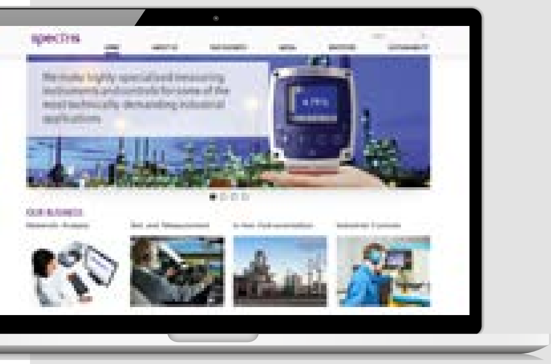
spectris

# Innovative customer solutions to enhance productivity

**Spectris plc**
Annual Report and Accounts 2015

# ABOUT US





Read more online at **www.spectris.com**

**Who we are**

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

**What we do**

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

**Our strategy**

In April 2015 we held a Capital Markets Day at which we announced an evolution of the Group's strategy.

Our strategic objective remains to deliver sustainable profitable growth for our shareholders by enhancing the productivity of our customers. However, going forward our strategy to enhance customers' productivity will be increasingly focussed not just on the supply of equipment but on the provision of innovative customer solutions, involving services, software and related activities.

Within this report you will learn of the initial progress we have made and our future plans to focus our business on the provision of innovative customer solutions.


**Read the case studies on our innovative customer solutions**
Pages 10-17

**Read the Chief Executive's Review to learn more about the evolution of our strategy**
Pages 6-7

**Read more about our strategy and progress during the year**
Pages 22-23

# 2015 HIGHLIGHTS

- 3% sales growth at constant exchange rates, comprising a three percentage point contribution from acquisitions and unchanged like-for-like sales.
- 9% decline in like-for-like operating profit, after inclusion of £7 million of restructuring costs to improve future profitability.
- Good strategic progress, including completion of five acquisitions for a total consideration of £45 million.
- Strong operating cash conversion of 91%.
- Dividend per share increase of 6%.

**Sales[1]**

**£1,190.0M**

| | |
|---|---|
| 15 | 1,190.0 |
| 14 | 1,173.7 |
| 13 | 1,197.8 |
| 12 | 1,177.2 |
| 11 | 1,106.2 |

**Adjusted operating profit[1]**

**£181.1M**

| | |
|---|---|
| 15 | 181.1 |
| 14 | 198.1 |
| 13 | 214.7 |
| 12 | 216.9 |
| 11 | 201.5 |

**Adjusted earnings per share[1]**

**114.3P**

| | |
|---|---|
| 15 | 114.3 |
| 14 | 124.4 |
| 13 | 132.9 |
| 12 | 130.3 |
| 11 | 124.1 |

**Dividend per share**

**49.5P**

| | |
|---|---|
| 15 | 49.50 |
| 14 | 46.50 |
| 13 | 42.75 |
| 12 | 39.00 |
| 11 | 33.60 |

**Cash conversion**

**91%**

| | |
|---|---|
| 15 | 91 |
| 14 | 89 |
| 13 | 86 |
| 12 | 94 |
| 11 | 89 |

**Net debt to EBITDA**

**0.5X**

| | |
|---|---|
| 15 | 0.5 |
| 14 | 0.6 |
| 13 | 0.4 |
| 12 | 1.0 |
| 11 | 1.6 |

1 The adjusted performance measures represent the statutory results excluding certain non-operational items. The 2013 and 2012 results exclude the trading results and impact of the disposal of the Fusion UV business which was sold on 31 January 2013. 2011 has not been restated to reflect the disposal.

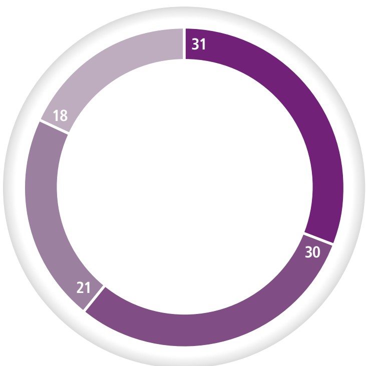
# BUSINESS AT A GLANCE
## OUR FOUR BUSINESS SEGMENTS

Spectris comprises four business segments, which reflect the applications and end-user industries we serve. Our businesses are united by the same purpose, the same values and the same corporate strategy. They all work according to a strong common framework of controls, management key performance indicators ('KPIs'), financial discipline and rigorous operating principles, but each business is focussed on its own markets, customers and technologies.

In addition to providing strategic direction, governance, financial and operational input and oversight, we provide central support in certain areas such as legal, tax, human resources, accounting, treasury and corporate development. We also manage a central purchasing function and other supply chain initiatives which can be beneficial to our operating companies, and facilitate the sharing of best practice across our businesses.

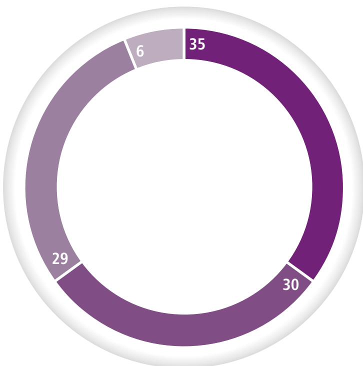
We believe that the combination of this organisational structure and our business model (see page 18) is the most effective way for us to deliver our strategy (see page 22).

**Sales by segment (%)**




- Materials Analysis
- Test and Measurement
- In-line Instrumentation
- Industrial Controls

**Sales by destination (%)**




- North America
- Europe
- Asia
- Rest of the World

## LABORATORY / OFF-LINE BUSINESSES

### MATERIALS ANALYSIS

Materials Analysis provides products and services that enable customers to determine structure, composition, quantity and quality of particles and materials during their research and product development processes, when assessing materials before production, or during the manufacturing process.

**Sales**
**£364.4**M

**Adjusted operating profit**
**£53.7**M

**Aftersales**
**32**%

**Employees**
**2,360**

**Operating companies**
_ Malvern Instruments
_ PANalytical
_ Particle Measuring Systems

**Industries**
_ Metals, minerals & mining
_ Pharmaceuticals & fine chemicals
_ Academic research
_ Semiconductors

**Read more**
Page 35

## TEST AND MEASUREMENT

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

**Sales**
£351.3M

**Adjusted operating profit**
£55.3M

**Aftersales**
20%

**Employees**
3,080

**Operating companies**
_ Brüel & Kjær Sound & Vibration
_ ESG Solutions ('ESG')
_ HBM

**Industries**
_ Automotive
_ Aerospace
_ Electronics
_ Energy
_ Academic research

Read more
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# PROCESS / MANUFACTURING BUSINESSES

## IN-LINE INSTRUMENTATION

In-line Instrumentation provides process analytical measurement, asset monitoring and on-line controls as well as associated consumables and services for both primary processing and the converting industries.

**Sales**
£255.0M

**Adjusted operating profit**
£36.8M

**Aftersales**
41%

**Employees**
1,435

**Operating companies**
_ Brüel & Kjær Vibro
_ BTG
_ NDC Technologies
_ Servomex

**Industries**
_ Process industries
_ Pulp, paper & tissue
_ Energy & utilities
_ Web & converting

Read more
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## INDUSTRIAL CONTROLS

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

**Sales**
£219.3M

**Adjusted operating profit**
£35.3M

**Aftersales**
1%

**Employees**
1,385

**Operating companies**
_ Microscan
_ Omega Engineering ('Omega')
_ Red Lion Controls

**Industries**
_ Manufacturing
_ Process industries
_ Energy
_ Electronics
_ Healthcare

Read more
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# CHAIRMAN'S STATEMENT
## WELL POSITIONED FOR 2016 AND BEYOND

**Dr John Hughes CBE**
Chairman

### Results overview
Reported sales increased 1% in 2015 to £1,190.0 million, with a three percentage point ('pp') contribution from acquisitions offset by an adverse impact from foreign currency exchange movements. On a constant currency organic (like-for-like, 'LFL') basis[1] sales were unchanged.

Regionally, there was good growth in Europe, where sales increased 3%, and sales to Asia increased slightly. Sales to North America declined 2% and sales to the Rest of the World declined 9%, principally driven by weakness in Russia.

Sales grew 3% in the Materials Analysis segment, whilst sales across the Test and Measurement and In-line Instrumentation segments were unchanged. Sales declined 7% in the Industrial Controls segment, impacted by the broad-based deterioration in trading in the North American manufacturing sector. More detail on the performance of the business segments can be found in the Operating Review.

On a reported basis, adjusted operating profit[2] declined 9% to £181.1 million, with the sales performance being insufficient to offset the combined effect of increased investment in research and development ('R&D') programmes and overhead cost inflation. Given the trading conditions, we initiated a number of cost reduction measures during 2015, including selective restructuring in certain businesses. The combined effect of a reduction in restructuring charges and incremental benefits arising from that restructuring activity is anticipated to result in a net increase in adjusted operating profit of approximately £10 million in 2016 as compared with 2015.

### Financial position and dividend
Operating cash flow was strong, with 91% of our operating profit being converted into cash. Combined with normal dividend and tax outflows and the consideration paid for the five acquisitions made during the year, this resulted in net debt decreasing £27.0 million compared with the end of 2014. At year end, net debt stood at £98.6 million, around 0.5 times the full-year EBITDA of £205.5 million.

The Board is proposing to pay a final dividend of 32.2 pence per share which, combined with the interim dividend of 17.3 pence per share, gives a total of 49.5 pence per share for the year, an increase of 6%. The dividend is covered 2.3 times. This is consistent with our policy of making progressive dividend payments based upon affordability and sustainability. The dividend will be paid on 24 June 2016 to shareholders on the register at the close of business on 27 May 2016.

### Strategy, governance and values
During 2015, the Group announced its refined strategy to give an increased focus on selected growth opportunities. The main refinement to the strategy is a shift in emphasis from the supply of products towards the provision of complete solutions to our customers.

The Board has continued to emphasise the strong relationship that exists between governance and ethics. Our ethics and values are central to Spectris, guiding our decision-making and ensuring that we always comply with the highest standards, wherever we are in the world. We want to be a company which our people are proud to work for, where they feel valued, motivated and capable of reaching their full potential. To emphasise our strong ethical culture we have launched the Spectris Integrity Award to recognise and reward outstanding ethical behaviour by our employees. More details about this award can be found in the Ethics Report on page 49. Further information on the Board's governance activities during 2015 and its priorities for 2016 can be found in the Chairman's Introduction to Corporate Governance on page 59.

### Board composition

Lisa Davis will retire as a Non-executive Director of Spectris plc immediately following the Annual General Meeting on 20 May 2016. Following her promotion to the Siemens AG managing board last year Lisa no longer feels able to give sufficient commitment to Spectris. We would like to thank Lisa for the significant contribution she has made to the Spectris Board during the last two years.

### Summary and outlook

2015 was characterised by mixed trading conditions, with growth in Europe and Asia offset by a challenging environment in North America and the Rest of the World. We are on track with the restructuring measures announced last July. The benefits of these, together with our focus on operational excellence initiatives, will enable us to better align cost growth with sales growth in 2016 whilst continuing to invest in our core R&D programmes. New product launches and acquisitions are expected to continue to play an important role in the Group's development and these investments, together with our broad end-market exposures and strong financial position, provide the Board of Spectris with confidence that the Company is well positioned for 2016 and beyond.

**Dr John Hughes CBE**
Chairman

1 Unless otherwise stated, references to sales increases / decreases going forward relate to the LFL sales increase / decrease rather than the reported sales increase / decrease.
2 Unless otherwise stated, figures quoted for operating profit, net interest, profit before tax, tax, earnings per share and operating cash flow are adjusted measures – for an explanation of adjusted figures and reconciliation to the statutory reported figures see Note 2 to the Financial Statements.

## INVESTMENT ATTRIBUTES

Spectris offers investors a sound and attractive investment proposition, based on the following attributes that combine to deliver significant shareholder value.

### 1. High barriers to entry supported by continuous innovation and long-term customer relationships

_ Strong intellectual property and continuous innovation, underpinned by sustained investment of around 7% of sales each year in R&D and by frequent bolt-on acquisitions.
_ Long-term customer relationships, based on our direct selling model and aftermarket business, result in high levels of repeat business (over 80% of sales in any one year are generated from customers who have purchased from us within the last two years).
_ Application expertise: our people have in-depth know-how and expertise in their chosen fields.
_ High gross margins, supported by a stable pricing environment.

### 2. Focus on customer solutions in niche markets with strong growth potential

_ Enhancing productivity for customers is an ever-present growth driver for all of our businesses.
_ We are increasingly focussed not just on the supply of equipment but on the provision of innovative customer solutions, involving services, software and related activities.
_ We are also focussed on exploiting disruptive growth themes to enhance our own growth prospects.

### 3. Broad geographical and end-market exposures, 40% of sales generated from customer operating expenditure budgets

_ Broad spread of customers, end markets and geographies limits the risk to the Group from adverse changes in any single geography or end market.
_ 40% of sales generated from customer operating expenditure budgets or aftermarket sales.

### 4. Strong cash conversion resulting from asset-light manufacturing model

_ Majority of manufacturing is outsourced, resulting in low capital requirements for our businesses.
_ High gross margins and low capital requirements result in strong operating cash conversion.

### 5. Balance sheet strength enabling progressive dividend policy

_ Strong cash conversion enables the Company to sustain a progressive dividend policy (10% CAGR since 1988 flotation) whilst maintaining a strong balance sheet.
_ Investments evaluated on cash flow return on invested capital basis, measuring return on investment against weighted average cost of capital.
_ Strong cash conversion and balance sheet ensure considerable financial firepower and flexibility to fund acquisitions.

### 6. Proven acquisition model to supplement organic growth

_ Acquisitions have been a key component of our growth strategy for many years, historically contributing 3-4 pp of sales growth per annum; typically bolt-on in nature, occasionally stand-alone operating companies.
_ Our existing niche markets continue to offer significant opportunities, whilst we will also consider acquisitions as a way of exploiting disruptive growth themes.

# CHIEF EXECUTIVE'S REVIEW
## A RENEWED EMPHASIS ON GROWTH

**John O'Higgins**
Chief Executive

In 2015, we encountered challenging market conditions which resulted in a disappointing sales performance and a decline in profitability, although cash conversion was strong and the Group's financial position remains robust.

We took important steps forward in the development of the Group's strategy, with a renewed emphasis on achieving growth through the provision of innovative customer solutions. More information on our strategy can be found on pages 22 and 23.

**Q:** What aspects of Spectris' performance in 2015 would you highlight?
**A:** From a regional perspective, there was sales growth in both Europe and Asia, where we achieved growth in Japan and South East Asia and a slight sales decline in China. After a strong 2014 performance, North America experienced a broad-based deterioration in industrial production, which particularly impacted sales growth in the Industrial Controls segment. This weakness accelerated as the year progressed and was especially pronounced in the oil and gas and related sectors. Sales to the Rest of the World also declined, primarily due to low demand in Russia, reflecting a weak economy and the imposition of certain technology sanctions in mid 2014. As a result of the above, Group LFL sales were unchanged on 2014.

From an end-market perspective, there was good growth in our sales to the pharmaceuticals and fine chemicals and semiconductor sectors. Sales to the metals, minerals and mining industries also grew, primarily reflecting good aftermarket sales to the mining sector and investments by the metals and minerals industries. The growth from these end markets was offset by lower sales to the aerospace and academic research sectors, as well as the energy and utilities and web and converting industries.

In response to weaker than expected sales growth, we initiated a programme of targetted restructuring measures during the year, the costs of which amounted to £7 million and contributed to a reduction in the Group's operating profit. Operating cash conversion was strong and underpinned our ability to execute five bolt-on acquisitions in 2015 and grow the dividend whilst retaining a robust financial position.

**Q:** What are the key features of the refined Group strategy you announced this year?
**A:** The main refinement to the strategy is a shift in emphasis from the supply of products towards the provision of complete solutions (a combination of hardware, software and services) to our customers, based on our deep application and technical expertise. This transition in our offering is driven by changing customer requirements. As they focus on their core activities and seek to reduce cost and complexity they have a greater need to outsource services to a trusted, reliable partner who is able to offer a combination of hardware, software and services. Due to our strong long-term customer relationships and application know-how, Spectris is well positioned to be this supplier of innovative customer solutions.

There are several examples of our businesses deploying this strategy in recent years. For example, in the pulp and paper industry we have, for many years, gone to market as a provider of process solutions for the industry to enable customers to generate sustainable gains in business performance, whilst our Test and Measurement segment has been adding both software and services capabilities in niche markets. Going forward, there will be a more concerted effort by our operating companies to evolve their business models towards the provision of solutions, together with a greater focus on key capabilities and technologies to support this customer-centric strategy.

An additional change in strategic emphasis concerns the area of operational excellence. We will seek to accelerate the application of operational excellence principles, extending 'lean manufacturing' techniques beyond the operational environment into other functions, such as R&D and sales and marketing, as well as applying operational excellence to activities such as talent management, digital marketing and procurement and supply chain management.

In other aspects our strategy remains unchanged, such as the desire to expand our existing businesses geographically and to deploy capital generated by the Group for both platform and bolt-on acquisitions.

**Q:** Can you describe some of the ways in which this strategy was implemented during 2015?
**A:** All of our segments made good progress in the implementation of our refined strategy in 2015, and the Operating Review on pages 34 to 41 contains examples of these. We continued to deploy capital for acquisitions, with five completed during the year, supporting the implementation of our strategy. For example, in Materials Analysis the acquisition of our distributor in Taiwan enabled us to expand our direct sales channel in Asia and deepen our relationship with a key semiconductor customer in the country, whilst in Test and Measurement the acquisition of ReliaSoft strengthened and extended our engineering software offering. In In-line Instrumentation we reduced the amount of scrap steel produced when manufacturing creping blades for use in the pulp and paper sector by 20% through the implementation of 'lean manufacturing' techniques. In Industrial Controls we established an Industrial Internet of Things ('IIoT') Innovation Centre in the USA, with a focussed engineering, product and sales team dedicated to building on our existing IIoT expertise and offering in order to develop new solutions for machine-to-machine and human-to-machine communication.

**Q:** What are your priorities for 2016 and beyond?
**A:** The two key priorities in the coming years are strategy implementation whilst further improving the financial performance. In order for the Group to execute the strategy, and in particular the shift in emphasis towards providing customers with a solutions-oriented offering, encompassing hardware, software and services, it is necessary to ensure that we have the right people in place who can deliver the strategy. As such, our talent management programme remains a key priority. This will help to ensure that we have the organisational capability to create and deliver innovative customer solutions in as efficient a manner as possible, whilst retaining our strong ethical culture and values. In addition, we will use our robust financial position to make acquisitions which will accelerate our strategic development, both in terms of our offering to customers and our geographical coverage.

We have a broad range of industry and geographical exposures that enables us to exploit positive trends and opportunities where they exist, such as those in the life science sector. We expect the benefits of our targetted restructuring actions, together with a focus on operational excellence initiatives and cost control, will enable us to better align our cost growth with sales growth whilst continuing to invest in our core R&D programmes.

**John O'Higgins**
Chief Executive

## OUR STRATEGY


Each key element of our strategy is represented by an icon throughout this report:

- Focus on innovative customer solutions
- Increase presence in key strategic markets
- Expand business globally
- Accelerate operational excellence
- Deploy capital for both platform and bolt-on mergers and acquisitions ('M&A')

**Read more**
Pages 22 and 23

# MARKET OVERVIEW

## ATTRACTIVE LONG-TERM GLOBAL TRENDS ACROSS A BROAD RANGE OF MARKETS

We serve a broad spectrum of blue-chip customers across all key manufacturing industries. Whilst the specific growth drivers within these industries vary, all of our customers share a common goal – to enhance productivity, whether by streamlining processes, saving time, increasing yield or improving quality.

**Streamlining processes**

**Saving time**

**Increasing yield**

**Improving quality**

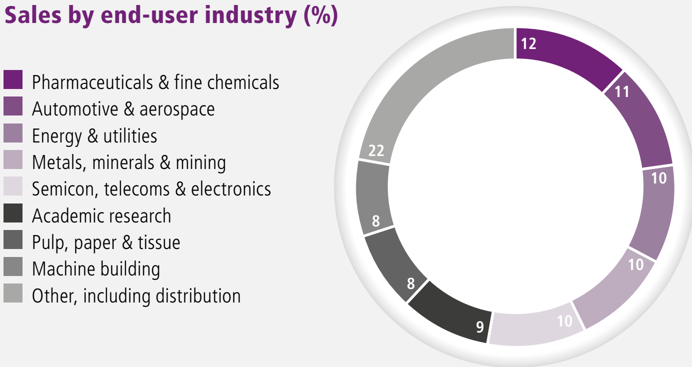
**Key end-user markets**

| | PHARMACEUTICALS & FINE CHEMICALS | AUTOMOTIVE & AEROSPACE | ENERGY & UTILITIES | METALS, MINERALS & MINING |
|---|---|---|---|---|
| Group sales | **12**% | **11**% | **10**% | **10**% |
| Key segment exposure[1] | MA, IC | T&M | T&M, ILI, IC | MA |
| 2015 sales trend | ↑ | ↓ | ↓ | ↑ |
| **Demand drivers** | _ Proliferation of composite materials.<br>_ Innovation in technology and materials.<br>_ Demand for biopharmaceuticals.<br>_ Regulation / compliance. | _ New product development.<br>_ Innovation in technology and materials.<br>_ Outsourcing of expertise by customers.<br>_ Regulation / compliance / environmental concerns. | _ Unconventional oil and gas.<br>_ Renewable energy.<br>_ Regulation / compliance / environmental concerns.<br>_ Outsourcing of expertise by customers. | _ Innovation in technology and materials.<br>_ Commodity exploration and production.<br>_ Outsourcing of expertise by customers. |
| **2015 developments** | _ Increased demand for biopharmaceuticals.<br>_ Drive to improve quality and standards in India.<br>_ FDA approvals of biosimilars.<br>_ New US legislation on product identification marking. | _ Hybrid and electric vehicle developments.<br>_ Increased demand for engineering software and noise, vibration and harshness simulation. | _ Energy market decline, especially in North America.<br>_ Wind energy growth.<br>_ Growth in use of industrial connectivity solutions. | _ Metals and minerals growth.<br>_ Weak mining equipment market.<br>_ Growth in mining aftermarket sales. |
| **Future growth themes** | _ Biopharmaceuticals growth.<br>_ Drive to improve quality and standards in emerging markets.<br>_ Use of advanced composite materials in daily life.<br>_ Need to improve product traceability. | _ Increased automotive testing post VW testing issue.<br>_ Hybrid and electric vehicle developments.<br>_ Engineering services to correlate simulation data with real-world data. | _ Globalisation of unconventional oil and gas industries.<br>_ Renewable energy growth.<br>_ Weak market backdrop drives need to improve productivity.<br>_ Growth in use of industrial connectivity solutions. | _ Weak market backdrop drives need to improve productivity.<br>_ Limited new mining capital investment: growth dependent on aftermarket sales and equipment replacement cycle. |

In addition to the common goal of enhancing customers' productivity, there are specific demand drivers in the key industries we serve today. These drivers, together with a summary of the main developments in these industries in 2015 and future growth themes, are contained in the table below. As we continue to innovate and explore new applications for our technology and expertise, our ability to enhance productivity may lead us into new markets and industries.

Further commentary on our end markets can be found within the segment Operating Reviews on pages 34 to 41.

**Sales by end-user industry (%)**




| SEMICON, TELECOMS & ELECTRONICS | | ACADEMIC RESEARCH | | PULP, PAPER & TISSUE | | OTHER[2] | |
|---|---|---|---|---|---|---|---|
| Group sales | **10**% | Group sales | **9**% | Group sales | **8**% | Group sales | **30**% |
| Key segment exposure[1] | MA, T&M, IC | Key segment exposure[1] | MA, T&M | Key segment exposure[1] | ILI | Key segment exposure[1] | T&M, ILI, IC |
| 2015 sales trend | ↑ | 2015 sales trend | ↓ | 2015 sales trend | ↑ | 2015 sales trend | — |
| _ New product development.<br>_ Innovation in technology and materials.<br>_ Semiconductor equipment spend. | | _ Innovation in technology and materials. | | _ Outsourcing of expertise by customers. | | _ Innovation in technology and materials.<br>_ Regulation / compliance. | |
| _ Semiconductor industry growth.<br>_ Lack of major new product development in telecoms compared with 2014.<br>_ Growth in use of industrial connectivity solutions. | | _ Pressure on publicly-funded research budgets in most markets. | | _ Good growth in tissue and pulp markets.<br>_ Graphic paper market remains weak, with continued overcapacity in China. | | _ Broad-based industrial weakness in USA.<br>_ Growth in factory automation in China.<br>_ Growth in use of industrial connectivity solutions. | |
| _ Proliferation of affordable high-performance computing.<br>_ Innovation in advanced semiconductors.<br>_ Growth in use of industrial connectivity solutions. | | _ Innovation in technology and materials.<br>_ Government efforts to stimulate economy via R&D and innovation. | | _ Growth in tissue consumption as usage norms evolve in emerging markets.<br>_ Online shopping drives greater use of packaging.<br>_ Graphic paper market weakness drives need for efficiency gains. | | _ Growth in use of industrial connectivity / connected factory solutions and smart grid deployments. | |

1 MA = Materials Analysis, T&M = Test and Measurement, ILI = In-line Instrumentation, IC = Industrial Controls.
2 Other primarily comprises machine building, web & converting, environmental noise monitoring and distribution.

# INNOVATIVE CUSTOMER SOLUTIONS

## MATERIALS ANALYSIS

### Accelerating drug development in the biopharmaceutical industry

**Background**

The life science sector is undergoing rapid development and is one of Spectris' key strategic growth markets. In 2012, we established the Bioscience Development Initiative ('BDI') within our Materials Analysis segment to focus on how we could best bring our characterisation expertise to specific biopharmaceutical measurement problems. Through partnerships with key customers in industry and academia, our experts within BDI aimed to develop solutions for some of the challenges within biopharmaceutical development and manufacture.

**The challenge**

A major pharmaceutical development company needed to screen candidate therapeutic antibody molecules as early as possible in the development process, using only very small sample volumes. This ensured that only the most promising candidates with acceptable viscosity and particle size profiles progressed to clinical trials for wide-ranging applications such as cancer therapies and the treatment and prevention of viral diseases.

**The solution**

Malvern Instruments' Viscosizer TD was used to accurately measure the particle size in, and the viscosity of, very small samples. As a result, 15% of the antibody candidates measured failed the new test criteria. The instrument was also able to return the samples intact for further testing, providing additional cost savings to the customer.

**The benefit**

Effective pre-screening resulted in substantial cost savings for the customer through not having to continue with development of non-viable antibody candidates.


Malvern
VISCOSIZER TD

TEST AND MEASUREMENT

## Reducing costs for the aviation industry

### Background

Aircraft manufacturers are required to meet strict regulations on noise and emissions whilst at the same time seeking to reduce fuel consumption. French company Snecma, part of international group Safran, which supplies engines to companies such as Boeing and Airbus, has developed a new engine called LEAP. This features some of the industry's most advanced technology to make it quieter and more fuel efficient, helping the aviation industry meet its environmental protection objectives.

### The challenge

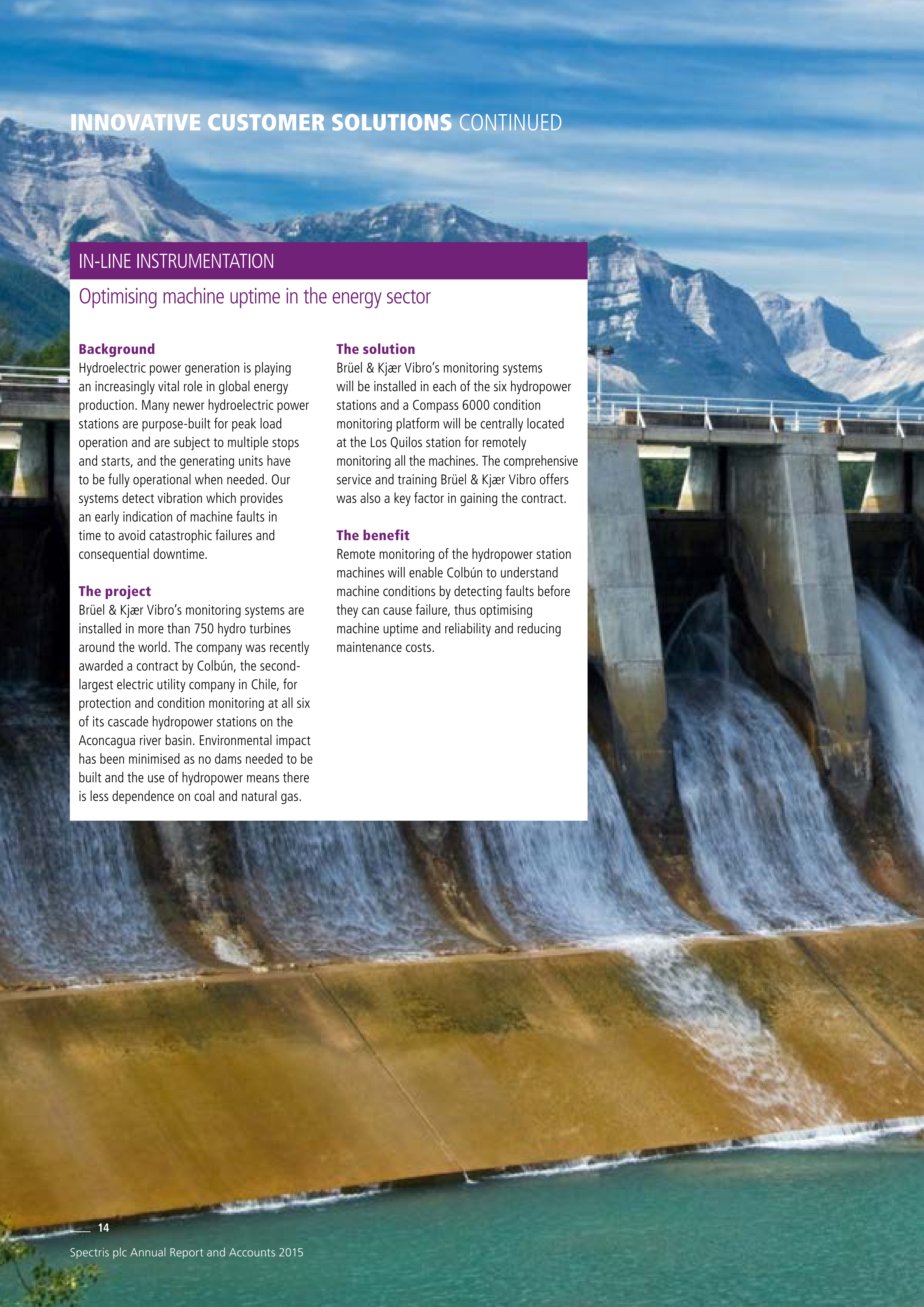
Snecma has optimised the aerodynamic design of the engine turbine blades, using woven carbon fibre composite fan blades to achieve greater performance. However, the gas turbine is a highly complex machine that needs comprehensive testing and analysis during development in order to optimise its dynamic behaviour. Each test is a major operation which requires detailed planning: test systems must be scalable and capable of handling large amounts of data from parameters such as strain, vibration, pressure and speed.

### The solution

In order to speed up testing and certification of the LEAP engine, which will power the next generation of single-aisle commercial jets, Snecma selected a Brüel & Kjær Sound & Vibration gas turbine testing system. This is based on LAN-XI data acquisition hardware and PULSE Reflex data processing software, which together provide dynamic data recording, real-time monitoring and post-test analysis, with the flexibility and portability that Snecma required.

### The benefit

Brüel & Kjær's system helps gas turbine testers to increase test efficiency and flexibility and improve data integrity. The system can be set up quickly, which significantly shortens test times. Real-time instant feedback is provided through multiple networked monitoring stations to ensure the validity of the test data and eliminate the need for a re-test.



## IN-LINE INSTRUMENTATION

### Optimising machine uptime in the energy sector

**Background**
Hydroelectric power generation is playing an increasingly vital role in global energy production. Many newer hydroelectric power stations are purpose-built for peak load operation and are subject to multiple stops and starts, and the generating units have to be fully operational when needed. Our systems detect vibration which provides an early indication of machine faults in time to avoid catastrophic failures and consequential downtime.

**The project**
Brüel & Kjær Vibro's monitoring systems are installed in more than 750 hydro turbines around the world. The company was recently awarded a contract by Colbún, the second-largest electric utility company in Chile, for protection and condition monitoring at all six of its cascade hydropower stations on the Aconcagua river basin. Environmental impact has been minimised as no dams needed to be built and the use of hydropower means there is less dependence on coal and natural gas.

**The solution**
Brüel & Kjær Vibro's monitoring systems will be installed in each of the six hydropower stations and a Compass 6000 condition monitoring platform will be centrally located at the Los Quilos station for remotely monitoring all the machines. The comprehensive service and training Brüel & Kjær Vibro offers was also a key factor in gaining the contract.

**The benefit**
Remote monitoring of the hydropower station machines will enable Colbún to understand machine conditions by detecting faults before they can cause failure, thus optimising machine uptime and reliability and reducing maintenance costs.

INDUSTRIAL CONTROLS

## Improving efficiency in the power industry

### Background

Germany continues to lead the energy revolution by integrating alternative energy sources into its mainstream electrical grid supply. German company Deutsche Energie Funk is a provider of electricity demand and monitoring solutions for the power generation market, connecting decentralised plants and distribution grids to a central control point.

### The challenge

The company needed to develop a solution to address the demands of collecting real-time data from different power generation sources and providing it to downstream systems such as electrical transportation, storage and substations. These rely on real-time accurate data for efficient power source and electrical grid management. However, wind farms and solar plants are typically remotely located, making monitoring and control more difficult.

### The solution

Using Red Lion Controls' Sixnet VersaTRAK remote terminal units, Deutsche Energie Funk is able to reliably collect and store input and output data points from substation equipment located in or near wind farms, solar plants and co-generation facilities. The data is then pushed to radios which securely communicate with the energy supplier rooms so that the appropriate mix of generation methods can be matched with current energy demand.

### The benefit

Red Lion Controls' solution helps to ensure reliable network security and management, providing a fail-safe communication network which enables the smart grid provider to better serve its customers.

# BUSINESS MODEL
## CREATING LONG-TERM SHAREHOLDER VALUE

We create value by applying our expertise to enhance productivity for our customers.

The four key inputs to our business model which are essential to our success are innovation, customers, employees and suppliers. The way we manage these resources and relationships delivers the outputs to generate sustainable profitable growth.

Underpinning this approach are our values and a strong operational and governance framework.

This model is difficult to replicate and brings significant competitive advantage.

# HOW WE CREATE VALUE

Enhancing productivity for our customers is the key driver of our growth. We build long-term relationships with our customers and work closely with them to develop an in-depth knowledge of their business. Our highly-skilled staff then provide solutions to their productivity challenges.

## Strong operational and governance framework

### Governance
We are committed to maintaining high standards of corporate governance. This is fundamental to the effective and responsible management of the business and for the delivery of shareholder value over the long term.

### Financial controls
We have a robust internal control framework which is routinely monitored through a combination of certification, self-assessment and internal audit reviews, complemented by a sound risk management process.

### Values
Our values define how we operate and are essential to our business success. They underpin the way we work, guide our decision-making, are central to our Code of Business Ethics and shape our culture across the Group.

### Capital allocation
Our business is not capital intensive and our strong cash generation allows us to maintain a sound balance sheet, enabling us to invest in the business, either via R&D or selective acquisitions, whilst also growing the dividend.

You can read more about our governance on pages 59 to 97

## Resources and relationships

### Innovation
We invest around 7% of sales each year in R&D in order to maintain our market-leading positions. Bolt-on acquisitions provide an alternative route to new technology and we also enter into licence agreements with third parties.

### Customers
We build long-term relationships with our customers and seek to develop a deep understanding of their business and processes. We also offer a full range of services such as consultancy, training and aftermarket support.

### Employees
We are a very specialised business and rely on the skills and applications expertise of our 8,300 people around the world, many of whom are highly-qualified engineers and technicians.

### Suppliers
We outsource the majority of component and sub-assembly production to suppliers who can deliver high quality at a competitive cost, and focus our own resources on design, assembly and testing. We aim to increase value in the supply chain whilst helping our suppliers to meet our environmental and social standards.

You can read more about our resources and relationships on pages 20 and 21

## Sustainable profitable growth

### Market leadership
We focus on niche markets with high barriers to entry where our products typically involve low capital expenditure but provide significant and rapid payback for our customers.

### High returns
High barriers to entry, generated via long-term customer relationships, strong intellectual property and continuous innovation, lead to limited pricing pressure and high gross margins.

### Balanced portfolio
A broad spread of customers, end markets and geographies limits the risk to the business from sudden economic or political changes in any given territory.

### Strong cash generation
Our high operating margins and asset-light manufacturing model result in steady and strong cash generation.

You can read more about our financial performance on pages 50 to 55 and our KPIs on pages 32 and 33

# RESOURCES AND RELATIONSHIPS
## HOW WE DRIVE FINANCIAL PERFORMANCE

Our business model is built upon four close relationships, which together drive our success:

_ Continuous innovation.

_ Long-term customer relationships.

_ In-depth expertise of our people.

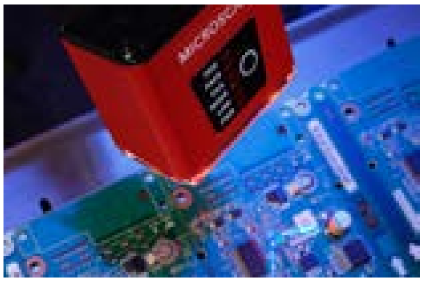
_ Reliable suppliers who meet our exacting standards.

## INNOVATION

We invest around 7% of sales in R&D every year. New products and solutions serve to protect our market position and enhance organic growth by providing innovative solutions to customers' problems.

Our continuous focus on innovation means that we own a large number of patents, trademarks and intellectual property licences, and processes are in place to protect and maximise the value of this proprietary technology. This brings high barriers to entry for our competitors.

Bolt-on acquisitions provide an alternative route to new technology and many of our smaller acquisitions bring new products and the associated inventors.



You can read more about our innovative customer solutions on pages 10 to 17

## CUSTOMERS

We pride ourselves on building long-term business relationships and over 80% of our sales come from customers who have purchased from us in the preceding two years. We work closely with our customers to understand the challenges they face and often involve them in the development and testing of new products.

Our customers are buying our knowledge and the technology that will help them to improve their business. We improve productivity for them through streamlining processes, saving time, increasing yield and improving quality, and we work alongside them – often within their plants – in order to help install our products and ensure that the maximum benefits are achieved.

We then offer a full range of aftermarket services and support including training, technical support, calibration and maintenance.

**Streamlining processes**

**Saving time**

**Increasing yield**

**Improving quality**

You can read more about our markets and growth drivers on pages 8 and 9

## EMPLOYEES

We employ around 8,300 highly-skilled people, many of whom work directly with customers, which gives them a deep understanding of their business and the productivity challenges they face.

We understand that intelligent innovation requires a way of working that supports the development of new ideas and taking of reasonable and measured risks. Our entrepreneurial culture offers a creative working environment with scope for individual responsibility and personal achievement.

We seek to attract and retain the best talent and are committed to providing equal employment opportunities, competitive remuneration and training and development programmes.

You can read more about our people on pages 45 and 46

We invest around

**7%**

of sales in R&D every year.

We employ around

**8,300**

highly-skilled people, many of whom work directly with customers.

## SUPPLIERS

We believe that suppliers, and other business partners, should have the opportunity to benefit from their relationship with us. What this means in practice is working together to minimise and manage business risk and improve business practices, through education, training and the sharing of good practice.

Whilst each supply partner has the responsibility to manage its business practices in accordance with its own standards, values and local legislative framework, we will work with them to embrace our principles with the aim of creating a more sustainable business.

See our Supply Chain Management Policy at www.spectris.com for more information.

You can read more about our suppliers on page 47

# STRATEGY
## FOCUS ON PROVIDING INNOVATIVE CUSTOMER SOLUTIONS

| Strategic priority | Description | Achievements in 2015 |
|---|---|---|
| FOCUS ON INNOVATIVE CUSTOMER SOLUTIONS | Our understanding of our customers' businesses and the productivity challenges that they face enables us to enhance our offering to them, whether that involves the supply of improved equipment or a packaged solution involving the provision of services, software and related activities. | We invested £89 million in R&D, representing 7.5% of Group sales, and launched a number of new products and solutions. Examples included:<br>_ MiniLaser gas analyser.<br>_ Zetium x-ray spectrometer.<br>_ MicroHAWK barcode reader.<br>_ Viscosizer biophysical characterisation tool. |
| INCREASE PRESENCE IN KEY STRATEGIC MARKETS | We build leadership positions in attractive niche markets where we believe there are opportunities for technology-led productivity enhancement. These markets currently include segments within the life science and pharmaceuticals, energy, transport, basic materials and technology sectors, but we also review and actively pursue opportunities in new markets. | We increased our presence in several strategic growth markets. Examples included:<br>_ Secured new contracts in life science sector.<br>_ Established an Industrial Internet of Things Innovation Centre.<br>_ Acquired ReliaSoft to expand engineering software capability and offering. |
| EXPAND BUSINESS GLOBALLY | In response to a customer base that is extending its international operations and becoming increasingly sophisticated we seek to expand our business globally, with particular emphasis on emerging markets such as China, India and Latin America. | _ Acquired Sunway Scientific Corporation, a Taiwanese distributor for Particle Measuring Systems.<br>_ Good growth in Omega's international businesses, where sales grew by 9%.<br>_ ESG established offices in the Middle East and Mexico. |
| ACCELERATE OPERATIONAL EXCELLENCE | We strive for continuous improvement in all aspects of our business operations, both to enhance customer experience and to generate efficiency and productivity gains. In addition, we seek to improve performance and profitability by driving synergistic opportunities within and between our operating companies and across the Group as a whole. | _ Average working capital as a percentage of sales improved by 0.5 pp in Test and Measurement.<br>_ Improved process management in BTG that reduced waste of scrap steel during creping blade production by 20%. |
| DEPLOY CAPITAL FOR BOTH PLATFORM AND BOLT-ON M&A | We acquire businesses which materially strengthen our operating companies through broadening their customer offering, reaching new customer segments or expanding their geographical presence.<br><br>In addition, we invest in new platform businesses in order to establish a presence in strategic markets or complementary capabilities. | _ Invested £45 million in five bolt-on acquisitions: three in Test and Measurement, one in Materials Analysis and one in Industrial Controls.<br>_ Acquisitions contributed 3 pp of sales growth. |

For more information see pages 6 and 7

For more information see pages 34 to 41

Our strategic objective is to deliver sustainable profitable growth for shareholders by enhancing the productivity of our customers. Our progress is set out below.

| Key performance indicators | | Priorities for 2016 | Risk |
|---|---|---|---|
| **0%** Organic sales growth at constant currencies<br>**-8%** Growth in adjusted EPS | **15.2%** Return on sales | Continue to invest around 7% of sales in the development of new products, technologies and solutions.<br><br>Focus on innovative differentiated customer solutions which offer superior margins.<br><br>Continue to build relationships with customers to offer more value-added services such as consultancy, software, testing, maintenance and training. | _ New product development.<br>_ Intellectual property.<br>_ Competitive activity.<br>_ Information security. |
| **0%** Organic sales growth at constant currencies<br>**-8%** Growth in adjusted EPS | **15.2%** Return on sales | Focus on key strategic growth markets, particularly:<br><br>_ Cloud-based data analysis and services.<br>_ Industrial connectivity.<br>_ Life sciences.<br>_ Engineering software.<br>_ Test services. | _ New product development.<br>_ Intellectual property.<br>_ Political and economic risks.<br>_ Acquisitions.<br>_ Competitive activity.<br>_ Fluctuations in exchange rates. |
| **0%** Organic sales growth at constant currencies<br>**-8%** Growth in adjusted EPS | **15.2%** Return on sales | Continue to expand our international footprint to be closer to customers through direct and indirect market presence and acquisitions.<br><br>Continue to grow Omega in Asia and Latin America.<br><br>Ensure that we have the right talent to grow our business globally, especially in China. | _ Intellectual property.<br>_ Laws and regulations.<br>_ Political and economic risks.<br>_ Acquisitions.<br>_ Information security.<br>_ Fluctuations in exchange rates. |
| **15.2%** Return on sales<br>**91%** Cash conversion | **89,030MWh** Energy consumption<br>**4.5** Reportable accidents per 1,000 employees | Drive greater efficiency through operational excellence, extending 'Lean', 'Kaizen' and 'Six Sigma' initiatives throughout the Group. Increase employee training in these techniques and tools to build a continuous improvement culture.<br><br>Encourage individual ideas and collaborative team sessions to generate efficiency projects and share best practice across the Group. | _ Supply chain disruption.<br>_ Information security. |
| **0%** Organic sales growth at constant currencies<br>**-8%** Growth in adjusted EPS | **15.2%** Return on sales | Focus on acquisition strategy to expand portfolio and reach.<br><br>Fully integrate recent acquisitions to support continued new product development.<br><br>Continue to look for new opportunities in key strategic growth markets through acquisition or licensing of technologies. | _ Acquisitions. |

For more information see pages 32 and 33

For more information see pages 6 and 7

For more information see pages 26 to 30

# RISK MANAGEMENT

## COMMITTED TO MANAGING RISK EFFECTIVELY

**John O'Higgins**
Chief Executive

We recognise that effective management of risk is essential for delivering our strategic objectives. As such, risk management is built into our day-to-day activities and forms an integral part of how we operate.

The Group has a well-established process which delivers visibility and accountability for risk management across our businesses. This process forms part of the Group's overall internal control framework, as described on pages 74 and 75.

During the year we have made further enhancements to this process, including implementing a 'lines of defence' approach to the evaluation of the Group's key risks.

### Risk management process

Our approach to risk management incorporates both bottom-up and top-down elements to the identification, evaluation and management of risks and all risks are evaluated with reference to the Group's achievement of its strategic objectives, as outlined on page 22.

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

Overall ownership for each risk, together with responsibility for all associated mitigating actions, is clearly assigned and communicated. The resulting risk registers are then subject to review on an ongoing basis as part of regular operational reviews. This regular review of the status of risks and corresponding mitigating actions ensures that risk management is embedded in day-to-day management processes and decision-making as well as in the annual strategic planning cycle.

In addition, the Executive and key functional personnel in the Group consider those risks to the Group's strategic objectives which are not addressed within the business units and develop appropriate approaches to managing

## HOW THE GROUP MANAGES RISK

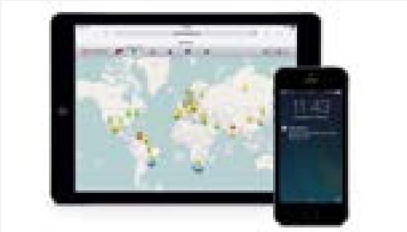
| | | |
|---|---|---|
| Day-to-day ownership of risk management. | **Business units** | **First line** |
| _ Shaping policy and control framework.<br>_ Monitoring and oversight of risk management by business units.<br>_ Evaluation of risks impacting the Group as a whole. | **Key Group functions / programmes**<br>**Executive** | **Second line** |
| _ Assurance over the effectiveness of the internal control and risk management framework. | **Independent assurance** | **Third line** |
| Overall responsibility for:<br>_ Determining the Group's risk appetite.<br>_ Oversight of the Group's internal control and risk management framework. | **Audit and Risk Committee**<br>**Board** | |

and mitigating these. During 2015 an exercise was carried out to analyse these key Group risks through a 'lines of defence' framework. This involved mapping the principal Group risks to:

_ a first line of defence comprising the key controls and sources of risk mitigation implemented by our business units;
_ a second line of defence consisting of various Group functions which, together with the Executive Directors, shapes the policy framework within which the first line of defence operates and provides oversight and monitoring of the same; and
_ a third line of defence providing assurance over the effectiveness of risk management activity.

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

The key potential risks and uncertainties facing the Group's ability to deliver its strategy, together with mitigating actions, are described on the following pages. Whilst these risks are broadly consistent with those reported in 2014, we provide an update on how these risks, and our ability to respond and manage them, have changed during 2015.



HBM uses a cloud-based risk management solution to monitor its global supply chain for all types of risk, including natural disasters, strikes, compliance breaches, financial indicators and political risks.

The software provides HBM with daily, up-to-date data on risks for all suppliers, supply paths, production sites and countries. An early warning system, combined with impact evaluations and action plans, ensures that events which may cause supply chain disruption do not affect the production process.

# PRINCIPAL RISKS AND UNCERTAINTIES

| RISK DESCRIPTION | POTENTIAL IMPACT | MITIGATION | 2015 UPDATE |
|---|---|---|---|
| **NEW PRODUCT DEVELOPMENT** | | | |
| The development of new technologies and products necessarily involves risk, including:<br><br>_ the product being more expensive or taking longer to develop than originally planned;<br>_ the product failing to reach the commercialisation phase; and<br>_ the market for the product being smaller than originally envisaged.<br><br>**Link to strategic priority** | _ Reduced profitability and cash flow.<br>_ Loss of market share.<br>_ Failure to recoup investment in innovation. | _ Regular strategic evaluations of product portfolios and the markets in which we compete, ensuring that our investment in new products is targetted so as to maximise the opportunity of success.<br>_ Project management disciplines are in place across our product development programmes and audits provide assurance that these disciplines are applied consistently.<br>_ Work closely with customers to ensure that we develop solutions tailored to their specific needs.<br>_ Maintain customer involvement throughout the life-cycle of product development to product launch through, for example, beta evaluations.<br>_ New product developments are based on standard platforms, customised through high added-value applications engineering. | We conducted our annual strategy reviews with each operating business.<br><br>These reviews often result in targetted investment in new product platforms, upgrades to existing products and services and bolt-on acquisitions. 2015 saw several important new product launches, new technologies and products acquired across all four segments, and many more acquisition ideas.<br><br>**Change in risk level**<br>(stable) |
| **INTELLECTUAL PROPERTY** | | | |
| Our business is focussed on the design and manufacture of technologically-advanced products and applications. As a consequence, we own and protect patents, trademarks, trade secrets, confidential information and copyright as well as exploiting intellectual property through licensing.<br><br>The risk therefore exists that our intellectual property may be infringed by third parties or that we may inadvertently infringe third-party rights.<br><br>**Link to strategic priority** | _ Reduced profitability and cash flow.<br>_ Loss of market share.<br>_ Failure to recoup investment in innovation. | _ Policies and procedures in place requiring all of our businesses to:<br>– maintain a watching brief on new third-party patent applications and competitor activity;<br>– ensure adequate protection for key intellectual property including registration where appropriate;<br>– undertake specific freedom-to-operate technical reviews prior to commencing new product development, acquisitions or licences; and<br>– register intellectual property where appropriate.<br>_ 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 ongoing success of the Company. | During the year we took steps to streamline management of registered intellectual property and improve visibility of the Group's patent portfolios through engaging a centralised renewals provider and allowing instant access to portfolio data.<br><br>**Change in risk level**<br>(stable) |

**Key**

| | | | | |
|---|---|---|---|---|
| **Focus on innovative customer solutions** | **Increase presence in key strategic markets** | **Expand business globally** | **Accelerate operational excellence** | **Deploy capital for both platform and bolt-on M&A** |

| RISK DESCRIPTION | POTENTIAL IMPACT | MITIGATION | 2015 UPDATE |
|---|---|---|---|
| **LAWS AND REGULATIONS** | | | |
| We operate in a large number of jurisdictions and, consequently, are subject to numerous domestic and international regulations and restrictions.<br><br>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.<br><br>**Link to strategic priority** | _ Reduced sales, profitability and cash flow.<br>_ Reputational damage.<br>_ Diversion of management resources to address any resulting investigation.<br>_ Inability to attract and retain talent. | _ Strong culture, internal control framework and policies.<br>_ Ethics training provided to all employees.<br>_ Formal export controls compliance procedures in place, including strict product classification and transaction screening protocols. | The Group continued to take a number of actions aimed at further mitigating this risk. These included continued ethics training targetting key risk topics, together with training our businesses' management and sales teams in carrying out third-party due diligence reviews. We continue to ensure that we are responsive to issues raised through the Group's ethics hotline. For more details of our ethics programme see pages 48 and 49.<br><br>**Change in risk level**<br>(stable) |
| **POLITICAL AND ECONOMIC RISKS** | | | |
| We operate in a range of end-user markets around the world and may be affected by political, economic or regulatory developments in any of these countries. Material adverse changes in the political and economic environments in the countries in which we operate have the potential to put at risk our ability to execute our strategy.<br><br>**Link to strategic priority** | _ Reduced profitability and cash flow. | _ Maintain a broad spread of markets, products and customers to limit risks associated with any given territory.<br>_ Monitor market intelligence so that we can respond quickly to changing trading conditions.<br>_ Ensure we remain structured in a way that enables us to take prompt action in the event of a material change in the trading environment.<br>_ Ensure we maintain a strong balance sheet and financial position. | The Group's balanced geographical mix, with similar exposure to North America, Europe and Asia / Rest of the World, enabled it to mitigate the effects of a weak North American manufacturing economy via robust growth in Europe; however, these mixed trading conditions resulted in weaker than expected sales growth.<br><br>Similarly, our broad end-market exposure has meant that weak growth in certain end markets was mitigated by good demand in others.<br><br>**Change in risk level**<br>↑ (slight increase) |

## PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

| RISK DESCRIPTION | POTENTIAL IMPACT | MITIGATION | 2015 UPDATE |
|---|---|---|---|
| **ACQUISITIONS** | | | |
| Integration of 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 during integration of the acquired business, incorrect assumptions made in the business case, changing market conditions, or issues which were not identified during the due diligence process. Further, the Company could be exposed to past acts or omissions of the acquired business.<br><br>**Link to strategic priority** | _ Failure to achieve the benefits outlined in the business case.<br>_ Reduced profitability and cash flow.<br>_ Unforeseen liabilities. | _ Rigorous financial, commercial and legal assessment of target businesses involving external consultants as appropriate.<br>_ Strict authority levels which, subject to size, involve review by the Board for such transactions.<br>_ Comprehensive representations and warranties in purchase agreements.<br>_ Extensive integration planning and execution.<br>_ Regular review against the business case for the acquired businesses.<br>_ Post-acquisition control reviews. | There continued to be a healthy level of acquisition activity in our marketplace. We participated in this activity, making five bolt-on acquisitions, and we continue to look for additional opportunities. We have been careful to maintain our rigorous financial, commercial and legal due diligence and disciplines, which has meant that we have also excluded ourselves from a number of potential deals.<br><br>**Change in risk level**<br>(stable) |
| **COMPETITIVE ACTIVITY** | | | |
| The nature of the markets in which we operate means that all of our businesses are exposed to risk from competitor activity.<br><br>**Link to strategic priority** | _ Loss of market share.<br>_ Reduced profitability and cash flow. | _ Ongoing monitoring of competitor activity and trends in the markets in which we compete.<br>_ Maintain market-leading positions through strong customer relationships and significant investment in R&D.<br>_ Diversified portfolio of products and markets limits the overall risk from any single competitor.<br>_ Develop operational excellence initiatives that enable our businesses to react quickly to changes in customer and market demand. | We maintained high levels of investment in R&D, investing 7.5% of Group sales, with all of our operating businesses bringing new products and solutions to market to sustain and strengthen our strong customer relationships and competitive advantages.<br><br>**Change in risk level**<br>(stable) |

**Key**

**Focus on innovative customer solutions**

**Increase presence in key strategic markets**

**Expand business globally**

**Accelerate operational excellence**

**Deploy capital for both platform and bolt-on M&A**

| RISK DESCRIPTION | POTENTIAL IMPACT | MITIGATION | 2015 UPDATE |
|---|---|---|---|
| **FLUCTUATIONS IN EXCHANGE RATES** | | | |
| We have operations which sell and purchase goods in foreign currencies and whose results we record in a variety of different currencies. We are therefore exposed to any significant changes in exchange rates between a variety of currencies.<br><br>**Link to strategic priority** | _ Unexpected variations in the Company's results.<br>_ Reduced profitability and cash flow. | _ Forward contracts cover up to 75% of forecast exposures up to 18 months ahead.<br>_ Natural hedging strategy, matching invoicing and purchasing currencies where practical.<br>_ Foreign currency investments hedged with borrowings in the same currency wherever possible.<br>_ Regular monitoring, including sensitivity analyses to understand the impact of exchange rate movements on the Group's reporting. | The weakening of Sterling relative to the US Dollar offset a significant proportion of the negative impact caused by the strengthening of Sterling relative to most other currencies from a translational perspective. Overall, this still resulted in a negative impact in 2015 but this was less pronounced than in 2014.<br><br>Our hedging policy continued to mitigate transactional risk during the year.<br><br>**Change in risk level**<br>(stable) |
| **SUPPLY CHAIN DEPENDENCIES AND DISRUPTION** | | | |
| We are exposed to the risk that some of the components we source, particularly for custom-built items or ageing products, are provided by a single supplier and are therefore vulnerable to interruption of supply.<br><br>Our businesses also manufacture components using proprietary technologies at a number of locations.<br><br>Our ability to supply products to customers could be adversely impacted by a disaster or other disruptive event at any of these sites.<br><br>**Link to strategic priority** | _ Inability to fulfil customer orders resulting in lost sales and reputational damage.<br>_ Increased costs reduce profitability.<br>_ Loss of market share. | _ Strategic sourcing teams source cost-effective suppliers across a range of markets whilst validating suppliers' business processes, quality and standards.<br>_ Alternative sources of supply actively sought to reduce dependency upon single-source suppliers.<br>_ Safety stock levels established for critical components.<br>_ Business continuity plans and disaster prevention measures in place for all material manufacturing locations.<br>_ Business interruption insurance.<br>_ Strong contract review process. | We continued to identify and qualify secondary sources of supply where key dependencies have been identified. We also worked with our principal electronic manufacturing suppliers to strengthen our disaster support and recovery processes, including two disaster recovery simulation exercises carried out at major suppliers.<br><br>**Change in risk level**<br>(slight decrease) |

| RISK DESCRIPTION | POTENTIAL IMPACT | MITIGATION | 2015 UPDATE |
|---|---|---|---|
| **INFORMATION SECURITY** | | | |
| As with most organisations of a similar size and complexity, our businesses face both internal and external information security risks, the nature and complexity of which are constantly changing.<br><br>**Link to strategic priority** | _ Loss of sensitive information / data which could put the businesses at a serious competitive disadvantage relative to their competitors.<br>_ Being subject to a malicious attack causing system failure, data corruption or loss, or theft of commercial or sensitive information / data. | _ Our businesses employ a number of physical, logical and control measures designed to reduce the risk of a breach in information security arising.<br>_ Our systems are monitored against unauthorised access.<br>_ A programme of continuous improvement focussing on information security risks evaluates whether the Group's existing controls in this area would benefit from additional strengthening.<br>_ Employees receive online and face-to-face awareness training of information security risks and controls. | Further progress was made with our information security programme.<br><br>External consultants undertook an independent assessment of the information security project by validating the critical information assets in operating companies, benchmarking the risks and performing a detailed controls maturity assessment. The UK government's "Ten Steps to Cyber Security" was used as a consistent control framework for mitigating key areas of risk for internal and external benchmarking, resulting in detailed information security roadmaps being developed for all operating companies.<br><br>**Change in risk level**<br>(stable) |
| **STRATEGY EXECUTION** | | | |
| In April 2015, the Group announced an evolution of its strategy, as described on pages 6 and 7. A key component of the updated strategy relates to the Group's desire to transition the business to achieving a larger proportion of sales through the provision of services, software and solutions to customers, rather than products alone. The Group considers that, as with any transition of this kind, there is necessarily inherent risk associated with the successful execution and delivery of the updated strategy.<br><br>**Link to strategic priority** | _ Failure to realise the Group's growth plans.<br>_ Reduced profitability and cash flow. | _ Talent management programme.<br>_ Dashboard reporting against key growth initiatives.<br>_ A measured approach over time is being targetted, rather than a radical change.<br>_ Enhanced risk management and reporting. | n/a (new risk identified)<br><br>**Change in risk level**<br>n/a (new risk identified) |

**Key**

**Focus on innovative customer solutions**

**Increase presence in key strategic markets**

**Expand business globally**

**Accelerate operational excellence**

**Deploy capital for both platform and bolt-on M&A**

## VIABILITY STATEMENT

In accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, the Directors have assessed the viability of the Company over a three-year period, taking into account the Group's current position and the assessment of the principal risks and uncertainties as set out on pages 26 to 30.

The Directors have determined that a three-year period to 31 December 2018 constitutes an appropriate period over which to provide its viability statement. The selection of this period for the assessment is supported by the Group's strategic planning cycle together with other relevant considerations such as the maturity of the Group's credit facilities. In addition, the Group is exposed to a number of different industry cycles of varying and ill-defined length and duration which may or may not overlap, and this has also been taken into account in considering the relevant period.

Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, it is recognised that such future assessments carry a level of inherent uncertainty which increases with the length of the period. As such, we believe a three-year period presents users of the Annual Report with a reasonable degree of confidence while still providing a longer-term perspective.

The Group operates a detailed financial forecasting process over a rolling 18-month period, supplemented by monthly analysis of risks and opportunities against the forecast presented. Until 2015, the Group's strategic planning was structured around a three-year time frame. During 2015, the Group introduced growth targets for each business through to 2020. A dashboard reporting process provides visibility of progress against relevant strategic initiatives which underpin the targetted growth. As the run-off to 2020 diminishes over the next few years and the average strategic planning cycle moves closer to three years, the Directors believe that this supports the selection of a three-year period over which the viability statement is made.

The Directors carried out a robust assessment of the principal risks facing the Group, including those that could threaten its business model, future performance, solvency or liquidity. This assessment was made with reference to the Group's current position and prospects, the Group's strategy and the Group's principal risks, including how these are managed, as detailed on pages 24 to 30.

In considering the Group's prospects, the Directors also noted the broad spread of markets, products and customers maintained by the Group. This natural diversification provides mitigation against the risk of a serious economic downturn in a particular market or the risks associated with dependence on a specific sector or customer. Our largest customer constitutes less than 2% of Group sales and our top 20 customers account for less than 9% of Group sales. At the same time, the Directors noted the Group's strong financial position coupled with our ability to react promptly in adjusting our cost base in the event of a material change in the trading environment.

Similarly, in making the assessment, the Directors also considered the ability of the Group to raise finance and deploy capital in the context of the principal sources of facility for credit, the maturity of those facilities, the Group's ability to re-finance debt as it falls due and the overall level of headroom available.

While the review encompassed all of the principal risks identified by the Group, the following were focussed on for enhanced analysis including stress testing: intellectual property; laws and regulations; fluctuations in exchange rates; supply chain dependencies and disruption; and information security.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period to December 2018.

# KEY PERFORMANCE INDICATORS
## MONITORING OUR PERFORMANCE

**We monitor progress against the delivery of our strategic goals using five financial and two non-financial key performance indicators ('KPIs'). Each KPI measures certain elements of the strategy, as indicated by the relevant strategy icons. An element of the Directors' remuneration is linked to the earnings per share KPI and economic profit KPI – for more information refer to pages 80 and 81 in the Directors' Remuneration Report.**

Our strategy focusses on profitable growth that is sustainable over the medium to long term and therefore its achievement cannot just be measured by considering performance in 2015 compared with the prior year; trends over a number of years must also be considered. In the following table the relevant KPI measures for the last five years are shown. KPIs relate to continuing operations only.

In recent years the challenging trading environment has resulted in organic sales growth at constant currencies remaining low (between 0% and 3%). However, during this period the Group has maintained a return on sales in the mid-teens and delivered high cash conversion of operating profits. The Group has also generated significant economic profit throughout the period.

### SALES

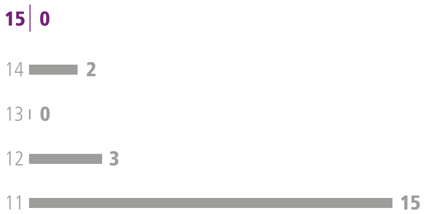
**Link to strategy:**

**Definition** Sales growth is a measure of how our R&D and other investments help to grow our business organically, i.e. excluding the effects of currency translation and acquisitions or divestments.

**Performance** Sales were £1,190 million in 2015, unchanged on an organic basis as compared with the prior year.

**Objective** Our aim is to achieve year-on-year growth in sales from continuing businesses at constant currency.

**Organic sales growth, continuing businesses, at constant currencies (%)**




### RETURN ON SALES

**Link to strategy:**

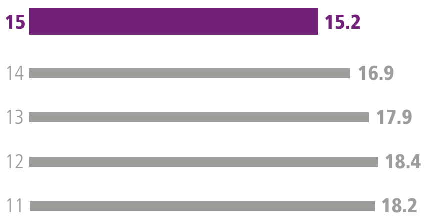
**Definition** Return on sales is a measure of improving profitability in our business. Return on sales is defined as adjusted operating profit as a percentage of sales.

**Performance** Return on sales was 15.2% in 2015, representing a decrease of 1.7 pp over the prior year.

**Objective** Our aim is to achieve a mid-teens return on sales margin on average throughout the cycle.

**Link to remuneration** Growth in profit is part of the annual bonus plan.

**Return on sales, continuing businesses (%)**




### EARNINGS PER SHARE

**Link to strategy:**

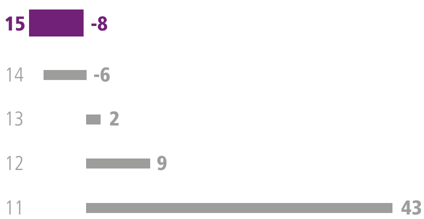
**Definition** Earnings per share ('EPS') is a commonly-used measure of financial performance. Adjusted EPS excludes certain non-operational items as defined by management in Note 2 to the Financial Statements. Adjusted EPS is defined as the ratio of adjusted earnings for the year to the weighted average number of ordinary shares outstanding during the year.

**Performance** Adjusted EPS was 114.3p in 2015, representing a decrease of 8 pp over the prior year.

**Objective** Our aim is to achieve year-on-year growth in adjusted EPS.

**Link to remuneration** EPS performance is one of the criteria for the Performance Share Plan award.

**Growth in adjusted EPS (%)**



**Key**

- **Focus on innovative customer solutions**
- **Increase presence in key strategic markets**
- **Expand business globally**
- **Accelerate operational excellence**
- **Deploy capital for both platform and bolt-on M&A**

## CASH CONVERSION

**Link to strategy:**

**Definition** 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. Cash conversion is defined as adjusted operating cash flow as a percentage of adjusted operating profit.

**Performance** Cash conversion was 91% in 2015, representing an increase of 2 pp over the prior year.

**Objective** Our aim is to deliver high cash conversion of operating profit in each financial year.

**Cash conversion (%)**

| | |
|---|---|
| 15 | 91 |
| 14 | 89 |
| 13 | 86 |
| 12 | 94 |
| 11 | 89 |

## ECONOMIC PROFIT

**Link to strategy:**

**Definition** Economic profit is the annual result derived from deducting a capital charge (applied to average capital employed) from adjusted operating profit, aggregated over a three-year period.

**Performance** Three-year aggregated economic profit was £209.3 million, representing a decrease of £82.3 million over the prior year.

**Objective** Our aim is to maintain a positive result over the three-year period.

**Link to remuneration** Economic profit is one of the criteria for the Performance Share Plan award.

**Three-year aggregate economic profit (£m)**

| | |
|---|---|
| 15 | 209.3 |
| 14 | 291.6 |
| 13 | 332.5 |
| 12 | 300.2 |
| 11 | 179.8 |

## ENERGY EFFICIENCY

**Link to strategy:**

**Definition** Energy efficiency makes a significant contribution to environmental sustainability and helps us to reduce our operating costs. We monitor our use of key sources of energy (electricity, gas, oil and steam) with the aim of reducing our carbon emissions and thus our environmental impact on society.

**Performance** Energy (measured in MWh) per £m revenue was 75.6 in 2015, a slight decrease compared with the prior year.

**Objective** Our aim is to achieve a year-on-year improvement in energy efficiency.

**MWh per £m revenue**

| | |
|---|---|
| 15 | 75.6 |
| 14 | 75.7 |
| 13 | 77.6 |
| 12 | 79.6 |
| 11 | 79.5 |

## ACCIDENT INCIDENT RATE

**Link to strategy:**

**Definition** We are committed to being a responsible business and ensuring the health, safety and well-being of our people. We monitor how we are performing by measuring work-related accidents or ill health resulting in lost time in excess of three days.

**Performance** Reportable accidents per 1,000 employees were 4.5 in 2015, representing an increase of 7% over the prior year.

**Objective** Our aim is to reduce accidents and injuries at our sites to as low a level as reasonably practical.

**Reportable accidents per 1,000 employees**

| | |
|---|---|
| 15 | 4.5 |
| 14 | 4.2 |
| 13 | 4.4 |
| 12 | 4.7 |
| 11 | 2.7 |

KPIs 1 to 4 exclude the Fusion UV business (which was sold in January 2013) in 2013 and 2012. 2011 has not been restated to reflect the disposal.

Non-financial KPIs are described in more detail in the Sustainability Report on pages 42 to 47.

### OVERVIEW FROM THE BUSINESS GROUP DIRECTOR

The six operating companies in the Materials Analysis and Test and Measurement segments sell their products and services into the laboratory and off-line activities of certain industries. Whilst these operating companies differ as regards their technologies, solutions and applications, they also share much in common, with the primary demand driver for all of them being the rate and pace of innovation in technology and materials and new product development undertaken by their customers.

In these segments, our businesses are predominantly exposed to capital investments devoted to improving productivity in the R&D, testing and quality control processes in a range of industries (see industry breakdown charts in the segment reviews which follow). Many of these industries are highly regulated, and the need to comply with national and international legislation and regulation also results in increased demand for our products and services. Around a quarter of the revenues across these segments is derived from aftermarket sales, being a combination of services (e.g. equipment calibration) and consumables (e.g. x-ray tubes).

Increasingly, we are seeing opportunities for our operating companies to enhance their value proposition beyond best-in-class equipment to include services, based on their deep application expertise. The combination of the growth in globalisation, which is introducing ever more complexity in the development and testing of products and materials, and the need to drive greater cost efficiency, which is resulting in reduced in-house capacity within customer businesses, is creating a demand for increased simplicity and ease of use, in a coherent offering combining instruments, software and services.

In addition to these cross-industry themes, there are trends specific to certain industries that we see impacting our Materials Analysis and Test and Measurement segments today and in the future, as highlighted in the following box.

**Eoghan O'Lionaird**
Business Group Director

#### MATERIALS ANALYSIS

_ The threat to patent-protected drugs from generics causes the major global pharmaceutical companies to look for ways of becoming more efficient. Whilst a customer drive to enhance productivity is generally beneficial to our businesses, there can be some short-term disruptions in the marketplace resulting from increased acquisition activity, which can lead to delays to decisions over capital investments.
_ Growing demand for biopharmaceutical drugs, underpinned by the trend towards targetted therapy. In due course we believe this will also lead to growth in biosimilars (the biopharmaceutical equivalent of generic drugs). In 2015 the US Food and Drug Administration approved biosimilars for the first time.
_ The widespread drive to improve quality and standards, particularly in emerging markets, in areas such as food and drink, drugs and the environment. This has been a positive influence on our business in China in recent years, and we are now seeing the same benefits in India.
_ Limited new capital investment by the mining sector, with customer demand primarily focussed on the equipment replacement cycle, aftermarket sales and a need to improve productivity.
_ The level and speed of development and innovation in advanced semiconductors and the proliferation of affordable high-performance computing all result in investment by the semiconductor industry.

#### TEST AND MEASUREMENT

_ Greater use of advanced composite materials. This trend is already driving investment decisions in industries such as aerospace, and is set to become even more prevalent going forward. New materials require new tests to verify attributes such as quality, reliability and durability, and our businesses are well placed to provide the instruments, software and related services required for this activity.
_ Further development of hybrid and electric vehicles. This trend has only just begun in recent years, and it is expected that the automotive industry will spend increased effort on developing energy-efficient vehicles in the coming years.
_ Greater use of engineering, simulation and data analytics software in the automotive and aerospace industries as a means of speeding up the development and quality control process, thus saving cost and bringing new products to market more quickly.
_ Globalisation of the unconventional oil and gas industries. Having been primarily a North American development to date, other parts of the world (e.g. China, Europe, Latin America) are also expected to adopt unconventional oil and gas extraction and production methods to meet their future energy requirements. In particular, we believe data analytics will become increasingly important to the unconventional oil and gas industry.

## MATERIALS ANALYSIS

**Sales**

**£364.4M**

2014: £348.8M

**Operating profit**

**£53.7M**

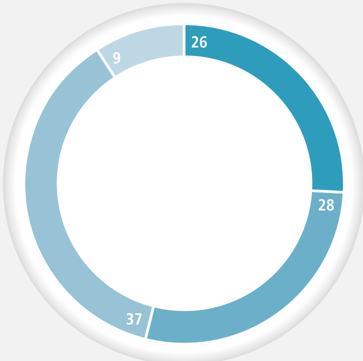
2014: £53.3M

**Aftermarket sales as % of sales**

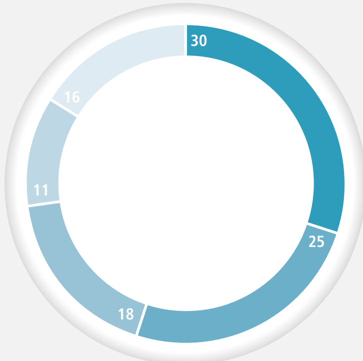
**32%**

2014: 31%

**Geographical breakdown (%)**




**Industry breakdown (%)**

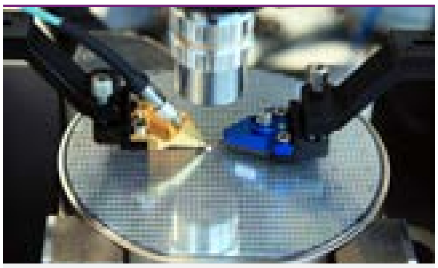



### Segment performance

Reported sales increased 4%, including a four percentage point contribution from acquisitions and a three percentage point adverse impact from foreign exchange currency movements. As a result, LFL sales grew 3%. Sales growth was driven primarily by North America and Europe, with Asia generating slight growth and sales to the Rest of the World declining. Operating profit and operating margins declined on a LFL basis, primarily reflecting the annualised effect of prior-year headcount increases, the net cost of targetted restructuring measures, and the absence of a one-off £3.0 million R&D-related government grant which benefitted the prior-year period. Excluding the impact of the R&D grant and the net restructuring cost, operating profit grew 7% on a LFL basis.

Sales to the pharmaceuticals and fine chemicals sector increased, driven by strong demand from biopharmaceutical and generic drug manufacturers. Sales also benefitted from good progress by our particle measuring business together with our investments in solutions focussed on the life science industry, such as a biophysical characterisation tool, the Viscosizer, and a next-generation calorimeter, the MicroCal PEAQ-ITC. Regulatory compliance, having previously been a strong growth driver for our operations in China, is now a positive driver in India, where the generic drug manufacturers are focussed on achieving the standards necessary to export their drugs to the USA. Elsewhere there was good sales growth in the major developed markets of North America and Europe.

Following weak demand from the metals, minerals and mining industries in 2014 there was a resumption of sales growth to these industries in 2015. By geography, the growth was variable in these industries: amongst the key end markets there was good sales growth from North America, China, India and Brazil, but sales declined in Australia, Germany and Japan. Generally, sales growth in the mining sector came from aftermarket sales, with customers preferring to repair and support existing equipment rather than invest in new products. In the metals and minerals sectors, however, sales of new instruments were strong. Whilst managing the cost base to align it to the lower demand levels, we have continued to develop new solutions for customers in these sectors, and in 2015 we launched a major new product family, the Zetium x-ray spectrometer, sales of which have been encouraging to date.



The semiconductor equipment industry in Asia is a key market for our particle measuring business, and the development of new technologies and materials such as 3D semiconductors will ensure it remains attractive for us. In March 2015 we acquired Sunway Scientific Corporation, a distributor based in Taiwan. Together with Sudo Premium Engineering in South Korea, which we acquired in 2014, we are now able to provide our products and services directly to the key semiconductor customers in Asia.

Sales to academic research institutes declined, with pressure on public finances and low levels of private funding from industries such as mining continuing to adversely impact trading conditions for our businesses. Amongst our major markets only Germany and Japan delivered sales growth in this sector, whilst there was a significant decline in China following what had been a strong year in 2014 when the Chinese state universities invested in projects related to water quality and energy storage.

Sales to the semiconductor industry grew strongly, benefitting from our own innovation, as we launched the first particle liquid counter which can measure contaminants as small as 20 nanometres, and from the strong relationships we have with the leading semiconductor manufacturers in North America and Asia. These relationships have been enhanced during the last 18 months with the acquisition of our distributors in Taiwan and South Korea, which means we are now directly servicing the key global semiconductor manufacturers.

### Segment outlook

We expect this segment to show further progress in 2016. Continued investment in new products should deliver progress in the pharmaceuticals, life science and semiconductors sectors. Investment by the mining sector is expected to remain low, with growth primarily attributable to aftermarket sales; however, the metals and minerals sectors are expected to remain robust. We expect that these factors will more than offset what is likely to remain a subdued academic research market given public sector budget constraints. The cost reduction measures taken during the second half of 2015, together with our increased focus on operational excellence initiatives, are expected to improve future profitability.

## TEST AND MEASUREMENT

**Sales**

**£351.3M**

2014: £342.9M

**Operating profit**

**£55.3M**

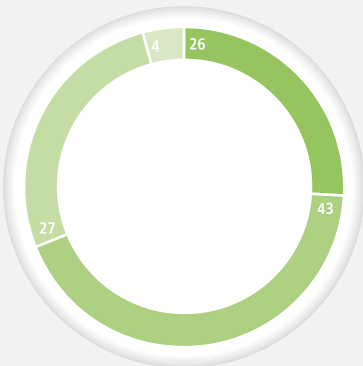
2014: £52.2M

**Aftermarket sales as % of sales**

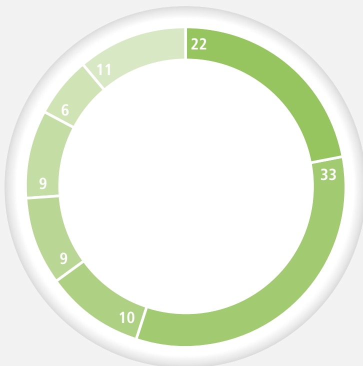
**20%**

2014: 20%

**Geographical breakdown (%)**




**Industry breakdown (%)**




### Segment performance

Reported sales increased 2%, including a six percentage point contribution from acquisitions and a five percentage point adverse impact from foreign currency exchange movements. As a result, LFL sales grew 1%. By geography, there was LFL sales growth in Europe and China, whilst LFL sales were broadly flat in North America and down modestly in Asia (outside of China). LFL operating profit improved 9% and LFL operating margins increased 1.2 pp to 16.4%, primarily reflecting positive sales mix effects and the benefits of the targetted restructuring measures undertaken during the year, partially offset by overhead cost inflation.

Underlying demand from the automotive sector remains healthy. Whilst direct sales to this sector were broadly unchanged in 2015, due to the lack of large projects in North America which had benefitted the prior year, there was strong sales growth to machine manufacturers in 2015, a significant portion of which represented sales into the automotive supply chain. As we are seeing across the Group, automotive customers are increasingly demanding the provision of an integrated solution, combining hardware, software and services. For example, we won a significant contract with a major UK-based automotive manufacturer to provide not only hardware but also a broad range of services including calibration, on-site maintenance, spare part supply, training and dedicated hotline support and European on-site support.

Customers increasingly use engineering software solutions to improve the quality, reliability and durability of their equipment and processes and to shorten the time to market for key products. In January 2015 we acquired ReliaSoft, a USA-based reliability engineering software and services business which has strengthened and extended our software applications offering. During 2015 we made good progress with our NVH Simulator, winning important contracts with major automotive manufacturers in the USA, UK and Europe, and we extended our noise, vibration and harshness ('NVH') offering to include engineering services with the acquisition in November of Sound Answers, a USA-based provider of NVH consulting expertise. Sound Answers has been a strategic partner for nine years and we will now be able to offer our customers new capabilities, such as troubleshooting and product development services, which are unmatched within the sound and vibration industry. This positions us well to serve the increasing demand from the automotive industry to understand the NVH characteristics of vehicles and engines in order to gain competitive advantage and meet legislative requirements.

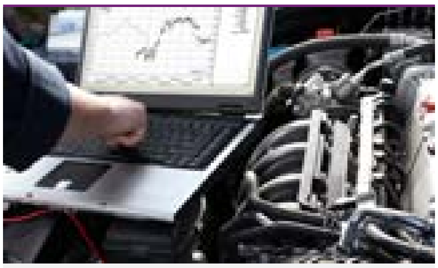
Underlying demand from the aerospace sector remains robust, although sales in this sector decreased in 2015, primarily reflecting the adverse impact that economic sanctions on Russia had on our sales of satellite vibration test systems to this country, together with fewer large orders in the USA than in 2014. Aerospace companies continue to invest in the use of advanced composite materials to develop more fuel-efficient aircraft, and we are one of the few suppliers capable of meeting their requirements to test and verify the key characteristics of these new materials. During the year we secured important orders from a major US-based aerospace company for data acquisition systems to stress test the Orion spacecraft and PULSE software analysers to test sound and vibration in its satellite systems.

Sales of our environmental noise monitoring services grew, benefitting from good demand in Europe. We won a major contract with the Italian government for noise monitoring in its vehicle inspection centres and extended our relationship with Aena, the Spanish airports operator, to centralise our systems across the six airports we already serve and extend our coverage to new sites.

As was the case in Materials Analysis, and reflecting pressure on public finances, Test and Measurement's sales to academic research institutes declined. Amongst our major markets only Germany delivered sales growth in this sector, whilst there was a significant decline in sales to China.

Sales to our telecoms customers declined in 2015 following strong growth in 2014. We see good opportunities in this market to provide additional services, for example in test-rig design and calibration, thereby improving the resilience of our revenues in a sector where sales patterns are lumpy, reflecting the scheduling of projects by customers.

Whilst the weakness in the unconventional oil and gas and mining markets in 2015 led to reduced demand for our microseismic monitoring solutions, we made good progress developing and extending our offering to these industries, both organically and inorganically. As well as continuing to win key contracts against larger competitors, we have begun to expand our international presence outside North America, establishing offices in the Middle East and Mexico. In October we acquired Spectraseis, a USA-based leader in surface-based microseismic monitoring technology which is complementary to our existing offering and strengthens our position in the growing induced seismicity monitoring market.



Manufacturers increasingly want their suppliers to provide a more comprehensive range of solutions. In January 2015, we acquired ReliaSoft, an industry leader in reliability software solutions, which has been integrated into HBM's nCode business, extending the range of durability software and services. HBM can now provide testing solutions for the complete product life-cycle, giving manufacturers a better understanding of how a product will perform by predicting component life and reliability performance. This reduces development and test time, avoids unexpected in-service failures and reduces maintenance and warranty costs.

## Segment outlook

In 2016 we expect market conditions in the automotive and aerospace sectors to benefit from further growth in engineering software applications, together with improving demand from the telecoms market and a good contribution from acquisitions. The academic research market is expected to remain subdued and market conditions in the oil and gas and mining industries are expected to remain challenging; however, there are good prospects for the increased adoption of microseismic monitoring solutions in the coming years as customers seek to make better use of data analytics to improve productivity and profitability.

## OVERVIEW FROM THE BUSINESS GROUP DIRECTOR

**Jo Hallas**
Business Group Director

### IN-LINE INSTRUMENTATION

_ Within In-line Instrumentation we are seeing greater use of software, simulation and data analytics in the process, power and energy industries as a means of saving cost by improving the utilisation and uptime of existing assets, making better, more informed decisions and streamlining processes. As the cost pressures within these industries increase, so we expect this trend to accelerate.
_ In-line Instrumentation is also well placed to benefit from the growth in renewable energy markets around the world. For example, during 2015 there was strong growth for our businesses exposed to supporting the wind energy market, as more countries strove to increase the proportion of energy requirements being met by wind and other renewable sources. Going forward, this trend should continue, helping to offset what is expected to be more challenging market conditions within the conventional energy industries of oil, gas and coal.

### INDUSTRIAL CONTROLS

_ Within Industrial Controls the growth in industrial connectivity solutions and the Industrial Internet of Things ('IIoT') is an increasingly important demand driver for our businesses. Many of our customers have a vision (that we aim to support) whereby every machine in a manufacturing process is able to communicate with all other machines and devices, including older equipment, both across the factory floor and remotely located. By being able to connect both new and legacy devices in order to monitor and control data, customers can use that information to improve operational productivity and efficiency, thereby gaining a competitive advantage. Having made two acquisitions in this area around five years ago, we have since then focussed on expanding our product offering. During 2015 we established an IIoT Innovation Centre in the USA with a focussed engineering, product and sales team dedicated to building on our existing IIoT expertise and products and also developing new solutions for machine-to-machine and human-to-machine communication.

The seven operating companies in In-line Instrumentation and Industrial Controls sell their products, services and solutions into the discrete and process manufacturing sectors covering a number of key industries (see industry breakdown charts in the segment reviews which follow). The operating companies within these segments are predominantly exposed to the level of investment devoted to enhancing productivity within these industries. Many of these industries are highly regulated, and the need to comply with national and international legislation and regulations also results in increased demand for our products and services.

Around two-thirds of the revenue across these segments is derived from customers' operating expense budgets: the vast majority of products sold within Industrial Controls are typically small enough in value to be viewed as consumables by customers, whilst within In-line Instrumentation there is a significant portion of revenue derived from both consumables (e.g. coating blades for the pulp and paper industry) and services (e.g. condition monitoring and diagnostic services).

Increasingly, the need by customers to drive greater cost efficiency whilst dealing with increased complexity in production and application processes is creating a demand for simpler products and services that are easier and quicker to install and more intuitive to use. During 2015 we launched solutions such as a new laser gas analyser (MiniLaser) and web browser-based machine vision inspection interface (CloudLink) that are specifically designed with the dual customer imperatives of cost saving and convenience in mind, and we expect to launch more solutions with these types of benefits going forward.

The continued economic development of emerging markets also drives demand for our products, services and solutions. Rising prosperity in these markets is creating increased demand from within these countries for products and services that have hitherto only been required in large quantities in developed markets. This, for example, is fuelling strong growth in the global tissue and packaging markets. In addition, in order for the process and discrete manufacturing industries within these regions to compete globally, there is a need to raise both the quality and consistency of production processes to meet developed markets' needs where the standards required, in terms of quality, design, health and safety and environmental impact, are often higher.

In addition, there are trends specific to certain industries that we see impacting our In-line Instrumentation and Industrial Controls segments today and in the future, as noted in the box above.

## IN-LINE INSTRUMENTATION

**Sales**

**£255.0M**

2014: £261.4M

**Operating profit**

**£36.8M**

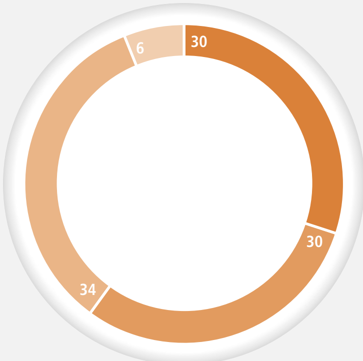
2014: £48.0M

**Aftermarket sales as % of sales**

**41%**

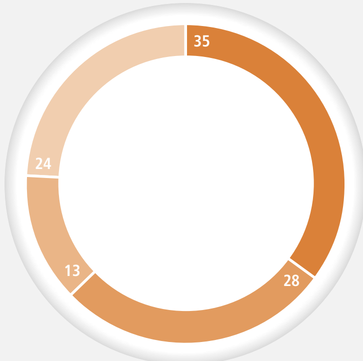
2014: 41%

**Geographical breakdown (%)**




North America
Europe
Asia
Rest of the World

**Industry breakdown (%)**




Pulp, paper & tissue
Energy & utilities
Converting, extrusion & packaging
Other

### Segment performance

Reported sales decreased 2%, reflecting an adverse impact of 1% from foreign currency exchange movements and a LFL sales decline of 1%. Geographically, LFL sales to North America were broadly unchanged, while LFL sales to Europe and Asia were marginally lower than in 2014. LFL operating profit fell 19% and LFL operating margins were down 3.3 pp to 15.1%, reflecting the impact of reduced sales, some price pressure in specific markets and adverse sales mix.

In the pulp and paper market, growth improved progressively through the year with a good second half performance more than compensating for the LFL sales decline in the first half. Growth in our sales to the tissue and pulp segments reflected continuing positive trends in those markets as well as our success in offering customers new solutions incorporating our high-performance creping blades and other instrumentation, such as our new control sensors for pulp mill automation. This growth in tissue and pulp sales was partially offset by lower sales into the graphic paper segment. While excess capacity in China, in particular, continued to limit our growth opportunities in this segment, we have seen a positive market reaction to our new advanced material coating blades, which drove higher sales into the segment in the second half.

In the energy and utilities market, we achieved modest growth in sales, with strong growth in our sales to the wind energy market being partially offset by a modest fall in sales to the downstream petrochemicals industry. In the wind energy market we continue to see favourable global trends, which contributed to good sales growth across all regions, particularly Asia and Europe. In addition to an increase in sales to existing customers we also managed to broaden our customer base, with a number of significant contract wins from wind farm operators. We are in the process of strengthening our sales and marketing organisation, including the expansion of our regional office network, and we have increased our focus on the provision of innovative solutions to our customers. For example, during the year we introduced a solution that combines hardware and software to enable customers to view all information from any machine protection system in their plant on one diagnostic system. Since its launch in the middle of the year this solution has been positively received by customers.

A Swedish manufacturer of premium toilet tissue reported a recurring problem with surface damage to one of their yankee dryers, the large cylinder used to dry the tissue substrate. Using a combination of our PROdry thermal imaging diagnostic services, Vigilance blade vibration monitoring system and expert applications advice, we helped the customer identify the source of the problem and resolve the issue, minimising machine downtime and saving over €200,000 in lost profit and repairs.

Our sales to the downstream petrochemicals industry fell modestly over the year as a whole, after showing good growth in the first half of the year. This partially reflects the slowdown in the oil and gas sector, which has resulted in falling investment levels and fewer large projects being progressed. We launched a major new product platform for the industrial gases market, a laser gas analyser called the MiniLaser, which is more powerful, smaller and lighter than other products in the market, resulting in significantly easier and lower-cost installation for customers. During the year we launched important applications of the MiniLaser for the petrochemicals, combustion and power markets, and customer reaction to date has been extremely positive.

Sales to the web and converting industries declined significantly during the year, mainly due to a lack of large projects in North America and Asia. Whilst these industries have recently been experiencing cyclical softness we continue to see attractive growth opportunities. We made good progress developing new systems that extend our offering for these industries, such as the SlimTrak single beam scanner, a compact, cost-effective scanner for narrow web converting processes that is targetted at paper and plastic film converting applications. Following the creation in 2014 of NDC Technologies, we have now aligned the combined sales forces of the previous businesses around single industry verticals in order to give us more effective coverage in our markets and better support for our customers.

### Segment outlook

We are encouraged by the improved performance of our pulp and paper business in the second half of 2015, the positive customer response to our new instruments and solutions and the robust tissue and pulp markets, all of which are helping to offset the ongoing structural challenges in the graphic paper and coated paperboard markets. Growth from the energy and utilities sector is expected to be modest in 2016. Underlying market conditions in the renewable energy sector remain healthy and our new solutions for this market have been well received. However, the slowdown in the oil and gas sector that impacted our sales to the downstream petrochemicals industry in the latter part of 2015 is expected to continue into 2016. In the web and converting industries we expect to see some modest growth after a weak 2015, together with moderate benefits from our new product launches and the creation of single sales teams to service key industry verticals. We will also continue to increase the focus on operational excellence initiatives across the segment in order to improve future profitability.

## INDUSTRIAL CONTROLS

**Sales**

**£219.3M**

2014: £220.6M

**Operating profit**

**£35.3M**

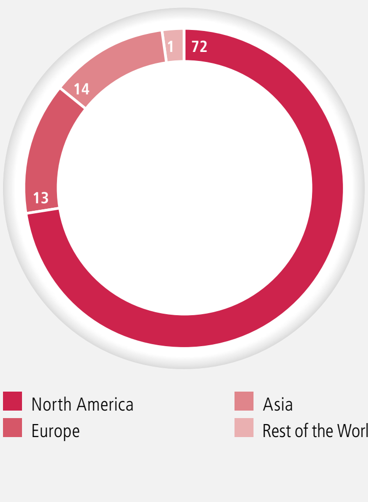
2014: £44.6M

**Aftermarket sales as % of sales**

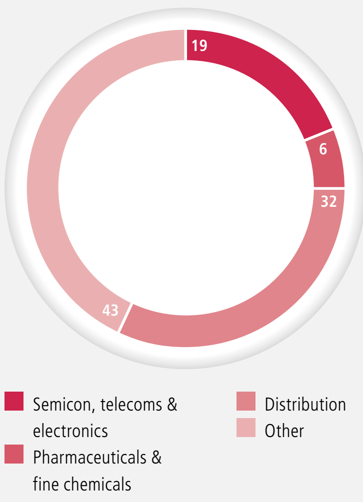
**1%**

2014: 1%

**Geographical breakdown (%)**




**Industry breakdown (%)**



## Segment performance

Reported sales decreased 1%, including a one percentage point contribution from acquisitions and a positive impact of five percentage points from foreign currency exchange movements. As a result, LFL sales decreased 7%. LFL operating profit fell 27% and LFL operating margins were down 4.3 pp to 15.9%, reflecting the impact of reduced sales, adverse sales mix and the net cost of targetted restructuring actions. We also incurred additional resource costs at Omega which were required to protect service levels during the launch of a new ERP system.

With over 70% of this segment's sales being to customers in North America, the key driver behind the LFL sales decrease was the significant weakness in US industrial production, particularly in the second half of the year, across a wide range of industries. This weakness adversely affected the performance of all three operating companies in this segment. The oil and gas sector suffered particularly during the year and this was felt most acutely in our industrial networking business, Red Lion Controls, following strong sales to this market in 2014.

In Asia, we saw continued good progress in the development of our process measurement and control business, Omega. In Europe, we saw a mixed performance from our operating companies, with a challenging year for our industrial networking business being partially offset by growth in sales of process measurement and control products, and automatic identification and machine vision solutions.

Despite the challenging market conditions, we made good strategic progress in a number of areas.

Omega has continued to invest in and enhance its digital marketing capabilities, installed a common ERP system across the majority of its business and delivered good growth from its operations established in recent years in Asia, Latin America and Europe.

The Industrial Internet of Things ('IIoT') is one of our key strategic markets and during 2015 we established an IIoT Innovation Centre in the USA, with a focussed engineering, product and sales team dedicated to building on our existing IIoT expertise and products, and developing new solutions for machine-to-machine and human-to-machine communication.

In August, we purchased Label Vision Systems, a US-based company whose technology enables companies to comply with new US legislation on product identification marking to improve traceability throughout the manufacturing supply chain. The business is performing well and its integration into Microscan is proceeding to plan.

The year also saw a number of key product launches and developments. In September, our machine vision business launched the MicroHAWK, a modular and scalable industrial barcode imager and smart camera platform. We also enhanced our series of industrial cellular routers through the addition of functionality to provide automatic alerts to operatives, and launched a major new series of temperature and process controllers targetted at customers in the laboratory and in the factory automation and chemical industries.

Our technical expertise was recognised during the year in several awards won by our businesses. For example, our industrial networking business gained broad recognition for the quality of its products from Control Design, a US trade journal.

MicroHAWK is Microscan's latest generation of barcode readers, setting a new benchmark in automatic identification and data capture technology. At 25.4mm by 44.5mm, the MicroHAWK ID-40 is the world's smallest industrial IP65/67-rated barcode reader available. The system is easy to use – with WebLink, the first-ever web-based barcode reader interface, users just plug in and open a browser on their phone or tablet.

## Segment outlook

Given the significant exposure to the USA, sales progress for this segment in 2016 will be largely dependent on a recovery of US industrial markets. We expect contributions from recent product launches, the acquisition of Label Vision Systems and the investments made in Omega, together with the targetted restructuring measures taken in 2015 and a heightened focus on operational excellence initiatives, to improve future profitability. Over the medium term the need for customers to improve productivity and efficiency is expected to result in increased demand for factory automation and industrial networking products, particularly in China and other developing markets such as Mexico.

# SUSTAINABILITY REPORT
## SUSTAINABILITY LIES AT THE HEART OF OUR BUSINESS DECISION-MAKING

**2015 highlights**

_ Used life-cycle impact analysis to design a gas analyser which reduces energy consumption by 60% during product lifetime.

_ Reduced the amount of wastage produced in the manufacture of steel creping blades by 20%.

_ Completed audits in compliance with the European Energy Efficiency Directive.

_ Implemented a supply chain management policy.

_ Implemented an anti-slavery and human trafficking policy, ahead of regulatory deadline.

Sustainability lies at the heart of our business decision-making, ensuring that we consider both "are we doing the right things?" and "are we doing things right?". It supports our overall strategy to focus on innovative customer solutions to enhance productivity and deliver sustainable growth for our shareholders. Our business model has enabled us to adapt in a fast-changing environment. In addition to building a well-governed and profitable business which provides customers with the products and services they need (economic aims), sustainable growth also means understanding the impact our business has on the environment (environmental aims) and operating in a socially responsible way (social aims).

### Foundations for sustainable growth

Economic aims:

_ Build successful relationships with customers, helping them to enhance their productivity and reduce their carbon footprint.
_ Maintain good corporate governance.
_ Maintain a strong balance sheet.
_ Focus on operational efficiencies, enhancing profits through sustainable value creation.

Environmental aims:

– Seek to develop new products which can be manufactured and operate in the most environmentally-efficient way possible.
– Aspire to reduce energy usage and minimise waste.
– Report externally on our environmental initiatives and progress.

Social aims:

_ Create a culture that attracts and retains talent and values diversity.
_ Adopt values consistent with an ethical approach to responsible business.
_ Ensure that our workplaces are safe.
_ Work with our suppliers to help them meet our environmental and social standards.
_ Invest time, resources and money to help local communities, particularly to promote science and technology in educational establishments.

The Company Secretary has overall responsibility for sustainability matters. Developments, including risks and opportunities, are reviewed annually by the Board within the context of the overall Group strategy.

### Opportunities and risks

We have identified the key opportunities and risks to our sustainability aims and these are set out below.

| OPPORTUNITIES | RISKS |
|---|---|
| _ Rising energy prices and energy taxes drive customers to seek cost reduction initiatives.<br>_ Increasing focus on alternative, non-fossil fuel energy sources such as wind, solar and water power brings new applications for our technology, including in the development of electric and hybrid vehicles.<br>_ High cost and increasing scarcity of some raw materials drive customers to improve efficiency and reduce wastage.<br>_ Regulatory pressures such as carbon taxes, landfill taxes, disposal of harmful substances and limits on vehicle / industrial emissions mean customers need products and systems to demonstrate compliance. | _ Changes in regulation concerning the use and correct disposal of certain materials in our products could lead to increased costs for developing replacement products and / or potential fines for non-compliance.<br>_ A very small proportion of our products and processes have potential environmental risks if not handled correctly.<br>_ The introduction of new or stricter carbon taxes in any location may increase operating costs.<br>_ Loss of key employees in new product development projects may delay product launches.<br>_ Having operations in many developing areas of the world presents ethical risks resulting from a different perception of the way business may be conducted. |

## ECONOMIC AIMS

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

New products are designed to help reduce environmental impact for customers…

…whilst helping to drive a sustainable business for Spectris.

### Minimising energy use

In energy-intensive industries such as cement and steel production, our materials analysis instruments help drive efficiencies by optimising the shape and size of the raw material particles. This can generate substantial reductions in energy use and hence carbon emissions.

Another important sector for us is pulp and paper. We make durable high-precision ceramic blades which ensure that speciality papers and packaging receive exactly the right quantity and consistency of coating, which reduces waste and energy use.

Helping to minimise energy use also involves lowering the cost to our customers of operating our instruments by optimising the amount of power they require in use and on stand-by. This is a key objective of our product development process and the case study opposite shows an example of how this was achieved for a product we launched during 2015.

### Cutting emissions

Governments around the world are implementing ever stricter legislation in relation to air quality. Our gas analysis products can measure pollutants, enabling combustion processes to be optimised, thereby reducing greenhouse gas emissions generated by industrial processes. This helps ensure compliance with environmental legislation and often forms part of certification testing. For example, power stations can save anything between 1% and 5% of their fuel costs by improving combustion efficiency which means less energy wasted, less use of natural resources and lower emissions.

### Supporting renewables

We have world-leading expertise in providing solutions for customers involved in renewable energy generation in the following areas:

#### Wind power

Wind turbines have to be able to withstand extreme conditions such as gale-force winds and lightning strikes. Our measurement technology is used in the research and development of new materials, helping to identify mechanical stress on wind turbine components at an early stage in order to extend their life-cycle and improve safety. We also provide systems to monitor turbine performance remotely, ensuring that they are set up correctly for optimum performance and that preventive maintenance can be scheduled where required. This minimises wear and tear, prevents damage and optimises efficiency, saving both time and money.

#### Hydropower

As with offshore wind, maintaining the machinery involved in hydropower facilities can be expensive and time-consuming, and small improvements in efficiency and uptime can translate into major savings. Our instrumentation can monitor turbines and generators in real time, to predict and prevent problems before they require a costly shutdown in order to be repaired.

#### Solar power

We also have a presence in the solar energy sector, where our equipment helps ensure that the layers of photovoltaic film in solar panels are the correct thickness for maximum efficiency. Lighter weight and more flexible panels provide for an increased range of applications.

**90% smaller**


**80% lighter**

Servomex has achieved certification to the Planet Mark programme for its commitment to reduce its carbon footprint (in terms of emissions) by 5% year on year.

One element of this is to consider the life-cycle impacts of its products and reduce life-time running costs for customers.

Servomex set four key objectives when designing the new MiniLaser. Firstly, to reduce the company's carbon footprint in terms of $CO_2$ emissions. Secondly, to reduce the company's ecological footprint. The third aim was to improve efficiency of the raw materials used in manufacturing the product. Finally – and most importantly for customers – to improve energy efficiency through reduced energy consumption during the product's working life using the software's life-cycle assessment.

The result was the launch in January 2015 of the company's most sustainable product platform to date. At 90% smaller and 80% lighter than many other comparable laser analysers on the market, the MiniLaser platform is the first of the next generation of Servomex products. These are designed to be lighter, more compact and requiring less energy during manufacture (around 40% less for the MiniLaser) and in operation (MiniLaser around 60% less), reducing both the company's carbon footprint and the customer's energy usage.

In July 2015, we sold our 10,000th wind turbine condition monitoring system. 10,000 turbines will provide clean energy to over 11 million homes, saving approximately 16 million tonnes of CO2 per year[1].

1 Estimate based on 2.1 MW turbines with 53% efficiency and 1 MW of energy to supply 1,000 homes.

### Reducing wastage

Our instruments improve process efficiency and optimise product quality, reducing wastage of raw materials and scrap rates for our customers. We also focus on reducing wastage internally and seek to improve the efficiency of the raw materials used in manufacturing our products. For example, at BTG we reduced the amount of scrap steel produced when manufacturing our creping blades by 20% through implementing changes to the storage, handling and manufacturing processes as a result of Lean techniques and in-depth root cause analysis. The waste metal is also recycled.

## ENVIRONMENTAL AIMS

As well as helping our customers to reduce their impact on the environment, it is also a focus for our own efforts and we monitor the use of key sources of energy (electricity, gas, oil and steam) in our efforts to reduce consumption and save costs. Although we are not significant users of water, we monitor usage throughout the Group. The following table summarises our performance.

### Performance summary

| | **2015** | 2014 | Change |
|---|---|---|---|
| Energy consumption (absolute) (MWh) | **89,030** | 87,502 | +1.7% |
| Energy efficiency (MWh per £m revenue) | **75.6** | 75.7 | -0.1% |
| Water consumption ($m^3$) | **162,325** | 160,251 | +1.3% |
| Greenhouse gas emissions (tonnes CO2e) | **73,324** | 71,655 | +2.3% |
| Total carbon emissions per £m revenue | **62.25** | 61.98 | +0.4% |

Excluding acquisitions and disposals made in the year.

In 2013, we established processes to record, and report on, Scope 1 emissions from company vehicle miles and refrigerant gas loss, and Scope 3 emissions from air miles. We now have full reporting data from 2014 and 2015 for all Spectris businesses.

Although Scope 3 reporting is not yet mandatory, we believe that it is an important area and control of air travel may be where we can make the most significant impact on the environment, after electricity.

### Greenhouse gas emissions (tonnes CO2e)

| | **2015** | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Scope 1 | **11,021** | 10,380 | 3,030 | 2,934 |
| Scope 2 | **35,470** | 35,210 | 37,024 | 40,533 |
| Scope 3 | **26,833** | 26,065 | 7,152 | 7,564 |
| Total gross emissions | **73,324** | 71,655 | 47,206 | 51,031 |
| Total carbon emissions per £m revenue | **62.25** | 61.98 | 39.27 | 41.46 |

Notes

1 Emissions-releasing activities are categorised into three groups, known as scopes. These are: Scope 1 (direct emissions): Activities owned or controlled by the company that release emissions straight into the atmosphere, for example from combustion in owned or controlled boilers, furnaces, vehicles; emissions from chemical production in owned or controlled process equipment. Scope 2 (energy indirect): Emissions released into the atmosphere associated with the company's consumption of purchased electricity, heat, steam and cooling. Scope 3 (other indirect): Emissions that are a consequence of the company's actions, which occur at sources which the company does not own or control and which are not classed as Scope 2 emissions, for example business travel, waste disposal, or purchased materials or fuels.

2 Raw Scope 1, Scope 2 and Scope 3 data is measured and reported by all Spectris' operations worldwide. This data is converted into carbon emissions tonnes CO2e using the greenhouse gas conversion factors from the 2015 DEFRA / DECC Guidelines for Company Reporting.

3 Our reporting processes, and the above data derived from them, are verified by Lloyd's Register Quality Assurance.

4 Excluding acquisitions and disposals made in the year.

In 2014, we asked third-party consultants Ricardo-AEA to advise on the implementation of Article 8 of the European Energy Efficiency Directive ('EED'). This legislation affects Spectris' larger facilities in Europe and required the identification and reporting of energy-saving opportunities by December 2015. However, there are a number of European countries where the legislation has not yet been fully implemented. During 2015, we carried out audits at our operations in those countries where the legislation has been implemented (this is known as the Energy Savings Opportunity Scheme in the UK) and each Spectris facility audited received a report detailing energy-saving opportunities within the time scale. In those European countries where the legislation has not yet been fully implemented we are working with Ricardo-AEA and the local authorities to ensure that we can respond as soon as the local legislation is agreed.

Although we have not set specific Group-wide targets, our aspiration is to reduce energy consumption across the Group. Management incentives are in place which encourage individual operating companies to reduce their electricity and water consumption, for example, in order to improve profitability, and the opportunities identified by the EED audits will also help to reduce energy use. Our Servomex business has committed to reducing its carbon footprint (in terms of emissions) at the Technical Centre in Crowborough, UK, by 5% year on year and has achieved certification by the Planet Mark for its commitment to improve sustainability performance (read more about this in the case study on page 43).

We continue to be a constituent of the FTSE4Good Index Series and we also participate annually in the Carbon Disclosure Project, a not-for-profit organisation which collects climate change data from companies around the world and compares their disclosure and emissions reduction performance. Our score of 98 out of 100 in the 2015 survey (2014: 89) places us in the top 15% of companies in our sector and underlines our commitment to environmental accountability.

## SOCIAL AIMS

### How we do business

We have always placed a high priority on the standards by which we do business, because we believe that how we work is as important as what we do. We have a comprehensive strategy in this area and in recent years we have improved our governance processes and oversight, and enhanced our Code of Business Ethics, in order to achieve our commitment to manage our business according to the highest ethical standards. There is more on this in the Ethics Report on page 48.

Our values are pivotal to how we operate and essential to our business success and growth. They underpin the way we work, guide our decision-making and shape our culture.

### Our values

_ Absolute integrity.
_ Empowerment.
_ Customer focus.
_ Restless innovation.
_ High performance.

### Our people

Spectris is a specialised and technical business, and we rely on the skills and expertise of our 8,300 people, many of whom are highly-qualified engineers and technicians.
We have built our success on a combination of operational excellence and intelligent innovation, and we know that such innovation requires a way of working which is open, positive and respectful, and supports the development of new ideas, and the taking of reasonable and measured risks.

You can read more about the key role our people play in our business model and strategy on pages 19 and 21.

### Diversity and equality

Ours is a diverse business, with operations at more than 190 locations throughout the world, and employees in over 30 different countries and cultures. We recruit, develop and promote our people based on their talent, commitment and achievement; everyone is treated equally and fairly whatever their race, colour, religion, national origin, gender, sexual orientation, age or background.

Our people are key to the success of our business. As such, we need a workforce based on a diverse group of talent able to provide solutions to a wide range of customers around the world. We are aware that our current employee base is not fully representative of the geographies we operate in and that the gender balance does not reflect the population as a whole, as the table opposite demonstrates.

This is a common challenge facing the engineering sector, and our businesses undertake a range of initiatives to raise the profile of women in engineering and encourage others to enter the field of science and technology. We are also putting in place a process to help women within the Spectris Group achieve their potential. This is described in more detail on the following page.

Since 2007, Malvern Instruments has succeeded in reducing electricity usage per employee by more than 50% (from 21.13 kWh to 10.40 kWh per employee). This has been achieved primarily by a combination of operational efficiencies and better facility management (including switching off electrical equipment outside working hours). Initiatives include focussing on improving product design which has resulted in increasingly more reliable products with less downtime and energy consumption during product assembly and test, reducing assembly and test process times, and installation of automatic light / movement sensors at the facility in Malvern, UK.

**Employees by gender and role**
As at 31 December 2015

| | Male | Female | Total |
|---|---|---|---|
| Directors | 7 | 2 | 9 |
| Senior management[1] | 127 | 25 | 152 |
| Other employees | 5,653 | 2,450 | 8,103 |
| Total | 5,787 | 2,477 | 8,264 |
| % of total | 70 | 30 | 100 |

Excludes contractors.
1 Presidents or Managing Directors and their immediate reports who are Directors or Vice-Presidents.

Another challenge facing engineering companies is how to encourage more young people to pursue careers in manufacturing and engineering. Our businesses participate in various initiatives including student internships, apprenticeships, industrial placements, participation at school careers days and other events designed to raise awareness amongst school children of the opportunities to work in manufacturing and engineering.

### Training, development and compensation

We work hard to build a creative working environment for our people with scope for individual responsibility and personal achievement. Our training programmes help our employees to develop both personally and professionally and reach their full potential. We carry out annual performance reviews to determine each individual's training needs and assess their performance against the previous year's targets. Our two principal UK businesses, Malvern Instruments and Servomex, have received the Investors in People award for their training, appraisal, employee development and skills programmes.

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

We do not tolerate discrimination or harassment in any form. Disabled people are recruited, trained and promoted on the basis of aptitude and ability. If employees become disabled, every effort is made to retain them and, when necessary, re-train them for appropriate posts. Our full employment policy is published on our website.

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

As Spectris grows, there is a need for a more structured approach to identify and promote talent across the Group, for example by ensuring that any obstacles that exist for women to progress are overcome and that talented women are assisted to fulfil their potential. To address this, a talent management programme was initiated during 2015 which will support the Group's growth strategy and enable more focussed deployment of our talent to our most critical activities. You can read more about our talent management programme on pages 65 and 66.

We conduct employee satisfaction surveys as part of an evaluation and measurement process, which also includes monitoring the rate of voluntary staff turnover in our key regions. This is compared against local data for our industry sector in order that our management teams can identify any unusual patterns and take the appropriate steps to improve employee retention. Voluntary turnover rates are higher in Asia than in other regions as finding and retaining staff is a challenge for all companies due to the increasing opportunities in this region. We monitor the situation closely and make every effort to retain our employees in this highly-competitive environment.

**Staff turnover**

% of staff leaving the Company voluntarily

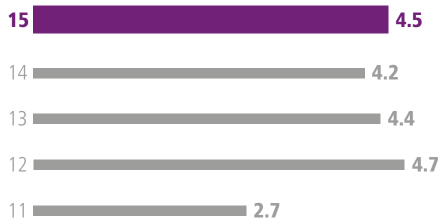
| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Total | **7.1** | 5.9 | 6.0 | 5.8 | 6.9 |
| Europe | **5.0** | 3.1 | 3.2 | 2.7 | 3.3 |
| Americas | **7.7** | 5.8 | 6.1 | 5.2 | 5.8 |
| Asia | **10.8** | 12.2 | 12.2 | 13.9 | 16.2 |

### Health and safety

As a responsible employer, we take the health and safety of our employees seriously. We are proud to have an excellent record of safety in our workplaces, but we remain vigilant and track our accident incident rate as a key performance indicator. Continuous improvement programmes focussed on health and safety aim to reduce accidents and injuries at our sites to as low a level as reasonably practical. Local health and safety managers and officers carry out regular audits and employee training and suggest improvements in working practices where appropriate in order to create a safer workplace.

**Accident incident rate**

Reportable accidents[1] per 1,000 employees




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

Each of our operating companies is responsible for implementing the Group-wide health and safety policy, and for complying with any additional local regulations. Our Group policy covers our own employees, sub-contractors and – where appropriate – our suppliers. You can read the full policy on our website. All our major locations are regularly inspected by independent assessors for their compliance with health and safety policy and procedures. Any recommendations for improvements are put into practice. A number of our UK offices have achieved certification to ISO 18001 (see section on management systems and certification opposite).

### Human rights

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

## Our customers

We serve a broad spectrum of blue-chip customers across all key manufacturing industries. We work closely with them to understand their business, which gives us a unique ability to anticipate and respond to their changing demands and fosters strong long-term relationships. You can read more about our customers on pages 19 and 20.

## Our suppliers

Our business is changing rapidly as we seek greater competitive advantage through efficiency gains and innovation, in our products and how we work, whilst addressing new regulatory requirements and expectations from commercial and social stakeholders and shareholders. Focussing on supply chain management is an important tool in achieving this. You can read more about our suppliers on pages 19 and 21. Our Supply Chain Management Policy can be found on our website.

We carry out regular inspections at our supplier sites and use the SA 8000:2008 Social Accountability Standard to assess our key suppliers against criteria such as workers' rights, workplace conditions and health, safety and the environment.

Spectris is subject to the UK Modern Slavery Act 2015 ('the Act'), which became law in March 2015. This legislation applies to three entities in the UK: the head office, Malvern Instruments and Servomex. We have updated our Supply Chain Management Policy to include our Anti-slavery and Human Trafficking Policy and are working with suppliers located in higher-risk countries to ensure both they and their supply chains conform to the standards enshrined in the Act. The policy is published on our website, well ahead of the deadline of March 2017.

## Our communities

Our social responsibilities also extend to the communities in which we operate. We seek to play a positive role in our local communities and participate in a range of activities and educational initiatives.

Community involvement and decisions on charitable donations and sponsorship are undertaken by local management teams and vary from one company to another, depending on business and regional priorities. As already described, many of the activities we undertake are aimed at supporting schools and universities to promote science, technology and engineering. We also run a number of awards and programmes aimed at encouraging and providing support for young scientists who are at the beginning of their careers.

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

## Management systems and certification

Our business comprises around 190 offices located in more than 30 countries around the world. Although the countries have different legal frameworks and requirements, our global policies are applicable across all our sites and are supplemented by local policies.

Approximately 60% of our own manufacturing operations by turnover are certified to ISO 14001:2004 for Environmental Management Systems, as is our head office. The head office and our principal UK offices have additionally obtained certification to OHSAS 18001 Occupational Health & Safety Management Systems.

Lloyd's Register Quality Assurance ('LRQA') has independently verified the data associated with energy consumption, water usage, greenhouse gas ('GHG') emissions, voluntary labour turnover and accident incident rate. The LRQA Assurance Statement confirming terms of engagement, approach, opinion and observations is available on our website.

## Looking ahead

We will continue to focus on growing our business in a sustainable way, both by developing products and services which help our customers to reduce their impact on the environment and by looking at our own processes and those of our suppliers in order to lower our direct and indirect impacts. In addition to measuring key sources of energy and GHG emissions (Scope 1 and 2), we are now monitoring the carbon implications of air travel in preparation for the likely future mandatory Scope 3 reporting requirements. As well as carrying out audits of our facilities in relation to the European Energy Efficiency Directive, once the legislation has been implemented in the remaining countries, we will also be exploring the opportunities for energy savings identified by the site audits.

Our supply chain will remain a key area of focus for 2016, with further work planned to audit our key suppliers against our environmental and social standards, particularly in Asia. We will also be reviewing our supply chain management policies and processes to ensure that we are compliant with upcoming legislation on, for example, conflict minerals, and that appropriate monitoring systems are in place.


Aimed at encouraging and supporting young scientists who are just beginning their careers, the annual PANalytical Award recognises groundbreaking research using x-ray equipment. Researchers who have never held a professorship and who use laboratory-scale x-ray equipment as their primary analytical technique are eligible to apply for the award. The winning article is chosen by a committee composed primarily of independent researchers, unaffiliated to PANalytical.

The most recent winner was Matteo Bianchini, whose article on the properties of a promising new Li-ion system, published in the Journal of Materials Chemistry, impressed the judges with its inventive approach. Mr Bianchini received the PANalytical Award trophy and €5,000 in prize money.

# ETHICS REPORT

## RUNNING OUR BUSINESS IN AN ETHICAL WAY MAKES BUSINESS SENSE

Absolute integrity underpins our approach to responsible business practice, helping us to deliver sustainable growth.

### Training, engagement and support

Our engagement strategy focusses on raising awareness among employees that running our business in an ethical way makes good business sense and providing relevant, practical training to help them with ethical decision-making.


**Our ethics training and engagement strategy:**

- _ Values and risk-based training.
- _ Interactive and engaging.
- _ Delivery by senior and line managers.
- _ Face-to-face wherever feasible.
- _ Online modules to reinforce awareness.
- _ New employees, including those who join the Group following an acquisition, receive training on the Code of Business Ethics ('the Code') and other relevant topics within six months of joining.


In 2015, Servomex wanted to engage with all its employees on the Code of Business Ethics. A new approach was needed to grab people's attention and 'Taking time to think' was conceived – a 30-minute-long interactive session tackling three different ethical dilemmas. Employees discussed potential red flags, using the Spectris Decisions Guide (shown above) to raise key questions and establish next steps. The sessions were very popular for encouraging open discussion between colleagues and because the dilemmas were specifically related to the activities of each team. So successful, in fact, that many came out of the session with the same question – when's the next one?

Refresher anti-bribery workshops were held in a number of locations across the Group to reinforce key messages. A number of training initiatives on ethical decision-making and working together were also deployed at a number of our operating companies.

In addition, following the results of our 2014 Ethics Survey, we held follow-up meetings with employees in a number of territories to better understand the feedback received and to identify improvements to the programme. A number of actions have been identified, such as reinforcing local leadership for ethics and integrity, and consideration will be given to introducing new training formats and content for 2016.

Following the launch of our fair competition training programme in 2014, face-to-face training has been delivered to around 2,000 employees in senior management, business development, sales, marketing, procurement, customer support, legal and contract management roles across the Group to date. This training was supported by a fair competition e-learning training course which was launched to around 3,000 employees. In 2016, a further module focussed on vertical agreements will be deployed across the Group.

A bespoke Code of Business Ethics e-learning training course will be launched in 2016 to provide additional interactive training for new and existing employees throughout the Group.

We remain focussed on values and risk-based engagement and are dedicated to facilitating discussion between all employees in order to build an environment in which employees feel empowered to act according to our shared values.

### Acquisition integration

When a new business joins the Group, we work with the management team to ensure that our ethics programme is rolled out as a priority. A leadership engagement session was held at ESG's head office in Kingston, Canada, in March 2015 where the management team received training on our Code. An anti-bribery and corruption module was also deployed to relevant employees, and Group standards on gifts, hospitality and entertainment and third-party due diligence have been implemented.

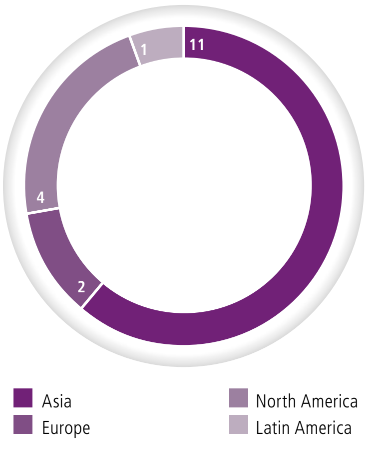
A similar process of integration is now underway at Spectraseis, a business acquired in October 2015 which is being integrated into ESG.

## A culture of openness and support

We actively encourage a culture of openness, engagement and communication, so employees feel they can discuss any issues that arise in the course of their work, and raise any concerns with their managers. Our independent Hotline (www.spectrishotline.com) gives our people, business partners and other third parties the ability to report concerns anonymously if they wish. All reports are followed up and investigated and the results are communicated to the Audit and Risk Committee every six months. We make a commitment to protect the careers and reputations of employees who report wrongdoing, as long as they do so in good faith and in the best interests of the Group.

During 2015, 18 reports were received via the Hotline and other sources, and the chart below shows the number of reports received from each region. In each case, reports were investigated and resolved and additional guidance, training and monitoring made available or disciplinary action taken, as appropriate.

**Number of reports received via the Hotline and other sources from each region during 2015**




The ethical environment in certain Asian countries continues to be challenging in relation to conflicts of interests and fair competition. As a result, actions will be taken in 2016 to strengthen our control framework. A number of issues have been brought to our attention by our employees in the region which have been investigated, and we are encouraged by their willingness to raise their concerns.

## Senior management and employee certification

Managers are expected to demonstrate ethical leadership and are required to certify annually that they have created and fostered an open ethical culture, including having either dealt with or reported any suspected violations of the Code. For certification purposes, senior management includes the Executive team, operating company Presidents as well as the Regional Presidents for Asia and South America, the Finance and Administrative Head in Russia, Vice Presidents, Country Managers, Senior Sales Managers and Ethics Officers. 100% of senior managers had confirmed compliance for the period ended 31 December 2015 as at the date of this report.

All new employees certify understanding and compliance with the Code upon completion of their initial ethics training.

## Anti-bribery and corruption

A number of actions were taken during the year to strengthen our anti-bribery and corruption compliance framework.

In relation to our third-party management programme, initially addressing our sales channel, comprehensive training was delivered to help reinforce the knowledge and skills of our sales teams and senior management who conduct due diligence and engage with our strategic partners. This strengthens our commitment to an appropriate and effective assessment and mitigation of third-party risk. 85% of our third-party relationships in the sales channel have been risk assessed to date and all new and renewing relationships are risk assessed before they are engaged. We will be extending our risk reviews to other third-party relationships during 2016.

In addition, during the year guidance was issued to operating companies on how to assess anti-bribery and corruption risks in their businesses.

## Spectris Integrity Award

We recognise the importance of celebrating and rewarding good ethical behaviour throughout the Group. The launch in 2016 of a new initiative, the Spectris Integrity Award, will go even further to recognise and reward outstanding behaviour which reflects our absolute integrity value.

The Spectris Integrity Award is a Group-wide initiative whereby employees are nominated from each operating company for demonstrating true commitment to our absolute integrity value. The award is designed to emphasise the importance of absolute integrity in our business practice and communicate success stories, providing inspiration for other employees in the Group.

Nominations will be invited from operating companies and the winners will be announced later in the year.

# FINANCIAL REVIEW

## Introduction

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures enable them to assess the underlying trading performance of the businesses. Adjusted figures exclude certain non-operational items which management have defined in Note 2 to the Financial Statements. Unless otherwise stated, figures quoted for operating profit, net interest, profit before tax, tax, earnings per share and operating cash flow are adjusted measures.

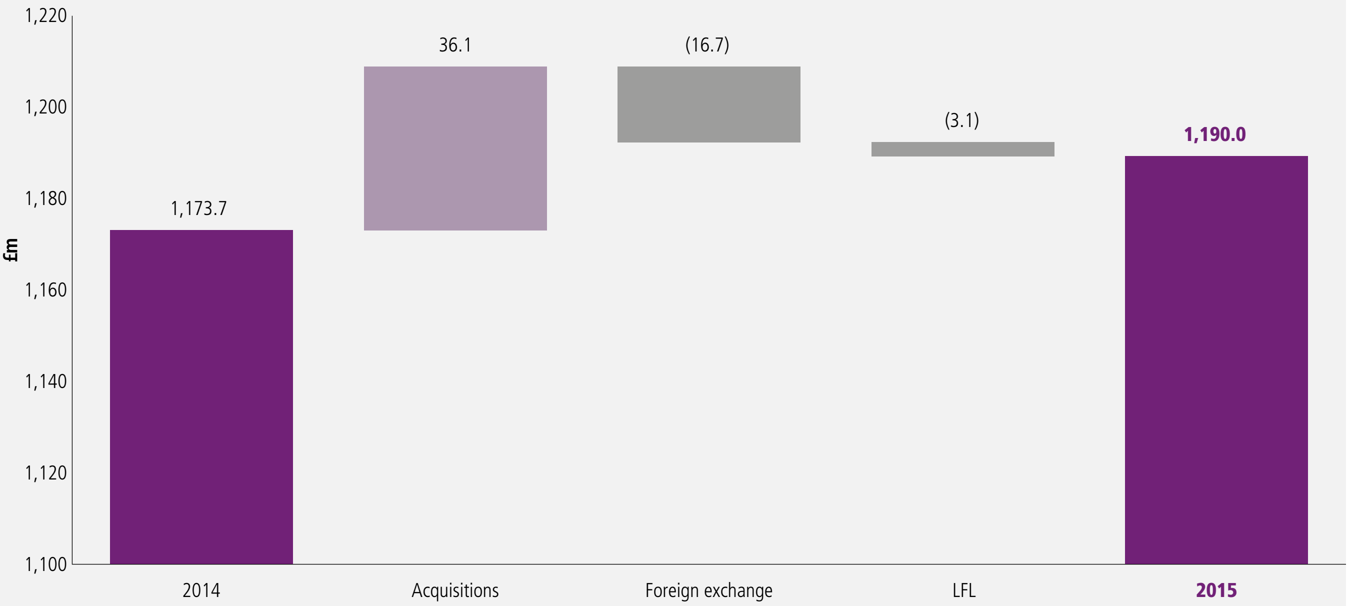
## Operating performance

| | 2015 | 2014 | Change | Like-for-like change[1] |
|---|---|---|---|---|
| **Adjusted** | | | | |
| Sales (£m) | **1,190.0** | 1,173.7 | +1.4% | -0.3% |
| Operating profit (£m) | **181.1** | 198.1 | -8.6% | -8.8% |
| Operating margin (%) | **15.2** | 16.9 | -1.7pp | -1.5pp |
| **Statutory** | | | | |
| Sales (£m) | **1,190.0** | 1,173.7 | +1.4% | |
| Operating profit (£m) | **143.6** | 168.3 | -14.7% | |
| Operating margin (%) | **12.1** | 14.3 | -2.2pp | |

1 At constant exchange rates and excluding acquisitions.

Reported sales increased 1.4% to £1,190.0 million (2014: £1,173.7 million). The year-on-year contribution to sales from acquisitions of £36.1 million (+3.1%) was reduced by adverse foreign exchange movements of £16.7 million (-1.4%) arising primarily from the strength of Sterling against the Euro, partly offsetting the impact of the stronger US Dollar, with the result that, on an organic constant currency like-for-like ('LFL') basis, sales decreased £3.1 million (-0.3%) compared with 2014, as can be seen in the chart below.

**Sales bridge**



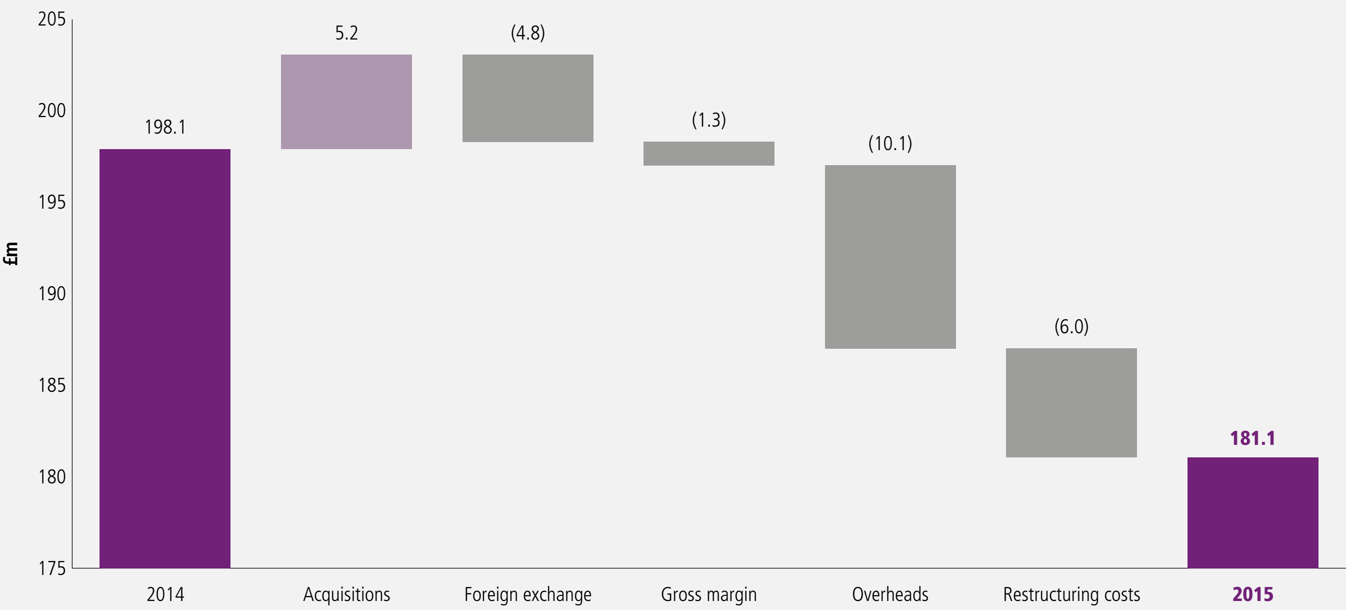
Reported gross margins of 57.4% of sales were 0.2 percentage points ('pp') lower than the prior year (57.6%). Excluding adverse foreign exchange movements (-0.4 pp) and acquisitions (+0.1 pp), LFL gross margins increased 0.1 pp. LFL gross margins improved in the Materials Analysis and Test and Measurement segments, but were lower in the In-line Instrumentation and Industrial Controls segments, reflecting the impact of lower sales, pricing pressure in specific markets and an adverse sales mix.

The combination of unchanged LFL sales, continued investment in our growth initiatives and R&D programmes, with LFL R&D spend increasing 3%, and inflationary cost increases resulted in adjusted operating profit decreasing from £198.1 million in 2014 to £181.1 million in 2015. Acquisitions contributed £5.2 million (+2.6%) to operating profit and foreign currency exchange movements had an adverse impact of £4.8 million (-2.4%), resulting in LFL operating profit declining £17.4 million (-8.8%) for the year, as shown in the chart below. The operating margin decreased 1.7 pp from 16.9% in 2014 to 15.2% in 2015, and 1.5 pp on a LFL basis.

To mitigate the effects of the low growth environment and challenging trading conditions seen particularly in North America and China, cost reduction and containment measures were put in place during the year to protect profitability, with a number of businesses initiating targetted restructuring programmes. These measures resulted in £6.8 million (2014: £0.8 million) of restructuring costs being charged against operating profit in the year with incremental benefits amounting to £3.7 million in 2015 such that the net full-year cost for 2015 is £3.1 million. The annualised benefit in 2016 arising from these measures is anticipated to be approximately £7 million.

Compared with 2014, net overheads increased £16.1 million, which included the above restructuring costs and the absence of a one-off £3.0 million R&D-related government grant which benefitted the prior year. Excluding these items, net overheads increased approximately 1.5% on a LFL basis, reflecting the focussed cost containment measures undertaken in the year.

**Operating profit bridge**




Net finance costs for the year decreased £0.8 million to £4.8 million (2014: £5.6 million) as a result of the Group's continued strong operating cash generation during the year (operating cash flow conversion of 91% compared with 89% in 2014). Although average net debt for the year was £23.5 million higher than the prior year, primarily as a result of the five acquisitions made, net finance costs benefitted from a reduction in the weighted average interest rate on debt. This followed the re-financing of the US$550 million revolving credit facility in October 2014 and the re-financing of the $75.6 million fixed rate loan in September 2015 with a new seven-year €116.2 million fixed rate loan, both of which were on more favourable terms.

Profit before tax decreased 8.4% from £192.5 million to £176.3 million.

Statutory operating profit, after including acquisition-related intangible asset amortisation and impairment of £34.6 million (2014: £25.9 million) and net acquisition-related costs and fair value adjustments of £2.9 million (2014: £3.9 million), decreased 14.7% from £168.3 million to £143.6 million. Statutory profit before tax decreased 17.2% from £171.1 million in 2014 to £141.6 million in 2015. The reconciliation of statutory and adjusted measures is shown in the following table.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **IFRS (Statutory) £m** | **Adjustments £m** | **Spectris adjusted £m** | IFRS (Statutory) £m | Adjustments £m | Spectris adjusted £m |
| Sales | **1,190.0** | **–** | **1,190.0** | 1,173.7 | – | 1,173.7 |
| Gross margin | **683.1** | **–** | **683.1** | 676.4 | – | 676.4 |
| Operating profit before acquisition-related items | **181.1** | **–** | **181.1** | 198.1 | – | 198.1 |
| Amortisation and impairment of acquisition-related intangibles | **(34.6)** | **34.6** | **–** | (25.9) | 25.9 | – |
| Net acquisition-related costs and fair value adjustments | **(2.9)** | **2.9** | **–** | (3.9) | 3.9 | – |
| **Operating profit** | **143.6** | **37.5** | **181.1** | 168.3 | 29.8 | 198.1 |
| Profit on disposal of businesses | **–** | **–** | **–** | 2.4 | (2.4) | – |
| Net gain / (loss) on retranslation of short-term inter-company loan balances | **3.0** | **(3.0)** | **–** | 6.0 | (6.0) | – |
| Net bank interest payable | **(4.6)** | **–** | **(4.6)** | (5.4) | – | (5.4) |
| Unwinding of discount factor on deferred and contingent consideration | **(0.2)** | **0.2** | **–** | – | – | – |
| Net IAS 19 (Revised) finance costs | **(0.1)** | **–** | **(0.1)** | (0.1) | – | (0.1) |
| Other finance costs | **(0.1)** | **–** | **(0.1)** | (0.1) | – | (0.1) |
| **Profit before tax** | **141.6** | **34.7** | **176.3** | 171.1 | 21.4 | 192.5 |

### Acquisitions

The Group completed five acquisitions during the year. The total cost of acquisitions in the year was £45.0 million (2014: £96.7 million), including £2.7 million (2014: £0.9 million) for cash acquired. Included in the total cost of acquisitions is an amount of £2.7 million (2014: £4.5 million) attributable to the fair value of net deferred and contingent consideration which is expected to be paid in future years. A net £0.5 million (2014: £0.3 million) was paid in respect of prior year acquisitions, making the net cash outflow in the year £40.1 million (2014: £91.6 million). Furthermore, an amount of £3.9 million (2014: £2.5 million) was spent on acquisition-related legal and professional fees, which makes the total acquisition-related cash outflow for the year £44.0 million (2014: £94.1 million). Acquisitions contributed £36.1 million (2014: £17.6 million) of incremental sales and £5.2 million (2014: £4.4 million) of incremental operating profit during the year.

### Taxation

The effective tax rate on adjusted profit before tax was 22.8% (2014: 23.2%), a decrease of 0.4 pp due to a reduction in the weighted average statutory tax rate arising from a change in the geographical mix of pre-tax profits. On a statutory basis, the effective tax rate of 19.6% (2014: 21.0%) continues to be below the weighted average statutory tax rate of 25.4% (2014: 28.1%), primarily as a consequence of R&D-related tax incentives and a tax-efficient financing structure, partly offset by a reduction in non-taxable income.

### Earnings per share

Earnings per share decreased 8.1% from 124.4p to 114.3p, reflecting the net impact of the 8.4% decrease in profit before tax, the reduction in our effective tax rate and the increase in the weighted average number of shares from 118.8 million in 2014 to 119.0 million in 2015.

Statutory basic earnings per share decreased 15.9% from 113.7p to 95.6p. The difference between the two measures is shown in the table below.

| | **2015 Pence** | 2014 Pence |
|---|---|---|
| Statutory basic earnings per share | **95.6** | 113.7 |
| Amortisation and impairment of acquisition-related intangible assets | **29.1** | 21.8 |
| Net acquisition-related costs and fair value adjustments | **2.4** | 3.3 |
| Profit on disposal of businesses | **–** | (2.0) |
| Net gain on retranslation of short-term inter-company loan balances | **(2.5)** | (5.1) |
| Unwinding of discount factor on deferred and contingent consideration | **0.2** | – |
| Tax effect of the above and other non-recurring items | **(10.5)** | (7.3) |
| Adjusted earnings per share | **114.3** | 124.4 |

## Cash flow

| **Operating cash flow** | **2015 £m** | 2014 £m |
|---|---|---|
| Operating profit | **181.1** | 198.1 |
| Depreciation and software amortisation | **24.4** | 21.7 |
| Working capital and other movements | **(13.8)** | (16.7) |
| Capital expenditure | **(26.0)** | (27.4) |
| Operating cash flow | **165.7** | 175.7 |
| Operating cash flow conversion | **91%** | 89% |

| **Non-operating cash flow** | | |
|---|---|---|
| Tax paid | **(33.5)** | (43.0) |
| Net interest paid | **(4.5)** | (6.3) |
| Dividends paid | **(56.9)** | (52.3) |
| Acquisition of businesses, net of cash | **(40.1)** | (91.6) |
| Acquisition-related costs paid | **(3.9)** | (2.5) |
| Exercise of share options | **0.3** | 0.3 |
| Foreign exchange | **(0.1)** | (1.8) |
| Total non-operating cash flow | **(138.7)** | (197.2) |
| Operating cash flow | **165.7** | 175.7 |
| Reduction in net debt | **(27.0)** | (21.5) |

The year-end trade working capital to sales ratio increased to 16.6% from 15.3% in 2014, a 1.3 pp increase. Average trade working capital, expressed as a percentage of sales, increased to 15.4% (2014: 13.3%), a 2.1 pp increase, of which 0.3 pp related to foreign exchange. Excluding acquisitions, the increase in working capital arose primarily within the In-line Instrumentation segment due to higher inventory levels to support new product launches and a higher level of receivables due to the timing of sales, and within the Industrial Controls segment due to higher inventory levels from lower sales.

Capital expenditure during the year equated to 2.2% of sales (2014: 2.3%) and, at £26.0 million (2014: £27.4 million), was 107% of depreciation and software amortisation (2014: 126%), primarily due to ongoing investments in property and infrastructure in Europe and North America.

Overall, net debt decreased £27.0 million (2014: decrease of £21.5 million) from £125.6 million to £98.6 million. Interest costs, excluding the financing charge arising from IAS 19 (Revised) and other finance costs, were covered by operating profit 39.4 times (2014: 36.7 times).

## Financing and treasury

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

As at 31 December 2015, the Group had £526.2 million of committed facilities denominated in different currencies, consisting of a five-year US$550 million (£371.1 million) revolving credit facility maturing in October 2019, a seven-year €94.8 million (£69.7 million) term loan maturing in October 2020, and a seven-year €116.2 million (£85.4 million) term loan maturing in September 2022. The revolving credit facility was undrawn at the year end. In addition, the Group had a year-end cash balance of £58.2 million, together with other uncommitted facilities of £1.7 million.

At the year end, the Group's borrowings amounted to £156.8 million, 99% of which was at fixed interest rates (2014: 76%). The ageing profile at the year end showed that 1% of year-end borrowings are due to mature within one year (2014: 32%), 44% between two and five years (2014: 22%) and 55% in more than five years (2014: 46%).

## 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 receivable, trade payable and cash balances are held.

After matching the currency of revenue with the currency of costs wherever practical, forward exchange contracts are used to hedge a proportion (up to 75%) of the remaining forecast net transaction flows where there is reasonable certainty of an exposure. At 31 December 2015, approximately 60% of the estimated net Euro, US Dollar and Japanese Yen exposures for 2016 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, Japanese Yen and Swiss Franc. Translational exposures are not hedged. The table below shows the key average exchange rates compared to Sterling during 2015 and 2014.

| | **2015 (average)** | 2014 (average) |
|---|---|---|
| USD | **1.53** | 1.65 |
| EUR | **1.38** | 1.24 |
| JPY | **185** | 174 |
| CHF | **1.47** | 1.51 |

To demonstrate the transactional and translational currency exposures 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 2015 before reflecting the effect of transactional hedges taken out in the year.

Revenue and cost by major currency:

| | USD[1] | EUR[1] | GBP | JPY | Other | **Total** |
|---|---|---|---|---|---|---|
| Total sales (£m) | 519 | 380 | 78 | 55 | 158 | **1,190** |
| % of sales | 44 | 32 | 7 | 5 | 12 | **100** |
| Total costs (£m)[2] | (402) | (305) | (85) | (32) | (190) | **(1,014)** |
| Profit before tax by currency (£m) | 117 | 75 | (7) | 23 | (32) | **176** |
| % of profit before tax | 66 | 43 | (4) | 13 | (18) | **100** |

1 Dollar / Euro categories include tracking currencies.

2 Costs include interest of £2.4 million in USD and £2.3 million in EUR.

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

## Like-for-like methodology

The Group uses the non-statutory LFL performance metric, which excludes the impact of acquisitions and foreign currency movements, to measure the underlying performance of businesses. The standard methodology for calculating LFL performance is based on using each entity's functional currency result (i.e. sales or operating profit) and translating it into its presentation currency using the prior year's exchange rate, irrespective of the underlying transaction currencies. However, the underlying transactional exposure can have a major impact on the LFL calculation when there are a significant number of transactions in currencies other than the functional currency and during periods of currency volatility.

Within the In-line Instrumentation segment, the BTG business has large functional currency mismatches against its underlying transaction currencies which distort LFL comparisons at times of significant currency movements. This applies primarily to BTG's largest operation in Switzerland, but also to a lesser extent to its operations in Sweden and China. Within the Swiss business, approximately 7% of sales and almost 70% of costs are denominated in Swiss Francs ('CHF') with the consequence that LFL results are distorted by applying our standard methodology for translating the functional currency to Sterling, the Group's presentation currency. The effect of this mismatch was emphasised following the unpegging of the CHF against the Euro by the Swiss National Bank in January 2015, which led to a sharp appreciation of the CHF against the Euro. Accordingly, we have modified the basis upon which BTG's LFL results are translated into Sterling by using the actual underlying transaction currency mix for determining translational gains / losses to provide more accurate and reliable information on BTG's underlying performance. This modified approach has not been applied to any other operating company as BTG is the only business within the Group with a significant functional currency mismatch for LFL reporting purposes.

If the standard LFL methodology had been used for BTG, Group LFL sales growth for 2015 would have been 33 basis points ('bps') (2014: 9 bps) lower, and LFL sales growth for the In-line Instrumentation segment would have been 147 bps (2014: 38 bps) lower. For the avoidance of doubt, the reported results of the Group and the In-line Instrumentation segment, under IFRS, remain unchanged as a result of the application of the modified LFL methodology for BTG.

## 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 £5.6 million) has increased to £22.1 million (2014: £14.0 million). The movement can be summarised as follows:

| | £m |
|---|---|
| Net deficit in defined benefit schemes as at 31 December 2014 | **(14.0)** |
| Actuarial losses | **(7.9)** |
| Contributions in excess of current service cost | **(0.1)** |
| Past service credit | **0.3** |
| Scheme administration costs | **(0.3)** |
| Expected return on pension scheme assets net of interest costs on pension scheme liabilities | **(0.1)** |
| Net deficit as at 31 December 2015 | **(22.1)** |

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

| £m | UK | Germany | Netherlands | Switzerland | Total overseas | **Net total** |
|---|---|---|---|---|---|---|
| Surplus / (deficit) as at 31 December 2014 | 3.6 | (7.7) | (1.7) | (8.2) | (17.6) | **(14.0)** |
| Change in year | (5.6) | 0.2 | (0.2) | (2.5) | (2.5) | **(8.1)** |
| Deficit as at 31 December 2015 | (2.0) | (7.5) | (1.9) | (10.7) | (20.1) | **(22.1)** |

The UK plan surplus of £3.6 million at 31 December 2014 decreased £5.6 million to a deficit position of £2.0 million at 31 December 2015 due to investment returns being lower than expected. The net deficit for the overseas plans increased £2.5 million to £20.1 million primarily due to changes in market conditions during the year, in particular a fall in the discount rates used to value the plans' liabilities.

The Strategic Report was approved by the Board of Directors on 16 February 2016.

By order of the Board

**Roger Stephens**
Company Secretary

# BOARD OF DIRECTORS

## Dr John Hughes CBE
**Chairman**

Appointed June 2007. Appointed Chairman in May 2008

Committees Nomination (Chairman)

Skills and experience Dr John Hughes CBE has more than 30 years' experience leading global, high-technology businesses. He has significant experience of managing growth companies, especially those supplying complex solutions and services to business customers and the development of leadership teams. He previously held senior executive positions at Thales Group, Lucent Technologies and Hewlett Packard, and was non-executive chairman of Intec Telecom Systems plc, a non-executive director of Chloride Group plc and the Vitec Group plc. Until 2015 he was executive chairman of Sepura plc. In 2016 he stepped down as executive chairman of Telecity Group plc.

Other current appointments Non-executive chairman of Just Eat plc. Non-executive director of CSG International Inc. and Equinix Inc. (both NASDAQ-listed companies). Ambassador for the Alzheimer's Society.

## John O'Higgins
**Chief Executive**

Appointed January 2006

Committees Nomination, Executive, Disclosure, Finance

Skills and experience John O'Higgins has a wealth of experience in the global instrumentation and controls industry, having previously worked for Honeywell in a number of management roles, including as president of automation and control solutions, Asia Pacific. His career began as a design engineer at Daimler-Benz in Stuttgart. He has engineering degrees from University College Dublin and Purdue University and an MBA from INSEAD.

Other current appointments None.

## Peter Chambré
**Non-executive Director**

Appointed August 2006

Committees Audit and Risk, Nomination, Remuneration

Skills and experience Peter Chambré has extensive experience in the pharmaceutical industry and significant board experience, having held a number of senior executive and non-executive positions in healthcare companies, including as chief executive officer of Cambridge Antibody Technology Group plc (until its acquisition by AstraZeneca PLC in 2006), chairman of ApaTech Limited and non-executive director of BTG plc. Prior to that he was chief operating officer of Celera Genomics Group and chief executive of Bespak plc.

Other current appointments Chairman of 7TM Pharma A/S, Immatics Biotechnologies GmbH and Cancer Research Technology Ltd. Director of OneMed Sverige AB and Imperial Innovations Group plc.

## Lisa Davis
**Non-executive Director**

Appointed April 2014

Committees Nomination, Remuneration

Skills and experience Lisa Davis has significant experience within the oil and gas industry and process plant operations. She is currently a member of the Siemens AG managing board and is chair of Siemens Corporation in the USA, where her responsibilities include the Americas, power and gas, wind power and renewables and power generation services. She was formerly executive vice president of strategy, portfolio and alternative energy, Shell International Petroleum Company.

Other current appointments None.

## Russell King
**Senior Independent Director**

Appointed October 2010

Committees Nomination, Remuneration (Chairman)

Skills and experience Russell King brings considerable international experience, acquired across a number of sectors including mining and chemicals, together with strong experience in strategy. He was previously chief strategy officer of Anglo American PLC and a non-executive director of Anglo Platinum Ltd. Prior to that he spent over 20 years in senior roles at ICI.

Other current appointments Chairman of Hummingbird Resources Plc and Sepura plc. Non-executive director of Aggreko plc and Interserve Plc. Senior adviser to Heidrick & Struggles. Serves on the Executive Remuneration Working Group, established by the Investment Association.

## Ulf Quellmann
**Non-executive Director**

Appointed January 2015

Committees Audit and Risk, Remuneration

Skills and experience Ulf Quellmann brings broad general management experience and considerable knowledge of the metals, minerals and mining industry having worked in the sector for the past 12 years. He is currently global head of treasury at Rio Tinto plc. Previously he held senior positions at Alcan Inc including vice president, investor relations and media relations, and chief pension investment officer and assistant treasurer. Prior to that he held senior management positions at General Motors, including as senior manager, capital planning, and managing director of Vauxhall Master Hire.

Other current appointments None.

## Bill Seeger

**Non-executive Director**

Appointed January 2015

Committees Audit and Risk (Chairman)

Skills and experience Bill Seeger brings significant corporate finance and accounting experience, having formerly been the group finance director of GKN plc and prior to that president and CEO of the propulsion systems and special products division and CFO in the aerospace division of GKN. He spent most of his career at TRW, latterly in senior finance roles, including as vice president, financial planning and analysis, and vice president, finance, of TRW Automotive.

Other current appointments Non-executive director and chairman of the audit committee of Smiths Group plc. Visiting Professor at UCLA Anderson School of Management.

## Clive Watson

**Group Finance Director**

Appointed October 2006

Committees Executive, Disclosure, Finance

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

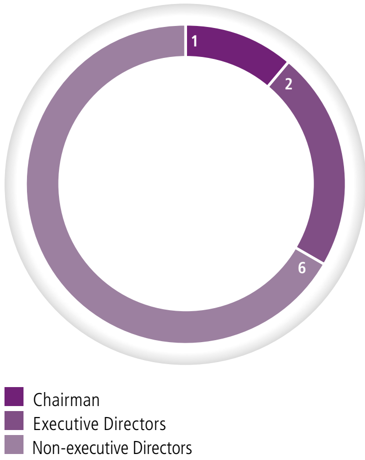
Other current appointments Non-executive director and chairman of the audit committee of Spirax-Sarco Engineering plc.

**Past Directors**

John Warren

Retired as a Non-executive Director on 24 April 2015.

**Membership of the Board**




## Martha Wyrsch

**Non-executive Director**

Appointed June 2012

Committees Audit and Risk, Nomination

Skills and experience Martha Wyrsch has held a number of senior positions in the energy industry and has significant experience of the US market. She currently holds the position of executive vice president and general counsel of Sempra Energy, a company quoted on the New York Stock Exchange. Previously, she was president of Vestas Americas, a subsidiary of Vestas Wind Systems A/S, and prior to that she was president and CEO of Spectra Energy Transmission. Until recently she was a non-executive director of SPX Corporation.

Other current appointments Director of the Cristo Rey Network (a US educational foundation), San Diego Gas & Electric Company (a wholly-owned subsidiary of Sempra Energy) and Southern California Gas Company (a publicly-traded company in the USA).

## Roger Stephens

**Head of Commercial and Company Secretary**

Appointed January 1997

Committees Executive, Disclosure, Finance

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

# EXECUTIVE COMMITTEE MEMBERS

## Jo Hallas

**Business Group Director**

for the In-line Instrumentation and Industrial Controls segments

Appointed May 2014

Committees Executive

Skills and experience Jo Hallas has extensive management expertise in a range of engineering and industrial businesses, having previously been general manager residential controls at Invensys plc. Prior to this, she was at the Bosch Group where she held management positions in both the UK and Germany. She started her career at Procter & Gamble where she served in a number of management roles in Germany, the USA and Asia.

Other current appointments Non-executive director and chairman of the remuneration committee of Norcros plc.

**Read the overview from the Business Group Director**
Page 38

## Ken Smith

**President, Asia Pacific**

Appointed July 2012

Committees Executive

Skills and experience Ken Smith has over 30 years' engineering and industrial business experience, 23 of which have been spent in Asia. Having started his career in Switzerland, with various management positions in R&D and product portfolio management, he moved to Asia where he had a number of operational roles, including president of Schindler Japan and president Asia and global materials division for Deloro Stellite.

Other current appointments None.

**Read the biographies for John O'Higgins, Chief Executive, Clive Watson, Group Finance Director and Roger Stephens, Head of Commercial and Company Secretary, who are members of the Executive Committee**
Pages 56 and 57

## Eoghan O'Lionaird

**Business Group Director**

for the Materials Analysis and Test and Measurement segments

Appointed February 2014

Committees Executive

Skills and experience Eoghan O'Lionaird has wide-ranging engineering and commercial expertise, having previously been president of the Leica Microsystems division of Danaher Corporation in Germany. Prior to this, he spent 11 years in Philips in a number of management roles, latterly as CEO of the respironics sleep business unit based in the USA. He started his career with Mitsui Mining & Smelting where he held a number of engineering and commercial positions.

Other current appointments None.

**Read the overview from the Business Group Director**
Page 34

## Robin Stopford

**Group Head of Corporate Development**

Appointed November 2013

Committees Executive

Skills and experience Robin Stopford has extensive experience in leading corporate growth, from the development of the strategy through to its implementation, within diverse industrial groups such as Doncasters and Low & Bonar PLC. Robin also spent several years at Bain & Company, the leading strategy consultants. Robin began his career at Rolls-Royce plc where he served in a variety of engineering and management roles.

Other current appointments None.

# CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

**Dr John Hughes CBE**
Chairman

I am pleased to present the Corporate Governance Report which sets out how the Board functions and how it sets the culture and values of the Company. At Spectris we are committed to maintaining high standards of governance, both at Board level and throughout the Group. We see this as fundamental to the effective and responsible management of the business and for the delivery of shareholder value over the long term.

We particularly emphasise the strong relationship that exists between ethics and governance and the role of the Board in demonstrating ethical leadership. The standards we require are set out in our Code of Business Ethics, which is communicated to all our employees and business partners. Further details can be found in the Ethics Report on page 48.

During 2015, the Board agreed an evolution of the strategy with a renewed emphasis on growth, including a shift in emphasis from the supply of products towards the provision of complete solutions. The implementation of the enhanced strategy aims to deliver long-term growth and build on the Company's strong financial position to continue to generate shareholder value. To ensure that the Group has the talent and capability to deliver these strategic objectives a talent management programme was launched during the year. Further details on the Company's strategy can be found in the Strategic Report on pages 22 and 23. Details of the talent management programme are on pages 65 and 66.

Yours faithfully

**Dr John Hughes CBE**
Chairman
16 February 2016

## GOVERNANCE PRIORITIES FOR 2016

Looking forward to 2016, our governance priorities will be:

_ Talent management.
_ Ethics and compliance enhancements.
_ Remuneration policy review.

**Corporate Governance Code Statement of Compliance**

As a company listed on the London Stock Exchange, Spectris is subject to the 2014 UK Corporate Governance Code ('the Code'). A copy of the Code is available at www.frc.org.uk. The Board considers that throughout the financial year ended 31 December 2015, and as at the date of this report, the Company was in full compliance with the provisions of the Code. This report sets out how the Company applied the principles of the Code during 2015.

# LEADERSHIP

### Governance structure

The governance of the Group is structured through a hierarchy of committees that approve and monitor the strategies and policies under which the Company operates. This structure comprises a mixture of Board and management committees, as illustrated in the diagram opposite.


### Priority areas in 2015

In addition to the Board's role in overseeing the Company's financial performance and the Company's businesses, during the year, the following items and initiatives were delivered:

| | | See page |
|---|---|---|
| **Acquisitions** | A continued programme of bolt-on acquisitions was delivered during the year, with five acquisitions completed. Detailed scrutiny of each potential acquisition was undertaken by the Board with a focus on the strategic rationale and financial business case to ensure that each case can meet the expected cash flow return on investment. | 22 |
| **Strategy** | During the year, the Board reviewed progress against the Group's strategy and considered opportunities within our key markets. An evolution of the Group's strategy with a renewed emphasis on growth was announced at our Capital Markets Day. Our strategic objective is to deliver long-term and sustainable shareholder value by creating and providing productivity-enhancing innovative solutions and services to our customers. | 6 |
| **Operational excellence** | Best practice examples from the Group were shared at the Presidents' meeting held in March and a number of Lean Six Sigma initiatives were implemented within our businesses. This is a key element of the enhanced strategy. | 22 |
| **Talent management** | Talent management and succession planning for Executive and senior management roles across the Group is an area of key priority to ensure that the Group has talent to deliver its strategic objectives. Group-wide competencies have been adopted across the Group to create a common understanding and language of what constitutes good leadership at Spectris. | 66 |
| **Information security** | The Board, through the work of the Audit and Risk Committee, increased its focus on information security risks by overseeing the implementation of a number of risk management initiatives in this area and agreeing the operating model for the future. | 74 |
| **Viability statement** | The Audit and Risk Committee provided assistance to the Board in relation to the viability statement. This included a thorough review of business viability and the Group's risk management processes which resulted in a number of enhancements being implemented. | 72 |

## How the Board operates

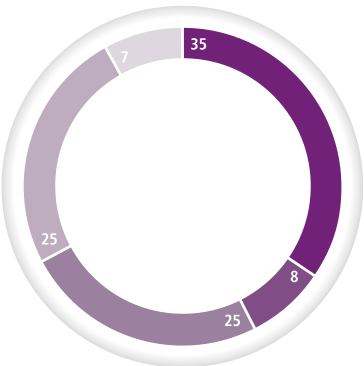
A clearly-defined framework of roles, responsibilities and delegated authorities is in place which supports the Board's aim to deliver long-term shareholder value. The powers of the Directors are set out in the Company's Articles of Association ('the Articles'), which are available on the Company's website. The Articles may be amended by special resolution. In addition, the Directors have responsibilities and duties under legislation, in particular the Companies Act 2006 ('the Act').

The Board has a schedule of matters specifically reserved for its approval. A summary is shown below and the full schedule is available on application to the Company Secretary. The Board also delegates other matters to Board Committees and management as appropriate.

The responsibilities of the Board include:

_ the Company's long-term objectives and strategy;
_ setting the tone for the Company's culture;
_ annual financial planning;
_ the acquisition and disposal of businesses;
_ major capital expenditure;
_ the appointment and (if necessary) removal of Directors; and
_ Board and senior management succession.

### Board allocation of time (%)




### Board and Committee meeting attendance during the year

| | Board | Audit and Risk Committee[1] | Nomination Committee[2] | Remuneration Committee[3] |
|---|---|---|---|---|
| Total meetings during year | 7 | 4 | 2 | 4 |
| Dr John Hughes CBE | 7 | n/a | 2 | n/a |
| John O'Higgins | 7 | n/a | 2 | n/a |
| Peter Chambré | 7 | 4 | 2 | 3 |
| Lisa Davis | 6 | 2 | 2 | 2 |
| Russell King | 7 | 2 | 2 | 4 |
| Ulf Quellmann | 7 | 4 | 1 | 4 |
| Bill Seeger | 7 | 4 | 1 | 2 |
| Martha Wyrsch | 7 | 3 | 2 | 2 |
| Clive Watson | 7 | n/a | n/a | n/a |
| John Warren[4] | 3 | 2 | 1 | 2 |

1 Lisa Davis and Russell King stepped down from the Committee with effect from 27 February 2015.
2 Ulf Quellmann and Bill Seeger stepped down from the Committee with effect from 27 February 2015.
3 Bill Seeger and Martha Wyrsch stepped down from the Committee with effect from 27 February 2015.
4 John Warren retired from the Board with effect from 24 April 2015. He attended all meetings he was eligible to attend.

## Meetings

The Board meets formally at regular intervals throughout the year to continuously assess and review key priorities and business issues for the Group over the short, medium and long term. Additional meetings are convened as required to consider specific topics requiring immediate decision. Comprehensive papers are presented to the Board which facilitate meaningful debate on the performance and the future direction of the Company.

All Directors are expected to attend all Board and relevant Committee meetings. Details of attendance by Directors at Board and Committee meetings during 2015 are set out in the table above. Where a Director was not in attendance, this was due to other prior work commitments. Directors who were unable to attend specific Board or Committee meetings reviewed the relevant papers and provided their comments to the Chairman of the Board or Committee, as appropriate. The Head of Commercial and Company Secretary, Roger Stephens, attends all meetings as Secretary of the Board. In addition, members of the Executive Committee, other senior managers from around the Group and external advisers are invited to provide input on particular agenda items.

## Matters reserved and delegation

Authority for operational decisions is delegated by the Board to senior management at operating company level, over which the Executive Directors exercise supervision.

## Committees

The Board delegates specific responsibilities to its Committees, notably the Audit and Risk, Nomination and Remuneration Committees. A chart setting out the Company's Board Committees' structure is set out on page 60. Each Committee has formal terms of reference which are available on the Company's website. The responsibilities of each Board Committee, its membership and the key issues considered by each during 2015 are set out in the Committee reports.

During 2015, the membership of each Committee was reviewed in light of the appointment of additional Non-executive Directors. It was agreed that the number of Committees each Non-executive Director serves on would be reduced to allow each Director to focus on their particular Committee responsibilities. To ensure the Board is kept informed of the work of the Committees, the Committee Chairmen provide regular updates to the Board. In addition, papers and minutes of Committee meetings are made available to all Directors.

### Composition and appointments

The Board comprises a balance of Executive Directors and independent Non-executive Directors which promotes thorough debate and consideration of the important issues facing Spectris and the Group's performance. At the date of this report, there are a total of nine Directors, of whom two are Executive and six are Non-executive, in addition to the Chairman.

Ulf Quellmann and Bill Seeger were appointed to the Board as Non-executive Directors with effect from 1 January 2015. A formal, rigorous and transparent process is followed during the selection and subsequent appointment of new Directors to the Board. Details regarding their appointment process can be found on page 66 and their induction process can be found on page 63.

### Roles

The roles of Chairman and Chief Executive are separate, formalised in writing and have been approved by the Board. A summary of these roles is shown below and full role descriptions are available to shareholders on application to the Head of Commercial and Company Secretary.

The Chairman is responsible for the leadership and management of the Board. In doing so, he is responsible for promoting a culture of openness and debate by facilitating the effective contribution of all Directors. In addition, he is responsible for ensuring that the Directors receive accurate, timely and clear information.

The Chief Executive is responsible for the executive leadership and day-to-day management of the Company and for developing and delivering the strategy.

The Senior Independent Director provides a sounding board for the Chairman and serves as an intermediary for the other Directors and shareholders when necessary.

During the year, the Non-executive Directors, including the Chairman, met independently of management.

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

### Professional advice and support

The Directors have full access to the advice and services of the Head of Commercial and Company Secretary, who is responsible for advising the Board through the Chairman on corporate governance matters. They are also able to seek independent professional advice at the Company's expense in respect of their duties.

### Indemnity and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors, members of the Executive Committee and senior managers. Qualifying third-party indemnity provisions (as defined by Section 234 of the Act) were in force during the year ended 31 December 2015 and remain in force. The Company also maintains directors' and officers' liability insurance.

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Blue 4 is based on an evaluation of behaviours and activities shown to underpin outstanding performance of company boards. These behaviours are considered in terms of five elements – strategy, communication, decision-making, governance and performance review.

These five categories represent the major accountabilities of the Board. Effectiveness of each element helps to ensure the short- and long-term success of the Company. Feedback on these five elements was presented in terms of four criteria:

_ quality of Board engagement behaviours;
_ Board effectiveness in each area;
_ how important the Board considers each area to be; and
_ the amount of time the Board spends on each area.

Feedback from the survey confirmed that the Board is performing at a high level across all areas. However, a number of opportunities for enhancement were identified, including less formality on occasions and a desire for greater time for quality discussions at a strategic level. These improvement areas will be further considered and taken forward by the Board during 2016.

# EFFECTIVENESS

## Chairman and Non-executive Directors

On the appointment of John Hughes in 2007, the Board considered that he met the independence criteria set out in the Code. The Chairman's significant listed company interests are as set out in his biography on page 56. The Board has formally reviewed the Chairman's other commitments and confirms that it believes that the Chairman's obligations to the Company are properly fulfilled notwithstanding these directorships. In fact, these roles provide the Chairman with additional skills and experience which benefit the Board.

Non-executive Directors are appointed pursuant to letters of appointment. The appointment of all Non-executive Directors can be terminated by the Company at any time on six months' written notice and are renewable at each Annual General Meeting ('AGM') of the Company, subject to review prior to proposal for re-election. The time commitments of Non-executive Directors are defined on appointment. The role of our Non-executive Directors is to bring independent judgement to bear on issues of strategy, performance and standards of conduct. They form the Audit and Risk, Nomination and Remuneration Committees.

During the year, Peter Chambré completed nine years in office. The Board continues to regard him as an independent Non-executive Director as he continues to make a valuable and independent contribution to deliberations and also is free from any business or other relationship with the Company. The Board particularly values his expertise in the life science segment which is of strategic relevance to the Materials Analysis businesses, which is considered important at this time.

All of our Non-executive Directors are considered to be independent and free from any business interest which could materially interfere with the exercise of their judgement. In addition, all of our Non-executive Directors have assured the Board that they remain committed to their respective roles. The Board is satisfied that each Non-executive Director is able to dedicate the necessary amount of time to the Company's affairs and that the external positions held bring valuable knowledge, experience and perspectives to Board discussions and the Group. Details of the Nomination Committee's consideration of Institutional Shareholder Services ('ISS') 2016 Proxy Voting guidelines can be found on page 65.

The Board has agreed that each Director shall stand for re-appointment at the AGM, with the exception of Lisa Davis who shall retire from the Board at the 2016 AGM.

Details of the Directors of the Company are set out with their biographies on pages 56 and 57. Details of Directors' service contracts or letters of appointment, in the case of Non-executive Directors, emoluments and share interests are set out in the Remuneration Report on pages 77 to 93. Copies of Directors' service contracts and letters of appointment for the Non-executive Directors are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

## Performance evaluation

Each year the Board, its Committees and Directors are evaluated considering, among other things, the balance of skills, experience, independence and knowledge on the Board, its diversity (in the widest sense), how it works together as a unit and other relevant factors. During 2015, the Board trialled the Board Effectiveness Profile Model ('Blue 4') being developed by Glowinkowski International. See the case study on page 62 for further details of Blue 4. The Board intends to conduct an externally-led evaluation during 2016.

## Induction

All new Directors appointed to the Board receive an induction programme tailored to meet their individual needs. Both Ulf Quellmann and Bill Seeger (appointed to the Board on 1 January 2015) discussed with the Chairman what briefings and meetings would be most beneficial to them to ensure an effective induction following their appointments. As a result, tailored induction programmes were designed for each Director, which included briefings from members of the Executive team and other senior managers from both head office and the operating companies. Briefings included key areas of the business such as the internal audit function, an overview of the Group's risk management processes and key risks facing the business, and a comprehensive site visit programme which included BTG, Malvern Instruments, NDC Technologies and Omega Engineering.

## Training

The Chairman reviews each Director's training and development needs annually. To enhance the Directors' deep understanding of our business, the June Board meeting was held at BTG's Eclépens site. This gave the Board the opportunity to meet senior staff at the operating company, attend a site visit of the BTG factory and receive a presentation from the BTG management team.

The Directors also received regular updates and presentations. These included changes and developments to the business and to the legislative and regulatory environments in which the Group operates. In particular, the following briefings were provided during 2015:

- public market trends update;
- market overview update;
- trading and share price performance presentation from the Company's brokers; and
- changes to the Code, in particular the introduction of the viability statement.

# NOMINATION COMMITTEE REPORT

## LETTER FROM THE CHAIRMAN OF THE NOMINATION COMMITTEE

**Dr John Hughes CBE**
Chairman of the Nomination Committee

Ensuring we attract and retain the best talent through the talent management programme is vital for the delivery of the Group's strategy.

I am pleased to present our Nomination Committee Report for 2015.

The recently published Financial Reporting Council ('FRC') discussion paper on UK Board Succession Planning was considered by the Committee during the year. This resulted in the Committee being delegated additional responsibility for Group-wide succession planning and for oversight of the talent management programme throughout the Group. This will ensure that we have an effective framework in place to develop talent throughout our business and ensure that there is an appropriate Group talent pipeline. Further detail is provided on pages 65 and 66.

Yours faithfully

**Dr John Hughes CBE**
Chairman of the Nomination Committee
16 February 2016

### Role of the Committee

The Committee reviews the size, structure and composition (including skills, structure and diversity) of the Board and its Committees and reviews the results of the annual Board performance evaluation. It considers succession planning for Directors, Executive Committee members and senior leadership and ensures that there is a formal and appropriate procedure for such appointments. The Committee considers the independence of the Non-executive Directors and is responsible for leading the Board appointment process and for making recommendations to the Board.

### Composition of the Committee

The Nomination Committee is appointed by the Board. Its members are:

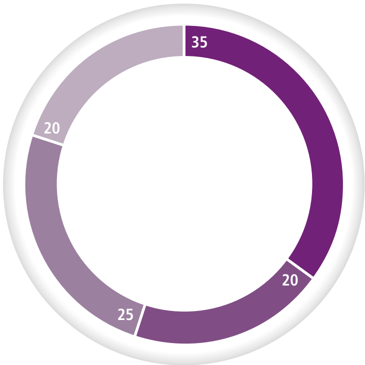
_ Dr John Hughes CBE (Chairman)
_ John O'Higgins
_ Peter Chambré
_ Lisa Davis
_ Russell King
_ Martha Wyrsch

In the event of discussions relating to the Chairman's succession, the Senior Independent Director would take the chair.

### Committee meetings

The Committee met twice during the year. Committee attendance is disclosed on page 61. At the invitation of the Committee, any Director or other person may be invited to attend meetings of the Committee if considered desirable in assisting the Committee in fulfilling its role.

**Nomination Committee allocation of time (%)**




- Board and Executive succession planning and recruitment, including the talent management programme
- Independence and (re-)election of Directors
- Composition of the Board and Committees
- Committee governance

### Activities in 2015

Key issues considered by the Committee during the year included:

_ a review of Committee membership;
_ Board succession planning;
_ an overview of the talent management programme;
_ the Committee's terms of reference;
_ a review of Non-executive Directors whose length of service was more than six years; and
_ a review of the skills of each of the Directors and the independence of each of the independent Non-executive Directors prior to the 2015 AGM and recommendation that each of them be subject to re-election at the 2015 AGM.

#### Non-executive Director tenure

The chart below indicates the length of tenure for each Non-executive Director. Any extension of the appointment beyond nine years' service would require close review by the Committee of the individual's continued independence, effectiveness and contribution to the Board's deliberations.

#### ISS 2016 proxy voting guidelines

At its February 2016 meeting, the Committee considered the ISS' 'overboarding' policy which was introduced in their revised guidelines. The Committee carefully assessed each Director's appointment against the guidelines. It was concluded that other directorships provide valuable experience, knowledge and perspectives for the Group. In addition, attendance at Board and Committee meetings for all Directors was more than 75% for the previous two years.

#### Succession planning and talent management

Succession planning throughout the business is vital for the delivery of the Group's strategy. The Group seeks to attract and retain the best talent and we have in place compensation and benefits that reward achievement and training programmes to help employees develop and reach their full potential. A talent management programme was initiated during the year to support the Group's growth strategy. The programme will enable an improved employee value proposition to aid the hiring, development and retention of talent and enable more focussed deployment of our talent to our most critical activities. A Group-wide set of leadership competencies to provide a consistent way to assess talent and an easily accessible language for giving feedback and supporting development was established and an organisational capability assessment carried out.

# NOMINATION COMMITTEE REPORT CONTINUED

At its December meeting, the Committee reviewed the initial work carried out as part of the talent management programme and organisation capability assessment. During 2016, the competency model and organisation capability review will be deployed throughout the Group. In addition, the Committee considered the FRC's discussion paper on UK Board Succession Planning. It was recognised that good succession planning below Executive level would ensure an appropriate talent pipeline, contribute to the longer-term success of the Group and would be an enabler to delivering the Company's strategy. To ensure that there was appropriate Board-level responsibility, the Board delegated to the Committee oversight of talent management.

### Recruitment process

Led by the Chairman, the recruitment processes undertaken for the appointment of Ulf Quellmann and Bill Seeger were formal, rigorous and transparent. The Committee appointed executive search consultancy, Egon Zehnder, and the following process was undertaken for the appointments:

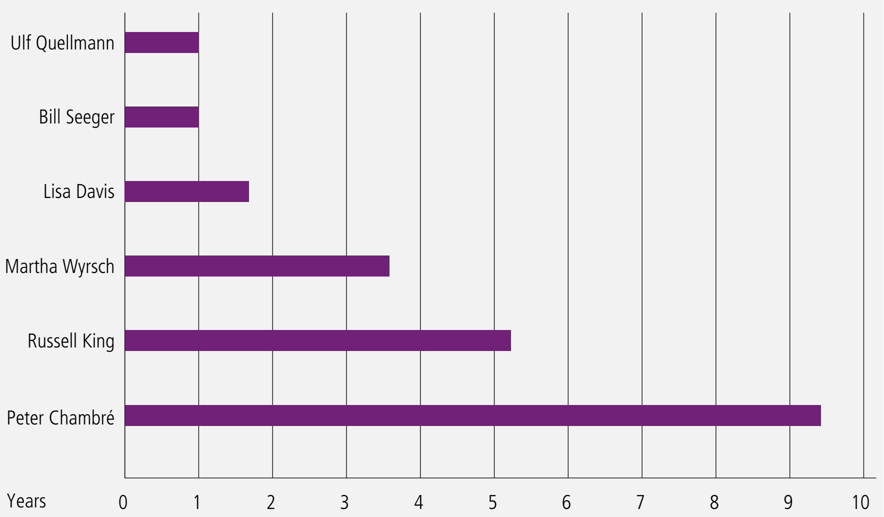
- a job description and required capabilities brief were prepared against which potential candidates were considered;
- the Committee considered the candidates against the objective criteria set out in the job description and required capabilities brief, having due regard for the benefits of Board diversity;
- a shortlist of preferred candidates was selected from a list of potential candidates;
- the shortlisted candidates were subjected to a rigorous process of interviews and comprehensive reference checks; a preferred candidate recommendation was made by the Committee to the Board for consideration; and
- the Board considered and approved the appointments.

Egon Zehnder adheres to the Voluntary Code of Conduct for Executive Search Firms and did not provide any other services to the Company during the year.

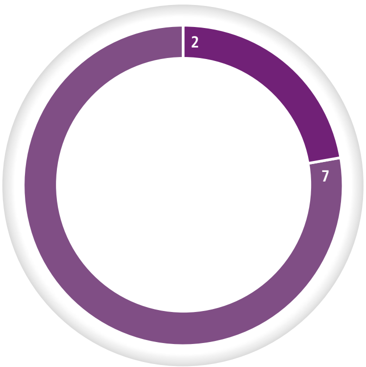
### Diversity

We have sought to ensure that we have a balanced Board where individual merit and relevance are the key entry requirements but collectively we have an appropriate mix of gender, nationalities and skills to ensure constructive debate and thoughtful decision-making. Spectris is committed to the merits of diversity in all its forms at Board level and throughout the Group. As at 31 December 2015, 22% of the Board were women. Further information regarding Group diversity can be found on page 45.

**Non-executive Director tenure as at 31 December 2015**



### Gender diversity of the Board

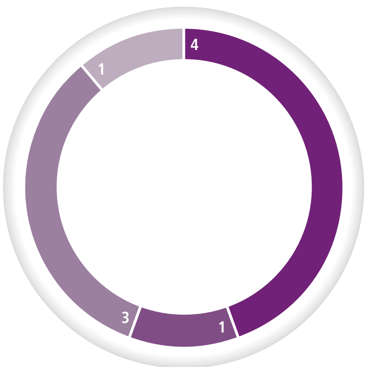



Female Directors
Male Directors

### Skills, knowledge and expertise of the Board

| | Board members | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| B2B | ● | ● | ● | ● | ● | ● | ● | ● | ○ |
| Commercial and marketing | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Financial qualifications | ● | ● | ● | ○ | ○ | ○ | ○ | ○ | ○ |
| Internet economy | ● | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| International | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Legal, governance and risk control | ● | ● | ● | ● | ● | ● | ● | ● | ○ |
| Listed company | ● | ● | ● | ● | ● | ● | ● | ● | ○ |
| M&A | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Manufacturing | ● | ● | ● | ● | ● | ● | ● | ○ | ○ |
| Services | ● | ● | ● | ● | ○ | ○ | ○ | ○ | ○ |

### Nationality of the Board




British
Irish
American
German

### Experience of end-user markets

| | Board members | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Academic research | ● | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Aerospace | ● | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Automotive | ● | ● | ● | ● | ● | ○ | ○ | ○ | ○ |
| Energy and utilities | ● | ● | ● | ● | ● | ● | ○ | ○ | ○ |
| Manufacturing and machine building | ● | ● | ● | ● | ● | ● | ● | ○ | ○ |
| Metals, minerals and mining | ● | ● | ● | ○ | ○ | ○ | ○ | ○ | ○ |
| Pharmaceuticals and fine chemicals | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Pulp, paper and tissue | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Semicon, telecoms and electronics | ● | ● | ● | ● | ○ | ○ | ○ | ○ | ○ |

## LETTER FROM THE CHAIRMAN OF THE AUDIT AND RISK COMMITTEE

**Bill Seeger**
Chairman of the Audit and Risk Committee

I am pleased to present my first Audit and Risk Committee Report following my appointment as its Chairman in April 2015.

I would like to thank John Warren, who retired from the Board, for his strong leadership of the Committee over the past nine years. I have inherited an effective and well-run Committee that works collaboratively with management.

In recognition of the Committee's growing responsibilities, the Committee agreed to introduce a fourth formal meeting to its annual meeting schedule aligned to the Group's financial and governance reporting cycle. The additional meeting will be of particular benefit as the Committee takes on additional oversight with respect to the review of the long-term viability assessment. The Committee also took the opportunity to clarify its responsibilities regarding provisions of the Code and considered and approved changes to its terms of reference.

In addition, a formal assessment of the external auditor effectiveness was carried out during the year; further details can be found on page 73.

A key role of the Committee is the oversight of the Group's risk management processes. During 2015, a number of enhancements have been made to the Group's risk management framework which are described in further detail later in the report. In addition, to reflect best practice, these changes will align our reporting framework more closely with the requirements of the Code.

Further progress was made with the Group's information security programme. An independent assessment was undertaken by an external adviser; details on this programme can be found on page 74.

Yours faithfully

**Bill Seeger**
Chairman of the Audit and Risk Committee
16 February 2016

## Role of the Committee

The Committee's key function is to support the Board in fulfilling its responsibilities in reviewing the effectiveness of the Company's financial reporting, internal controls and risk management. As part of this role, the Committee provides advice to the Board on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy. In addition, the Committee's role includes monitoring and reviewing the effectiveness of the Group's internal controls and risk management systems.

The Committee operates under terms of reference; these were reviewed during the year and were updated to reflect the additional responsibilities which the Board has delegated to the Committee in relation to the viability statement.

## Composition of the Committee

The Audit and Risk Committee is appointed by the Board. Its members are:

_ Bill Seeger (Chairman)
_ Peter Chambré
_ Ulf Quellmann
_ Martha Wyrsch

The Head of Business Ethics and Governance acts as Secretary to the Committee. At the invitation of the Committee, any Director or other person may be invited to attend meetings of the Committee, if considered desirable in assisting the Committee to fulfil its role; a table detailing meeting participation is shown on the right.

Bill Seeger, having held several senior finance positions, is considered by the Board to have recent and relevant financial experience as required by the Code. Each member of the Committee is an independent Non-executive Director. Further details regarding the Directors' skills and experience can be found in their biographies on pages 56 and 57.

The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities.

## Committee meetings

The Committee met four times during the year. Committee attendance is disclosed on page 61. At its July meeting, the Committee approved a proposal to move to four formal meetings each year to coincide with key dates in the financial reporting cycle. In addition, a revised schedule of agenda items was approved, which reflects current accounting, regulatory, risk and governance requirements and practice. The Head of Business Ethics and Governance and the Group Finance Director worked with the Chairman to set each meeting's agenda.

### Committee meeting participation

| | Internal audit | Risk management and assurance including ethics | Financial reporting | External auditor independence | Accounting, technical and corporate governance updates[1] |
|---|---|---|---|---|---|
| Chief Executive | ● | ● | ● | | |
| Group Finance Director | ● | ● | ○ ● | ● | |
| Business Group Directors | ● | ● | ● | | |
| Company Secretary | | ● | ○ | | ○ |
| Head of Business Ethics and Governance | | ○ ● | | | ○ |
| Head of Internal Audit | ○ | ○ | | | ● |
| Group Financial Controller | | ○ ● | ○ | ○ | ○ |
| External auditor[2] | ● | ● | ○ ● | ○ ● | ○ ● |

○ Presented reports ● Participated in debate / answered Committee questions

1 Committee members also receive regular technical updates from KPMG's Audit Committee Institute.

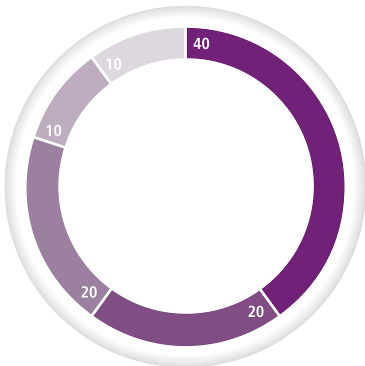
2 The external auditor met with the members of the Committee following the February 2015 and February 2016 meetings in a private session without management present.

## Activities in 2015

Key issues considered by the Committee during the year included:

_ a review of the 2014 and 2015 Financial Statements, including year-end key estimates and judgements;
_ the fair, balanced and understandable assessment;
_ a review of the 2014 internal audit activity and the 2015 internal audit plan;
_ a review of the ethics and compliance programme;
_ updates regarding the information security programme;
_ the output of the external auditor effectiveness review;
_ oversight of the process relating to the viability statement; and
_ the Committee's terms of reference.

### Audit and Risk Committee allocation of time (%)



# AUDIT AND RISK COMMITTEE REPORT CONTINUED

## Financial reporting

After discussion with both management and the external auditor, the Committee determined that the key risks of misstatement in the Group's Financial Statements for 2015 were:

_ the assessment of goodwill and intangible assets for impairment;
_ provisions, given the judgemental nature of the assessment and estimation;
_ acquisition fair value accounting; and
_ misstatements.

Impairment of goodwill and provisions are recurring in nature from year to year whilst acquisition fair value accounting relates specifically to acquisitions made during the year.

These issues were discussed with management and with the external auditor at the time the Committee reviewed and agreed the external auditor's Group audit plan, when the auditor reviewed the half-year interim Financial Statements in July 2015, and also at the conclusion of the 2015 audit of the full-year Financial Statements.

| Key financial reporting matters in 2015 | How the issue was addressed by the Committee |
| --- | --- |
| Impairment of goodwill and other intangible assets | During the year, management reviewed the weighted average cost of capital ('WACC') calculation and the long-term growth rates to be applied in determining the discounted value of the projected cash flows of the cash-generating units as more fully explained in Note 11 to the Financial Statements. This resulted in a nominal post-tax WACC rate for the Group remaining unchanged at 7.9% (2014: 7.9%) with long-term growth rates of 2.5% (2014: 4%). The Committee reviewed the calculations and was satisfied that the assumptions were appropriate. Management assessed the carrying value of goodwill and other intangible assets (including detailed calculations of value in use for those cash-generating units whose recoverable amount is not significantly greater than its carrying amount) to ensure that the carrying values are supported by forecast future discounted cash flows. As a result of the impairment assessment, no impairment charges were required, but disclosure was made in Note 11 to the Financial Statements regarding sensitivity analysis carried out on the goodwill relating to Omega.<br><br>The external auditor explained the results of its own review of the estimate of value in use, including its challenge of management's underlying cash flow projections as well as the long-term growth assumptions, discount rate and Financial Statements disclosure. On the basis of its audit work, no impairments were identified and the disclosure in the Financial Statements was considered appropriate.<br><br>Following discussion, the Committee was satisfied that the approach taken by management was appropriate and that there was no requirement to record any impairment in the Financial Statements. |
| Provisions | *Working capital provisions*<br>Provisions are made to write down slow-moving and obsolete inventory items to net realisable value, based on an assessment of technological and market developments and on an analysis of historical and projected usage with regard to quantities. The assessment used to calculate the provisions needed requires the application of judgement by management.<br><br>The Group's approach to trade receivables is for the initially-recognised fair value to be reduced by appropriate allowances for estimated irrecoverable amounts. The application of this approach requires judgement by management in respect of amounts which are deemed irrecoverable. Further information about the Group's exposure to credit risk and the quality of receivables is set out in Note 14 to the Financial Statements.<br><br>Management confirmed to the Committee that there have been no significant changes to the approach used to estimate working capital provisions from the prior year.<br><br>The external auditor explained to the Committee the work it had conducted during the year. On the basis of its audit work, the external auditor reported no material inconsistencies or misstatements.<br><br>Following discussion, the Committee was satisfied that the judgements that had been exercised were appropriate and that therefore the provisions were appropriately stated at the year end.<br><br>*Tax provisions*<br>Provisions held in respect of tax risks are included within current and deferred tax liabilities depending on the underlying circumstances of the provision. Significant management judgement is exercised in arriving at the amounts to be provided.<br><br>Management confirmed to the Committee that the provisions recorded at 31 December 2015 represent their best estimate of the likely financial exposure faced by the Group. |

| Key financial reporting matters in 2015 | How the issue was addressed by the Committee |
|---|---|
| Provisions (continued) | The external auditor explained to the Committee the work it had conducted during the year, including how its audit procedures were focussed on those provisions with the highest level of judgement on recognition criteria and / or measurement.<br>Following discussion with both management and the external auditor regarding the key judgements which had been made, the Committee was satisfied that they were reasonable and that, accordingly, the provision amounts recorded were appropriate.<br>*Other provisions (including product warranty, restructuring and legal provisions)*<br>As further explained in Note 1 to the Financial Statements, a provision is recognised in the Financial Statements when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources, that can be reliably measured, will be required to settle the obligation. Provisions are recognised at an amount equal to management's best estimate of the expenditure required to settle the Group's liability, taking into account the time value of money, where this is considered material.<br>On legal and contractual exposures, the Committee received reports in January and July 2015 and January 2016 from the Head of Commercial and Company Secretary outlining the open legal and contractual disputes and best estimate of the expected costs associated with such matters.<br>Management confirmed to the Committee that the provisions recorded at 31 December 2015 represented their best estimate of the likely financial exposure faced by the Group.<br>The external auditor explained to the Committee the work it had conducted during the year, which supported the carrying value of the provisions.<br>Following discussion of the key assumptions and judgements, the Committee concluded that the carrying values were reasonable in the circumstances.<br>Further information about the specific categories of provisions held by the Group is set out in Note 18 to the Financial Statements. |
| Acquisition fair value accounting | Judgement is required to determine the fair value of assets and liabilities acquired in business combinations, particularly in respect of intangible assets which can be industry specific. Contingent consideration payable on the achievement of future sales targets is dependent on the achievement of these targets. As a result, judgement is required in measuring the fair value of the Group's contingent consideration obligation, both at the acquisition date and at the Consolidated Statement of Financial Position date.<br>The Committee considered the approach taken by management and the work undertaken by the external auditor and concluded that the judgements that had been made were fair and appropriate. |
| Misstatements | Management confirmed to the Committee that they were not aware of any material or immaterial misstatements made intentionally to achieve a particular presentation.<br>The Committee confirms that as a result of the presentations made to the Committee by the external auditor and the ensuing discussions and questioning of the external auditor by Committee members, it is satisfied that the external auditor has fulfilled its responsibilities with diligence and professional scepticism.<br>After reviewing the presentations and reports from management and consulting where necessary with the external auditor, the Committee is satisfied that the Financial Statements appropriately address critical judgements and key estimates (both in respect to the amounts reported and the disclosures).<br>The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised and challenged, and are sufficiently robust. |

### Fair, balanced and understandable

The Code requires the Board to confirm that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee provided assistance to the Board in this regard by considering the robustness of the process by which the Annual Report and Accounts is prepared. The processes adopted in relation to the 2015 Annual Report involved the following:

_ Specific ownership and responsibility for the individual sections was allocated and documented, which was then provided to the Committee as part of its review of the process.
_ During the compilation period regular meetings were held with members of Group Finance, Group Secretariat and Corporate Affairs, all primary authors of the Annual Report. These meetings ensured that there was appropriate linkage between the various sections of the report and that our reporting was balanced.
_ An extensive verification exercise was undertaken to ensure factual accuracy.
_ The content of the Annual Report was subject to comprehensive reviews by Executive and senior management. In particular, a review of the entire Annual Report and Accounts was undertaken to ensure that it promotes consistency and balance between the narrative front half and accounts sections.
_ At our December 2015 meeting, the Committee reviewed the latest draft of the 2015 Annual Report and Accounts.
_ At our February 2016 meeting, the Committee challenged the fair, balanced and understandable assessment and examined whether appropriate balance and equal prominence had been given to positive and negative news.
_ Following review and comment by both the Committee and the Board, the Annual Report and Accounts was subject to final approval by the Board.

The Committee was satisfied with the process undertaken in preparing the Annual Report and Accounts. Following discussions at our February 2016 meeting, we have advised the Board that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

### Viability statement

The Committee provided assistance to the Board in relation to the viability statement required under the Code. During the year, the Committee considered an assessment of our risk management framework. This resulted in a number of enhancements to further develop how the Group evaluates risk and to ensure a sharper focus on the mapping of risks against controls and assurance through implementing the 'lines of defence' approach to the Group's key risks. Further detail can be found in the Strategic Report on page 31.

At the Committee's December meeting, a draft of the viability statement was considered, in addition to an extensive review of the risks and stress testing carried out under robust but credible scenarios. The Committee debated the selection of the period over which the Board should make its viability statement and recommended a three-year period to the Board for consideration.

In addition, at our February 2016 meeting the Committee examined:

_ a baseline assessment of the Group's financial position, including sensitivity analysis on sales and EBITDA from both a liquidity and bank covenant perspective;
_ detailed analysis of the Group's key risks including mapping of risks to controls to sources of assurance; and
_ a summary of specific stress testing carried out in respect of five of the Group's key risks.

Following due challenge and debate, the Committee recommended the viability statement for approval by the Board. The viability statement and the process undertaken can be found on page 31.

### Internal audit

The Committee is responsible for reviewing the Group's internal controls through engagement with the Head of Internal Audit, who is employed to perform control reviews across the Group according to a work programme agreed by the Committee.

The 2015 internal audit plan was established based on a number of factors. These included ensuring that an appropriate level of audit coverage of the internal controls as applied to the Group's core financial processes is achieved through rotational site visits, whilst also providing the Committee with reasonable assurance that controls in respect of certain key areas of risk management, such as compliance with laws and regulations or new product development, operate effectively.

The Head of Internal Audit is assisted in this work by six further internal auditors who are located in key strategic locations of the USA, Asia and the UK. In addition, the Internal Audit function is supported by additional resources as required, drawn both internally from within the organisation and externally through a co-sourcing agreement with Deloitte.

The Committee debated and agreed the adequacy of internal assurance resources at its meetings in January and July 2015 and January 2016, during which progress on the internal audit plan was also assessed.

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

Additional information on the Group's risk management framework is on pages 24 to 25 in the Strategic Report. Further information on the processes which the Board and the Committee have applied in reviewing the effectiveness of the Group's internal control framework is on page 24.

### Whistleblowing policy and process

Details of the Group's whistleblowing policy are provided within the Ethics Report on page 49.

### External audit

The Committee manages the relationship with the Group's external auditor on behalf of the Board. The Committee is responsible for the selection process relating to the appointment of the external auditor, making recommendations to the Board for the external auditor's re-appointment and approving the external auditor's remuneration, its terms of engagement and scope of work as well as whether a formal tender process is required.

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

### Non-audit fees

The Committee considers it essential to rigorously impose a cumulative annual cap for non-audit services provided by our external auditor KPMG LLP ('KPMG') (save for acquisition due diligence and taxation services), above which all engagements are subject to the Committee's prior approval. Non-audit fees for services provided by KPMG for the year amounted to £0.2 million (12% of the audit fee). Further details are included in Note 5 to the Financial Statements and information regarding the Company's non-audit services policy is provided below.

### Effectiveness and independence

The Board considers it of prime importance that the external auditor remains independent and objective. To assess the effectiveness of the external auditor, the Committee carried out an assessment of KPMG. This included a review of the agreed audit plan, reports of major issues arising from the audit process and commentary from the Group Finance Director, Group Finance, Internal Audit and operating company management teams. A review of the procedures followed by the external auditor to achieve audit quality was also carried out. In addition, an internal questionnaire completed by Committee members and relevant members of management on their views of KPMG's performance was also undertaken. The questionnaire covered a review of the audit partner and team, the audit approach, audit plan execution, auditor independence and objectivity, and robustness of challenge of management. The feedback received was reviewed by management and reported to the Committee. At the December meeting, the Committee discussed the improvements to be implemented for the 2015 audit.

The Committee has a non-audit services policy governing and restricting the appointment of the external auditor for non-audit services. Services which have the potential to, or appear to, impair their independence, for example involvement in activities that require making judgements or decisions which are the responsibility of management, are expressly excluded. The policy is available on the Company's website. The Committee is aware of the changes being introduced under the EU Audit Reforms to restrict non-audit services and fees and will be reviewing the Company's non-audit services policy during 2016.

The external auditor's full-year report to the Committee contained a statement on its independence and compliance with the Auditing Practices Board's Ethical Standards, arrangements to manage conflicts of interest, and the nature and associated fees for non-audit services provided, which was assessed by the Committee.

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

### Appointment

The Committee is responsible for overseeing the selection process relating to the appointment of the external auditor, making recommendations to the Board for the external auditor's re-appointment and approving the external auditor's remuneration, its terms of engagement and scope of work.

Re-appointment of the external auditor is considered by the Committee each year following a review of the external auditor's effectiveness. As noted previously, the output of the effectiveness review was considered by the Committee. Following the review as to the effectiveness of KPMG, the Committee was content to re-appoint KPMG as the Group's external auditor at the AGM held on 24 April 2015.

### Audit tender

KPMG was appointed as the Company's external auditor in 1998. In line with rotation requirements, the lead audit partner has changed three times. The current audit partner is Richard Broadbelt, who was appointed in April 2012. His five-year tenure as lead audit partner will end in 2017.

# AUDIT AND RISK COMMITTEE REPORT CONTINUED

Under the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation Order 2014 ('the CMA Order'), the Company is required to put the external audit out for competitive tender by 2023 and, thereafter, every ten years. It is the Committee's policy to meet this requirement.

As stated in our 2014 Annual Report, it is the Company's intention that the next competitive tender will take place in 2016. The Committee believes this to be the most appropriate time to complete the competitive tender process, considering the length of time that KPMG has been the Company's auditor, and it is in line with the audit partner rotation requirements. On behalf of the Board, the Committee will oversee the tender process, negotiate the fee for the provision of statutory audit services and make a recommendation to the Board on the appointment of the external auditor. The objective of the tender process will be to benchmark value, service and fees, and identify areas where the external auditor can add value to our risk and control environment. There are no contractual or similar obligations restricting the Group's choice of external auditor. The Committee confirms that it complies with the provisions of the CMA Order.

### Risk management

The Board, when setting the strategy, also determines the nature and extent of the significant risks and its risk appetite in implementing this strategy. Each year, the Board carries out a robust assessment of the effectiveness of the Group's risk management systems; details of the assessment are provided on pages 24 and 25.

### Information security

During 2015, further progress was made with our information security programme. External consultants undertook an independent assessment of the information security project by validating the critical information assets in operating companies, benchmarking the risks and performing a detailed controls maturity assessment. The UK Government's 'Ten Steps to Cyber Security' was used as a consistent control framework for mitigating key areas of risk for internal and external benchmarking, resulting in detailed information security roadmaps being developed for all operating companies. During 2016, operating companies will continue implementing the recommendations contained within the information security roadmaps.

### Internal control

The Board is ultimately responsible for the Group's system of internal controls and for carrying out a robust assessment of the principal risks facing the Group.

Consistent with the guidance provided for directors on internal control by the FRC ('Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'), which reflects the Code, the Board confirms that:

_ there is a robust, ongoing process for identifying, evaluating and managing the principal risks faced by the Group;
_ this has been in place for the year ended 31 December 2015 and up to the date of approval of the Annual Report and Accounts; and
_ this process has been reviewed by the Board during the year.

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

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

_ Day-to-day operational activities are conducted within an established internal control framework comprising clear rules, policies, lines of responsibility and delegated authorities.
_ A Group Policies and Procedures Manual ('the Manual') provides a common control framework and sets out the minimum standards, procedures and internal controls to be applied in relation to managing technical, commercial, legal and financial risks.
_ The consistent application of Group accounting policies and reporting protocols is supplemented by oversight from the Group finance team.
_ Monthly reporting from the Group's operating companies captures each business's performance against plan and highlights key developments in relation to commercial outlook, operational matters, legal issues and internal controls.
_ Annual strategic and financial plans are established for each segment and operating company and are subject to review and approval. Performance against the plans is subject to ongoing review by the Executive Directors and the Group has a comprehensive system for reporting performance to the Board.
_ Significant capital investments or contractual commitments and major acquisitions or divestments are all subject to a clear process for appraisal, review and approval by the Board.
_ An ethics hotline exists for employees and other third parties to use to report any instances of suspected wrongdoing.

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

_ The Executive Directors report to the Board on changes in the business and external environment which present significant risks.
_ The Executive Directors provide the Board with monthly trading and financial information which includes key performance indicators and information on the Group's operating segments.
_ Regular reports on significant legal, ethics, compliance and insurance matters are received from the Head of Commercial and Company Secretary, including summaries of any reports received through the Group's ethics hotline.
_ A certification process in relation to compliance with the Manual, accounting judgements and representations has been established, providing for a documented trail of accountability from operating company senior management to the Audit and Risk Committee.
_ The Group has an Internal Audit function which reviews the design, implementation and operating effectiveness of internal controls across the Group's operations, including financial, operational and compliance controls. The Audit and Risk Committee receives regular reports on the output of internal audit activity, including the operation of, and issues arising from, the Group's internal controls and procedures.
_ A control self-assessment process against the Group's internal control standards is completed by each operating company and each material location, with any gaps in controls assessed and remediation plans established as appropriate.
_ The Group's approach to risk management is described on pages 24 and 25 of the Principal Risks and Uncertainties section. The effectiveness of risk management and mitigation is reviewed regularly by the Executive Directors and twice yearly by the Audit and Risk Committee.

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

## Going concern

The going concern statement can be found on page 96.

## Business model

A description of the Group's business model can be found in the Strategic Report on pages 18 to 21.

# RELATIONS WITH SHAREHOLDERS

Spectris has a comprehensive investor relations programme designed to assist existing and potential investors in understanding the Group. Investor meetings are attended by the Chief Executive, or the Group Finance Director or the Head of Corporate Affairs or a combination thereof. Spectris conducts regular dialogue with institutional shareholders and discloses such information as is permitted by the Listing Rules. Shareholders representing in excess of 2.5% of the Company's issued share capital receive a standing invitation to meet with the Chairman, the Senior Independent Director or Non-executive Directors. Such meetings supplement, but do not replace, the regular meetings with the three executives. The Board is kept informed of the views, needs and expectations of shareholders through presentations and periodic reports including, but not limited to, market feedback on investor relations, shareholding analysis and consensus. Russell King, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has failed to resolve.

The Company's website contains up-to-date information for shareholders and other interested parties including annual reports, share price information, news releases, the financial calendar, presentations to the investment community and information on shareholder services.

## Meetings held with investors during 2015

During the year, 128 face-to-face meetings and telephone conference calls were held with institutional investors who comprise 70% of the shareholder base. In addition, there were over 200 face-to-face meetings and telephone conference calls with potential investors.

We have a geographically-diverse shareholder base and the table below details the contact we have had with existing shareholders and potential investors situated in the UK, North America, Europe and Asia during the year:

**Number of meetings and calls with institutional investors in 2015**

| | Shareholders | Potential investors | Total |
|---|---|---|---|
| UK | 68 | 84 | 152 |
| North America | 33 | 52 | 85 |
| Europe (excluding UK) | 27 | 63 | 90 |
| Asia | 0 | 4 | 4 |
| Total | 128 | 203 | 331 |

## Annual General Meeting

Shareholders are invited to the Company's AGM and have the opportunity to meet and question the Chairman and Board members. The Company intends to send the Notice of AGM and any related papers to shareholders at least 20 working days before the meeting. All Directors attend the AGM unless unforeseen circumstances arise. Committee Chairmen are normally present to take questions at the AGM. The results of votes at the AGM, together with details of the level of proxy votes lodged, are available at the AGM and are published on the Company's website.

**Results of the 2015 AGM**

| | | For | Against |
|---|---|---|---|
| | Resolution | Percentage of votes cast | Percentage of votes cast |
| 1 | Receive Annual Report and Accounts | 99.99 | 0.01 |
| 2 | Directors' Remuneration Report | 99.78 | 0.22 |
| 3 | Declare a final dividend | 100.00 | 0.00 |
| 4–12 | Appointment of Directors | 94.5 – 100.00 | 5.5 – 0.00 |
| 13 | Appoint KPMG as auditor | 98.65 | 1.35 |
| 14 | Auditor's remuneration | 99.24 | 0.76 |
| 15 | Authority to allot shares | 98.01 | 1.99 |
| 16 | Pre-emption rights | 99.42 | 0.58 |
| 17 | Purchase own shares | 99.99 | 0.01 |
| 18 | Adopt new Articles | 99.99 | 0.01 |
| 19 | Allow general meetings on 14 days' notice | 93.36 | 6.64 |

No significant votes were cast against any of the resolutions put to the 2015 AGM.

In April we held a Capital Markets Day in London, attended by 45 analysts, shareholders and representatives from our lending banks. At the event the Chief Executive announced an evolution of the Group's strategy (see page 6 for further information) and there were supporting presentations given by our two Business Group Directors as well as four of our operating company Presidents. The Group's Finance Director and Head of Corporate Development were also in attendance and there was substantial opportunity for guests to ask questions of all senior management representatives. The webcast of the event and associated presentations are available for all shareholders to view and download at www.spectris.com/investors/reports-results-and-presentations/2015.

# DIRECTORS' REMUNERATION REPORT

## LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

**Russell King**
Chairman of the
Remuneration Committee

Our remuneration policy supports our strategy and is designed to promote long-term success, taking account of appropriate risk considerations.

I am pleased to present the 2015 Directors' Remuneration Report.

The Directors' Remuneration Policy introduced and approved at the 2014 AGM remains appropriate for the Company's needs and, consequently, for the second year running no amendments will be proposed for consideration at the 2016 AGM. However, during 2016 your Committee will undertake a holistic review of the Policy in advance of the 2017 AGM where it falls due for triennial renewal. Any changes made will be to ensure continued alignment with the Company's strategy or to reflect developing market practice.

During 2015, in addition to the implementation of the agreed Policy, your Committee has reviewed the malus and clawback provisions put in place for the Executive Committee in 2011 and implemented revised forms reflecting current practice and investor expectations.

### Remuneration strategy

Linking total reward closely to business strategy and performance continues to underpin your Committee's consideration of executive remuneration. We aim to ensure that the Company's remuneration policy is designed to promote long-term success, taking account of appropriate risk considerations. Accordingly, the Executive Directors' overall package provides an appropriate balance between fixed and performance-related remuneration, with the latter elements being subject to demanding performance conditions aligned with the Group's strategic objectives.

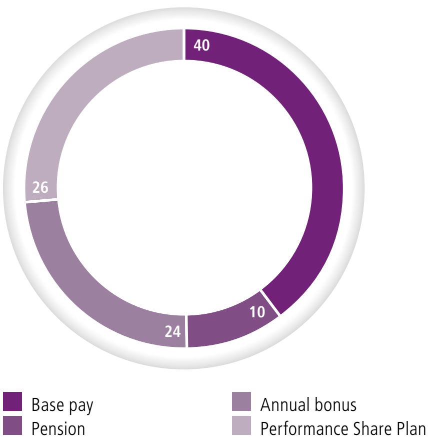
The key elements of the Executive Directors' remuneration arrangements are:

_ base salary and total package set modestly below the median of UK quoted companies of comparable size, subject to adjustment up or down to reflect the experience and performance of individual incumbents;

- on-target and maximum annual bonus of, respectively, 60% and 125% of salary, only payable on achievement of stretching profit and individual objectives;
- annual awards under the Company's Performance Share Plan ('PSP') of up to 200% of salary, with vesting after three years based one-third upon total shareholder return ('TSR') relative to the FTSE 250 index, one-third upon adjusted earnings per share growth ('EPS'), and one-third on economic profit delivery;
- benefits provided on a market-competitive basis; and
- any bonus payment in excess of 60% to be applied to the purchase of Spectris shares and any shares arising (post tax) from PSP vesting to be retained until a three times base salary shareholding is achieved.

The anticipated reward mix for the Chief Executive and Group Finance Director is shown in the chart below. This assumes PSP awards with a value on grant equal to 200% of the Director's base salary leading to an expected vesting of 110% of base salary and an annual bonus on-plan expectation of 60% of salary.

**Executive Directors' anticipated reward mix (%)**




The UK Corporate Governance Code asks remuneration committees to consider requiring an extended holding period for shares arising after the vesting of three-year PSP grants. This possibility was considered prior to submission of the Directors' Remuneration Policy to the 2014 AGM and has been reviewed subsequently on an annual basis. Whilst appreciating the desirability of longer-term alignment with shareholders' interests, your Committee believes that this is equally achieved by the three times base salary shareholding guideline, which was introduced within the current Policy and lies significantly above normal practice elsewhere.

## 2015 remuneration

2015 presented difficult trading conditions. The target profitability established by your Committee at the outset of the year was not achieved and hence no payment will be made under this element of the annual bonus plan.

Progress was achieved against the personal objectives set in respect of 2015, and an average bonus was achieved for the Executive Directors of 16% out of a potential 25% of base salary for these objectives. At the recommendation of the Executive Directors and in the context of the financial results for the year, entitlement to this element of bonus was waived.

In the period from the end of the base year in 2012 to 2015, the Company's share price has fallen by 12% whilst the annual dividend has increased by 27%. The PSP awards maturing on 27 February 2016 will not vest on the EPS measure and are not expected to vest on the TSR measure.

Whilst only a snapshot in time, as at the end of 2015, the PSP grants maturing in spring 2017 are also unlikely to vest on the EPS, TSR or Economic Profit measures. The grants made in March 2015 are too early in their three-year performance period to make reliable predictions as to outcome.

## Future reviews

The Committee's remuneration advisers, FIT Remuneration Consultants LLP ('FIT'), completed the biennial benchmarking review of the Chairman's fee during 2014. Based on the results of that review, your Committee determined that an increase from £180,000 to £200,000 should be implemented with effect from 1 January 2015, with a subsequent increase to £210,000 at 1 January 2016.

The Executive Directors' salaries were increased at a level consistent with average UK wage inflation as below:

| | 2016 salary | Percentage increase |
|---|---|---|
| J E O'Higgins | £578,000 | 1.5% |
| C G Watson | £367,250 | 1.5% |

I hope that you will agree that our remuneration strategy and its implementation remains appropriate and that you will support the advisory vote on the 2015 Directors' Remuneration Report at the Annual General Meeting.

Yours faithfully

**Russell King**
Chairman of the Remuneration Committee
16 February 2016

# REMUNERATION COMMITTEE

The Directors present their Remuneration Report for the year ended 31 December 2015.

## Role of the Committee

The Committee is responsible for recommending to the Board the policy for the remuneration of the Chairman, the Chief Executive, the Group Finance Director, the Company Secretary and other members of the Group Executive Committee. The remuneration of Non-executive Directors is reserved to the Board. Within its terms of reference agreed by the Board, the Committee determines:

_ total individual remuneration packages, including bonuses and share-based incentives for the Executive Directors and other members of the Executive Committee;
_ targets for any performance-related incentives;
_ the scope of any pension arrangements;
_ contractual terms of engagement and any payments to be made on termination; and
_ the policy for authorising claims for expenses from the Chairman and Chief Executive.

The terms of reference of the Remuneration Committee can be found on the Company's website and are available on request.

The Remuneration Committee regularly reviews the balance between fixed and variable pay and the performance conditions attaching to short- and long-term incentives. The Committee also monitors the level and structure of remuneration for operating company Presidents and Managing Directors.

FIT was appointed in August 2011 to advise the Committee on various aspects of the Chairman's and Executive Directors' remuneration. FIT's Mr J Lee provides such advice to the Committee. Neither FIT nor Mr Lee provides any other services to the Company.

New Bridge Street ('NBS') separately provide services to the Company in compiling IFRS 2 'Share Based Payment' reporting on the Company's share plans and TSR performance calculations in relation to the Company's PSP. NBS does not provide any other services to the Company. FIT was paid £4,528 in respect of services undertaken in 2015 (2014: £35,083). NBS was paid £38,950 in respect of services undertaken in 2015 (2014: £24,854). These fees were charged on the basis of each firm's standard terms of business. Both FIT and NBS are members of the Remuneration Consultants Group and adhere to its Code of Conduct.

The firms were appointed by the Committee following appropriate consideration of their experience and their knowledge of the Company's business. The Committee is therefore satisfied that the advice which it receives is objective and independent.

## Composition of the Committee

The Remuneration Committee comprises:

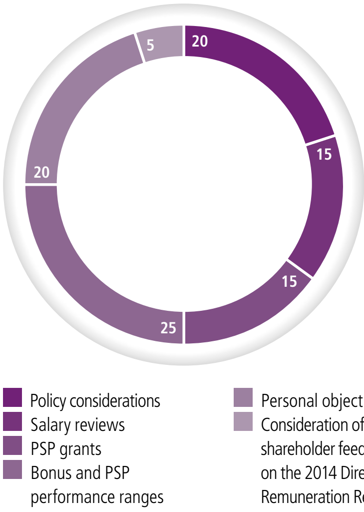
_ Russell King (Chairman)
_ Peter Chambré
_ Lisa Davis
_ Ulf Quellmann

All members of the Committee are independent Non-executive Directors.

## Committee meetings

The Committee met four times during the year. Committee attendance is disclosed on page 61. The Chairman and Chief Executive may be in attendance by invitation and the Committee takes into consideration their recommendations regarding the remuneration of their executive colleagues. Neither is involved in discussions concerning their own remuneration.

**Remuneration Committee allocation of time (%)**




## Activities in 2015

Key issues considered by the Committee during the year included:

_ the approval of the 2014 Directors' Remuneration Report;
_ consideration of shareholder feedback on the 2014 Directors' Remuneration Report;
_ the review and approval of PSP vesting;
_ a review and determination of the performance measures for the 2015 PSP grants;
_ the approval of Executive, head office and operating company PSP grants;
_ the approval of Executive 2014 bonus out-turn;
_ the approval of operating company management 2015 bonus plans; and
_ a review of the malus and clawback provisions in place for the Executive Committee and approval of the revised documentation.

### Remuneration Policy implementation statement

The Board, in considering the recommendations of the Remuneration Committee, complied throughout the year with the provisions of the UK Corporate Governance Code (including the principles for performance-related remuneration set out in Section D). The Directors' Remuneration Policy, approved by shareholders at the 2014 AGM, was adhered to throughout the year and seeks to ensure that the high-calibre individuals required at Board level are a) fairly and competitively remunerated and b) incentivised in a manner which aligns with and drives the Group's strategic objectives with consideration for its risk policies and internal control systems.

| Element of remuneration package | Relevance to the Company's short- and long-term strategic objectives | Operation |
|---|---|---|
| Base salary | Competitive fixed remuneration that enables Spectris to attract and retain key executives. | Reviewed annually.<br><br>Benchmarked triennially against relevant comparators. |
| Annual bonus | Drives short-term profit performance.<br><br>Incentivises executives to achieve specific pre-determined stretching objectives relevant to Spectris and the individual's personal responsibilities. | Bonus potential is set at a market-competitive level.<br><br>Bonus payments in excess of 60% of salary must be used to acquire shares in Spectris until the minimum holding of three times base salary is achieved.<br><br>Payable in cash.<br><br>Clawback provisions enable variable remuneration to be reclaimed under exceptional circumstances, were there to be any miscalculation of entitlement, misstatement of accounts or incidence of fraud. |
| The Spectris Performance Share Plan ('PSP') | Drives the delivery of sustained compound annual growth in EPS, relative out-performance in TSR and increased economic profit. | Awards made annually, with a three-year vesting duration. The Committee may modify the terms for future awards provided they are not, overall, more favourable to participants.<br><br>Subject to similar clawback provisions as described above for annual bonus.<br><br>Awards may be made in the standard form of awards to receive shares for nil or nominal cost (with the shares either being delivered automatically at vesting or being delivered at a time following vesting at the individual's choice), forfeitable awards of shares or in the form of cash-based conditional awards.<br><br>The Company also has scope to satisfy the above awards using an HMRC-approved Executive Share Option Scheme (which permits market value share options to be awarded subject to HMRC's limit of, currently, £30,000).<br><br>The Company will honour the vesting of all awards granted under previous policies in accordance with the terms of such awards. |

The Directors' Remuneration Policy was set out within the 2013 Directors' Remuneration Report, contained in the 2013 Annual Report and Accounts. This can be viewed under the Investors section of the Company's website.

The table below describes each component of the remuneration package applicable to the Executive Directors under the Directors' Remuneration Policy.

| Maximum potential value | Performance metrics |
|---|---|
| The current intent is to limit any increases for Executive Directors to the average increase for general UK wage inflation although the Committee reserves the right to award increases in excess of this should it consider that to be appropriate. The general policy is to limit salaries to the median for the roles. However, as a formal cap is required, no increase will be made if it would take an Executive Director's salary above (or, if already above, further above) 110% of the median level of the salaries of chief executives within a comparator group of companies which, when or shortly prior to when the increase is proposed, are ranked by market capitalisation within plus or minus 20 companies of Spectris. | Reflects both the role and the Director's skills, performance and experience, referenced to a level at or modestly below the comparator group's median. |
| Increased to 125% of salary from 2014 (previously 100%). | The performance measures to be applied will be assessed annually and may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate.<br><br>Once set, performance measures will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions.<br><br>A minimum (threshold) level of performance will result in a bonus of 1% of salary. At target this is 60% of salary, and at maximum this will be 125% of salary. |
| Increased to 200% of salary from 2014 (previously 125%). Notional re-investment of dividends will apply from date of grant to date of vesting. | The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). |

| Element of remuneration package | Relevance to the Company's short- and long-term strategic objectives | Operation |
|---|---|---|
| Pension and benefits in kind | Market-competitive defined contribution pension and benefits in kind, enabling Spectris to attract and retain key executives. | Benefits in kind include company cars or allowances, private fuel and medical expenses, and life and disability insurance.<br><br>Pension and benefits in kind are benchmarked periodically. |
| All-employee share plans | The Spectris Savings Related Share Option Scheme is operated to encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of shareholders. | Individuals may save up to a maximum of £500 per month for a fixed period of three years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company. There is flexibility to set an exercise price at a discount (currently capped at 20%) to the market price set at the launch of each scheme although Spectris does not currently offer such a discount. |
| Share ownership guidelines | To encourage share ownership by the Executive Directors and ensure that their interests are aligned with shareholders. | Executive Directors are required to apply the post-tax benefit of any vested PSP awards or any bonus payments exceeding 60% of base salary to the acquisition of shares until the required level of shareholding is achieved. |

The table below describes the remuneration package applicable to the Chairman and the Non-executive Directors under the Directors' Remuneration Policy:

| Element of remuneration package | Relevance to the Company's short- and long-term strategic objectives | Operation |
|---|---|---|
| Fees | Drives short-term profit performance.<br><br>Competitive fees that enable Spectris to attract able and experienced directors. | Reviewed biennially and determined by reference to market practice.<br><br>Base fee is supplemented by allowances for chairmanship of the Audit and Risk and Remuneration Committees, travel allowance and chairmanship of the pension scheme trustee board. The Board reserves the right to vary the basis for setting fees (such as introducing Committee membership fees) should it consider that to be appropriate.<br><br>There is no participation in bonus, share plan or pension arrangements.<br><br>The Company reserves the ability to provide the Company Chairman with certain benefits in kind and / or a contribution towards the provision of office facilities where appropriate, although the current Chairman does not presently receive such benefits.<br><br>A departing gift may be provided up to a value of £2,500 per Director. |

| Maximum potential value | Performance metrics |
|---|---|
| 25% of salary company pension contribution and / or taxable allowance in lieu. It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits and so a monetary limit of £30,000 p.a. post tax per Executive Director has been set for the duration of this policy although, clearly, the Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Committee considers to be appropriate in all the circumstances.<br><br>Where the requirements of the business involve a Director relocating, the Company may make a payment towards related expenses of up to £60,000. While not practice to date, the Committee may award additional expatriate allowances of up to a further £30,000 p.a. if such a relocation is to outside the UK.<br><br>A departing gift may be provided up to a value of £2,500 per Director. | Not applicable to this element. |
| Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees. | Consistent with normal practice, such awards are not subject to performance conditions. |
| Each Executive Director is, subject to personal circumstances, required to build a retained shareholding in Spectris plc of at least three times base salary in value within a five-year period from appointment to the Board. | Not applicable to this element. |

| Maximum potential value | Performance metrics |
|---|---|
| The aggregate fees of the Chairman and Non-executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association. | Not applicable to this element. |

### Implementation of the Remuneration Policy for 2016

| Element of Remuneration Policy | Implementation detail |
|---|---|
| Base salary | Increase in the Chief Executive's salary to £578,000 and the Group Finance Director's salary to £367,250 with effect from 1 January 2016. In line with the Directors' Remuneration Policy, these increases are at a level consistent with average UK wage inflation. |
| Annual bonus | Bonus maximum for the Executive Directors is unchanged at 125% of base salary. Performance measures for annual bonus in 2016 are weighted as follows:<br>_ 100% adjusted profit before tax.<br>_ 25% personal objectives.<br>These weightings are unchanged from 2015. The performance targets for the adjusted profit before tax measure will be disclosed within the 2016 Directors' Remuneration Report. |
| Performance Share Plan | Award levels for the Executive Directors for 2016 are unchanged at 200% of base salary. |
| Pension and benefits in kind | No changes to these elements from 2015:<br>_ 25% of base salary pension contribution for the Executive Directors.<br>_ No change to benefits in kind provided. |
| All-employee share plans | Continued opportunity to participate in an HMRC-approved Savings Related Share Option Scheme on the same basis as all other UK employees. |
| Share ownership guidelines | 300% of base salary (as from the 2014 AGM). |
| Chairman | Increase in the Chairman's fee to £210,000. |

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 16 February 2016 |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| J E O'Higgins | 1.1.06 | 3.2.29 | 12 months | 10 years 1 month |
| C G Watson | 1.10.06 | 4.2.23 | 12 months | 9 years 4 months |
| **Non-executive Directors** | | | | |
| P A Chambré | 1.8.06 | renewable at each AGM | 6 months | 9 years 6 months |
| L A Davis | 25.4.14 | renewable at each AGM | 6 months | 1 year 9 months |
| Dr J L M Hughes CBE | 1.6.07 | renewable at each AGM | 6 months | 8 years 8 months |
| R J King | 12.10.10 | renewable at each AGM | 6 months | 5 years 4 months |
| U Quellmann | 1.1.15 | renewable at each AGM | 6 months | 1 year 1 month |
| W C Seeger | 1.1.15 | renewable at each AGM | 6 months | 1 year 1 month |
| M B Wyrsch | 1.6.12 | renewable at each AGM | 6 months | 3 years 8 months |

### Non-executive Directors

All Non-executive Directors' conditions of appointment provide for a six-month period of notice and are renewable at each AGM, subject to review prior to proposal for re-election. Ordinarily appointments do not continue beyond nine years after first election, at which time Non-executive Directors cease to be presumed independent under the UK Corporate Governance Code.

### Consideration of shareholders' views

The 2014 Directors' Remuneration Report was supported by 99.1% of those registering votes by proxy in advance of the 2015 AGM, as can be seen from the table below:

| | For | | Against | | Abstain | |
|---|---|---|---|---|---|---|
| | Number | Percentage | Number | Percentage | Number | Percentage |
| To approve the Directors' Remuneration Report for the year ended 31 December 2014 | 92,375,398 | 99.1% | 208,179 | 0.2% | 657,174 | 0.7% |

### Directors' remuneration and interests

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

### Single total figure of remuneration (subject to audit)

The single figure for the remuneration of each Director who served during the year is as follows:

| £'000 | | J E O'Higgins | C G Watson | Dr J L M Hughes CBE | P A Chambré | L A Davis | R J King | U Quellmann | W C Seeger | J A Warren[1] | M B Wyrsch |
|---|---|---|---|---|---|---|---|---|---|---|---|
| A. Base salary / fees | **2015** | **570** | **362** | **200** | **53** | **61** | **68** | **53** | **69** | **29** | **61** |
| | 2014 | 560 | 355 | 180 | 50 | 34 | 58 | – | – | 76 | 58 |
| B. Taxable benefits | **2015** | **17** | **15** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2014 | 17 | 17 | – | – | – | – | – | – | – | – |
| C. Bonus | **2015** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2014 | 101 | 57 | – | – | – | – | – | – | – | – |
| D. PSP and Save As You Earn | **2015** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2014[2] | 304 | 188 | – | – | – | – | – | – | – | – |
| E. Pension-related benefits | **2015** | **142** | **90** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2014 | 140 | 89 | – | – | – | – | – | – | – | – |
| **Total** | **2015** | **729** | **467** | **200** | **53** | **61** | **68** | **53** | **69** | **29** | **61** |
| | 2014[2] | 1,122 | 706 | 180 | 50 | 34 | 58 | – | – | 76 | 58 |

1 A fee of £9,500 was payable to J A Warren in respect of his position as Chair of the Spectris Pension Trustees Limited board.

2 The 2014 numbers for PSP and Save As You Earn have been adjusted as described in Share Plans, below.

The total aggregate base salaries, fees, benefits, cash bonuses and share schemes for all Directors in 2015 was £1,790,000 (2014[2]: £2,678,000).

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

### 2016 salary reviews

The Executive Directors' salaries were reviewed effective 1 January 2016, an increase of 1.5% to both the Chief Executive and the Group Finance Director being awarded. An increase effective 1 January 2016 of 5% to £210,000 for the Chairman will be implemented, as previously determined.

## 2015 annual bonus

Annual bonus was achievable up to 125% of base salary, based on adjusted profit before tax (100% of base salary potential) and personal (25% of base salary potential) targets. Bonus entitlement achieved in respect of 2015 performance, based on the targets set at the start of the financial year, was as follows (as a percentage of salary at 31 December 2015):

| | |
|---|---|
| J E O'Higgins | 17% |
| C G Watson | 15.5% |

Within the above entitlement for Mr J E O'Higgins and Mr C G Watson, 0% related to the profitability target and the balance to achievement of personal objectives.

The profitability bonus range established by the Committee for 2015 was as follows:

| Bonus level | 0% | 50% | 100% |
|---|---|---|---|
| Adjusted profit before tax | £190 million | £207.5 million | £220 million |

The 2015 personal objectives for the Chief Executive and Group Finance Director covered a range of areas. These objectives, and the weightings accorded to each, are detailed below:

### Chief Executive

| Objective | Weighting |
|---|---|
| **Strategy implementation:** the creation of four strategic platforms for growth in the areas of materials and life sciences, energy, software and services and industrial automation, with the emphasis on transformational platform acquisitions. | 16% |
| **People and talent:** design and implement a common talent review and management programme for each operating company and at Group level. | 4% |
| **Organisation values & operational excellence:** continue to build a consistent operating culture and model across the Group centred on shared values. Improve the Group's customer focus through implementation of common customer satisfaction metrics. Continue the implementation of Lean Six Sigma principles across all operating companies as a consistent basis for improving operational excellence. Maintain leadership focus on Spectris' Code of Business Ethics and improving diversity. | 5% |

### Group Finance Director

| Objective | Weighting |
|---|---|
| **Strategy:** provide support for tracking progress against the delivery of strategic objectives. | 5% |
| **Treasury:** maintain monthly average working capital to sales percentage ratios. Put in place a revised hedging strategy for BTG (operating company) and implement mitigating actions to reduce the effects of Swiss Franc revaluation. | 10% |
| **Controlling:** information security and forecasting accuracy: obtain clarity on valuable information assets held by operating companies. Implement a fit-for-purpose plan for protecting these assets. Work with operating companies to improve forecasting accuracy. | 3% |
| **Tax:** respond to new Transfer Pricing documentation requirements and create a Group masterfile compliant with new OECD regulations. Ensure appropriate Transfer Pricing policies are in place for all operating companies. | 4% |
| **Internal audit:** develop an internal audit charter setting out the expected scope of internal audit activity and complete a gap analysis. Implement required improvements. | 3% |

The Committee takes into account achievement against each of the objectives as well as overall performance. The Board's Chairman assesses the Chief Executive's performance and the Chief Executive provides an assessment in respect of the Group Finance Director. The Chief Executive and Group Finance Director waived their entitlement to bonus as outlined above and no payout was made.

Similar financial and personal targets have been set for 2016 and the Committee will report these in next year's report (considering them to be commercially sensitive during the course of the relevant financial year).

### Share plans

PSP values for 2015 are shown as nil since the actual value at vesting (24 February 2015) of those shares subject to a TSR performance condition within the 2012 PSP grant was zero and the number of shares vesting during 2016 in respect of the portion of the 2013 PSP award subject to an EPS growth condition was also zero.

PSP values for 2014 represent the actual value at vesting (11 April 2014) of those shares subject to a TSR performance condition within the 2011 PSP grant.

### Performance Share Plan

Awards to the Executive Directors are currently structured so that one-third of the award is subject to an EPS target, one-third is subject to a TSR target and one-third is subject to an economic profit target. Each condition operates over a fixed three-year period with no opportunity for re-testing. These performance criteria are summarised in the tables below.

| Company EPS performance | Percentage of award that vests (expressed as a percentage of one-third of the total number of shares subject to an award) |
|---|---|
| Consumer Prices Index ('CPI') + 13% compound per annum ('c.p.a.') | 100% |
| Between CPI + 5% and 13% c.p.a. | Pro-rata straight-line between 20% and 100% |
| CPI + 5% c.p.a. | 20% |
| Less than CPI + 5% c.p.a. | 0% |

| Company TSR performance relative to the FTSE 250 (excluding investment trusts) | Percentage of award that vests (expressed as a percentage of one-third 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 20% and 100% |
| Median | 20% |
| Below median | 0% |

| Aggregate economic profit over the performance period 2014 award | Aggregate economic profit over the performance period 2015 award | Aggregate economic profit over the performance period 2016 award | Percentage of award that vests (expressed as a percentage of one-third of the total number of shares subject to an award) |
|---|---|---|---|
| Less than £260 million | Less than £250 million | Less than £145 million | Nil |
| £260 million | £250 million | £145 million | 20% |
| Between £260 million and £340 million | Between £250 million and £370 million | Between £145 million and £275 million | Between 20% and 100% on a straight-line basis |
| £340 million or more | £370 million or more | £275 million or more | 100% |

The 2012 award maturing in February 2015 did not vest either against the EPS target (50% of total award) or the TSR target (50% of total award). The TSR performance condition is measured independently by NBS. The EPS figure is obtained from the audited Financial Statements and the calculation of achievement against the growth condition is presented to and approved by the Committee.

The TSR condition is also subject to an underpin that the Committee must satisfy itself that the Company's relative TSR performance is reflective of its underlying financial performance.

Additional details:

_ The PSP weightings above are unchanged from 2015.
_ The aggregate economic profit range is determined by the Committee for each new three-year performance period.
_ The performance periods for the EPS and economic profit measures for the 2016 award will be the three financial years 2016, 2017 and 2018.
_ The TSR performance period is the period of three years from the award date.
_ EPS is defined as adjusted EPS of the Company as disclosed in the full-year Financial Statements.

_ Economic profit is defined as adjusted operating profit (being pre-tax and interest) less (capital employed x the Company's weighted average cost of capital ('WACC')). WACC was set at 12.5% for the 2014 award and 11% for the 2015 and 2016 awards, except that lower transitional rates will be applied for subsequent acquisitions. Any impairment of goodwill over a performance period will be added back to capital employed. The Committee will monitor outcomes for the economic profit measure to ensure that they achieve the original objectives and may adjust the vesting accordingly. Any exercise of discretion will be justified in the next Directors' Remuneration Report.
_ For all performance measures, pro-rata straight-line vesting will apply for achievement of performance between the thresholds shown.

### Pension entitlements (subject to audit)

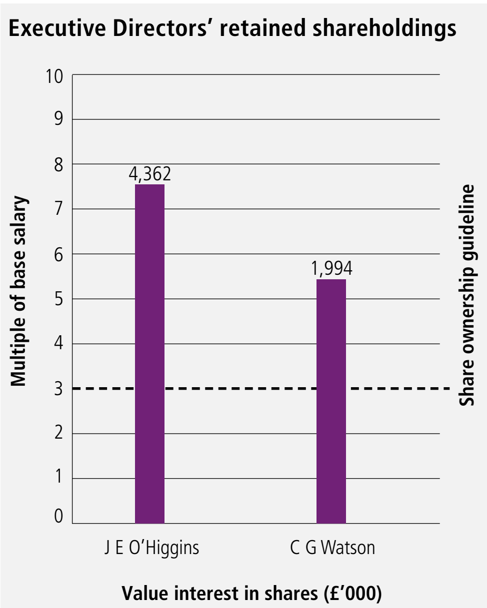
The Executive Directors are entitled to a defined contribution pension contribution of 25% of base salary. In light of the pension lifetime allowance of £1.25 million (£1 million from the 2016 / 2017 tax year) and the maximum annual pension contribution allowance of £40,000, the Executive Directors are entitled, at their option, to a taxable salary supplement in lieu of some or all of such pension contributions. No Executive Director participated in a defined benefit pension plan in the year.

### Directors' shareholdings (subject to audit)

Each Executive Director is, subject to personal circumstances, required to build a retained shareholding in Spectris plc of at least three-times base salary in value and is required to apply the post-tax benefit of any vested PSP awards or any bonus payments exceeding 60% of base salary to the acquisition of shares until this required level of shareholding is achieved.

There is no requirement for Non-executive Directors to own shares in the Company.

The UK Corporate Governance Code requires the Committee to consider an extended holding period, including after leaving the Company, for shares arising following vesting of the three-year awards under the PSP. This matter was considered by the Committee prior to submission of the Directors' Remuneration Policy to the 2014 AGM and was reviewed again in 2015. In the context of the Directors' Remuneration Policy targetting below median levels of reward, the three-times base salary shareholding requirement being significantly above the norm of one or two times salary and each Executive Director having in practice a much higher shareholding than the requirement, the Committee determined not to impose a shareholding retention period, but to keep the position under review.



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

| | Shareholdings | |
|---|---|---|
| | 2015<br>31 December<br>(or date of resignation) | 2015<br>1 January<br>(or date of appointment) |
| Dr J L M Hughes CBE | 10,000 | 8,000 |
| J E O'Higgins | 286,574 | 256,574 |
| P A Chambré | 5,955 | 5,812 |
| L A Davis | – | – |
| R J King | 3,000 | 3,000 |
| W C Seeger | 3,000 | – |
| U Quellmann | 1,000 | – |
| C G Watson | 131,000 | 119,500 |
| M B Wyrsch | 3,000 | 3,000 |

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

### External appointments

Executive Directors may retain any payments received in respect of external non-executive appointments. Such appointments are limited to one per Director at any time and are subject to the approval of the Board. Mr O'Higgins was a non-executive director of NASDAQ-listed Exide Technologies and was paid a fee of US$49,334 for 2015, up to his date of resignation in April that year. Mr Watson is a non-executive director of Spirax-Sarco Engineering plc and was paid a fee of £55,700 during 2015. No other external directorships are held by the Executive Directors.

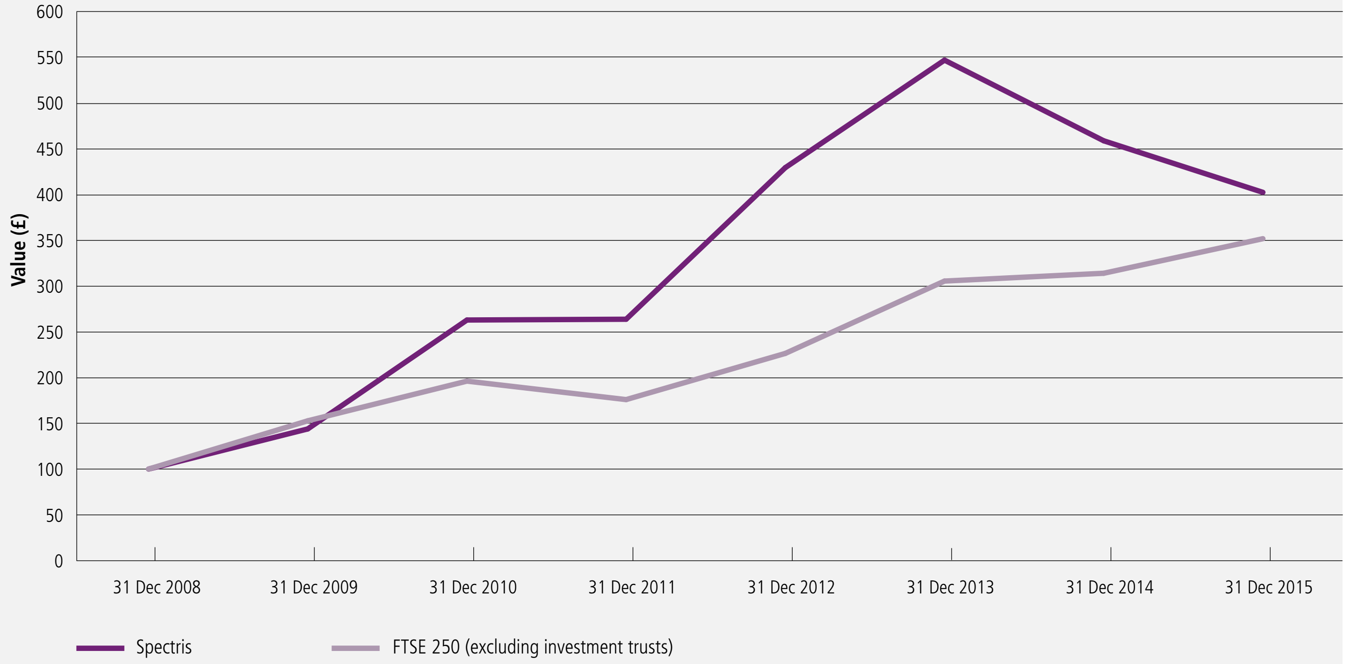
### Performance graph and table

The table below shows the total remuneration of the Chief Executive over a seven-year period, as well as the bonus award and PSP vesting rates against maximum opportunity for that period:

| J E O'Higgins | Single figure of total remuneration (£'000) | Bonus award rates against maximum opportunity (%) | PSP vesting rates against maximum opportunity (%) |
|---|---|---|---|
| 2015 | 729 | 0 | 0 |
| 2014 | 1,122 | 18 | 28 |
| 2013 | 2,172 | 20 | 100 |
| 2012 | 2,995 | 70 | 100 |
| 2011 | 1,481 | 100 | 100 |
| 2010 | 1,104 | 95 | 89 |
| 2009 | 849 | 0 | 33 |

The graph below shows TSR on a holding of shares with £100 value over the previous seven years compared with that of the FTSE 250 as a whole (excluding investment trusts) over the same period. The FTSE 250, of which the Company has been a member throughout the period, is considered the most appropriate group against which to measure the Group's relative performance.

**Total shareholder return**




### Percentage change in the remuneration of the Chief Executive

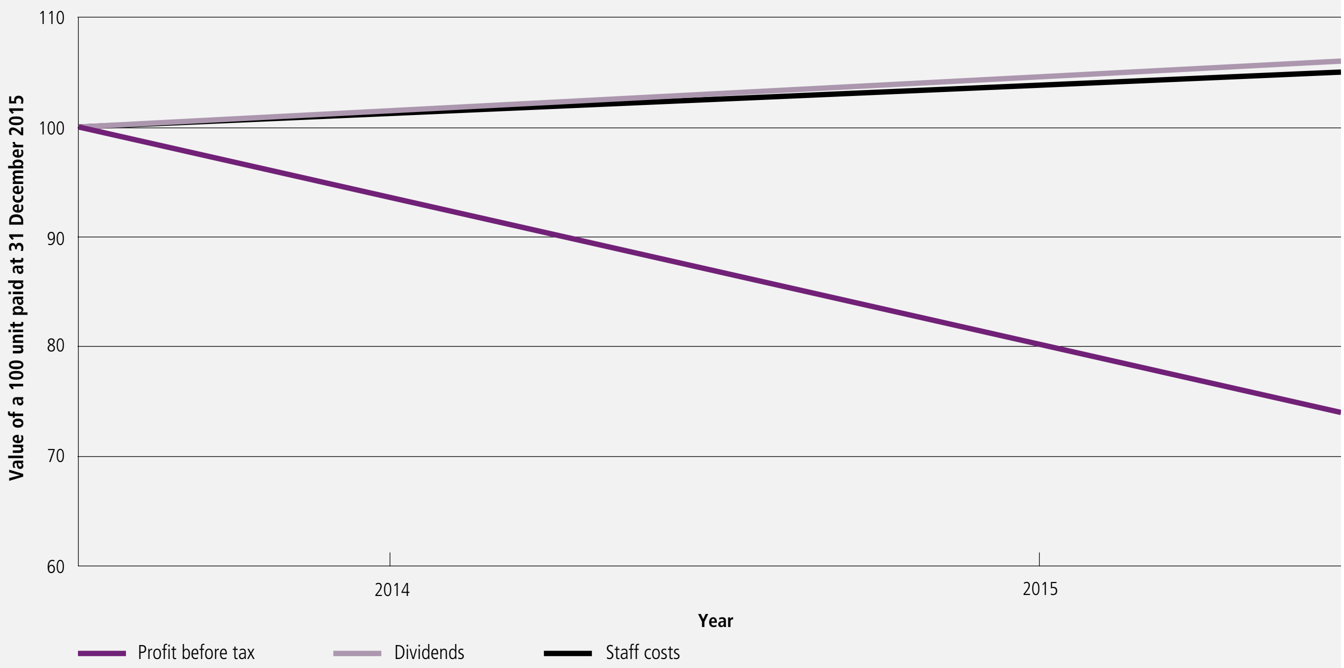
The base salary and taxable benefits of the Chief Executive increased 1.5% and 5%, respectively, in 2015. The 2015 bonus of the Chief Executive (paid in March 2016) decreased 100% compared with 2014. This compares to a 3% base salary increase awarded on average to the Company's UK employees, a decrease in their taxable benefits of 22% and a decrease in their bonuses of 55% in 2015. Your Committee considers the Company's UK employees to be the most appropriate comparator group to the Chief Executive.

## Relative importance of spend on pay

The following graph shows the percentage change in profit, dividends and overall expenditure on Group pay in the reporting period, compared with the prior financial year.

As the Company's principal measure of profitability, adjusted profit before tax was chosen by the Directors as the base comparator to the spend on pay. Adjusted profit before tax is calculated by taking the statutory profit before tax and adjusting it for the non-operational items defined in Note 2 to the Consolidated Financial Statements.

**Relative importance of spend on pay**



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

| | Date granted | Options held 1 Jan 15 | Granted during the year | Exercise price (p) | Exercised during the year | Face value of option at date of grant (£) | Share price at date of exercise (p) | Lapsed during the year | Options held 31 Dec 15 | Date exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **J E O'Higgins** | | | | | | | | | | | |
| SAYE | Sep 2012 | 530 | – | 1,695 | – | 8,984 | – | – | 530 | Dec 2015 | Jun 2016 |
| | Sep 2014 | 446 | – | 2,015 | – | 8,987 | – | – | 446 | Dec 2017 | Jun 2018 |
| **C G Watson** | | | | | | | | | | | |
| SAYE | Sep 2015 | – | 1,036 | 1,737 | – | 17,995 | – | – | 1,036 | Dec 2018 | June 2019 |
| **Total** | | **976** | **1,036** | | **–** | **35,966** | **–** | **–** | **2,012** | | |

### Directors' share awards under the Spectris PSP (subject to audit)

| | Number of shares subject to award at 1 Jan 15 | Date granted | Exercise price (p) | Granted during the year | Addition of re-invested dividends[1] | Face value of award at date of grant | Exercised during the year | Market price at exercise (p) | Lapsed during the year | Number of shares subject to award at 31 Dec 15 (or date of cessation of employment if earlier) | Market value of each share at date of award (p) | Performance period end date / date exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **J E O'Higgins** | 38,092 | Apr 2011 | 5 | – | 883 | 533,669 | (38,975) | 1,710.8 | – | – | 1,401.0 | Apr 2014 | Apr 2021 |
| | 36,780 | Feb 2012 | 5 | | | 624,966 | | | (36,780) | – | 1,699.2 | Feb 2015 | Feb 2022 |
| | 27,370 | Feb 2013 | 5 | | | 659,617 | | | | 27,370 | 2,410.0 | Feb 2016 | Feb 2023 |
| | 50,460 | May 2014 | 5 | | | 1,118,900 | | | | 50,460 | 2,217.4 | May 2017 | May 2024 |
| | | Mar 2015 | 5 | 51,830 | | 1,138,809 | | | | 51,830 | 2,197.2 | Mar 2018 | Mar 2025 |
| Total | 152,702 | | | 51,830 | 883 | | | | (36,780) | 129,660 | | | |
| **C G Watson** | 18,686 | Apr 2011 | 5 | – | 433 | 261,791 | (19,119) | 1,709.7 | – | – | 1,401.0 | Apr 2014 | Apr 2021 |
| | 22,800 | Feb 2012 | 5 | | | 387,418 | | | (22,800) | – | 1,699.2 | Feb 2015 | Feb 2022 |
| | 17,390 | Feb 2013 | 5 | | | 419,099 | | | | 17,390 | 2,410.0 | Feb 2016 | Feb 2023 |
| | 32,050 | May 2014 | 5 | | | 710,677 | | | | 32,050 | 2,217.4 | May 2017 | May 2024 |
| | | Mar 2015 | 5 | 32,930 | | 723,538 | | | | 32,930 | 2,197.2 | Mar 2018 | Mar 2025 |
| Total | 90,926 | | | 32,930 | 433 | | | | (22,800) | 82,370 | | | |
| **Total** | **243,628** | | | **84,760** | **1,316** | **6,578,484** | **(58,094)** | | **(59,580)** | **212,030** | | | |

1 Under the terms of the PSP, notional dividends of the Company are applied over award shares during the performance period and exercise period to date of exercise (reduced to date of vesting for the 2014 grant and subsequent grants), thereby increasing the number of award shares granted. These additional award shares are subject to application of the performance criteria attaching to the award.

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

The awards were made as conditional rights to acquire shares (structured as nominal cost options) and the number of shares awarded was based on the average of the mid-market closing price of the Company's shares over the five business days prior to the date of grant, which was 2,197.2 pence for the 2015 awards. For each of Mr O'Higgins and Mr Watson, the value of the 2015 PSP award was equivalent to 200% of their base salaries. Details of the performance measures applicable to 2015 PSP awards are set out in the earlier section describing the PSP. The face value is the maximum number of shares that would vest multiplied by the share price at the date of grant. If the base targets are not achieved, no shares vest.

The Spectris PSP operates within the dilution limits laid down by the Investment Management Association. 1.3% of the 5% limit has been utilised.

The awards granted to Mr O'Higgins and Mr Watson in 2012 of 36,780 and 22,800 shares, respectively, became exercisable during the year. The awards had two performance conditions attaching to them. The TSR target was not met (50% of the award) and the EPS target was not met (50% of the award). The awards therefore lapsed.

The aggregate gains on exercise for all Directors under the Company's share plans were therefore £nil (2014: £91,868).

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

### Interest in contracts
No Director had during the year or at the end of the year any material interest in any contract of significance to the Group's business.

### Share price
At 31 December 2015, the mid-market closing share price on the London Stock Exchange was 1,802 pence. The highest mid-market closing share price in the year was 2,394 pence and the lowest was 1,629 pence.

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

By order of the Board

**Russell King**
Chairman of the Remuneration Committee
16 February 2016

Company No. 2025003

# OTHER STATUTORY INFORMATION

The Directors' Report is formed of the Corporate Governance Report, the Directors' Remuneration Report and Other Statutory Information (which can be found on pages 56 to 97). Disclosures elsewhere in the Annual Report and Accounts are cross-referenced where appropriate. Taken together, they fulfil the combined requirements of company law, the Disclosure and Transparency Rules and the Listing Rules ('LR').

### Strategic Report

The Board has taken advantage of Section 413C of the Companies Act 2006 to include in the Strategic Report disclosures on the following items which it considers to be of strategic importance to the Company:

- the Group's business model on pages 18 to 21;
- likely future developments of the business on page 23;
- the Group's principal risks and risk management policies on pages 24 to 30;
- the Directors' viability statement on page 31;
- greenhouse gas emissions, methodologies used for reporting and intensity ratios on pages 44 and 45;
- the Group's employment policies, including approach to diversity, the employment of disabled people and employee involvement on pages 45 and 46; and
- the Group's R&D activities on pages 19 and 20.

### Results and dividends

The results for the year are set out on pages 102 to 167. Adjusted operating profit for the year amounts to £181.1 million (2014: £198.1 million).

Dividends paid and proposed are as follows:

| Dividends | **2015 Pence per share** | 2014 Pence per share |
|---|---|---|
| Interim (paid) | **17.3** | 16.0 |
| Final (proposed) | **32.2** | 30.5 |
| Total dividend | **49.5** | 46.5 |

The final dividend will be paid on 24 June 2016 to shareholders on the register on 27 May 2016.

### Power of Directors

The Company's 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 AGM.

### Articles

The Company's Articles give power to the Board to appoint Directors, but require Directors to submit themselves for election at the first AGM following their appointment, and for annual re-election at subsequent AGMs. The Articles can be amended by means of a special resolution of the shareholders. Spectris' Articles are available on the Company's website (www.spectris.com).

### Branches

The Company, through its subsidiaries, has a number of branches in the countries in which it operates.

### AGM

The AGM will be held at Great Fosters, Stroude Road, Egham, Surrey, TW20 9UR on Friday, 20 May 2016 at 12.30 p.m. The Notice of AGM is contained in a separate letter from the Chairman accompanying this report.

The results of the 2015 AGM can be found on page 76. There was no significant vote against any of the resolutions. The results of the 2016 AGM will be published on the Company's website shortly after the meeting (www.spectris.com).

### Directors' remuneration and interests

Details of Directors' remuneration and their interest in the Company's shares can be found in the Directors' Remuneration Report on pages 77 to 93.

## Share capital

The share capital of the Company comprises ordinary shares of 5 pence 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 42 to the Financial Statements on page 162. The Articles, available on the Company's website, contain provisions governing the ownership and transfer of shares.

## Authority to purchase own shares

At the 2015 AGM, shareholders authorised the Directors to make market purchases of the Company's ordinary shares up to a maximum number of 11,899,000 shares, representing approximately 10% of the issued share capital of the Company (excluding treasury shares) 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. This authority remains valid until the date of the next AGM. No such purchases were made during the year. At the close of business on 15 February 2016, the Company had 125,005,123 ordinary shares in issue, of which 5,896,134 were held in treasury. During the year 155,927 shares were transferred out of treasury to meet the Company's obligations under its share plans, with no shares being cancelled out of treasury. An authority to make further market purchases of the Company's ordinary shares, if believed appropriate, will be sought at the forthcoming AGM, although the Board has no present intention of so doing.

## Authority to allot shares

Included in the special business of the 2016 AGM are proposals to renew the Directors' authority to allot shares up to prescribed limits.

## Major shareholders

The Company has been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following shareholdings. All significant holdings are held by institutional investors:

| | Shareholding in Spectris shares | Percentage of issued share capital as at 31 December 2015 | Percentage of issued share capital as at the date of this report |
|---|---|---|---|
| Standard Life Investments Limited | 5,920,593 | 4.97% | 4.97% |
| Royal London Asset Management | 3,603,345 | 3.03% | 3.03% |
| Massachusetts Financial Services Company | 12,039,317 | 10.11% | 10.11% |

No changes have been disclosed in accordance with these rules in the period 31 December 2015 to the date of this report.

## Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Group following a takeover, such as bank loan agreements and Company share plans. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole. It is also possible that funding arrangements for the Group's defined benefit pension arrangements would need to be enhanced following a change of control if that resulted in a weakening of the employer covenant.

The Company does not have any agreements with any Director or employee that would provide for compensation for loss of office or employment following a takeover bid.

## Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 32 to the Financial Statements.

## Political donations

The Group's policy is not to make any political donations and none were made during the financial year (2014: nil).

## Disclosures required under UK Listing Rule 9.8.4R

For the purposes of LR 9.8.4R, the information required to be disclosed can be found in the following locations:

| Section | Required information | Location in Annual Report | Page |
|---|---|---|---|
| (1) | Interest capitalised | Not applicable | – |
| (2) | Publication of unaudited financial information | Not applicable | – |
| (4) | Details of long-term incentive schemes | Directors' Remuneration Report | 87 |
| (5) | Waiver of emoluments by a Director | Directors' Remuneration Report | 86 |
| (6) | Waiver of future emoluments by a Director | Not applicable | – |
| (7) | Non pre-emptive issues of equity for cash | Not applicable | – |
| (8) | Item 7, in relation to major subsidiary undertakings | Not applicable | – |
| (9) | Parent participation in a placing by a listed subsidiary | Not applicable | – |
| (10) | Contracts of significance | Not applicable | – |
| (11) | Provision of services by a controlling shareholder | Not applicable | – |
| (12) | Shareholder waiver of dividends | Not applicable | – |
| (13) | Shareholder waiver of future dividends | Not applicable | – |
| (14) | Agreements with controlling shareholders | Not applicable | – |

### Use of financial instruments

Information on the Group's financial risk management objectives and policies, its exposure to foreign currency risk, interest rate risk, liquidity risk, credit risk and capital management is contained in Note 26 to the Financial Statements on pages 148 to 151.

### Auditor

Separate resolutions to re-appoint KPMG as auditor and to authorise the Directors to agree its remuneration will be proposed at the AGM.

### 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 at least 12 months following the signing of the accounts. For this reason it continues to adopt the going concern basis in preparing the Group's accounts.

### Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply 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.

### Directors' statement on disclosure to the auditor

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

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

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

By order of the Board

**Roger Stephens**
Secretary
16 February 2016

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECTRIS PLC ONLY

## Opinions and conclusions arising from our audit

### 1. Our opinion on the Financial Statements is unmodified

We have audited the Financial Statements of Spectris plc for the year ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and the related notes. In our opinion:

_ the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
_ the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU);
_ the Parent Company Financial Statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework'; and
_ the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

### 2. Our assessment of risks of material misstatement

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

#### Recoverability of goodwill

Refer to page 70 (Audit and Risk Committee Report), page 108 (accounting policy) and pages 125 and 126 (financial disclosures).

The risk:

_ The Group's cash-generating units ('CGUs') operate across a broad range of markets, products and geographies. The assessment of the recoverability of goodwill is based on the future business prospects and forecast trading performance of the Group across these areas.
_ Due to challenging trading environments in recent years and the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit concentrated on. There is the risk that the key assumptions, estimates and judgements on which the calculations are based are inappropriate and that goodwill is overstated as a result.

Our response:

_ Our audit procedures included evaluating the Group's key assumptions and methodologies, in particular those in respect of CGUs with lower headroom: Omega Engineering, which experienced challenging market conditions in North America; and ESG Solutions, a more recent acquisition, adversely impacted by lower oil and gas prices on its customers. The carrying values of goodwill for Omega Engineering and ESG Solutions at 31 December 2015 were £178.9 million and £16.2 million respectively.
_ We critically challenged the assumed long term growth rates by comparing to recent historical trading performance within the Group, forecast economic growth rates and also the long-term growth rates used by an external peer group.
_ We used our own valuation specialists to critically challenge the discount rates used by the Group and benchmarked these discount rates to those used by an external peer group.
_ We critically assessed the other assumptions used by the Group using our own assessments and a comparison to recent performance in relation to key inputs such as forecast revenue over the next three years, operating margins and profit to cash conversion.
_ We applied sensitivities to the assumptions used by the Group in its impairment calculations to evaluate the impact on the headroom for each CGU. This included a consideration of the historical accuracy of the Group's forecasting for Omega Engineering for each full year since ownership to inform our own assessments noted above.
_ To assess the reasonableness of the forecast discounted cash flows, we compared the sum of those cash flows to the Group's market capitalisation.
_ We also assessed whether the Group's disclosures (see Note 11) about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the key risks inherent in the valuation of goodwill.

#### Working capital provisions

Refer to page 70 (Audit and Risk Committee Report), pages 109 to 110 (accounting policy) and pages 128 to 129 (financial disclosures).

The risk:

_ The Group has significant inventory and trade receivable balances and the Directors have to apply judgement to assess the level of provisions required to write down obsolete, excess and slow-moving inventory items to their net realisable value and to write down the value of trade receivables to their recoverable amounts.
_ In respect of inventory provisions each operating company in the Group is required to apply a methodology to calculate an inventory provision that is appropriate to the specific business facts and circumstances which requires the application of judgement and estimates.
_ In respect of trade receivables the Group's credit risk policy requires analysis of individual receivable account balances, taking into account receivables that are past due for more than 120 days and any securities held.
_ The level of judgement involved in determining whether a provision should be recognised and how it should be measured, coupled with the fact that provision movements impact earnings, results in working capital provisions being one of the key judgemental areas that our audit concentrated on.

Our response:

_ In respect of inventory provisions our audit procedures included considering the appropriateness of the Group's methodologies in the context of our understanding of the individual businesses in the Group with reference to the ageing and nature of inventory, past usage, forecast future usage, economic conditions and new product launches and technology. We compared the methodologies and assumptions used in calculating the inventory provision to those used in prior years; as part of this we considered whether we would expect a change to the methodologies and assumptions used. We recalculated on a sample basis provisions recorded by the Group and compared the accuracy of the usage data to underlying documentation to assess the accuracy of the data used in the calculation. We also considered the historical accuracy of provisions made by the Group by examining the reversal of previously recorded provisions.
_ In respect of trade receivable provisions our audit procedures included considering the appropriateness of the provisions recorded against trade receivable balances considered doubtful and the appropriateness of the Group's provisioning policy, with reference to the ageing of customer balances, economic conditions, the concentration of counterparty risk, past history of recovery and any securities held.

### Tax provisions

Refer to pages 70 and 71 (Audit and Risk Committee Report), page 110 (accounting policy) and pages 122 and 123, and 136 to 138 (financial disclosures).

The risk:

_ Governmental challenge of transfer pricing and financing arrangements may result in tax exposures and potential interest and penalties. Recognition and measurement of provisions for tax exposures relating to open tax years are subject to management judgement and estimation.
_ This is one of the key judgemental areas that our audit concentrated on due to the Group operating in a number of different tax jurisdictions, the complexities of transfer pricing and other international tax legislation and the time taken for tax matters to be agreed with the tax authorities. Movements in tax provisions impact earnings.

Our response:

_ Our audit procedures included the use of our own international and local tax specialists to assess the Group's tax positions and to read the latest correspondence with the relevant tax authorities. We analysed and challenged the assumptions used by the Directors to determine tax provisions using our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts.
_ We have also considered the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

### Acquisition accounting

Refer to page 70 (Audit and Risk Committee Report), page 108 (accounting policy) and pages 143 to 145 (financial disclosures).

The risk:

_ During the year the Group completed five acquisitions for a total consideration of £45.0 million.
_ There is significant judgement involved in determining the fair value of the identifiable assets and liabilities acquired given the specialised nature of the acquired businesses and associated technological, customer and marketing-related intangibles.
_ Contingent consideration in relation to acquisitions made in the current year and recent years has been recognised and is payable on the achievement of future sales targets. Given the uncertainty regarding achievement of these targets, significant judgement is required in measuring the fair value of the Group's contingent consideration obligation both at the acquisition date and at the balance sheet date.
_ Purchase price adjustments can be disputed by the seller and, therefore, can require judgement in determining the expected settlement amount.

Our response:

_ Our audit procedures included critically challenging the key valuation assumptions and methodologies which were used as the basis for the determination of the fair value of the intangible assets. This included comparison against industry norms, and consideration of the reasonableness of assumptions underlying the identification of separately identifiable intangible assets and associated revenue growth rates used in the forecasts, and their useful economic lives together with considering what is represented by residual goodwill.
_ In respect of contingent consideration our work focussed on the forecast results of the acquired businesses which is the basis for the estimate of the contingent consideration liability. The key assumptions underlying those forecasts were compared with the Group's planned development of the business and also the historical trading performance of the acquired business and results since the acquisition date.
_ In respect to a disputed purchase price adjustment, we critically challenged the assumptions used in assessing the expected recoverable amount from the seller with reference to the purchase agreement, discussion with the Group's internal legal counsel and review of correspondence with the Group's external legal counsel where relevant.
_ We also considered the adequacy of the Group's disclosures (see Notes 24 and 26) with respect to the acquisitions, purchase price adjustments and contingent consideration.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECTRIS PLC ONLY CONTINUED

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

The materiality for the Group Financial Statements as a whole was set at £7.0 million (2014: £11.0 million), determined with reference to a benchmark of Group profit before tax, of which it represents 5%, reflecting consensus levels (2014: 6%).

We report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.4 million, in addition to other identified misstatements below that threshold that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at key reporting components in the following countries: Canada, China, Denmark, France, Germany, the Netherlands, Spain, Switzerland, the United Kingdom and the USA. Specific risk-focussed audit procedures were performed at reporting components in Singapore and the USA; these components were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the identified risks and the Group's results. In addition, specified risk-focussed audit procedures were performed by the Group audit team over other reporting components as part of the audit for Group reporting purposes; these other reporting components, typically smaller in size, were selected at short notice to give an element of unpredictability in our overall scope of work.

In aggregate our audit procedures covered 68% of total Group revenue; 82% of Group profit before tax; and 69% of total Group assets.

The remaining 32% of total Group revenue, 18% of Group profit before tax and 31% of total Group assets is represented by reporting components none of which individually represents more than 3% of these measures. For the remaining components, we performed analysis at the Group level to re-examine our assessment that there were no significant risks of material misstatement within them.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group audit team set or approved the component materiality levels, which ranged from £0.1 million to £2.2 million, having regard to the mix of size and risk profile of the Group across the components as well as considering the risk when aggregating misstatements that may exceed Group materiality.

The Group audit team performed the work on recoverability of goodwill, acquisition accounting and centrally recorded tax provisions. The Group audit team performed the audit work and were physically present at four out of five reporting components in scope in the USA, the Group's single largest geographical market, as well as the business in Canada acquired in December 2014. In addition, the Group audit team physically visited key reporting components in the following countries the purpose of which included an assessment of the audit risk and strategy: Brazil, Denmark, Germany, Switzerland, the United Kingdom and the USA. Video or telephone conference meetings were also held with the auditors at these locations and all of the other locations that were not physically visited.

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

In our opinion:

_ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
_ the information given in the Strategic Report and Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

### 5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

_ the Directors' viability statement on page 31, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2018; or
_ the disclosures in Note 1 of the Financial Statements concerning the use of the going concern basis of accounting.

### 6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

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

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

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

_ adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
_ the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
_ certain disclosures of Directors' remuneration specified by law are not made; or
_ we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

_ the Directors' statement, in relation to going concern and longer-term viability, set out on page 96 and page 31 respectively; and
_ the part of the Corporate Governance Report on page 59 relating to the Company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

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

## Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on pages 96 and 97, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Richard Broadbelt**
**(Senior Statutory Auditor)**
**for and on behalf of KPMG LLP,**
**Statutory Auditor**
Chartered Accountants
15 Canada Square
London, E14 5GL
16 February 2016

# CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 3,4 | **1,190.0** | 1,173.7 |
| Cost of sales | | **(506.9)** | (497.3) |
| **Gross profit** | | **683.1** | 676.4 |
| Indirect production and engineering expenses | | **(98.6)** | (93.2) |
| Sales and marketing expenses | | **(274.4)** | (271.3) |
| Administrative expenses | | **(166.5)** | (143.6) |
| Operating profit before acquisition-related items | | **181.1** | 198.1 |
| Net acquisition-related costs and fair value adjustments | 2 | **(2.9)** | (3.9) |
| Amortisation and impairment of acquisition-related intangible assets | 2 | **(34.6)** | (25.9) |
| **Operating profit** | 2,3,5 | **143.6** | 168.3 |
| Profit on disposal of businesses | | **–** | 2.4 |
| Financial income | 7 | **3.3** | 6.3 |
| Finance costs | 7 | **(5.3)** | (5.9) |
| **Profit before tax** | | **141.6** | 171.1 |
| Taxation – UK | 8 | **(1.3)** | (2.0) |
| Taxation – Overseas | 8 | **(26.5)** | (34.0) |
| **Profit after tax for the year from continuing operations attributable to owners of the Parent Company** | | **113.8** | 135.1 |
| Basic earnings per share (pence) | 10 | **95.6p** | 113.7p |
| Diluted earnings per share (pence) | 10 | **95.4p** | 113.4p |
| Interim dividends paid and final dividends proposed for the year (per share) | 9 | **49.5p** | 46.5p |
| Dividends paid during the year (per share) | 9 | **47.8p** | 44.0p |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| Profit for the year attributable to owners of the Parent Company | | **113.8** | 135.1 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to the Consolidated Income Statement:** | | | |
| Re-measurement of net defined benefit liability, net of foreign exchange | 19 | **(7.9)** | (5.6) |
| Tax on items above | 8 | **1.7** | 1.5 |
| | | **(6.2)** | (4.1) |
| **Items that are or may be reclassified subsequently to the Consolidated Income Statement:** | | | |
| Net gain / (loss) on effective portion of changes in fair value of forward exchange contracts | | **0.1** | (3.3) |
| Foreign exchange movements on translation of overseas operations | | **(1.9)** | (5.5) |
| Tax on items above | 8 | **–** | 0.5 |
| | | **(1.8)** | (8.3) |
| **Total comprehensive income for the year attributable to owners of the Parent Company** | | **105.8** | 122.7 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | 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 2015 | **6.2** | **231.4** | **643.1** | **34.9** | **(3.0)** | **3.1** | **0.3** | **916.0** |
| Profit for the year | **–** | **–** | **113.8** | **–** | **–** | **–** | **–** | **113.8** |
| Other comprehensive income: | | | | | | | | |
| Net gain on effective portion of changes in fair value of forward exchange contracts, net of tax | **–** | **–** | **–** | **–** | **0.1** | **–** | **–** | **0.1** |
| Foreign exchange movements on translation of overseas operations | **–** | **–** | **–** | **(1.9)** | **–** | **–** | **–** | **(1.9)** |
| Re-measurement of net defined benefit liability, net of foreign exchange and tax | **–** | **–** | **(6.2)** | **–** | **–** | **–** | **–** | **(6.2)** |
| Total comprehensive income for the year | **–** | **–** | **107.6** | **(1.9)** | **0.1** | **–** | **–** | **105.8** |
| Transactions with owners recorded directly in equity: | | | | | | | | |
| Equity dividends paid by the Company | **–** | **–** | **(56.9)** | **–** | **–** | **–** | **–** | **(56.9)** |
| Share-based payments, net of tax | **–** | **–** | **0.8** | **–** | **–** | **–** | **–** | **0.8** |
| Share options exercised from own shares (treasury) purchased | **–** | **–** | **0.3** | **–** | **–** | **–** | **–** | **0.3** |
| **Balance at 31 December 2015** | **6.2** | **231.4** | **694.9** | **33.0** | **(2.9)** | **3.1** | **0.3** | **966.0** |

| **For the year ended 31 December 2014** | 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 2014 | 6.2 | 231.4 | 562.9 | 40.4 | (0.2) | 3.1 | 0.3 | 844.1 |
| Profit for the year | – | – | 135.1 | – | – | – | – | 135.1 |
| Other comprehensive income: | | | | | | | | |
| Net loss on effective portion of changes in fair value of forward exchange contracts, net of tax | – | – | – | – | (2.8) | – | – | (2.8) |
| Foreign exchange movements on translation of overseas operations | – | – | – | (5.5) | – | – | – | (5.5) |
| Re-measurement of net defined benefit liability, net of foreign exchange and tax | – | – | (4.1) | – | – | – | – | (4.1) |
| Total comprehensive income for the year | – | – | 131.0 | (5.5) | (2.8) | – | – | 122.7 |
| Transactions with owners recorded directly in equity: | | | | | | | | |
| Equity dividends paid by the Company | – | – | (52.3) | – | – | – | – | (52.3) |
| Share-based payments, net of tax | – | – | 1.2 | – | – | – | – | 1.2 |
| Share options exercised from own shares (treasury) purchased | – | – | 0.3 | – | – | – | – | 0.3 |
| Balance at 31 December 2014 | 6.2 | 231.4 | 643.1 | 34.9 | (3.0) | 3.1 | 0.3 | 916.0 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2015

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets: | | | |
| Goodwill | 11 | **584.9** | 569.4 |
| Other intangible assets | 11 | **201.7** | 208.5 |
| | | **786.6** | 777.9 |
| Property, plant and equipment | 12 | **160.8** | 162.5 |
| Deferred tax assets | 20 | **17.2** | 18.3 |
| Retirement benefit assets | 19 | **–** | 3.6 |
| | | **964.6** | 962.3 |
| **Current assets** | | | |
| Inventories | 13 | **182.5** | 175.7 |
| Taxation recoverable | | **0.7** | 1.1 |
| Trade and other receivables | 14 | **253.1** | 232.6 |
| Cash and cash equivalents | 15 | **58.2** | 34.8 |
| | | **494.5** | 444.2 |
| **Total assets** | | **1,459.1** | 1,406.5 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Short-term borrowings | 16 | **(1.7)** | (50.9) |
| Derivative financial instruments | 26 | **(0.4)** | (0.3) |
| Trade and other payables | 17 | **(206.6)** | (201.0) |
| Current tax liabilities | | **(27.5)** | (28.8) |
| Provisions | 18 | **(22.2)** | (17.7) |
| | | **(258.4)** | (298.7) |
| **Net current assets** | | **236.1** | 145.5 |
| **Non-current liabilities** | | | |
| Medium- and long-term borrowings | 16 | **(155.1)** | (109.5) |
| Other payables | 17 | **(16.6)** | (21.6) |
| Retirement benefit obligations | 19 | **(22.1)** | (17.6) |
| Deferred tax liabilities | 20 | **(40.9)** | (43.1) |
| | | **(234.7)** | (191.8) |
| **Total liabilities** | | **(493.1)** | (490.5) |
| **Net assets** | | **966.0** | 916.0 |
| **EQUITY** | | | |
| Share capital | 21 | **6.2** | 6.2 |
| Share premium | | **231.4** | 231.4 |
| Retained earnings | | **694.9** | 643.1 |
| Translation reserve | | **33.0** | 34.9 |
| Hedging reserve | | **(2.9)** | (3.0) |
| Merger reserve | | **3.1** | 3.1 |
| Capital redemption reserve | | **0.3** | 0.3 |
| **Total equity attributable to equity holders of the Parent Company** | | **966.0** | 916.0 |
| **Total equity and liabilities** | | **1,459.1** | 1,406.5 |

The Financial Statements on pages 102 to 152 were approved by the Board of Directors on 16 February 2016 and were signed on its behalf by:

**Clive Watson**
Group Finance Director

Company Registration No. 2025003

# CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit after tax | | **113.8** | 135.1 |
| Adjustments for: | | | |
| Taxation | 8 | **27.8** | 36.0 |
| Profit on disposal of businesses | | **–** | (2.4) |
| Finance costs | 7 | **5.3** | 5.9 |
| Financial income | 7 | **(3.3)** | (6.3) |
| Depreciation | 12 | **19.6** | 18.2 |
| Amortisation and impairment of intangible assets | 11 | **39.4** | 29.4 |
| Acquisition-related fair value adjustments | | **(0.1)** | – |
| Acquisition costs not yet paid | | **–** | 1.4 |
| Loss / (profit) on sale of property, plant and equipment | 5 | **0.2** | (0.3) |
| Equity-settled share-based payment transactions | 6 | **0.7** | 2.2 |
| **Operating cash flow before changes in working capital and provisions** | | **203.4** | 219.2 |
| Increase in trade and other receivables | | **(17.1)** | (16.3) |
| Increase in inventories | | **(7.6)** | (8.1) |
| Increase in trade and other payables | | **3.5** | 3.9 |
| Increase / (decrease) in provisions and employee benefits | | **4.7** | (0.5) |
| Net income taxes paid | | **(33.5)** | (43.0) |
| **Net cash flows generated from operating activities** | | **153.4** | 155.2 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and software | | **(26.0)** | (27.4) |
| Proceeds from sale of property, plant and equipment and software | | **0.9** | 2.4 |
| Acquisition of businesses, net of cash acquired | 24 | **(40.1)** | (91.6) |
| Interest received | | **0.2** | 0.3 |
| **Net cash flows used in investing activities** | | **(65.0)** | (116.3) |
| **Cash flows from financing activities** | | | |
| Interest paid | | **(4.7)** | (6.6) |
| Dividends paid | 9 | **(56.9)** | (52.3) |
| Proceeds from exercise of share options (treasury shares) | | **0.3** | 0.3 |
| Proceeds from borrowings | | **85.0** | 20.8 |
| Repayment of borrowings | | **(85.5)** | (8.2) |
| **Net cash flows used in financing activities** | | **(61.8)** | (46.0) |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | **26.6** | (7.1) |
| Cash and cash equivalents at beginning of year | | **32.3** | 41.6 |
| Effect of foreign exchange rate changes | | **(2.4)** | (2.2) |
| **Cash and cash equivalents at end of year** | 15 | **56.5** | 32.3 |

| **Reconciliation of changes in cash and cash equivalents to movements in net debt** | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| Net increase / (decrease) in cash and cash equivalents | | **26.6** | (7.1) |
| Proceeds from borrowings | | **(85.0)** | (20.8) |
| Repayment of borrowings | | **85.5** | 8.2 |
| Effect of foreign exchange rate changes | | **(0.1)** | (1.8) |
| Movement in net debt | | **27.0** | (21.5) |
| Net debt at start of year | 16 | **(125.6)** | (104.1) |
| **Net debt at end of year** | 16 | **(98.6)** | (125.6) |

# NOTES TO THE ACCOUNTS

## 1. Basis of preparation and summary of significant accounting policies

### a) Basis of preparation

Basis of accounting

The Consolidated Financial Statements have been prepared on a historical cost basis except for items that are required by IFRS to be measured at fair value, principally certain financial instruments. The Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ('IASB') and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted by the European Union ('adopted IFRS'), and in accordance with the provisions of the Companies Act 2006.

The Financial Statements set out on pages 102 to 152 have been prepared using consistent accounting policies, except for the adoption of new accounting standards and interpretations noted below. No revisions to adopted IFRS that became applicable in 2015 had a significant impact on the Group Financial Statements.

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

Basis of consolidation

The Consolidated Financial Statements set out the Group's financial position as at 31 December 2015 and the Group's financial performance for the year ended 31 December 2015.

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

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

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and financial position, are set out in the Strategic Report on pages 1 to 55. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 50 to 55. In addition, Note 25 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group's net debt balance at 31 December 2015 was £98.6m (2014: £125.6m), with available undrawn committed borrowing facilities of £371.1m (2014: £316.8m).

The Board has reviewed sensitivity analysis on the Group's forecasts to 30 June 2017, the maturity profile of its financial facilities and liabilities (Notes 16 and 26) and the ability of the Group to re-finance these obligations as they fall due. The principal liquidity risk is mitigated through its financial risk management policies (Note 25). For the foreseeable future, the Board has a high level of confidence that the Group will have the necessary liquid resources to meet its liabilities as they fall due and will be able to sustain its business model, strategy and operations and remain solvent, including the impact of reasonable scenarios. For this reason, it continues to adopt the going concern basis in preparing the Group Financial Statements. There are no key sensitivities identified in relation to this conclusion. Further information on the going concern of the Group can be found on page 31 in the viability statement.

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 2015 and have, therefore, not been applied in preparing these Consolidated Financial Statements:

- IFRS 9 'Financial Instruments' is effective for the 31 December 2018 year end. The adoption of this standard is not expected to have a significant impact on the results or Consolidated Statement of Financial Position reported in the Consolidated Financial Statements.
- IFRS 15 'Revenue from Contracts with Customers' is effective for the 31 December 2018 year end. The adoption of this standard is not expected to have a significant impact on the results or Consolidated Statement of Financial Position reported in the Consolidated Financial Statements.
- IFRS 16 'Leases' was revised on 13 January 2016 and is effective for the 31 December 2019 year end. The adoption of this standard removes the distinction between operating and finance leases and will result in all operating leases, above a de minimis level, being capitalised with the associated assets and liabilities being brought on to the Consolidated Statement of Financial Position. Given the timing of the issuance of the standard, the Directors have not yet evaluated the full impact.

# NOTES TO THE ACCOUNTS CONTINUED

## 1. Basis of preparation and summary of significant accounting policies continued

### Significant accounting judgements and estimates

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

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

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

- Notes 8 and 20 – Taxation and deferred tax. The assessment and recognition of tax provisions requires management judgement. In particular the Group is potentially subject to tax audits covering both direct and indirect taxes in many jurisdictions. By their nature these are often complex and could take a significant period of time to be agreed with the tax authorities. Judgement is therefore applied based on the interpretation of country specific tax legislation and the likelihood of settlement. Provisions held in respect of tax risks are included within current and deferred tax liabilities. Furthermore judgement is also applied relating to the recognition of deferred tax assets which are dependent on an assessment of future taxable income in the relevant countries concerned.
- Note 11 – Impairment of goodwill. The carrying amount of goodwill has been tested for impairment by estimating the value in use of the cash-generating units to which it has been allocated. Note 11 outlines the significant assumptions made in performing the impairment tests.
- Note 13 – Provisions against inventory. Judgement is applied to assess the level of provisions required to write down slow-moving, excess and obsolete inventory to its net realisable value.
- Note 14 – Provisions for impairment of trade receivables. Judgement is applied to assess whether a trade receivable is recoverable or not, and whether the level of provision required to write down the value of the receivable to its recoverable amount is appropriate.
- Notes 18 and 27 – Provisions and contingent liabilities. Judgement is applied in relation to determining the risk-adjusted probability, quantum and timing of management's best estimate of future payments.
- Note 19 – Defined benefit pension obligations. The defined benefit pension obligations are calculated using a number of assumptions, including those related to future inflation, salary increases and mortality, and the obligation is then discounted to its present value using an assumed discount rate.
- Note 24 – Business combinations. Judgement is applied in relation to the estimation of the provisional fair values and useful lives of acquired assets and liabilities at the date of acquisition.

### b) Summary of significant accounting policies

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

### Business combinations and goodwill

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

All business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the fair value of the purchase consideration for the interests in subsidiary undertakings over the net fair value to the Group of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill arising on the acquisition of a business is tested annually for impairment. Goodwill is not amortised, and any impairment losses are not subsequently reversed. The net book value of goodwill at the date of transition to IFRS has been treated as deemed cost. On the subsequent disposal or discontinuance of a previously-acquired business, the relevant goodwill is dealt with in the Consolidated Income Statement except for the goodwill already charged to reserves. From 1 January 2004, goodwill is allocated on acquisition to cash-generating units that are anticipated to benefit from the combination. Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit to which the goodwill relates and comparing it against the net book value. This estimate of recoverable amount is determined at each statement of financial position date. The Group's identified cash-generating units are smaller than the reportable operating segments in Note 3.

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.

## 1. Basis of preparation and summary of significant accounting policies continued

### Intangible assets and amortisation

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

Self-funded research and development costs are charged to the Consolidated Income Statement in the year in which they are incurred unless development expenditure meets certain strict criteria for capitalisation. These criteria include demonstration of the technical feasibility and intent of completing a new intangible asset that will be available for sale and that the asset will generate probable future economic benefits. From the point where expenditure meets the criteria, development costs are capitalised and amortised over the useful economic lives of the assets to which they relate. 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.

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

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

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

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

### Property, plant and equipment and depreciation

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

Depreciation is recognised in the Consolidated Income Statement on a straight-line basis to write off the cost, less the estimated residual value (which is reviewed annually), of property, plant and equipment over its estimated useful economic life. Depreciation commences on the date the assets are ready for use within the business and the asset carrying values are reviewed for impairment when there is an indication that they may be impaired. The depreciation charge is revised where useful lives are different from those previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Land is not depreciated. Estimated useful lives are as follows:

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

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

### 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, if deemed more appropriate for the business. Provisions are made to write down slow-moving, excess and obsolete items to net realisable value, based on an assessment of technological and market developments and on an analysis of historical and projected usage with regard to quantities on hand.

# NOTES TO THE ACCOUNTS CONTINUED

## 1. Basis of preparation and summary of significant accounting policies continued

### Trade and other receivables

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

### Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and in hand and short-term deposits held on call or with maturities of less than three months at inception. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash equivalents for the purposes of the Consolidated Statement of Cash Flows.

### Trade and other payables

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

### Provisions

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

### Leasing

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

### Taxation

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

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

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and their corresponding tax bases. No provision is made for deferred tax which would become payable on the distribution of retained profits by overseas subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantively enacted at the statement of financial position date.

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

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

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

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.

## 1. Basis of preparation and summary of significant accounting policies continued

### Foreign currency translation

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

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

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

### Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective-interest basis.

### Financial instruments

*Recognition*

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

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

*Measurement*

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

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

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

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

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

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

# **NOTES TO THE ACCOUNTS** CONTINUED

## **1. Basis of preparation and summary of significant accounting policies** continued

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

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

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

*Net investment hedge accounting*
The Group uses US Dollar and Euro-denominated borrowings as a hedge against the translation exposure on the Group's net investment in overseas companies. To the extent that the hedge is effective at hedging the variability in the net assets of such companies, caused by changes in foreign exchange rates, the changes in the value of the borrowings are recognised in the Consolidated Statement of Comprehensive Income. The ineffective part of any change in value caused by changes in foreign exchange rates is recognised in the Consolidated Income Statement.

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

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

The amount of any pension fund asset recognised in the Consolidated Statement of Financial Position is limited to any future refunds from the plan or the present value of reductions in future contributions to the plan.

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

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

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

## 1. Basis of preparation and summary of significant accounting policies continued

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

Where it is not possible to incentivise managers of the Group's operating companies with equity-settled options, they are issued with cash-settled options. The charge for these awards is adjusted to reflect the expected and actual levels of options that vest and the fair value is based on either the share price at date of exercise or the share price at the Consolidated Statement of Financial Position date if sooner.

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

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

Revenue
Revenue is measured at the fair value of the right to consideration and represents amounts receivable for goods and services provided in the normal course of business to external customers net of returns and discounts, excluding value added tax and other sales-related taxes.

Revenue from the sale of goods is recognised in the Consolidated Income Statement when the significant risks and rewards of ownership of the goods have been transferred to the customer, recovery of the consideration is probable, the costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. This is typically on delivery when legal title transfers to the customer. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

For contracts that involve a significant element of installation or testing of equipment, revenue is recognised at the point of customer acceptance.

Revenue from services rendered is recognised in the Consolidated Income Statement in proportion to the measurement of the stage of completion of services rendered as at the Consolidated Statement of Financial Position date. This is assessed by reference to the amount of time incurred in proportion to the total expected time to be taken to deliver the service.

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

Interest payable and receivable
Interest payable comprises the interest payable on borrowings calculated using the effective interest method and the unwinding of the discount factor on deferred or contingent consideration. Interest receivable comprises interest income on cash and funds invested and is recognised in the Consolidated Income Statement as it accrues.

## 2. Adjusted performance measures

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures enable them to assess the underlying trading performance of the businesses. Adjusted figures exclude certain non-operational items which management have defined as amortisation and impairment of acquisition-related intangible assets, acquisition-related costs and contingent consideration fair value adjustments, acquisition-related fair value adjustments, profits or losses on termination or disposal of businesses, unrealised changes in the fair value of financial instruments, gains or losses on retranslation of short-term inter-company loan balances, unwinding of the discount factor on deferred and contingent consideration, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 8).

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

| **Adjusted operating profit** | Note | **2015 £m** | 2014 £m |
|---|---|---|---|
| Operating profit as reported under adopted IFRS | | **143.6** | 168.3 |
| Net acquisition-related costs and fair value adjustments | | **2.9** | 3.9 |
| Amortisation and impairment of acquisition-related intangible assets | 11 | **34.6** | 25.9 |
| Adjusted operating profit | | **181.1** | 198.1 |

| **Adjusted operating profit by segment – 2015** | Note | **Materials Analysis £m** | **Test and Measurement £m** | **In-line Instrumentation £m** | **Industrial Controls £m** | **2015 Total £m** |
|---|---|---|---|---|---|---|
| Operating profit as reported under adopted IFRS | | **42.6** | **43.6** | **34.2** | **23.2** | **143.6** |
| Net acquisition-related costs and fair value adjustments | | **0.2** | **1.5** | **0.1** | **1.1** | **2.9** |
| Amortisation and impairment of acquisition-related intangible assets | | **10.9** | **10.2** | **2.5** | **11.0** | **34.6** |
| Adjusted operating profit | 3 | **53.7** | **55.3** | **36.8** | **35.3** | **181.1** |

| **Adjusted operating profit by segment – 2014** | Note | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2014 Total £m |
|---|---|---|---|---|---|---|
| Operating profit as reported under adopted IFRS | | 48.0 | 45.7 | 45.6 | 29.0 | 168.3 |
| Net acquisition-related costs and fair value adjustments | | (2.3) | 0.9 | – | 5.3 | 3.9 |
| Amortisation and impairment of acquisition-related intangible assets | | 7.6 | 5.6 | 2.4 | 10.3 | 25.9 |
| Adjusted operating profit | 3 | 53.3 | 52.2 | 48.0 | 44.6 | 198.1 |

Net acquisition-related costs and fair value adjustments comprises acquisition costs of £3.0m (2014: £3.9m) that have been recognised in the Consolidated Income Statement under IFRS 3 (Revised) 'Business Combinations', fair value adjustments to inventory of £0.7m (2014: £0.6m) and other fair value adjustments resulting in a credit of £0.8m (2014: credit £0.6m). Net acquisition-related costs and fair value adjustments are included within administrative expenses. Acquisition-related costs have been excluded from the adjusted operating profit and acquisition costs paid of £3.9m (2014: £2.5m) have been excluded from adjusted operating cash flow.

## 2. Adjusted performance measures continued

| Return on sales by segment – 2015 | Materials Analysis % | Test and Measurement % | In-line Instrumentation % | Industrial Controls % | 2015 Total % |
|---|---|---|---|---|---|
| Using operating profit as reported under adopted IFRS | **11.7** | **12.4** | **13.4** | **10.6** | **12.1** |
| Using adjusted operating profit | **14.7** | **15.8** | **14.4** | **16.1** | **15.2** |

| Return on sales by segment – 2014 | Materials Analysis % | Test and Measurement % | In-line Instrumentation % | Industrial Controls % | 2014 Total % |
|---|---|---|---|---|---|
| Using operating profit as reported under adopted IFRS | 13.8 | 13.3 | 17.4 | 13.1 | 14.3 |
| Using adjusted operating profit | 15.3 | 15.2 | 18.4 | 20.2 | 16.9 |

| Reconciliation to adjusted profit before tax and adjusted operating profit | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| Profit before tax as reported under adopted IFRS | | **141.6** | 171.1 |
| Add / (deduct): | | | |
| Net acquisition-related costs and fair value adjustments | | **2.9** | 3.9 |
| Amortisation and impairment of acquisition-related intangible assets | 11 | **34.6** | 25.9 |
| Profit on disposal of businesses | | **–** | (2.4) |
| Net gain on retranslation of short-term inter-company loan balances | 7 | **(3.0)** | (6.0) |
| Unwinding of discount factor on deferred and contingent consideration | 7 | **0.2** | – |
| Adjusted profit before tax | | **176.3** | 192.5 |
| Adjusted net finance costs (see below) | | **4.8** | 5.6 |
| Adjusted operating profit | | **181.1** | 198.1 |

| Adjusted net finance costs | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| Net interest (costs) / income as reported under adopted IFRS | 7 | **(2.0)** | 0.4 |
| Net gain on retranslation of short-term inter-company loan balances | 7 | **(3.0)** | (6.0) |
| Unwinding of discount factor on deferred and contingent consideration | 7 | **0.2** | – |
| Adjusted net finance costs | | **(4.8)** | (5.6) |

| Adjusted operating cash flow | 2015 £m | 2014 £m |
|---|---|---|
| Net cash flows generated from operating activities under adopted IFRS | **153.4** | 155.2 |
| Acquisition-related costs paid | **3.9** | 2.5 |
| Net income taxes paid | **33.5** | 43.0 |
| Purchase of property, plant and equipment and software | **(26.0)** | (27.4) |
| Proceeds from sale of property, plant and equipment | **0.9** | 2.4 |
| Adjusted operating cash flow | **165.7** | 175.7 |

# NOTES TO THE ACCOUNTS CONTINUED

## 2. Adjusted performance measures continued

| **Adjusted earnings per share** | Note | **2015 £m** | 2014 £m |
|---|---|---|---|
| Profit after tax as reported under adopted IFRS | | **113.8** | 135.1 |
| Adjusted for: | | | |
| Net acquisition-related costs and fair value adjustments | | **2.9** | 3.9 |
| Amortisation and impairment of acquisition-related intangible assets | 11 | **34.6** | 25.9 |
| Profit on disposal of businesses | | **–** | (2.4) |
| Net gain on retranslation of short-term inter-company loan balances | 7 | **(3.0)** | (6.0) |
| Unwinding of discount factor on deferred and contingent consideration | 7 | **0.2** | – |
| Tax effect of the above and other non-recurring items | 8 | **(12.4)** | (8.7) |
| Adjusted earnings | | **136.1** | 147.8 |
| | | | |
| Weighted average number of shares outstanding (millions) | 10 | **119.0** | 118.8 |
| Adjusted earnings per share (pence) | | **114.3** | 124.4 |

| **Adjusted diluted earnings per share (pence)** | Note | **2015** | 2014 |
|---|---|---|---|
| Diluted weighted average number of shares outstanding (millions) | 10 | **119.3** | 119.1 |
| Adjusted diluted earnings per share (pence) | | **114.1** | 124.1 |

Basic and diluted earnings per share in accordance with IAS 33 'Earnings Per Share' are disclosed in Note 10.

| **Analysis of net debt for management purposes** | Note | **2015 £m** | 2014 £m |
|---|---|---|---|
| Bank overdrafts | 16 | **1.7** | 2.5 |
| Bank loans – unsecured | 16 | **155.1** | 157.9 |
| Total borrowings | | **156.8** | 160.4 |
| Cash balances | 15 | **(58.2)** | (34.8) |
| Net debt | | **98.6** | 125.6 |

## 3. Operating segments

The Group has four reportable segments, as described below, which are the Group's strategic business units. These units offer different applications, assist companies at various stages of the production cycle and are focussed 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 to assist in making decisions on capital allocated to each segment and to assess performance. The segment results include an allocation of head office expenses. The following summary describes the operations in each of the Group's reportable segments:

- Materials Analysis provides products and services that enable customers to determine structure, composition, quantity and quality of particles and materials during their research and product development processes, when assessing materials before production, or during the manufacturing process. The operating companies in this segment are Malvern Instruments, PANalytical and Particle Measuring Systems.
- Test and Measurement supplies test, measurement and analysis equipment, software and services for product design optimisation, manufacturing control, microseismic monitoring and environmental noise monitoring. The operating companies in this segment are Brüel & Kjær Sound & Vibration, ESG Solutions and HBM.
- In-line Instrumentation provides process analytical measurement, asset monitoring and on-line controls as well as associated consumables and services for both primary processing and the converting industries. The operating companies in this segment are Brüel & Kjær Vibro, BTG, NDC Technologies and Servomex.
- Industrial Controls provides products and solutions that measure, monitor, control, inform, track and trace during the production process. The operating companies in this segment are Microscan, Omega Engineering and Red Lion Controls.

Further details of the nature of these segments and the products and services they provide are contained in the Strategic Report on pages 34 to 41.

### 3. Operating segments continued

| Information about reportable segments | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2015 Total £m |
|---|---|---|---|---|---|
| Segment revenues | **363.7** | **351.5** | **255.0** | **219.6** | **1,189.8** |
| Inter-segment revenue | **0.7** | **(0.2)** | **–** | **(0.3)** | **0.2** |
| External revenue | **364.4** | **351.3** | **255.0** | **219.3** | **1,190.0** |
| Reportable segment profit for continuing operations | **53.7** | **55.3** | **36.8** | **35.3** | **181.1** |
| Net acquisition-related costs and fair value adjustments | **(0.2)** | **(1.5)** | **(0.1)** | **(1.1)** | **(2.9)** |
| Amortisation and impairment of acquisition-related intangible assets | **(10.9)** | **(10.2)** | **(2.5)** | **(11.0)** | **(34.6)** |
| Operating profit | **42.6** | **43.6** | **34.2** | **23.2** | **143.6** |
| Financial income[1] | | | | | **3.3** |
| Finance costs[1] | | | | | **(5.3)** |
| Profit before tax | | | | | **141.6** |
| Tax[1] | | | | | **(27.8)** |
| Profit after tax | | | | | **113.8** |

| | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2014 Total £m |
|---|---|---|---|---|---|
| Segment revenues | 348.7 | 343.1 | 261.7 | 220.8 | 1,174.3 |
| Inter-segment revenue | 0.1 | (0.2) | (0.3) | (0.2) | (0.6) |
| External revenue | 348.8 | 342.9 | 261.4 | 220.6 | 1,173.7 |
| Reportable segment profit for continuing operations | 53.3 | 52.2 | 48.0 | 44.6 | 198.1 |
| Net acquisition-related costs and fair value adjustments | 2.3 | (0.9) | – | (5.3) | (3.9) |
| Amortisation and impairment of acquisition-related intangible assets | (7.6) | (5.6) | (2.4) | (10.3) | (25.9) |
| Operating profit | 48.0 | 45.7 | 45.6 | 29.0 | 168.3 |
| Profit on disposal of businesses[1] | | | | | 2.4 |
| Financial income[1] | | | | | 6.3 |
| Finance costs[1] | | | | | (5.9) |
| Profit before tax | | | | | 171.1 |
| Tax[1] | | | | | (36.0) |
| Profit after tax | | | | | 135.1 |

1 Not allocated to reportable segments.

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

### 3. Operating segments continued

| | Carrying amount of segment assets | | Carrying amount of segment liabilities | |
|---|---|---|---|---|
| | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| Materials Analysis | **355.5** | 357.7 | **(93.6)** | (90.9) |
| Test and Measurement | **378.9** | 363.5 | **(85.8)** | (84.9) |
| In-line Instrumentation | **218.4** | 217.5 | **(41.5)** | (40.8) |
| Industrial Controls | **430.2** | 410.0 | **(24.5)** | (23.7) |
| Total segment assets and liabilities | **1,383.0** | 1,348.7 | **(245.4)** | (240.3) |
| Cash and borrowings | **58.2** | 34.8 | **(156.8)** | (160.4) |
| Derivative financial instruments | **–** | – | **(0.4)** | (0.3) |
| Retirement benefit assets / (liabilities) | **–** | 3.6 | **(22.1)** | (17.6) |
| Taxation | **17.9** | 19.4 | **(68.4)** | (71.9) |
| Consolidated total assets and liabilities | **1,459.1** | 1,406.5 | **(493.1)** | (490.5) |

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

| | Additions to non-current assets | | Depreciation, amortisation and impairment | |
|---|---|---|---|---|
| | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| Materials Analysis | **8.8** | 59.7 | **16.9** | 13.1 |
| Test and Measurement | **42.7** | 57.3 | **18.5** | 13.2 |
| In-line Instrumentation | **7.2** | 6.7 | **8.0** | 7.6 |
| Industrial Controls | **8.6** | 6.9 | **15.6** | 13.7 |
| | **67.3** | 130.6 | **59.0** | 47.6 |

## 3. Operating segments continued

### Geographical segments

The Group's operating segments are each located in several geographical locations and sell to external customers in all parts of the world.

No individual country amounts to more than 3% of revenue by location of customer, 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 | 2015 Total £m |
|---|---|---|---|---|---|
| UK | **16.8** | **14.0** | **6.9** | **7.1** | **44.8** |
| Germany | **19.5** | **56.9** | **19.5** | **9.9** | **105.8** |
| France | **12.6** | **17.6** | **6.3** | **2.3** | **38.8** |
| Rest of Europe | **55.4** | **62.3** | **45.0** | **9.3** | **172.0** |
| USA | **80.2** | **81.7** | **67.1** | **144.6** | **373.6** |
| Rest of North America | **13.2** | **7.9** | **9.0** | **12.6** | **42.7** |
| Japan | **23.2** | **22.0** | **11.1** | **2.0** | **58.3** |
| China | **51.8** | **44.8** | **43.4** | **13.8** | **153.8** |
| South Korea | **13.6** | **10.6** | **5.5** | **4.1** | **33.8** |
| Rest of Asia | **46.3** | **18.9** | **25.6** | **9.8** | **100.6** |
| Rest of the World | **31.8** | **14.6** | **15.6** | **3.8** | **65.8** |
| | **364.4** | **351.3** | **255.0** | **219.3** | **1,190.0** |

| | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2014 Total £m |
|---|---|---|---|---|---|
| UK | 14.9 | 14.0 | 8.1 | 7.4 | 44.4 |
| Germany | 22.1 | 60.2 | 24.4 | 10.0 | 116.7 |
| France | 11.9 | 19.0 | 7.0 | 2.0 | 39.9 |
| Rest of Europe | 55.3 | 61.9 | 44.7 | 9.6 | 171.5 |
| USA | 67.7 | 65.4 | 64.2 | 146.9 | 344.2 |
| Rest of North America | 10.7 | 4.6 | 7.6 | 14.6 | 37.5 |
| Japan | 23.7 | 22.8 | 11.3 | 1.6 | 59.4 |
| China | 53.1 | 42.7 | 45.1 | 12.8 | 153.7 |
| South Korea | 11.9 | 11.9 | 6.3 | 3.5 | 33.6 |
| Rest of Asia | 41.5 | 21.0 | 25.4 | 8.7 | 96.6 |
| Rest of the World | 36.0 | 19.4 | 17.3 | 3.5 | 76.2 |
| | 348.8 | 342.9 | 261.4 | 220.6 | 1,173.7 |

### 3. Operating segments continued

| | Non-current assets | |
|---|---|---|
| | **2015 £m** | 2014 £m |
| UK | **85.1** | 88.6 |
| Germany | **25.2** | 25.9 |
| France | **0.1** | 0.1 |
| Rest of Europe[1] | **269.0** | 279.8 |
| USA | **487.0** | 443.3 |
| Rest of North America | **41.0** | 57.8 |
| Japan | **0.6** | 0.4 |
| China | **4.3** | 4.1 |
| South Korea | **4.4** | 5.6 |
| Rest of Asia | **27.9** | 31.2 |
| Rest of the World | **2.8** | 3.6 |
| | **947.4** | 940.4 |
| Retirement benefit assets[2] | **–** | 3.6 |
| Deferred taxation[2] | **17.2** | 18.3 |
| Total non-current assets | **964.6** | 962.3 |

1 Principally in Denmark and Switzerland.
2 Not allocated to reportable geographical area in reporting to the Chief Operating Decision Maker.

### 4. Revenue
An analysis of the Group's revenue is as follows:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Sale of goods | **1,029.0** | 1,019.7 |
| Services rendered | **161.0** | 154.0 |
| Revenue | **1,190.0** | 1,173.7 |

No individual customer accounted for more than 2% of external revenue in either 2015 or 2014.

### 5. Operating profit
Operating profit has been arrived at after charging / (crediting):

| | **2015 £m** | 2014 £m |
|---|---|---|
| Net foreign exchange losses | **1.1** | 0.3 |
| Research and development expenditure | **88.8** | 86.5 |
| Amortisation of intangible assets | **37.8** | 29.4 |
| Impairment of intangible assets | **1.6** | – |
| Depreciation of property, plant and equipment | **19.6** | 18.2 |
| Impairment of property, plant and equipment | **–** | 1.3 |
| Loss / (profit) on sale of property, plant and equipment and software | **0.2** | (0.3) |

## 5. Operating profit continued

| Auditor's remuneration | 2015 £m | 2014 £m |
|---|---|---|
| Fees payable to the Company's auditor for audit of the Company's annual accounts | **0.5** | 0.5 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| – the audit of the Company's subsidiaries, pursuant to legislation | **1.2** | 1.1 |
| – audit-related assurance services[1] | **0.1** | 0.1 |
| – tax advisory services | **0.1** | 0.1 |
| – other services | **–** | 0.1 |
| | **1.9** | 1.9 |

1 Review of the half-year Financial Statements.

## 6. Employee costs and other information

Employee costs, including Directors' remuneration, comprise:

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| Wages and salaries | | **355.4** | 337.5 |
| Social security costs | | **63.8** | 61.1 |
| Defined benefit pension plans: | | | |
| – current service cost | 19 | **1.5** | 1.2 |
| – past service credit | 19 | **(0.3)** | – |
| Defined contribution pension plans | 19 | **12.1** | 11.5 |
| Equity-settled share-based payment expense | | **0.7** | 2.2 |
| Cash-settled share-based payment expense | | **0.8** | 0.1 |
| | | **434.0** | 413.6 |

| Directors' remuneration | 2015 £m | 2014 £m |
|---|---|---|
| Short-term benefits | **1.8** | 2.0 |
| Equity-settled share-based payment expense | **0.3** | 0.5 |
| | **2.1** | 2.5 |

Further details of Directors' remuneration and share options are given in the Directors' Remuneration Report on pages 77 to 93.

| Average number of employees | 2015 Number | 2014 Number |
|---|---|---|
| Production and engineering | **3,676** | 3,588 |
| Sales, marketing and service | **3,601** | 3,322 |
| Administrative | **776** | 766 |
| | **8,053** | 7,676 |

### 7. Financial income and finance costs

| Financial income | 2015 £m | 2014 £m |
|---|---|---|
| Interest receivable | **0.3** | 0.3 |
| Net gains on retranslation of short-term inter-company loan balances | **3.0** | 6.0 |
| | **3.3** | 6.3 |

| Finance costs | 2015 £m | 2014 £m |
|---|---|---|
| Interest payable on loans and overdrafts | **4.9** | 5.7 |
| Unwinding of discount factor on deferred and contingent consideration | **0.2** | – |
| Net interest cost on pension scheme liabilities | **0.1** | 0.1 |
| Other finance costs | **0.1** | 0.1 |
| | **5.3** | 5.9 |

Net interest costs of £4.6m (2014: £5.4m) for the purposes of the calculation of interest cover comprise bank interest receivable of £0.3m (2014: £0.3m) and interest payable on loans and overdrafts of £4.9m (2014: £5.7m).

### 8. Taxation

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | UK £m | Overseas £m | Total £m | UK £m | Overseas £m | Total £m |
| Current tax charge | **2.7** | **32.8** | **35.5** | 5.3 | 37.9 | 43.2 |
| Adjustments in respect of current tax of prior years | **(1.0)** | **(1.5)** | **(2.5)** | (1.8) | (1.5) | (3.3) |
| Deferred tax – origination and reversal of temporary differences | **(0.4)** | **(4.8)** | **(5.2)** | (1.5) | (2.4) | (3.9) |
| | **1.3** | **26.5** | **27.8** | 2.0 | 34.0 | 36.0 |

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the Group's profits, is 25.4% (2014: 28.1%). The tax charge for the year is lower than the standard rate of corporation tax for the reasons set out in the following reconciliation:

| | 2015 £m | 2014 £m |
|---|---|---|
| Profit before taxation | **141.6** | 171.1 |
| Corporation tax at standard rate of 25.4% (2014: 28.1%) | **36.0** | 48.1 |
| Non-taxable income and gains | **(3.6)** | (6.0) |
| Non-deductible expenditure | **1.3** | 0.3 |
| Movements on unrecognised deferred tax assets | **0.5** | 0.1 |
| Research and development tax incentives | **(5.0)** | (4.4) |
| Change in tax rates | **–** | 0.1 |
| Adjustments to prior year current and deferred tax charges | **(1.4)** | (2.2) |
| Total taxation | **27.8** | 36.0 |

## 8. Taxation continued

### 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 the Consolidated Statement of Comprehensive Income | 2015 £m | 2014 £m |
|---|---|---|
| Tax on net loss on effective portion of changes in fair value of forward exchange contracts | – | (0.5) |
| Tax on re-measurement of net defined benefit liability, net of foreign exchange | (1.7) | (1.5) |
| Aggregate current and deferred tax credit relating to items recognised directly in the Consolidated Statement of Comprehensive Income | (1.7) | (2.0) |

| Tax on items recognised directly in the Consolidated Statement of Changes in Equity | 2015 £m | 2014 £m |
|---|---|---|
| Tax (credit) / charge in relation to share-based payments | (0.1) | 1.0 |
| Aggregate current and deferred tax (credit) / charge on items recognised directly in the Consolidated Statement of Changes in Equity | (0.1) | 1.0 |

The following tax (credits) / 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 | 2015 £m | 2014 £m |
|---|---|---|
| Tax credit on amortisation and impairment of acquisition-related intangible assets | (11.2) | (8.4) |
| Tax credit on net acquisition-related costs and fair value adjustments | (0.6) | (0.9) |
| Tax credit on retranslation of short-term inter-company loan balances | (0.5) | (0.2) |
| Tax credit on unwinding of discount factor on deferred and contingent consideration | (0.1) | – |
| Tax charge on profit on disposal of businesses | – | 0.8 |
| Total tax credit | (12.4) | (8.7) |

The effective adjusted tax rate for the year was 22.8% (2014: 23.2%) as set out in the reconciliation below.

| Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge | 2015 £m | 2014 £m |
|---|---|---|
| Total tax charge on adopted IFRS basis | 27.8 | 36.0 |
| Tax credit on items of income and expense that are excluded from the Group's adjusted profit before tax | 12.4 | 8.7 |
| Adjusted tax charge | 40.2 | 44.7 |

### 9. Dividends

| Amounts recognised and paid as distributions to owners of the Parent Company in the year | 2015 £m | 2014 £m |
|---|---|---|
| Final dividend for the year ended 31 December 2014 of 30.5p (2013: 28.0p) per share | **36.3** | 33.3 |
| Interim dividend for the year ended 31 December 2015 of 17.3p (2014: 16.0p) per share | **20.6** | 19.0 |
| | **56.9** | 52.3 |

| Amounts arising in respect of the year | 2015 £m | 2014 £m |
|---|---|---|
| Interim dividend for the year ended 31 December 2015 of 17.3p (2014: 16.0p) per share | **20.6** | 19.0 |
| Proposed final dividend for the year ended 31 December 2015 of 32.2p (2014: 30.5p) per share | **38.4** | 36.3 |
| | **59.0** | 55.3 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 20 May 2016 and has not been included as a liability in these Financial Statements.

### 10. 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 the Company's share option schemes are described in Note 23.

| Basic earnings per share | 2015 | 2014 |
|---|---|---|
| Profit after tax (£m) | **113.8** | 135.1 |
| Weighted average number of shares outstanding (millions) | **119.0** | 118.8 |
| Basic earnings per share (pence) | **95.6** | 113.7 |

| Diluted earnings per share | 2015 | 2014 |
|---|---|---|
| Profit after tax (£m) | **113.8** | 135.1 |
| Basic weighted average number of shares outstanding (millions) | **119.0** | 118.8 |
| Weighted average number of dilutive 5p ordinary shares under option (millions) | **0.6** | 0.7 |
| Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions) | **(0.3)** | (0.4) |
| Diluted weighted average number of shares outstanding (millions) | **119.3** | 119.1 |
| Diluted earnings per share (pence) | **95.4** | 113.4 |

## 11. Goodwill and other intangible assets

| Cost | Note | Goodwill £m | Patents, contractual rights and technology £m | Customer-related and trade names £m | Software £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2014 | | 557.2 | 135.0 | 141.6 | 41.0 | 874.8 |
| Additions | | – | – | – | 5.7 | 5.7 |
| Recognised on acquisitions | | 48.5 | 22.9 | 24.6 | – | 96.0 |
| Disposals | | – | – | – | (0.6) | (0.6) |
| Foreign exchange difference | | (2.9) | 5.0 | 5.8 | (0.8) | 7.1 |
| At 31 December 2014 | | **602.8** | **162.9** | **172.0** | **45.3** | **983.0** |
| Additions | | **–** | **–** | **–** | **5.0** | **5.0** |
| Recognised on acquisitions | 24 | **24.0** | **15.0** | **8.0** | **–** | **47.0** |
| Adjustments to provisional fair values | 24 | **(7.1)** | **–** | **–** | **–** | **(7.1)** |
| Transfers from property, plant and equipment | 12 | **–** | **–** | **–** | **1.7** | **1.7** |
| Disposals | | **–** | **–** | **–** | **(4.1)** | **(4.1)** |
| Foreign exchange difference | | **(3.6)** | **2.5** | **3.7** | **(0.2)** | **2.4** |
| **At 31 December 2015** | | **616.1** | **180.4** | **183.7** | **47.7** | **1,027.9** |

| Accumulated amortisation and impairment | | | | | |
|---|---|---|---|---|---|
| At 1 January 2014 | 36.2 | 60.3 | 50.2 | 29.6 | 176.3 |
| Charge for the year | – | 14.7 | 11.2 | 3.5 | 29.4 |
| Disposals | – | – | – | (0.6) | (0.6) |
| Foreign exchange difference | (2.8) | 1.6 | 2.0 | (0.8) | – |
| At 31 December 2014 | **33.4** | **76.6** | **63.4** | **31.7** | **205.1** |
| Charge for the year | **–** | **18.4** | **14.6** | **4.8** | **37.8** |
| Impairment | **–** | **1.6** | **–** | **–** | **1.6** |
| Disposals | **–** | **–** | **–** | **(3.8)** | **(3.8)** |
| Foreign exchange difference | **(2.2)** | **1.4** | **1.9** | **(0.5)** | **0.6** |
| **At 31 December 2015** | **31.2** | **98.0** | **79.9** | **32.2** | **241.3** |

| Carrying amount | | | | | |
|---|---|---|---|---|---|
| **At 31 December 2015** | **584.9** | **82.4** | **103.8** | **15.5** | **786.6** |
| At 31 December 2014 | 569.4 | 86.3 | 108.6 | 13.6 | 777.9 |

### 11. Goodwill and other intangible assets continued

#### Goodwill

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

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

The most significant amounts of goodwill are as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Goodwill £m** | **Pre-tax discount rate %** | Goodwill £m | Pre-tax discount rate % |
| Omega Engineering | **178.9** | **13.4** | 170.1 | 13.4 |
| PANalytical | **87.7** | **12.0** | 92.7 | 12.0 |
| Brüel & Kjær Sound & Vibration | **63.4** | **11.9** | 65.0 | 11.9 |
| HBM | **81.4** | **12.4** | 64.9 | 12.4 |
| BTG | **49.3** | **11.8** | 50.6 | 11.8 |

The remaining balance of goodwill is allocated between the other eight cash-generating units, none of which is individually significant.

As part of the annual impairment review, the carrying amount of goodwill has been assessed with reference to value in use to perpetuity, reflecting the projected cash flows of each cash-generating unit based on actual operating results, the most recent budget for the next financial year as approved by the Board, and strategic review projections for 2017 and 2018.

The key assumptions on which the value in use calculations are based relate to business performance over the next three years, projected long-term growth rates beyond 2018 and the discount rates applied. The forecast cash flows include management's latest estimates on sales volumes and pricing, production and other costs. There are no individually significant business level cash flow assumptions in respect of any business that materially impact the impairment testing. The key judgements are the level of revenue and operating margins anticipated and the proportion of operating profit converted to cash in each year. Growth rates for the years beyond 2018 are assumed to be 2.5% (2014: 4.0%) based on the Group's like-for-like sales growth performance since 2012, current forecast global industrial production growth rates, and long-term GDP growth rates for the Group's primary markets. The cash flow projections have been discounted using cash-generating unit specific pre-tax discount rates between 11% and 18% (2014: 11% and 18%). These rates have been determined by taking the size of business and specific geographical and industry risk factors into account. Following the annual impairment review, no impairment charge was recognised in either 2015 or 2014.

The results of the Group's impairment tests are dependent upon estimates and judgements, particularly in relation to the key assumptions described above. Sensitivity analysis to potential changes in the key assumptions has therefore been reviewed, based on the following sensitivities in isolation:

_ a two percentage point ('pp') increase in the pre-tax discount rate applied to each cash-generating unit;
_ if the long-term growth rate assumption was reduced by 1.5 pp to 1%; and
_ if the cash flow projections of all cash-generating units were reduced by 25% for the next two years.

For each cash-generating unit, with the exception of Omega Engineering, the Directors do not consider that there are any reasonably possible sensitivities for these businesses that could arise in the next 12 months that could result in an impairment charge being recognised. For Omega Engineering, reasonable possible changes in the key assumptions could cause the estimated recoverable amount to fall below the carrying value, such as a reduction in the assumed long-term growth rate by 0.6 pp to 1.9%, or an increase in the assumed discount rate of 0.8 pp to 14.2%.

During the year ended 31 December 2014, there were no reasonably possible sensitivities for any cash-generating unit that could have arisen which would have resulted in an impairment charge being recognised in the following 12 months.

#### Other intangible assets

Of the total amortisation charge of £37.8m (2014: £29.4m), the amount attributable to the amortisation of acquisition-related intangible assets was £33.0m (2014: £25.9m). The amount attributable to impairment of acquisition-related intangible assets was £1.6m (2014: £nil).

The Group has no internally-generated intangible assets from development expenditure as the criteria for the recognition as an asset under IAS 38 'Intangible Assets' have not been met (2014: £nil).

### 11. Goodwill and other intangible assets continued

The trade names and technology assets recognised on the acquisition of Omega Engineering in 2011, and included within the Industrial Controls reportable segment, are considered significant by the Directors as they represent 49.4% (2014: 48.0%) of total customer-related and trade names, and 23.6% (2014: 25.0%) of total patents, contractual rights and technology, respectively. The carrying amount of the trade name intangible at 31 December 2015 is £51.3m (2014: £52.2m) and is being amortised over 20 years with the remaining amortisation period being 15.8 years. The carrying amount of the technology intangible at 31 December 2015 is £17.4m (2014: £19.4m) and is being amortised over ten years with the remaining amortisation period being 5.8 years.

### 12. Property, plant and equipment

| Cost | Note | Freehold property £m | Leasehold property £m | Plant and equipment £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2014 | | 138.7 | 10.8 | 157.9 | 307.4 |
| Additions | | 3.5 | 0.9 | 17.3 | 21.7 |
| Recognised on acquisitions | 24 | 2.3 | 0.6 | 4.3 | 7.2 |
| Disposals | | (2.1) | (0.5) | (7.4) | (10.0) |
| Foreign exchange difference | | (4.9) | 0.1 | (4.1) | (8.9) |
| At 31 December 2014 | | **137.5** | **11.9** | **168.0** | **317.4** |
| Additions | | **3.5** | **2.0** | **15.5** | **21.0** |
| Recognised on acquisitions | 24 | **0.3** | **–** | **1.1** | **1.4** |
| Transfers to other intangible assets | 11 | **–** | **–** | **(1.7)** | **(1.7)** |
| Disposals | | **(0.4)** | **(0.3)** | **(11.0)** | **(11.7)** |
| Foreign exchange difference | | **(2.5)** | **0.1** | **(2.1)** | **(4.5)** |
| **At 31 December 2015** | | **138.4** | **13.7** | **169.8** | **321.9** |

| Accumulated depreciation and impairment | | | | |
|---|---|---|---|---|
| At 1 January 2014 | 37.4 | 7.3 | 103.7 | 148.4 |
| Charge for the year | 3.8 | 0.9 | 13.5 | 18.2 |
| Impairment | 1.3 | – | – | 1.3 |
| Disposals | (0.4) | (0.5) | (7.0) | (7.9) |
| Foreign exchange difference | (2.1) | 0.2 | (3.2) | (5.1) |
| At 31 December 2014 | **40.0** | **7.9** | **107.0** | **154.9** |
| Charge for the year | **3.8** | **1.2** | **14.6** | **19.6** |
| Disposals | **(0.1)** | **(0.3)** | **(10.5)** | **(10.9)** |
| Foreign exchange difference | **(1.2)** | **0.1** | **(1.4)** | **(2.5)** |
| **At 31 December 2015** | **42.5** | **8.9** | **109.7** | **161.1** |

| Carrying amount | | | | |
|---|---|---|---|---|
| **At 31 December 2015** | **95.9** | **4.8** | **60.1** | **160.8** |
| At 31 December 2014 | 97.5 | 4.0 | 61.0 | 162.5 |

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £1.4m (2014: £3.7m).

No borrowing costs met the required criteria for capitalisation during the year (2014: £nil).

### 13. Inventories

| | 2015 £m | 2014 £m |
|---|---|---|
| Raw materials | **69.1** | 65.4 |
| Work in progress | **36.2** | 27.1 |
| Finished goods | **77.2** | 83.2 |
| | **182.5** | 175.7 |

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

Inventory is stated after charging £18.3m (2014: £14.3m) in respect of inventory provisions and crediting £8.0m (2014: £6.0m) relating to the reversal of previously recognised provisions.

Inventory carried at fair value less cost to sell is £nil (2014: £1.6m) for the acquisitions described in Note 24.

Raw materials and changes in finished goods and work in progress recognised within cost of sales amounted to £314.0m (2014: £312.1m).

### 14. Trade and other receivables

| | 2015 £m | 2014 £m |
|---|---|---|
| Trade receivables | **213.0** | 198.5 |
| Prepayments and accrued income | **17.8** | 13.8 |
| Other receivables | **22.3** | 20.3 |
| | **253.1** | 232.6 |

Included within prepayments and accrued income and other receivables are amounts receivable in more than one year of £4.7m (2014: £5.0m).

Trade receivables are non-interest bearing. Standard credit terms provided to customers differ according to business and country, and are typically between 30 and 60 days. Trade receivables and other receivables are stated after the recognition of impairment losses of £5.8m (2014: £5.5m) and the reversal of previously recognised provisions for impairment of £5.4m (2014: £5.0m).

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

| | 2015 £m | 2014 £m |
|---|---|---|
| UK | **10.0** | 9.7 |
| Germany | **15.7** | 18.9 |
| France | **9.7** | 10.0 |
| Rest of Europe | **39.7** | 39.2 |
| USA | **58.7** | 52.0 |
| Rest of North America | **11.8** | 8.7 |
| Japan | **15.3** | 12.7 |
| China | **18.8** | 15.3 |
| South Korea | **3.5** | 5.8 |
| Rest of Asia | **18.4** | 16.7 |
| Rest of the World | **11.4** | 9.5 |
| | **213.0** | 198.5 |

## 14. Trade and other receivables continued

### Impairment losses

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

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Gross £m** | **Impairment £m** | Gross £m | Impairment £m |
| Not past due | **158.8** | **0.2** | 145.5 | 0.5 |
| One month past due | **32.1** | **0.1** | 32.5 | – |
| Two months past due | **12.2** | **0.2** | 11.7 | 0.1 |
| Three months past due | **6.1** | **0.1** | 7.8 | 0.1 |
| Over three months past due | **12.4** | **8.0** | 10.5 | 8.8 |
| | **221.6** | **8.6** | 208.0 | 9.5 |

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

| | **2015 £m** | 2014 £m |
|---|---|---|
| Balance at 1 January | **9.5** | 9.7 |
| Impairment loss recognised | **5.8** | 5.5 |
| Impairment loss utilised | **(1.2)** | (0.6) |
| Impairment loss released | **(5.4)** | (5.0) |
| Foreign exchange difference | **(0.1)** | (0.1) |
| **Balance at 31 December** | **8.6** | 9.5 |

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

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

## 15. Cash and cash equivalents

| | Note | **2015 £m** | 2014 £m |
|---|---|---|---|
| Cash balances | | **58.2** | 34.8 |
| Bank overdrafts | 16 | **(1.7)** | (2.5) |
| Cash and cash equivalents in the Consolidated Statement of Cash Flows | | **56.5** | 32.3 |

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 26.

## 16. Borrowings

| Current | Effective interest rate | Earlier of repricing date or maturity date | 2015 £m | 2014 £m |
|---|---|---|---|---|
| Bank overdrafts | | on demand | **1.7** | 2.5 |
| Bank loans unsecured – US$75.6m | 3.12% | 10 September 2015 | **–** | 48.4 |
| | | | **1.7** | 50.9 |

| Non-current | Effective interest rate | Earlier of repricing date or maturity date | 2015 £m | 2014 £m |
|---|---|---|---|---|
| Bank loans – unsecured | 0.86% | 30 October 2019 | **–** | 35.9 |
| Bank loans unsecured – €94.8m | 2.56% | 14 October 2020 | **69.7** | 73.6 |
| Bank loans unsecured – €116.2m | 1.15% | 9 September 2022 | **85.4** | – |
| Total unsecured borrowings | | | **155.1** | 109.5 |

At 31 December 2015, the Group had available £371.1m (2014: £316.8m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

| Analysis of net debt | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| Bank overdrafts | | **1.7** | 2.5 |
| Bank loans – unsecured | | **155.1** | 157.9 |
| Total borrowings | | **156.8** | 160.4 |
| Cash balances | 15 | **(58.2)** | (34.8) |
| Net debt | | **98.6** | 125.6 |

## 17. Trade and other payables

| Current | 2015 £m | 2014 £m |
|---|---|---|
| Trade payables | **73.5** | 78.0 |
| Accruals | **74.1** | 70.2 |
| Deferred income | **31.8** | 27.2 |
| Other non-trade payables | **27.2** | 25.6 |
| | **206.6** | 201.0 |

| Non-current | 2015 £m | 2014 £m |
|---|---|---|
| Other non-trade payables | **16.6** | 21.6 |

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

## 18. Provisions

| | Reorganisation £m | Product warranty £m | Legal, contractual and other £m | Total £m |
|---|---|---|---|---|
| At 1 January 2015 | **0.7** | **10.4** | **6.6** | **17.7** |
| Additional provision in the year | **2.6** | **6.1** | **5.3** | **14.0** |
| Acquired on acquisition | **–** | **0.3** | **–** | **0.3** |
| Utilised during the year | **(0.3)** | **(5.3)** | **(0.4)** | **(6.0)** |
| Released during the year | **–** | **(1.3)** | **(2.2)** | **(3.5)** |
| Foreign exchange difference | **–** | **(0.2)** | **(0.1)** | **(0.3)** |
| **At 31 December 2015** | **3.0** | **10.0** | **9.2** | **22.2** |

Provisions are all presented as current liabilities.

### Reorganisation

Reorganisation provisions relate to committed restructuring plans in place within the business. Costs are expected to be incurred within one year and there is little judgement in determining the amount.

### Product warranty

Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business and included within the Group's standard terms and conditions. Warranty commitments typically apply for a 12-month period, but can extend to 36 months. These extended warranties are not significant.

### Legal, contractual and other

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

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

## 19. 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, 12 overseas subsidiaries (2014: 12) in three overseas countries provide defined benefit plans. Other overseas subsidiaries have their own defined contribution plans invested in independent funds.

### Defined benefit schemes

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

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

### 19. Retirement benefit schemes continued

The plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk. Inflation and interest rate hedges are taken out to mitigate against risks arising on the UK plan and some reinsurance exists in respect of the overseas plans.

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

The funding requirements are based on the individual funds' actuarial measurement framework set out in the funding policies of the various plans. The German plan is unfunded.

The Group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (including minimum funding requirements) of the plans of the respective jurisdictions, the present value of the refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination has been made on a plan-by-plan basis. As such, no decrease in the defined benefit asset was necessary at 31 December 2014.

The last full actuarial valuation for the UK, German and Swiss plans was 31 December 2014 and for the Dutch plan was 31 December 2013. Where applicable, the valuations were updated to 31 December 2015 for IAS 19 (Revised) 'Employee Benefits' purposes by qualified independent actuaries.

The Group's contributions to defined benefit plans during the year ended 31 December 2015 was £1.4m (2014: £1.5m). Contributions for 2016 are expected to be £0.5m for the German plan and £1.0m for the Swiss plan.

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

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | UK plan<br>% p.a. | Overseas plans<br>% p.a. | UK plan<br>% p.a. | Overseas plans<br>% p.a. |
| Discount rate | 3.7 | 0.8 – 1.9 | 3.7 | 1.4 – 3.5 |
| Salary increases | 4.7 | 1.0 – 3.0 | 4.7 | 1.0 – 3.0 |
| Pension increases in payment | 2.1 – 3.7 | 0.0 – 2.0 | 2.2 – 3.6 | 0.0 – 2.0 |
| Pension increases in deferment | 2.3 – 3.2 | | 2.3 – 3.2 | |
| Inflation assumption | 2.3 – 3.2 | 1.0 – 2.0 | 2.3 – 3.2 | 1.0 – 2.0 |
| Interest credit rate | | 0.0 – 1.0 | | 0.0 – 1.4 |

The weighted average duration of the defined benefit obligation at 31 December 2015 was 15.3 years (2014: 15.3 years).

## 19. Retirement benefit schemes continued

Pensioner life expectancy assumed in the 31 December 2015 valuation is based on the following tables:

| | |
|---|---|
| UK plan | 92% S1PMA / 96% S1PFA centred in 2006, future improvements in line with CMI_2014 with a long-term rate of improvement of 1.25% per annum |
| German plans | Dr K Heubeck pension tables 2005 G |
| Dutch plans | A.G. Prognosetafel 2014 tables |
| Swiss plan | BVG 2010 generational |

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

| | Male | Female |
|---|---|---|
| Pensioners aged 65 in 2015 | 84.0 – 87.2 | 87.9 – 89.7 |
| Pensioners aged 65 in 2025 | 85.4 – 88.9 | 88.6 – 91.6 |

| | UK plans | | Overseas plans | | Total | |
|---|---|---|---|---|---|---|
| **Amounts recognised in the Consolidated Income Statement** | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| Current service cost | **–** | – | **1.5** | 1.2 | **1.5** | 1.2 |
| Net interest (income) / cost | **(0.1)** | (0.3) | **0.2** | 0.4 | **0.1** | 0.1 |
| Administrative cost | **0.2** | 0.2 | **0.1** | 0.1 | **0.3** | 0.3 |
| Past service credit | **–** | – | **(0.3)** | – | **(0.3)** | – |
| | **0.1** | (0.1) | **1.5** | 1.7 | **1.6** | 1.6 |

The current service cost and past service credit are recognised in administrative expenses in the Consolidated Income Statement. The net interest cost on the net defined benefit obligation is recognised in finance costs in the Consolidated Income Statement. Actuarial losses or gains are recognised in the Consolidated Statement of Comprehensive Income.

During the year, insurance premiums for death-in-service benefits amounting to £0.4m (2014: £0.4m) were paid.

The total return on scheme assets in the year was £0.3m (2014: £8.1m).

| | UK plans | | Overseas plans | | Total | |
|---|---|---|---|---|---|---|
| **Amounts recognised in the Consolidated Statement of Comprehensive Income** | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| Actuarial losses recognised in the current year | **(5.5)** | (3.7) | **(2.4)** | (2.8) | **(7.9)** | (6.5) |
| Foreign exchange gains in the current year | **–** | – | **–** | 0.9 | **–** | 0.9 |
| Total losses recognised in the current year | **(5.5)** | (3.7) | **(2.4)** | (1.9) | **(7.9)** | (5.6) |
| Cumulative actuarial losses since 1 January 2004 | **(36.0)** | (30.5) | **(12.6)** | (10.2) | **(48.6)** | (40.7) |

| | UK plans | | Overseas plans | | Total | |
|---|---|---|---|---|---|---|
| **Amounts recognised in the Consolidated Statement of Financial Position** | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| Present value of defined benefit obligations | **(116.0)** | (118.7) | **(44.4)** | (38.4) | **(160.4)** | (157.1) |
| Fair value of scheme assets | **114.0** | 122.3 | **24.3** | 20.8 | **138.3** | 143.1 |
| Net (deficit) / surplus in schemes | **(2.0)** | 3.6 | **(20.1)** | (17.6) | **(22.1)** | (14.0) |

### **19. Retirement benefit schemes** continued

| **Reconciliation of movement in net deficit** | UK plans 2015 £m | UK plans 2014 £m | Overseas plans 2015 £m | Overseas plans 2014 £m | Total 2015 £m | Total 2014 £m |
|---|---|---|---|---|---|---|
| At 1 January | **3.6** | 7.2 | **(17.6)** | (15.4) | **(14.0)** | (8.2) |
| Current service cost | **–** | – | **(1.5)** | (1.2) | **(1.5)** | (1.2) |
| Net interest income / (cost) | **0.1** | 0.3 | **(0.2)** | (0.4) | **(0.1)** | (0.1) |
| Scheme administrative cost | **(0.2)** | (0.2) | **(0.1)** | (0.1) | **(0.3)** | (0.3) |
| Liabilities acquired in business combinations | **–** | – | **–** | (0.1) | **–** | (0.1) |
| Past service credit | **–** | – | **0.3** | – | **0.3** | – |
| Contributions from sponsoring company | **–** | – | **1.4** | 1.5 | **1.4** | 1.5 |
| Actuarial losses | **(5.5)** | (3.7) | **(2.4)** | (2.8) | **(7.9)** | (6.5) |
| Foreign exchange difference | **–** | – | **–** | 0.9 | **–** | 0.9 |
| **At 31 December** | **(2.0)** | 3.6 | **(20.1)** | (17.6) | **(22.1)** | (14.0) |

| **Analysis of movement in the present value of the defined benefit obligation** | UK plans 2015 £m | UK plans 2014 £m | Overseas plans 2015 £m | Overseas plans 2014 £m | Total 2015 £m | Total 2014 £m |
|---|---|---|---|---|---|---|
| At 1 January | **118.7** | 112.2 | **38.4** | 36.2 | **157.1** | 148.4 |
| Current service cost | **–** | – | **1.5** | 1.2 | **1.5** | 1.2 |
| Interest cost | **4.3** | 4.7 | **0.5** | 0.8 | **4.8** | 5.5 |
| Liabilities acquired in business combinations | **–** | – | **–** | 0.1 | **–** | 0.1 |
| Past service credit | **–** | – | **(0.3)** | – | **(0.3)** | – |
| Contributions from scheme members | **–** | – | **0.8** | 0.9 | **0.8** | 0.9 |
| Actuarial (gains) / losses – financial | **(0.2)** | 6.7 | **2.7** | 4.1 | **2.5** | 10.8 |
| Actuarial losses / (gains) – demographic | **0.2** | – | **–** | (0.4) | **0.2** | (0.4) |
| Actuarial (gains) / losses – experience | **(0.9)** | – | **1.6** | (1.1) | **0.7** | (1.1) |
| Benefits paid | **(6.1)** | (4.9) | **(1.5)** | (1.3) | **(7.6)** | (6.2) |
| Foreign exchange difference | **–** | – | **0.7** | (2.1) | **0.7** | (2.1) |
| **At 31 December** | **116.0** | 118.7 | **44.4** | 38.4 | **160.4** | 157.1 |

| Analysed as: | | | | | | |
|---|---|---|---|---|---|---|
| Present value of unfunded defined benefit obligation | **–** | – | **6.7** | 6.9 | **6.7** | 6.9 |
| Present value of funded defined benefit obligation | **116.0** | 118.7 | **37.7** | 31.5 | **153.7** | 150.2 |

## 19. Retirement benefit schemes continued

| Reconciliation of movement in fair value of plan assets | UK plans 2015 £m | UK plans 2014 £m | Overseas plans 2015 £m | Overseas plans 2014 £m | Total 2015 £m | Total 2014 £m |
|---|---|---|---|---|---|---|
| At 1 January | **122.3** | 119.4 | **20.8** | 20.8 | **143.1** | 140.2 |
| Return on plan assets | **4.4** | 5.0 | **0.3** | 0.4 | **4.7** | 5.4 |
| Scheme administration cost | **(0.2)** | (0.2) | **(0.1)** | (0.1) | **(0.3)** | (0.3) |
| Contributions from sponsoring company | **–** | – | **0.9** | 1.0 | **0.9** | 1.0 |
| Contributions from scheme members | **–** | – | **0.8** | 0.9 | **0.8** | 0.9 |
| Actuarial (losses) / gains | **(6.4)** | 3.0 | **1.9** | (0.2) | **(4.5)** | 2.8 |
| Benefits paid | **(6.1)** | (4.9) | **(1.0)** | (0.8) | **(7.1)** | (5.7) |
| Foreign exchange difference | **–** | – | **0.7** | (1.2) | **0.7** | (1.2) |
| **At 31 December** | **114.0** | 122.3 | **24.3** | 20.8 | **138.3** | 143.1 |

| Fair value of assets | UK plans 2015 £m | UK plans 2014 £m | Overseas plans 2015 £m | Overseas plans 2014 £m | Total 2015 £m | Total 2014 £m |
|---|---|---|---|---|---|---|
| Equity instruments | **6.7** | 10.5 | **–** | – | **6.7** | 10.5 |
| Corporate bonds | **107.2** | 109.1 | **–** | – | **107.2** | 109.1 |
| Government bonds | **5.2** | 5.5 | **–** | – | **5.2** | 5.5 |
| Cash and financial derivatives (net) | **(5.1)** | (2.8) | **–** | – | **(5.1)** | (2.8) |
| Insurance policies | **–** | – | **24.3** | 20.8 | **24.3** | 20.8 |
| | **114.0** | 122.3 | **24.3** | 20.8 | **138.3** | 143.1 |

### Sensitivity analysis

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

| | Change in assumption | Impact on scheme liabilities as at 31 December 2015: UK plans | Impact on scheme liabilities as at 31 December 2015: Overseas plans |
|---|---|---|---|
| Discount rate | **Increase by 1%** | **Decrease by £15.9m** | **Decrease by £7.0m** |
| Rate of price inflation (RPI) | **Increase by 1%** | **Increase by £11.0m** | **Increase by £1.6m** |
| Assumed life expectancy at age 65 | **Increase by 1 year** | **Increase by £3.4m** | **Increase by £1.5m** |

### Defined contribution plans

The total cost of the defined contribution plans for the year ended 31 December 2015 was £12.1m (2014: £11.5m). There were no outstanding or prepaid contributions to these plans as at 31 December 2015 or 31 December 2014.

## 20. Deferred tax

The movement in the deferred tax account is shown below.

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| At 1 January | | **24.8** | 22.0 |
| Foreign exchange difference | | **0.8** | 1.6 |
| Acquisition of subsidiary undertakings | 24 | **4.8** | 5.3 |
| Deferred tax on changes in fair value of forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income | | **–** | (0.2) |
| Deferred tax on re-measurement of net defined benefit liability recognised in the Consolidated Statement of Comprehensive Income | | **(1.7)** | (1.5) |
| Deferred tax on share-based payments recognised in equity | | **0.2** | 1.5 |
| Credited to the Consolidated Income Statement | 8 | **(5.2)** | (3.9) |
| At 31 December | | **23.7** | 24.8 |

| | 2015 £m | 2014 £m |
|---|---|---|
| Comprising: | | |
| Deferred tax liabilities | **40.9** | 43.1 |
| Deferred tax assets | **(17.2)** | (18.3) |
| | **23.7** | 24.8 |

## 20. 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 other intangible assets £m** | **Other £m** | **2015 Total £m** |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2015 | **4.0** | **(13.7)** | **(0.4)** | **(5.3)** | **(3.8)** | **46.7** | **(2.7)** | **24.8** |
| Foreign exchange difference | **–** | **–** | **–** | **–** | **–** | **0.8** | **–** | **0.8** |
| Acquisition of subsidiary undertakings | **–** | **–** | **(2.5)** | **–** | **–** | **7.3** | **–** | **4.8** |
| Deferred tax on re-measurement of net defined benefit liability recognised in the Consolidated Statement of Comprehensive Income | **–** | **–** | **–** | **–** | **(1.7)** | **–** | **–** | **(1.7)** |
| Deferred tax on share-based payments recognised in equity | **–** | **–** | **–** | **–** | **–** | **–** | **0.2** | **0.2** |
| Charged / (credited) to the Consolidated Income Statement | **0.6** | **(0.6)** | **(0.1)** | **0.2** | **(0.1)** | **(5.7)** | **0.5** | **(5.2)** |
| **At 31 December 2015** | **4.6** | **(14.3)** | **(3.0)** | **(5.1)** | **(5.6)** | **49.1** | **(2.0)** | **23.7** |

| **Net deferred tax (assets) / liabilities** | Accelerated tax depreciation £m | Accruals and provisions £m | Tax losses £m | Unrealised profit on inter-company transactions £m | Pension schemes £m | Goodwill and other intangible assets £m | Other £m | 2014 Total £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 4.3 | (14.6) | (1.0) | (5.1) | (2.2) | 43.1 | (2.5) | 22.0 |
| Foreign exchange difference | – | – | – | – | – | 1.6 | – | 1.6 |
| Acquisition of subsidiary undertakings | – | – | (0.2) | – | – | 5.5 | – | 5.3 |
| Deferred tax on changes in fair value of forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income | – | – | – | – | – | – | (0.2) | (0.2) |
| Deferred tax on re-measurement of net defined benefit liability recognised in the Consolidated Statement of Comprehensive Income | – | – | – | – | (1.5) | – | – | (1.5) |
| Deferred tax on share-based payments recognised in equity | – | – | – | – | – | – | 1.5 | 1.5 |
| Charged / (credited) to the Consolidated Income Statement | (0.3) | 0.9 | 0.8 | (0.2) | (0.1) | (3.5) | (1.5) | (3.9) |
| At 31 December 2014 | 4.0 | (13.7) | (0.4) | (5.3) | (3.8) | 46.7 | (2.7) | 24.8 |

## 20. 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. £6.0m of the losses will expire by 31 December 2016; £20.0m will expire between 31 December 2017 and 31 December 2020. There is no expiry date associated with the remaining tax losses of £9.4m.

| | 2015 £m | 2014 £m |
|---|---|---|
| Tax losses | 35.4 | 6.6 |
| Other temporary differences | 1.3 | 2.8 |
| | 36.7 | 9.4 |

The UK corporation tax rate was reduced to 20% from 21% with effect from 1 April 2015. Further phased reductions in the UK corporation tax rate to 19% effective from 1 April 2017 and 18% from 1 April 2020 were substantively enacted in the UK Finance (No.2) Act 2015.

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, £47.9m (2014: £42.4m) 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 £2.3m (2014: £2.3m), of which only £1.0m (2014: £0.4m) has been provided for 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.

## 21. Share capital and reserves

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Share capital** | Number of shares Millions | £m | Number of shares Millions | £m |
| Issued and fully paid (ordinary shares of 5p each): | | | | |
| At 1 January | 125.0 | 6.2 | 125.0 | 6.2 |
| **At 31 December** | 125.0 | 6.2 | 125.0 | 6.2 |

### 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 22). 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 Company's own shares.

## 22. Treasury shares

At 31 December 2015, the Group held 5,898,908 treasury shares (2014: 6,054,835). During the year 155,927 of these shares were issued to satisfy options exercised by employees which were granted under the Group's share schemes (2014: 289,419). No shares were repurchased by the Group during the year (2014: nil) and no shares were cancelled during the year (2014: nil).

## 23. Share-based payments

The Spectris Savings Related Share Option Scheme ('SAYE') provides UK employees with options to purchase ordinary shares in the Company following a three-year vesting period. Options may be exercised during a six-month period following the vesting date. The exercise price is 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 SAYE.

Under the Performance Share Plan (unapproved share options as defined by HMRC), the exercise price is the nominal cost of the Company's shares. From 2014, awards to Spectris plc executives are subject to performance criteria: 33.33% of the award being based on fulfilment of an adjusted earnings per share growth target ('EPS'), 33.33% of the award subject to a total shareholder return target ('TSR') and 33.33% of the award being based on fulfilment of an economic profit target. Awards to Spectris plc executives in the years up to 2013 are subject to performance criteria; 50% of the award being based on fulfilment of EPS and 50% of the award subject to TSR. Awards to Spectris plc senior managers are still subject to these performance criteria. Awards made to executives and senior managers of the Group's operating companies in 2008 and 2009 have performance criteria subject to EPS in respect of 50% of the award and operating company profit targets in respect of 50% of the award. For awards made subsequent to 2009, 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 up to 2013 were entirely subject to operating company profit targets. All Performance Share Plan awards vest after a period of three years and must be exercised during the seven-year period following vesting.

Since 2011, Performance Share Plan options have also been granted to UK employees that are approved share options as defined by HMRC. The performance criteria and vesting conditions are consistent with the unapproved options granted described above.

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

From 2014, awards were made under the Restricted Shares Plan to selected employees. Awards vest three years from grant and are cash-settled on vesting. The Restricted Shares Plan is subject to the same rules as the Performance Share Plan but gives flexibility as to whether or not awards are subject to performance criteria. Awards under the Restricted Shares Plan may be granted to an employee of the Group, but may not be granted to an Executive Director of Spectris plc.

### Share options outstanding at the end of the year

| | | | **2015** | 2014 |
|---|---|---|---|---|
| **SAYE – Year of grant** | Exercise price £ | Contractual life of options | **Number Thousands** | Number Thousands |
| 2011 | 13.81 | nil | **–** | 8 |
| 2012 | 16.95 | 1 year | **23** | 32 |
| 2013 | 22.45 | 2 years | **16** | 20 |
| 2014 | 20.15 | 3 years | **30** | 51 |
| 2015 | 17.37 | 4 years | **64** | – |
| | | | **133** | 111 |

## 23. Share-based payments continued

| Performance Share Plan (unapproved) – Year of grant | Exercise price £ | Contractual life of options | 2015 Number Thousands | 2014 Number Thousands |
|---|---|---|---|---|
| 2007 | 0.05 | 2 years | **1** | 1 |
| 2008 | 0.05 | 3 years | **7** | 8 |
| 2009 | 0.05 | 4 years | **29** | 33 |
| 2010 | 0.05 | 5 years | **52** | 77 |
| 2011 | 0.05 | 6 years | **90** | 178 |
| 2012 | 0.05 | 7 years | **4** | 511 |
| 2013 | 0.05 | 8 years | **386** | 413 |
| 2014 | 0.05 | 9 years | **457** | 489 |
| 2015 | 0.05 | 10 years | **536** | – |
| | | | **1,562** | 1,710 |

| Performance Share Plan (approved) – Year of grant | Exercise price £ | Contractual life of options | 2015 Number Thousands | 2014 Number Thousands |
|---|---|---|---|---|
| 2011 | 11.30 | 6 years | **2** | 3 |
| 2012 | 17.31 | 7 years | **3** | 68 |
| 2013 | 23.78 | 8 years | **21** | 24 |
| 2014 | 23.03 | 9 years | **18** | 18 |
| 2015 | 21.79 | 10 years | **47** | – |
| | | | **91** | 113 |

| Restricted Shares Plan – Year of grant | Exercise price £ | Contractual life of options | 2015 Number Thousands | 2014 Number Thousands |
|---|---|---|---|---|
| 2014 | 0.05 | 2 years | **70** | 77 |
| 2015 | 0.05 | 3 years | **84** | – |
| | | | **154** | 77 |

### Movements in the year

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **SAYE** | **Number Thousands** | **Weighted average exercise price £** | **Value of shares £m** | Number Thousands | Weighted average exercise price £ | Value of shares £m |
| At 1 January | **111** | **19.16** | **2.12** | 89 | 17.23 | 1.53 |
| Granted | **65** | **17.37** | **1.13** | 51 | 20.15 | 1.03 |
| Exercised | **(14)** | **15.24** | **(0.22)** | (22) | 13.63 | (0.30) |
| Forfeited | **(29)** | **19.93** | **(0.57)** | (7) | 19.08 | (0.14) |
| **At 31 December** | **133** | **18.55** | **2.46** | 111 | 19.16 | 2.12 |
| **Exercisable at 31 December** | **23** | **16.95** | **0.38** | 8 | 13.81 | 0.12 |

## 23. Share-based payments continued

| Performance Share Plan (unapproved) | 2015 Number Thousands | 2015 Weighted average exercise price £ | 2015 Value of shares £m | 2014 Number Thousands | 2014 Weighted average exercise price £ | 2014 Value of shares £m |
|---|---|---|---|---|---|---|
| At 1 January | **1,710** | **0.05** | **0.09** | 1,726 | 0.05 | 0.09 |
| Shares granted | **557** | **0.05** | **0.03** | 507 | 0.05 | 0.03 |
| Addition of re-invested dividends | **7** | **0.05** | **0.00** | 32 | 0.05 | 0.01 |
| Exercised | **(139)** | **0.05** | **(0.01)** | (283) | 0.05 | (0.02) |
| Forfeited | **(573)** | **0.05** | **(0.03)** | (272) | 0.05 | (0.02) |
| **At 31 December** | **1,562** | **0.05** | **0.08** | 1,710 | 0.05 | 0.09 |
| **Exercisable at 31 December** | **728** | **0.05** | **0.04** | 120 | 0.05 | 0.01 |

| Performance Share Plan (approved) | 2015 Number Thousands | 2015 Weighted average exercise price £ | 2015 Value of shares £m | 2014 Number Thousands | 2014 Weighted average exercise price £ | 2014 Value of shares £m |
|---|---|---|---|---|---|---|
| At 1 January | **113** | **19.37** | **2.20** | 105 | 18.47 | 1.94 |
| Shares granted | **47** | **21.79** | **1.02** | 19 | 23.03 | 0.44 |
| Exercised | **(3)** | **14.90** | **(0.05)** | – | – | – |
| Forfeited | **(66)** | **17.56** | **(1.17)** | (11) | 17.10 | (0.18) |
| **At 31 December** | **91** | **22.08** | **2.00** | 113 | 19.37 | 2.20 |
| **Exercisable at 31 December** | **–** | **–** | **–** | – | – | – |

| Restricted Shares Plan | 2015 Number Thousands | 2015 Weighted average exercise price £ | 2015 Value of shares £m | 2014 Number Thousands | 2014 Weighted average exercise price £ | 2014 Value of shares £m |
|---|---|---|---|---|---|---|
| At 1 January | **77** | **0.05** | **–** | – | – | – |
| Shares granted | **88** | **0.05** | **–** | 81 | 0.05 | – |
| Forfeited | **(11)** | **0.05** | **–** | (4) | 0.05 | – |
| **At 31 December** | **154** | **0.05** | **–** | 77 | 0.05 | – |
| **Exercisable at 31 December** | **–** | **–** | **–** | – | – | – |

## 23. Share-based payments continued

### Share-based payment expense

Share options are valued using the stochastic option pricing model (also known as the Monte Carlo model), with support from an independent remuneration consultant. The TSR performance condition was included in the calculation of fair value under the Performance Share Plan.
For options granted in 2014 and 2015, the fair value of options granted and the assumptions used in the calculation are as follows:

| | SAYE | | Performance Share Plan (unapproved) | | Performance Share Plan (approved) | | Restricted Shares Plan | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Weighted average share price at date of grant (£) | **16.78** | 19.92 | **22.08** | 23.16 | **21.99** | 22.70 | **22.00** | 23.68 |
| Weighted average exercise price (£) | **17.37** | 20.15 | **0.05** | 0.05 | **21.79** | 23.03 | **0.05** | 0.05 |
| Expected volatility | **27.2%** | 31.8% | **n/a** | n/a | **27.72%** | 32.7% | **n/a** | n/a |
| Expected life | **3.44 yrs** | 3.45 yrs | **3 yrs** | 3 yrs | **3 yrs** | 3 yrs | **3 yrs** | 3yrs |
| Risk-free rate | **0.88%** | 1.40% | **0.84%** | 1.08% | **0.84%** | 1.07% | **n/a** | n/a |
| Expected dividends (expressed as a yield) | **2.85%** | 2.2% | **0%** | 0% | **2.12%** | 1.9% | **0%** | 0% |
| Fair value per option (£) | **2.19** | 3.61 | | | | | | |
| **Weighted average fair values at date of grant (£):** | | | | | | | | |
| Equity-settled (TSR condition) | | | **12.11** | 12.25 | **3.59** | 4.44 | | |
| Equity-settled (Profit condition) | | | **21.78** | 23.55 | **3.68** | 4.37 | | |
| Equity-settled (EPS condition) | | | **21.69** | 22.97 | **3.69** | 4.47 | | |
| Equity-settled (Economic profit condition) | | | **22.17** | 22.26 | **3.76** | 4.61 | | |
| Cash-settled (TSR condition) | | | **13.19** | 13.93 | | | **n/a** | n/a |
| Cash-settled (Profit condition) | | | **22.17** | 23.64 | | | **22.17** | 23.64 |
| Cash-settled (EPS condition) | | | **22.02** | 23.64 | | | **22.02** | 23.64 |
| **Weighted average fair values at 31 December (£):** | | | | | | | | |
| Cash-settled (TSR condition) | | | **4.90** | 8.08 | | | **n/a** | n/a |
| Cash-settled (Profit condition) | | | **16.96** | 20.03 | | | **17.37** | 20.41 |
| Cash-settled (EPS condition) | | | **16.96** | 20.03 | | | **17.32** | 20.35 |

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

The weighted average share price at the date of exercise for unapproved share options exercised under the Performance Share Plan in 2015 was £19.67 (2014: £22.18). The weighted average fair value of cash-settled options outstanding at 31 December 2015 is £17.32 (2014: £20.35) for the EPS condition.

The Group recognised a total share-based payment charge of £1.5m (2014: £2.3m) in the Consolidated Income Statement, of which £0.7m (2014: £2.2m) related to equity-settled share-based payment transactions.

## 24. Acquisitions

On 22 January 2015 the Group acquired 100% of the share capital of ReliaSoft Corporation, a company based in the USA, for a total consideration of £30.4m (£28.3m net of cash acquired). The excess of the fair value of the consideration paid over the fair value of net tangible assets acquired is represented by the following intangible assets: contractual rights, customer related (customer relations), trade names, technology and goodwill of £0.4m, £2.8m, £1.0m, £11.0m and £17.0m respectively. The company is a leading provider of reliability engineering software, education, consulting and related services to product manufacturers and maintenance organisations around the world. The goodwill arising is considered to represent the value of the acquired workforce, extension of the Group's product offering leveraging its stronger position in the reliability and durability markets, and sharing capabilities and technologies in value-added software solutions. Goodwill includes an amount of £4.0m representing the requirement to recognise a deferred tax liability on the fair value adjustments. The business is being integrated into the Test and Measurement segment.

On 2 March 2015 the Group acquired the trade and certain assets of Sunway Scientific Corporation, a Taiwanese distributor, for a total consideration of £2.2m including £0.4m of contingent consideration, which is based on 10% of annual sales over a threshold over the following three years, subject to a total cap of £1.9m on the total deferred consideration payable. The excess of the fair value of the consideration paid over the fair value of net tangible assets acquired is represented by the following intangible assets: customer related, contractual rights and goodwill of £1.3m, £0.3m and £0.9m respectively. The goodwill arising is attributable to opportunities expected from direct access to the Taiwanese market and benefits arising from improving the productivity of the combined sales and support channels. Goodwill includes an amount of £0.5m representing the requirement to recognise a deferred tax liability related to the fair value of the customer-related and order book-related intangible assets. The business is being integrated into the Materials Analysis segment.

On 24 August 2015 the Group acquired the trade and certain assets of Label Vision Systems, a US business, for a total consideration of £4.5m including £1.6m of contingent consideration which is based on 50% of annual sales over a threshold over the following three years. The excess of the fair value of the consideration paid over the fair value of net tangible assets acquired is represented by the following intangible assets: customer related, technology related and goodwill of £1.0m, £0.7m and £2.6m respectively. The goodwill arising is attributable to opportunities expected from deepening the Group's product offering within the track, trace and control business and benefits arising from improving the productivity of the combined sales and support channels. The business is being integrated into the Industrial Controls segment.

On 13 October 2015 the Group acquired 96% of the share capital of Spectraseis AG, a company based in Switzerland with operations in the USA and Canada, for a total consideration of £5.2m (£5.0m net of cash acquired), including £0.1m of contingent consideration which is based on 10% of sales over a threshold over the following two years and a £0.3m working capital receivable. This extends the Group's capabilities in surface-based microseismic sensing equipment for hydraulic fracturing monitoring and induced seismicity monitoring. The excess of the fair value of the consideration paid over the fair value of net tangible assets acquired is represented by the following intangible assets: customer related (customer relations), technology and goodwill of £1.2m, £2.6m and £2.1m respectively. The goodwill arising is attributable to the acquired workforce, opportunities expected from the extension of the Group's microseismic product offering and the leverage of the customer base to optimise the sales potential of Spectraseis and Engineering Seismology Group's products. Goodwill includes an amount of £0.4m representing the requirement to recognise a deferred tax liability on the fair value adjustments. The business is being integrated into the Test and Measurement segment. The remaining 4% of share capital is currently in the process of being purchased. The non-controlling interest has not been disclosed as it is not significant.

On 18 November 2015 the Group acquired 100% of the share capital of Sound Answers Inc., a company based in the USA, for a total consideration of £2.7m (£2.3m net of cash acquired) including £0.9m of contingent consideration which is based upon incremental future revenues. Total contingent consideration is capped at £1.0m in aggregate. The excess of the fair value of the consideration paid over the fair value of net tangible assets acquired is represented by the following intangible assets: customer related (customer relations), and goodwill of £0.7m and £1.4m respectively. The company is a provider of engineering services that specialises in noise, vibration and harshness design and simulation, primarily for the automotive market. The goodwill arising is considered to represent the value of the acquired workforce, broadening of the Group's product offering to the automotive market and the expansion of the Group's consulting and design services. The business is being integrated into the Test and Measurement segment.

The assets and liabilities acquired from the above acquisitions, together with the aggregate purchase consideration, are summarised in the table below. The revenue and operating profit contribution from the acquisitions in the year to the Group's results for the year were £12.0m and £2.5m respectively. Group revenue and operating profit would have been £1,197.7m and £143.2m (adjusted operating profit: £181.6m) respectively, had each of these acquisitions taken place on the first day of the financial year.

## 24. Acquisitions continued

The following fair value table is provisional, reflecting the timing of the acquisitions, and is expected to be finalised within 12 months of the acquisition date:

| Net assets acquired under 2015 acquisitions | Book value £m | Adjustments £m | 2015 Fair value £m |
|---|---|---|---|
| Intangible fixed assets | 0.8 | 22.2 | 23.0 |
| Tangible fixed assets | 1.3 | 0.1 | 1.4 |
| Deferred tax assets | 1.6 | (1.6) | – |
| Inventories | 0.4 | (0.1) | 0.3 |
| Trade and other receivables | 3.7 | (0.3) | 3.4 |
| Trade and other payables | (5.2) | 0.5 | (4.7) |
| Provisions | (0.1) | (0.2) | (0.3) |
| Deferred tax liabilities | – | (4.8) | (4.8) |
| Cash | 2.7 | – | 2.7 |
| Net assets acquired | 5.2 | 15.8 | 21.0 |
| Goodwill | | | 24.0 |
| Total consideration in respect of 2015 acquisitions | | | 45.0 |

| | |
|---|---|
| Total consideration | 45.0 |
| Adjustment for cash acquired | (2.7) |
| Net consideration in respect of 2015 acquisitions | 42.3 |

| Analysis of cash outflow in the Consolidated Statement of Cash Flows | |
|---|---|
| Total consideration in respect of 2015 acquisitions | 45.0 |
| Adjustment for net cash acquired on 2015 acquisitions | (2.7) |
| Deferred and contingent consideration on 2015 acquisitions to be paid in future years | (3.0) |
| Working capital adjustment receivable in future years | 0.3 |
| Cash paid in 2015 in respect of 2015 acquisitions | 39.6 |

| Acquisitions prior to 2015 | |
|---|---|
| Deferred and contingent consideration in relation to prior years' acquisitions: | |
| – accrued at 31 December 2014 | 0.5 |
| Cash paid in 2015 in respect of prior years' acquisitions | 0.5 |
| Net cash outflow relating to acquisitions | 40.1 |

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

£4.0m (2014: £22.0m) of the goodwill arising on acquisitions in the year is expected to be amortised and deductible for tax purposes.

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

## 24. Acquisitions continued

The following presents the information related to 2014 acquisitions including the effect of the finalisation of acquisition fair values during 2015:

| **Net assets acquired under 2014 acquisitions** | Amounts previously recognised at 31 December 2014<br>Book value<br>£m | Adjustments<br>£m | 2014<br>Final fair value<br>£m |
|---|---|---|---|
| Intangible fixed assets | 1.2 | 46.3 | 47.5 |
| Tangible fixed assets | 7.1 | 0.1 | 7.2 |
| Deferred tax asset | – | – | – |
| Inventories | 7.3 | (0.2) | 7.1 |
| Trade and other receivables | 4.9 | (0.1) | 4.8 |
| Trade and other payables | (6.2) | 0.2 | (6.0) |
| Provisions | – | (0.6) | (0.6) |
| Retirement benefit obligation | (0.1) | – | (0.1) |
| Current tax | (0.2) | – | (0.2) |
| Deferred tax liabilities | – | (5.3) | (5.3) |
| Cash | 0.9 | – | 0.9 |
| Net assets acquired | 14.9 | 40.4 | 55.3 |
| Goodwill | | | 41.4 |
| Total consideration in respect of 2014 acquisitions | | | 96.7 |

| | |
|---|---|
| Total consideration | 96.7 |
| Adjustment for cash acquired | (0.9) |
| Net consideration in respect of 2014 acquisitions | 95.8 |

| **Analysis of cash outflow in the Consolidated Statement of Cash Flows** | |
|---|---|
| Total consideration in respect of 2014 acquisitions | 96.7 |
| Adjustment for net cash acquired on 2014 acquisitions | (0.9) |
| Deferred and contingent consideration on 2014 acquisitions to be paid in future years | (4.5) |
| Cash paid in 2014 in respect of 2014 acquisitions | 91.3 |

| **Acquisitions prior to 2014** | |
|---|---|
| Deferred and contingent consideration in relation to prior years' acquisitions: | |
| – accrued at 31 December 2013 | 0.3 |
| Cash paid in 2014 in respect of prior years' acquisitions | 0.3 |
| 2014 net cash outflow relating to acquisitions | 91.6 |

In accordance with IFRS 3 (Revised), the figures above have been amended from those published in the 2014 Annual Report to reflect the reduction in the deferred and contingent consideration, and goodwill, of £7.1m relating to the 2014 acquisitions of Affinity Biosensors LLC (£0.5m) and Engineering Seismology Group (£6.6m).

## 25. Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk. Financial risk management is an integral part of the way the Group is managed. Financial risk management policies are set by the Board of Directors. These policies are implemented by a central treasury department that has formal procedures to manage foreign exchange risk, interest rate risk and liquidity risk including, where appropriate, the use of derivative financial instruments. The Group has clearly defined authority and approval limits. The central treasury department operates as a service centre to the Group and not as a profit centre.

In accordance with its treasury policy, the Group does not hold or use derivative financial instruments for trading or speculative purposes. Such instruments are only used to manage the risks arising from operating or financial assets or liabilities or highly probable future transactions. The quantitative analysis of financial risk is included in Note 26.

### 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, Japanese Yen and Swiss Franc. 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 used to hedge highly probable transactions which can be forecast to occur typically up to 18 months into the future.

The Group's translational exposures to foreign currency risks can relate both to the Consolidated Income Statement and net assets of overseas subsidiaries. The Group's policy is not to hedge the translational exposure that arises on consolidation of the Consolidated Income Statement of overseas subsidiaries. The Group finances overseas company investments partly through the use of foreign currency borrowings in order to provide a natural hedge of foreign currency risk arising on translation of the Group's foreign currency subsidiaries. The quantitative analysis of foreign currency risk is included in Note 26.

### 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 2015, all of the Group's committed borrowings are at fixed rates of interest and therefore the Group's principal interest rate risk is a fair value risk. The quantitative analysis of interest rate risk is included in Note 26.

### 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 2015 are set out in Note 16.

### Credit risk

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

The Group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the Consolidated Statement of Financial Position are net of appropriate allowances for doubtful receivables, estimated by the Group's management based on whether receivables are past due based on contractual terms, payment history and other available evidence of collectability. Trade receivables are subject to credit limits and control and approval procedures in the operating companies. Due to its large geographical base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables. The quantitative analysis of credit risk relating to receivables is included in Note 14.

## 25. Financial risk management continued

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

The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, as shown in Note 26.

### 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:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Equity shareholders' funds (page 105) | **966.0** | 916.0 |
| Committed debt facilities | **526.2** | 474.7 |
| | **1,492.2** | 1,390.7 |

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

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

The Board encourages employees to hold shares in the Company. This is carried out through a SAYE option scheme in the UK, as well as performance and restricted share plans. Full details of these schemes are given in Note 23.

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, amortisation and impairment. Covenant testing is completed twice a year based on the half-year and year-end Financial Statements. At 31 December 2015, 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 is subject to externally imposed capital requirements.

## 26. Financial instruments

| Fair value and carrying amount of financial instruments | 2015 Level 2 fair value £m | 2015 Level 3 fair value £m | 2015 Carrying amount £m |
|---|---|---|---|
| Trade and other receivables excluding prepayments and accrued income | – | – | 235.3 |
| Trade and other payables excluding deferred income | – | (7.0) | (191.4) |
| Cash and cash equivalents | – | – | 58.2 |
| Floating rate borrowings | – | – | (1.7) |
| Fixed rate borrowings | (162.6) | – | (155.1) |
| Forward exchange contracts | (0.4) | – | (0.4) |
| | | | (55.1) |

| Fair value and carrying amount of financial instruments | 2014 Level 2 fair value £m | 2014 Level 3 fair value £m | 2014 Carrying amount £m |
|---|---|---|---|
| Trade and other receivables excluding prepayments and accrued income | – | – | 218.8 |
| Trade and other payables excluding deferred income | – | (12.2) | (195.4) |
| Cash and cash equivalents | – | – | 34.8 |
| Floating rate borrowings | – | – | (38.4) |
| Fixed rate borrowings | (130.0) | – | (122.0) |
| Forward exchange contracts | (0.3) | – | (0.3) |
| | | | (102.5) |

| Reconciliation of level 3 fair values | 2015 Deferred and contingent consideration £m | 2015 Level 3 fair value £m |
|---|---|---|
| At 1 January 2015 | (12.2) | (12.2) |
| Deferred and contingent consideration arising from acquisitions | (3.0) | (3.0) |
| Unwinding of discount factor on deferred and contingent consideration (unrealised) | (0.2) | (0.2) |
| Deferred and contingent consideration paid | 0.5 | 0.5 |
| Adjustment to provisional values in the measurement period | 7.1 | 7.1 |
| Adjustments outside of the measurement period | 0.8 | 0.8 |
| | (7.0) | (7.0) |

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets and liabilities derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

## 26. Financial instruments continued

There were no movements between different levels of the fair value hierarchy in the year.

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

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

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

The fair value of forward exchange contracts is determined using discounted cash flow techniques based on readily available market data.

The fair value of forward exchange contracts outstanding as at 31 December 2015 is a net liability of £0.4m (2014: £0.3m), of which £0.2m has been debited to the hedging reserve (2014: £0.3m) and £0.2m debited to the Consolidated Income Statement (2014: £nil). These contracts mature over periods typically not exceeding 18 months. A summary of the movements in the hedging reserve during the year is presented below. In accordance with IFRS, all of the cash flow hedges in 2015 and 2014 were deemed to be effective.

The fair value of deferred and contingent consideration is determined by considering the performance expectations of the acquired entity and applying the entity specific discount rate. The unobservable inputs are the projected forecast measures that are assessed on an annual basis. Changes in the fair value of deferred and contingent consideration relating to updated projected forecast performance measures are recognised in the Consolidated Income Statement in the period that the change occurs.

| **Analysis of movements in hedging reserve net of tax** | **2015 £m** | 2014 £m |
|---|---|---|
| At 1 January | **(3.0)** | (0.2) |
| Amounts removed from the Consolidated Statement of Changes in Equity and included in the Consolidated Income Statement during the year | **0.3** | (2.0) |
| Amounts recognised in the Consolidated Statement of Changes in Equity during the year | **(0.2)** | (0.8) |
| **At 31 December** | **(2.9)** | (3.0) |

The amount included in the Consolidated Income Statement is split between revenue and administrative expenses depending on the nature of the hedged item.

The following table shows the total outstanding contractual forward exchange contracts hedging designated transactional exposures split by currencies which have been sold back into the functional currency of the underlying business. These contracts typically mature in the next 18 months and, therefore, the cash flows and resulting effect on the Consolidated Income Statement are expected to occur within this time period.

| **Forward exchange contracts at 31 December** | **2015** | 2014 |
|---|---|---|
| Foreign currency sale amount (£m) | **110.8** | 91.7 |
| Percentage of total: | | |
| US Dollar | **42%** | 42% |
| Euro | **35%** | 39% |
| Japanese Yen | **16%** | 15% |
| Other | **7%** | 4% |

# **NOTES TO THE ACCOUNTS** CONTINUED

## 26. Financial instruments continued

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

| Maturity of financial liabilities | 2015 Bank loans and overdrafts £m | 2015 Unsecured loans £m | 2015 Total £m | 2014 Bank loans and overdrafts £m | 2014 Unsecured loans £m | 2014 Total £m |
|---|---|---|---|---|---|---|
| Due within one year | **1.7** | **2.8** | **4.5** | 2.5 | 52.2 | 54.7 |
| Due between one and two years | **–** | **2.8** | **2.8** | – | 2.6 | 2.6 |
| Due between two and five years | **–** | **78.0** | **78.0** | – | 44.7 | 44.7 |
| Due in more than five years | **–** | **87.3** | **87.3** | – | 75.5 | 75.5 |
| | **1.7** | **170.9** | **172.6** | 2.5 | 175.0 | 177.5 |

Trade and other payables (Note 17) 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 Fixed rate £m | Financial assets Floating rate £m | Financial assets Non-interest bearing £m | Financial assets Total £m | Financial liabilities Fixed rate £m | Financial liabilities Floating rate £m | Financial liabilities Total £m | 2015 Net financial assets / (liabilities) £m |
|---|---|---|---|---|---|---|---|---|
| Sterling | **–** | **0.9** | **5.7** | **6.6** | **–** | **–** | **–** | **6.6** |
| Euro | **–** | **8.6** | **7.0** | **15.6** | **(155.1)** | **–** | **(155.1)** | **(139.5)** |
| US Dollar | **–** | **9.0** | **9.5** | **18.5** | **–** | **–** | **–** | **18.5** |
| Other | **0.1** | **5.1** | **12.3** | **17.5** | **–** | **(1.7)** | **(1.7)** | **15.8** |
| | **0.1** | **23.6** | **34.5** | **58.2** | **(155.1)** | **(1.7)** | **(156.8)** | **(98.6)** |

| Interest rate exposure of financial assets and liabilities by currency | Financial assets Fixed rate £m | Financial assets Floating rate £m | Financial assets Non-interest bearing £m | Financial assets Total £m | Financial liabilities Fixed rate £m | Financial liabilities Floating rate £m | Financial liabilities Total £m | 2014 Net financial assets / (liabilities) £m |
|---|---|---|---|---|---|---|---|---|
| Sterling | – | 0.3 | 2.4 | 2.7 | – | – | – | 2.7 |
| Euro | – | 7.3 | 4.0 | 11.3 | (73.6) | – | (73.6) | (62.3) |
| US Dollar | – | 4.2 | 4.2 | 8.4 | (48.4) | (36.6) | (85.0) | (76.6) |
| Other | 0.1 | 4.5 | 7.8 | 12.4 | – | (1.8) | (1.8) | 10.6 |
| | 0.1 | 16.3 | 18.4 | 34.8 | (122.0) | (38.4) | (160.4) | (125.6) |

## 26. Financial instruments continued

### Sensitivity analysis

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **Impact on foreign exchange translational exposures against Sterling** | **Decrease / (increase) in equity £m** | **Decrease / (increase) in profit before tax £m** | Decrease in equity £m | Decrease in profit before tax £m |
| 10% weakening in the US Dollar | **84.4** | **5.3** | 73.6 | 5.8 |
| 10% weakening in the Euro / Danish Krone | **40.5** | **5.4** | 50.7 | 5.4 |
| 10% weakening in the Swiss Franc | **2.6** | **1.4** | 2.6 | 1.7 |

| **Impact of interest rate movements** | | | | |
|---|---|---|---|---|
| 1% (100 basis points) increase in interest rates | **(0.2)** | **(0.2)** | 0.2 | 0.2 |

## 27. 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 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 £8.5m (2014: £11.3m) was outstanding at 31 December 2015.

### Other banks

In the normal course of business, Group companies have provided bonds and guarantees through local banking arrangements amounting to £6.6m (2014: £5.5m).

## 28. Operating lease arrangements

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **Total commitments under non-cancellable operating leases expiring:** | **Property £m** | **Other £m** | Property £m | Other £m |
| Within one year | **11.7** | **4.1** | 11.0 | 4.5 |
| More than one year but less than five years | **16.8** | **4.7** | 15.8 | 4.7 |
| Greater than five years | **4.0** | **–** | 4.5 | – |
| | **32.5** | **8.8** | 31.3 | 9.2 |

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

During the year £18.6m (2014: £15.3m) was recognised in the Consolidated Income Statement in respect of operating lease rental payments.

## 29. Capital commitments

At 31 December 2015, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and software amounting to £1.5m (2014: £1.5m) which have not been accrued.

### 30. Related party transactions
The remuneration of key management personnel during the year was as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Short-term benefits | **2.4** | 2.6 |
| Post-employment benefits | **0.5** | 0.5 |
| Share-based payments | **0.6** | 0.9 |
| | **3.5** | 4.0 |

Key management personnel comprise the Executive Directors and members of the Executive Management Team.

Further details of the Executive Directors' remuneration are included in the Directors' Remuneration Report on pages 77 to 93.

There are no other related party transactions.

### 31. Subsidiary undertakings
The table below lists the Group's principal subsidiary undertakings. They operate mainly in the countries of incorporation. All of the subsidiaries are involved in the manufacture and sale of highly specialised measuring instruments and controls.

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

| | Country of incorporation |
|---|---|
| Brüel & Kjær Sound & Vibration Measurement A/S | Denmark |
| Brüel & Kjær Vibro A/S | Denmark |
| Hottinger Baldwin Messtechnik GmbH | Germany |
| BTG Eclépens S.A. | Switzerland |
| PANalytical B.V. | The Netherlands |
| Malvern Instruments Limited | UK |
| Servomex Group Limited | UK |
| Microscan Systems Inc. | USA |
| NDC Technologies Inc. | USA |
| Particle Measuring Systems Inc. | USA |
| Red Lion Controls Inc. | USA |
| Omega Engineering Inc. | USA |
| Engineering Seismology Group Canada Inc. | Canada |

A full list of subsidiaries is given in Note 49.

### 32. Post balance sheet events
There were no post balance sheet events.

# COMPANY BALANCE SHEET
## AS AT 31 DECEMBER 2015

| | Note | 2015 £m | 2014 Restated £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 36 | **0.4** | 0.6 |
| Tangible assets | 37 | **2.8** | 2.9 |
| Investments | 38 | **494.9** | 512.5 |
| Retirement benefit assets | 44 | **–** | 3.6 |
| | | **498.1** | 519.6 |
| **Current assets** | | | |
| Debtors (due after more than one year: £638.1m (2014: £633.1m)) | 39 | **918.5** | 944.2 |
| Derivative financial instruments | | **–** | 0.3 |
| Cash at bank and in hand and short-term deposits | | **9.2** | 1.3 |
| | | **927.7** | 945.8 |
| **Creditors: amounts falling due within one year** | | | |
| Bank loans and overdrafts | 40 | **–** | (48.4) |
| Creditors | 41 | **(231.2)** | (233.6) |
| Derivative financial instruments | | **(0.2)** | – |
| | | **(231.4)** | (282.0) |
| **Net current assets** | | **696.3** | 663.8 |
| **Total assets less current liabilities** | | **1,194.4** | 1,183.4 |
| **Creditors: amounts falling due after more than one year** | | | |
| Bank loans and overdrafts | 40 | **(155.1)** | (109.5) |
| Creditors | 41 | **(126.8)** | (119.5) |
| | | **(281.9)** | (229.0) |
| Retirement benefit obligations | 44 | **(2.0)** | – |
| **Net assets** | | **910.5** | 954.4 |
| **Capital and reserves** | | | |
| Share capital | 42 | **6.2** | 6.2 |
| Share premium | | **231.4** | 231.4 |
| Merger reserve | | **3.1** | 3.1 |
| Capital redemption reserve | | **0.3** | 0.3 |
| Special reserve | | **34.1** | 34.1 |
| Profit and loss account | | **635.4** | 679.3 |
| **Shareholders' funds** | | **910.5** | 954.4 |

The Notes on pages 155 to 167 form part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 16 February 2016 and were signed on its behalf by:

**Clive Watson**
Group Finance Director

Company Registration No. 2025003

# COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Note | Share capital £m | Share premium £m | Merger reserve £m | Capital redemption reserve £m | Special reserve £m | Profit and loss account £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | | **6.2** | **231.4** | **3.1** | **0.3** | **34.1** | **679.3** | **954.4** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **16.9** | **16.9** |
| Other comprehensive income: | | | | | | | | |
| Re-measurement of defined benefit liability, net of tax | | **–** | **–** | **–** | **–** | **–** | **(5.1)** | **(5.1)** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **–** | **11.8** | **11.8** |
| Transactions with owners recorded directly in equity: | | | | | | | | |
| Equity dividends paid by the Company | 46 | **–** | **–** | **–** | **–** | **–** | **(56.9)** | **(56.9)** |
| Share based payments, net of tax | | **–** | **–** | **–** | **–** | **–** | **0.9** | **0.9** |
| Share options exercised from own shares (treasury) purchased | | **–** | **–** | **–** | **–** | **–** | **0.3** | **0.3** |
| **Balance at 31 December 2015** | | **6.2** | **231.4** | **3.1** | **0.3** | **34.1** | **635.4** | **910.5** |

| **For the year ended 31 December 2014** | Note | Share capital £m | Share premium £m | Merger reserve £m | Capital redemption reserve £m | Special reserve £m | Profit and loss account £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2014 (restated) | 48 | 6.2 | 231.4 | 3.1 | 0.3 | 34.1 | 286.2 | 561.3 |
| Profit for the year (restated) | | – | – | – | – | – | 446.5 | 446.5 |
| Other comprehensive income: | | | | | | | | |
| Re-measurement of defined benefit asset, net of tax | | – | – | – | – | – | (3.0) | (3.0) |
| Total comprehensive income for the year (restated) | | – | – | – | – | – | 443.5 | 443.5 |
| Transactions with owners recorded directly in equity: | | | | | | | | |
| Equity dividends paid by the Company | 46 | – | – | – | – | – | (52.3) | (52.3) |
| Share-based payments, net of tax (restated) | | – | – | – | – | – | 1.6 | 1.6 |
| Share options exercised from own shares (treasury) purchased | | – | – | – | – | – | 0.3 | 0.3 |
| Balance at 31 December 2014 (restated) | | 6.2 | 231.4 | 3.1 | 0.3 | 34.1 | 679.3 | 954.4 |

# NOTES TO THE COMPANY ACCOUNTS

## 33. Basis of preparation and summary of significant 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.

### a) Basis of preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). The Company's shareholders were notified of, and did not object to, the use of the EU-adopted IFRS disclosure exemptions.

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

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in Note 48.

IFRS 1 grants certain exemptions from the full requirements of adopted IFRS in the transition period. The following exemptions have been taken in these Financial Statements:

_ Employee benefits – all cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at 1 January 2014.
_ Share-based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 January 2014.

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

_ A Cash Flow Statement and related notes.
_ Comparative period reconciliations for share capital, tangible fixed assets and intangible assets.
_ Disclosures in respect of transactions with wholly-owned subsidiaries.
_ Disclosures in respect of capital management.
_ The effects of new but not yet effective IFRS.
_ An additional Balance Sheet for the beginning of the earliest comparative period, following the reclassification of items in the Financial Statements (see Note 48).
_ Disclosures in respect of the compensation of key management personnel.

As the Consolidated Financial Statements of Spectris plc (pages 102 to 152) include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

_ IFRS 2 'Share-based Payments' in respect of Group-settled share-based payments.
_ Certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instrument Disclosures'.

The Financial Statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are set out below.

### 33. Basis of preparation and summary of significant accounting policies continued

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

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

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

Information about significant areas of judgements, estimates and assumptions are as follows:

*Impairment of investments in subsidiaries*
Note 38 – Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries was £494.9m with an impairment loss recognised of £16.4m in 2015 (2014: £nil).

*Deferred tax*
Note 39 – The recognition of deferred tax assets is dependent on assessments of future taxable income.

### b) Summary of significant accounting policies

Intangible assets
Intangible assets purchased by the Company are capitalised at their cost.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful economic lives are as follows:

_ Software – 3 to 5 years.

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

Depreciation is recognised in the Profit and Loss Account on a straight-line basis to write off the cost, less the estimated residual value (which is reviewed annually), of tangible assets over their estimated useful economic life. Depreciation commences on the date the assets are ready for use within the business and the asset carrying values are reviewed for impairment when there is an indication that they may be impaired. Land is not depreciated. Estimated useful lives are as follows:

_ Freehold property – 20 to 40 years.
_ Office equipment – 3 to 5 years.

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

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

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

## 33. Basis of preparation and summary of significant accounting policies continued

### Trade and other creditors

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

### Taxation

Tax on the profit or loss for the year comprises both current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised either in other comprehensive income or directly in equity.

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 prior years.

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and their corresponding tax bases. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantively enacted at the balance sheet date.

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

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

### Foreign currency translation

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

### Financial instruments

*Recognition*

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

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

*Measurement*

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

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

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

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

# NOTES TO THE COMPANY ACCOUNTS CONTINUED

### 33. Basis of preparation and summary of significant accounting policies continued

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

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

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

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

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

#### Employee benefits
The Company operates a defined benefit post-retirement benefit scheme and a defined contribution pension scheme.

*Defined benefit scheme*
The Company's net obligation recognised in the Balance Sheet in respect of its defined benefit scheme is calculated as the present value of the scheme's liabilities less the fair value of the scheme's assets. The operating and financing costs of a defined benefit scheme are recognised separately in the Profit and Loss Account. Operating costs comprise the current service cost, scheme administrative expense, any gains or losses on settlement or curtailments, and past service costs where benefits have vested. Finance items comprise the unwinding of the discount on the net asset / deficit. Actuarial gains or losses comprising changes in scheme liabilities due to experience and changes in actuarial assumptions are recognised in other comprehensive income.

The amount of any pension fund asset recognised in the Balance Sheet is limited to any future refunds from the plan or the present value of reductions in future contributions to the plan.

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

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

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

## 33. Basis of preparation and summary of significant accounting policies continued

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

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 the 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.

### Dividends

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

## 34. Auditor's remuneration

The details regarding the remuneration of the Company's auditor are included in Note 5 to the Group Consolidated Financial Statements under 'Fees payable to the Company's auditor for audit of the Company's annual accounts'.

## 35. Employee numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

| | 2015 Number | 2014 Number |
|---|---|---|
| Administrative | **48** | 41 |

The aggregate payroll costs of these persons, including Directors' remuneration, were as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Wages and salaries | **6.0** | 5.6 |
| Social security costs | **1.2** | 1.3 |
| Contributions to defined contribution plans | **0.3** | 0.2 |
| Equity-settled share-based payment expense | **0.9** | 1.2 |
| | **8.4** | 8.3 |

### Directors' remuneration

Further details of Directors' remuneration and share options are given in Note 6 to the Group Consolidated Financial Statements and in the Directors' Remuneration Report on pages 77 to 93.

# NOTES TO THE COMPANY ACCOUNTS CONTINUED

## 36. Intangible assets

| Cost | Software £m |
|---|---|
| At 1 January 2015 | **3.6** |
| Additions | **0.1** |
| Disposals | **(0.2)** |
| **At 31 December 2015** | **3.5** |
| | |
| **Accumulated amortisation and impairment** | |
| At 1 January 2015 | **3.0** |
| Charge for the year | **0.3** |
| Disposals | **(0.2)** |
| **At 31 December 2015** | **3.1** |
| | |
| **Carrying amount** | |
| **At 31 December 2015** | **0.4** |
| At 31 December 2014 | 0.6 |

## 37. Tangible assets

| Cost | Freehold property £m | Office equipment £m | Total £m |
|---|---|---|---|
| At 1 January 2015 | **3.3** | **0.5** | **3.8** |
| Additions | **0.1** | **0.1** | **0.2** |
| **At 31 December 2015** | **3.4** | **0.6** | **4.0** |
| | | | |
| **Accumulated depreciation and impairment** | | | |
| At 1 January 2015 | **0.5** | **0.4** | **0.9** |
| Charge for the year | **0.2** | **0.1** | **0.3** |
| **At 31 December 2015** | **0.7** | **0.5** | **1.2** |
| | | | |
| **Carrying amount** | | | |
| **At 31 December 2015** | **2.7** | **0.1** | **2.8** |
| At 31 December 2014 | 2.8 | 0.1 | 2.9 |

## 38. Investments

| **Cost** | **Investment in subsidiary undertakings £m** |
|---|---|
| At 1 January 2015 | **582.1** |
| Movements relating to share options granted to subsidiary employees | **(1.2)** |
| **At 31 December 2015** | **580.9** |

| **Provision for impairment** | |
|---|---|
| At 1 January 2015 | **69.6** |
| Charge for the year | **16.4** |
| **At 31 December 2015** | **86.0** |

| **Carrying amount** | |
|---|---|
| **At 31 December 2015** | **494.9** |
| At 31 December 2014 | 512.5 |

Details of the Company's subsidiaries are given in Note 49.

During the year a provision was made against the carrying value of the investment in Servomex Limited due to a shortfall in its net assets compared to the carrying value.

## 39. Debtors

| **Amounts falling due within one year** | **2015 £m** | 2014 £m |
|---|---|---|
| Amounts owed by Group undertakings | **274.9** | 303.8 |
| Prepayments and accrued income | **1.0** | 1.1 |
| Other debtors | **0.1** | 0.2 |
| Corporation tax recoverable | **3.6** | 5.4 |
| Deferred tax asset | **0.8** | 0.6 |
| | **280.4** | 311.1 |

| **Amounts falling due after more than one year** | **2015 £m** | 2014 £m |
|---|---|---|
| Amounts owed by Group undertakings | **636.8** | 631.3 |
| Prepayments and accrued income | **1.3** | 1.8 |
| | **638.1** | 633.1 |
| **Total debtors** | **918.5** | 944.2 |

All amounts owed by Group undertakings are in relation to interest-bearing intra-group loans which are formalised arrangements on an arm's length basis.

## 40. Bank loans and overdrafts

| Current | Effective interest rate | Earlier of repricing date or maturity date | 2015 £m | 2014 £m |
|---|---|---|---|---|
| Bank loans unsecured – US$75.6m | 3.12% | 10 September 2015 | – | 48.4 |

| Non-current | Effective interest rate | Earlier of repricing date or maturity date | 2015 £m | 2014 £m |
|---|---|---|---|---|
| Bank loans unsecured | 0.86% | 30 October 2019 | – | 35.9 |
| Bank loans unsecured – €94.8m | 2.56% | 14 October 2020 | **69.7** | 73.6 |
| Bank loans unsecured – €116.2m | 1.15% | 9 September 2022 | **85.4** | – |
| Total unsecured borrowings | | | **155.1** | 109.5 |

## 41. Creditors

| Amounts falling due within one year | 2015 £m | 2014 £m |
|---|---|---|
| Amounts owed to Group undertakings | **225.4** | 229.7 |
| Accruals and deferred income | **5.8** | 3.9 |
| | **231.2** | 233.6 |

| Amounts falling due after more than one year | 2015 £m | 2014 £m |
|---|---|---|
| Amounts owed to Group undertakings | **126.8** | 118.8 |
| Deferred tax liability | – | 0.7 |
| | **126.8** | 119.5 |

All amounts owed to Group undertakings are in relation to interest-bearing intra-group loans which are formalised arrangements on an arm's length basis.

## 42. Share capital

| Allotted, called-up and fully paid | 2015 Number of shares Millions | 2015 £m |
|---|---|---|
| **At 1 January 2015 and 31 December 2015** | **125.0** | **6.2** |

No ordinary shares were issued upon exercise under share option schemes during the year (2014: 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 23 to the Group Consolidated Financial Statements.

The Company recognised total expenses of £0.9m related to equity-settled share-based payment transactions in 2015 (2014: £1.2m). In addition, the Company recognised a credit of £0.2m (2014: charge of £1.0m) related to equity-settled share-based transactions for certain employees of other Group companies.

## 43. Reserves

### 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.

## 43. Reserves continued

### Capital redemption reserve
This reserve records the historical repurchase of the Company's own shares.

### Special reserve
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.

## 44. Retirement benefit scheme
The Company participates in, and is the sponsoring employer of, the UK Group defined benefit scheme. The plan provides pensions in retirement, death-in-service benefits and in some cases disability benefits to members. The pension benefit is linked to members' final salary at retirement and their service life. Since 31 December 2009, the UK plan has been closed to new members.

There is no contractual agreement or stated policy for charging the net defined benefit cost within the Group. In accordance with IAS 19 (Revised 2011), the Company contribution made to the defined benefit plan during the year ended 31 December 2015 was £nil (2014: £nil).

Further details of the Spectris Pension Plan (UK) including all disclosures required under FRS 101 are contained in Note 19 to the Group Consolidated Financial Statements.

## 45. Contingent liabilities
The cross-guarantee arrangements to support trade finance facilities are stated in Note 27 to the Group Consolidated Financial Statements.

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 in accordance with the requirements of IFRS 4 and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Spectris plc and its UK subsidiaries are party to a cross-guarantee arrangement to support trade finance facilities entered into in the normal course of business. They are also party to a cross-guarantee arrangement that allows individual subsidiaries to borrow from the bank on overdraft within the overall borrowing limit of the Group. 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 £8.5m (2014: £11.3m) was outstanding at 31 December 2015.

## 46. Dividends

| Amounts recognised and paid as distributions | 2015 £m | 2014 £m |
|---|---|---|
| Final dividend for the year ended 31 December 2014 of 30.5p (2013: 28.0p) per share | **36.3** | 33.3 |
| Interim dividend for the year ended 31 December 2015 of 17.3p (2014: 16.0p) per share | **20.6** | 19.0 |
| | **56.9** | 52.3 |

| Amounts arising in respect of the year | 2015 £m | 2014 £m |
|---|---|---|
| Interim dividend for the year ended 31 December 2015 of 17.3p (2014: 16.0p) per share | **20.6** | 19.0 |
| Proposed final dividend for the year ended 31 December 2015 of 32.2p (2014: 30.5p) per share | **38.4** | 36.3 |
| | **59.0** | 55.3 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 20 May 2016 and has not been included as a liability in these Financial Statements.

## 47. Treasury shares
At 31 December 2015, Spectris plc held 5,898,908 treasury shares (2014: 6,054,835). During the year 155,927 of these shares were issued to satisfy options exercised by employees of Spectris plc and its subsidiaries which were granted under share schemes (2014: 289,419). No shares were repurchased by Spectris plc during the year (2014: nil) and no shares were cancelled during the year (2014: nil).

## 48. Explanation of transition to FRS 101

As stated in Note 33, these are the Company's first Financial Statements prepared in accordance with FRS 101.

The accounting policies set out in Note 33 have been applied in preparing the Financial Statements for the year ended 31 December 2015, the comparative information presented in these Financial Statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 Balance Sheet at 1 January 2014.

In preparing its FRS 101 Balance Sheet, the Company has adjusted amounts reported previously in Financial Statements prepared in accordance with its previous basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the accompanying notes:

**Reconciliation of equity**

| | | 1 January 2014 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|---|
| | Note | UK GAAP | Effect of transition to FRS 101 | FRS 101 | UK GAAP | Effect of transition to FRS 101 | FRS 101 |
| **Fixed assets** | | | | | | | |
| Intangible assets | | 0.7 | – | 0.7 | 0.6 | – | 0.6 |
| Tangible assets | | 3.1 | – | 3.1 | 2.9 | – | 2.9 |
| Investments | | 431.6 | – | 431.6 | 512.5 | – | 512.5 |
| Retirement benefit assets | i | – | 7.2 | 7.2 | – | 3.6 | 3.6 |
| | | 435.4 | 7.2 | 442.6 | 516.0 | 3.6 | 519.6 |
| **Current assets** | | | | | | | |
| Debtors | ii | 542.7 | 0.7 | 543.4 | 944.1 | 0.1 | 944.2 |
| Derivative financial instruments | | – | – | – | 0.3 | – | 0.3 |
| Cash at bank and in hand and short-term deposits | | 2.9 | – | 2.9 | 1.3 | – | 1.3 |
| | | 545.6 | 0.7 | 546.3 | 945.7 | 0.1 | 945.8 |
| **Creditors: amounts falling due within one year** | | | | | | | |
| Bank loans and overdrafts | | – | – | – | (48.4) | – | (48.4) |
| Creditors | | (210.1) | – | (210.1) | (233.6) | – | (233.6) |
| | | (210.1) | – | (210.1) | (282.0) | – | (282.0) |
| **Net current assets** | | 335.5 | 0.7 | 336.2 | 663.7 | 0.1 | 663.8 |
| **Total assets less current liabilities** | | 770.9 | 7.9 | 778.8 | 1,179.7 | 3.7 | 1,183.4 |
| **Creditors: amounts falling due after more than one year** | | | | | | | |
| Bank loans and overdrafts | | (145.7) | – | (145.7) | (109.5) | – | (109.5) |
| Creditors | iii | (70.3) | (1.4) | (71.7) | (118.8) | (0.7) | (119.5) |
| Derivative financial instruments | | (0.1) | – | (0.1) | – | – | – |
| | | (216.1) | (1.4) | (217.5) | (228.3) | (0.7) | (229.0) |
| **Net assets** | | 554.8 | 6.5 | 561.3 | 951.4 | 3.0 | 954.4 |
| **Capital and reserves** | | | | | | | |
| Share capital | | 6.2 | – | 6.2 | 6.2 | – | 6.2 |
| Share premium | | 231.4 | – | 231.4 | 231.4 | – | 231.4 |
| Merger reserve | | 3.1 | – | 3.1 | 3.1 | – | 3.1 |
| Capital redemption reserve | | 0.3 | – | 0.3 | 0.3 | – | 0.3 |
| Special reserve | | 34.1 | – | 34.1 | 34.1 | – | 34.1 |
| Profit and loss account | iv | 279.7 | 6.5 | 286.2 | 676.3 | 3.0 | 679.3 |
| **Shareholders' funds** | | 554.8 | 6.5 | 561.3 | 951.4 | 3.0 | 954.4 |

## 48. Explanation of transition to FRS 101 continued

### Notes to the reconciliation

i – Retirement benefit assets

Under UK GAAP (FRS 17), as the defined benefit scheme was a multi-employer scheme of which the Company was unable to identify its share of the defined benefit contribution plan's underlying assets and liabilities, this scheme was accounted for as a defined contribution scheme, recognising only the contribution payable by the Company.

Under FRS 101 the multi-employer exemption is no longer available. There is no contractual agreement or stated policy for charging the net defined benefit cost within the Group amongst the participating companies. Therefore under FRS 101 as the sponsoring employer the Company has recognised the full defined benefit surplus on the Balance Sheet which was not previously recognised on the individual Balance Sheet of any UK company within the Group.

The impact has been to increase fixed assets at 1 January 2014 by £7.2m and at 31 December 2014 by £3.6m.

As prescribed under FRS 101 any actuarial gains and losses are recognised through the Statement of Comprehensive Income. In 2014 the defined benefit surplus decreased by £3.6m of which £3.7m related to actuarial losses, £0.3m net interest income and £0.2m scheme administrative costs.

ii – Deferred tax assets

Under UK GAAP, a deferred tax asset is recognised in relation to share options outstanding at the balance sheet date, based on the lower of the cumulative accounting charge and the total expected future tax deductions. Under FRS 101, a deferred tax asset is recognised on the total expected future tax deductions. As a result the deferred tax asset and profit and loss account reserves have increased by £0.7m to recognise the higher deferred tax asset on the Company Balance Sheet as at the transition date.

In addition, at 31 December 2014 as a result of the share option charges during 2014, an adjustment is required to reduce the deferred tax asset from £1.1m to £0.5m, reducing profit and loss account reserves by £0.6m giving an overall transitional adjustment for 2014 of £0.1m.

iii – Deferred tax liability

A deferred tax liability of £1.4m has been recognised at the transition date on the retirement benefit scheme asset which has been brought onto the Balance Sheet under FRS 101. This results in a reduction in the profit and loss account reserve by £1.4m.

The reduction in the pension scheme asset during 2014, as described above, has given rise to a reduction in the corresponding deferred tax liability from £1.4m to £0.7m and has increased the profit and loss account reserve by £0.7m.

iv – Profit and loss account reserve

Under FRS 101 the Company is required to account for foreign exchange gains or losses on foreign currency loans used to hedge investments through the Profit and Loss Account. Under UK GAAP, using 'net investment hedging' such gains and losses were recorded directly to reserves.

As a result the profit for 2014 has increased by £9.3m on transition to FRS 101 which represents the foreign exchange gains that were recorded directly to reserves under UK GAAP. The profit and loss account reserve does not differ as the exchange gains were a line item in the profit and loss account reserves reconciliation under UK GAAP.

As described above, under FRS 101 there are adjustments required to the profit and loss account reserve in relation to the recognition of the retirement benefit assets, deferred tax assets and deferred tax liabilities.

### Reconciliation of profit for 2014

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. As a result of the adjustments noted above, there has been no impact on the profit and loss account reserve; however, the transition to FRS 101 has increased the profit after tax for 2014 by £9.4m. This relates to the reclassification of foreign exchange gains to the Profit and Loss Account of £9.3m and £0.1m relating to the net pension interest income.

### 49. Group companies

The following is a full list of the subsidiaries and joint ventures, the country of registration and type of issued securities and percentage of equity owned directly or indirectly by Spectris plc, as at 31 December 2015. This information is provided in accordance with Section 409 of the Companies Act 2006.

| Company name | Registered country | Total (%) |
|---|---|---|
| Agemont Limited | United Kingdom | 100 |
| Analytical Spectral Devices Inc. | United States | 100 |
| Brüel & Kjær EMS (Australia) Pty Ltd | Australia | 100 |
| Brüel & Kjær EMS B.V. | Netherlands | 100 |
| Brüel & Kjær EMS Inc. | United States | 100 |
| Brüel & Kjær EMS Pty Ltd. | Australia | 100 |
| Brüel & Kjær France S.A.S. | France | 100 |
| Brüel & Kjær GmbH | Germany | 100 |
| Brüel & Kjær Iberica S.A. | Spain | 100 |
| Brüel & Kjær Italia S.R.L. | Italy | 100 |
| Brüel & Kjær North America Inc. | United States | 100 |
| Brüel & Kjær Polska Sp. z.o.o. | Poland | 100 |
| Brüel & Kjær Sound & Vibration Measurement A/S | Denmark | 100 |
| Brüel & Kjær UK Limited | United Kingdom | 100 |
| Brüel & Kjær Vibro A/S | Denmark | 100 |
| Brüel & Kjær Vibro GmbH | Germany | 100 |
| Brüel & Kjær VTS Limited | United Kingdom | 100 |
| BTG Americas Inc. | United States | 100 |
| BTG Eclépens S.A. | Switzerland | 100 |
| BTG Holding, Inc. | United States | 100 |
| BTG Instruments A.B. | Sweden | 100 |
| BTG Instruments GmbH | Germany | 100 |
| BTG IPI, LLC | United States | 100 |
| BTG Southern Europe Sarl | France | 100 |
| Burnfield Limited | United Kingdom | 100 |
| Diamond Blade Oy | Finland | 100 |
| Engineering Seismology Group Canada Inc. | Canada | 100 |
| ESG (Beijing) Seismic Technology Co. Ltd. | China | 100 |
| ESG USA Inc. | United States | 100 |
| HBM Danmark ApS | Denmark | 100 |
| HBM FiberSensing S.A. | Portugal | 100 |
| HBM France S.A.S. | France | 100 |
| HBM Italia S.R.L. | Italy | 100 |
| HBM nCode Federal LLC | United States | 100 |
| HBM Netherlands B.V. | Netherlands | 100 |
| HBM Norge A.S. | Norway | 100 |
| HBM United Kingdom Limited | United Kingdom | 100 |
| Hottinger Baldwin Measurements, Inc. | United States | 100 |
| Hottinger Baldwin Messtechnik AG | Switzerland | 100 |
| Hottinger Baldwin Messtechnik GmbH | Austria | 100 |
| Hottinger Baldwin Messtechnik GmbH | Germany | 100 |
| Hottinger Baldwin Messtechnik Iberica S.L. | Spain | 100 |
| Hottinger Baldwin (Suzhou) Electronic Measurement Technology Ltd. | China | 100 |
| International Applied Reliability Symposium LLC | United States | 100 |
| LLC Spectris CIS | Russian Federation | 100 |
| Malvern Biosciences, Inc. | United States | 100 |
| Malvern Instruments Eurl. | France | 100 |
| Malvern Instruments GmbH | Germany | 100 |
| Malvern Instruments Incorporated | United States | 100 |
| Malvern Instruments Limited | United Kingdom | 100 |
| Malvern Instruments Nordic A.B. | Sweden | 100 |
| Malvern Instruments Nordic Oy | Finland | 100 |
| Malvern-Aimil Instruments Pvt. Limited | India | 100 |
| Microscan Mfg., LLC | United States | 100 |
| Microscan Systems B.V. | Netherlands | 100 |
| Microscan Systems, Inc. | United States | 100 |
| Microscan Tooling, Inc. | United States | 100 |
| Nanosight Limited | United Kingdom | 100 |
| NDC Technologies, Inc. | United States | 100 |
| NDC Technologies Limited | United Kingdom | 100 |
| NDC Technologies S.A. | Belgium | 100 |
| Newport Electronics Limited | United Kingdom | 100 |
| Novisim Limited | United Kingdom | 100 |
| N-Tron Corporation | United States | 100 |

## 49. Group companies continued

| Company name | Registered country | Total (%) |
|---|---|---|
| Omega Engineering B.V. | Netherlands | 100 |
| Omega Engineering GmbH | Germany | 100 |
| Omega Engineering, Inc. | United States | 100 |
| Omega Engineering Limited | United Kingdom | 100 |
| Omega Engineering Sarl | France | 100 |
| Omega Group, Inc. | United States | 100 |
| Omega, Inc. | United States | 100 |
| Omega Technologies, Inc. | United States | 100 |
| Omega Technologies Limited | United Kingdom | 100 |
| PANalytical B.V. | Netherlands | 100 |
| PANalytical GmbH | Germany | 100 |
| PANalytical Inc. | United States | 100 |
| PANalytical Limited | United Kingdom | 100 |
| PANalytical (Proprietary) Limited | South Africa | 100 |
| PANalytical S.A.S. | France | 100 |
| PANalytical S.R.L. | Italy | 100 |
| Particle Measuring Systems Germany GmbH | Germany | 100 |
| Particle Measuring Systems, Inc. | United States | 100 |
| Particle Measuring Systems Limited | United Kingdom | 100 |
| Particle Measuring Systems S.R.L. | Italy | 100 |
| Red Lion Controls B.V. | Netherlands | 100 |
| Red Lion Controls, Inc. | United States | 100 |
| ReliaSoft Asia Pte. Ltd. | Singapore | 100 |
| ReliaSoft Corporation | United States | 100 |
| ReliaSoft Corporation Poland Sp. z.o.o. | Poland | 100 |
| ReliaSoft India Private Limited | India | 100 |
| RLC Holding Company | United States | 100 |
| Servomex B.V. | Netherlands | 100 |
| Servomex Company | United States | 100 |
| Servomex GmbH | Germany | 100 |
| Servomex Group Limited | United Kingdom | 100 |
| Servomex Limited | United Kingdom | 100 |
| Servomex S.A. | France | 100 |
| Silver One GmbH | Germany | 100 |
| Sixnet, Inc. | United States | 100 |
| Sound Answers, Inc. | United States | 100 |
| Spectraseis A.G. | Switzerland | 95.75 |
| Spectraseis Canada Inc. | Canada | 100 |
| Spectraseis do Brasil Geofisica Ltda. | Brazil | 84.8 |
| Spectraseis Inc. | United States | 100 |
| Spectraseis ISM LLC | United States | 100 |
| Spectris Australia Pty Ltd. | Australia | 100 |
| Spectris Canada Inc. | Canada | 100 |
| Spectris China Limited | Hong Kong | 100 |
| Spectris Co., Ltd. | Japan | 100 |
| Spectris Denmark ApS | Denmark | 100 |
| Spectris Do Brasil Instrumentos Eletrônicos Ltda. | Brazil | 100 |
| Spectris Finance Limited | United Kingdom | 100 |
| Spectris Funding B.V. | Netherlands | 100 |
| Spectris Germany GmbH | Germany | 100 |
| Spectris Group Holdings Limited | United Kingdom | 100 |
| Spectris Holdings Inc. | United States | 100 |
| Spectris Inc. | United States | 100 |
| Spectris Instrumentation and Systems Shanghai Ltd. | China | 100 |
| Spectris Korea Ltd. | Korea, Republic of | 100 |
| Spectris Mexico, S. de R.L. de C.V. | Mexico | 100 |
| Spectris Netherlands B.V. | Netherlands | 100 |
| Spectris Netherlands Coöperatief W.A. | Netherlands | 100 |
| Spectris Pension Trustees Limited | United Kingdom | 100 |
| Spectris Praha Spol. s.r.o. | Czech Republic | 100 |
| Spectris Pte. Ltd. | Singapore | 100 |
| Spectris Taiwan Limited | Taiwan | 100 |
| Spectris Technologies Private Limited | India | 100 |
| Spectris UK | United Kingdom | 100 |
| Spectris UK Holdings Limited | United Kingdom | 100 |
| Spectris US Holdings Limited | United Kingdom | 100 |
| Viscotek Europe Limited | United Kingdom | 100 |
| Zhuhai Omec Instruments Co., Ltd. | China | 100 |

# SHAREHOLDER INFORMATION

## Financial calendar

| | |
|---|---|
| Annual General Meeting | 20 May 2016 |
| Record date for 2015 final dividend | 27 May 2016 |
| 2015 final dividend payable | 24 June 2016 |
| 2016 half-year results | 28 July 2016 |
| 2016 year-end results | February 2017 |

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R J Stephens, FCIS

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### Solicitors
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### Brokers
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### Financial PR advisers
FTI Consulting

### Registrars
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The registrars provide a range of shareholder services online at www.shareview.co.uk

### Share price information
The Company's ordinary shares are listed on the London Stock Exchange. The latest share price is available via the Company's website at www.spectris.com

### Email news service
To receive details of press releases and other announcements as they are issued, register with the email alert service on the Company's website at www.spectris.com

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Designed and produced by Luminous

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