive, and Roger Stephens, company secretary, actively drive the Programme and fully engage with our businesses on ethical and anti-corruption issues. The company secretary chaired, and the Chief Executive attended, the Spectris Global Ethical Leadership Conference in October 2011 at which all of our businesses were represented. In addition, presentations and workshops on ethics, anti-bribery and corruption

Corporate Responsibility continued

fraud risk are delivered at our annual Presidents' meetings. During the Board visit to our operations in China in June 2011, both the Chairman and Chief Executive devoted a significant proportion of presentations to local management to the importance of integrity in all our business dealings. The Board and senior management team's commitment to the Programme was further demonstrated during the year by the appointment of additional senior resource at the corporate centre focused on embedding ethical leadership across the group and implementing the Programme.

The Board is given regular updates on the Programme and ethical issues across the group by the company secretary and the audit and risk committee meets at least three times a year to consider the effectiveness of the group's internal controls, policies and procedures. The group internal audit department carries out a rolling programme of internal control reviews and compliance with the Code forms part of the focus of these. This work is supplemented by specific, periodic assessments of fraud risks (including bribery) in our operations.

Face-to-face training delivered by local operating company management is core to engaging with employees on ethical issues and is an integral part of raising knowledge and awareness of our Code. Newly-hired staff receive training as part of their induction and there are regular refresher courses for all employees. This is supplemented with annual online training. During the year, an anti-bribery module was successfully rolled out in 13 of our 14 operating companies. Our business integration processes cover ethics and anti-bribery and the remaining business – our recent acquisition, Omega Engineering – is in the process of being assimilated into the Programme. An additional online training module focused on conflicts of interest will be rolled out across all of our businesses in early 2012. Ongoing training and awareness is co-ordinated by ethics officers appointed within each operating company and our Asia and Latin America sales companies. The ethics officers are responsible for supporting their senior leadership teams in embedding high ethical standards within their businesses and facilitating the training and awareness process.

Our commitment to high standards of ethical behaviour pre-dates the UK Bribery Act, but we are cognisant of the heightened legal risks arising as a result of the new legislation and increased global enforcement activity. As a result, an independent external risk assessment was carried out in March 2011 to identify risks and test the efficacy of the existing Programme. The review provided valuable feedback. In addition, the Global Leadership Conference held in October (the second since the Programme was launched) provided feedback which formed the basis of the strategy for the next iteration of the Programme. This, together with the results from the risk assessment, has resulted in a number of initiatives to be developed and implemented during the course of 2012. These include: continued focus on developing ethical leadership across our businesses through a series of senior management engagement days; increased emphasis on face-to-face training for all employees; a revised version of the Code and development of other supporting materials to be launched in the first half of 2012; and formalisation of our third-party management and due diligence framework.

Spectris places the highest importance on compliance with all applicable export control regulations governing shipment of products and appropriate detailed procedures are in place in each operating company. Designated export control officers are responsible for the development of these procedures, their administration and the associated training of staff. Overall responsibility for the policy vests with Roger Stephens, company secretary. The export control officers are assisted in their duties by a dedicated group export control advisor, who led a refresher conference for all export control officers in September 2011. All companies are subject to periodic internal audit of their procedures and associated conformity, with reporting annually to the audit and risk committee. Our export control policy can be viewed on our website.

We actively promote a speak-up culture at Spectris and employees are encouraged to discuss issues of concern or any suspected violations of the law or our Code with their managers. This is supplemented with an externally-facilitated telephone and internet-based multi-lingual hotline to enable employees and others to report concerns anonymously if they wish. All reports are followed up and investigated and reports are summarised and communicated to the audit and risk committee on a six-monthly basis. In the past 12 months, the hotline has been used on a number of occasions and the reports followed up by the head of internal audit to conclusion. Spectris is committed to protecting the career and reputation of employees who report wrongdoing in accordance with established procedures, so long as their disclosures are delivered in good faith and seek to safeguard the best interests of the group.

Community

Our social responsibilities extend to the communities in which we operate. Our companies provide charitable assistance to local causes and also participate in a range of activities and educational initiatives in support of their local communities. These include providing apprenticeships and work placements for students, working with local schools and colleges on science projects, and sponsorship of scientists attending key scientific conferences.

Total donations to charities and community causes in 2011 were £76,541, of which £10,935 were in the UK (2010: £27,429 of which £8,286 in UK). This included donations to the Red Cross in response to the tsunami and earthquake in Japan and the East Africa crisis, and to other charities and local schools and colleges.

It is Spectris' policy that donations or provision of support in kind to political parties or campaigns are prohibited.

Customers

Spectris sells productivity-enhancing instrumentation and services to a large number of customers around the world. We have developed close working relationships with our customers and in many instances involve them in the development of new products to ensure they meet their requirements. Surveys of customer satisfaction are conducted on a regular basis.

Suppliers

Spectris has no significant suppliers who are wholly dependent upon the company's business. Suppliers are paid in line with contractual and legal obligations.

We recognise that our strategy of outsourcing non-core manufacturing does not absolve us from responsibility for the environmental impact of our suppliers and we work to help them reduce their impact on the environment and ensure that their products meet relevant legislation. Outsourcing of products and services is only to quality-approved organisations which are regularly inspected and audited by the group's strategic sourcing team and local management. Due to the high technology content of our instrumentation and control products, suppliers of our parts need to have leading edge manufacturing equipment and are subject to rigorous qualification processes which cover both their technological capabilities and their quality and regulatory conformance.

In order to gain improved assurance from suppliers, we are auditing current, and screening new, significant suppliers (those providing bespoke parts, assemblies and systems), against relevant criteria stipulated in the social accountability standard SA8000. The audit covers areas such as human rights, working conditions, health and safety and environmental compliance, in addition to our ongoing programme of quality and technological audits. The initiative has commenced in Asia, where to date we have audited the top 50% of key suppliers (by order value). The remainder will be audited by the end of 2012. The audit covers all prospective suppliers of bespoke parts and all existing suppliers where we purchase in excess of $100,000/year and is carried out by Spectris internal auditors in Asia who have all received external training and qualifications. No fundamental non-conformances against our standards have been discovered. Where minor non-compliance areas have been found, corrective actions and completion dates have been agreed with the suppliers. Suppliers have all been very co-operative in implementing the necessary improvements, and a number have additionally committed to gaining SA8000 certification through an approved third-party auditing body. To date we have focused our attention on our lower cost manufacturing sources in Asia and we may extend this initiative to other regions as required. We will also be applying the same auditing process to our three manufacturing facilities in China with a target completion by end of 2012.

Contractual arrangements

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

Servomex sponsors Great Egg Race

Servomex has supported the annual Great Servomex Egg Race organised by Beacon Community College in Crowborough, England, for twenty years, providing the funding for materials, refreshments and prizes. In March, ninety enthusiastic pupils took part from different schools in the area. Despite its name, this is not actually an egg race, but a test of the children's ingenuity and imagination. This year the science challenge saw the pupils given the scenario of stranded animals in a Kenyan nature reserve. Their task was to translate a nature reserve sign, make a mask to disguise themselves so the animals would not be scared and make a crane-like arm to lift food to the animals. First prize was won by students from Jarvis Brook school.

Red Lion receives 'First Team Supplier' Award

The readers of Automation World awarded Red Lion a 'First Team Supplier' in the publication's 'Leadership in Automation 2011' programme. Red Lion was honoured in three different categories for its industrial control products, as well as for industrial networking products from the recently-acquired Sixnet and N-Tron businesses.

Board of Directors

Left to right: Jim Webster, John Warren, Roger Stephens, John O'Higgins, Peter Chambré, Russell King, John Hughes, Clive Watson

Nomination committee

John Hughes (chairman)
Peter Chambré
Russell King
John O'Higgins
John Warren

Remuneration committee

Russell King (chairman)
Peter Chambré
John Hughes
John Warren

Audit and risk committee

John Warren (chairman)
Peter Chambré
Russell King

Senior independent director

John Warren

John Hughes CBE, Chairman

John Hughes was appointed to the Board in 2007 and became non-executive Chairman in 2008. John was previously executive vice-president and chief operating officer of defence, aerospace and electronic systems company Thales Group SA. He is currently non-executive chairman of Sepura plc and Telecity Group plc as well as a non-executive director of Vitec Group plc and CSG Systems International, Inc., a NASDAQ-listed company. John also serves as an ambassador for the Alzheimer's Society.

John O'Higgins, Chief Executive

John O'Higgins joined Spectris in 2006. Prior to joining Spectris, he was with Honeywell, latterly as president of automation and control solutions, Asia Pacific. He began his career with Daimler Benz in Stuttgart. John has engineering degrees from University College Dublin and Purdue University and an MBA from INSEAD. John is a non-executive director of Exide Technologies, a company listed on NASDAQ.

Clive Watson, group finance director

Clive Watson joined Spectris in 2006. He was previously at Borealis, a leading provider of plastics solutions, where he was chief financial officer and executive vice president for business support. Prior to this, he was group finance director at Thorn Lighting Group and before that group finance director Europe with Black & Decker. Clive is a member of the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Tax and holds a Bachelors degree in Commerce & Accounting from the University of Birmingham. He is a non-executive director of Spirax-Sarco Engineering plc.

Jim Webster, business group director

Jim Webster, a metallurgy graduate, joined Spectris in 1993. He is responsible for the operational supervision of a number of the group's trading companies. He was previously general manager of the European Wire and Cable Division of Raychem Corporation.

Peter Chambré, non-executive director

Peter Chambré was appointed to the Board in 2006. He is chairman of Xellia Group AS, OneMed AB, 7TM Pharma AS, and Cancer Research Technology Ltd, all private companies, and a non-executive director of BTG plc. He is also an adviser to private equity company 3i. Peter 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.

Russell King, non-executive director

Russell King was appointed to the Board in October 2010. He is a non-executive director of Aggreko plc and non-executive chairman of Bergteamet AB, a private equity-owned Swedish mining services company, and GeoProMining Ltd, a privately-owned mining company operating in the CIS. Previously, Russell was chief strategy officer of Anglo American PLC and a non-executive director of Anglo Platinum Ltd. Prior to that he spent over 20 years in senior roles at ICI, gaining worldwide experience in its fertiliser, petrochemical and paint businesses.

John Warren, non-executive director

John Warren was appointed to the Board in 2006. He is a non-executive director of The Rank Group Plc and Bovis Homes Group PLC. John was previously group finance director of WH Smith PLC and United Biscuits plc and a non-executive director of Arla Foods UK plc, BPP Holdings plc, RAC plc, Uniq plc and Rexam plc.

Roger Stephens, head of commercial and company secretary

Roger Stephens is an economics graduate and chartered company secretary. Prior to joining Spectris in 1997, he held commercial roles in the power and construction sectors, specialising in contract negotiation, litigation and claims resolution, IP exploitation and property development.

Directors' Report

The directors present their report and accounts for the year ended 31 December 2011.

Principal activities

Spectris designs, develops and markets productivity-enhancing instrumentation and controls. The businesses are grouped into four segments for management and segmental reporting purposes: Materials Analysis, Test and Measurement, In-line Instrumentation and Industrial Controls. Further details of the trading companies within each segment can be found in the Operating Review (pages 20 to 27). Developments in the group's business activities are discussed in the Chairman's Statement (page 16), the Chief Executive's Review (page 18) and the Business Review (pages 1 to 37).

Acquisitions

During the year the following four acquisitions were made: (i) Omega Engineering, which provides a broad range of process measurement and control instrumentation to customers in industrial and academic markets, selling directly to end users in these sectors via catalogue, telephone and internet. The business will be integrated into the Industrial Controls segment. (ii) Sixnet, which designs, builds and markets rugged remote terminal units, I/O modules, Ethernet network switches and wireless products for the broad industrial and process market. Sixnet will be integrated into Red Lion Controls in the Industrial Controls segment. (iii) IRM, a leading manufacturer of gauging instrumentation for the metals market. IRM will be integrated into NDC Infrared Engineering in the In-line Instrumentation segment. (iv) Key intellectual property and other assets relating to a line of benchtop X-ray analysers for the Materials Analysis segment.

The total cost of acquisitions during the year was £377.0 million, including £18.6 million for cash acquired. Of this, £4.4 million is attributable to the fair value of deferred and contingent consideration expected to be paid in future years offset by an estimated purchase price adjustment receivable of £7.1 million, resulting in a deferred receivable of £2.7 million.

Disposals

On 1 January 2011, the group divested a sales operation in The Netherlands for a profit of £0.1 million. The total consideration was £0.1 million net of transaction costs.

Share capital

The share capital of the company comprises ordinary shares of 5p each; each share carries the right to one vote at general meetings of the company. The authorised and issued share capital of the company, together with movements in the company's issued share capital during the year, is shown in Note 24 on page 99. The Articles of Association of the company, available on the company's website, contain provisions governing the ownership and transfer of shares.

At the 2011 Annual General Meeting, shareholders authorised the directors to make market purchases of the company's ordinary shares up to a maximum number of 11,593,000 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 16 February 2012, the company had 125,005,123 ordinary shares in issue, of which 8,630,180 were held in Treasury. During the year 439,696 shares were transferred out of Treasury to meet the company's obligations under its share plans and no shares were cancelled out of Treasury. An authority to make further market purchases of the company's ordinary shares, if believed appropriate, will be sought at the forthcoming Annual General Meeting although the Board has no present intention of so doing.

Also included in the special business of the 2012 Annual General Meeting are proposals to renew the directors' authority to allot shares up to prescribed limits.

At 16 February 2012, interests notified to the company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

Black Rock Inc.
11,626,054 shares (9.99% material interest)

Standard Life Investments Limited
9,449,013 shares (8.12% material interest)

F & C Asset Management plc
5,700,126 shares (4.91% material interest)

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

Legal & General Group Plc
4,603,565 shares (3.99% material interest)

Kames Capital
4,492,354 shares (3.86% 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 re-election where they have been a director at each of the preceding two Annual General Meetings and were not appointed or re-appointed by the company at, or since, either such meeting. The Articles may be amended by special resolution of the shareholders and are available to view on the company's website. As it is now the company's practice for all directors to submit themselves for annual re-election, this is reflected in an amendment to the Articles that will be proposed at the 2012 Annual General Meeting.

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

There are a number of agreements that take effect, alter or terminate upon a change of control of the group following a takeover, such as bank loan agreements and company share plans. None of these are deemed to be significant in terms of their potential impact on the business of the group as a whole. In addition, there is a service contract between the company and one of its directors which provides for compensation for loss of office or employment following a change of control of the group (please refer to the Directors' Remuneration Report on page 50 for further explanation). It is also possible that funding arrangements for the group's defined benefit pension arrangements would need to be enhanced following a change of control if that resulted in a weakening of the employer covenant.

Dividend

Results for the group are set out in the consolidated statement of income on page 56 and in the supporting notes. A final dividend of 25.4p per ordinary share is proposed for the year to 31 December 2011 (2010: 20.9p). With the interim dividend, this makes a total for the year of 33.6p (2010: 28.0p). The final dividend will be paid on 26 June 2012 to shareholders on the register on 1 June 2012.

Research and development

Expenditure committed to research and development is focused on new product development, applications engineering and process integration. Costs are expensed as incurred, except where the expenditure meets certain strict criteria for capitalisation. In the year to 31 December 2011, amounts expensed totalled £75.8 million (2010: £64.6 million), and no expenditure met the criteria for capitalisation (2010: £nil).

Fixed assets

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

Payment of suppliers

The group's policy on payment of suppliers is to ensure that terms of payment accord with contractual and legal obligations. The company had £nil trade creditors at the year end (2010: £nil).

Directors

The directors of the company are named on pages 38 and 39.

In accordance with the requirement of the UK Corporate Governance Code, which the company adopted early with regard to annual election of directors by shareholders, each director resigned at the 2011 Annual General Meeting, put himself up for re-election and was re-elected. A change to the Articles, reflecting the resignation of each director at every Annual General Meeting and their submission for re-election at each such meeting, will be proposed at the 2012 Annual General Meeting.

The directors' total remuneration for the year and their interests in the shares of the company and its subsidiaries at 31 December 2011 are disclosed in the Directors' Remuneration Report on pages 52 to 54.

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.

Auditors

Separate resolutions to re-appoint KPMG Audit Plc as auditors and to authorise the directors to agree their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of Annual General Meeting to be held at the company's offices on Friday 20 April 2012 at 12.30 p.m. is contained in a separate letter from the Chairman accompanying this report.

Corporate Governance

UK Corporate Governance Code statement of compliance

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

Corporate governance has been and remains the responsibility of the whole Board. This statement describes how the company applied the principles and complied with the provisions of the Code during 2011. The Board considers that it was throughout the year and continues to be in full compliance with the provisions set out in the Code.

Board composition and procedures

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

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

Directors' Report continued

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

The Board delegates specific responsibilities to Board committees, notably the finance, nomination, remuneration, and audit and risk committees. The terms of reference of 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 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 for the Board's authorisation of a matter which otherwise may have given rise to a conflict of interest. No such conflicts have been declared.

Board and committee meeting attendance 2011

	Board	Remuneration committee	Audit and risk committee	Nomination committee
Total meetings during year	15	5	3	3
J L M Hughes (Chairman)	15	5	N/A	3
J A Warren (senior independent director)	15	5	3	3
P A Chambré	15	5	3	3
R J King	15	5	3	3
J E O'Higgins (Chief Executive)	15	N/A	N/A	3
C G Watson	15	N/A	N/A	N/A
J C Webster	14	N/A	N/A	N/A

Board appointments and performance evaluation

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

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

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

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

The 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 holds periodic meetings with the non-executive directors only and, led by the senior independent director, the non-executives have the opportunity to meet at least annually without the Chairman present. In considering the Chairman's performance, his other public company interests were specifically addressed and found to be of benefit to the Board, in that he brings experiences and insights gained from these interests which assist the Board in its deliberations.

An externally-facilitated evaluation of the operation and performance of the Board and its committees was conducted in 2010. An internal process followed during 2011. This included submissions from all Board members in response to a structured questionnaire focused upon the more significant areas identified during the prior year's external process, notably strategy, Board structure and organisation, succession planning and risk management. A summary of the submissions received, including comparative data from the 2010 process, was considered at the November Board meeting, with a number of areas for further debate and action recorded.

Diversity

The Board has considered the Davies Report 'Women on Boards' and the associated consultation by the Financial Reporting Council on whether to make further changes to the UK Corporate Governance Code, requiring boards to establish a gender diversity policy. Whilst the Board is opposed to numerical targets or quotas to address the representation of specific groups, it recognises the strategic and business benefits of having a balanced board. Due regard is therefore given to the benefits of diversity as part of the Board's normal refreshment process, with appointments made from candidates with the appropriate mix of skills, knowledge and experience, regardless of gender or otherwise. The recruitment of an additional non-executive director is currently in process and the executive search firm engaged has signed up to the Voluntary Code of Conduct for Executive Search Firms. It is therefore expected that a suitably diverse range of candidates will be presented to the Nomination Committee.

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

Shareholder relations

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

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

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

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

Audit and risk committee

The audit and risk committee comprises the non-executive directors and is chaired by John Warren, who has recent and relevant financial experience as the former group finance director of both United Biscuits plc and WH Smith PLC. Mr Warren is also the current chairman of the audit committees of Bovis Homes Group PLC and The Rank Group Plc. The committee meets at least three times each year to consider the effectiveness of the group's internal controls, policies and procedures, the process of internal audit and the conduct and outcome of the external audit. Its meetings are normally attended by the Chairman, the Chief Executive, the group finance director, the company secretary and the external and internal auditors. All executive directors attend the year end audit committee meeting and processes requiring the disclosure of relevant information by individual directors to the auditor have been adopted. The committee confers annually with both the head of internal audit and the external auditors without the attendance of executive directors. Additionally, both the external audit partner and the head of internal audit have the right of direct access to the audit and risk committee chairman. The committee's terms of reference can be found on the company's website.

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

The committee has also adopted procedures governing and restricting the appointment of the external auditor for non-audit services. The following services are precluded:

- book-keeping or other services related to the accounting records or financial statements of Spectris plc;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution in kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser or investment banking services; and
- legal services and expert services unrelated to the audit.

A cumulative annual cap of £200,000 is established for all other non-audit services (save for acquisition due diligence and taxation services) above which all engagements are subject to prior approval by the audit and risk committee.

Directors' Report continued

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

The committee has considered the risk of the withdrawal of their auditor, KPMG Audit Plc, from the market in their risk evaluation and planning and has concluded that the risk is small. In the event that the company's auditor did exit the market, a replacement appointment would be made from audit firms of equivalent standing. KPMG Audit Plc were appointed as the company's auditors on 12 May 1998, but the nominated audit partner has changed twice subsequently and will change again prior to the 2012 audit. The position of auditor to the company is kept under regular review, but KPMG Audit Plc's in-depth understanding of the company's operations is considered by the committee to be of benefit to both the company and its shareholders.

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

Internal controls

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

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

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

- an established process is in place whereby each business unit regularly assesses, evaluates and reports risks of group significance. Each business unit is required to document the management and mitigating actions in place and proposed;
- regular review of the status of risks and corresponding mitigating actions to ensure that risk management is embedded in day-to-day management processes and decision-making as well as in the annual strategic planning cycle;
- the effectiveness of risk management and mitigating actions is reviewed regularly by the executive directors and twice yearly by the audit and risk committee;
- additionally, 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 risks;
- annual financial plans for each business unit, significant capital investments or contractual commitments and major acquisitions or divestments are all subject to review and approval by the Board;
- a Group Accounting and Policies Manual sets out the minimum standards and procedures to be applied in relation to those risk areas which are regarded as significant in a group context;
- a process of self-assessment of compliance with the Manual and reporting thereon has been established, providing for a documented trail of accountability from business unit presidents and finance directors to the audit and risk committee. The necessary actions are taken by the audit and risk committee to remedy any failings or weaknesses identified by its review of the internal control system; and
- the executive directors report to the Board on changes in the business and external environment which present significant risks. The group finance director provides the Board with monthly financial information which includes key performance indicators and information on the group's operating segments. Regular reports on significant legal, ethics and compliance issues and insurance matters are received from the company secretary.

Going concern

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

Business Review

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

- Chairman's statement on pages 16 and 17.
- Chief Executive's review on pages 18 and 19.
- Group overview on pages 2 to 5.
- Operating review on pages 20 to 27, which includes a review of the external environment.
- Principal risks and uncertainties are described on pages 14 to 15.
- Details of the principal operating subsidiaries are set out on pages 20 to 27.
- Financial review on pages 28 to 31.
- Corporate responsibility on pages 32 to 37, which includes the company's policy on treatment of its employees.

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

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

Responsibility statement of the directors in respect of the annual report

We confirm that to the best of our knowledge:

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

By order of the Board

Roger Stephens

Roger Stephens
Secretary
17 February 2012

Directors' Remuneration Report

Letter from Russell King

Chairman of the remuneration committee

Russell King
Chairman of the remuneration committee

Dear Shareholder,

As the chairman of the remuneration committee, I am pleased to present to you the 2011 Directors' Remuneration Report of Spectris plc.

Remuneration strategy

Your committee is acutely aware of increasing public scrutiny of executive pay and concern regarding unmerited payments. At Spectris, the close linkage of reward to the performance of the company has always been a guiding principle underlying our executive remuneration. The balance of remuneration for the executive directors is, therefore, such that a very significant part of their overall reward is conditional upon the attainment of demanding growth-related performance conditions over both the short and long term.

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

- base salary and total package including benefits set at or modestly below the median of comparable UK quoted companies, subject to adjustment up or down to reflect the experience and performance of individual directors;
- on-target and maximum annual bonus of, respectively, 50% and 100% of salary, only payable on achievement of stretching profit before tax and individual objectives;
- annual awards under the company's performance share plan of up to 125% of salary, with vesting after three years based half upon total shareholder return ('TSR') relative to the FTSE 250 index and half upon real growth in adjusted earnings per share ('EPS'); and
- long-term investment in the continuing growth of the company, with any annual bonus achieved in excess of 60% and any performance share plan vesting having to be retained in Spectris shares until a minimum two times base salary shareholding is achieved.

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

Base pay 41%
Pension 10%
Annual bonus 21%
Performance Share Plan 28%

2011 remuneration

The excellent financial performance of the company in 2011, with adjusted profit before tax ('PBT') rising by 45% to record levels, enabled the top end of the profitability target range established for the annual bonus to be surpassed.

The company has also enjoyed good absolute and relative growth over the three years 2009 to 2011, with adjusted EPS increasing by 70%, the share price by 140% and the annual dividend by 44% over the period. Consequently, the performance share plan awards maturing on 25 February 2012 are expected to show vesting at the upper end of both the EPS and TSR ranges.

Whilst only a snapshot in time, at the end of 2011 the performance share plan grants maturing in 2013 were on track for full vesting on both the EPS (173% growth over the two years 2010 and 2011) and TSR (performance above upper quintile) performance conditions. The grants made in April 2011 are at a very early point in their three-year performance period, but with 43% growth in EPS during 2011 and TSR at above median to the end of 2011, they are so far on track to achieve some level of vesting.

The aggregate pre-tax pay achieved by each executive director in 2011 was as follows:

	Base salary	Pension contributions + in lieu supplements	Benefits in kind + expenses	2011 Bonus outcome	Share award exercises	**2011 Total £'000**	2010 Total £'000
J E O'Higgins	500	125	19	500	337	**1,481**	1,104
C G Watson	310	78	19	310	509	**1,226**	726
J C Webster	268	67	19	268	451	**1,073**	841

Future reviews

As we have previously advised, it is your committee's practice only to undertake detailed reviews of executive compensation every two years, or more, rather than annually. The next such review will be effective 1 January 2013. The committee had decided that a basic salary increase of 2.5% (5% for Mr Watson) should be awarded to the executive directors at 1 January 2012. However, in light of the current uncertain macro-economic environment, the executive directors have requested that implementation of this increase should be deferred until such time as the outlook becomes clearer.

The next compensation review for the Chairman will take place on 1 January 2013 and the fees for the non-executive directors will also be reviewed by the Board at that time.

Your committee has become aware that the current maximum level of annual award under the performance share plan has, at 125% of salary, fallen materially behind market norms. The operation of the plan will be reviewed during the coming year with the intention of submitting proposals to shareholders at the 2013 Annual General Meeting.

I hope that you will support the advisory vote on the 2011 Directors' Remuneration Report which will be put to the Annual General Meeting.

Yours faithfully

Russell King
Chairman of the remuneration committee
17 February 2012

Directors' Remuneration Report continued

The directors present their remuneration report for the year ended 31 December 2011.

Remuneration committee

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

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

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

The committee also monitors the level and structure of remuneration for business unit presidents or managing directors and the head of corporate development.

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

FIT Remuneration Consultants LLP was appointed in August 2011 to advise the committee on various aspects of the Chairman's and executive directors' remuneration. Hewitt New Bridge Street separately provide services to the company in compiling IFRS 2 reporting on the company's share plans and total shareholder return ('TSR') performance calculations in relation to the company's Performance Share Plan. FIT Remuneration Consultants LLP was paid £14,660 in respect of services undertaken in 2011 (2010: £nil). Hewitt New Bridge Street was paid £51,817 in respect of services undertaken in 2011 (2010: £30,534). Both FIT Remuneration Consultants LLP and Hewitt New Bridge Street are members of the Remuneration Consultants Group and adhere to its Code of Conduct.

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

Remuneration policy

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

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

The remuneration committee also regularly reviews the balance between fixed and variable pay.

Salaries and fees

Base salaries and fees are established by reference to surveys of the terms offered by comparable UK quoted companies. The starting point for comparative surveys is the scope of the position and associated performance of the Chairman, each executive director and the company secretary. Excluding his own position and performance, the Chief Executive is responsible for the definition of the scope of positions and assessment of the performance of each executive director, for consideration and approval by the remuneration committee. Salaries for the executive directors are set at competitive levels, typically based around the market median, although the remuneration committee reserves the flexibility to respond to individual circumstances which may cause salaries to be set at a level higher or lower than market median. Due account is also taken of pay conditions elsewhere in the company.

The committee had decided that a basic salary increase of 2.5% (5% for Mr Watson) should be awarded to the executive directors at 1 January 2012. However, in light of the current uncertain macro-economic environment, the executive directors have requested that implementation of this increase should be deferred until such time as the outlook becomes clearer.

A biennial compensation review for the Chairman is undertaken on a similar basis as that for the executive directors and is next due at 1 January 2013. Fees for the non-executive directors will also next be reviewed by the Board at that date. Neither the Chairman nor the non-executive directors participate in the company's incentive or benefit programmes.

Bonuses

To align remuneration with shareholders' interests, a proportion of executive directors' potential total remuneration is related to annual corporate performance. Bonuses of up to 100% of base salary are achievable upon the attainment of demanding profit before tax (75% potential) and personal (25% potential) targets set in relation to carefully considered business plans. Bonus payments commence only at a level which shows an acceptable financial result in the context of economic circumstances and market expectations, with an 'on-plan' performance yielding a payment of half the maximum potential. Targets for maximum outturn are set at highly stretching, albeit attainable, levels. Bonuses achieved in respect of 2011 performance, based on the targets set at the start of the financial year, were as follows (as a percentage of salary at 31 December 2011):

J E O'Higgins 100%
C G Watson 100%
J C Webster 100%

Within the above bonus payments for Mr O'Higgins, Mr Watson and Mr Webster, 75% related to the profitability target (as the stretch level of performance was achieved) and 25% related to achievement of personal targets.

The bonus arrangements for 2012 will operate in a similar manner to those set out above in respect of 2011.

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

Under the Plan, annual awards of shares are made which may vest at the end of a three-year period subject to continued employment, the satisfaction of challenging performance conditions and justification of vesting in the context of the overall financial performance of the company. The maximum award of performance shares that can be made to a participant in any financial year is limited, under the rules of the Plan approved in 2006, to shares with a market value equal to 125% of the participant's salary. The committee's current policy is to determine awards to executive directors by reference to a base award over shares worth 125% of salary, which may be flexed downwards from year to year depending on corporate and personal performance. The committee has kept the Plan under review and is conscious that an award of 125% of salary has fallen materially below market norms and hence the operation of the Plan will be reviewed during 2012, with the intention of submitting proposals to shareholders at the 2013 AGM.

Awards to executive directors are currently structured so that half of the award is subject to an 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%

The TSR condition is also subject to the underpin that the committee must satisfy itself that the company's TSR growth is reflective of its underlying financial performance.

The above criteria will continue to apply to Plan awards made in 2012.

For awards in excess of 100% of salary, the committee stipulates, in accordance with undertakings provided on approval of the Plan, that the percentage of an award that will vest for threshold performance will be limited to 25% of a participant's base salary rather than 25% of the number of shares subject to an award, with pro-rata straight line vesting from this lower point up to 100% of the award.

The committee considers the above performance conditions to be an appropriate means of aligning the interests of participants with those of longer-term shareholders. The TSR performance condition is measured independently by Hewitt New Bridge Street and the EPS condition is verified by the company's auditors.

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

Share retention
Each executive director is, subject to personal circumstances, required to build a retained shareholding in Spectris plc greater than two times base salary in value within a five-year period from appointment. Executive directors are required to apply the post-tax benefit of any vested Plan awards or any bonus payments exceeding 60% of base salary to the acquisition of shares until this level of shareholding is achieved. The executive directors all currently have holdings in excess of this requirement.

Benefits
Mr O'Higgins and Mr Watson have defined contribution pension arrangements to which the company currently contributes at a rate of £50,000 p.a. In light of the government's decision to reduce the pension lifetime allowance to £1.5 million in 2012 and the introduction of a maximum pension contribution allowance of £50,000 p.a. from April 2011, the executive directors are entitled, at their option, to a taxable salary supplement in lieu of pension contributions otherwise payable by the company. Mr O'Higgins and Mr Watson receive such salary supplements, to 25% of their base salaries in excess of the £50,000 p.a. contributed by the company to

Directors' Remuneration Report continued

their pension arrangements. Mr Webster currently has no pension arrangements contributed to by the company and therefore receives 25% of his base salary as a salary supplement in lieu of pension contributions.

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

Contractual terms

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

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

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

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

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 $76,000 during 2011. Mr Watson is a non-executive director of Spirax-Sarco Engineering plc and was paid a fee of £52,000 during 2011. No other external directorships are held by the executive directors.

Remuneration below board level

Remuneration for presidents of the group's trading companies is set at competitive levels to reflect the size, complexity and geographic locations of these businesses. Base salaries fall within a range between £132,000 and £318,000. Additionally, the group's presidents participate in share awards under the Spectris Performance Share Plan (typically over 60% of base salary) and in profit-related bonus arrangements linked to base salary and payable against their business annual operating profit after exchange, plus or minus a financing charge/credit arising from changes in working capital over the year. On plan performance delivers a c. 30% of base salary bonus with the upper limit of the payment range delivering 50% of base salary.

Internal relativity

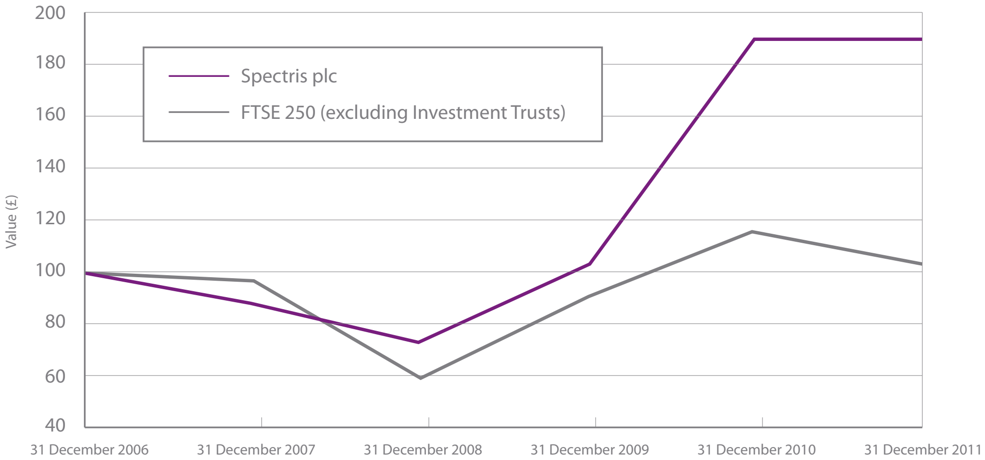
The committee is sensitive to the need to set directors' remuneration having regard to pay and conditions in the group as a whole and is satisfied that the approach taken by the company is fair and reasonable in light of current market practice and the best interests of shareholders.

Non-executive directors

Non-executive directors' fees are reviewed biennially and agreed by the Chairman and executive directors with reference to market practice. The base fee is supplemented by allowances for chairmanship of the audit and risk and remuneration committees and the pension scheme trustee board. There is no participation in bonus, share option, or pension arrangements and no participation in the Spectris Performance Share Plan. 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.

Total shareholder return

The following graph indicates the value by the end of 2011 of £100 invested in Spectris plc 5p ordinary shares on 31 December 2006 compared with the value of £100 invested in the FTSE 250 index (excluding investment trusts) over the same period. The graph was selected as the most appropriate comparison measure because the company is a constituent member of the FTSE 250 index and the members of the FTSE 250 (excluding Investment Trusts) form the comparator group for the purposes of the TSR performance test under the Spectris Performance Share Plan.



The graph above shows the value, at 31 December 2011, of £100 invested in Spectris plc on 31 December 2006 compared with the value of £100 invested in the FTSE 250 Index (excluding Investment Trusts) over the same period.

Source: Thomson Reuters

Service contracts

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 17 February 2012
Executive directors				
J E O'Higgins	1.1.06	3.2.29	12 months	6 years 1 month
C G Watson	1.10.06	4.2.23	12 months	5 years 4 months
J C Webster	27.3.98	21.6.15	12 months	18 years 4 months
Non-executive directors				
P A Chambré	1.8.06	renewable at each AGM	6 months	5 years 6 months
J L M Hughes	1.6.07	renewable at each AGM	6 months	4 years 8 months
R J King	12.10.10	renewable at each AGM	6 months	1 year 4 months
J A Warren	7.3.06	renewable at each AGM	6 months	5 years 11 months

Mr Webster's contract provides for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration – salary, bonus and benefits) in the event of termination by the employer within 12 months of a change in control of the group.

Mr O'Higgins' and Mr Watson's contracts contain an optional provision, subject to a duty of mitigation, for phased monthly payments equivalent to 1.4 times monthly salary in lieu of all remuneration and benefits otherwise payable during the notice period and full and final settlement of all employment-related claims.

Directors' Remuneration Report continued

Directors' remuneration and interests

The auditors are required to report on the information contained in the following sections a) to e).

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

	Salary and/ or fees	Bonus	Pension salary supplement	Benefits in kind	Taxable expenses	**2011 Total**	2010 Total
Executive directors							
J E O'Higgins	500	500	56	14	5	**1,075**	853
C G Watson	310	310	21	14	5	**660**	564
J C Webster	268	268	61	19	–	**616**	504
Non-executive directors							
P A Chambré	42	–	–	–	–	**42**	39
J L M Hughes	165	–	–	–	–	**165**	140
R J King	50	–	–	–	–	**50**	9
J A Warren	67	–	–	–	–	**67**	61
A J Reading	–	–	–	–	–	**–**	19
	1,402	1,078	138	47	10	**2,675**	2,189

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

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

b) Directors' pensions

Company contributions to defined contribution plans:

	2011 £'000	2010 £'000
J E O'Higgins	**69**	107
C G Watson	**57**	70
J C Webster	**6**	64
Total	**132**	241

c) Directors' total remuneration

	2011 £'000	2010 £'000
Aggregate emoluments	**2,675**	2,189
Company pension contributions to defined contribution schemes	**132**	241
Gains made on exercise of share-based incentives	**1,297**	508
	4,104	2,938

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

	Date granted	Options held 1 Jan 11	Granted during the year	Exercise price (p)	Exercised during the year	Share price at date of exercise (p)	Lapsed during the year	Options held 31 Dec 11	Date exercisable	Expiry date
J E O'Higgins										
SAYE	Oct 2009	1,255		723				1,255	Dec 2012	Jun 2013
Total		**1,255**						**1,255**		

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

	Number of shares subject to award at 1 Jan 11	Date granted	Exercise price (p)	Granted during the year	Addition of reinvested dividends*	Exercised during the year	Market price at exercise (p)	Lapsed during the year	Number of shares subject to award at 31 Dec 11	Market value of each share at date of award (p)	Date exercisable	Expiry date
J E O'Higgins												
	53,400	Feb 2008	5		6,616	(28,000)	1210.20	(3,017)	28,999	786.5	Feb 2011	Feb 2018
	96,600	Feb 2009	5						96,600	434.5	Feb 2012	Feb 2019
	65,400	Mar 2010	5						65,400	818.5	Mar 2013	Mar 2020
		Apr 2011	5	44,600					44,600	1401	Apr 2014	Apr 2021
	215,400								**235,599**			
C G Watson												
	34,900	Feb 2008	5		3,581	(36,509)	1400.50	(1,972)	0	786.5	Feb 2011	Feb 2018
	63,200	Feb 2009	5						63,200	434.5	Feb 2012	Feb 2019
	42,800	Mar 2010	5						42,800	818.5	Mar 2013	Mar 2020
		Apr 2011	5	27,600					27,600	1401	Apr 2014	Apr 2021
	140,900								**133,600**			
J C Webster												
	31,700	Feb 2008	5		3,253	(33,161)	1363.6385	(1,792)	0	786.5	Feb 2011	Feb 2018
	57,500	Feb 2009	5						57,500	434.5	Feb 2012	Feb 2019
	38,900	Mar 2010	5						38,900	818.5	Mar 2013	Mar 2020
		Apr 2011	5	23,900					23,900	1401	Apr 2014	Apr 2021
	128,100								**120,300**			
Total	**484,400**			**96,100**	**13,450**	**(97,670)**		**(6,781)**	**489,499**			

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

The above awards were made as conditional rights to acquire shares (structured as nominal cost options) and the number of shares awarded was based on the mid-market closing price of the company's shares on the business day prior to the date of grant. In respect of the 2011 award, for each of Mr O'Higgins, Mr Watson and Mr Webster, the value of the award was equivalent to 125% of their base salaries at the date of grant. Following satisfaction, in whole or part, of the performance criteria attaching to the awards (as summarised on page 49), the directors may call for the release to them of the vested shares during the above-shown exercise periods.

The awards granted to Mr O'Higgins, Mr Watson and Mr Webster in 2008 of 53,400, 34,900 and 31,700 award shares, respectively, became exercisable and were exercised by Mr O'Higgins, in part, and by Mr Watson and Mr Webster, in full, during the year. 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 to 44.35% of the award. In determining the level of vesting against the TSR target, the committee took into account the company's underlying financial performance. The awards were satisfied from the company's treasury shares.

The Spectris Performance Share Plan operates within the dilution limits laid down by the Association of British Insurers. 3.4% of the 5% limit has been utilised.

Directors' Remuneration Report continued

Mr O'Higgins retained 28,000 shares arising from the part exercise of his 2008 award on 25 October 2011. The gain on exercise was £337,456.

Mr Watson retained 19,500 shares arising from the exercise of his 2008 award on 10 March 2011 and sold 17,009 shares. The gain on exercise was £509,483.

Mr Webster sold all 33,161 shares arising from the exercise of his 2008 award on 21 March 2011. The gain on exercise was £450,538.

The aggregate gains on exercise for all directors under the company's share plans were thus £1,297,477 (2010: £508,456).

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

	Shareholdings	
	2011 31 Dec (or date of resignation)	2011 1 Jan (or date of appointment)
J L M Hughes	**8,000**	8,000
J E O'Higgins	**131,319**	103,319
P A Chambré	**5,451**	5,344
R J King	**3,000**	3,000
J A Warren	**3,000**	3,000
C G Watson	**52,982**	32,745
J C Webster	**118,310**	118,310

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

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

At 31 December 2011 the middle market closing share price on the London Stock Exchange was 1289p. The highest share price in the year was 1679p and the lowest was 1039p.

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

By order of the Board

Russell King
Chairman of the committee
17 February 2012

Company No. 02025003

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 £m	2010 £m
Profit for the year attributable to owners of the company		**126.3**	96.2
Other comprehensive income:			
Net (loss)/gain on effective portion of changes in fair value of forward exchange contracts		**(3.8)**	0.7
Foreign exchange movements on translation of overseas operations		**(5.5)**	1.3
Net gain on changes in fair value of effective portion of hedges of net investment in overseas operations		**2.0**	2.2
Actuarial (loss)/gain arising on pension schemes, net of foreign exchange	8	**(2.6)**	2.1
Tax on items recognised directly in other comprehensive income	10	**1.1**	0.1
Total comprehensive income for the year attributable to owners of the company		**117.5**	102.6

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

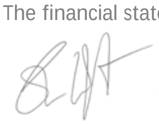
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £m
Balance at 1 January 2010	6.2	231.4	119.5	70.9	(0.5)	3.1	0.3	430.9
Profit for the year	–	–	96.2	–	–	–	–	96.2
Other comprehensive income:			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

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 £m	2010 £m
Assets			
Non-current assets			
Intangible assets:			
Goodwill	13	**544.5**	355.1
Other intangible assets	14	**205.9**	97.4
		750.4	452.5
Property, plant and equipment	15	**152.7**	110.5
Equity-accounted investments		**0.6**	0.5
Deferred tax assets	23	**20.6**	18.4
		924.3	581.9
Current assets			
Inventories	16	**171.8**	121.0
Taxation recoverable		**4.3**	8.5
Trade and other receivables	17	**220.8**	194.8
Derivative financial instruments	20	**0.1**	2.3
Cash and cash equivalents	18	**41.6**	64.7
		438.6	391.3
Total assets		**1,362.9**	973.2
Liabilities			
Current liabilities			
Short-term borrowings	19	**(2.7)**	(1.7)
Derivative financial instruments	20	**(1.7)**	–
Trade and other payables	21	**(227.6)**	(212.1)
Current tax liabilities		**(40.3)**	(36.7)
Provisions	22	**(31.9)**	(23.4)
		(304.2)	(273.9)
Net current assets		**134.4**	117.4
Non-current liabilities			
Medium- and long-term borrowings	19	**(383.9)**	(135.5)
Derivative financial instruments	20	**(12.8)**	(14.9)
Other payables	21	**(11.2)**	(17.3)
Retirement benefit obligations	8	**(13.1)**	(14.1)
Deferred tax liabilities	23	**(33.5)**	(3.9)
		(454.5)	(185.7)
Total liabilities		**(758.7)**	(459.6)
Net assets		**604.2**	513.6
Equity			
Issued share capital	24	**6.2**	6.2
Share premium		**231.4**	231.4
Retained earnings		**295.0**	197.5
Translation reserve		**71.8**	75.3
Hedging reserve		**(3.6)**	(0.2)
Merger reserve		**3.1**	3.1
Capital redemption reserve		**0.3**	0.3
Total equity attributable to equity holders of the company		**604.2**	513.6
Total equity and liabilities		**1,362.9**	973.2

The financial statements on pages 56 to 108 were approved by the Board of directors on 17 February 2012 and were signed on its behalf by:



Clive Watson
Director

Company Registration No. 02025003

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 £m	2010 £m
Cash flows from operating activities			
Profit after tax		**126.3**	96.2
Adjustments for:			
Tax	10	**39.7**	23.7
Profit on disposal of businesses	26	**(0.1)**	–
Finance costs	9	**17.1**	16.2
Financial income	9	**(7.2)**	(8.2)
Depreciation	15	**14.9**	14.4
Amortisation of intangible assets	14	**24.9**	14.4
Acquisition-related fair value adjustments to inventory		**2.1**	–
Contingent consideration fair value adjustments	28	**(1.3)**	–
Gain on sale of property, plant and equipment	6	**(0.4)**	(0.1)
Equity-settled share-based payment transactions	7	**6.4**	6.6
Operating profit before changes in working capital and provisions		**222.4**	163.2
Increase in trade and other receivables		**(7.3)**	(18.5)
Increase in inventories		**(24.3)**	(15.1)
Increase in trade and other payables		**9.6**	56.6
Increase/(decrease) in provisions and employee benefits		**4.0**	(10.8)
Corporation tax paid		**(35.1)**	(21.0)
Net cash from operating activities		**169.3**	154.4
Cash flows from investing activities			
Purchase of property, plant and equipment and software		**(29.2)**	(18.9)
Proceeds from sale of property, plant and equipment		**0.8**	1.4
Acquisition of businesses, net of cash acquired	28	**(369.0)**	(62.6)
Proceeds from disposal of businesses		**0.1**	–
Interest received		**0.7**	1.0
Net cash flows used in investing activities		**(396.6)**	(79.1)
Cash flows from financing activities			
Interest paid		**(12.8)**	(11.1)
Dividends paid	11	**(33.8)**	(28.9)
Proceeds from exercise of share options (treasury shares)		**0.5**	1.9
Proceeds from borrowings		**295.0**	46.8
Repayment of borrowings		**(45.8)**	(52.8)
Net cash flows generated/(used) in financing activities		**203.1**	(44.1)
Net (decrease)/increase in cash and cash equivalents		**(24.2)**	31.2
Cash and cash equivalents at beginning of year		**63.3**	33.7
Effect of foreign exchange rate changes		**1.4**	(1.6)
Cash and cash equivalents at end of year	18	**40.5**	63.3

Reconciliation of changes in cash and cash equivalents to movements in net debt	Note	2011 £m	2010 £m
Net (decrease)/increase in cash and cash equivalents		**(24.2)**	31.2
Proceeds from borrowings		**(295.0)**	(46.8)
Repayment of borrowings		**45.8**	52.8
Effect of foreign exchange rate changes		**3.4**	0.5
Movement in net debt		**(270.0)**	37.7
Net debt at start of year	19	**(86.2)**	(123.9)
Net debt at end of year	19	**(356.2)**	(86.2)

Notes to the Accounts

1. Accounting policies

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

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

Statement of compliance and basis of preparation
The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS). The company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice; these are presented on pages 109 to 116.

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

The group's business activities, together with factors likely to affect its future development, performance and position, are set out in the Business Review on pages 1 to 27. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 28 to 31. 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.

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

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

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

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

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

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

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

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

1. Accounting policies continued

Basis of consolidation

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

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method of accounting and are recognised initially at cost.

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

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

Foreign currency transactions

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

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

Interest-bearing borrowings

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

Derivative financial instruments and hedge accounting

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

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

Cash flow hedge accounting

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

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

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

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

Notes to the Accounts continued

1. Accounting policies continued

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 exchange rates, the changes in value of the borrowings are recognised in the statement of comprehensive income. The ineffective part of any change in value caused by changes in exchange rates is recognised in the statement of income.

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

Business combinations and goodwill

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

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

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

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

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

Segmental reporting

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

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

Segment results are the results reviewed by the Chief Operating Decision Maker and represent adjusted operating profits (for definitions, see Note 3) and include an allocation of head office expenses. Segment results exclude tax and financing items.

Segment assets comprise goodwill, other intangible assets, property, plant and equipment, inventories, trade and other receivables. Segment liabilities comprise trade and other payables, provisions and other payables. Unallocated items represent corporate and deferred taxation balances, defined benefit scheme liabilities and all components of net debt.

1. Accounting policies continued

Intangible assets

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

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

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

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

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

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

Property, plant and equipment

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

Depreciation is recognised in the statement of income on a straight-line basis to write off the cost, less the estimated residual value (which is reviewed annually), of property, plant and equipment over its estimated useful life. The depreciation charge is revised where useful lives are different from previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Land is not depreciated. Estimated useful lives are as follows:

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

Impairment of tangible and intangible assets excluding goodwill

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

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

Notes to the Accounts continued

1. Accounting policies continued

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

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

Trade and other receivables
Trade and other receivables are initially recognised at their fair value and are subsequently reduced by appropriate allowances for estimated irrecoverable amounts. Discounting is applied where it is expected to have a material impact.

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

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

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

Provisions
A provision is recognised in the balance sheet 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 economic benefits 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. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such a plan will be carried out.

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

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

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

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

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

1. Accounting policies continued

Other long-term employee benefits

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

Share-based payments

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

Revenues

Revenues comprise sales to outside customers after discounts and excluding value added tax and similar sales taxes.

Revenue from the sale of goods is recognised in the statement of income 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 statement of income in proportion to the measurement of the stage of completion of services rendered as at the balance sheet date. This is assessed by reference to the amount of time incurred in proportion to the total expected time to be taken to deliver the service.

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

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

Interest payable and receivable

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

Leasing

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

Rentals payable under operating leases are charged to the statement of income 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 statement of income except to the extent that it relates to items recognised either in other comprehensive income or directly in equity, in which case tax is recognised in the statement of comprehensive income or 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 balance sheet date, and any adjustments to tax payable in respect of previous years.

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

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

Notes to the Accounts continued

2. Financial risk management

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

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

(a) Foreign currency risk

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

The group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts. Forward exchange contracts are typically used to hedge highly probable transactions which can be forecast to occur from anything between 1 and 18 months into the future.

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

(b) Interest rate risk

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

As at 31 December 2011 the majority of the group's borrowings attract floating rates of interest linked to LIBOR and therefore the group's principal interest rate risk is a cash flow risk. Quantitative analysis of interest rate risk is included in Note 20.

(c) Liquidity risk

Liquidity risk represents the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. The group manages this risk through the use of regularly updated cash flow and covenant compliance forecasts and a liquidity headroom analysis which is used to determine funding requirements. Adequate committed lines of funding are maintained from high quality investment grade lenders. The facilities committed to the group as at 31 December 2011 are set out in Note 19.

(d) Credit risk

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

The group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the balance sheet 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. Quantitative analysis of credit risk to receivables is included in Note 17.

Credit risk associated with cash balances and derivative financial instruments is managed centrally by transacting with an existing relationship bank with 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, in the group balance sheet (see Note 20).

2. Financial risk management continued

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:

	2011 £m	2010 £m
Equity shareholders' funds (page 60)	**604.2**	513.6
Committed debt facilities	**500.9**	229.5
	1,105.1	743.1

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

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

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

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

In line with this objective, the group financed its 2011 acquisitions from existing cash and a new US$550 million five-year revolving credit facility. 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. At 31 December 2011 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 uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. Adjusted figures exclude certain non-operational items which management has defined as amortisation and impairment of acquisition-related intangible assets, acquisition-related costs and contingent consideration fair value adjustments, acquisition-related fair value adjustments to inventory, profits or losses on termination or disposal of businesses, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 10).

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

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

Adjusted operating profit

	Note	2011 £m	2010 £m
Operating profit as reported under adopted IFRS		**175.8**	127.9
Net acquisition-related costs and contingent consideration fair value adjustments	28	**1.8**	1.9
Acquisition-related fair value adjustments to inventory	28	**2.1**	–
Amortisation of acquisition-related intangible assets	14	**21.8**	12.3
Adjusted operating profit		**201.5**	142.1

Notes to the Accounts continued

3. Adjusted performance measures continued

Adjusted operating profit by segment – 2011

	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2011 Total £m
Operating profit as reported under adopted IFRS		**56.0**	**48.5**	**60.3**	**11.0**	**175.8**
Net acquisition-related costs and contingent consideration fair value adjustments		**–**	**0.3**	**(0.9)**	**2.4**	**1.8**
Acquisition-related fair value adjustments to inventory		**–**	**–**	**0.2**	**1.9**	**2.1**
Amortisation of acquisition-related intangible assets		**4.9**	**5.9**	**4.2**	**6.8**	**21.8**
Adjusted operating profit: segment result under adopted IFRS	4	**60.9**	**54.7**	**63.8**	**22.1**	**201.5**

Adjusted operating profit by segment – 2010

	Note	Materials Analysis £m	Test and Measurement £m	In-line Instrumentation £m	Industrial Controls £m	2010 Total £m
Operating profit as reported under adopted IFRS		34.7	28.3	57.1	7.8	127.9
Net acquisition-related costs and contingent consideration fair value adjustments		1.2	0.2	0.3	0.2	1.9
Amortisation of acquisition-related intangible assets		3.6	6.3	0.9	1.5	12.3
Adjusted operating profit: segment result under adopted IFRS	4	39.5	34.8	58.3	9.5	142.1

Return on sales by segment – 2011

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

Return on sales by segment – 2010

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

3. Adjusted performance measures continued

Reconciliation to adjusted profit before tax and adjusted operating profit

	Note	2011 £m	2010 £m
Profit before tax as reported under adopted IFRS		**166.0**	119.9
Add/(deduct):			
Net acquisition-related costs and contingent consideration fair value adjustments	28	**1.8**	1.9
Acquisition-related fair value adjustments to inventory	28	**2.1**	–
Amortisation of acquisition-related intangible assets	14	**21.8**	12.3
Net gains on retranslation of short-term inter-company loan balances	9	**(0.4)**	(0.4)
Profit on disposal of businesses	26	**(0.1)**	–
Decrease/(increase) in fair value of cross-currency interest rate swaps	20	**0.4**	(1.4)
Adjusted profit before tax		**191.6**	132.3
Adjusted net finance costs (see below)		**9.9**	9.8
Adjusted operating profit		**201.5**	142.1

Adjusted net finance costs

	Note	2011 £m	2010 £m
Net interest costs as reported under adopted IFRS	9	**(9.9)**	(8.0)
Decrease/(increase) in fair value of cross-currency interest rate swaps	20	**0.4**	(1.4)
Net gains on retranslation of short-term inter-company loan balances	9	**(0.4)**	(0.4)
Adjusted net finance costs		**(9.9)**	(9.8)

Adjusted operating cash flow

	Note	2011 £m	2010 £m
Net cash from operating activities under adopted IFRS		**169.3**	154.4
Acquisition-related costs paid	28	**3.1**	1.9
Corporation tax paid		**35.1**	21.0
Purchase of property, plant and equipment and software		**(29.2)**	(18.9)
Proceeds from sale of property, plant and equipment		**0.8**	1.4
Adjusted operating cash flow		**179.1**	159.8

Notes to the Accounts continued

3. Adjusted performance measures continued

Adjusted earnings per share

	Note	2011 £m	2010 £m
Profit after tax as reported under adopted IFRS		**126.3**	96.2
Adjusted for:			
Net acquisition-related costs and contingent consideration fair value adjustments	28	**1.8**	1.9
Acquisition-related fair value adjustments to inventory	28	**2.1**	–
Amortisation of acquisition-related intangible assets	14	**21.8**	12.3
Profit on disposal of businesses	26	**(0.1)**	–
Decrease/(increase) in fair value of cross-currency interest rate swaps	20	**0.4**	(1.4)
Net gains on retranslation of short-term inter-company loan balances	9	**(0.4)**	(0.4)
Tax effect of the above and other non-recurring items	10	**(7.8)**	(8.3)
Adjusted earnings		**144.1**	100.3
Weighted average number of shares outstanding (millions)	12	**116.2**	115.8
Adjusted earnings per share (pence)		**124.1**	86.6

Adjusted diluted earnings per share

	Note	2011	2010
Adjusted earnings (as above) (£m)		**144.1**	100.3
Diluted weighted average number of shares outstanding (millions)	12	**118.1**	117.9
Adjusted diluted earnings per share (pence)		**122.0**	85.1

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

Analysis of net debt for management purposes

	Note	2011 £m	2010 £m
Bank overdrafts		**1.1**	1.4
Bank loans – secured		**1.9**	2.2
Bank loans – unsecured		**298.3**	48.3
Unsecured loan notes		**85.3**	85.3
Cross-currency interest rate swaps – currency portion	20	**11.2**	13.7
Total borrowings		**397.8**	150.9
Cash balances	18	**(41.6)**	(64.7)
Net debt		**356.2**	86.2

4. Operating segments

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

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

Further details of the nature of these segments and the products and services they provide are contained in the Business Review on pages 4 to 27.

4. Operating segments continued

Information about reportable segments

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

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

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

	Carrying amount of segment assets		Carrying amount of segment liabilities†	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Materials Analysis	**346.6**	256.2	**(107.6)**	(104.6)
Test and Measurement	**433.2**	346.9	**(94.4)**	(93.9)
In-line Instrumentation	**291.8**	224.3	**(50.1)**	(46.6)
Industrial Controls	**224.7**	51.9	**(18.6)**	(7.7)
Total segment assets and liabilities	**1,296.3**	879.3	**(270.7)**	(252.8)
Cash and borrowings*	**41.6**	64.7	**(386.6)**	(137.2)
Derivative financial instruments*	**0.1**	2.3	**(14.5)**	(14.9)
Net pension liability*	**–**	–	**(13.1)**	(14.1)
Taxation*	**24.9**	26.9	**(73.8)**	(40.6)
Consolidated total assets and liabilities	**1,362.9**	973.2	**(758.7)**	(459.6)

* Not allocated to reportable segments in reporting to the Chief Operating Decision Maker.
† Segment liabilities are presented here on a voluntary basis.

Notes to the Accounts continued

4. Operating segments continued

	Additions to non-current assets		Depreciation and amortisation		Impairment charges	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Materials Analysis	**18.7**	22.8	**10.3**	7.4	**–**	–
Test and Measurement	**9.9**	13.0	**13.1**	14.1	**–**	–
In-line Instrumentation	**12.4**	24.2	**8.4**	5.3	**–**	–
Industrial Controls	**345.8**	28.8	**8.0**	2.0	**–**	–
	386.8	88.8	**39.8**	28.8	**–**	–

Geographical segments

The group's operating segments are each located in several geographical locations and sell on to external customers in all parts of the world. No individual country amounts to more than 3% of turnover, other than those noted below.

The following is an analysis of revenue by geographical destination.

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

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

4. Operating segments continued

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

	Non-current assets 2011 £m	Non-current assets 2010 £m
UK	**80.1**	75.6
Germany	**27.5**	29.3
France	**0.2**	0.4
Rest of Europe*	**281.6**	260.4
USA	**450.6**	124.9
Rest of North America	**5.9**	6.3
Japan	**4.1**	4.2
China	**10.1**	13.1
South Korea	**0.2**	0.2
Rest of Asia Pacific	**41.6**	43.4
Rest of the world	**1.8**	5.7
	903.7	563.5

* Principally in Denmark and Switzerland

5. Revenue

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

	2011 £m	2010 £m
Sale of goods	**963.6**	778.3
Services rendered	**142.6**	123.6
Revenue	**1,106.2**	901.9

No individual customer accounted for more than 2% of external revenue in either 2011 or 2010.

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

6. Operating profit

Operating profit has been arrived at after charging:

	2011 £m	2010 £m
Net foreign exchange losses	**0.3**	0.3
Research and development expenditure	**75.8**	64.6
Depreciation of property, plant and equipment	**14.9**	14.4
Amortisation of intangible assets	**24.9**	14.4
Gain on sale of property, plant and equipment	**(0.4)**	(0.1)

Research and development expenditure now includes costs that relate to specific customer contracts.

Notes to the Accounts continued

6. Operating profit continued

Auditor's remuneration

	2011 £m	2010 £m
Fees payable to the company's auditor for audit of the group's annual accounts*	**0.6**	0.4
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**	1.0
– tax services	**0.4**	0.5
– corporate finance related†	**0.6**	–
	2.7	1.9

* Increase relates to additional work performed over significant acquisitions in the year

† Services related to acquisitions

7. Employee costs

Employee costs, including directors' remuneration, comprise:

	Note	2011 £m	2010 £m
Wages and salaries		**295.6**	261.0
Social security costs		**50.4**	43.0
Defined benefit pension plans: current service cost	8	**0.9**	0.7
Defined benefit pension plans: past service credit	8	**–**	(2.9)
Defined benefit pension plans: settlements	8	**(0.3)**	–
Defined contribution pension plans	8	**10.4**	9.0
Equity-settled share-based payment expense		**6.4**	6.6
Cash-settled share-based payment expense		**0.9**	0.7
		364.3	318.1

Where it is not possible to incentivise managers of the group's operating companies with equity-settled options, they are issued with cash-settled options. The charge for these awards is adjusted to reflect the expected and actual levels of options that vest and the fair value is based on either the share price at date of exercise or the share price at the reporting date if sooner. The impact has progressively become more significant and as such these options are now separately disclosed. The statement of cash flows reflects this change as a movement in other payables, and the comparative has been amended accordingly.

Directors' remuneration

	2011 £m	2010 £m
Short-term benefits	**2.7**	2.2
Post-employment benefits	**0.1**	0.2
Equity-settled share-based payment expense	**1.0**	1.1
	3.8	3.5

Further details of directors' remuneration and share options are given in the Directors' Remuneration Report on pages 52 to 54.

7. Employee costs continued

Average number of employees

	2011 Number	2010 Number
Production and engineering	**3,270**	2,904
Sales and marketing	**2,534**	2,296
Administrative	**643**	581
	6,447	5,781

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 (2010: 12 overseas subsidiaries) in three overseas countries provide defined benefit plans. Other UK and overseas subsidiaries have their own defined contribution plans invested in independent funds.

Defined contribution plans

The total cost of the defined contribution plans for the year ended 31 December 2011 was £10.4m (2010: £9.0m). There were no outstanding or prepaid contributions to these plans as at 31 December 2011 or 31 December 2010.

Defined benefit plans

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

Plan name	Date of last full actuarial valuation
German:	
Brüel & Kjær GmbH*	31 December 2011
Brüel & Kjær Vibro GmbH	31 December 2011
BTG Instruments GmbH (formerly BTG Mütek GmbH)	31 December 2011
Spectris Germany GmbH (formerly Spectris GmbH Sensoren und Systeme)	31 December 2011
Hottinger Baldwin Messtechnik GmbH*	31 December 2011
PANalytical GmbH	31 December 2011
Dutch:	
HBM Netherlands BV	31 December 2009
Brüel & Kjær BV	31 December 2009
Brüel & Kjær Vibro AS, Dutch branch (formerly Brüel & Kjær Vibro BV)	31 December 2009
Hottinger Baldwin Messtechnik GmbH, Dutch branch*	31 December 2009
Swiss:	
BTG Eclépens SA	31 December 2011
UK:	
Spectris Pension Plan	31 December 2008

* The previous LDS Test and Measurement plans have been included into other Dutch and German plans

The valuations were updated to 31 December 2011 for IAS 19 purposes by qualified independent actuaries.

A valuation is underway in relation to the Spectris Pension Plan (UK).

Notes to the Accounts continued

8. Retirement benefit schemes continued

The total company contributions made to the defined benefit plans during the year ended 31 December 2011 were £4.1m (2010: £5.6m). Contributions for 2012 are expected to be as follows:

Plan name

	Expected 2012 contributions £m
German:	
Spectris Germany GmbH	0.1
Hottinger Baldwin Messtechnik GmbH	0.4
Swiss:	
BTG Eclépens SA	0.9
UK:	
Spectris Pension Plan	2.6
Total	**4.0**

The above contribution rates are subject to review at future valuations and periodic certifications of the Schedule of Contributions.

The Spectris Pension Plan (UK) was closed to future accural of benefits with effect from 31 December 2009.

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

UK plans

	2011 % p.a.	2010 % p.a.
Discount rate	**4.70**	5.40
Salary increases	**4.50**	4.90
Pension increases in payment:		
RPI max 5% (LPI)*	**2.90**	3.20
RPI max 3%	**2.40**	2.60
RPI max 2.5%	**2.10**	2.30
RPI min 3%, max 5%	**3.60**	3.70
CPI max 5%	**2.10**	2.70
Pension increases in deferment:		
RPI	**3.00**	3.40
CPI	**2.10**	2.70
Inflation assumption:		
RPI	**3.00**	3.40
CPI	**2.10**	2.70

*LPI is Limited Price Indexation

Mortality rate assumptions:
Pensioner life expectancy assumed in the 31 December 2011 valuation is based on the following table:

Current and future pensioners	PxA00 tables with medium cohort projections and a +1 year age rating and a 1% p.a. underpin to future improvements

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

	Males	Females
Pensioner aged 65 in 2011	86.7	89.0
Pensioner aged 65 in 2021	87.6	90.0

8. Retirement benefit schemes continued

German plans

	2011 % p.a.	2010 % p.a.
Discount rate	**4.70**	4.80
Salary increases	**3.00**	3.00
Pension increases in payment	**2.00**	2.00
Inflation assumption	**2.00**	2.00

Mortality rate assumptions:
Pensioner life expectancy assumed in the 31 December 2011 valuation is based on the following table:

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

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

	Males	Females
Pensioner aged 60 in 2011	83.5	87.6
Pensioner aged 60 in 2021	84.8	88.9

Dutch plans

	2011 % p.a.	2010 % p.a.
Discount rate	**5.20**	5.20
Salary increases	**3.00**	3.00
Inflation assumption	**2.00**	2.00

Mortality rate assumptions:
Pensioner life expectancy assumed in the 31 December 2011 valuation is based on the following table:

Current pensioners and future pensioners	Prognosetafel 2005-2050 tables

Sample ages to which pensioners are expected to live are not available (but this table covers improving life expectancies and is a general standard in the Netherlands). These details will be provided when the next actuarial assessment of this pension scheme is made at 31 December 2012.

Swiss plans

	2011 % p.a.	2010 % p.a.
Discount rate	**2.25**	2.75
Salary increases	**1.00**	1.00
Inflation assumption	**1.00**	1.00

Mortality rate assumptions:
Pensioner life expectancy assumed in the 31 December 2011 valuation is based on the following table:

Current pensioners and future pensioners	BVG 2010 P12

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

	Males	Females
Pensioner aged 60 in 2011	84.7	87.0
Pensioner aged 60 in 2021	85.6	87.9

Notes to the Accounts continued

8. Retirement benefit schemes continued

Amounts recognised in the statement of income

	UK plans		Overseas plans		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Current service cost	**–**	–	**0.9**	0.7	**0.9**	0.7
Interest cost	**5.1**	5.3	**0.9**	0.7	**6.0**	6.0
Expected return on scheme assets	**(5.6)**	(5.3)	**(0.5)**	(0.2)	**(6.1)**	(5.5)
Settlement gain (UK)	**(0.3)**	–	**–**	–	**(0.3)**	–
Past service credit	**–**	(2.9)	**–**	–	**–**	(2.9)
	(0.8)	(2.9)	**1.3**	1.2	**0.5**	(1.7)

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

During the year, insurance premiums for death-in-service benefits were paid amounting to £0.3m (2010: £0.2m).

The total return on scheme assets in the year (and reimbursed rights) was £12.3m (2010: £10.2m).

In July 2010, the UK government announced that CPI should be used as the basis for statutory minimum pension increases instead of RPI. The impact on benefits of this change for the UK plan was a credit to the statement of income in 2010 of £2.9m, within administrative expenses.

Amounts recognised in the statement of comprehensive income

	UK plans		Overseas plans		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Actuarial (losses)/gains recognised in the current year	**(1.0)**	3.2	**(1.8)**	(0.8)	**(2.8)**	2.4
Exchange gains/(losses) in the current year	**–**	–	**0.2**	(0.1)	**0.2**	(0.1)
Loss on inclusion of Dutch plan	**–**	–	**–**	(0.2)	**–**	(0.2)
Total (losses)/gains recognised in the current year	**(1.0)**	3.2	**(1.6)**	(1.1)	**(2.6)**	2.1
Cumulative actuarial losses since 1 January 2004	**(35.1)**	(34.1)	**(5.7)**	(4.1)	**(40.8)**	(38.2)

Amounts recognised in the balance sheet

	UK plans		Overseas plans		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Present value of defined benefit obligations	**(104.3)**	(96.9)	**(28.5)**	(26.0)	**(132.8)**	(122.9)
Fair value of scheme assets	**103.0**	93.2	**16.7**	15.6	**119.7**	108.8
Net deficit in schemes	**(1.3)**	(3.7)	**(11.8)**	(10.4)	**(13.1)**	(14.1)

8. Retirement benefit schemes continued

Reconciliation of movement in net deficit

	UK plans		Overseas plans		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
At 1 January	**(3.7)**	(14.3)	**(10.4)**	(9.2)	**(14.1)**	(23.5)
Expected return on plan assets	**5.6**	5.3	**0.5**	0.2	**6.1**	5.5
Contributions from sponsoring company	**2.6**	4.5	**1.5**	1.1	**4.1**	5.6
Current service cost	**–**	–	**(0.9)**	(0.7)	**(0.9)**	(0.7)
Interest cost	**(5.1)**	(5.3)	**(0.9)**	(0.7)	**(6.0)**	(6.0)
Actuarial (losses)/gains	**(1.0)**	3.2	**(1.8)**	(0.8)	**(2.8)**	2.4
Settlement gain (UK)	**0.3**	–	**–**	–	**0.3**	–
Exchange difference	**–**	–	**0.2**	(0.1)	**0.2**	(0.1)
Past service credit	**–**	2.9	**–**	–	**–**	2.9
Inclusion of three additional Dutch plans	**–**	–	**–**	(0.2)	**–**	(0.2)
At 31 December	**(1.3)**	(3.7)	**(11.8)**	(10.4)	**(13.1)**	(14.1)

Analysis of movement in the present value of the defined benefit obligation

	UK plans		Overseas plans		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
At 1 January	**96.9**	96.4	**26.0**	20.9	**122.9**	117.3
Current service cost	**–**	–	**0.9**	0.7	**0.9**	0.7
Interest cost	**5.1**	5.3	**0.9**	0.7	**6.0**	6.0
Actuarial losses	**7.0**	1.6	**2.0**	0.7	**9.0**	2.3
Settlement gain (UK)	**(0.3)**	–	**–**	–	**(0.3)**	–
Exchange difference	**–**	–	**(0.3)**	1.6	**(0.3)**	1.6
Contributions from scheme members	**–**	–	**0.8**	0.7	**0.8**	0.7
Benefits paid	**(4.4)**	(3.5)	**(1.8)**	(1.1)	**(6.2)**	(4.6)
Past service credit	**–**	(2.9)	**–**	–	**–**	(2.9)
Settlement of Swiss plan	**–**	–	**–**	1.2	**–**	1.2
Inclusion of three additional Dutch plans	**–**	–	**–**	0.6	**–**	0.6
At 31 December	**104.3**	96.9	**28.5**	26.0	**132.8**	122.9

Analysis of defined benefit obligation

	UK plans		Overseas plans		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Present value of unfunded defined benefit obligation	**–**	–	**5.9**	6.8	**5.9**	6.8
Present value of funded defined benefit obligation	**104.3**	96.9	**22.6**	19.2	**126.9**	116.1

Notes to the Accounts continued

8. Retirement benefit schemes continued

Reconciliation of movement in fair value of plan assets

	UK plans		Overseas plans		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
At 1 January	**93.2**	82.1	**15.6**	11.7	**108.8**	93.8
Expected return on plan assets	**5.6**	5.3	**0.5**	0.2	**6.1**	5.5
Actuarial gains/(losses)	**6.0**	4.8	**0.2**	(0.1)	**6.2**	4.7
Exchange difference	**–**	–	**(0.1)**	1.5	**(0.1)**	1.5
Contributions from sponsoring company	**2.6**	4.5	**1.5**	1.1	**4.1**	5.6
Contributions from scheme members	**–**	–	**0.8**	0.7	**0.8**	0.7
Benefits paid	**(4.4)**	(3.5)	**(1.8)**	(1.1)	**(6.2)**	(4.6)
Settlement of Swiss plan	**–**	–	**–**	1.2	**–**	1.2
Inclusion of three additional Dutch plans	**–**	–	**–**	0.4	**–**	0.4
At 31 December	**103.0**	93.2	**16.7**	15.6	**119.7**	108.8

Analysis of the scheme assets and expected rate of return

	Expected return		Fair value of assets	
UK plans	**2011 %**	2010 %	**2011 £m**	2010 £m
Equity instruments	**7.5**	7.3	**32.1**	29.0
Debt instruments	**5.3**	5.5	**67.3**	66.2
Other assets	**3.0**	4.0	**3.6**	(2.0)
	5.9	6.1	**103.0**	93.2

	Expected return		Fair value of assets	
German plans	**2011 %**	2010 %	**2011 £m**	2010 £m
Insurance policies	**4.7**	4.8	**1.3**	1.2

	Expected return		Fair value of assets	
Dutch plans	**2011 %**	2010 %	**2011 £m**	2010 £m
Insurance policies	**4.7**	5.2	**1.2**	1.3

	Expected return		Fair value of assets	
Swiss plans	**2011 %**	2010 %	**2011 £m**	2010 £m
Insurance policies	**2.5**	3.0	**14.2**	13.1

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

8. Retirement benefit schemes continued

History of experience adjustments

	2011 £m	2010 £m	2009 £m	2008 £m	2007* £m
Present value of defined benefit obligations	**(132.8)**	(122.9)	(117.3)	(98.5)	(93.7)
Fair value of scheme assets	**119.7**	108.8	93.8	90.0	82.6
Deficit in the scheme	**(13.1)**	(14.1)	(23.5)	(8.5)	(11.1)
Experience adjustment on scheme liabilities: Amount (£m)	**(1.2)**	(2.3)	(23.0)	10.0	4.8
Percentage of scheme liabilities (%)	**(0.9)**	(1.9)	(19.6)	10.2	5.1
Experience adjustment on scheme assets: Amount (£m)	**6.2**	4.7	3.3	(8.0)	1.1
Percentage of scheme assets (%)	**5.2**	4.3	3.5	(9.0)	1.3

* The history of experience for 2007 excludes the German and Dutch LDS Test and Measurement plans as they were new acquisitions in 2008. It also excludes the Swiss plan that had not previously been treated as a defined benefit arrangement.

9. Finance costs and financial income

Financial income

	Note	2011 £m	2010 £m
Interest receivable		**0.7**	0.9
Increase in fair value of cross-currency interest rate swaps	20	**–**	1.4
Net gains on retranslation of short-term inter-company loan balances		**0.4**	0.4
Expected return on pension scheme assets		**6.1**	5.5
		7.2	8.2

Finance costs

	Note	2011 £m	2010 £m
Interest payable on loans and overdrafts		**10.5**	9.9
Decrease in fair value of cross-currency interest rate swaps	20	**0.4**	–
Interest cost on pension scheme liabilities		**6.0**	6.0
Other finance costs		**0.2**	0.3
		17.1	16.2

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

Notes to the Accounts continued

10. Taxation

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

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

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

Factors that may affect the future tax charge

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

Tax on items recognised directly in other comprehensive income

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

10. Taxation continued

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

	2011 £m	2010 £m
Tax (credit)/charge on unrealised change in fair value of cross-currency interest rate swaps	**(0.1)**	0.4
Tax credit on amortisation of intangible assets	**(6.5)**	(4.0)
Tax credit on acquisition-related costs	**(0.4)**	(0.1)
Tax credit on acquisition-related fair value adjustments to inventory	**(0.8)**	–
Tax credit on retranslation of short-term inter-company loan balances	**–**	(0.3)
Tax credit relating to prior year acquisitions and disposals	**–**	(4.3)
Total tax credit	**(7.8)**	(8.3)

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

Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge

	Note	2011 £m	2010 £m
Total tax charge on adopted IFRS basis		**39.7**	23.7
Tax credit on items of income and expense that are excluded from the group's adjusted profit before tax		**7.8**	8.3
Adjusted tax charge		**47.5**	32.0
Adjusted profit before tax	3	**191.6**	132.3

11. Dividends

Amounts recognised and paid as distributions to owners of the company in the year

	2011 £m	2010 £m
Final dividend for the year ended 31 December 2010 of 20.9p (2009: 17.85p) per share	**24.3**	20.7
Interim dividend for the year ended 31 December 2011 of 8.2p (2010: 7.1p) per share	**9.5**	8.2
	33.8	28.9

Amounts arising in respect of the year

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

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year but adjusted for the effects of dilutive options. The key features of share option contracts are described in Note 25.

Notes to the Accounts continued

12. Earnings per share continued

Basic earnings per share

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

Diluted earnings per share

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

13. Goodwill

Cost	Note	£m
At 1 January 2010		363.5
Recognised on acquisitions	28	24.3
Adjustments to contingent consideration for transactions under IFRS 3 (2004)	28	8.3
Exchange differences		(3.7)
At 31 December 2010		392.4
Recognised on acquisitions	28	195.8
Adjustments to contingent consideration for transactions under IFRS 3 (2004)	28	(1.0)
Exchange differences		(6.5)
At 31 December 2011		**580.7**

Accumulated amortisation and impairment losses	
At 1 January 2010	38.7
Exchange differences	(1.4)
At 31 December 2010	37.3
Exchange differences	(1.1)
At 31 December 2011	**36.2**

Carrying amount	
At 31 December 2011	**544.5**
At 31 December 2010	355.1
At 1 January 2010	324.8

13. Goodwill continued

In accordance with the requirements of IAS 36, Impairment of Assets, goodwill is allocated to the group's cash-generating units which are represented by the group's trading businesses. The most significant elements of the group's total consolidated goodwill of £544.5m at 31 December 2011 are allocated to PANalytical: £95.0m (2010: £97.7m), BTG: £53.6m (2010: £54.7m), HBM: £66.9m (2010: £72.3m), Brüel & Kjær Sound & Vibration: £73.2m (2010: £68.9m) and Omega Engineering: £174.7m (2010: n/a). Except for Omega Engineering, the acquired entities are quickly integrated into existing group companies with the result that it is not appropriate to consider their individual performance when determining cash-generating units and performing goodwill impairment testing. Each cash-generating unit is assessed for impairment annually and whenever there is a specific indication of impairment. Omega Engineering is a stand-alone entity which is operating separately within the Industrial Controls segment. As such, it is being treated as a cash-generating unit for goodwill impairment testing. For all cash-generating units, there were no indications of impairment in 2011.

As part of the annual impairment test review, the carrying value of goodwill (for all businesses excluding Omega Engineering) has been assessed with reference to value in use to perpetuity, reflecting the projected cash flows of each cash-generating unit based on actual operating results, the most recent budget for the next financial year, and strategic review projections for 2013 and 2014. For Omega Engineering the carrying value of goodwill has been assessed by reference to the acquisition business plan that assumed a sales growth in line with that anticipated for the rest of the Spectris group, margins consistent with recent history, certain synergies in procurement and sales channels and reduced working capital.

The key assumptions on which the value in use calculations are based (for all businesses excluding Omega Engineering) relate to business performance over the next three years, long-term growth rates beyond 2014 and the discount rates applied. There are no individually significant business level cash flow assumptions in respect of any business that materially impact the impairment testing. The key judgements are the level of revenue and operating margins anticipated and the proportion of operating profit converted to cash in each year. Growth rates for the period beyond 2014 are assumed to be 2.5% (2010: 2.5%), which is considered to be at or below long-term market trends for each business. The cash flow projections have been discounted using entity-specific pre-tax discount rates between 13% and 18% (2010: 12% and 17%). These rates have been determined by taking the size of business and specific geographic and industry risk factors into account. No impairment charge has been required to be recognised in either 2011 or 2010.

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

- a 2% increase in the pre-tax discount rate applied to each business would result in an impairment of £nil (2010: £nil);
- if the long-term growth rate assumption was reduced to 1% no impairment would arise (2010: £nil); and
- if the cash flow projections of all businesses were reduced by 25% for the next two years no impairment would arise (2010: £nil).

The directors consider that operating results in 2011 confirm that none of the group's brought forward trading businesses have suffered permanent diminutions in value as a result of recent difficult economic conditions.

Reflecting the fact that it represents 32% of total goodwill, the directors consider the goodwill related to the Omega Engineering business to be individually significant and accordingly have provided additional commentary for this business. The lowest level of headroom on goodwill impairment testing among the cash-generating units at 31 December 2011 is in respect of the Omega Engineering business, reflecting the proximity of the acquisition date to the year end. However, having regard to trading activity post acquisition and the conservative assumptions built into the acquisition business case, the directors do not believe there is a significant risk of material impairment of goodwill arising in the next 12 months. The pre-tax discount rate applied to the cash flows is 16% with a long-term growth rate assumption of 2.5% per annum and a long-term conversion of operating profit to cash of 90%. Reflecting the highly dispersed customer base, wide range of industries served and extensive product list, no other individual assumptions have been identified that are material to this assessment.

Notes to the Accounts continued

14. Other intangible assets

Cost	Patents and contractual rights £m	Trade names £m	Technology £m	Customer-related intangibles £m	Software £m	Total £m
At 1 January 2010	12.6	–	41.1	35.1	28.1	116.9
Additions	–	–	–	–	1.9	1.9
Recognised on acquisitions	4.1	–	12.1	20.3	0.1	36.6
Disposals	–	–	–	–	(0.5)	(0.5)
Exchange differences	0.3	–	2.0	1.5	(0.2)	3.6
At 31 December 2010	17.0	–	55.2	56.9	29.4	158.5
Additions	–	–	–	–	2.7	2.7
Transfers from property, plant and equipment	–	–	–	–	2.5	2.5
Recognised on acquisitions (Note 28)	3.2	63.3	43.7	19.2	0.2	129.6
Disposals	–	–	–	–	(0.3)	(0.3)
Exchange differences	0.2	0.3	–	0.3	(0.3)	0.5
At 31 December 2011	**20.4**	**63.6**	**98.9**	**76.4**	**34.2**	**293.5**
Accumulated amortisation and impairment losses						
At 1 January 2010	9.5	–	6.7	9.3	21.1	46.6
Disposals	–	–	–	–	(0.3)	(0.3)
Charge for the year	1.5	–	5.0	5.8	2.1	14.4
Exchange differences	0.2	–	–	0.6	(0.4)	0.4
At 31 December 2010	11.2	–	11.7	15.7	22.5	61.1
Disposals	–	–	–	–	(0.3)	(0.3)
Charge for the year	1.2	0.8	9.1	10.7	3.1	24.9
Transfers from property, plant and equipment	–	–	–	–	1.9	1.9
Exchange differences	–	–	0.1	0.3	(0.4)	–
At 31 December 2011	**12.4**	**0.8**	**20.9**	**26.7**	**26.8**	**87.6**
Carrying amount						
At 31 December 2011	**8.0**	**62.8**	**78.0**	**49.7**	**7.4**	**205.9**
At 31 December 2010	5.8	–	43.5	41.2	6.9	97.4
At 1 January 2010	3.1	–	34.4	25.8	7.0	70.3

Of the total amortisation charge of £24.9m (2010: £14.4m), the amount attributable to the amortisation of acquisition-related intangible assets was £21.8m (2010: £12.3m).

The transfers from property, plant and equipment to software in 2010 relate to identifiable software assets.

15. Property, plant and equipment

Cost	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
At 1 January 2010	95.9	10.1	136.1	242.1
Additions	4.6	1.2	11.5	17.3
Recognised on acquisitions	–	–	0.4	0.4
Disposals	(1.9)	(0.4)	(7.3)	(9.6)
Transfers from/(to) plant and equipment	0.3	–	(0.3)	–
Exchange differences	(0.9)	0.5	1.8	1.4
At 31 December 2010	98.0	11.4	142.2	251.6
Additions	9.8	0.8	15.9	26.5
Recognised on acquisitions (Note 28)	25.4	0.1	7.7	33.2
Disposals	(0.2)	(0.4)	(6.7)	(7.3)
Transfers to other intangible assets	–	–	(2.5)	(2.5)
Exchange differences	(1.9)	0.1	(1.5)	(3.3)
At 31 December 2011	**131.1**	**12.0**	**155.1**	**298.2**
Accumulated depreciation and impairment				
At 1 January 2010	30.6	6.7	97.2	134.5
Charge for the year	2.6	0.9	10.9	14.4
Disposals	(1.8)	(0.4)	(6.5)	(8.7)
Exchange differences	(0.5)	0.3	1.1	0.9
At 31 December 2010	30.9	7.5	102.7	141.1
Charge for the year	2.9	1.3	10.7	14.9
Disposals	(0.1)	(0.4)	(6.4)	(6.9)
Transfers to other intangible assets	–	–	(1.9)	(1.9)
Exchange differences	(0.8)	0.1	(1.0)	(1.7)
At 31 December 2011	**32.9**	**8.5**	**104.1**	**145.5**
Carrying amount				
At 31 December 2011	**98.2**	**3.5**	**51.0**	**152.7**
At 31 December 2010	67.1	3.9	39.5	110.5
At 1 January 2010	65.3	3.4	38.9	107.6

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £3.9m (2010: £1.0m).

No borrowing costs met the required criteria for capitalisation during the year (2010: £nil).

The group has pledged land and buildings having a carrying amount of approximately £1.9m (2010: £2.2m) to secure bank loans granted to the group.

Notes to the Accounts continued

16. Inventories

	2011 £m	2010 £m
Raw materials	**67.2**	46.5
Work in progress	**29.4**	23.6
Finished goods	**75.2**	50.9
	171.8	121.0

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

Inventory is stated after charging impairments of £1.6m (2010: £4.0m) and crediting reversals of previous impairments of £1.7m (2010: £2.5m). Impairments and reversals of impairments are included within operating profit.

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

Inventory carried at fair value less cost to sell is £19.2m (2010: £0.2m) due to the acquisitions as described in Note 28.

In 2011, raw materials and changes in finished goods and work in progress recognised within cost of sales amounted to £301.4m (2010: £243.2m).

17. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	**191.4**	168.8
Prepayments and accrued income	**12.3**	10.4
Other receivables	**17.1**	15.6
	220.8	194.8

Included within prepayments and accrued income and other receivables above are amounts receivable in more than one year of £6.3m (2010: £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 net impairments recognised and utilised during the year of £4.5m (2010: £3.3m) and reversals of impairments of £2.2m (2010: £1.4m). Impairments and reversals of impairments are included within operating profit.

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

	2011 £m	2010 £m
UK	**7.7**	6.2
Germany	**19.1**	17.5
France	**10.9**	10.3
Rest of Europe	**37.8**	36.5
USA	**47.2**	37.6
Rest of North America	**7.6**	5.8
Japan	**17.1**	15.6
China	**12.9**	10.6
South Korea	**4.9**	4.9
Rest of Asia Pacific	**14.2**	13.7
Rest of the world	**12.0**	10.1
	191.4	168.8

17. Trade and other receivables continued

Impairment losses

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

	2011		2010	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	**141.3**	**0.6**	128.3	0.3
One month past due	**35.0**	**0.2**	27.6	0.1
Two months past due	**10.4**	**0.1**	8.1	0.3
Three months past due	**5.2**	**0.2**	3.6	0.2
Over three months past due	**9.7**	**9.1**	9.0	6.9
	201.6	**10.2**	176.6	7.8

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

	2011 £m	2010 £m
Balance at 1 January	**7.8**	5.8
Impairment loss recognised	**5.4**	4.3
Impairment loss utilised	**(0.9)**	(1.0)
Impairment loss released	**(2.2)**	(1.4)
Exchange differences	**0.1**	0.1
Balance at 31 December	**10.2**	7.8

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

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

18. Cash and cash equivalents

Analysis of balances of cash and cash equivalents

	Note	2011 £m	2010 £m
Cash balances		**41.6**	64.7
Bank overdrafts	19	**(1.1)**	(1.4)
Cash and cash equivalents in the statement of cash flows		**40.5**	63.3

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

Notes to the Accounts continued

19. Borrowings

Current

	Effective interest rate	Earlier of repricing date or maturity date	2011 £m	2010 £m
Bank loans – secured	see below	see below	**1.6**	0.3
Bank overdrafts		on demand	**1.1**	1.4
			2.7	1.7

Non-current

	Effective interest rate	Earlier of repricing date or maturity date	2011 £m	2010 £m
Bank loans – secured	see below	see below	**0.3**	1.9
Bank loans – unsecured	1.78%	14 Aug 2016	**249.7**	–
Bank loans unsecured – $75.6m	3.12%	10 Sep 2015	**48.6**	48.3
Unsecured loan notes – 2003 $100m	6.08%	15 Oct 2013	**64.4**	63.9
Unsecured loan notes – 2003 €25m	5.56%	15 Oct 2013	**20.9**	21.4
Total unsecured borrowings			**383.6**	133.6
Total non-current borrowings			**383.9**	135.5

At 31 December 2011, the group had available £104.2m (2010: £80.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Secured bank loans

Bank loans are secured by fixed charges over property at three of the group's subsidiaries. Of these, £1.4m is denominated in Chinese renminbi and is repayable by instalments until December 2012 with a fixed interest rate of 7.5%, £0.4m is denominated in US dollars and is repayable by instalments until December 2014 with a variable interest rate of LIBOR plus a small margin, and £0.1m is denominated in euros and is repayable by instalments until December 2012 with a variable interest rate of LIBOR plus a small margin.

Unsecured loan notes

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

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

Analysis of net debt

	Note	2011 £m	2010 £m
Bank overdrafts		**1.1**	1.4
Bank loans – secured		**1.9**	2.2
Bank loans – unsecured		**298.3**	48.3
Unsecured loan notes		**85.3**	85.3
Cross-currency interest rate swaps – currency portion	20	**11.2**	13.7
Total borrowings		**397.8**	150.9
Cash balances	18	**(41.6)**	(64.7)
Net debt		**356.2**	86.2

20. Financial instruments

Fair value and carrying amount of financial instruments

	2011 Carrying amount £m	2011 Fair value £m	2010 Carrying amount £m	2010 Fair value £m
Trade and other receivables excluding prepayments	**208.5**	**208.5**	184.4	184.4
Trade and other payables excluding deferred income	**(215.2)**	**(215.2)**	(209.0)	(209.0)
Cash and cash equivalents	**41.6**	**41.6**	64.7	64.7
Floating rate borrowings	**(250.6)**	**(250.6)**	(1.8)	(1.8)
Fixed rate borrowings	**(136.0)**	**(143.7)**	(135.4)	(145.0)
Forward exchange contracts	**(1.6)**	**(1.6)**	2.3	2.3
Cross-currency interest rate swaps	**(12.8)**	**(12.8)**	(14.9)	(14.9)
	(366.1)	**(373.8)**	(109.7)	(119.3)

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

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

The fair value of forward exchange contracts outstanding as at 31 December 2011 is a net liability of £1.6m (2010: asset of £2.3m), of which £1.7m has been debited to the hedging reserve (2010: £1.9m credit) and £0.1m credited to the statement of income (2010: £0.4m credit). These contracts mature over periods not exceeding 15 months. A summary of the movements in the hedging reserve during the year is presented below. There was no ineffectiveness arising with regards to cash flow hedges in either 2011 or 2010.

Analysis of movements in hedging reserve

	2011 £m	2010 £m
At 1 January	**(0.2)**	(0.5)
Amounts removed from statement of changes in equity and included in statement of income during the year	**(2.5)**	(0.6)
Amounts recognised in statement of changes in equity during the year	**(0.9)**	0.9
At 31 December	**(3.6)**	(0.2)

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

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

The following table shows the contractual forward exchange contracts hedging designated transactional exposures. These contracts mature in the next 15 months, therefore, the cash flows and resulting effect on profit and loss are expected to occur within the next 15 months.

Forward exchange contracts at 31 December

	2011	2010
Foreign currency sale amount (£m)	**110.2**	93.7
Percentage of total:		
US dollar	**34%**	24%
Euro	**37%**	41%
Japanese yen	**27%**	30%
Other	**2%**	5%

Notes to the Accounts continued

20. Financial instruments continued

Cross-currency interest rate swaps

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

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

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 2010	(18.5)	(2.6)	(21.1)
Change in fair value recognised in statement of comprehensive income	4.8	–	4.8
Change in fair value recognised in statement of income	–	1.4	1.4
As at 31 December 2010	(13.7)	(1.2)	(14.9)
Change in fair value recognised in statement of comprehensive income	2.5	–	2.5
Change in fair value recognised in statement of income	–	(0.4)	(0.4)
As at 31 December 2011	**(11.2)**	**(1.6)**	**(12.8)**

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

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

The table below shows the maturity profile of the gross cash flows related to financial liabilities.

Maturity of financial liabilities

					2011
	Bank loans and overdrafts £m	**Secured bank loans £m**	**Unsecured loans £m**	**Cross-currency swap £m**	**Total £m**
Due within one year	**1.1**	**1.6**	**12.0**	**0.4**	**15.1**
Due between one and two years	**–**	**0.2**	**97.5**	**11.6**	**109.3**
Due between two and five years	**–**	**0.1**	**321.0**	**–**	**321.1**
	1.1	**1.9**	**430.5**	**12.0**	**445.5**

20. Financial instruments continued

Maturity of financial liabilities

2010	Bank loans and overdrafts £m	Secured bank loans £m	Unsecured loans £m	Cross-currency swap £m	Total £m
Due within one year	1.4	0.3	6.6	0.5	8.8
Due between one and two years	–	1.7	6.6	0.5	8.8
Due between two and five years	–	0.3	143.1	14.2	157.6
	1.4	2.3	156.3	15.2	175.2

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

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

Interest rate exposure of financial assets and liabilities by currency

	Financial assets				Financial liabilities			**2011**
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	**Net financial assets/ (liabilities) £m**
Sterling	–	–	0.8	0.8	–	–	–	**0.8**
Euro	–	10.9	3.2	14.1	(96.6)	–	(96.6)	**(82.5)**
US dollar	–	10.4	1.9	12.3	(48.6)	(250.6)	(299.2)	**(286.9)**
Japanese yen	–	0.2	0.2	0.4	–	–	–	**0.4**
Other	0.8	6.8	6.4	14.0	(2.0)	–	(2.0)	**12.0**
	0.8	28.3	12.5	41.6	(147.2)	(250.6)	(397.8)	**(356.2)**

Interest rate exposure of financial assets and liabilities by currency

	Financial assets				Financial liabilities			2010
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	Net financial assets/ (liabilities) £m
Sterling	–	38.8	0.2	39.0	–	–	–	39.0
Euro	0.3	5.2	2.7	8.2	(99.1)	–	(99.1)	(90.9)
US dollar	0.4	3.8	0.2	4.4	(48.3)	(1.3)	(49.6)	(45.2)
Japanese yen	–	0.7	–	0.7	–	(0.1)	(0.1)	0.6
Other	2.6	6.0	3.8	12.4	(1.7)	(0.4)	(2.1)	10.3
	3.3	54.5	6.9	64.7	(149.1)	(1.8)	(150.9)	(86.2)

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

Notes to the Accounts continued

20. Financial instruments continued

Sensitivity analysis

At 31 December 2011 it is estimated that a general increase of one percentage point in interest rates would decrease the group's profit before tax by approximately £2.2m (2010: increase of £0.5m).

Based on foreign exchange translational exposures for the year ended 31 December 2011 it is estimated that a ten percentage point weakening in the value of the US dollar against £ sterling would have decreased the group's profit before tax by approximately £4.5m (2010: £2.2m), a ten percentage point weakening in the value of the euro/Danish krone against £ sterling would have decreased the group's profit before tax by approximately £6.2m (2010: £2.9m) and a ten percentage point weakening in the value of the Swiss franc against £ sterling would have decreased the group's profit before tax by approximately £2.2m (2010: £2.2m). In addition, a ten percentage point weakening in the value of the US dollar against £ sterling would have decreased the group's net assets by approximately £48.8m and a ten percentage point weakening in the value of the euro against £ sterling would have decreased the group's net assets by approximately £54.0m; exposures to other currencies are not considered to have a material impact on net assets.

21. Trade and other payables

Current

	2011 £m	2010 £m
Trade payables	**91.9**	84.7
Accruals	**94.2**	85.2
Deferred income	**23.6**	20.4
Other non-trade payables	**17.9**	21.8
	227.6	212.1

Non-current

	2011 £m	2010 £m
Other non-trade payables	**11.2**	17.3

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

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

22. Provisions

	Reorganisation £m	Product warranty £m	Legal, contractual and other £m	Total £m
At 1 January 2011	1.4	8.4	13.6	**23.4**
Additional provision in the year	2.1	5.9	7.2	**15.2**
Acquired on acquisition	–	0.4	0.5	**0.9**
Utilised during the year	(0.8)	(3.7)	(1.4)	**(5.9)**
Released during the year	(0.7)	(0.4)	(0.6)	**(1.7)**
At 31 December 2011	**2.0**	**10.6**	**19.3**	**31.9**

Provisions are all presented as current liabilities.

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

22. Provisions continued

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

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

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

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

23. Deferred tax

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

The movement on the deferred tax account is shown below.

	2011 £m	2010 £m
At 1 January	**(14.5)**	(22.4)
Exchange adjustments	**0.3**	0.1
Acquisition of subsidiary undertakings	**34.9**	5.7
Deferred tax on changes in fair value of forward exchange contracts recognised in statement of comprehensive income	**(0.7)**	0.4
Deferred tax on actuarial gains and losses on pension schemes recognised in statement of comprehensive income	**(0.8)**	0.4
Deferred tax on share-based payments recognised in equity	**0.3**	(0.5)
Charged to statement of income in the year (see Note 10)	**(6.6)**	1.8
At 31 December	**12.9**	(14.5)
Comprising:		
Deferred tax liabilities	**33.5**	3.9
Deferred tax assets	**(20.6)**	(18.4)
	12.9	(14.5)

Notes to the Accounts continued

23. Deferred tax continued

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

Net deferred tax (assets)/liabilities

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

Net deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Accruals and provisions £m	Tax losses £m	Unrealised profit on inter-company transactions £m	Pension schemes £m	Goodwill and intangible assets £m	Other £m	2010 Total £m
At 1 January 2010	(1.2)	(10.6)	(3.8)	(3.6)	(5.2)	5.4	(3.4)	(22.4)
Exchange adjustments	–	0.1	–	–	–	–	–	0.1
Acquisition of subsidiary undertakings	–	–	–	–	–	5.7	–	5.7
Deferred tax on changes in fair value of forward exchange contracts recognised in statement of comprehensive income	–	–	–	–	–	–	0.4	0.4
Deferred tax on actuarial gain on pension schemes recognised in statement of comprehensive income	–	–	–	–	0.4	–	–	0.4
Deferred tax on share-based payments recognised in equity	–	–	–	–	–	–	(0.5)	(0.5)
Charged/(credited) to statement of income	(1.2)	(3.8)	1.2	(2.7)	1.3	2.2	4.8	1.8
At 31 December 2010	(2.4)	(14.3)	(2.6)	(6.3)	(3.5)	13.3	1.3	(14.5)

23. Deferred tax continued

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.

	2011 £m	2010 £m
Tax losses	**23.1**	29.0
Other temporary differences	**9.0**	9.6
	32.1	38.6

The UK corporation tax rate was reduced to 26% with effect from 1 April 2011 and a further reduction to 25% will take effect from 1 April 2012, being substantively enacted on 5 July 2011. These rate reductions have had no material impact on the financial statements as at 31 December 2011.

A further phased reduction in the UK tax rate to 23% is planned but has not yet been substantively enacted. No account will be taken of the expected further rate reduction until substantive enactment of these changes. However, for indicative purposes only, had the UK main corporate tax rate been reduced to 23% the net impact on recognised deferred tax assets and liabilities at 31 December 2011 would not have been material.

It is likely that the unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption such that no UK tax would be due upon remitting these earnings to the UK. However, £34.9m (2010: £22.5m) 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 £1.8m (2010: £1.2m), 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.

24. Share capital and reserves

	2011		2010	
	Number of shares millions	£m	Number of shares millions	£m
Authorised:				
Ordinary shares of 5p each	**210.0**	**10.5**	210.0	10.5
Issued and fully paid:				
At 1 January	**125.0**	**6.2**	125.0	6.2
At 31 December	**125.0**	**6.2**	125.0	6.2

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

Other reserves

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

Translation reserve

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

Hedging reserve

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

Merger reserve

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

Capital redemption reserve

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

Notes to the Accounts continued

25. Share-based payments

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

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

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

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

Share options outstanding at the end of the year

SAYE – Year of grant	Exercise price £	Exercise year	**2011 Number thousands**	2010 Number thousands
2007	8.37	2011	**–**	7
2008	7.66	2012	**8**	35
2009	7.23	2013	**49**	51
2010	10.19	2014	**18**	19
2011	13.81	2015	**33**	–
			108	112

Executive Share Option Scheme – Year of grant	Exercise price £	Exercise period	**2011 Number thousands**	2010 Number thousands
2001	3.58–4.99	2004–2011	**–**	60
2004	4.06–4.62	2007–2014	**5**	7
2005	5.89	2008–2015	**5**	5
			10	72

Performance Share Plan (unapproved) – Year of grant	Exercise price £	Exercise period	**2011 Number thousands**	2010 Number thousands
2007	0.05	2010–2017	**10**	23
2008	0.05	2011–2018	**198**	709
2009	0.05	2012–2019	**1,348**	1,391
2010	0.05	2013–2020	**897**	943
2011	0.05	2014–2021	**657**	–
			3,110	3,066

25. Share-based payments continued

Performance Share Plan (approved) – Year of grant	Exercise price £	Exercise period	2011 Number thousands	2010 Number thousands
2011	11.30	2014-2021	**7**	–

Movements in the year

SAYE	2011 Number thousands	2011 Weighted average exercise price £	2011 Value of shares £m	2010 Number thousands	2010 Weighted average exercise price £	2010 Value of shares £m
At 1 January	**112**	**7.95**	**0.9**	133	7.52	1.0
Granted	**33**	**13.81**	**0.5**	19	10.19	0.2
Exercised	**(33)**	**7.77**	**(0.3)**	(32)	7.66	(0.2)
Lapsed	**(4)**	**8.58**	**–**	(8)	7.12	(0.1)
At 31 December	**108**	**9.77**	**1.1**	112	7.95	0.9
Exercisable at 31 December	**8**	**7.66**	**0.06**	7	8.37	0.03

Executive Share Option Scheme	2011 Number thousands	2011 Weighted average exercise price £	2011 Value of shares £m	2010 Number thousands	2010 Weighted average exercise price £	2010 Value of shares £m
At 1 January	**72**	**3.92**	**0.28**	396	5.17	2.1
Exercised	**(61)**	**3.75**	**(0.23)**	(299)	5.49	(1.7)
Lapsed	**(1)**	**3.75**	**–**	(25)	5.04	(0.1)
At 31 December	**10**	**4.98**	**0.05**	72	3.92	0.3
Exercisable at 31 December	**10**	**4.98**	**0.05**	72	3.92	0.3

Performance Share Plan (unapproved)	2011 Number thousands	2011 Weighted average exercise price £	2011 Value of shares £m	2010 Number thousands	2010 Weighted average exercise price £	2010 Value of shares £m
At 1 January	**3,066**	**0.05**	**0.15**	2,694	0.05	0.14
Shares granted	**657**	**0.05**	**0.03**	972	0.05	0.05
Addition of reinvested dividends	**55**	**0.05**	**–**	17	0.05	–
Exercised	**(346)**	**0.05**	**(0.02)**	(89)	0.05	(0.01)
Lapsed	**(322)**	**0.05**	**(0.01)**	(528)	0.05	(0.03)
At 31 December	**3,110**	**0.05**	**0.15**	3,066	0.05	0.15
Exercisable at 31 December	**208**	**0.05**	**0.01**	23	0.05	–

Notes to the Accounts continued

25. Share-based payments continued

Share-based payment expense

Share options are valued using a stochastic option pricing model, with support from an independent remuneration consultant. The TSR performance condition was included in the calculation of fair value under the Performance Share Plan. For options granted in 2011 and 2010, the fair value of options granted and the assumptions used in the calculation are as follows:

	SAYE		Performance Share Plan (unapproved)	
	2011	2010	**2011**	2010
Weighted average share price (pence)	**1039**	1075	**1391**	815
Weighted average exercise price (pence)	**1381**	1019	**5**	5
Expected volatility	**42.1%**	41.2%	**41.0%**	41.6%
Expected life	**3.25 yrs**	3.25 yrs	**3 yrs**	3 yrs
Risk-free rate	**0.9%**	1.1%	**1.8%**	3.1%
Expected dividends (expressed as a yield)	**2.8%**	2.3%	**0%–2.3%**	0%–1.9%
Fair value per option (pence)	**157**	264	**–**	–
Weighted average fair values at date of grant (pence):				
Equity-settled (TSR condition)			**925**	564
Equity-settled (profit condition)			**1392**	810
Equity-settled (EPS condition)			**1382**	810
Cash-settled (profit condition)			**1337**	779
Cash-settled (EPS condition)			**1337**	779
Weighted average fair values at 31 December (pence):				
Cash-settled (profit condition)			**1219**	1253
Cash-settled (EPS condition)			**1219**	1253

The assumptions used for the Performance Share Plan (approved) are as follows: grant date share price 1039p, grant date exercise price 1130p, expected volatility 42%, risk-free rate 0.8%, and expected dividends (expressed as a yield) 2.8%. The fair values at the date of grant were 183p, 224p and 224p for the TSR, profit and EPS conditions, respectively.

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 group recognised a total charge of £7.3m (2010: £7.3m) in the statement of income, of which £6.4m (2010: £6.6m) related to equity-settled share-based payment transactions.

26. Disposal of business

On 1 January 2011, the group divested a sales operation in The Netherlands for a profit of £0.1m. The total consideration was £0.1m net of transaction costs.

The group did not divest any businesses during 2010.

27. Treasury shares

At 31 December 2011, the group held 8,634,064 treasury shares (2010: 9,073,760); 439,696 of these shares were issued to satisfy options exercised by employees which were granted under the group's share schemes (2010: 419,815). No shares were repurchased by the group during the year (2010: nil) and no shares were cancelled during the year (2010: nil).

28. Acquisitions

On 10 August 2011, the group acquired 100% of the share capital of IRM Group, a company based in Belgium, which extends the group's capabilities in measuring systems for the metals industry, for a consideration of £10.9m (£6.7m net of cash acquired). The excess of the fair value of the consideration paid over the fair value of the net assets acquired is represented by the following intangible assets: customer-related (mainly the benefits arising from the installed product base), technology, contractual rights and goodwill of £1.7m, £1.0m, £0.1m and £3.1m, respectively. The goodwill arising is considered to represent the value of the acquired workforce and related know-how, and the ability to exploit Spectris' know-how to further develop IRM's product offering and to expand IRM's routes to market. This business has been integrated into the In-line Instrumentation segment.

On 30 September 2011, the group acquired 100% of the share capital of Omega Engineering, a company based in the USA, which broadens Spectris' range of process measurement and control instrumentation to customers in the industrial and academic markets, for a total consideration of £310.6m (£297.1m net of cash acquired), including £3.0m deferred consideration and an expected working capital adjustment receivable from the seller of £7.1m. The excess of the fair value of the consideration paid over the fair value of the net assets acquired is represented by the following intangible assets: customer-related (order backlog), contractual rights (including supplier contracts and marketing-related), trade names (Omega and related brands), technology and goodwill of £0.6m, £3.0m, £63.3m, £28.7m and £174.1m, respectively. The company sells a wide range of products to a large customer base of principally engineers across a broad group of industries. The customer base has been developed through focused marketing and excellence in order fulfilment which has created a high degree of brand awareness and customer loyalty. It is this brand loyalty (together with the product base), rather than long-term customer supply agreements, that represents the source of customer orders. Accordingly, the principal intangible assets identified are the Omega and related trade names which have strong profile and recognition, particularly in North America. The goodwill arising is considered to represent the value of the acquired workforce and related know-how, and the benefits that will accrue as the company exploits Spectris' global presence and knowledge of international markets to expand Omega's routes to market outside of North America. This business has been integrated into the Industrial Controls segment.

On 5 October 2011, the group acquired 100% of the share capital of Sixnet, a company based in the USA, which extends the group's capabilities in industrial networking products, for a total consideration of £47.4m (£46.5m net of cash acquired), including £0.4m deferred consideration. The excess of the fair value of the consideration paid over the fair value of the net assets acquired is represented by the following intangible assets: customer-related (order book and customer relationships), technology, other intangibles and goodwill of £16.9m, £6.4m, £0.1m and £18.6m, respectively. The goodwill arising is considered to represent the value of the acquired workforce and related know-how, and the ability to use Spectris' sales and distribution channels to expand Sixnet's routes to markets (both geographic and industry) where it currently makes limited sales. This business has been integrated into the Industrial Controls segment.

On 20 October 2011, the group acquired certain of the trade and assets of a company based in Finland which extends the group's capabilities in critical detector technology, for a total consideration of £8.1m, including £1.0m contingent on the future performance of the business. No goodwill arose on the acquisition with the excess of the fair value of the consideration paid over the fair value of the net assets acquired represented by technology-based intangibles of £7.6m. This business has been integrated into the Materials Analysis segment.

The assets and liabilities acquired as a result of the above transactions, together with the aggregate purchase consideration, are summarised below. The revenue and operating profit contribution from the acquisitions in the year to the group's results for the year were £36.3m and £7.5m, respectively. Group revenue and operating profit would have been £1,218.2m and £189.4m (adjusted operating profit: £226.8m), respectively, had each of these acquisitions taken place on the first day of the year.

On acquisitions prior to 1 January 2010, the deferred and contingent consideration has been revised to reflect the increased earn-out payments amounting to £0.7m that were not accrued at 31 December 2010 and the decreased earn out payments amounting to £3.0m that were accrued at 31 December 2010 but are now not required with a corresponding decrease to goodwill of £1.7m. The balance of £1.3m would have created a credit balance in goodwill and has thus been credited to the statement of income in line with IFRS 3 (2004). The group also paid £7.2m in respect of prior years' acquisitions, which had been accrued as deferred or contingent consideration at 31 December 2010.

Acquisition-related costs of £3.1m have been recognised in the statement of income under IFRS 3 (Revised) and included within administrative expenses.

Acquisition-related costs and the credit arising on the reduction in deferred and contingent consideration have been excluded from the adjusted operating profit (see Note 3).

Notes to the Accounts continued

28. Acquisitions continued

The following fair value tables are provisional, reflecting the timing of the acquisitions, and are expected to be finalised within 12 months of the acquisition date.

Net assets acquired under 2011 acquisitions

	Book value £m	Adjustments £m	2011 Fair value £m
Intangible fixed assets	0.2	129.4	**129.6**
Tangible fixed assets	14.0	19.2	**33.2**
Deferred tax asset	1.8	(1.6)	**0.2**
Inventories	30.5	(1.6)	**28.9**
Trade and other receivables	20.3	(0.2)	**20.1**
Trade and other payables	(12.4)	(1.1)	**(13.5)**
Provisions	(1.2)	0.4	**(0.8)**
Deferred tax liabilities	–	(35.1)	**(35.1)**
Cash	18.6	–	**18.6**
Net assets acquired	71.8	109.4	**181.2**
Goodwill			**195.8**
Total consideration in respect of 2011 acquisitions			**377.0**

Analysis of cash outflow in consolidated cash flow statement

Total consideration in respect of 2011 acquisitions	**377.0**
Adjustment for cash acquired on 2011 acquisitions	**(18.6)**
Deferred and contingent consideration on 2011 acquisitions to be paid in future years	**(4.4)**
Working capital adjustment receivable in future years	**7.1**
Cash paid in 2011 in respect of 2011 acquisitions	**361.1**

Prior year acquisitions

Purchase price adjustment re prior year acquisition*	**0.7**
Deferred and contingent consideration in relation to prior years' acquisitions:	
– accrued at 31 December 2010	**7.2**
Cash paid in 2011 in respect of prior years' acquisitions	**7.9**
Net cash outflow relating to acquisitions	**369.0**

* An additional purchase price of £0.7m in relation to prior period acquisitions has been paid during the year based on updated expectations

Due to their contractual due dates, the fair value of receivables acquired (shown above) approximates the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

There are no material contingent liabilities recognised in accordance with paragraph 23 of IFRS 3 (Revised).

£39.0m of the goodwill arising on acquisitions in the year is expected to be amortised and deductible for tax purposes.

28. Acquisitions continued

Net assets acquired for significant 2011 acquisitions

Net assets acquired for Omega Engineering	Book value £m	Adjustments £m	2011 Fair value £m
Intangible fixed assets	–	95.6	**95.6**
Tangible fixed assets	11.4	18.9	**30.3**
Deferred tax asset	1.3	(1.1)	**0.2**
Inventories	24.9	(1.7)	**23.2**
Trade and other receivables	14.4	(0.1)	**14.3**
Trade and other payables	(6.6)	(0.5)	**(7.1)**
Provisions	–	(0.5)	**(0.5)**
Deferred tax liabilities	–	(33.0)	**(33.0)**
Cash	13.5	–	**13.5**
Net assets acquired	58.9	77.6	**136.5**
Goodwill			**174.1**
Total consideration			**310.6**
Adjustment for cash acquired			**(13.5)**
Net consideration			**297.1**

The fair values of the intangible and tangible assets have been determined on the following basis:

- Intangible assets – an independent valuation
- Tangible assets – by management based on current market prices

Net assets acquired for Sixnet	Book value £m	Adjustments £m	2011 Fair value £m
Intangible fixed assets	0.2	23.4	**23.6**
Tangible fixed assets	1.5	(0.1)	**1.4**
Deferred tax asset	0.5	(0.5)	**–**
Inventories	3.1	0.1	**3.2**
Trade and other receivables	4.2	(0.1)	**4.1**
Trade and other payables	(3.5)	–	**(3.5)**
Provisions	(0.1)	–	**(0.1)**
Deferred tax liabilities	–	(0.8)	**(0.8)**
Cash	0.9	–	**0.9**
Net assets acquired	6.8	22.0	**28.8**
Goodwill			**18.6**
Total consideration			**47.4**
Adjustment for cash acquired			**(0.9)**
Net consideration			**46.5**

Notes to the Accounts continued

28. Acquisitions continued

The following table presents the information related to 2010 acquisitions, reflected in the comparative figures.

Net assets acquired under 2010 acquisitions

			2010
	Book value £m	Adjustments £m	Fair value £m
Intangible fixed assets	0.1	36.5	36.6
Tangible fixed assets	0.5	(0.1)	0.4
Inventories	4.1	(0.2)	3.9
Trade and other receivables	4.5	–	4.5
Trade and other payables	(1.7)	–	(1.7)
Provisions	(0.1)	–	(0.1)
Deferred tax liabilities	–	(5.7)	(5.7)
Cash	0.8	–	0.8
Net assets acquired	8.2	30.5	38.7
Goodwill			24.3
Total consideration in respect of 2010 acquisitions			63.0

Analysis of cash outflow in consolidated cash flow statement

Total consideration in respect of 2010 acquisitions	63.0
Adjustment for cash acquired on 2010 acquisitions	(0.8)
Deferred and contingent consideration on 2010 acquisitions to be paid in future years	(4.1)
Cash paid in 2010 in respect of 2010 acquisitions	58.1

Prior year acquisitions

Purchase price adjustment re prior year acquisition*	8.3
Deferred and contingent consideration in relation to prior year acquisitions:	
– accrued at 31 December 2009	4.5
– accrued during 2010 but not paid at 31 December 2010*	(8.3)
Cash paid in 2010 in respect of prior year acquisitions	4.5
Net cash outflow relating to acquisitions	62.6

* An additional purchase price of £8.3m in relation to prior year acquisitions was accrued (but not paid) during 2010 based on updated expectations of the amounts to be paid under contingent consideration arrangements

28. Acquisitions continued

Net assets acquired for significant 2010 acquisitions

Net assets acquired for N-Tron	Book value £m	Adjustments £m	2010 Fair value £m
Intangible fixed assets	0.1	13.6	13.7
Tangible fixed assets	0.1	–	0.1
Inventories	1.5	0.3	1.8
Trade and other receivables	1.8	–	1.8
Trade and other payables	(1.2)	–	(1.2)
Net assets acquired	2.3	13.9	16.2
Goodwill			16.7
Total consideration			32.9
Adjustment for cash acquired			–
Net consideration			32.9

29. Contingent liabilities

Royal Bank of Scotland

Spectris plc and its UK subsidiaries are party to a cross guarantee arrangement to support trade finance facilities provided by the bank. They are also party to a cross guarantee arrangement that allows individual subsidiaries to borrow from the bank on overdraft within the overall borrowing limit agreed with the bank. Spectris plc has provided a parent company guarantee to support trade finance facilities provided by the bank to its subsidiaries in various countries outside of the UK and USA. Spectris plc has also provided a parent company guarantee to support overdraft and intra-day facilities provided by the bank to its subsidiaries who participate in the cross-border euro zero balance pooling arrangement. An amount of £15.3m (2010: £11.2m) was outstanding at 31 December 2011.

JP Morgan Chase NA

Spectris plc has provided a parent company guarantee to JP Morgan Chase NA to support trade finance facilities provided by the bank to its subsidiaries in the USA. An amount of £0.9m (2010: £1.4m) was outstanding at 31 December 2011.

Other banks

Group companies have, in the normal course of business, provided bonds and guarantees through local banking arrangements amounting to £9.0m (2010: £8.5m).

Legal

Refer to Note 22 'Provisions'.

30. Operating lease arrangements

Total commitments under non-cancellable operating leases

	2011 Property £m	**2011 Other £m**	2010 Property £m	2010 Other £m
Not later than one year	**9.6**	**3.4**	5.9	2.9
Later than one year and not later than five years	**26.4**	**6.2**	14.3	5.4
Later than five years	**5.6**	**–**	5.3	–
	41.6	**9.6**	25.5	8.3

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

During the year £10.8m (2010: £10.6m) was recognised in the statement of income in respect of operating lease rental payments.

Notes to the Accounts continued

31. Capital commitments

At 31 December 2011, the group had entered into contractual commitments for the acquisition of property, plant and equipment and software amounting to £3.1m (2010: £2.0m) which have not been provided for.

32. Related party transactions

Details of directors' remuneration (being the key management personnel) are summarised in Note 7 and shown in detail in the Directors' Remuneration Report on page 52. There were no other related party transactions requiring disclosure.

33. Subsidiary undertakings

The following are the group's principal subsidiary undertakings. They operate mainly in the countries of incorporation. All the subsidiaries are involved in the manufacture and sale of materials analysis systems, test and measurement equipment, in-line instrumentation and industrial controls.

Spectris plc holds 100% of the ordinary share capital of all the subsidiaries either directly or indirectly through intermediate holding companies.

	Country of incorporation
Brüel & Kjær VTS Limited (formerly LDS Test and Measurement Limited)	UK
Malvern Instruments Limited	UK
Servomex Group Limited	UK
Brüel & Kjær EMS Pty Ltd (formerly Lochard Limited)	Australia
Spectris China Limited	China
Brüel & Kjær Sound & Vibration Measurement A/S	Denmark
Brüel & Kjær Vibro A/S	Denmark
Hottinger Baldwin Messtechnik GmbH	Germany
Spectris Company Limited	Japan
BTG Eclépens SA	Switzerland
PANalytical BV	The Netherlands
Beta LaserMike Inc	USA
Fusion UV Systems Inc	USA
Microscan Systems Inc	USA
NDC Infrared Engineering Inc	USA
Omega Engineering Inc	USA
Particle Measuring Systems Inc	USA
Red Lion Controls Inc	USA
Sixnet Holdings LLC	USA

Company Balance Sheet

As at 31 December 2011

	Note	2011 £m	2010 £m
Fixed assets			
Intangible fixed assets	36	**1.1**	1.6
Tangible fixed assets	37	**2.1**	0.2
Fixed asset investments	38	**251.4**	247.1
		254.6	248.9
Current assets			
Debtors	39	**498.9**	398.2
Cash at bank		**5.3**	35.1
		504.2	433.3
Creditors: due within one year			
Other creditors	40	**(130.7)**	(179.0)
		(130.7)	(179.0)
Net current assets		**373.5**	254.3
Debtors: due after more than one year			
Debtors	41	**307.3**	170.6
Total assets less current liabilities		**935.4**	673.8
Creditors: due after more than one year			
Medium- and long-term borrowings	42	**(429.4)**	(168.7)
Derivative financial instruments	43	**(12.8)**	(15.0)
		(442.2)	(183.7)
Provisions for liabilities and charges	44	**(2.7)**	(2.7)
Net assets		**490.5**	487.4
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	**215.4**	212.3
Equity shareholders' funds		**490.5**	487.4

The financial statements on pages 109 to 116 were approved by the Board of directors on 17 February 2012 and were signed on its behalf by:

Clive Watson
Director

Company Registration No. 02025003

Notes to the Company's 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.

Cross-currency interest rate swaps
The company takes advantage of cross-currency interest rate swaps for some of its US dollar-denominated private placement borrowings. The swaps have the effect of converting fixed rate US dollar borrowings into fixed rate euro-denominated borrowings.

The underlying US dollar borrowings are required to be presented separately in the balance sheet from the cross-currency interest rate swaps. In addition, the fair value of the cross-currency interest rate swap is required to be recognised in full on the balance sheet. All changes in value are recognised in the profit and loss account.

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

Foreign currencies
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the profit and loss account. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at historic cost.

Depreciation is calculated to write off the difference between the cost or valuation of fixed assets and their residual value over their estimated useful lives on a straight-line basis. Land is not depreciated. Estimated useful lives are as follows:

Freehold property — 20 to 40 years
Leasehold improvements — over the period of the lease
Office equipment — 3 to 5 years

Intangible fixed assets and amortisation
Intangible fixed assets purchased by the company are capitalised at their cost.

Amortisation of intangible assets is charged to administrative expenses in the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Software — 3 to 5 years

Fixed asset investments
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Trade and other receivables
Trade and other receivables are initially recognised at fair value and subsequently measured at their amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

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.

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 period.

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), 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

	2011 £m	2010 £m
Wages and salaries	**6.1**	4.7
Social security costs	**2.0**	1.8
Defined benefit pension plans	**1.6**	3.5
Defined contribution pension plans	**0.3**	0.4
Share-based payment expense	**1.7**	1.9
	11.7	12.3

	2011 Number	2010 Number
Average number of employees	**33**	29

Directors' remuneration
Further details of directors' remuneration and share options are given in Note 7 to the group's consolidated financial statements and in the Directors' Remuneration Report on pages 52 to 54.

Auditor's fees
Details regarding the remuneration of the company's auditor are included in Note 6 to the group's consolidated financial statements under "Fees payable to the company's auditor for the audit of the group's annual accounts".

Notes to the Company's Accounts continued

36. Intangible fixed assets

Cost	Software costs £m
At 1 January 2011	2.8
Additions	0.1
At 31 December 2011	**2.9**
Amortisation	
At 1 January 2011	1.2
Charge for the year	0.6
At 31 December 2011	**1.8**
Net book value	
At 31 December 2011	**1.1**
At 31 December 2010	1.6

37. Tangible fixed assets

Cost	Freehold property £m	Leasehold improvements £m	Office equipment £m	Total £m
At 1 January 2011	–	0.5	0.6	1.1
Additions	1.9	–	–	1.9
At 31 December 2011	**1.9**	**0.5**	**0.6**	**3.0**
Depreciation				
At 1 January 2011	–	0.4	0.5	0.9
At 31 December 2011	**–**	**0.4**	**0.5**	**0.9**
Net book value				
At 31 December 2011	**1.9**	**0.1**	**0.1**	**2.1**
At 31 December 2010	–	0.1	0.1	0.2

The company purchased a freehold property during in the year for use as the group's headquarters. The building is currently undergoing refurbishment, therefore no depreciation has been charged for the year.

38. Fixed asset investments

Cost	Investments in subsidiary undertakings £m
At 1 January 2011	316.7
Additions	38.2
Disposals	(33.9)
At 31 December 2011	**321.0**
Provision for impairment	
At 1 January 2011	69.6
At 31 December 2011	**69.6**
Net book value	
At 31 December 2011	**251.4**
At 1 January 2011	247.1

During the year, Spectris Group Holdings Limited, a wholly-owned subsidiary, bought back 33,874,203 ordinary shares of £1 each (pursuant to and in accordance with the provisions of section 694(2) of the Companies Act 2006) at par value. On the same date, Spectris Group Holdings Limited issued 40,140,931 redeemable ordinary shares of €1 each for a consideration of £33.9m, included in the additions above.

Further details regarding the investments in subsidiaries are given in Note 33 to the group's consolidated financial statements.

39. Debtors

Amounts falling due within one year

	2011 £m	2010 £m
Amounts owed by group undertakings	**493.1**	394.4
Other debtors	**0.3**	0.5
Prepayments and accrued income	**2.6**	0.7
Corporation tax	**1.2**	1.0
Deferred tax asset	**1.5**	1.6
Derivative financial instrument	**0.2**	–
	498.9	398.2

Derivative financial instrument assets represent the value of forward exchange contracts at the year end. Further details regarding the company's forward exchange contracts are set out in Note 20 of the group's consolidated financial statements.

40. Creditors: due within one year

	2011 £m	2010 £m
Amounts owed to group undertakings	**122.2**	172.9
Other taxation and social security	**–**	0.2
Accruals and deferred income	**8.5**	5.9
	130.7	179.0

Further details regarding the company's borrowings are set out in Note 19 of the group's consolidated financial statements.

Notes to the Company's Accounts continued

41. Debtors: due after more than one year

	2011 £m	2010 £m
Medium- and long-term debtors:		
Amounts owed by group undertakings	**307.3**	170.6

42. Creditors: due after more than one year

	2011 £m	2010 £m
Medium- and long-term borrowings:		
Amounts owed to group undertakings	**45.9**	35.1
Unsecured bank loans	**298.3**	48.3
Unsecured loan notes	**85.2**	85.3
	429.4	168.7

Further details regarding the company's borrowings are set out in Note 19 of the group's consolidated financial statements.

43. Derivative financial instruments

	2011 £m	2010 £m
Cross-currency interest rate swaps	**12.8**	14.9
Forward exchange contracts	**–**	0.1
	12.8	15.0

Further details regarding the company's cross-currency interest rate swaps and forward exchange contracts are set out in Note 20 of the group's consolidated financial statements.

44. Provisions for liabilities and charges

	£m
At 1 January 2011	2.7
Utilised during the year	(0.1)
Charged during the year	0.1
At 31 December 2011	**2.7**

Provisions represent the directors' best estimate of settling various potential claims against the company arising in the ordinary course of business.

45. Share capital

	2011		2010	
	Number of shares million	**£m**	Number of shares million	£m
Authorised:				
Ordinary shares of 5p each	**210.0**	**10.5**	210.0	10.5
Issued and fully paid:				
At 1 January	**125.0**	**6.2**	125.0	6.2
At 31 December	**125.0**	**6.2**	125.0	6.2

No ordinary shares were issued upon exercise under share option schemes (2010: nil).

Share options have been granted to subscribe for ordinary shares of Spectris plc. Full details of share options currently in issue, including those issued during the year, together with information regarding the basis of calculation of the share-based payment expense, is contained in Note 25 to the group's consolidated financial statements.

The company recognised total expenses of £1.7m related to equity-settled share-based payment transactions in 2011 (2010: £1.9m). In addition, the company recognised a charge of £4.7m (2010: £4.7m) 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 2011	231.4	3.1	0.3	34.1	212.3	481.2
Profit for the year	–	–	–	–	30.0	30.0
Equity dividends paid	–	–	–	–	(33.8)	(33.8)
Share-based payments	–	–	–	–	6.4	6.4
Share options exercised from own shares (treasury) purchased	–	–	–	–	0.5	0.5
At 31 December 2011	**231.4**	**3.1**	**0.3**	**34.1**	**215.4**	**484.3**

The purpose of the merger reserve and capital redemption reserve is detailed in Note 24 of the group's consolidated financial statements. The special reserve was created historically following the cancellation of an amount of share premium for the purpose of writing off goodwill. The special reserve is not distributable.

Notes to the Company's Accounts continued

47. Reconciliation of movement in equity shareholders' funds

	2011 £m	2010 £m
Profit for the year	**30.0**	47.7
Equity dividends paid in the year	**(33.8)**	(28.9)
Share-based payments	**6.4**	6.6
Share options exercised from own shares (treasury) purchased	**0.5**	1.9
Net increase in equity shareholders' funds	**3.1**	27.3
Opening equity shareholders' funds	**487.4**	460.1
Closing equity shareholders' funds	**490.5**	487.4

48. Pensions

The company operates the Spectris Pension Plan, a UK defined benefit pension plan that is closed to new members. Further details of the Spectris Pension Plan are contained in Note 8 to the group's consolidated financial statements. The company is unable to identify its share of the Plan's underlying assets and liabilities and therefore accounts for the Plan as a defined contribution scheme. In accordance with the Schedule of Contributions in place for the Spectris Pension Plan for the financial year ending 31 December 2011, employer contributions were £1.6m per annum. The actuary certified in 2010 that this level of contribution was adequate for the purposes of securing the statutory funding objective. No additional contribution was made during the year (2010: £1.9m) towards the Spectris Pension Plan. Contributions paid in the year to the Spectris Pension Plan were £1.6m (2010: £3.5m) and the amounts outstanding at the year end were £0.1m (2010: £0.1m). Contributions paid in the year to defined contribution plans were £0.3m (2010: £0.4m). The company has undertaken an Enhanced Transfer Value exercise for certain UK deferred members with a prospective pension entitlement of less than £1,000 per annum. The total estimated cost for this exercise for the year ended 31 December 2011 is expected to be £0.5m.

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, enclosed within this Annual Report.

50. Commitments

Annual commitments for operating leases expiring

	Land and buildings	
	2011 £m	2010 £m
Between one and two years	**0.2**	–
Between two and five years	**–**	0.2

At the balance sheet date the company had capital commitments of £1.2m in respect of the refurbishment of freehold property for which provision has not been made (2010: £nil).

51. Contingent liabilities

There are no contingent liabilities as at the year end. The cross guarantee arrangements to support trade finance facilities are stated in Note 29 of the group's consolidated financial statements.

Shareholder Information

Financial calendar

Annual General Meeting and Interim management statement	20 April 2012
Record date for 2011 final dividend	1 June 2012
2011 final dividend payable	26 June 2012
2012 Interim results	27 July 2012
Interim management statement	19 October 2012
2012 Preliminary results	February 2013

Company secretary

R J Stephens, FCIS

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Bankers

Royal Bank of Scotland Plc

Solicitors

Macfarlanes LLP

Brokers

Jefferies Hoare Govett
J P Morgan Cazenove

Financial PR advisers

FTI Consulting

Registrars

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BN99 6DA

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

To receive details of press releases and other announcements as they are issued, register with the e-mail alert service on the company's website at www.spectris.com

Photography

Board photography by Ross Vincent
Hydroptère image on front cover and page 23 by Guilain Grenier
Xiaowan Hydroelectric power station on page 25 by Chen Haining/Xinhua Press/Corbis

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