



spectris



Delivering **innovative solutions** for our customers

Spectris plc
Annual Report and Accounts 2016



About us

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.

How we do it

Alongside our products, our people are key to our success and play an essential role in delivering our strategy, particularly in the development of new products, software and services and building relationships with customers. We encourage a culture of entrepreneurial initiative, underpinned by our values and Code of Business Ethics. We look for similar characteristics in the companies we acquire or partner with. Read more about our people and culture on pages 45 to 47.

Our strategy

Our strategic objective is to deliver sustainable profitable growth for our shareholders by enhancing the productivity of our customers. This is focused not just on the supply of equipment but, increasingly, on the provision of innovative customer solutions, involving services, software and related activities.

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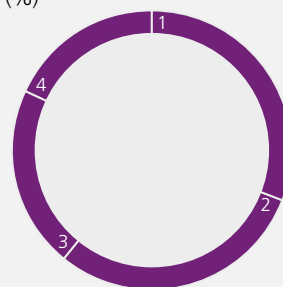
Business at a glance

Spectris comprises four business segments, which reflect the applications and end-user industries we serve. Our businesses are united by the same purpose, values and corporate strategy. They all work according to a strong common framework of controls, management key performance indicators, financial discipline and rigorous operating principles, but each business is focused 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 areas such as M&A, legal, tax and corporate development. We manage a central procurement function and other supply chain initiatives which benefit our operating companies and facilitate the sharing of best practice.

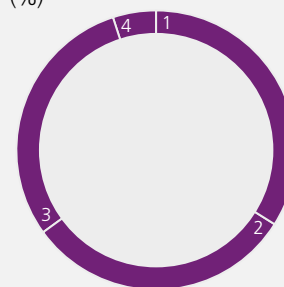
We believe that the combination of this organisational structure and our business model (see page 10) is the most effective way for us to deliver our strategy (see page 6).

Sales by segment (%)



| | | |
|---|-------------------------|----|
| 1 | Materials Analysis | 31 |
| 2 | Test and Measurement | 30 |
| 3 | In-line Instrumentation | 21 |
| 4 | Industrial Controls | 18 |

Sales by destination (%)



| | | |
|---|-------------------|----|
| 1 | North America | 34 |
| 2 | Europe | 31 |
| 3 | Asia | 30 |
| 4 | Rest of the world | 5 |

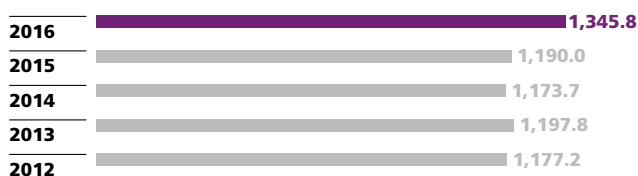


Read more on pages 16 to 25.

2016 Highlights

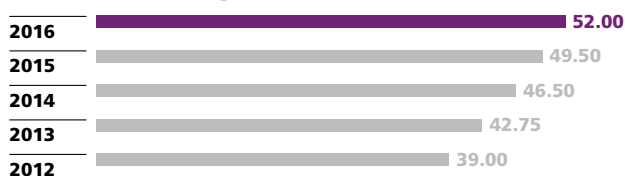
Reported sales

£1,345.8m



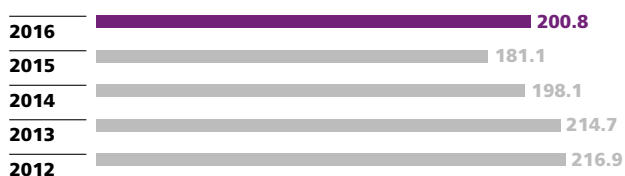
Dividend per share

52.00p



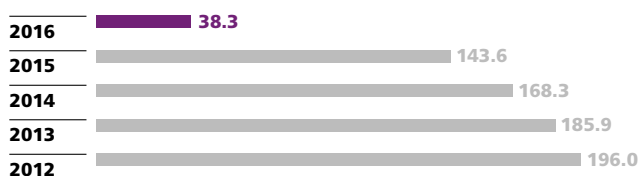
Adjusted operating profit¹

£200.8m



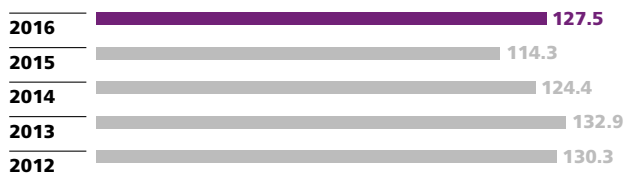
Reported operating profit

£38.3m



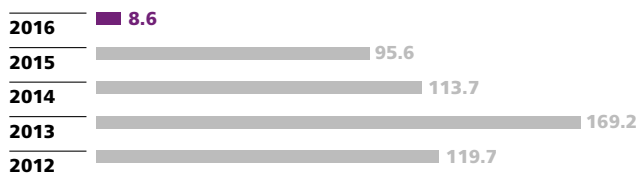
Adjusted earnings per share¹

127.5p



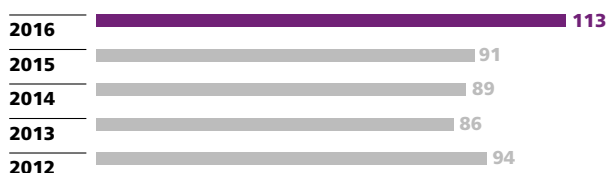
Reported earnings per share

8.6p



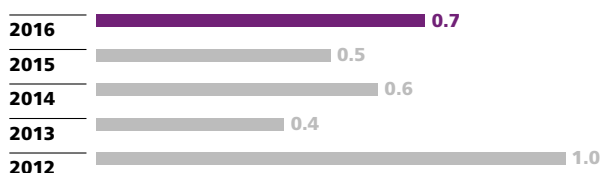
Cash conversion¹

113%



Net debt to EBITDA¹

0.7x



¹ The adjusted performance measures represent the statutory results excluding certain non-operational items. Like-for-like ('LFL') measures include revenue and profit at constant exchange rates and exclude the impact of acquisitions. These are deemed Alternative Performance Measures under the European Securities and Markets Authority (ESMA) guidelines. For a definition of the item and a reconciliation to the closest IFRS equivalent, see Note 2 to the Financial Statements, page 111.

- 13% growth in reported sales; 1% sales growth at constant exchange rates; 2% like-for-like sales decline.
- Adjusted operating margins broadly stable; strong operating cash conversion of 113%; dividend per share increase of 5%.
- Reported profit includes a non-cash charge of £115 million relating to an impairment of goodwill and other intangibles at Omega Engineering and ESG Solutions, reducing EPS by 96.8p.
- Good strategic progress in transition to customer-focused, solutions strategy.

- Acquisition of Millbrook brings high quality test service platform, expanding our automotive offering.
- Added further software, service and testing capability.
- Merger of Malvern and PANalytical to deliver a more complete range to a broader set of markets and customers.
- Project Uplift further supports delivery of our strategy; expected to deliver £35 million of recurring savings at a cost of £45 million over the period to end 2019; net P&L charge of £14 million in 2017.

Chairman's Statement



“2016 was a challenging year for the most part and, in particular, trading conditions in North America were difficult. Nevertheless, the Company is in a sound financial position and continues to make good progress on the delivery of its solutions strategy.”

Dr John Hughes CBE
Chairman

Results overview

Reported sales increased 13% in 2016 to £1,345.8 million and adjusted operating profit increased 11% to £200.8 million. Constant currency sales increased by 1%. Trading conditions were challenging for most of the year, particularly in North America, resulting in an overall 2% decline in constant currency, organic (like-for-like, 'LFL') sales and a 6% decrease in LFL adjusted operating profit. Reported operating profit declined to £38.3 million following a goodwill and other intangibles impairment charge of £115.3 million. The year ended on a more positive note in terms of LFL sales growth and we continued to make good progress on the delivery of our strategy. Our operating profit margins were stable and cash conversion remains strong with 113% of our operating profit being converted into cash. The Group's financial position is robust, with net debt at £150.9 million, around 0.7 times the full year EBITDA.

The Board is proposing to pay a final dividend of 34.0 pence per share which, combined with the interim dividend of 18.0 pence, gives a total of 52.0 pence per share for the year, an increase of 5%. This is consistent with our policy of making progressive dividend payments based upon affordability and sustainability. The dividend will be paid on 30 June 2017 to shareholders on the register at the close of business on 26 May 2017.

Strategic positioning

Looking back over my tenure as Chairman, the Company has evolved significantly but at the heart of our strategy are the benefits we provide to our customers. 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. Historically, this was centred purely around the products and technology; today it is increasingly focused not just on the supply of equipment but on the provision of innovative customer solutions, encompassing hardware, software, application know-how, services and related activities. This change results from an in-depth strategic review undertaken by the Group, the key contributions of which in 2016 have been the acquisition

of Millbrook and the integration of the Malvern Instruments ('Malvern') and PANalytical businesses into one entity.

The Company has grown in scale over this period – reported sales totalled £787 million in 2008, my first year as Chairman, and adjusted operating profit was £118.3 million compared with the £1,345.8 million and £200.8 million reported for 2016. The balance sheet has remained strong throughout the period thanks to a strong cash conversion, and this has enabled the Group to deploy funds for both acquisitions and research and development ('R&D') to further our strategic growth plans. Our R&D budgets have grown from £57 million to £99 million over that time period, and represent around 7% of our sales. Over that time, we have made 40 acquisitions for a total consideration of around £900 million and made several disposals of businesses where we considered ourselves not to be the best shareholder in order to focus the portfolio on key end markets.

We ended 2016 strongly, despite a difficult and unpredictable trading environment throughout the year. The diversity of our products, end-market exposure and global presence has helped offset some of these challenges. Self-help actions also played a role – this year we delivered £11.7 million of restructuring benefits as a result of the specific actions taken in 2015.

In terms of the Group's strategy, there have been refinements along the way. Most recently, in 2015, we moved from a focus on the supply of products towards the provision of complete solutions for customers encompassing software and service, as well as hardware. In 2016, we continued on this path, adding test service and further software capabilities to our portfolio. The acquisition of Millbrook was an important strategic acquisition in the testing services market and through the sharing of expertise and technology with our existing operating companies, HBM and Brüel & Kjær Sound & Vibration, expands our offering to automotive customers. The acquisitions of SVT, DISCOM, CAS and Capstone add further services and software capability to the Spectris portfolio, allowing us to offer more comprehensive solutions to our customers, for example by combining our equipment with associated software capability.

The merger of Malvern and PANalytical will similarly help us to deliver a more complete range of products, solutions and services to customers in materials science-related sectors. Within the Industrial Controls and In-line Instrumentation segments, our Industrial Internet of Things ('IIoT') strategy will see deployment of connectivity technologies and monitoring competencies more broadly to serve our customers' needs.

In support of this transformation of the Group, we launched Project Uplift, a Group-wide productivity improvement programme, which is expected to deliver £35 million of total potential annualised recurring savings over the coming three years. This will optimise efficiency and effectiveness not only within but across operating companies and will be a key shift in the way that the operating companies function within Spectris. As well as leveraging the wider Group's scale, a focus on business process excellence will further help in controlling overheads and, by reducing complexity, will free up resources to facilitate the delivery of our solutions strategy.

People and skills development

The skills, experience and technical know-how of our employees are critical to the success of Spectris. Developing strong and effective leadership across the Group is fundamental for attracting and retaining talent and managing succession planning, as well as ensuring that the Group has the talent to deliver its strategic objectives. The Board has been keenly interested in the Group's talent management programme and highly supportive of the activities that have driven this strategic focus. The recruitment of a Group Human Resources Director to drive this forward has therefore been a key consideration and the Board welcomes Andrew Harvey to the Executive team.

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. We want to be a company which our people continue to be proud to work for, where they feel valued, motivated and capable of reaching their full potential. At the heart of our values lies integrity and in 2016, we awarded the first Absolute Integrity Award to recognise and reward outstanding ethical behaviour. The first recipient was Salma Cassam Chenai Thiry who took a strong ethical position in a difficult commercial negotiation.

Board composition

In May, Lisa Davis unfortunately found it necessary to retire as a Non-executive Director following her promotion to the Siemens AG managing board and I would like to thank her for her outstanding contribution during her tenure. In December, Peter Chambré stepped down as a Non-executive Director, having completed over ten years' service on the Board. During that time, Peter offered deep insight and constructive challenge to the Group and had been a major contributor to all aspects of the Board's functioning. I would like to thank him for his wisdom, insight and commitment to Spectris. In January 2017, Kjersti Wiklund joined as a Non-executive Director and brings significant knowledge of the international telecommunications sector to the Board's discussions. In December, I advised the Board that, having served almost nine years as Chairman and ten years as a Director and given the fact that we had clearly set both strategic and operational courses for the future, I felt that in line with good governance the timing was right for me to stand down as Chairman and Director. The process to find my successor is well underway and a further announcement will be made in due course.

Summary and outlook

We ended 2016 in a more positive position with LFL sales for the full year down 2%, comparing more favourably with the first ten months during which sales declined by 4%. It was a challenging year for the most part and, in particular, trading conditions in North America were difficult for most of the year, although we saw signs of improvement in the fourth quarter. Nevertheless, the Company is in a sound financial position and continues to make good progress on the delivery of its strategy. The strong strategic and operating initiatives that we have launched, together with our broad end-market exposures and strong financial position, provide me and the Board of Spectris with confidence that the Company is well positioned for 2017 and beyond.

The timing and context are, I believe, both right for a new Chairman to be appointed and I am confident that they are inheriting a robust portfolio of businesses, a strong team, a clear strategic direction and opportunities to drive significant shareholder value over the coming years. The culture of the Spectris Board is one of openness, robust challenge and strong ethics and I firmly believe that these values will continue to be upheld.

Dr John Hughes CBE

Chairman

Our strengths

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

- High barriers to entry supported by continuous innovation and long-term customer relationships.
- Focus on customer solutions in niche markets with strong growth potential.
- Broad geographical and end-market exposures, 40% of sales generated from customer operating expenditure budgets.
- Strong cash conversion resulting from asset-light manufacturing model.
- Balance sheet strength enabling progressive dividend policy.
- Proven acquisition model to supplement organic growth.



Read more: Business Model pages 10 and 11

¹ Adjusted performance measures represent the statutory results excluding certain non-operational items. Like-for-like ('LFL') measures include revenue and profit at constant exchange rates and exclude the impact of acquisitions. For a definition of the item and a reconciliation to the closest IFRS equivalent, see Note 2.

Chief Executive's Review



"In 2016, we made good strategic progress, adding further software, service and testing capability and launched Project Uplift, a new Group-wide productivity improvement programme."

John O'Higgins
Chief Executive

Although reported sales increased by 13% for the year, 2016 proved to be a challenging year for the most part. We did, however, end the year on a more positive stance and the LFL sales decline of 4% in the first ten months contracted to 2% for the full year. Constant currency sales increased by 1%. Given the environment, we remain focused on self-help actions to better align cost growth to sales growth.

We took important steps forward in the development of the Group's strategy this year as we transition our customer offering towards the provision of solutions encompassing hardware, software and services. In this context, the acquisition of Millbrook is an important addition to our portfolio of a high quality automotive test service platform, which enables us to expand our offering to automotive customers. We launched Project Uplift, a Group-wide productivity improvement programme, a key enabler for delivering our strategy and aimed at reducing complexity to facilitate the delivery of growth, whilst also improving efficiency and effectiveness. And we took the decision to merge two of our larger operating companies, Malvern Instruments and PANalytical, enabling a more collaborative approach across the customers served by both companies. As customers increasingly require an integrated solution, we are strategically positioning Spectris to align with their needs and this is transforming our business.

2016 operational performance

The current demand backdrop has been one of lower growth and this is reflected in the 2% decline in LFL sales¹. The performance varied notably across the segments. Materials Analysis was the only segment delivering LFL sales growth at 2% (reported sales growth +15%), with LFL declines of 4% in both Test and Measurement (reported +15%) and In-line Instrumentation (reported +8%) and of 2% in Industrial Controls (reported +12%). On a regional basis, we experienced further declines in industrial investment and production in North America and business performance weakened through the year, picking up slightly towards the end. In Europe, sales declined, although the rate of decline eased thanks to a strong close to

the year and Germany recorded LFL sales growth for the year. Asia saw sales growth, particularly in China. Sales to the Rest of the world continued to decline, driven by the economic recession in Brazil. From an end-market perspective, there was good growth in the electronics, pharmaceuticals and web and converting industries. There was also good growth to the tissue market. LFL sales to energy and utilities continued to decline and we also saw lower sales to metals, minerals and mining and aerospace after a good performance in the previous year.

Adjusted operating profit increased 11% to £200.8 million and reported operating profit declined to £38.3 million. The reported operating profit included a non-cash impairment charge of £115.3 million pre-tax relating to a write-down of the balance sheet goodwill and other intangibles associated with Omega Engineering ('Omega') and ESG Solutions ('ESG'). The impairment charge arose from the recent weaker trading performance due to the challenging conditions experienced, particularly in North America, and ongoing process improvement requirements at Omega and for ESG, the continued weakness in the global oil and gas markets. On a LFL basis, adjusted operating profit decreased 6%, reflecting the effects of the lower sales volumes and a particularly weak performance by Industrial Controls, mainly driven by working capital write-downs in Omega.

In response to the weaker than expected trading environment, we continued our programme of restructuring measures introduced in 2015. They delivered a benefit of £11.7 million in 2016, ahead of our initial expectations, and were mainly targeted at rationalisation of our footprint in certain locations, with the bulk of the benefits arising in Materials Analysis and In-line Instrumentation. We also continued to deploy lean techniques to areas such as innovation and sales and marketing across the Group.

The Group's cash conversion remains strong with 113% of our adjusted operating profit being converted into cash and we maintain a robust financial position with net debt at £150.9 million, around 0.7 times the full year EBITDA.

Strategic progress in transition to customer-focused, solutions strategy

Our strategy is evolving from being the supplier 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. As our customers 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 deliver high quality technical solutions. During the year, we have undertaken a number of strategic initiatives to ensure we align our customer offering to their evolving requirements and this is resulting in a number of transformational changes within Spectris.

During the course of 2016, we made six acquisitions and these have added test service and further software and services capabilities. The key acquisition was Millbrook, one of Europe's leading independent test, validation and engineering service providers, primarily for the automotive and related markets. It is closely related to our existing test and measurement businesses and, as such, the acquisition is an important step forward in the realisation of our strategy to provide our automotive customers with differentiated solutions as we combine the Millbrook testing service with products, technology, services and customer contacts from other Spectris companies, such as HBM and Brüel & Kjær Sound & Vibration. This collaboration, in combination with the notable pipeline of organic investment opportunities at Millbrook, means that automotive test services will be a key focus area for Spectris going forwards.

We also made a number of bolt-on acquisitions. The acquisition of CAS Clean Air Service brought a high quality clean-room services business which we have integrated into our Particle Measuring Systems operating company in order to provide an enhanced offering to our customers from the combined product and service portfolios. The combination of Capstone's software tools with BTG's instruments enables us to provide market-leading solutions for process control and optimisation across our global pulp, tissue and packaging markets, and into other process industries and we have now built an extensive pipeline of opportunities. SVT brings software solutions and noise, vibration and harshness ('NVH') engineering services targeted at a wide spectrum of industry including automotive, aerospace and defence customers. SVT and DISCOM, which we acquired in July, have both been integrated into Brüel & Kjær Sound & Vibration, accelerating the transition to becoming a single-stop solutions provider for our automotive customers.

In addition to M&A, we will deploy our solutions strategy in other ways, for example through the merger of Malvern Instruments and PANalytical which became effective at the start of 2017. The companies are both leading suppliers of analytical instrumentation and the combined entity is a larger and stronger player in the materials characterisation market. The merger is being undertaken as there are benefits through this collaborative relationship, leveraging the very strong brands and highly-skilled employees of the two companies, in order to deliver a more complete range of products, solutions and services to a broader set of markets and customers.

¹ Adjusted performance measures represent the statutory results excluding certain non-operational items. Like-for-like ('LFL') measures include revenue and profit at constant exchange rates and exclude the impact of acquisitions. For a definition of the item and a reconciliation to the closest IFRS equivalent, see Note 2.

Another strategic focus area for us is the industrial connectivity market and this growing area has presented a significant opportunity for product development for us, focused on simplifying the integration of customer-generated data with remote data analytics services. Here, too, we are also looking more closely at cross-group solutions, by leveraging existing operating company technologies and competencies to more broadly serve our customers' needs.

Project Uplift enables our strategy

Project Uplift is a new productivity improvement programme which we launched during the year. Over the medium term, this will deliver improvements in productivity, both within and across our operating companies, reducing complexity and identifying operational efficiencies whilst preserving the entrepreneurial spirit within our businesses. We have now identified total potential annualised recurring savings of £35 million by 2019.

The majority of these savings will be derived from leveraging the Group's scale through, for example, combining back-office functions such as IT and by securing improved terms for procurement of goods and services, both direct and indirect. It will also be delivered by a focus on business process excellence in our R&D and sales and marketing activities, which will standardise some of the processes across our operating companies and improve our effectiveness. This will further support our solutions, customer-focused strategy, freeing up resources to facilitate the delivery of our strategy by identifying and capitalising on cross-group opportunities and making it easier for our customers to do business with us. The total P&L cost to achieve these savings is currently estimated at £45 million over the same period, with the majority of the costs incurred by the end of 2018. In 2017, we expect there to be a recurring benefit of £6 million at a one-off cost of £20 million.

Our people help deliver the strategy

Ensuring we have the right people in place to deliver the strategy will also continue to be a key focus for us. In January 2017, our new Group HR Director joined the Company. Our talent management programme will be a key focus for him as well as promoting the strong ethical culture and values we have. I was delighted to participate in the selection process to identify the first winner of our Absolute Integrity Award in December from a shortlist of six finalists and was pleased to see an outstanding commitment to our value of Absolute Integrity being demonstrated across the business.

Priorities for 2017 and beyond

The two key priorities in the coming years are continued implementation of the strategy to provide solutions-oriented offerings to our customers, as well as a focus on driving productivity and reducing complexity under Project Uplift to improve the financial performance of the Group. On the former, we will continue to use our robust financial position to make acquisitions to accelerate our strategic development, both in terms of our offering to customers and our geographical coverage. On the latter, implementing the Project Uplift initiatives will be a key focus in order to optimise efficiency and effectiveness, and consequently capture savings across our operating companies.

John O'Higgins
Chief Executive

Strategy

| Strategic priority | Description | Achievements in 2016 |
|--|--|---|
|  <p>Focus on innovative customer solutions</p> | <p>As customer requirements evolve, so too is the offering that Spectris provides to them. Our long-term customer relationships and technical know-how mean we can enhance our offering to them, whether that involves the supply of improved equipment or a packaged solution involving the provision of hardware, software and related services.</p> | <p>We invested £99 million in R&D, representing 7.3% of Group sales, and launched a number of new products and solutions. Examples included:</p> <ul style="list-style-type: none"> • Aeris, a new x-ray powder diffraction benchtop instrument. • Noise Patrol Type 3665 – Airport Noise Monitoring On Demand system. • LDS V8900 high-force shaker, an air-cooled electrodynamic shaker for high-performance vibration and shock testing of large devices. |
|  <p>Increase presence in key strategic markets</p> | <p>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 sciences and pharmaceuticals, energy, automotive, basic materials and technology sectors, but we also review and actively pursue opportunities in new markets.</p> | <p>We increased our presence in several strategic growth markets, for example:</p> <ul style="list-style-type: none"> • Acquired Millbrook, our largest pure testing business acquisition to date. • Increased our exposure to the automotive sector via the acquisitions of Millbrook, SVT and DISCOM. |
|  <p>Expand business globally</p> | <p>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 markets such as China, India and Latin America.</p> | <ul style="list-style-type: none"> • Continued expansion of Omega’s activities internationally, with LFL sales into Asia growing 20%. • Enhanced our presence in India; acquiring a distributor for one of our Test and Measurement businesses and expanding facilities. • Secured new contracts in Brazil, India and Mexico. |
|  <p>Accelerate operational excellence</p> | <p>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.</p> | <ul style="list-style-type: none"> • Delivered £11.7 million of cost savings from the restructuring initiatives launched in 2015 across the Group. • Launched Project Uplift, a comprehensive Group-wide productivity improvement programme. • Appointed a new Group HR Director with responsibility for talent management to identify and promote talent across the Group. |
|  <p>Deploy capital for both platform and bolt-on M&A</p> | <p>We acquire businesses which materially strengthen our operating companies through broadening their customer offering, reaching new customer segments or expanding their geographical presence. These are typically bolt-on in nature.</p> <p>In addition, we invest in new platform businesses in order to establish a presence in strategic markets or complementary capabilities.</p> | <ul style="list-style-type: none"> • Acquired Millbrook, a leading test, validation and engineering service provider, primarily for the automotive and related markets. • Invested £166 million in total, with bolt-on acquisitions in Test and Measurement (two), Materials Analysis (one) and Industrial Controls (one). • Acquisitions contributed 3 percentage points (‘pp’) of reported sales growth. |

Key performance indicators

Priorities for 2017

Risk

| | | | |
|--------------------------------------|--|---|--|
| LFL sales growth -2% | Adjusted return on sales 14.9% | <ul style="list-style-type: none"> Continue to invest around 7% of sales in the development of new products, technologies and solutions. Focus on innovative differentiated customer solutions which offer superior margins. Continue to build relationships with customers to offer more value-added services such as consultancy, software, testing, maintenance and training. | <ul style="list-style-type: none"> New product development. Intellectual property. Competitive activity. Information security. |
| Growth in adjusted EPS 12% | | | |
| LFL sales growth -2% | Adjusted return on sales 14.9% | Focus on key strategic growth markets, particularly: <ul style="list-style-type: none"> Cloud-based data analysis and services. Industrial connectivity. Life sciences. Engineering software. Test services. | <ul style="list-style-type: none"> New product development. Intellectual property. Political and economic risks. Acquisitions. Competitive activity. Fluctuations in exchange rates. |
| Growth in adjusted EPS 12% | | | |
| LFL sales growth -2% | Adjusted return on sales 14.9% | <ul style="list-style-type: none"> Continue to expand our international footprint to be closer to customers through direct and indirect market presence and acquisitions. Continue to grow Omega internationally. Ensure that we have the right talent to grow our business globally. | <ul style="list-style-type: none"> Intellectual property. Laws and regulations. Political and economic risks. Acquisitions. Information security. Fluctuations in exchange rates. |
| Growth in adjusted EPS 12% | | | |
| LFL sales growth -2% | Energy efficiency (MWh per £m sales) 68.3 | <ul style="list-style-type: none"> Implement Project Uplift programme to ensure benefits of scale are achieved and best practices are shared across the Group. 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. | <ul style="list-style-type: none"> Supply chain dependencies and disruption. Information security. |
| Cash conversion 113% | Reportable accidents per 1,000 employees 4.5 | | |
| LFL sales growth -2% | Adjusted return on sales 14.9% | <ul style="list-style-type: none"> Focus on acquisition strategy to expand portfolio and reach. Fully integrate recent acquisitions to support continued new product development. Continue to look for new opportunities in key strategic growth markets through acquisition or licensing of technologies. | <ul style="list-style-type: none"> Acquisitions. Competitive activity. |
| Growth in adjusted EPS 12% | | | |

Adjusted performance measures represent the statutory results excluding certain non-operational items. Like-for-like ('LFL') measures include revenue and profit at constant exchange rates and exclude the impact of acquisitions. For a definition of the item and a reconciliation to the closest IFRS equivalent, see Note 2.

Strategy in Focus

The acquisition of **Millbrook** supports our strategy of a shift in emphasis from a purely product-based offering towards the provision of complete solutions to the customer.



Millbrook provides vehicle test, validation and engineering services to customers in the automotive, transport, tyre, petrochemical, defence and security industries. From its testing facilities in the UK and at Test World in Finland, it helps its customers navigate legislative and regulatory requirements, to develop the engines, vehicles, tyres and fuels of the future.

How this supports our strategy

In September, Spectris acquired Millbrook, a leading provider of testing and engineering services, primarily to the automotive sector. This acquisition is a major step in implementing our product-software-solutions strategy as it adds testing services to the hardware and software offering in a way which enables the development of innovative customer solutions. Millbrook became an operating company within the Test and Measurement segment, and here it benefits from sharing capabilities, expertise, technology and customer contacts with our existing operating companies, HBM and Brüel & Kjær Sound & Vibration.

The transition in our offering to customers is being driven by a change in their requirements. Supported by Spectris' global reach and expertise, the combination of Millbrook's service expertise with the testing equipment and software of our other operating companies will enable customers to enhance their productivity by dealing with the increasing complexities involved in product testing, whilst reducing the time to market for new products.

Another key strand to the Spectris strategy is deploying capital for M&A, and Millbrook represents an ideal platform for both organic and acquisitive investment to broaden its customer base, service offering and geographic reach.



Driving green innovation and technology at Millbrook

Millbrook continues to advance its customer offering as both regulation and customer requirements evolve. In December, a new climatic emissions testing facility was opened which is set to address the new challenges faced by the automotive industry. New regulations require vehicle manufacturers to use portable emissions measuring systems to supplement laboratory testing and provide results that are more representative of real-world driving conditions. Millbrook now offers the latest advanced systems for measuring vehicle emissions, CO₂, fuel consumption and electric consumption and range, under repeatable conditions.

The bus, truck and off-highway market is also being driven by the need to reduce emissions and improve urban air quality. First Bus, a leading UK bus operator, has been undertaking extensive product testing at Millbrook every year since 2012 in its pursuit of operating ever cleaner and more fuel-efficient vehicles. Vehicle manufacturers put their latest products through a comprehensive testing programme, the results of which play a major part in the First Bus vehicle procurement strategy. This testing procedure has been developed by First Bus in collaboration with Millbrook engineers.

The buses are fitted with sophisticated equipment to monitor many aspects of performance and are put through their paces on a course designed to reflect a variety of rural, urban and inter-urban bus routes. As a result, bus manufacturers have successfully improved the fuel efficiency of their vehicles by up to 30% and reduced carbon emissions. Continued developments in vehicle technology are expected to contribute towards further reductions in fuel consumption and carbon emissions.

“The testing and like-for-like comparisons between vehicles are helping to drive the development of greener public transport, which has real benefits for the environment and creates cost savings that ultimately benefit consumers. Millbrook is uniquely able to provide the testing environment and expertise required by First Bus.”

Alex Burns, President, Millbrook

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 delivers the outputs to generate sustainable profitable growth and brings significant competitive advantage.

Underpinning this approach are our culture and values, together with a strong operational and governance framework.



Read more:
Strategy page 6
KPIs page 12
Operating Review page 16
Risk Management page 30

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 employees then provide solutions to their productivity challenges. This is our competitive advantage and it creates value for our customers, shareholders, our employees and the communities they live in.

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 and culture

Our values are essential to our business success and growth: they underpin the way we work, guide our decision-making and shape our culture. 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.

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, via R&D and selective acquisitions, whilst also growing the dividend.

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. We own a large number of patents, trademarks and intellectual property licences which brings high barriers to entry for competitors.

Customers

We pride ourselves in building long-term relationships with our customers and seek to develop a deep understanding of their business and processes. Over 80% of our sales come from customers who have purchased from us in the preceding two years. We also offer a full range of aftermarket services and support including training, technical support, calibration and maintenance.

Employees

We are a very specialised business and rely on the skills and applications expertise of our 8,900 people around the world. Many of our employees are highly-qualified engineers and technicians. We seek to attract and retain the best talent and are committed to providing equal employment opportunities, competitive remuneration and training and development programmes.

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 and sharing best practice.

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. Continuous innovation in new products and solutions serves to protect our market positions.

High returns

High barriers to entry, generated via long-term customer relationships, application expertise, strong intellectual property and continuous innovation, lead to limited pricing pressure, retention of market share 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 or industry. Around 26% of our sales are from aftermarket sales and service which are more resilient in a downturn.

Strong cash generation

Our high operating margins and asset-light manufacturing model result in steady and strong cash generation. A strong balance sheet gives us the flexibility to fund acquisitions, which has been a key component of our strategy for many years.

Key Performance Indicators

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 (see page 6). An element of the Directors' remuneration is linked to two KPIs, adjusted earnings per share and economic profit (see pages 76 and 77 in the Directors' Remuneration Report).

Our strategy focuses on profitable growth that is sustainable over the medium to long term and therefore we consider how we have performed over a number of years – we show the KPIs for the last five years.

A number of the KPIs are adjusted operating metrics as we believe these are the primary indicator of the underlying performance of the business as they exclude foreign exchange movements and the impact of acquisitions. See Note 2 to the Financial Statements, page 111, for a reconciliation between adjusted and reported items.

In recent years, the challenging trading environment has resulted in like-for-like sales growth remaining low. However, during this period, the Group has maintained a return on sales in the mid-teens and delivered high cash conversion of operating profit. The Group has also generated significant economic profit throughout the period.

Like-for-like sales growth

Link to strategy

Definition

LFL 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. See Note 2 to the Financial Statements.

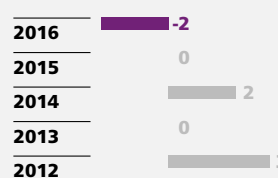
Performance

Sales were £1,345.8 million in 2016, a 2% decline on a LFL basis compared with 2015. Trading conditions for the majority of the year continued to be challenging, particularly in North America.

Objective

Our aim is to achieve year-on-year growth in LFL sales.

LFL sales growth (%)



Adjusted return on sales

Link to strategy

Definition

Adjusted return on sales is a measure of improving profitability in our business and is defined as adjusted operating profit as a percentage of reported sales. Adjusted operating profit excludes certain non-operational items as defined by management in Note 2 to the Financial Statements.

Performance

Adjusted return on sales was 14.9% in 2016, representing a decrease of 0.3pp over the prior year. The decline in LFL sales growth was partly mitigated by the restructuring activities undertaken across the Group.

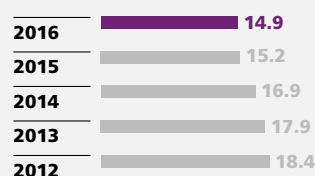
Objective

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

Link to remuneration

Growth in profit is part of the annual bonus plan.

Adjusted return on sales, continuing businesses (%)



Read more on page 76.

Adjusted earnings per share growth

Link to strategy

Definition

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

Performance

Adjusted EPS was 127.5p in 2016, representing an increase of 12% over the prior year. This reflected an 11% increase in adjusted operating profit and a slight decline in the Group's effective tax rate.

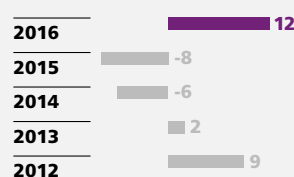
Objective

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 (%)



Read more on page 76.

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 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. See Note 2 to the Financial Statements.

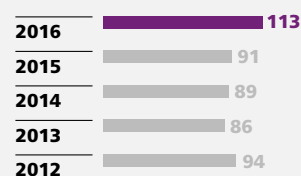
Performance

Cash conversion was 113% in 2016, representing an increase of 22pp over the prior year.

Objective

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

Cash conversion (%)



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 £157.5 million, representing a decrease of £51.8 million over the prior year.

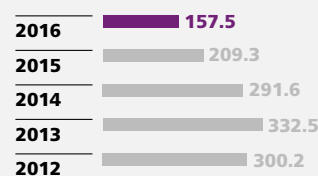
Objective

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)



Read more on page 76

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.

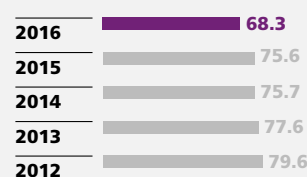
Performance

Energy (measured in MWh) per £m revenue was 68.3 in 2016, an improvement of 10% compared with the prior year.

Objective

Our aim is to achieve an improvement in energy efficiency.

MWh per £m revenue



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.

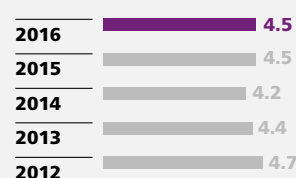
Performance

There were 4.5 reportable accidents per 1,000 employees in 2016, a similar rate to 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



Market Overview

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.



Key end-user markets

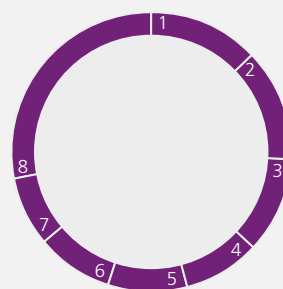
| Pharmaceuticals & fine chemicals | | Automotive & aerospace | | Semicon, telecoms & electronics | | Academic research | |
|--|------------|--|------------|---|-------------|---|-----------|
| Group sales | 13% | Group sales | 13% | Group sales | 11% | Group sales | 9% |
| Key segment exposure¹ | MA, IC | Key segment exposure¹ | T&M | Key segment exposure¹ | MA, T&M, IC | Key segment exposure¹ | MA, T&M |
| 2016 LFL sales trend | | 2016 LFL sales trend | | 2016 LFL sales trend | | 2016 LFL sales trend | |
| Demand drivers | | | | | | | |
| <ul style="list-style-type: none"> • Proliferation of composite materials. • Innovation in technology and materials. • Demand for biopharmaceuticals. • Regulation/compliance. | | <ul style="list-style-type: none"> • New product development. • Innovation in technology and materials. • Outsourcing of expertise by customers. • Regulation/compliance/ environmental concerns. | | <ul style="list-style-type: none"> • New product development. • Innovation in technology and materials. • Semiconductor equipment spend. • Increasing end-user speed and quality requirements. | | <ul style="list-style-type: none"> • Innovation in technology and materials. • Third-party development and testing. | |
| 2016 developments | | | | | | | |
| <ul style="list-style-type: none"> • Increased demand for biopharmaceuticals and investment in biosimilar product development. • US FDA regulation on generics. • Drive to improve quality and standards in India and China. • US legislation on product identification marking. | | <ul style="list-style-type: none"> • Hybrid and electric vehicle developments. • Increased demand for engineering software and noise, vibration and harshness simulation. • Addition of pure testing services. • High-value asset monitoring. | | <ul style="list-style-type: none"> • Semiconductor industry growth. • Lack of major new product development in telecoms. • Growth in use of industrial connectivity solutions. | | <ul style="list-style-type: none"> • Pressure on publicly-funded research budgets in most markets. • Political uncertainty in key markets. | |
| Future growth themes | | | | | | | |
| <ul style="list-style-type: none"> • Biopharmaceuticals growth. • Evolving FDA approvals of biosimilars. • Drive to improve standards and quality in emerging markets. • Use of advanced composite materials in daily life. • Need to improve product traceability. | | <ul style="list-style-type: none"> • Independent automotive testing post emissions issues. • Hybrid and electric vehicle developments. • Consumer demand for efficiency/safety/comfort. • Engineering services to correlate simulation data with real-world data. • Life/durability prediction. | | <ul style="list-style-type: none"> • Proliferation of affordable high-performance computing. • Innovation in advanced semiconductors. • Growth in use of industrial connectivity solutions. • Demand for consumer electronics and sound quality testing applications. | | <ul style="list-style-type: none"> • Innovation in technology and materials. • Government efforts to stimulate economy via R&D and innovation. • Political uncertainty given EU elections and new US administration. | |

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.

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 2016 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 18 to 25.

Sales by end-user industry (%)



| | | |
|---|----------------------------------|----|
| 1 | Pharmaceuticals & fine chemicals | 13 |
| 2 | Automotive & aerospace | 13 |
| 3 | Semicon, telecoms & electronics | 11 |
| 4 | Academic research | 9 |
| 5 | Metals, minerals & mining | 9 |
| 6 | Energy & utilities | 9 |
| 7 | Pulp, paper & tissue | 8 |
| 8 | Other, including distribution | 28 |

| Metals, minerals & mining | | Energy & utilities | | Pulp, paper & tissue | | Other ² | |
|---|-----------|---|--------------|---|-----------|---|--------------|
| Group sales | 9% | Group sales | 9% | Group sales | 8% | Group sales | 28% |
| Key segment exposure¹ | MA | Key segment exposure¹ | T&M, Ili, IC | Key segment exposure¹ | Ili | Key segment exposure¹ | T&M, Ili, IC |
| 2016 LFL sales trend | ↑ | 2016 LFL sales trend | ↓ | 2016 LFL sales trend | ↓ | 2016 LFL sales trend | ↔ |
| <ul style="list-style-type: none"> Innovation in technology and materials. Commodity exploration and production. Outsourcing of expertise by customers. | | <ul style="list-style-type: none"> Unconventional oil and gas. Renewable energy. Regulation/compliance/environmental concerns. Outsourcing of expertise by customers. Safety and productivity enhancements. | | <ul style="list-style-type: none"> Outsourcing of expertise by customers. | | <ul style="list-style-type: none"> Innovation in technology and materials. Regulation/compliance. Environmental concerns, including noise. | |
| <ul style="list-style-type: none"> Metals and minerals growth. Overcapacity and low commodity pricing in mining market. Growth dependent on aftermarket sales and equipment replacement cycle. Growth in mining aftermarket sales. | | <ul style="list-style-type: none"> Energy market softness, particularly in downstream. Wind energy growth. Growth in use of industrial connectivity solutions. | | <ul style="list-style-type: none"> Good growth in tissue and packaging markets. Graphic paper market remains weak, with capacity rationalisation and lower investment. | | <ul style="list-style-type: none"> Broad-based industrial weakness in USA. Growth in factory automation in China. Growth in use of industrial connectivity solutions. Legal requirements for process and transportation monitoring and compliance tracking. | |
| <ul style="list-style-type: none"> Weak market backdrop drives need to improve productivity. Potential pricing recovery impact on mining capital investment. | | <ul style="list-style-type: none"> Globalisation of unconventional oil and gas industries. Renewable energy growth. Weak market backdrop drives need to improve productivity. Growth in use of industrial connectivity solutions. Potential pricing recovery impact on capital investment. | | <ul style="list-style-type: none"> Growth in tissue consumption driving capacity growth, but competition rising. Online shopping driving greater use of packaging. Graphic paper market weakness drives need for efficiency, including capacity shutdowns. | | <ul style="list-style-type: none"> Growth in use of industrial connectivity/connected factory solutions and smart grid deployments. Increasingly stringent regulation and compliance. | |

➤ Read more on pages 16 to 25.

Operating Review



Eoghan O'Lionaird
Business Group Director

The 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 our 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 on pages 18 and 21). Many of these industries are highly regulated, and the need to comply with national and international legislation 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).



Jo Hallas
Business Group Director

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 on pages 22 and 25). 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 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).

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.

[Read more on pages 18 and 19.](#)

Test and Measurement

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

[Read more on pages 20 and 21.](#)

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.

[Read more on pages 22 and 23.](#)

Industrial Controls

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

[Read more on pages 24 and 25.](#)

| |
|----------------------------------|
| Reported sales |
| £418.9m |
| Adjusted operating profit |
| £76.2m |
| Reported operating profit |
| £66.2m |

| |
|-------------------|
| Aftersales |
| 32% |
| Employees |
| 2,375 |

Operating companies

Malvern Instruments*
 PANalytical*
 Particle Measuring Systems

Industries

Metals, minerals & mining
 Pharmaceuticals & fine
 chemicals
 Academic research
 Semiconductors

*Merged from 1 January 2017

| |
|----------------------------------|
| Reported sales |
| £404.5m |
| Adjusted operating profit |
| £61.8m |
| Reported operating profit |
| £26.7m |

| |
|-------------------|
| Aftersales |
| 23% |
| Employees |
| 3,460 |

Operating companies

Brüel & Kjær Sound & Vibration
 ESG Solutions ('ESG')
 HBM
 Millbrook

Industries

Automotive
 Aerospace
 Electronics
 Energy
 Academic research

| |
|----------------------------------|
| Reported sales |
| £275.6m |
| Adjusted operating profit |
| £41.2m |
| Reported operating profit |
| £37.6m |

| |
|-------------------|
| Aftersales |
| 44% |
| Employees |
| 1,465 |

Operating companies

Brüel & Kjær Vibro
 BTG
 NDC Technologies
 Servomex

Industries

Process industries
 Pulp, paper & tissue
 Energy & utilities
 Web & converting

| |
|----------------------------------|
| Reported sales |
| £246.8m |
| Adjusted operating profit |
| £21.6m |
| Reported operating profit |
| £(92.2)m |

| |
|-------------------|
| Aftersales |
| 1% |
| Employees |
| 1,400 |

Operating companies

Microscan
 Omega Engineering ('Omega')
 Red Lion Controls

Industries

Manufacturing
 Process industries
 Energy
 Electronics
 Healthcare

Sensitivity, productivity, ease-of-use: all increased

Providing our customers with solutions combining hardware, software and service is increasingly more important in our strategy. In 2016, we worked closely with Syngenta, a leading agricultural company, in the move to a new Malvern Instruments system.

Syngenta manufactures a wide range of agrochemicals including pesticides, fungicides and herbicides.

Consistency of the ingredients is essential for overall product quality control and Syngenta needed a system to confirm that all the ingredients in a formulation were in suspension and in the correct concentrations.

Syngenta decided to purchase an OMNISEC system, consisting of systems, detectors and software, for this particular application. It measures absolute molecular weight, molecular size, and other

parameters and is a powerful tool for controlling the performance, quality and value of the ingredients.

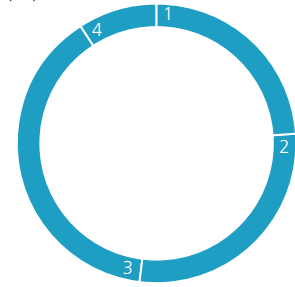
One of the key benefits was the ease of changeover in a lab that handles many different samples.

The new software was also a key selling point as it made it easy to gather more sensitive data and produce closely customised reports, thus enhancing both efficiency and ability to support decisions around different suppliers and troubleshooting. Improving productivity also freed up time for higher value work.

“Since we purchased OMNISEC, we’re able to deliver more sensitive data, so our ability to support decisions has been directly enhanced. In an analytical lab like ours that operates so many techniques with relatively few people, improving productivity is a major gain.”

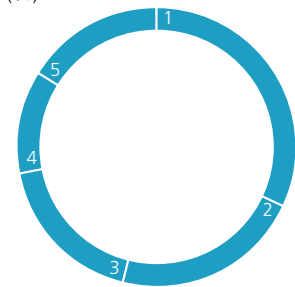
Dr Kirt Durand, Senior Analytical Chemist at Syngenta

Geographical breakdown (%)



| | |
|---------------------|----|
| 1 North America | 24 |
| 2 Europe | 28 |
| 3 Asia | 39 |
| 4 Rest of the world | 9 |

Industry breakdown (%)



| | |
|------------------------------------|----|
| 1 Pharmaceuticals & fine chemicals | 32 |
| 2 Metals, minerals & mining | 22 |
| 3 Academic research | 18 |
| 4 Semicon, telecoms & electronics | 12 |
| 5 Other | 16 |



Operating Review

Materials Analysis

Segment performance

Reported sales increased 15%, reflecting a 2% increase in LFL sales, a 1pp contribution from acquisitions and a 12pp positive impact from foreign exchange currency movements. Sales growth was driven primarily by Asia, particularly in China and Japan, while North America and Europe were down slightly. On a LFL basis, adjusted operating profit increased 27% and adjusted operating margins increased by 3.7pp, primarily reflecting positive mix effects and the benefits of restructuring actions.

We announced our decision to merge two of this segment's operating companies, Malvern Instruments ('Malvern') and PANalytical, effective from January 2017. Both companies are leading suppliers of analytical instrumentation in their respective markets and the combined entity will be a larger and stronger player in the materials characterisation market, leveraging the strengths of the individual companies in their end markets, and working collaboratively to deliver a more complete range of products, solutions and services to a broader set of markets and customers. For example, in November, PANalytical launched Aeris, an easy-to-operate and user-friendly benchtop x-ray powder diffractometer. The target markets for Aeris have now been extended beyond the cement, minerals, metals and research markets, traditional strongholds of PANalytical, to include the pharmaceuticals and fine chemicals markets where Malvern holds a leading position.

Sales to the pharmaceuticals and fine chemicals industries rose on a LFL basis during the year, a positive sign given the strong year-on-year comparator, as 2015 benefited from a positive impact on demand from regulatory compliance requirements in the Indian pharmaceutical industry. Asia saw particularly strong growth, notably in China, India and Japan. In Europe and North America, LFL sales were up modestly.

In February, Spectris acquired CAS Clean Air Service AG ('CAS') a leading cleanroom-services company, providing measurement services, process qualification, calibration services and product sales, primarily to the pharmaceutical manufacturing market. Its monitoring and advisory service generated strong growth within this market as well as in medical technology, plastics technology, and optics markets. CAS has been fully integrated into Particle Measuring Systems, although the CAS name has remained a distinct product brand. This has enabled us to offer its Good Manufacturing Practice service knowledge and expertise more extensively across their existing sales network.

The metals, minerals and mining sector reversed its better 2015 performance and we saw a LFL sales decline in 2016. All regions experienced a fall in LFL sales, although Germany, the UK and Japan bucked this trend. Large systems orders continue to be deferred or cancelled, and the growth within the cement and building materials markets in North America and Europe of recent years has slowed, although one area of investment is the increasing focus from mining companies on safety and productivity. Aftermarket sales were solid in this sector, as customers' production volumes continue at good levels.

Although we saw reasonable sales growth (LFL) to academic research institutes in North America and in Asia, underlying demand was subdued, especially in Europe, with significant weakness in the UK.

| Reported sales | Adjusted operating profit | Reported operating profit |
|----------------|---------------------------|---------------------------|
| £418.9m | £76.2m | £66.2m |
| 2015: £364.4m | 2015: £53.7m | 2015: £42.6m |

Sales (LFL) to the semiconductor, electronics and telecoms industry grew strongly, particularly in Asia (outside of China and India). Sales in North America were notably weaker year-on-year on a LFL basis. Sales of our new ultra-high sensitivity particle counter products, UDI20 and Chem20, which were launched in 2015, have been performing well.

Segment outlook

In 2017, the merger of Malvern and PANalytical is expected to begin to generate revenue synergies as we benefit from a more comprehensive offering to our customers. However, the underlying trading conditions in our end markets will be the key driver of near-term performance.

Within pharmaceuticals, we expect regulatory scrutiny of manufacturing processes to continue to increase, particularly in relation to the launch of new products, and this will drive demand for our material characterisation and cleanroom products and services.

We expect that these factors will more than offset what is likely to remain an unpredictable academic research market given public sector budget constraints in certain regions.

We are seeing a cautiously improving investment climate in the mining sector but do not expect to see a major pick-up in demand as yet, with growth primarily expected to be from aftermarket sales.

Operating Review

Test and Measurement

Segment performance

Reported sales increased 15%, including a 6pp contribution from acquisitions, predominantly related to Millbrook, and a 13pp positive impact from foreign currency exchange movements. LFL sales fell by 4%. By region, only Asia reported LFL sales growth, in particular in China. LFL sales were notably lower in North America and down modestly in Europe. Adjusted operating profit declined 12% on a LFL basis and LFL operating margins declined by 1.3pp, with positive pricing and mix effects being offset by the impact of negative operating leverage.

Within the automotive sector, the acquisition of Millbrook in 2016 brings a high quality test service platform to the Group. Automotive customers are increasingly demanding the provision of an integrated solution, combining hardware, software and services, and in recent years we have been investing organically and via acquisitions to meet this growing demand. Millbrook provides the opportunity to combine their service excellence with the equipment and software from other Spectris operating companies to provide a joint offering to customers. Initial performance of Millbrook in the Group has been very good and it is our intention to invest in further organic and inorganic growth opportunities to expand the business globally. In addition to Millbrook, we also acquired DISCOM and SVT during the year and in combination with the acquisition of Sound Answers in 2015, these acquisitions provide the opportunity to grow our offering of software and engineering services to automotive customers. Following the acquisition of ReliaSoft in 2015, we have now united it with our other engineering software business, nCode, under a single brand, Prencia, which allows engineers to access all our engineering simulation software solutions via one licensing system.

Underlying demand from the automotive sector remains healthy, particularly in R&D, with one of the key drivers of demand being the electrification of automotive power-trains for deployment in electric and hybrid vehicles. This creates opportunities for our eDrive testing solution which enables the electric motor, inverter and battery data to be directly and quickly evaluated. Electrification of drive trains also creates opportunities for our NVH service offering; as engine noise is reduced or eliminated from motor vehicles, noise evaluation and control shifts focus from the engine to sources elsewhere in the car, for example the electric motor, tyres, etc.

In machine manufacturing, a significant portion of which represents sales into the automotive supply chain, there was LFL sales growth. Sales into the two key regions, Europe and Asia, grew strongly on a LFL basis, but declined in North America.

Sales (LFL) to the aerospace sector decreased in 2016 and were lower in each of the regions, except North America, due to the completion of several major R&D programmes. A good example of how we continue to develop differentiated customer-driven offerings beyond just hardware was the work undertaken with Marengo Swisshelicopter to accelerate their design of an innovative new helicopter. We custom-developed sensing solutions for Marengo and deployed these in combination with our data acquisition systems and software in order to provide them with high-tech solutions at critical points in the development process.

| Reported sales | Adjusted operating profit | Reported operating profit |
|----------------|---------------------------|---------------------------|
| £404.5m | £61.8m | £26.7m |
| 2015: £351.3m | 2015: £55.3m | 2015: £43.6m |

Sales (LFL) of our environmental noise monitoring services declined. However, it was a difficult year-on-year comparator given a one-off major contract in 2015. The UK and Japan were the only major markets to deliver growth during the year. We secured a key contract to provide Heathrow airport with 50 noise monitoring terminals and launched Airport Noise Monitoring on Demand, a service that enables airports to temporarily and cost-effectively increase noise monitoring when needs arise, such as before and after operational changes. We established a dedicated urban sales force to widen our market reach for noise monitoring equipment and services and secured several orders in this regard during the year.

Reflecting some pressure on public finances, LFL sales to academic research institutes declined with weakness in demand in all regions. Only Asia recorded growth, driven by China.

Sales (LFL) to our consumer electronics customers declined in 2016, although sales patterns are lumpy, reflecting the scheduling of projects by customers.

The weakness in the unconventional oil and gas markets continued in 2016 and we saw a further sizeable decline in LFL sales of our microseismic monitoring solutions, particularly in North America. As a result, we have looked to develop opportunities in other markets and are making progress in this regard in Latin America and the Middle East. Our performance was better in the mining sector where LFL sales were flat, with demand for microseismic monitoring growing. For example, we have been working more closely with Grasberg, the world's largest copper-gold mine, supplying microseismic monitoring equipment and analytics for different phases of development, as well as improving safety and efficiency.

Segment outlook

We expect the automotive and aerospace sectors to benefit from further growth in demand for engineering software applications, particularly in NVH simulation in automotive. Additionally, the continued robust investments we see globally in the development of electric and hybrid vehicles will support demand for our market-leading torque and eDrive solutions.

The underlying business trends in the consumer electronics market remain healthy in our view, given consumer electronic demand and good opportunities for sound quality testing applications and calibration services in this sector.

Market conditions in the oil and gas industry are expected to remain subdued and will be oil-price dependent. However, there may be more opportunities for deployment of our microseismic solutions in the mining space as customers seek to make better use of data analytics to improve safety, productivity and profitability.



Adding value for automotive customers

Automotive customers are increasingly demanding the provision of an integrated solution, combining hardware, software and services. Ford Motor Company have been working with Brüel & Kjær Sound & Vibration’s NVH simulator products for a number of years.

Ford utilise Desktop Simulators (DTS) to help refine their NVH targets and troubleshoot sound quality issues. The DTS allows Ford to evaluate standard NVH test or computer-aided engineering data in a true driving environment, converting the data in real-time into an accurate representation of the sound in response to the driver’s inputs to the controls.

The limitation of the DTS is that it only handles the sound of the vehicle, not the vibration. There are many NVH phenomena where the total perception of the issue is a combination of the sound

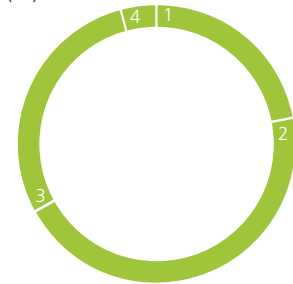
and vibration experienced by the driver or passenger, for example vibrations felt through the steering column and seat.

Ford evaluated a prototype of a Full-Vehicle Simulator (FVS) at Brüel & Kjær Sound & Vibration’s Engineering Services facility at Millbrook and realised this was the next step in producing a more immersive experience for NVH evaluation. Ford took delivery of their FVS in December and have begun exploring the capabilities of the new system with the goal of integrating it into their product development processes.

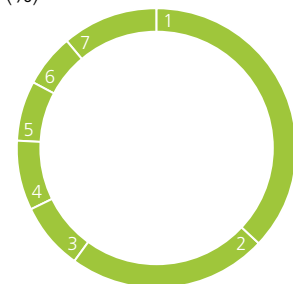
“We realised that the FVS added the missing dimension of vibration and took us to the next level in improving NVH assessment and better decision-making. It requires a significant investment in resources but the benefits to our NVH development make it worthwhile.”

Mark Stickler, Ford’s Manager for Powertrain NVH

Geographical breakdown (%)



Industry breakdown (%)



Award-winning technology

Operational excellence and innovative customer solutions are two elements of our strategy. This was recognised externally when Servomex’s Hummingbird Sensing Technology received the 2016 Queen’s Award for Enterprise (Innovation) for its paramagnetic oxygen sensors.

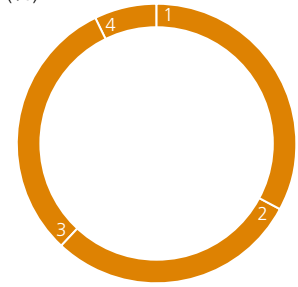
Renowned as the standard for paramagnetic oxygen sensing globally, these sensors are used in a number of industrial analysis processes, such as measurements for gas purity and oxygen detection. It is also now the ‘go to’ technology for medical equipment manufacturers in life support devices that require precise oxygen regulation, monitoring and delivery, such as critical care ventilators, neonatal incubators, anaesthesia machines and patient monitoring. Critically, the non-depleting nature of these sensors, combined with their accuracy and responsiveness, significantly increases the available uptime

of an intensive care unit facility, and the end user can have confidence in the monitoring they receive. A further development was the launch of the Paracube Modus, the world’s first highly shock and vibration-resistant paramagnetic oxygen sensor, designed specifically for the medical market where vibration resistance is important, e.g. oxygen monitoring and control on the ward, on hospital trolleys and in ambulances etc. This is the first time this technology has been developed for inter and intra-hospital applications that require precise oxygen-controlled delivery.

“The engineering of the Engström Carestation required GE to select components only of a high quality to fulfil the design vision for this world-leading product. The flexibility and forward-looking design ethos of the Hummingbird Paracube Micro was therefore the perfect partner to help us deliver exceptional ventilation control.”

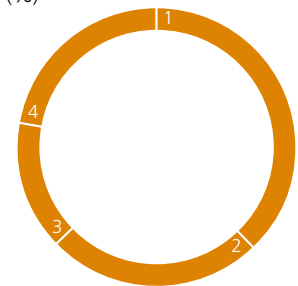
Paul Hunsicker, Global Product Manager, Respiratory Care and Sleep Healthcare Systems, GE Healthcare

Geographical breakdown (%)



| | |
|---------------------|----|
| 1 North America | 33 |
| 2 Europe | 29 |
| 3 Asia | 31 |
| 4 Rest of the world | 7 |

Industry breakdown (%)



| | |
|-------------------------------------|----|
| 1 Pulp, paper & tissue | 38 |
| 2 Energy & utilities | 25 |
| 3 Converting, extrusion & packaging | 15 |
| 4 Other | 22 |



Operating Review

In-line Instrumentation

Segment performance

Reported sales increased 8%, reflecting a LFL sales decline of 4%, which was more than offset by an 11pp positive impact from foreign currency exchange movements and a 2pp contribution from acquisitions.

On a regional basis, LFL sales were up slightly in North America and down in Europe and in Asia. The decline in LFL sales primarily reflected ongoing weakness in capital expenditure across many heavy process industries globally, though certain markets remained robust, such as tissue and wind energy. LFL adjusted operating profit fell 4% and LFL adjusted operating margins were flat year-on-year. As a result, there has been a focus on improving operating efficiency.

In the pulp and paper market, LFL sales were down slightly compared with 2015. We continued to see diversification away from graphic paper towards the tissue and pulp markets, translating into growth for our tissue business which is partly offsetting the decline in traditional coating blade sales. In June, we acquired Capstone Technology Corporation ('Capstone'), a leading provider of software solutions for process control optimisation and decision support. The acquisition enables us to combine Capstone's software tools with BTG's instruments to provide solutions for process control and optimisation in the pulp, tissue and packaging markets and we have now built an extensive pipeline of joint opportunities. For example, a major North American producer of pulp and paper recently implemented a process control solution consisting of BTG's single-point sensors in combination with Capstone's multi-predictive process control software which will reduce chemical cost and improve quality for the mill.

In the energy and utilities market, LFL sales were down notably in 2016 as the weak global oil and gas markets continued to have an adverse impact on the demand for some of our products. The effect on the downstream market has lagged that of the upstream, and therefore a lack of new larger projects in the hydro-carbon processing sector. However, other areas such as industrial gases, emissions monitoring, and our Hummingbird OEM sensor business continue to perform well. Against the weaker backdrop and fewer new order leads, we have continued to strengthen our sales and marketing organisation and focused on deepening our customer relationships through increased levels of service and support, and this has resulted in a number of orders for upgrades, retrofits and expansions. Our focus on innovative customer solutions also continues and in November, we launched our first moisture detector which allows the fast and accurate measurement of moisture in process applications. It is designed to integrate with MonoExact, our next-generation digital oxygen analyser, to measure both moisture and oxygen which is a common requirement in many applications.

We are continuing to see modest growth in the wind energy sector and have focused on wind farm owners and operators, in addition to the traditional turbine OEM segment, in order to offer them a post-warranty solution for their turbine fleet that is OEM-independent. This effort is aiming at ensuring that end users can also benefit from our condition monitoring system and remote diagnostic services, and this initiative has identified significant opportunities. We have also expanded our offering to non-wind power applications in other industrial markets,

| Reported sales | Adjusted operating profit | Reported operating profit |
|----------------|---------------------------|---------------------------|
| £275.6m | £41.2m | £37.6m |
| 2015: £255.0m | 2015: £36.8m | 2015: £34.2m |

for example, our Brüel & Kjær Vibro business secured a condition monitoring contract with a biomass power plant in the UK and a contract to supply a turnkey condition monitoring and machine protection solution for remote monitoring at a polyethylene plant in Northern Asia. The latter comprises our machine protection system, software, portable instruments and sensors along with a complete package of services.

Sales (LFL) to the web and converting industries increased notably during 2016, with a particularly strong performance in the fourth quarter. This was an improving environment after 2015 when customers were delaying projects. We have seen a number of opportunities emerge in the medical market and in food, particularly in relation to snack products. For example, a medical tube manufacturer uses NDC Technologies' measurement and control system to tightly control the critical dimensions and quality of its high-value extruded products and, in India, a snack manufacturer has improved quality and production efficiency with on-line moisture and oil measurement for crisps and snacks lines.

Segment outlook

The changing mix in our pulp and paper business is expected to continue during 2017 as our new instruments and solutions and the more robust tissue and pulp markets offset the ongoing structural challenges in the graphic paper and coated paperboard markets. We also expect to continue to benefit from the combination of Capstone's software tools with BTG's instruments to capture new opportunities.

We expect growth from the energy and utilities sector to be modest in 2017. The renewable energy sector remains healthy and the expansion of our offering to differing customer types and new areas of the market offer potential new sales opportunities. However, in the oil and gas sector, demand remains fragile, despite an improving oil price, with the downstream market continuing to experience the lagged impact of the 2014/15 decline in prices.

We will also continue to increase the focus on operational excellence initiatives across the segment in order to improve future profitability.

Operating Review

Industrial Controls

Segment performance

Reported sales increased 12%, reflecting a LFL sales decline of 2%, a 2pp contribution from acquisitions and a favourable impact of 12pp from foreign currency exchange movements. Adjusted operating (LFL) profit declined by 50% and operating margins were down to 8.7%. This was driven by negative operating leverage from the sharp sales decline in North America, compounded by Omega's performance. The reported loss of £92.2 million was principally caused by the impairment charges booked by Omega (£94.4 million); further details are provided in the Financial Review.

Omega derives the majority of sales from the USA and the weak US industrial environment impacted demand for its products. In addition, the implementation of a new ERP system at Omega highlighted the need for certain processes to be improved, with temporary additional resources required during the consolidation of two distribution centres on the US east coast. This resulted in significant inventory adjustments and higher labour costs. A new organisational structure and management team has been put in place and the focus is on remedial action to re-design the operational processes and improve customer service by improving product availability, shortening lead times and increasing on-time delivery. Our aim is for Omega to exit 2017 with gross margins running at historic levels.

For the segment as a whole, the LFL sales decline primarily reflected continuing broad-based weakness in US industrial production; all three operating companies in this segment have a high exposure to North America, although the impact was greatest in our industrial networking business.

In Asia, there was strong LFL sales growth, in particular driven by continued good progress in the expansion of our process measurement and control business, Omega, outside of the USA. The internationalisation of Omega continues to deliver promising results, with good LFL sales growth in all major markets outside of the USA. In Europe, overall segment sales were broadly flat on a LFL basis, with a challenging year for our industrial networking business being partially offset by LFL sales growth in process measurement and control products.

This segment made good progress in a number of strategic areas.

The increasing trend towards the Industrial Internet of Things ('IIoT'), driven by the need for smarter, more interconnected operations, is benefiting our industrial automation and networking business as organisations seek easy-to-use solutions to connect and expand the capabilities of legacy equipment within existing facilities. Red Lion Controls ('Red Lion') provides IIoT-ready solutions that use protocol conversion, visual management, remote monitoring and industrial Ethernet technologies to help customers achieve this. Our IIoT product development was focused on simplifying the integration of customer-generated data and IIoT cloud platforms. Currently supporting nine industrial IIoT platforms, with world-wide coverage, Red Lion's industrial gateways provide a key solution for customers looking to connect and analyse their processes in the cloud.

| Reported sales | Adjusted operating profit | Reported operating profit |
|----------------|---------------------------|---------------------------|
| £246.8m | £21.6m | £(92.2)m |
| 2015: £219.3m | 2015: £35.3m | 2015: £23.2m |

During the year, we launched the latest version of our popular Crimson software, the common programming platform for a variety of Red Lion products, adding control capability to our products. This provides a key solution for customers as it removes the need to purchase stand-alone control components. We had further success with our networking products in the automotive industry, securing a contract for a major car maker's new plant in Latin America. We were also delighted to win the 2016 Control Design Readers' Choice Awards for panel meters for the 16th consecutive year.

The acquisition of Label Vision Systems ('LVS') in 2015 has delivered very positive results during 2016 with strong sales growth of its products as the market expands due to regulatory trends (e.g. legislation in the USA on product identification marking) and quality requirements. It has been fully integrated into Microscan and this has enabled the expansion of LVS products and solutions into key international markets, and to leverage the synergies between LVS's and Microscan's sales, technology, and operations. Following the launch in 2015 of the MicroHAWK, a modular and scalable industrial barcode imager and smart camera platform, further developments were made this year with autofocus and smart camera versions.

Segment outlook

Given the significant exposure to the USA, performance for this segment in 2017 will be largely driven by the performance in US industrial markets. Some leading indicators such as the PMI manufacturing index have turned more positive; however, it is still too early to assess the extent of any positive industrial market momentum.

At Omega, we expect the organisational changes and restructuring measures we have taken, as well as the continued focus on lean initiatives and improving the customer experience, to deliver an improvement in performance and to exit the year with margins at historic levels.

In the medium term, we see additional opportunities for companies to adopt the capability to connect, monitor and control their manufacturing facilities and for further industrial networking in order to drive productivity and operational efficiencies. Spectris is positioning itself to take full advantage of these opportunities as the IIoT market evolves.



Wireless monitoring increases product safety

Customising solutions for our customers is increasingly more common. A leading multinational consumer packaged goods manufacturer knew that the temperature of the liquid to clean their pipes in a particular production line process had to be maintained within a very specific range to meet required standards and ensure purity of ingredients.

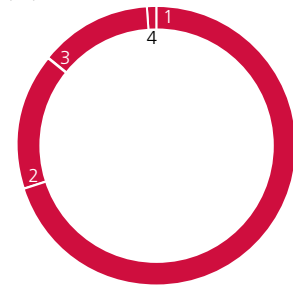
The accuracy required was +/- 1°C in an environment where temperature could range from 20°C to 85°C. Omega worked closely with the customer and provided them with a package of equipment and software to remotely measure and monitor cleaning liquid temperature. They installed a wireless temperature monitoring system which included more than 70 temperature sensor probes with transmitters along the length of the pipes; a receiver to capture the data; and software to monitor and log the data on a real-time basis.

Omega customised the monitoring software to achieve the requisite data precision. Technicians can preset a desired temperature range, be alerted immediately if the temperature fluctuates beyond the acceptable range and easily install the system to other pipes as necessary. The customer now has the confidence that quality control and product safety are being maintained on a real-time basis.

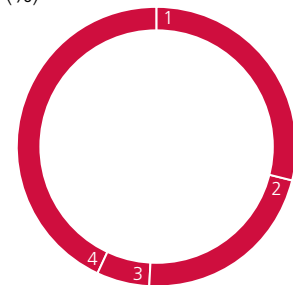
“One of our customers approached us with a challenge to help improve quality in their product. After close collaboration with the customer, and leveraging the latest in wireless sensor technology, the Omega team helped ensure that the products consumers take home are safer than ever.”

Joe Vorih, President, Omega Engineering

Geographical breakdown (%)



Industry breakdown (%)



Financial Review



“Despite the LFL sales decline, we kept good control of our overhead costs. Cash conversion was strong and we maintain a robust balance sheet.”

Clive Watson
Group Finance Director

Introduction

Spectris uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures enable them to assess the underlying

trading performance of the businesses. Adjusted figures exclude certain non-operational items which management has defined in Note 2 to the Financial Statements.

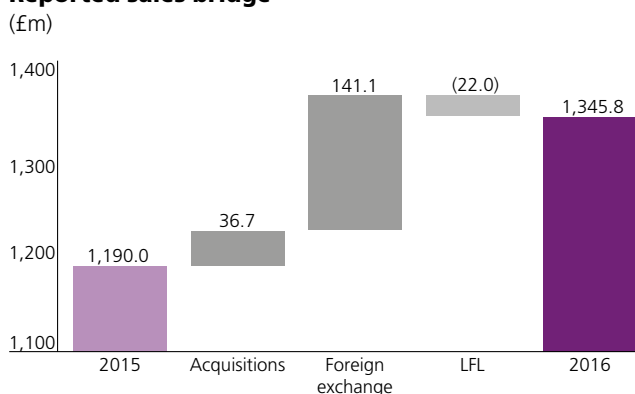
Operating performance

| | 2016 | 2015 | Change | Like-for-like change ¹ |
|-----------------------|----------------|---------|--------|-----------------------------------|
| Adjusted | | | | |
| Sales (£m) | 1,345.8 | 1,190.0 | +13.1% | -1.9% |
| Operating profit (£m) | 200.8 | 181.1 | +10.9% | -6.2% |
| Operating margin (%) | 14.9 | 15.2 | -0.3pp | -0.7pp |
| Reported | | | | |
| Sales (£m) | 1,345.8 | 1,190.0 | +13.1% | |
| Operating profit (£m) | 38.3 | 143.6 | -73.3% | |
| Operating margin (%) | 2.8 | 12.1 | -9.3pp | |

¹ At constant exchange rates and excluding acquisitions.

Reported sales increased by 13.1% to £1,345.8 million (2015: £1,190.0 million). The year-on-year contribution to sales from acquisitions was £36.7 million (+3.1%), and favourable foreign exchange movements were £141.1 million (+11.9%) arising from the weakness of Sterling against all major currencies, with the result that, on a constant currency like-for-like ('LFL') basis, sales decreased by £22.0 million (-1.9%) compared with 2015, as shown in the chart below.

Reported sales bridge



Reported gross margins of 56.5% of sales were 0.9 percentage points ('pp') lower than the prior year (57.4%). Excluding the dilutive effect of foreign exchange movements (+0.3pp) and the accretive effect of acquisitions (-0.3pp), LFL gross margins also decreased by 0.9pp. LFL gross margins improved in the Materials Analysis and Test and Measurement segments, and were flat year-on-year in the In-line Instrumentation segment. In Industrial Controls, there was a significant weakening of the gross margin in the Omega Engineering ('Omega') business, which accounted for approximately 0.7pp of the decline in the Group's LFL gross margin. Trading performance for Omega in 2016 was impacted by weak demand and negative operating leverage from the LFL sales decline in its primary North American market (72% of sales), that was partly due to continuing weakness in US industrial production, but also internal factors. These factors stem from the ERP implementation, due to the lack of adequate processes, compounded by the closure of the Connecticut warehousing operation, resulting in inventory adjustments and higher labour costs, all impacting gross margin and profitability. A new management team was appointed in 2016 tasked with remedying the operational issues and improving profitability which will require additional investment.

To mitigate the effects of the low growth environment and challenging trading conditions seen, particularly in North America, initiatives were put in place at the start of the year to better align LFL cost growth with LFL sales growth, with a focus on operational excellence and cost control. It is worth highlighting that even though there was no sales growth, LFL net overhead costs fell by 2.4% compared to the LFL sales decline of 1.9% and LFL total costs including the Omega one-offs fell by 1.1%.

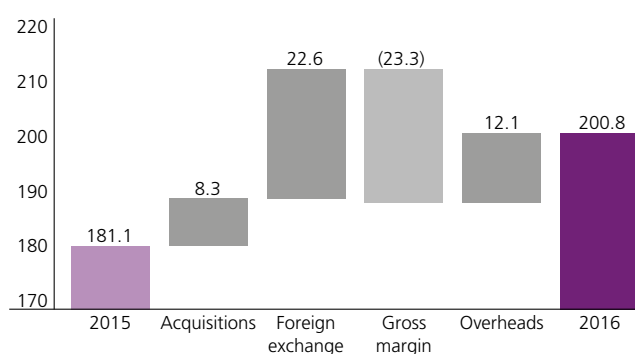
We have continued to invest in our R&D programmes, with an R&D expense for 2016 of £98.6 million or 7.3% of sales (2015: £88.8m, 7.5%), which is flat LFL year-on-year.

During 2016, operating profit was impacted by a number of one-off items totalling a net £7 million expense. This primarily related to £9 million of inventory adjustments within Omega, Project Uplift costs of £3 million, offset by a profit of £2 million arising from the sale of a property in the UK within the Industrial Controls segment and the release of specific legal risk provisions.

The net benefit arising in 2016 from the targeted restructuring programmes undertaken in 2015 amounted to £11.7 million (2015: net cost £3.0 million), partially offset by further restructuring activity undertaken by three operating companies in 2016 at a net cost of £1.1 million, resulting in a net year-on-year positive impact of £13.6 million. The annualised benefit in 2017 arising from the 2016 restructuring programme is anticipated to be approximately £3 million.

As shown in the chart below, adjusted operating profit increased by 10.9% from £181.1 million to £200.8 million in 2016. Acquisitions contributed £8.3 million (+4.6%) to operating profit and foreign currency exchange movements contributed £22.6 million (+12.5%), with the result that LFL adjusted operating profit declined by £11.2 million (-6.2%) for the year. The reported operating margin decreased by 0.3pp to 14.9% in 2016, and by 0.7pp on a LFL basis.

Adjusted operating profit bridge (£m)



Included within statutory operating profit is an impairment charge of £115.3 million (2015: £1.6 million) relating to goodwill and other acquisition-related intangible assets, of which £94.4 million relates to Omega and £20.9 million to ESG Solutions ('ESG'). The impairment charge for Omega is a consequence of the 2016 performance and lower projected cash flows. This

has resulted in a reassessment of Omega's expected future business performance in light of the trading environment and the actions and time required to improve profitability and operational efficiency. For ESG, the impairment charge is due to the continuing difficult external market conditions caused by low global oil and gas prices, which has adversely impacted demand from ESG's customers for its products and services.

Adjusted net finance costs for the year increased by £0.2 million to £5.0 million (2015: £4.8 million) as a result of higher net debt levels, primarily due to the £166.3 million spent on acquisitions during the year. Operating cash generation during the year continued to be strong with an adjusted operating cash flow conversion rate of 113% compared with 91% in 2015, primarily due to lower LFL inventory levels.

Adjusted profit before tax increased by 11.1% from £176.3 million to £195.8 million.

Reported operating profit, after including impairment of goodwill and other acquisition-related intangibles of £115.3 million (2015: £1.6 million), acquisition-related intangible asset amortisation of £36.9 million (2015: £33.0 million), net acquisition-related costs and fair value adjustments of £10.1 million (2015: £2.9 million) and depreciation of acquisition-related fair value adjustments to tangible assets of £0.2 million (2015: £nil) decreased by 73.3% from £143.6 million to £38.3 million. Reported profit before tax decreased by 77.5% from £141.6 million in 2015 to £31.9 million in 2016.

Acquisitions

The Group completed six acquisitions during the year. The total cost of acquisitions in the year was £174.2 million (2015: £45.0 million), including £6.9 million (2015: £2.7 million) for cash acquired. Included in the total cost of acquisitions is an amount of £7.6 million (2015: £2.7 million) attributable to the fair value of net deferred and contingent consideration which is expected to be paid in future years. A net £1.2 million (2015: £0.5 million) was paid in respect of prior year acquisitions, making the net cash outflow in the year £160.9 million (2015: £40.1 million). Furthermore, an amount of £5.4 million (2015: £3.9 million) was spent on acquisition-related legal and professional fees, which makes the total acquisition-related cash outflow for the year £166.3 million (2015: £44.0 million). Acquisitions contributed £36.7 million (2015: £36.1 million) of incremental sales and £8.3 million (2015: £5.2 million) of incremental operating profit during the year.

Taxation

The effective tax rate on adjusted profit before tax was 22.4% (2015: 22.8%), a decrease of 0.4pp primarily due to a reduction in the weighted average statutory tax rate arising from a change in the geographic mix of pre-tax profits. On a statutory basis, the effective tax rate of 67.7% (2015: 19.6%) was above the weighted average statutory tax rate of -13.8% (2015: 25.4%), primarily as a result of the non-deductibility of the impairment of goodwill and other acquisition-related intangibles.

Financial Review continued

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

| | 2016 | | | 2015 | | |
|--|--------------------------|-------------------|----------------------------|--------------------------|-------------------|----------------------------|
| | IFRS (Reported) £m | Adjustments £m | Spectris adjusted £m | IFRS (Reported) £m | Adjustments £m | Spectris adjusted £m |
| Sales | 1,345.8 | – | 1,345.8 | 1,190.0 | – | 1,190.0 |
| Gross margin | 760.5 | – | 760.5 | 683.1 | – | 683.1 |
| Operating profit before acquisition-related items | 200.8 | – | 200.8 | 181.1 | – | 181.1 |
| Impairment of goodwill and other acquisition-related intangible assets | (115.3) | 115.3 | – | (1.6) | 1.6 | – |
| Amortisation and impairment of acquisition-related intangibles | (36.9) | 36.9 | – | (33.0) | 33.0 | – |
| Net acquisition-related costs and fair value adjustments | (10.1) | 10.1 | – | (2.9) | 2.9 | – |
| Depreciation of acquisition-related fair value adjustments to tangible assets | (0.2) | 0.2 | – | – | – | – |
| Operating profit | 38.3 | 162.5 | 200.8 | 143.6 | 37.5 | 181.1 |
| Net (loss)/gain on retranslation of short-term inter-company loan balances | (0.8) | 0.8 | – | 3.0 | (3.0) | – |
| Net bank interest payable | (4.6) | – | (4.6) | (4.6) | – | (4.6) |
| Unwinding of discount factor on deferred and contingent consideration | (0.6) | 0.6 | – | (0.2) | 0.2 | – |
| Net IAS 19 (Revised) finance cost | (0.3) | – | (0.3) | (0.1) | – | (0.1) |
| Other finance costs | (0.1) | – | (0.1) | (0.1) | – | (0.1) |
| Profit before tax | 31.9 | 163.9 | 195.8 | 141.6 | 34.7 | 176.3 |

Earnings per share

Adjusted earnings per share increased by 11.5% from 114.3p to 127.5p, reflecting the net impact of the 11.1% increase in adjusted profit before tax, the reduction in the effective tax rate and the increase in the weighted average number of shares from 119.0 million in 2015 to 119.1 million in 2016.

Reported basic earnings per share decreased by 91.0% from 95.6p to 8.6p, with the difference between the two measures shown in the table below. Excluding the £115.3 million impairment charge, reported basic earnings per share would have increased by 10.3% to 105.4p in 2016.

| | 2016 Pence | 2015 Pence |
|---|---------------|---------------|
| Reported basic earnings per share | 8.6 | 95.6 |
| Impairment of goodwill and other acquisition-related intangible assets | 96.8 | 1.3 |
| Amortisation and impairment of acquisition-related intangible assets | 31.0 | 27.8 |
| Net acquisition-related costs and fair value adjustments | 8.5 | 2.4 |
| Depreciation of acquisition-related fair value adjustments to tangible assets | 0.2 | – |
| Net loss/(gain) on retranslation of short-term inter-company loan balances | 0.7 | (2.5) |
| Unwinding of discount factor on deferred and contingent consideration | 0.5 | 0.2 |
| Tax effect of the above and other non-recurring items | (18.8) | (10.5) |
| Adjusted earnings per share | 127.5 | 114.3 |

Cash flow

| | 2016 £m | 2015 £m |
|---|------------|------------|
| Operating cash flow | | |
| Adjusted operating profit | 200.8 | 181.1 |
| Adjusted depreciation and software amortisation | 28.3 | 24.4 |
| Working capital and other movements | 27.4 | (13.8) |
| Capital expenditure | (28.7) | (26.0) |
| Adjusted operating cash flow | 227.8 | 165.7 |
| Adjusted operating cash flow conversion | 113% | 91% |

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Non-operating cash flow | | |
| Tax paid | (29.8) | (33.5) |
| Net interest paid | (4.1) | (4.5) |
| Dividends paid | (59.8) | (56.9) |
| Acquisition of businesses, net of cash | (160.9) | (40.1) |
| Acquisition-related costs paid | (5.4) | (3.9) |
| Foreign exchange | (20.3) | (0.1) |
| Exercise of share options | 0.2 | 0.3 |
| Total non-operating cash flow | (280.1) | (138.7) |
| Adjusted operating cash flow | 227.8 | 165.7 |
| (Increase)/decrease in net debt | (52.3) | 27.0 |

The year-end trade working capital to sales ratio decreased from 16.6% in 2015 to 15.9% in 2016, a 0.7pp decrease. Average trade working capital, expressed as a percentage of sales, decreased to 14.2% (2015: 15.4%), a 1.2pp decrease. Excluding acquisitions and foreign exchange, the LFL reduction in average trade working capital was 0.9pp, with the improvement primarily arising within the Materials Analysis segment due to reduced trade receivables from strong cash collections and improved inventory management.

Capital expenditure during the year equated to 2.1% of sales (2015: 2.2%) and, at £28.7 million (2015: £26.0 million), was 101% of depreciation and software amortisation (2015: 107%), primarily due to ongoing investments in property and infrastructure in Europe and North America, and automotive testing cells within the recently-acquired Millbrook business.

Overall, net debt increased by £52.3 million (2015: decrease of £27.0 million) from £98.6 million to £150.9 million. Adjusted interest costs, excluding the financing charge arising from IAS 19 (Revised) and other finance costs, were covered by adjusted operating profit 43.7 times (2015: 39.4 times).

Dividends

The Board is proposing to pay a final dividend of 34.0 pence per share which, combined with the interim dividend of 18.0 pence per share, gives a total dividend of 52.0 pence per share for the year, an increase of 5%. The dividend is covered 2.5 times by adjusted earnings and is consistent with our policy of making progressive dividend payments, based upon affordability and sustainability. In determining the level of dividend in any year, the Board considers a number of factors that influence the proposed dividend, including the level of distributable reserves in the Parent Company, future cash commitments and investment needs to sustain the long-term growth prospects of the Group and the level of dividend cover.

Financing and treasury

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

As at 31 December 2016, the Group had £628.1 million of committed facilities denominated in different currencies, consisting of a five-year \$550 million (£447.0 million) revolving credit facility maturing in October 2019, a seven-year €94.8 million (£81.4 million) term loan maturing in October 2020, and a seven-year €116.2 million (£99.7 million) term loan

maturing in September 2022. £406.0 million of the revolving credit facility was undrawn at the year end. In addition, the Group had a year-end cash balance of £83.5 million, bank overdrafts of £12.3 million and various uncommitted facilities available.

At the year end, the Group's borrowings amounted to £234.4 million, 77% of which was at fixed interest rates (2015: 99%). The ageing profile at the year end showed that 5% (2015: 1%) of year-end borrowings is due to mature within one year, 52% between two and five years (2015: 44%) and 43% in more than five years (2015: 55%).

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 receivables, trade payables 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 of the remaining forecast net transaction flows where there is reasonable certainty of an exposure. At 31 December 2016, approximately 73% of the estimated net Euro, US Dollar and Japanese Yen exposures for 2017 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 2016 and 2015. During the year, the translational foreign exchange gain on operating profit of £22.6 million, arising from the weakness of Sterling, was offset by a transactional foreign exchange loss of £7.8 million (2015: £0.3 million loss).

| | 2016 (average) | 2015 (average) | Change |
|-----|-------------------|-------------------|--------|
| USD | 1.35 | 1.53 | -11% |
| EUR | 1.22 | 1.38 | -11% |
| JPY | 147 | 185 | -20% |
| CHF | 1.33 | 1.47 | -9% |

Risk Management

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.

Committed to managing risk effectively

The Group has a well-established process which delivers visibility and accountability for risk management across our businesses. This process forms part of the Group's overall internal control framework, as described on page 70.

During the year, we have made further enhancements to this process, including establishing a risk appetite evaluation for each of the Group's principal 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 pages 6 and 7.

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 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 ensures that risk management is embedded in day-to-day management processes and decision-making as well as in the annual strategic planning cycle.

Directors

In addition, the Executive Committee 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 and mitigating these. These key Group risks are analysed against a 'lines of defence' framework which involves 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;

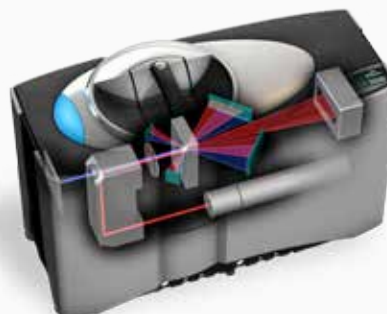
- a second line of defence consisting of various Group functions which, together with the Executive Directors, shapes the policy framework within which the first line of defence operates and provides oversight and monitoring of the same; and
- a third line of defence identifying sources of assurance 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 2015, we provide an update on how these risks, and our ability to respond to and manage them, have changed during the year. During the year, a formal evaluation of the Group's risk appetite has been completed in respect of each of the Group's principal risks and the results are also included in the descriptions that follow.

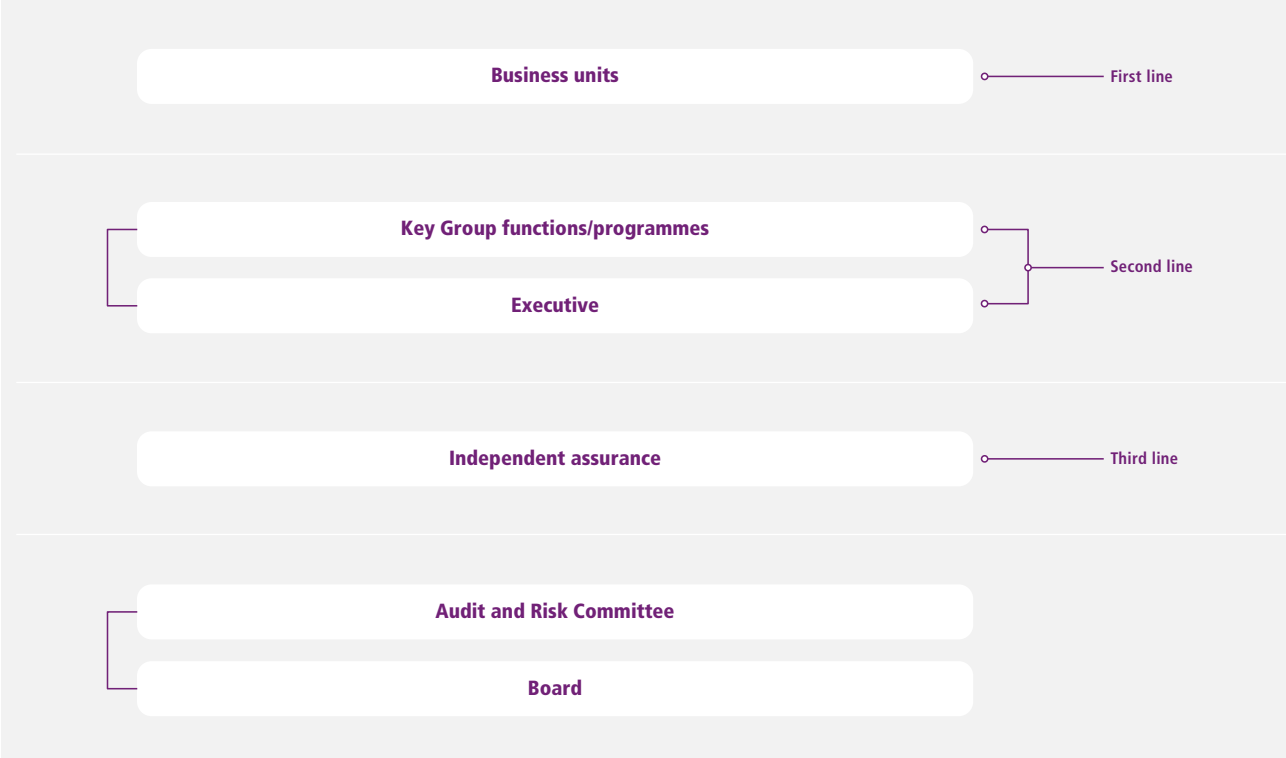
In focus

Intellectual property (competitor monitoring and freedom to operate processes)



Malvern uses its intellectual property ('IP') risk management process to acquire market intelligence and identify valuable technology development trends. This is vital in a crowded sector with a rapidly-evolving patent landscape. Malvern's patent monitoring enables it to challenge and contain competitor rights to safeguard its own market space. The monitoring also provides insights into competitor R&D strategy. Malvern has embedded focused searches for relevant third-party intellectual property rights within its new product development process. This allows it to adapt designs early in their development to avoid infringement and minimise cost impact for products such as the Mastersizer 3000, shown here.

HOW THE GROUP MANAGES RISK



First line of defence

- Business units

- Day-to-day ownership of risk management.

Second line of defence

- Key Group functions/programmes
- Executive Directors

- Shaping policy and control framework.
- Monitoring and oversight of risk management by business units.
- Evaluation of risks impacting the Group as a whole.

Third line of defence

- Independent assurance

- Assurance over the effectiveness of the internal control and risk management framework.

Overall responsibility

- Audit and Risk Committee
- Board

- Determining the Group's risk appetite.
- Oversight of the Group's internal control and risk management framework.

Principal Risks and Uncertainties

Risk description

Potential impact and mitigation

New product development

The development of new technologies and products necessarily involves risk, including:

- the product being more expensive or taking longer to develop than originally planned;
- the product failing to reach the commercialisation phase; and
- the market for the product being smaller than originally envisaged.

Impact:

- Reduced profitability and cash flow.
- Loss of market share.
- Failure to recoup investment in innovation.

Mitigation:

- Regular strategic evaluations of product portfolios and the markets in which we compete, ensuring that our investment in new products is targeted so as to maximise the opportunity of success.
- Project management disciplines are in place across our product development programmes and audits provide assurance that these disciplines are applied consistently.
- Work closely with customers to ensure that we develop solutions tailored to their specific needs.
- Maintain customer involvement throughout the life-cycle of product development to product launch through, for example, beta evaluations.
- New product developments are based on standard platforms, customised through high added-value applications engineering.

Intellectual property

Our business is focused 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.

The risk therefore exists that our intellectual property may be infringed by third parties or that we may inadvertently infringe third-party rights.

Impact:

- Reduced profitability and cash flow.
- Loss of market share.
- Failure to recoup investment in innovation.

Mitigation:

- Policies and procedures in place requiring all of our businesses to:
 - maintain a watching brief on new third-party patent applications and competitor activity;
 - ensure adequate protection for key intellectual property, including registration where appropriate;
 - undertake specific freedom-to-operate technical reviews prior to commencing new product development, acquisitions or licences; and
 - register intellectual property where appropriate.
- Maintain a portfolio of intellectual property assets such that no single patent, trade secret or trademark is sufficiently important to present a material risk to the ongoing success of the Company.

Key to risk appetite

1

Very low

Preference for ultra-safe strategic options that have a minimal degree of net risk but with limited potential for reward.

2

Low

Prepared to consider a range of options known to result in a low level of net risk.

3

Moderate

Open to all potential options whilst inclined to choose the one most likely to result in successful delivery and an acceptable level of reward/value for money.

4







High

Eager to be innovative and choose options offering potentially higher business rewards but presenting greater net risk.

5

Very high

Actively seeks new and innovative opportunities in pursuit of a high risk/return potential, even where no track record is obvious.

| Link to strategic priority | Risk appetite | Assessment 2016 update | Change in risk level |
|---|---|--|---|
|  |  | <p>Moderate</p> <ul style="list-style-type: none"> • Strategy reviews are conducted at least annually with each operating business. • These reviews often result in targeted investment in new product platforms, upgrades to existing products and services and bolt-on acquisitions. • In 2016, several important new products were launched and new technologies and products acquired across all four segments, along with many more acquisition ideas. |  |
|  |  | <p>Very low</p> <ul style="list-style-type: none"> • During the year, we continued a programme of intellectual property audits and took steps to further streamline management of registered intellectual property through engaging a centralised trademark renewals service to provide greater transparency of IP management and value. |  |

Key to strategic priorities



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

Principal Risks and Uncertainties continued

Risk description

Potential impact and mitigation

Laws and regulations

We operate in a large number of jurisdictions and, consequently, are subject to numerous domestic and international regulations and restrictions.

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.

Impact:

- Reduced sales, profitability and cash flow.
- Reputational damage.
- Diversion of management resources to address any resulting investigation.
- Inability to attract and retain talent.

Mitigation:

- Strong culture, internal control framework and policies.
- Ethics training provided to all employees.
- Formal export controls compliance procedures in place, including strict product classification and transaction screening protocols.

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.

Impact:

- Reduced profitability and cash flow.

Mitigation:

- Maintain a broad spread of markets, products and customers to limit risks associated with any given territory.
- Monitor market intelligence so that we can respond quickly to changing trading conditions.
- 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.
- Ensure we maintain a strong balance sheet and financial position.

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.

Impact:

- Failure to achieve the benefits outlined in the business case.
- Reduced profitability and cash flow.
- Unforeseen liabilities.

Mitigation:

- Rigorous financial, commercial and legal assessment of target businesses involving external consultants as appropriate.
- Strict authority levels which, subject to size, involve review by the Board for such transactions.
- Comprehensive representations and warranties in purchase agreements.
- Extensive integration planning.
- Regular review of the acquired businesses against the business case.
- Post-acquisition control reviews.

| Link to strategic priority | Risk appetite | Assessment 2016 update | Change in risk level |
|---|---------------|------------------------|---|
|  | 1 | Low |  |
|  | 3 | Moderate |  |
|  | 4 | Low |  |

- The Group continued to take a number of actions aimed at further mitigating this risk. These included anti-bribery and corruption compliance audits across 13 of our 14 operating companies, ongoing third-party due diligence reviews including training webinars for relationship owners and reviewers, roll-out of a Code of Business Ethics e-learning module to all employees, and ethics and compliance integration at Millbrook.
- 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 50 to 52.

- The Group's balanced geographical mix, with similar exposure to North America, Europe and Asia/Rest of the world, enabled it to partly mitigate the effects of a weak North American manufacturing economy via robust growth in Asia; however, these mixed trading conditions resulted in weaker than expected sales growth.
- Similarly, our broad end-market exposure has meant that weak growth in certain end markets was mitigated by good demand in others.
- The Group continues to monitor and control its exposure to those countries where continuing economic uncertainties exist and, in particular, we are evaluating carefully the implications for the Group arising from the result of the last year's UK referendum in which the public voted to leave the European Union ('Brexit').
- As far as potential trading exposures are concerned, exports from the UK into the European Union represent less than 3% of Group sales, whilst imports into the UK from the European Union represent less than 1% of Group sales. Our cost base in the UK is largely Sterling denominated.
- As a consequence, we believe that Brexit presents only limited short-term direct impact for the Group. The main near-term risk for the Group arising from Brexit stems from broader uncertainty which could inhibit investment and increase market volatility, ultimately hindering growth in the UK and beyond. A Brexit Risk Committee has been established and the Group will continue to monitor carefully any additional exposure arising as the full implications of Brexit become clearer.

- There continued to be a healthy level of acquisition activity in our marketplace. We participated in this activity, making one platform and five further 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.

Principal Risks and Uncertainties continued

Risk description

Potential impact and mitigation

Competitive activity

The nature of the markets in which we operate means that all of our businesses are exposed to risk from competitor activity.

Impact:

- Loss of market share.
- Reduced profitability and cash flow.

Mitigation:

- Ongoing monitoring of competitor activity and trends in the markets in which we compete.
- Maintain market-leading positions through strong customer relationships and significant investment in R&D.
- Diversified portfolio of products and markets limits the overall risk from any single competitor.
- Develop operational excellence initiatives that enable our businesses to react quickly to changes in customer and market demand.

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.

Impact:

- Unexpected variations in the Company's results.
- Reduced profitability and cash flow.

Mitigation:

- Forward contracts cover up to 75% of forecast exposures up to 18 months ahead.
- Natural hedging strategy, matching invoicing and purchasing currencies where practical.
- Foreign currency investments hedged with borrowings in the same currency wherever possible.
- Regular monitoring, including sensitivity analyses to understand the impact of exchange rate movements on the Group's reporting.

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.

Our businesses also manufacture components using proprietary technologies at a number of locations.







Our ability to supply products to customers could be adversely impacted by a disaster or other disruptive event at any of these sites.

Impact:

- Inability to fulfil customer orders, resulting in lost sales and reputational damage.
- Increased costs reduce profitability.
- Loss of market share.

Mitigation:

- Strategic sourcing teams source cost-effective suppliers across a range of markets whilst validating suppliers' business processes, quality and standards.
- Alternative sources of supply actively sought to reduce dependency upon single-source suppliers.
- Safety stock levels established for critical components.
- Business continuity plans and disaster prevention measures in place for all material manufacturing locations.
- Business interruption insurance.
- Strong contract review process.

| Link to strategic priority | Risk appetite | Assessment 2016 update | Change in risk level |
|---|---------------|---|---|
|  | 3 | Very low <ul style="list-style-type: none"> We maintained high levels of investment in R&D, investing 7.3% 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. |  |
|  | 3 | Moderate <ul style="list-style-type: none"> The significant weakening of Sterling relative to most other currencies, largely as a result of the UK's referendum decision to exit the EU, had a positive impact on our reported results from a translational perspective. This contrasts with the negative translational impact in 2015. Our hedging policy continued to provide certainty and reduce volatility to the Group's cash flows. |  |
|  | 2 | Low <ul style="list-style-type: none"> 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. Intellectual property audits initiated at key suppliers. Focus on critical suppliers based on specialist independent spend analysis. Ongoing supply chain risk management software evaluation. Underpinning of indirect spend afforded via Project Uplift. |  |

Principal Risks and Uncertainties continued

Risk description

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.

Potential impact and mitigation

Impact:

- Loss of sensitive information/data which could put the businesses at a serious competitive disadvantage relative to their competitors.
- Being subject to a malicious attack causing system failure, data corruption or loss, or theft of commercial or sensitive information/data.

Mitigation:

- Our businesses employ a number of physical, logical and control measures designed to reduce the risk of a breach in information security arising.
- Our systems are monitored against unauthorised access.
- A programme of continuous improvement focusing on information security risks evaluates whether the Group's existing controls in this area would benefit from additional strengthening.
- Employees receive online and face-to-face awareness training of information security risks and controls.

Strategy execution

The Group's strategic priorities are set out on page 6.

The Group considers that, as with any undertaking of this kind, there is necessarily inherent risk associated with the successful execution and delivery of the Group's strategic priorities.

The risks associated with some of the Group's strategic priorities are addressed in their own right – for example, how we develop new products and how we acquire other businesses.

Other relevant components of the Group's strategy concern:





- 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; and
- during the year, the Group launched a comprehensive Group-wide productivity improvement programme, Project Uplift. Over the medium term, this programme will deliver improvements in productivity, both within and across our operating companies, reducing complexity where appropriate whilst preserving the entrepreneurial culture of our businesses. We will also evaluate potential structural improvements that can leverage Spectris' scale and optimise both efficiency and effectiveness.

Impact:

- Failure to realise the Group's plans for enhanced efficiency and profitability.
- Failure to realise the Group's growth plans.
- Reduced profitability and cash flow.

Mitigation:

- Programme management disciplines, including a dedicated programme management office.
- Independent assurance.
- Talent management programme.
- Dashboard reporting against key growth initiatives.
- A measured approach over time is being targeted, rather than a radical change.
- Enhanced risk management and reporting.

| Link to strategic priority | Risk appetite | Assessment 2016 update | Change in risk level |
|---|---------------|---|---|
|  | 1 | Low <ul data-bbox="620 495 1321 898" style="list-style-type: none"> • Further progress was made with our information security programme. • An all-employee information security knowledge repository web portal was launched during the year which identifies and highlights the key risks and controls to guard against the 'insider threat' and to increase overall employee awareness of information security. • A global data privacy review ahead of the forthcoming EU General Data Protection Regulation was undertaken during the year using external advisers with new policy/governance integrating information security and data protection being rolled out. • A supply chain information security audit of one of the Group's largest contract manufacturers was undertaken using an external adviser accompanied by internal audit, with the resultant recommendations being addressed. |  |
|  | 4 | Low <p data-bbox="620 1088 1302 1256">During 2016, we continued to make good strategic progress, transitioning our customer offering towards the provision of solutions encompassing hardware, software and services. Six acquisitions were completed, adding further software, service and testing capability. The acquisition of Millbrook is an important addition to our portfolio of a high-quality automotive test service platform.</p> <p data-bbox="620 1290 1273 1429">Similarly, good progress has been made in respect of Project Uplift where a dedicated programme management office has been established, a detailed diagnostic and planning phase completed and a series of actionable plans created, with implementation of these beginning in 2017.</p> |  |

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 32 to 39.

The Directors have determined that a three-year period to 31 December 2019 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. Each of the Group's businesses has established growth targets through to 2020. A dashboard reporting process provides visibility of progress against relevant strategic initiatives which underpin the targeted 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 30 to 39.

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. 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 focused on for enhanced analysis including stress testing: political and economic; 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 2019.

Sustainability Report

Sustainability lies at the heart of our business decision-making.

2016 highlights

Increased number of operations achieve certification to ISO 14001 and OHSAS 18001.

HBM acquires ISO 5001 energy management certification.

Acquisition of Millbrook adds new products and services for vehicle emissions testing.

Continued working with leading suppliers in high risk areas, with particular emphasis on anti-slavery and human trafficking.

Group Human Resources Director appointed with specific responsibility for diversity and talent development.

Foundations for sustainable growth

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 and enables 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).

The Company Secretary has overall responsibility for sustainability matters. The operating company Presidents are responsible for taking actions within their operations in support of the Company’s sustainability aims. Developments, including risks and opportunities, are reviewed annually by the Board within the context of the overall Group strategy.

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



Develop new products which can be manufactured and operated in the most environmentally-efficient way possible.

Reduce energy usage and minimise waste.

Report externally on our environmental initiatives and progress.

Social aims



Ensure that our workplaces are safe.

Create a culture that attracts and retains talent and values diversity.

Adopt values consistent with an ethical approach to responsible business.

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.

Sustainability Report continued

Opportunities and risks

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

| Opportunities |
|---|
| Impact of climate change on the environment leads customers to seek more efficient use of resources. |
| Increasing spend on energy and energy taxes drive customers to seek cost reduction initiatives. |
| 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. |
| High cost and increasing scarcity of some raw materials drive customers to improve efficiency and reduce wastage. |
| 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. |
| Risks |
| Extreme changes to weather patterns, for example water shortages or flooding of premises, could interrupt production processes for Spectris companies or their suppliers. |
| 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. |
| A very small proportion of our products and processes have potential environmental or safety risks if not handled correctly. |
| The introduction of new or stricter carbon taxes in any location may increase operating costs. |
| Loss of key employees or insufficient spend on new product development projects may delay product launches. |
| Having operations in many developing areas of the world presents ethical risks resulting from different perceptions of the way business may be conducted. |

These opportunities are described in more detail on the following pages. Our process for managing potential risks and uncertainties, together with mitigating actions, is outlined on pages 30 to 39.



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.

Our economic success is underpinned by good corporate governance, strong ethical behaviour and sound risk management. You can read more about our approach to governance on pages 53 to 94, our values on page 45 and our risk management process on pages 30 and 31.

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 and carbide-coated 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. The case study opposite shows how we have designed a new instrument which uses a solar panel for continuous operation when out in the field.

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. Around the world, our carbon management service is helping airports to accurately measure and understand the carbon emissions from their operations. Our technology is also being used in the automotive industry to design and test electric and hybrid vehicles and to develop more fuel-efficient engines which will emit fewer particulates, and we offer independent testing facilities for measuring vehicle emissions and fuel consumption.

In focus

Remote noise monitoring



Real-time noise monitoring is often required when planning new developments or demonstrating compliance with noise regulations in urban and industrial areas. These assessments require sound levels to be measured continuously over long periods of time in order to determine environmental impact. In 2016, Brüel & Kjær Sound & Vibration launched a new noise monitoring terminal, the Noise Logger, which records continuous noise measurements. A solar panel, battery and large memory card enable the equipment to be operated remotely, thus reducing costly site visits to change batteries.

Supporting renewables

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

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.

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.

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.

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.



Environmental aims

As well as helping our customers to reduce their impact on the environment, this 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. The following table summarises our performance.

Performance summary

| | 2016 | 2015 | Change |
|---|----------------|---------|--------|
| Energy consumption (absolute) (MWh) | 90,132 | 89,030 | +1% |
| Energy efficiency (MWh per £m revenue) | 68.3 | 75.6 | -10% |
| Water consumption (m ³) | 165,054 | 162,325 | +2% |
| Greenhouse gas emissions (tonnes CO ₂ e) | 75,144 | 73,324 | +2% |
| Total carbon emissions per £m revenue | 56.97 | 62.25 | -8% |

Excluding acquisitions and disposals made in the year.

Although our use of water is not material, we are conscious of growing concern about the availability of fresh water and the increase in some areas of shortages and droughts due to changing weather patterns and the impact this may have on business. For this reason, we monitor water consumption carefully throughout the Group and endeavour to reduce our usage wherever possible. We are also helping our customers to improve water purification systems to make fresh water available more easily and cost-effectively. The case study on page 44 shows one project we are involved in with a water treatment company.

Greenhouse gas emissions (tonnes CO₂e)

| | 2016 | 2015 |
|---------------------------------------|---------------|--------|
| Scope 1 | 10,714 | 11,021 |
| Scope 2 | 35,291 | 35,470 |
| Scope 3 | 29,139 | 26,833 |
| Total gross emissions | 75,144 | 73,324 |
| Total carbon emissions per £m revenue | 56.97 | 62.25 |

Notes

- 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.
- 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 2016 DEFRA/DECC Guidelines for Company Reporting and OECD/IEA Emissions from Fuel Combustion.
- Our reporting processes, and the above data derived from them, are verified by Lloyd's Register Quality Assurance.
- Excluding acquisitions and disposals made in the year.

Sustainability Report continued

Overall CO₂ emissions in absolute terms are slightly higher, due to increased business activity during the year and the impact from acquisitions made in 2015, but internal efficiencies and higher sales have resulted in total carbon emissions per £m revenue decreasing by 8%.

In January 2016, the GHG Protocol released the Scope 2 Guidance: an amendment to the Corporate Standard. Currently, all Scope 2 emissions by Spectris Group are calculated using the 'location-based' method. The Guidance suggests that companies may use source or supplier-specific emission factors, known as the 'market-based' method. This method requires companies to use specific emission factors or fuel mix information (i.e. the sources used to generate the electricity) from their electricity suppliers. Spectris has engaged with UK electricity suppliers to begin gathering this data as part of our continuous improvement to greenhouse gas reporting and we are looking at the feasibility of obtaining this information for our worldwide operations.

In the meantime, we have calculated Spectris UK-based companies' emissions using both methods for 2016. Using the market-based calculation, UK emissions from electricity use would be 39% lower. These emissions savings have not been included in the total figures disclosed and are based on a developing calculation methodology.

During 2016, we conducted further audits in line with Article 8 of the European Energy Efficiency Directive ('EED'), which is known as the Energy Savings Opportunity Scheme in the UK, as the legislation was implemented in further European countries. The audits have identified opportunities for energy reduction and our operating companies are now progressing these initiatives.

Although we have not set specific Group-wide targets, our objective 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. Our newly-acquired business, Millbrook, has a contract with its energy provider to source 45% of its electricity from renewables (compared with the average for the UK of 19%).

We have been a constituent of the FTSE4Good Index Series, which analyses the performance of companies for environmental, social and governance practices, since it was founded in 2001. In the December 2016 review, our FTSE Russell ESG rating absolute score improved from 2.7 to 3.1 out of 5, and our supersector relative percentile score increased to 73 out of 100 (2015: 53).

In 2016, we ceased to participate in the Carbon Disclosure Project ('CDP') as we are confident that the systems that we now have in place for measuring and monitoring energy usage underline our commitment to environmental accountability and enable us to provide independently-verified public disclosure of our emissions on an annual basis. Our score of 98 out of 100 in the 2015 CDP survey (for the 2014 financial year) placed us in the top 15% of companies in our sector.

In focus

Improving water quality



In May 2016, a large wildfire near Fort McMurray, a small town in Canada, led to around 88,000 residents being evacuated and left behind it soil thick with ash, which polluted the water supply.

While firefighters worked tirelessly protecting the outside of the local water treatment plant, employees worked around the clock inside keeping it in service. One piece of equipment that was crucial to the clean-up operation was Malvern Instruments' Zetasizer WT on-line zeta potential analyser.

This is a continuous and fully-automated clarification monitoring system which reduces vulnerability to sharp changes in incoming water quality from the fire ash. The system was already in use at a treatment plant in Calgary, where it had been installed following the floods of 2013.

The high fire ash content polluting the water surrounding Fort McMurray had caused high alkalinity and unstable chemical conditions which the Zetasizer WT monitored, with the plant operator then taking the most appropriate action to adjust the chemical dosage. As a result, water quality was restored in a relatively short time, so that when residents returned to their houses, clean drinking water was available.

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 pages 50 to 52.

Our values

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.

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 8,900 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 strategy and our business model on pages 6 and 10.

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 on the following page 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. In January 2017, we appointed our first ever Group Human Resources Director with specific responsibility for talent management and diversity. This is a key part of our Group talent development initiative to identify and promote talent across the Group and is described in more detail on pages 62 and 63.

In focus

Encouraging young engineers



In November, David Tipton, Managing Director of Omega's UK office, was elected as a Vice President of the Institute of Measurement and Control for a three-year term, effective from 1 January 2017. The Institute promotes professional excellence and the advancement of the science, technology and practice of measurement and control technology and its applications.

David says: "I am passionate about our profession and am concerned that we are not attracting enough engineers at all levels to become involved in our profession and our Institute. Over the years, I have personally observed the benefits of academia and industry working closely together and I will be actively engaged in developing the Institute of Measurement and Control as the institute of choice for engineering professionals operating in our technology arena."

One of the key challenges facing science and engineering is to attract students into the profession, particularly women, and to help them understand more about the industry. David gives presentations to local schools as well as organising 'industry days' with universities where students visit Omega's facility in Manchester to learn more about the working environment.

Sustainability Report continued

In the UK, our two largest companies, Malvern and Millbrook, are putting in place processes to collect and publish data under the new Gender Pay Gap Reporting regulation, ahead of the deadline to publish the data on their websites by April 2018. This legislation applies to employers with 250 or more employees who ordinarily work in Great Britain and whose contracts of employment are governed by UK legislation, and details the difference in mean and median pay between men and women at the company. As well as meeting the new disclosure requirements, the information will help us to focus on the underlying causes of any gender pay gap and take action to ensure equality and fairness in the workplace.

Employees by gender and role

As at 31 December 2016

| | Male | Female | Total |
|--------------------------------|--------------|--------------|--------------|
| Directors | 6 | 1 | 7 |
| Senior management ¹ | 149 | 23 | 172 |
| Other employees | 5,946 | 2,443 | 8,390 |
| Total | 6,101 | 2,467 | 8,569 |
| % of total | 71 | 29 | 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. The case study on page 45 describes some of the initiatives we are involved in to promote engineering to students.

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. In 2016, we appointed an HR Information Systems Manager who is responsible for a new HR system which will provide our Group-wide e-learning platform and support the annual competency-based assessment process and associated development plans and learning. Two of our UK businesses, Malvern 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 at www.spectris.com. We comply with the UK Modern Slavery Act 2015 and our anti-slavery training has been extended to all employees worldwide.

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.

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--------------|------------|------------|------------|------------|------------|
| Europe | 5.0 | 5.0 | 3.1 | 3.2 | 2.7 |
| Americas | 8.1 | 7.7 | 5.8 | 6.1 | 5.2 |
| Asia | 10.1 | 10.8 | 12.2 | 12.2 | 13.9 |
| Total | 7.2 | 7.1 | 5.9 | 6.0 | 5.8 |

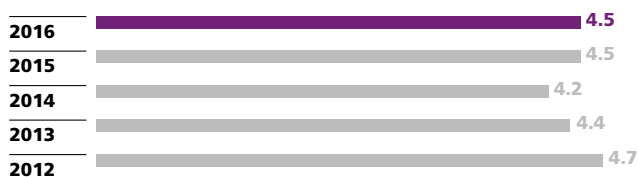
Health and safety

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. 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. Potential product-related health and safety issues are considered as part of the product design process and continuous improvement programmes focused on health and safety aim to reduce accidents and injuries at our sites to as low a level as reasonably practical.

We measure the total number of work-related accidents or ill health resulting in time lost in excess of three days. In 2016, this was 4.5 incidents per 1,000 employees, the same rate as 2015. A significant proportion of days lost are due to stress-related conditions, with physical accidents having been successfully reduced to as close to zero as reasonably achievable.

Accident incident rate

Reportable accidents¹ 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 at www.spectris.com. 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 OHSAS 18001 (see page 48 for details of this standard).

Human rights

Our human rights policy is consistent with the Core Conventions of the International Labour Organization, and we comply with internationally-recognised human rights standards 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 at www.spectris.com.

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 11 and 18 to 25.

Our suppliers

Our business is changing rapidly as we seek greater competitive advantage through efficiency gains and innovation, both in our products and how we work, whilst addressing new regulatory requirements and expectations from commercial and social stakeholders and shareholders. Focusing on supply chain management is an important tool in achieving this. You can read more about our suppliers on page 11. Our Supply Chain Management Policy can be found on our website at www.spectris.com.

In focus

Helping to fight the Zika virus



PANalytical's mission is to create a better world by helping people to analyse materials that matter to them and the environment.

The company's LabSpec near-infrared analyser is being used in the fight against Zika and Dengue, viral diseases that infect well over 400 million people each year. Prenatal Zika infection has been associated with microcephaly and other serious brain anomalies. Numerous studies have shown that infecting Zika and Dengue-carrying mosquitoes with a targeted strain of the *Wolbachia* bacterium greatly reduces the likelihood that the mosquitoes carry the Zika or Dengue virus. The release of *Wolbachia*-infected mosquitoes has been shown to rapidly spread and can infect over 80% of the local mosquito population. In order to judge the effectiveness of a release programme, wild mosquitoes must be trapped and screened for the presence of the *Wolbachia* bacterium. Using the portable LabSpec analyser, researchers have been able to distinguish between infected and uninfected mosquitoes with 85%-95% accuracy, enabling them to develop models that can be used to rapidly detect Zika and Dengue transmission hotspots in Brazil. This information will enable quick identification of high-risk areas and prioritise efforts and resources.

We carry out regular inspections at our supplier sites and use the SA 8000 Social Accountability Standard to assess our key suppliers against specific criteria – see box on page 48 for more information. We have now completed the initial project with our key Asia Pacific suppliers and plan to extend this to cover key suppliers worldwide during 2017.

Sustainability Report continued

Spectris is committed to meeting the objectives of both the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act of 2010, to prevent slavery and human trafficking in our corporate activities and ensure that our supply chain is also free from these practices. 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 that both they and their supply chains conform to the standards enshrined in the Acts. One of the biggest challenges we face is identifying evidence of slavery in our supply chains and training has been given to all Spectris supply chain management staff to help them in this. 95% of Group worldwide purchasing spend with suppliers in the top 20 'at risk' countries is now subject to audit.

We are also committed to working with our supply chain partners to increase transparency regarding the origin and traceability of minerals contained in products, and we support the OECD Due Diligence Guidance for responsible supply chains of minerals from conflict-affected and high-risk areas. Under our Conflict Minerals policy, we do not add conflict minerals to our products during the manufacturing process and do not directly purchase conflict minerals from any source. If we discover the use of these minerals produced in facilities that are considered to be 'non-conflict free', in any parts or components we procure, we will take appropriate actions to transition the product to be 'conflict free'.

Spectris will also be affected to a small extent by REACH, a European Union regulation concerning the Registration, Evaluation, Authorisation and restriction of Chemicals, adopted to improve the protection of human health and the environment from the risks that can be posed by chemicals. This directive will have a minor impact on our Servomex business in the UK, which will be required to produce an inventory of every chemical that comes into, is part of, or goes out of the business.

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. We encourage our businesses to gain certification to international standards and these are explained opposite. Certification involves independent processes to verify the data to demonstrate conformance and that the company is fulfilling policy commitments and making continual improvement.

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

Our strategic sourcing team members work alongside local managers to carry out regular inspections at our suppliers' sites. To date we have audited suppliers representing approximately 70% of our total purchasing spend in Asia in 2016. Any current suppliers who decline to undergo an audit against the standard are removed from the approved list and alternative suppliers are selected. No new suppliers are added to the approved list if they decline to undergo an audit.

Certification standards

ISO 14001

This international standard ('ISO') sets out the criteria for the formulation and maintenance of an environmental management system. Certification to ISO 14001 requires an organisation to effectively manage its environmental impacts through commitments to pollution prevention, legal compliance and continual improvement.

Approximately 60% of Spectris' manufacturing operations by turnover are certified to ISO 14001, as is our head office.

OHSAS 18001

This standard is intended to help an organisation to control occupational health and safety risks. It is currently UK-specific but will shortly become an ISO. Five Spectris offices, including the head office, have obtained certification to OHSAS 18001.

SA 8000

Social Accountability International's SA 8000 is the most widely-recognised global standard for managing human rights in the workplace. It encourages an organisation to achieve best practice in ethical employment, trading and operations and includes much of the anti-slavery legislation recently introduced. At Spectris, we use this standard to assess leading suppliers in high-risk areas against criteria such as workers' rights, workplace conditions (including child labour, forced labour, working hours, freedom of association, compensation and discrimination) and health, safety and the environment.

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.

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. We will continue to explore opportunities for energy savings identified by the Energy Efficiency Directive site audits, and our own Project Uplift initiative may also result in internal improvements which will benefit areas of our sustainability programme.

Our supply chain will remain a key area of focus for 2017, with further work planned to audit our key suppliers against our environmental and social standards. We are putting in place training on recognition of modern slavery and human trafficking in the supply chain for all supply chain management staff, in order to extend verification to all countries outside the top 20 'at risk' countries. 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. In addition, we are working with our product development and materials procurement teams worldwide on the issue of the 'EU Critical 20 List', a list of raw materials where long-term availability is threatened, to assess the impact of any of these which are used in Spectris' products.

Further initiatives to improve the diversity of the workforce will help us to identify and encourage high-potential employees and our Group-wide learning system will be made accessible to all employees worldwide.

Ethics Report

Running our business in an ethical way makes business sense.

2016 highlights

Absolute Integrity Award launched.

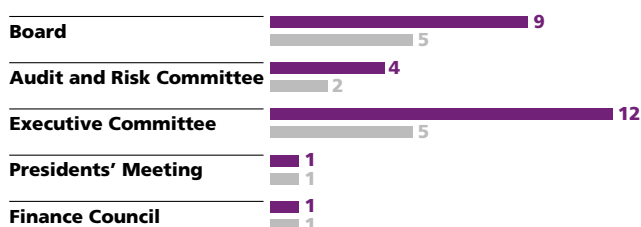
Anti-bribery and compliance audits.

Re-emphasis of culture and ethics in acquisition strategy.

Culture, ethics and leadership

At Spectris, we believe that maintaining a strong and consistent corporate culture supports long-term performance and is particularly important in the context of the Group’s operating model and entrepreneurial nature. The Board acknowledges its role in shaping, monitoring and overseeing culture, as well as ensuring alignment between our values, strategy and business model. Culture and ethics are a regular discussion focus for the Board, its Committees and the Executive team throughout the year. During 2016, discussions focused on a range of topics including our go-to-market model and managing compliance risk in China, the evolution of the ethics programme and its future strategy, aligning values with incentives and the output of anti-bribery and corruption audits.

Culture and ethics on our agenda



■ Number of meetings in 2016 ■ Culture and ethics on the agenda

Awareness of the importance of culture and ethics does not stop at the Board or Group-level management; it is present throughout the organisation and our senior and middle management play a fundamental role in setting the appropriate tone at an operational level. Managers are expected to demonstrate ethical leadership and this is reinforced in a number of ways, including our recruitment and on-boarding processes. As part of their induction, new leaders to the Group participate in an ethical leadership engagement session. The session provides a forum to connect the Group’s purpose and strategy to culture, discuss the business case for ethics and factors affecting decision-making, and to develop skills to cascade the message across their teams. In February 2016, 23 senior leaders participated in a leadership engagement session, including a new operating company President and Finance Director, and a number of key Sales and General Managers. In December, a similar engagement session was held for 36 members of the Millbrook team following that acquisition. Each session is sponsored and attended by an Executive team member.

First Impressions from Andy Cowan, Vice President of Finance, Particle Measuring Systems

“I have always been a part of global companies which put ethics at the forefront of their values; however, at Spectris and Particle Measuring Systems I was impressed by the high focus it receives not only on a day-to-day basis but even as part of the recruitment process. It certainly was a strong factor for me in choosing to join the Spectris Group that the senior managers who interviewed me not only shared the Code of Business Ethics but also took an opportunity to ask questions to ensure that I would embody those values if offered employment. Identifying and reinforcing the importance of ethics even before you hire an employee is an extremely important part of building and maintaining a strong ethical culture.”

As our programme has matured, we have been pleased to see an increasing willingness for in-country management and staff to escalate concerns regarding suspected violations of our Code of Business Ethics to senior management; further details are contained on the opposite page under ‘A culture of openness and support’.

As part of their leadership commitment, senior managers are required to certify annually that they have fostered an open ethical culture, including having either dealt with or reported any suspected violations of the Code of Business Ethics. For certification purposes, senior management includes the Executive team, operating company Presidents, the Finance and Administrative Head in Russia, Vice Presidents, Country Managers, Senior Sales Managers and Ethics Officers. All senior managers had confirmed compliance for the period ended 31 December 2016 as at the date of this report.

In order to retain leadership focus on embedding an ethical culture across the Group, during 2017 we will be re-designing our incentive schemes to encourage ethical behaviour in addition to producing the desired business results.

Absolute Integrity Award

One way in which we emphasise the importance of culture is through the Spectris Absolute Integrity Award, which was launched during the year. This is a Group-wide initiative whereby employees are nominated for demonstrating true commitment to our absolute integrity value. The award is designed to emphasise the importance of absolute integrity in our business practice, communicate success stories and provide an opportunity to recognise and celebrate the positive ethical behaviour displayed across the Group. Our first award newsletter publishing the initial nominations was launched in November 2016. Each nominee received a letter from the Chief Executive congratulating them individually on their nomination and thanking them for exemplifying our values. The winner, Salma Cassam Chenāi Thiry, was announced in early February 2017 and will be presented with her award at the annual Presidents’ Meeting later this year.

Salma Cassam Chenai Thiry, Legal Counsel, winner of the 2016 Spectris Absolute Integrity Award

"I feel very honoured to have been selected as the winner of this first Spectris Absolute Integrity Award. When I joined BTG in 2013, I was impressed by the high level of commitment to and genuine leadership engagement on ethics and compliance. The more I got involved in day-to-day matters and related challenges, the more evident it became to me that BTG, and more broadly Spectris, were living up to their core values. Having created such a unique environment where colleagues can have open, candid discussions on the ethical dimension of complex business issues, leading to collegial and sound decisions, is in my view a fantastic achievement. In addition, receiving the full support of top management when assessing ethical dilemmas is the clearest evidence that Spectris has been very successful in embedding a strong ethical culture throughout the organisation. I am proud to be part of it!"

Culture and acquisitions

Culture and ethics also comprise a key element of our acquisition strategy. Our values and emphasis on ethics create a positive point of difference during our acquisition cycle, whether through target identification, deal execution or integration processes.

In looking at acquisition targets, we evaluate the alignment of cultural fit and values through our management discussions and due diligence processes. By adopting this approach, we seek to ensure that a new business is prepared to do business ethically and that we acquire businesses that are aligned with our values. This both makes business sense for Spectris but also makes Spectris a more desirable parent for acquisition targets. This alignment of culture and values is an important factor in maintaining the high level of management and employee retention that we achieve post acquisition.

When new businesses join the Group, we work in conjunction with the management team to introduce and embed our values and ensure that the ethics programme is rolled out as a priority.

First impressions from Jonathan Eaton, Chief Commercial Officer, Millbrook Group

"Due to a strong focus on integrity and business ethics already within the culture of Millbrook, the integration into Spectris, including the formal ethics programme and ongoing training, is proving a natural progression for our business. We recognise that this is important to our customers and the continued attention to ethical conduct has been well received."

A culture of openness and support

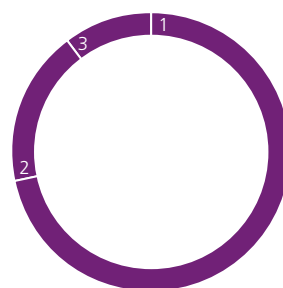
We actively encourage a culture of openness, engagement and communication, so employees feel they can discuss any issues that arise in the course of their work and raise any concerns with their managers. The importance of creating an open and transparent culture is reiterated in our periodic ethics refresher training. Our independent hotline (www.spectrishotline.com) gives our people, business partners and other third parties the ability to report concerns anonymously if they wish.

Through the deployment of our bespoke Code of Business Ethics course, we have made available our Decisions Guide mobile app to employees. The app provides a simple set of questions to help employees address an issue in the right way and reach the right decision. It also provides contact details for all our Ethics Officers whom employees can raise concerns with or seek guidance from.

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 Spectris Group.

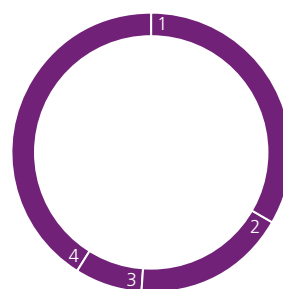
During 2016, 39 reports were received via a number of sources and the charts below show the number of reports received from each region and the methods used to report the allegations. Each allegation was investigated and resolved and additional guidance, training and monitoring made available or disciplinary action taken, in some circumstances including employment termination, as appropriate.

Reporting by region



| | |
|-----------------|----|
| 1 Asia | 28 |
| 2 North America | 7 |
| 3 Europe | 4 |
| 4 Latin America | 0 |

Reporting methods



| | |
|--------------------|----|
| 1 Formal complaint | 13 |
| 2 Management | 7 |
| 3 Internal audit | 3 |
| 4 Anonymous | 16 |

Addressing ongoing challenges

As we reported last year, the ethical environment in certain Asian countries continues to be challenging. We have taken a number of actions to strengthen our control framework. A dedicated China Compliance Officer was recruited in 2016 to provide independent scrutiny and oversight of operations in China and subject matter expertise and advisory support to the operating companies in relation to bribery, fraud and anti-trust risks, as well as strengthen our second line of defence.

Ethics Report continued

In addition, later this year we will conduct a series of workshops in China on conflicts of interests and launch a voluntary disclosure programme to encourage employees who have not, in line with our policies, previously disclosed a potential or actual conflict to come forward and report. Employees will not be punished for previous non-disclosure but legal and regulatory breaches revealed will be dealt with in accordance with applicable laws and regulations. The workshops and disclosure programme will be extended to Taiwan and South Korea during the course of 2017.

Anti-bribery and corruption

The scope of our Internal Audit function review includes ethics programme implementation. During the year, discrete anti-bribery and compliance audits were conducted at 13 of our 14 operating companies to assess the robustness of implementation at an operational level, as well as support the

operating companies' efforts to implement the anti-corruption standards fully and consistently by identifying gaps in implementation or business/site-specific needs and propose remedial actions. Our recent acquisition, Millbrook, will be reviewed 12 months post acquisition.

The audits involved testing implementation across a range of key indicators, including tone from the top, resourcing, conflicts of interest, gifts, hospitality and entertainment, government interaction, training and communications, third parties, charitable and political activities, raising concerns and ethics in human resources. Following the audits, detailed remedial actions were provided to each operating company management team for completion by March 2017. In addition, a number of Group-wide trends and actions were identified, shown in the table below.

| Trend | Solution | |
|---|--|--------------|
| Improve quality of third-party due diligence reviews | Third-party due diligence webinars for reviewers and relationship owners | October 2016 |
| Improve awareness of risks associated with government customer interaction | Group-wide guidance and training issued for deployment | Q1 2017 |
| Anti-bribery and corruption compliance processes integrated into business operations work-flows | Integrate gifts and entertainment processes into Group travel and expenses technology platform | 2017 |
| Increase consistency in anti-bribery and corruption standards | Best practice sharing, additional Group-level resource and increased use of technology solutions | 2017/2018 |

Training, engagement and support



Our engagement strategy continues to focus 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. Employee engagement is structured with the driving principles of being values and risk-based.

New employees, including those who join the Group following an acquisition, receive training on the Code of Business Ethics and other relevant topics within six months of joining.

A bespoke Code of Business Ethics e-learning training course was rolled out to all operating companies to provide supplementary interactive training for all employees throughout the Group.

In December 2016, managers were provided with manager-led training toolkits to facilitate recurring discussions around managing anti-bribery and corruption risks.

Our ethics training and engagement strategy comprises:

- values and risk-based training;
- interactive and engaging;
- delivery by senior and line managers;
- face-to-face wherever feasible; and
- online modules to reinforce awareness.

The Strategic Report was approved by the Board of Directors on 14 February 2017.

By order of the Board.

Roger Stephens
Company Secretary

Chairman's Introduction to Corporate Governance



“Looking forward to 2017, our priorities will be the development of our talent management, succession and diversity programme, and further enhancement of the Group's ethics and compliance processes.”

Dr John Hughes CBE
Chairman

I am pleased to present the Corporate Governance Report which describes how the Board functions and how it sets the culture, values and operating framework across 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 pages 50 to 52.

In 2015, the Board agreed a strategy of renewed emphasis on growth, including a shift from the supply of products towards the provision of complete customer solutions. Consequently, during 2016, there has been a focus by the Board on transformational initiatives, including positioning the Group optimally to support customer needs as the Industrial Internet of Things develops, and adding test services, software analytics and simulation capabilities to existing product technologies. This requires the Group to ensure that it has the talent, resources and capability to deliver on these initiatives. The talent management programme, launched in 2015, has been progressed in 2016 to underpin this strategy.

An organisational capability review was undertaken earlier in the year. As a result, we have recruited Andrew Harvey to the newly-created role of Group Human Resources Director with a position on our Executive Committee. Andrew's key focus will be to identify and implement a talent development and diversity programme to ensure that we have strong teams across our businesses and to develop effective management succession planning.

In 2016, we initiated an external evaluation of the workings of the Board and its Committees, conducted by Dr Tracy Long CBE of Boardroom Review Limited. It was pleasing to receive confirmation that the Board is “well-functioning and effective”, but the process has highlighted the impact that our strategic ambitions will have upon the work of the Board and this will be a particular focus for 2017 and beyond. Further details can be found on page 60.

Finally, in 2016, we established a formal Disclosure Committee with the brief to monitor the Company's obligations under the Market Abuse Regulation in relation to the identification and release of inside information and restrictions on share dealing.

Yours faithfully

Dr John Hughes CBE
Chairman
14 February 2017

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 can be found at www.frc.org.uk. The Board considers that throughout the financial year ended 31 December 2016, 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 2016.

Board of Directors



Dr John Hughes CBE Chairman
Appointed June 2007. Appointed Chairman in May 2008
Committees

N



John O'Higgins Chief Executive
Appointed January 2006
Committees

N E D F



Bill Seeger Non-executive Director
Appointed January 2015
Committees

A



Clive Watson Group Finance Director
Appointed October 2006
Committees

E D F



Russell King Senior Independent Director
Appointed October 2010
Committees

N R



Ulf Quellmann Non-executive Director
Appointed January 2015
Committees

A R



Martha Wyrsh Non-executive Director
Appointed June 2012
Committees

A N



Kjersti Wiklund Non-executive Director
Appointed January 2017
Committees

N R



Roger Stephens Head of Commercial and Company Secretary
Appointed January 1997
Committees

E D F

Key

- A** Audit and Risk
- N** Nomination
- R** Remuneration
- D** Disclosure
- E** Executive
- F** Finance

Dr John Hughes CBE 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 then non-executive chairman of Intec Telecom Systems plc and Sepura plc, and a non-executive director of Chloride Group plc and Vitec Group plc. In 2016, he stepped down as executive chairman of Telecty 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.

Bill Seeger Non-executive Director

Skills and experience Bill Seeger has 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.

Russell King Senior Independent Director

Skills and experience Russell King has 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. He was then a non-executive director and chairman of Sepura plc.

Other current appointments Chairman of Hummingbird Resources 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.

Martha Wyrsh Non-executive Director

Skills and experience Martha Wyrsh 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. She was previously 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 US subsidiary of Sempra Energy with publicly-traded shares).

Roger Stephens Head of Commercial and Company Secretary

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.

Other current appointments None.

John O'Higgins Chief Executive

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, and has been a non-executive director of Exide.

Other current appointments None.

Clive Watson Group Finance Director

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.

Ulf Quellmann Non-executive Director

Skills and experience Ulf Quellmann has broad general management experience and considerable knowledge of the metals, minerals and mining industry, having worked in the sector for over 12 years. He is currently chief financial officer, Copper and Diamonds, at Rio Tinto plc. Previously, he was group treasurer of Rio Tinto plc and 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.

Kjersti Wiklund Non-executive Director

Skills and experience Kjersti Wiklund brings significant knowledge of the international telecommunications sector. Kjersti has held a series of senior global roles including director, group technology operations, at Vodafone; chief operating officer of VimpelCom Russia; deputy chief executive officer and chief technology officer of Kyivstar in Ukraine; executive vice president and chief technology officer of Digi Telecommunications in Malaysia; and executive vice president and chief information officer at Telenor in Norway. Kjersti was previously a non-executive director of both Cxense ASA and Fast Search & Transfer ASA in Norway and Telescience Inc. in the USA.

Other current appointments Non-executive director of Laird PLC.

Past Directors**Lisa Davis**

Retired as a Non-executive Director on 20 May 2016.

Peter Chambré

Retired as a Non-executive Director on 2 December 2016.

Executive Committee Members



Eoghan O'Lionaird Business Group Director
Appointed February 2014

Eoghan O'Lionaird Business Group Director for the Materials Analysis and Test and Measurement segments

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.

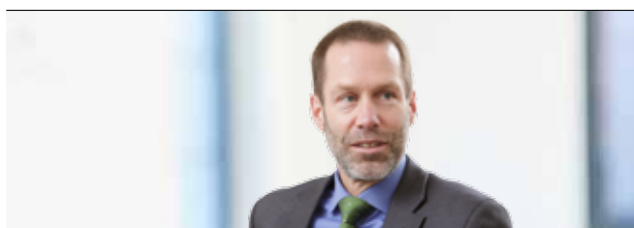


Jo Hallas Business Group Director
Appointed May 2014

Jo Hallas Business Group Director for the In-line Instrumentation and Industrial Controls segments

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 Norcross plc.



Ken Smith President, Asia Pacific
Appointed July 2012

Ken Smith President, Asia Pacific

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.



Robin Stopford Group Head of Corporate Development
Appointed November 2013

Robin Stopford Group Head of Corporate Development

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.



Andrew Harvey Group Human Resources Director
Appointed January 2017

Andrew Harvey Group Human Resources Director

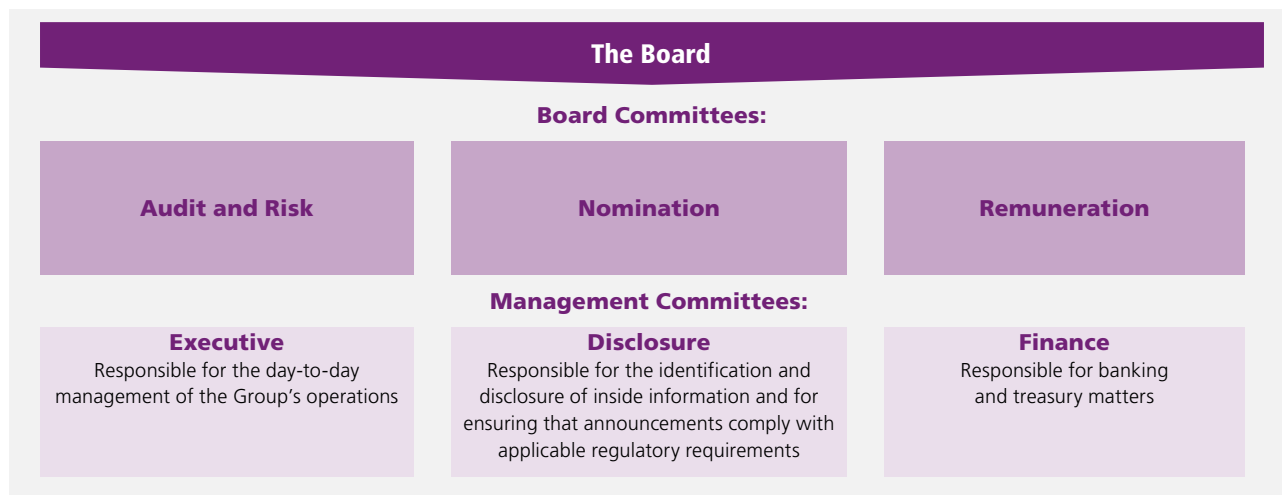
Skills and experience Andrew Harvey has considerable human resources experience gained in areas including change management, talent and development, employee engagement, acquisitions and disposals. Prior to joining Spectris in January 2017, Andrew was senior vice president human resources, GKN Automotive, and previously held the same position at GKN Aerospace. He holds an MBA from the University of Aberdeen.

Other current appointments None.

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 below:



Priority areas in 2016

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 | In September 2016, the Company completed the platform acquisition of Millbrook Group Limited, and a further five acquisitions were also completed during the year. 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 the expected cash flow returns on investment would be delivered. | 6 |
| Strategy | During the year, the Board reviewed progress against the Group's strategy and considered opportunities within our key markets. 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. | 5 |
| Operational excellence | The programme of lean initiatives, a key element of the Group's strategy, has been progressed. Project Uplift, initiated during the year, seeks to improve productivity, reduce complexity and eliminate unnecessary cost, and provide consolidation and procurement savings. | 5 |
| Talent management | Talent management and succession planning for senior roles across the Group is an area of key priority to ensure that the Group has the management capabilities to deliver its strategic objectives. Group-wide competencies have been adopted to create a common understanding and language of what constitutes good leadership at Spectris. A Group Human Resources Director has been recruited to drive the development of a more rigorous approach to identifying, assessing, developing and attracting diverse management talent. | 62 |
| 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. | 71 |
| Remuneration Policy review | The Remuneration Committee considered the existing remuneration framework and proposed changes to the Board. A new Remuneration Policy will be presented to shareholders for approval at the 2017 AGM. | 77 |

Leadership continued

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, (www.spectris.com). 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 and operating framework;
- annual financial planning;
- the acquisition and disposal of businesses;
- major capital expenditure;
- the appointment and removal of Directors; and
- Board and senior management succession.

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 more immediate decision. Comprehensive papers are presented to the Board which facilitate meaningful debate on the performance and future direction of the Company.

Directors are expected to attend all Board and relevant Committee meetings. Details of attendance by Directors at Board and Committee meetings during 2016 are set out in the table below. 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. In addition, members of the Executive Committee, other Group senior managers 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.

Board and Committee meeting attendance during the year

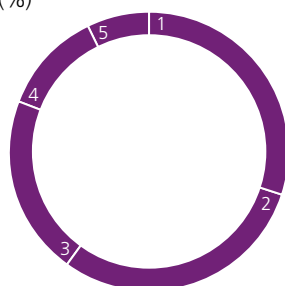
| | Board | Audit and Risk Committee | Nomination Committee | Remuneration Committee |
|----------------------------|-------|--------------------------|----------------------|------------------------|
| Total meetings during year | 11 | 5 | 4 | 5 |
| Dr John Hughes CBE | 11 | n/a | 4 | n/a |
| John O’Higgins | 11 | n/a | 4 | n/a |
| Peter Chambré ¹ | 10 | 5 | 3 | 4 |
| Lisa Davis ² | 2 | n/a | 1 | 1 |
| Russell King | 11 | n/a | 4 | 5 |
| Ulf Quellmann | 11 | 5 | n/a | 5 |
| Bill Seeger | 11 | 5 | n/a | n/a |
| Martha Wyrsh | 11 | 5 | 4 | n/a |
| Clive Watson | 11 | n/a | n/a | n/a |

1 Peter Chambré retired from the Board with effect from 2 December 2016. He attended all meetings he was eligible to attend.

2 Lisa Davis retired from the Board with effect from 20 May 2016. She attended two of the seven Board, one of the two Remuneration Committee and one of the two Nomination Committee meetings she was eligible to attend.

Board allocation of time

(%)



| | |
|-----------------------|----|
| 1 Acquisitions | 30 |
| 2 Operations and risk | 30 |
| 3 Strategy | 21 |
| 4 Finance | 12 |
| 5 Governance | 7 |

Committees

The Board delegates specific responsibilities to its Committees, notably the Audit and Risk, Nomination and Remuneration Committees. A chart setting out the Committee structure is set out on page 57. 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 2016 are set out in the Committee reports. To ensure that 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 mix of Executive Directors and independent Non-executive Directors who consider and debate the important issues facing Spectris and the Group's performance. At the date of this report, there are a total of eight Directors, of whom two are Executive and five are Non-executive, in addition to the Chairman.

Kjersti Wiklund was appointed to the Board as a Non-executive Director with effect from 19 January 2017. A formal, rigorous and transparent process is followed during the selection and subsequent appointment of new Directors to the Board. Details regarding the appointment process and the induction process can be found on page 62.

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 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 2016 and remain in force. The Company also maintains directors' and officers' liability insurance.

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 55. 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 and that 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.

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.

The Board has agreed that each Director shall stand for re-appointment at the AGM.

Details of the Directors of the Company are set out with their biographies on pages 54 and 55. Details of Directors' service contracts, or letters of appointment in the case of Non-executive Directors, their emoluments and share interests, are set out in the Remuneration Report on pages 73 to 91. Copies of Directors' service contracts or letters of appointment 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 performance and effectiveness of the Board and its Committees are evaluated in accordance with the guidance provided under the UK Corporate Governance Code.

With an internal evaluation having been carried out in each of the last two years, an external evaluation was conducted this year. This was facilitated by Dr Tracy Long CBE of Boardroom Review Limited, a specialist consultancy which undertakes no other business for the Company.

The Chairman and the Company Secretary provided a comprehensive initial briefing to Dr Long. The process then included detailed interviews with the Board and the Company Secretary, observation of Board and Committee meetings and access to supporting materials to enhance understanding of how the Board and its Committees operate.

A final report and recommendations were presented to the Board at its meeting in February 2017. Dr Long's overall conclusion was that the Board and its Committees are "well-functioning and effective", with particular strengths in its positive and supportive culture, governance environment, oversight of risks and controls and approach to remuneration. The Board accepted Dr Long's observation that (i) the Group's strategic ambitions, and the associated transformation and restructuring, bring a focus for the Board to oversee the detailed execution plans and ensure associated risks are reduced to the minimum; and (ii) the development of succession and leadership development plans for senior management will need to be a continued priority in order to support the strategic changes envisaged. These aspects will be further discussed and addressed by the Board over the course of 2017 and beyond.

Induction

All new Directors appointed to the Board receive an induction programme tailored to meet their individual needs. For example, Kjersti Wiklund (appointed to the Board on 19 January 2017) discussed with the Chairman what briefings and meetings would be most beneficial to her to ensure an effective induction following her appointment. As a result, tailored induction programmes are designed, which include briefings from members of the Executive team and other senior managers from both head office and the operating companies.

Training

The Chairman reviews each Director's training and development needs annually. To enhance the Directors' understanding of our business, the April Board meeting was held at HBM's Darmstadt site. This gave the Board the opportunity to meet senior staff at the operating company and receive presentations from the HBM management team. Similarly, the October Board meeting was held at the recently-acquired Millbrook Proving Ground.

The Directors also receive regular updates and presentations. These include changes and developments to the business and to the legislative and regulatory environments in which the Group operates. Presentations from business unit Presidents are also received, in addition to the location visits described above. In 2016, presentations were received from the newly-appointed Presidents of Brüel & Kjær Sound & Vibration and Omega Engineering.

Nomination Committee Report

Letter from the Chairman of the Nomination Committee



“A key focus of the Committee this year has been the continued oversight of talent management across the Group.”

Dr John Hughes CBE

Chairman of the Nomination Committee

On behalf of the Nomination Committee, I am pleased to present our report to you summarising our work during the year, and setting out our membership and responsibilities.

A key focus for the Committee during the year has been the continued oversight of talent management across the Group. In support of this, I am pleased to announce the recruitment of Mr Andrew Harvey as Group Human Resources Director. Andrew has been tasked with developing an effective talent development, diversity and succession planning strategy. Further details are provided on page 53.

A further focus for the Committee has been the ongoing refreshing of the Board. During the year, Mrs Lisa Davis and Mr Peter Chambré stepped down from the Board as Non-executive Directors and the Board delegated authority to the Committee to identify their replacements. The Committee worked closely with Egon Zehnder to compile a shortlist of candidates against measured criteria to ensure the Company's continued ability to compete effectively in the marketplace. I am pleased to welcome Kjersti Wiklund to the Board as a new Non-executive Director. The appointment of a second Non-executive Director is expected to be made in due course. In addition, after nine years as your Chairman, and in the interests of good governance, I have decided to step down from the Board once a successor has been appointed. A recruitment process for my replacement has been initiated and is being led by the Senior Independent Director, Mr Russell King.

At our meeting in December 2016, we considered the effectiveness and contribution of the individual Non-executive Directors during the past year and recommended to the Board that each be put forward for re-election at the 2017 AGM. The Committee also considered and re-confirmed the independence of each of the Board's Non-executive Directors.

Yours faithfully

Dr John Hughes CBE

Chairman of the Nomination Committee

14 February 2017

Effectiveness continued

Nomination Committee Report continued

Role of the Committee

The role of the Nomination Committee is to evaluate the size, structure and composition of the Board, including the balance of skills, knowledge, experience and independence of Board members and recommend new appointments to the Board. The Committee similarly reviews the membership of the Executive Committee and leaders of our operating businesses, and seeks to ensure that strong talent development, diversity and succession planning processes are embedded across the Group.

Committee composition and meetings

The members of the Nomination Committee are appointed by the Board and include the Chairman, the Chief Executive, the Senior Independent Director and at least two further independent Non-executive Directors. For discussions relating to the Chairman’s succession, the Senior Independent Director takes the chair.

The Committee meets as required to carry out its duties. At the Committee’s discretion, other individuals, including external advisers, may be invited to attend for all or part of any meeting to assist the Committee in fulfilling its role.

The table on page 58 sets out the Directors who served on the Committee during the year and their attendance.

Nomination Committee allocation of time

(%)



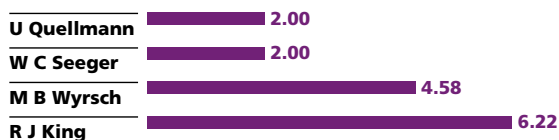
Activities in 2016

In accordance with its terms of reference, the key issues considered by the Committee during the year included:

- reviewing the structure, size and composition of the Board and making recommendations to the Board based on findings;
- reviewing succession plans with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- engaging Egon Zehnder to assist in the recruitment of new Non-executive Directors and initiating the search for a new Chairman;
- oversight of a Group-wide organisational capability review;
- oversight of the talent management programme and the recruitment of a new Group Human Resources Director to drive this forward; and
- reviewing the skills of each of the Directors and the independence of each of the Non-executive Directors and recommending that each of them be subject to re-election by shareholders at the 2017 AGM.

Non-executive Director tenure

The chart below indicates the length of tenure for each Non-executive Director as at 31 December 2016. Any extension of the appointment beyond nine years’ service is closely reviewed by the Committee to ensure the individual’s continued independence, effectiveness and contribution to the Board’s deliberations.



Board changes

During the year, two valued colleagues stepped down from the Board. Lisa Davis departed the Board in May, following the conclusion of the 2016 AGM, and Peter Chambré, having completed nine years’ service, stepped down from the Board in December.

It was agreed that Egon Zehnder, which adheres to the Voluntary Code of Conduct for Executive Search Firms and does not provide any other services to the Company, would be engaged to assist in the search for two new Non-executive Directors. In considering the criteria for the new appointees, the Committee reviewed the skills and experience that the Board would benefit from in overseeing the implementation of the Company’s long-term strategy. In particular, it was agreed that candidates with recent experience in the electronics/ telecommunications and life sciences/pharmaceuticals sectors should be sought. The importance of continuing the Company’s commitment to diversity, including gender diversity, was also recognised and Egon Zehnder was instructed to compile gender-balanced candidate lists for both roles.

In January 2017, Kjersti Wiklund was appointed to the Board. Following a rigorous selection process, the Committee concluded that Kjersti’s wealth of business experience and knowledge of the international telecommunications sector would enhance the capabilities and effectiveness of the Board.

The recruitment process for a second Non-executive Director, with life sciences sector experience, is at an advanced stage.

In addition, having served nine years as Chairman and ten years as a Director of the Company, Dr John Hughes has decided to stand down from the Board once a successor has been appointed. The Committee has initiated a process to find his successor which is being led by the Senior Independent Director and supported by Egon Zehnder.

Succession planning and talent management

Succession planning throughout the business remains 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. During the year, a top-down organisational capability review was carried out which included an assessment against the Group’s selected set of leadership competencies to identify the high-potential and high-performing individuals. The results of this review will assist us to build on existing programmes to further

enhance individual development, introduce new initiatives and refresh retention plans to broaden and develop the talent which exists across the Group.

In recognition of the importance of these initiatives to the achievement of the Group's strategy, the Committee oversaw the recruitment of a new Group Human Resources Director. As part of the selection process, a specialist Human Resources recruitment consultant was engaged and a number of high-calibre candidates were assessed. Following a series of interviews with the Group's Executives, Mr Andrew Harvey was appointed to the role.

Diversity

The balance of experience, skills, gender and diversity of thinking styles of the Board is reviewed regularly to ensure that the level and composition of diversity are appropriate. Whilst noting the recommendations of the report 'Women on Boards' (Davies Review) published in October 2015, the Board does not establish targets on gender balance and believes all appointments to the Board and senior management team should be based on individual merit in terms of skills and relevant experience as required in order to maintain and enhance effectiveness. Nevertheless, the Board has discussed and is supportive of the refocusing of the review upon the Executive Committee and its reports, and has responded to the request for voluntary disclosure of data in this respect.

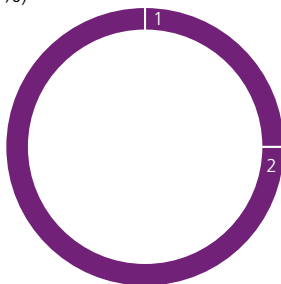
Spectris supports the benefits of greater diversity to attract and retain talented individuals at every recruitment level throughout the Group and promotes diversity across a range of criteria including skills, knowledge, experience, gender, age and ethnicity. The Board is conscious of the need to give weight to these factors in future appointments. Further information regarding Group diversity can be found on page 45.

Re-election

All Directors will present themselves for election or re-election at the forthcoming AGM. Each of the Directors is unanimously recommended by the other members of the Board due to their experience, knowledge and wider management and industry experience, continued effectiveness and commitment to their role.

Gender diversity of the Board

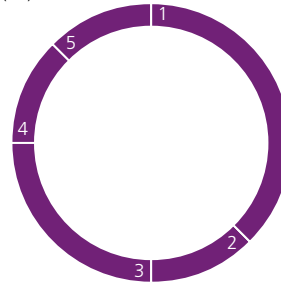
(%)



1 Female Directors _____ 2
2 Male Directors _____ 6

Nationality of the Board

(%)



1 British _____ 3
2 Irish _____ 1
3 American _____ 2
4 German _____ 1
5 Norwegian _____ 1

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 | ●●●●●●●●●● |

Experience of end-user markets

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

Accountability

Audit and Risk Committee Report

Letter from the Chairman of the Audit and Risk Committee



“An important role of the Committee is the oversight of the Group’s risk management process.”

Bill Seeger

Chairman of the Audit and Risk Committee

During the year, the Committee’s work continued to focus on the robustness of the financial reporting, the rigour of the external and internal audit processes, and the Group’s control environment.

A key task undertaken by the Committee during the year was the external audit tender which resulted in the selection of Deloitte LLP to become auditor for 2017 and beyond, subject to shareholder approval at the forthcoming AGM. I would like to thank KPMG LLP (‘KPMG’) for its audit service to the Company. Details of the tender and selection process are set out within this report.

An important role of the Committee is the oversight of the Group’s risk management process. During 2016, the Group has continued to build on enhancements introduced to the Group’s risk reporting process at the end of 2015, which included more detailed calibration when evaluating risk as well as analysing the Group’s principal risks through the ‘lines of defence’ framework. In addition, a structure has been established for formalising and communicating the Group’s risk appetite against each of the principal risks. Linked to this, an effectiveness review of the Internal Audit function was undertaken, comprising an analysis of its independence, proficiency, resourcing, audit strategy, planning and methodology.

The results of this evaluation were in the main very positive but a number of areas were identified where the effectiveness of the function could be further enhanced, for example in developing its capabilities in relation to IT and Enterprise Resource Planning (‘ERP’) implementation risks.

The Group’s treasury strategy was reviewed and updated to ensure that it remains aligned with the Group’s strategic objectives. In addition, the Group’s tax strategy was reviewed during 2016 in order to ensure that it remains appropriate and is compliant with the new UK requirements regarding content and publication which came into effect from January 2017.

A particular focus for the Committee in reviewing the 2016 accounts was the assessment of goodwill and carrying values in respect of Omega Engineering and ESG Solutions in the context of their 2016 performance and longer-term growth prospects, which has led the Committee to support management’s judgement that a goodwill impairment of £94.4 million and £19.9 million, respectively, should be made.

As part of our internal governance processes, every Committee meeting is scheduled prior to the Board meeting to enable key matters discussed to be reported to the Board, and considered fully as appropriate. We believe that this process has worked well during the year and will continue into the future.

Yours faithfully

Bill Seeger

Chairman of the Audit and Risk Committee

14 February 2017

Role of the Committee

The principal purpose of the Committee is to assist the Board in discharging its responsibilities to present a fair, balanced and understandable assessment of the Company's position and prospects. The Committee acts independently of management to ensure that the interests of shareholders are properly protected in relation to financial reporting and the effectiveness of the Group's internal controls and risk management systems.

The Committee operates under terms of reference which include all matters encompassed by Rule 7 of the Disclosure Guidance and Transparency Rules and the Financial Reporting Council's Corporate Governance Code. They were updated in December 2015 to take into account the additional responsibilities relating to the Viability Statement, and were again refreshed in December 2016, with further emphasis being placed on the Committee's changing work scope in accordance with the revised Code, Risk Management and Internal Control Guidance, and other EU guidance relating to auditor tender and tenure. A copy of the terms of reference can be found on the Company's website (www.spectris.com).

Composition of the Committee

The Audit and Risk Committee is appointed by the Board, and consists of independent Non-executive Directors. Its members are:

- Bill Seeger (Chairman)
- Ulf Quellmann
- Martha Wyrsh

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.

The Board is satisfied that the Chairman of the Committee, Bill Seeger, having held several senior finance positions, continues to meet the specific requirement of the Code for recent and relevant financial experience, and that Committee members have the broad range of financial and commercial expertise necessary to carry out their duties. Further information on each of the Directors' skills and experience can be found in their biographies on page 55.

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. Meetings are scheduled to coincide with key dates in the Group's financial reporting calendar. Committee attendance is disclosed on page 58. The Committee revised its schedule of agenda items to incorporate recent changes in regulation and ensure that accounting, risk and governance requirements and practices remain current. 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 |
|--|----------------|--|---------------------|-------------------------------|--|
| 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 | ● | ● | ● | ● | ● |

● Presented reports ● Participated in debate/answered Committee questions

The external auditor met with the members of the Committee following the February 2016 and February 2017 meetings in a private session without management present.

Accountability continued

Audit and Risk Committee Report continued

Activities in 2016

Key issues considered by the Committee during the year included:

- a review of the 2015 and 2016 Financial Statements, including year-end key estimates and judgements and the external auditor’s report on the Annual Report and Accounts audit;
- the fair, balanced and understandable assessment;
- the Company’s ongoing viability;
- a review of the 2015 internal audit activity and the 2016 internal audit plan;
- a review of the ethics and compliance programme, and whistleblowing reports;
- updates regarding the information security programme;
- the output of the internal auditor effectiveness review;
- the external auditor tender process;
- external auditor non-audit services policy; and
- the Committee’s terms of reference.

Significant issues and key financial reporting matters

During the year, the Committee received reports and recommendations from management and the external auditor to consider the significant accounting issues and judgements applicable to the Group’s Financial Statements and disclosures. The key risks of misstatement in the Group’s 2016 Financial Statements were:

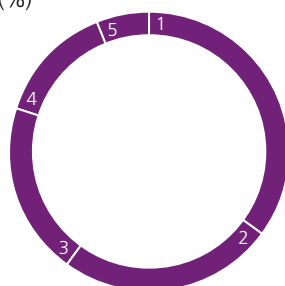
- valuation of goodwill and intangible assets for impairment;
- accounting for acquisitions;
- valuation of inventory;
- provisions for uncertain exposures and tax positions; and
- misstatements.

Valuations of goodwill, inventory valuation and tax provisions are recurring in nature from year to year whilst accounting for acquisitions 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 Financial Statements in July 2016, and also at the conclusion of the 2016 audit of the full-year Financial Statements.

Audit and Risk Committee allocation of time

(%)



| | |
|---|----|
| 1 Financial statements and reporting | 35 |
| 2 External audit including tender process | 25 |
| 3 Culture, risk management and controls, including information security | 20 |
| 4 Internal audit | 14 |
| 5 Committee governance | 6 |

Key financial reporting matters in 2016

How the issue was addressed by the Committee

Valuation of goodwill and intangible assets for impairment

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 assessment, an impairment charge of £94.4 million was made for Omega Engineering, and £20.9 million for ESG Solutions, totalling £115.3 million. Of this, £114.3 million relates to goodwill impairment and £1.0 million to 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 reduced nominal post-tax WACC rate for the Group of 7.5% (2015: 7.9%) with long-term growth rates of 2.0% (2015: 2.5%). The Committee reviewed the assessment overall and was satisfied that the assumptions were appropriate.

The external auditor explained the results of its audit work 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, the impairment recognised and disclosure provided in the Financial Statements were considered appropriate.

Following discussion, the Committee was satisfied that the approach taken by management was appropriate and that the impairment charge recognised and accompanying the Financial Statements disclosure was appropriate.

| Key financial reporting matters in 2016 | How the issue was addressed by the Committee |
|--|---|
| Accounting for acquisitions | <p>During 2016, the Group acquired six businesses. Judgement is required to determine the fair value of assets and liabilities acquired in business combinations, particularly in respect of intangible and tangible assets which can be industry-specific. Contingent consideration payable on the achievement of future performance 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.</p> <p>The Committee considered the approach taken by management for the acquisitions made during the year, and the work undertaken by the external auditor, and concluded that the judgements that had been made were fair and appropriate.</p> |
| Provision for uncertain tax exposures | <p>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.</p> <p>Management confirmed to the Committee that the provisions recorded at 31 December 2016 represent their best estimate of the likely financial exposure faced by the Group.</p> <p>The external auditor explained to the Committee the work it had conducted during the year, including how its audit procedures were focused on those provisions with the highest level of judgement on recognition criteria and/or measurement.</p> <p>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.</p> |
| Valuation of inventory | <p>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.</p> <p>Management confirmed to the Committee that, with the exception of Omega, there have been no significant changes to the approach used to estimate inventory provisions from the prior year.</p> <p>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.</p> <p>Following discussion, the Committee was satisfied that the judgements that had been exercised were appropriate and that, therefore, the inventory provisions were appropriately stated at the year end.</p> |

Accountability continued

Audit and Risk Committee Report continued

| Key financial reporting matters in 2016 | How the issue was addressed by the Committee |
|---|---|
| Misstatements | <p>Management confirmed to the Committee that they were not aware of any material or immaterial misstatements made intentionally to achieve a particular presentation.</p> <p>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.</p> <p>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 of the amounts reported and the disclosures).</p> <p>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.</p> |

External audit

The Committee is responsible for managing the relationship with the Group's external auditor on behalf of the Board. At the July 2016 meeting, KPMG, led by the Audit Partner, Mr Richard Broadbelt, presented its strategy and scope for the audit for the financial year, and highlighted areas requiring special consideration. KPMG then reported against this audit scope at subsequent Committee meetings.

Private meetings are held between the Committee and representatives of the external auditor, without management being present, which facilitates open and transparent feedback by both parties. The Committee was satisfied that the overall external audit process and services provided by KPMG throughout 2016 were effective.

Non-audit fees

A cumulative annual cap is imposed for non-audit services provided by our external auditor (save for acquisition due diligence and limited 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 £0.1 million (7% of the audit fee). Further details are included in Note 5 to the Financial Statements. The Committee's non-audit services policy is available on the Company's website (www.spectris.com).

Effectiveness and independence

The effectiveness of the external audit process is dependent on appropriate risk identification at the start of the audit cycle. For the current period, the significant risks identified by the external auditor and discussed in detail with the Committee were valuation of goodwill and intangible assets for impairment, accounting for acquisitions, provisions for uncertain tax exposures, valuation of inventory and misstatements. Further information on these risks can be found on pages 32 to 39. The Committee's assessment of the effectiveness and quality of the audit process in addressing these matters was formed by, amongst other things, consideration of the external auditor's findings, and discussing these with management, with KPMG and then considering actions to be taken in response.

Overall, the Committee was satisfied that there had been appropriate focus and challenge on the key areas of audit risk, and that KPMG had provided an effective Group audit.

KPMG'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.

In accordance with the Committee's policy on non-audit services, the external auditor will not provide services that have the potential to impair, or appear to impair, the external auditor's independence or objectivity, and approval from the Committee is required before the external auditor is appointed to carry out non-audit work. In reaching its decision, the Committee will consider whether it is in the best interests of the Company for the services to be provided by the external auditor. Approval will be granted where it can be demonstrated by the external auditor that it has the necessary expertise and capability to undertake the work cost effectively.

Appointment of external auditor

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

During 2016, a tender process for the external auditor was of particular focus for the Committee. KPMG has been the Company's external auditor since 1998 and, in light of its length of tenure, it was agreed that a competitive tender process would be appropriate and that KPMG should not be invited to participate.

At the Board's request, the Committee oversaw a rigorous audit tender process which was led by the Committee Chairman. The Committee delegated authority to the Committee Chairman, the Group Finance Director and the Group Financial Controller (the 'Selection Panel') to compile the candidate shortlist for the Committee to recommend to the Board. The tender participants were provided with information on the Group and invited to attend a number of meetings with senior management to gain insight into the Group's operations, risks and requirements. In order to ensure that the independence of the external audit was preserved, each firm was required to disclose all existing relationships with the Group and explain, where necessary, its proposals for ensuring that a conflict of interest would not arise should this firm be appointed as external auditor.

The participant firms then presented their audit proposals to the Selection Panel which, after careful consideration of each of the proposals against Spectris' performance criteria, shortlisted two possible candidates to be recommended to the Board for the external auditor position. The criteria included, but were not limited to, the lead partner and audit firm's industrial listed company experience, the use of technology and data analytics throughout the audit, the approach for identifying and addressing emerging market fraud risks, the value add from the audit process, and its proposed outline and transition approach towards the audit. The Selection Panel shortlisted Deloitte and PwC as the preferred candidates and its suggestions, and the rationale for the choices, were put to the Committee for review.

Accountability continued

Audit and Risk Committee Report continued

Deloitte was invited to attend the Committee's July 2016 meeting, and presented a summary of its proposition, key differentiators covering its distinctive audit approach and the team strengths. At the conclusion of the presentation, the Committee agreed to recommend to the Board that Deloitte be appointed external auditor to the Group at the conclusion of the 2016 audit. The proposal will be put to shareholders at the 2017 AGM, and the Committee would like to thank KPMG for their past contribution to Spectris plc, and PwC and the other firms involved in the audit tender. The Deloitte Audit Partner will be Mr Mark Mullins.

Statutory Audit Services compliance

The Company confirms its compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2016.

Internal audit

The Committee has oversight responsibilities for the Internal Audit function which is led by the Head of Internal Audit. The purpose of the Internal Audit function is to provide independent, objective assurance to add value and improve the Group's operations. Its responsibilities include assessing the key risks of the organisation and examining, evaluating and reporting on the adequacy and effectiveness of the systems of internal control and risk management in place, and the governance processes in operation throughout the Group.

During the year, the Committee considered the internal audit programme for the forthcoming year and reviewed the proposed audit approach, coverage and allocation of resources.

The Committee also reviewed the progress updates against the 2016 activity of Internal Audit, received reports on issues of significance to the Group and reported to the Board on its evaluation of these findings.

In the latter half of the year, an effectiveness review of the Internal Audit function was undertaken, taking into account the views of Directors and senior management across the Group on matters such as independence, proficiency, resourcing, and audit strategy, planning and methodology.

The review confirmed that the Internal Audit function was independent and objective, and remained an effective element of the Group's corporate governance framework.

Internal control and risk management systems

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its particular objectives and is ultimately responsible for the effectiveness of the internal control systems that safeguard shareholders' investments and the Company's assets. To ensure the effectiveness of these systems, at the Board's request, a robust assessment of the principal risks facing the Group is undertaken by the Committee.

Before reporting its findings and recommendations to the Board, the Committee:

- evaluates the results and recommendations of audits undertaken by the internal audit team and the external auditor;
- reviews reports received on significant control issues to the Group and considers and challenges as necessary the adequacy of management's response to any matters raised;
- appraises the Group's response to information security and data protection risks;
- considers common control themes identified throughout the business, and where themes were identified, ensures that subsequent action has been taken to minimise the risk;
- assesses the Group's responsibilities relating to regulated exposures of the Group;
- reviews the annual Audit and Risk Committee agenda; and
- has oversight of the new governance and risk management framework, including a definition of risk appetite by risk category and principal risk, put in place throughout the Group.

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.

Business model

A description of the Group's business model can be found in the Strategic Report on pages 10 and 11.

Going concern

The going concern statement can be found on page 94.

Whistleblowing policy and process

Details of the Group's whistleblowing policy are provided within the Ethics Report on page 51.

Fair, balanced and understandable

The Code requires the Board to confirm that it considers 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 Annual Report involved the following:

- Specific ownership and responsibility for the individual sections was allocated and documented, and 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 review 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 2016 meeting, the Committee reviewed the initial draft of the Annual Report and Accounts, during which it probed and tested disclosures.
- At our February 2017 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 2017 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

In accordance with the requirements of the UK Corporate Governance Code 2014, the Committee monitored the longer-term prospects of the Group throughout the year. In assessing the viability of the Company, the Committee took into consideration the current position and prospects of the Group, risk appetite, and the range of internal and external factors, including the significant risks as described on pages 32 to 39 of the Strategic Report.

The Committee also sought management input into its assessment of the viability of the Company and the Group and, after due consideration of the results of its overall assessment, the Committee recommended the Viability Statement for approval by the Board.

The Viability Statement can be found on page 40 of the Strategic Report, and includes details of the processes, assumptions and testing which underpin it.

Relations with Shareholders

Spectris has a comprehensive investor relations programme designed to assist existing and potential investors in understanding the Group. The Board believes that meaningful engagement with its institutional shareholders is integral to the continued success of the Company. In addition to the investor presentations held for the half-year and full-year results, Spectris conducts regular dialogue with institutional shareholders and discloses such information as is permitted by the Listing Rules. Investor meetings are attended by the Chief Executive, the Group Finance Director or the Head of Corporate Affairs or a combination thereof. 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 management. The Board is kept informed of the views, needs and expectations of shareholders through presentations and periodic reports including, but not limited to, investor feedback, shareholding analysis and consensus estimates. Russell King, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has failed to resolve.

During the year, the Company engaged and consulted with shareholders in relation to the proposed changes to the Executive Directors' Remuneration Policy.

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 2016

During the year, we held face-to-face meetings and telephone conference calls with both our existing institutional investors and with potential investors.

We have a geographically-diverse shareholder base and the table below illustrates the location of the Company's existing shareholders between the UK, North America, Europe and Asia:

Geographical investor analysis

| | Shareholders % |
|-----------------------|-------------------|
| UK | 42 |
| North America | 38 |
| Europe (excluding UK) | 12 |
| Rest of the world | 5 |
| Other | 3 |
| Total | 100 |

Annual General Meeting

The Company's AGM takes place in May, and shareholder attendance is encouraged as it provides our shareholders with the opportunity to meet the Board, discuss the Company's strategy, and raise any questions they have. The Notice of AGM, and any related papers, is sent to shareholders ahead of the meeting. All Directors attend the AGM, unless unforeseen circumstances arise, and 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 2016 AGM

| Resolution | For | Against |
|--|-----------------------------|-----------------------------|
| | Percentage of votes cast | Percentage of votes cast |
| 1 Receive Annual Report and Accounts | 99.93 | 0.07 |
| 2 Directors' Remuneration Report | 99.71 | 0.29 |
| 3 Declare a final dividend | 100.00 | 0.00 |
| 4–11 Appointment of Directors | 94.45–99.92 | 5.55–0.08 |
| 12 Appoint KPMG as auditor | 98.56 | 1.44 |
| 13 Auditor's remuneration | 99.24 | 0.76 |
| 14 Authority to allot shares | 93.47 | 6.53 |
| 15 Authority to allot equity security | 98.59 | 1.41 |
| 16 Purchase own shares | 99.29 | 0.71 |
| 17 Allow general meetings on 14 days' notice | 91.30 | 8.70 |

No significant votes were cast against any of the resolutions put to the 2016 AGM.

Directors' Remuneration Report

Letter from the Chairman of the Remuneration Committee



“With only modest changes, our current Remuneration Policy effectively supports the Group’s strategic goals and I commend it to shareholders.”

Russell King
Chairman of the Remuneration Committee

Executive Directors’ base salary and total package continue to be set modestly, below the median of UK quoted companies of comparable size.

I am pleased to present the 2016 Directors’ Remuneration Report.

Remuneration Policy

Our Remuneration Policy falls for approval at the 2017 AGM and, in this context, the Committee has considered whether the current remuneration framework effectively supports the delivery of the Group’s strategic goals and creation of shareholder value. We considered a range of potential approaches, but as the current Policy works well are only proposing very modest changes. In summary:

- Performance Share Plan (‘PSP’) awards to Executive Directors will now be subject to an additional two-year holding period following the three-year vesting point, during which awards will not be exercisable and will remain available for malus/ clawback. Dividend entitlements for vested awards will continue to accrue during the holding period. A separate resolution will be put to the 2017 AGM to extend the life of the PSP for a further ten years and to incorporate these holding period changes.
- No changes are presently proposed to the current PSP performance measures (one-third each on Earnings Per Share (‘EPS’), Economic Profit (‘EP’) and relative Total Shareholder Return (‘TSR’)). However, the various performance scales are more demanding than the market norms and the size of grant is set modestly, below median. Therefore, we are proposing that the EPS growth range for new awards be reduced from CPI + 5-13% p.a. to CPI + 5-11% p.a.

Directors' Remuneration Report continued

Remuneration Committee Report continued

- The Chief Executive's bonus opportunity has fallen below the appropriate market median level and will be increased from 125% to 150% of salary. We are aware of the inflationary impact of any increase and, at Spectris, we have never chased the market. We are, however, conscious that significant increases were necessary in 2014 to address a market misalignment and are keen that this should not occur again. John O'Higgins has been our Chief Executive since January 2006 and is one of the most experienced senior executives in the industry, so we consider it important to ensure that the bonus opportunity is set appropriately. The on-target bonus level will remain unchanged at 60% of salary and so the additional bonus potential would only be achieved for significant outperformance.
- A separate resolution will be put to the 2017 AGM, renewing the Savings Related Share Option Scheme, in which the Executive Directors may participate.

The key elements of the Executive Directors' remuneration arrangements, if the new Policy is approved, will thus be:

- base salary and total package continue to be 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 150% of base salary for the Chief Executive (60% and 125% of base salary for the Group Finance Director), only payable on achievement of stretching profit and individual objectives;
- annual awards under the Company's PSP continuing to be set at up to 200% of base salary, with vesting after three years based one-third upon TSR relative to the FTSE 250 excluding investment trusts, one-third upon adjusted EPS growth, and one-third on EP delivery;
- benefits provided on a market-competitive basis; and
- any bonus payment in excess of 60% of salary 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.

2016 remuneration

2016 presented difficult trading conditions but nevertheless the Group achieved an 11% increase in adjusted profit before tax and a 12% increase in adjusted earnings per share. The target range for profit before tax for the purposes of the Executive Directors' annual bonus was established by your Committee at the outset of the year as follows:

| 0% | 50% | 100% |
|---------|---------|-------|
| £165.4m | £181.4m | £200m |

Accordingly, an outcome of 88.44% was achieved.

Strong progress was achieved against the personal objectives set in respect of 2016. Your Committee assessed outcomes of 23.5% for the Chief Executive and 25% for the Group Finance Director.

However, longer-term three-year PSP awards maturing in March 2017 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 2016, the PSP grants maturing in March 2018 are also unlikely to vest on the EPS, TSR or EP measures. The grants made in March 2016 are too early in their three-year performance period for the Committee to make reliable predictions as to their outcome.

The above demonstrates the robust approach the Committee adopts in setting targets. We believe this should give our shareholders confidence that our variable pay arrangements will continue to be operated appropriately going forward.

2017 reviews

The Committee's remuneration advisers, FIT Remuneration Consultants LLP ('FIT'), completed the biennial benchmarking review of the Chairman's fee during 2016. Based on the results of that review, the Committee determined that a 4.8% increase to £220,000 p.a., aligning the Chairman's fee to market levels, should be implemented with effect from 1 January 2017.

Additionally, FIT completed the biennial benchmarking review of Non-executive Directors' fees. Based on the results of that review, the Board has agreed that the Non-executive Director's base fee be increased to £55,000 p.a. and the Senior Independent Director's fee be increased to £10,000 p.a. The Chairman's fee for both the Audit and Risk Committee and the Remuneration Committee remains unchanged at £10,000 p.a. The travel supplement paid to W C Seeger and M B Wyrsh was increased to £15,000 p.a. These increases reflect fees paid at comparator group companies and, in respect of the travel supplement paid to US Non-executive Directors, the need to remain competitive against global benchmarks.

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

| | 2017 salary | Percentage increase |
|---------------|-------------|---------------------|
| J E O'Higgins | £597,000 | 3.3% |
| C G Watson | £378,500 | 3.0% |

I trust you will agree that your Committee has taken the required steps on your behalf to set and implement an appropriate remuneration strategy for the Company, and that you will support the remuneration-related resolutions being put to you at the AGM.

Yours faithfully

Russell King

Chairman of the Remuneration Committee
14 February 2017

The Directors present their Remuneration Report for the year ended 31 December 2016.

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 (www.spectris.com) and are available on request.

The Remuneration Committee regularly reviews the balance between fixed and variable pay and the performance conditions that attach to both short-term 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. Other than providing Non-executive Director fee benchmark information against the same comparators as used elsewhere, FIT does not provide any other services to the Company.

Aon Hewitt ('Aon') separately provides 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. Aon does not provide any other services to the Company. FIT was paid £47,469 in respect of services undertaken in 2016 (2015: £4,528). Aon was paid £46,450 in respect of services undertaken in 2016 (2015: £38,950). These fees were charged on the basis of each firm's standard terms of business. Both FIT and Aon 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)
- Ulf Quellmann
- Kjersti Wiklund

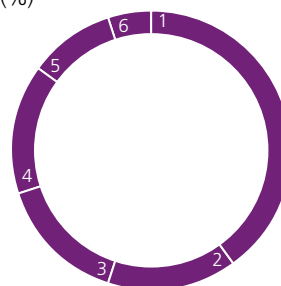
All members of the Committee are independent Non-executive Directors.

Committee meetings

The Committee met five times during the year. Committee attendance is disclosed on page 58. 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

(%)



| | |
|---|----|
| 1 Remuneration Policy and related investor engagement | 40 |
| 2 Annual bonus | 15 |
| 3 Governance including Directors' Remuneration Report | 15 |
| 4 Performance Share Plan | 15 |
| 5 Salary reviews | 10 |
| 6 Operating company incentive plans | 5 |

Activities in 2016

Key issues considered by the Committee during the year included:

- review of the Remuneration Policy in advance of the required 2017 AGM approval;
- 2017 salary reviews for Executive Directors, Executive Committee members and Presidents;
- Operating company management incentives;
- the 2015 Directors' Remuneration Report;
- 2013 PSP grant vesting;
- the 2016-2018 EP range;
- Executive, head office and operating company 2016 PSP grants;
- the Executive Directors' 2015 bonus out-turn; and
- 2016 Executive and operating company management bonus plans.

Directors' Remuneration Report continued

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, and thereby promotes the long-term success of the Company.

| Element of remuneration package | Relevance to the Company's short-term and long-term strategic objectives | Operation |
|--|--|--|
| Base salary | Competitive fixed remuneration that enables Spectris to attract and retain key executives. | Reviewed annually. Benchmarked triennially against relevant comparators. |
| Annual bonus⁵ | Drives short-term profit performance. 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. Bonus payments in excess of 60% of salary must be used to acquire shares in Spectris until the minimum holding of three times base salary is achieved. Payable in cash. Clawback provisions enable variable remuneration to be reclaimed under exceptional circumstances, were there to be any miscalculation of entitlement, misstatement of accounts or incidence of fraud. |
| The Spectris Performance Share Plan ('PSP')⁵ | Drives the delivery of sustained compound annual growth in EPS, relative out-performance in TSR and increased economic profit. | Awards are made annually, with a three-year vesting duration. The Committee may modify the terms for future awards provided they are not, in the view of the Committee, overall, more favourable to participants. Subject to similar clawback provisions as described above for annual bonus. From 2017, subject to a two-year holding period following the initial three-year vesting period where awards are not exercisable and will be available for malus/clawback. Awards may be made in the standard form of awards to receive shares for nil or nominal cost (with the shares either being delivered automatically at vesting or being delivered at a time following vesting at the individual's choice), forfeitable awards of shares or in the form of cash-based conditional awards. The Company also has scope to satisfy the above awards using an HMRC tax-advantaged Executive Share Option Scheme (which permits market value share options to be awarded subject to HMRC's limit of, currently, £30,000). The Company will honour the vesting of all awards granted under previous policies in accordance with the terms of such awards. |

The Directors' Remuneration Policy

The Company intends that, subject to shareholder approval, the following Directors' Remuneration Policy will take effect from 26 May 2017, being the date of the 2017 AGM.

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

| Maximum potential value ¹ | Performance metrics ² | Changes from previous policy ³ |
|--|---|---|
| <p>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.</p> <p>However, to ensure an appropriate cap applies for the duration of this Directors' Remuneration Policy: (i) 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, and (ii) no Executive Director's salary will exceed £750,000.</p> | <p>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.</p> | <p>No material changes.</p> |
| <p>Maximum bonus increased to 150% of salary from 2017 for the Chief Executive (previously 125%). Maximum bonus for the Group Finance Director (or any other Executive Director) remains at 125% of salary.</p> | <p>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. However, the weighting of financial measures will not be reduced below 75% of total annual bonus potential for the duration of this policy.</p> <p>Once set, performance measures will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions.</p> <p>A minimum (threshold) level of performance will result in a bonus of 1% of salary. At target, the bonus level is 60% of salary for the Chief Executive and for the Group Finance Director.</p> | <p>Increase in maximum annual bonus potential for the Chief Executive to 150% of salary from 2017.</p> <p>Otherwise, no material changes.</p> |
| <p>200% of salary. Notional re-investment of dividends will apply from date of grant to the date when the shares are first capable of release, including for any vested shares subject to a holding period.</p> | <p>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).</p> <p>A minimum (threshold) level of performance will result in vesting of 20% of a PSP award.</p> <p>The Committee would consult with major shareholders if it proposed changing materially the current performance measures applied for PSP awards made to Executive Directors or the weightings between these measures.</p> <p>As is normal, the Committee will have the power to vary the terms of performance conditions after awards have been made to take account of technical changes, for example changes in accounting standards or the takeover of a company in a TSR comparator group, or if an event occurs that causes the Committee to consider that the performance condition can no longer achieve its original purpose. However, the amended performance condition will have to be, in the Committee's view, no less challenging in the circumstances as a result of the change.</p> | <p>Introduction of two-year post-vesting holding period.</p> <p>Otherwise, no material changes.</p> |

Directors' Remuneration Report continued

| Element of remuneration package | Relevance to the Company's short-term and long-term strategic objectives | Operation |
|---|--|---|
| Pension and benefits in kind⁴ | 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, medical insurance and life and disability insurance. 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 the level allowed by HMRC (currently £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. |

Notes

- 1 Stating maximum amounts for the Directors' Remuneration Policy.
The regulations governing directors' remuneration reports and related investor guidance encourage companies to disclose a cap within which each element of remuneration policy will operate. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.
- 2 Rationale for performance measures chosen:
 - Annual bonus – the performance conditions used to determine bonus achievement are selected by the Committee with the emphasis on driving growth in annual adjusted profit before tax and aspiring to meet or exceed stretching targets, to the benefit of shareholders. The remaining bonus component aims to reward the achievement of significant and demanding personal performance objectives.
 - PSP – the rationale for the EPS, TSR and EP performance measures that will apply to PSP awards to be made in 2017 is that these performance measures promote an appropriate balance between absolute financial performance, strong relative performance and the efficient application of capital resources in generating profits.
- 3 Differences between the policy on remuneration for Directors from the policy on remuneration for other employees.
Where the Company's pay policy for the Executive Directors differs from its pay policies for groups of employees, this reflects the appropriate market rate position for the relevant roles.

| Maximum potential value ¹ | Performance metrics ² | Changes from previous policy ³ |
|---|---|---|
| <p>25% of salary company pension contribution and/or taxable allowance in lieu.</p> <p>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.</p> <p>Where the requirements of the business involve a Director relocating, the Company may make a payment towards related expenses as it considers appropriate.</p> <p>A departing gift may be provided up to a value of £2,500 per Director.</p> | Not applicable to this element. | No material changes. |
| 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. | No material changes. |
| 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. | No material changes. |

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

5 Discretions reserved in operating incentive plans.

The Committee will operate the annual bonus plan and PSP according to their respective rules and the above Directors' Remuneration Policy table. The Committee reserves certain discretions, consistent with market practice, in relation to the operation and administration of these plans including:

- (as described in the above table) the determination of performance measures and targets and resultant vesting and pay-out levels;
- (as described in the above table) the ability to adjust performance measures and targets to reflect events and/or to ensure that the performance measures and targets operate as originally intended;
- (as described in the Termination arrangements section on page 81) determination of the treatment of individuals who leave employment, based on the rules of the incentive plans, and the application of the incentive plans under exceptional events, such as a change of control of the Company; and
- the ability to make adjustments to existing awards made under the incentive plans in certain circumstances (e.g. rights issues, corporate restructurings or special dividends).

Directors' Remuneration Report continued

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 | Competitive fees that enable Spectris to attract able and experienced Directors. | <p>Normally reviewed biennially and determined by reference to market practice (although the Board may review at other times).</p> <p>Base fee is supplemented by fees for chairmanship of the Audit and Risk and Remuneration Committees and for the Senior Independent Director. Travel allowances are paid, where applicable. 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.</p> <p>There is no participation in bonus, share plan or pension arrangements.</p> <p>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.¹</p> |

Note

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

The graph below details the Executive Directors' anticipated reward mix should the Directors' Remuneration Policy be approved at the AGM:

Executive Directors' anticipated reward mix (%)



Recruitment remuneration

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

- In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to look to the general policy for Executive Directors as set out above and structure a package in accordance with that policy. Consistent with the regulations, the caps contained within the general policy for fixed pay technically do not apply to a recruit, although the Committee would not envisage exceeding such caps in practice.
- Ignoring any one-off buy-out arrangements which may prove to be necessary, the annual bonus and long-term incentive arrangements will operate (including the maximum award levels) as detailed in the general policy in relation to any newly-appointed Executive Director.
- For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.
- For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

| Maximum potential value | Performance metrics | Changes from previous policy |
|---|---------------------------------|------------------------------|
| 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 (currently £650,000 p.a.). A departing gift may be provided up to a value of £2,500 per Director. | Not applicable to this element. | No material changes. |

- All awards for external appointments and which are buy-out awards made to compensate for awards forfeited on leaving the previous employer will be capped at the commercial value of the amount forfeited and will take account of the nature, time horizons and performance requirements of those awards. In particular, the Committee's starting point will be to ensure that any awards being forfeited which remain subject to outstanding performance requirements (other than where substantially complete) are bought out with Spectris awards subject to replacement requirements and any awards with continuing service requirements are bought out with similar terms. However, exceptionally, the Committee may relax these obligations where it considers it to be in the interests of shareholders and those factors are, in the view of the Committee, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited.
- Buy-outs may be made under the annual bonus, PSP or made on varied terms (in reliance on Listing Rule 9.4.2). Buy-outs will only include guaranteed amounts under the annual bonus where the Committee considers that it is necessary to secure the recruitment. For the avoidance of doubt, buy-out awards to compensate for awards forfeited are not subject to a formal cap.

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

Termination arrangements

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

Ordinarily, no bonus payments would be made and all share awards would lapse following termination. Under certain circumstances, however, for example good leaver, provisions covering retirement and ill health, bonus entitlements may be payable, calculated to the date of termination only. Additionally, awards made under the PSP will remain exercisable subject to time pro-rating and the application of the performance conditions at the measurement date. The Committee also retains a standard ability to vary or disapply time pro-rating for PSP awards for good leavers where it considers it fair and reasonable to do so or to allow good leavers' PSP awards to vest at the date of termination (subject to time pro-rating and the application of performance conditions) in exceptional cases. Likewise, on a change of control, PSP awards may vest in accordance with the rules of the plan (performance conditions and time pro-rating

Directors' Remuneration Report continued

apply, subject to a standard ability for the Committee to vary or disapply time pro-rating). Vested PSP awards which are subject to a holding period will not normally be forfeited on a termination and the holding period will continue to apply to such awards (although the Committee may release awards early from the holding period in appropriate cases). If the reason for termination is misconduct, vested PSP awards which are subject to a holding period will be forfeited.

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

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

Service contracts

The Executive Directors have rolling contracts subject to 12 months' notice of termination by either party, or to summary notice in the event by the Director of a serious breach of obligations, dishonesty, serious misconduct or other conduct bringing the Company into disrepute.

Mr O'Higgins' and Mr Watson's contracts of employment contain an option, at the sole discretion of the Board, for the contract to be terminated by way of payments in lieu of notice equivalent to 1.4 times monthly base salary for the outstanding

months of the notice period. This was reduced, in 2011, from the previous level of 1.65 times to exclude any element of compensation for loss of bonus and is in full and final settlement of all employment-related claims. In such circumstances, the Director also becomes subject to a contractual best endeavours obligation to seek alternative employment and in this event full mitigation applies reflective of any earnings from a new position (reducing the payments otherwise due from the Company during the notice period). This phased payment provision, subject to reduction as explained above, applies in lieu of all remuneration and benefits otherwise payable during the notice period. The 0.4 times uplift on monthly salary accounts for the 25% employer pension contribution; company car, insurance and fuel benefits; mobile telephone provision; life, disability and medical expenses insurances; and settlement of any statutory employment claims that may arise from termination. Whether the Board elects to apply this payment in lieu option will depend on the circumstances underlying termination and its assessment of the best interests of shareholders at the time. Any bonus payment to a good leaver will be calculated to the date of termination only.

The Committee is aware of the best practice expectations set out in the 2008 ABI/Pensions and Lifetime Savings Association (formerly NAPF) joint statement on executive contracts and severance and has noted the subsequent updates to the Pensions and Lifetime Savings Association policy. This guidance, and any future revisions, will be taken into account before agreeing any future service contracts. The Committee is committed to continuous review of its policies in the best interests of shareholders.

The following table sets out a summary of the Directors' service contracts or terms of appointment:

| | Date of contract | Expiry date | Notice period | Length of service at 14 February 2017 |
|--------------------------------|------------------|-----------------------|---------------|--|
| Executive Directors | | | | |
| J E O'Higgins | 1 Jan 2006 | 3 Feb 2029 | 12 months | 11 years 1 month |
| C G Watson | 1 Oct 2006 | 4 Feb 2023 | 12 months | 10 years 4 months |
| Non-executive Directors | | | | |
| Dr J L M Hughes CBE | 1 Jun 2007 | renewable at each AGM | 6 months | 9 years 8 months |
| R J King | 12 Oct 2010 | renewable at each AGM | 6 months | 6 years 4 months |
| U Quellmann | 1 Jan 2015 | renewable at each AGM | 6 months | 2 years 1 month |
| W C Seeger | 1 Jan 2015 | renewable at each AGM | 6 months | 2 years 1 month |
| M B Wyrsh | 1 Jun 2012 | renewable at each AGM | 6 months | 4 years 8 months |
| K Wiklund | 19 Jan 2017 | renewable at each AGM | 6 months | 1 month |

Non-executive Directors

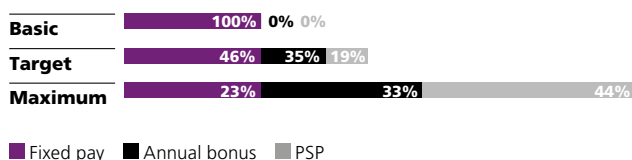
All Non-executive Directors' conditions of appointment provide for a six-month period of notice and are renewable at each AGM, subject to review prior to proposal for re-election. Ordinarily, appointments do not continue beyond nine years after first election, at which time Non-executive Directors cease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

Range of remuneration expectations

The following graphs show the remuneration each of the Executive Directors is expected to receive if their performance fails to meet threshold (basic), attains target or achieves maximum under the proposals for variable remuneration to be approved at the 2017 AGM:

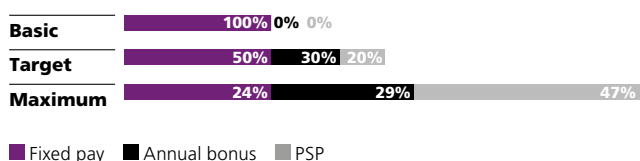
Chief Executive's remuneration

(£'000)



Group Finance Director's remuneration

(£'000)



Notes

- Fixed pay includes: base salary, pension, pension salary supplement, all-employee share plan participation, benefits in kind and taxable expenses.
- Annual bonus is based on a percentage of base salary: at target level this is 60% of base salary; at maximum level this is 150% of base salary.
- PSP is based on a percentage of base salary: at target level this is 40% of base salary; at maximum level this is 200%. Each bar shows the percentage of the total comprised by each of the parts.

Consideration of conditions elsewhere in the Group

The Committee is sensitive to the need to set Directors' remuneration having regard to pay and employment conditions in the Group as a whole and is satisfied that the approach taken by the Company is fair and reasonable in light of current market practice and the best interests of shareholders. The levels of remuneration and annual increase awarded to the Presidents of each of the Group's operating businesses are taken into consideration, notwithstanding that these reflect such businesses' particular trading position and the geographical and technical employment markets in which they operate.

Remuneration for Presidents of the Group's trading companies is set at competitive levels to reflect the size, complexity and geographic locations of these businesses. Base salaries fall within a range between £132,908 and £279,364. Additionally, the Group's Presidents participate in share awards under the PSP, albeit at lower levels than the Executive Directors, and in profit-related bonus arrangements linked to base salary and payable according to their business's achievement of annual operating profit plus or minus a financing charge/credit arising from changes in working capital over the year. On-target plan performance delivers c. 50% bonus, with the upper limit of the profit range delivering 100% of base salary.

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

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

Consideration of shareholders' views

The proposals for the new Directors' Remuneration Policy were the subject of consultation with the Company's significant shareholders and with ISS, the Investment Association, Glass Lewis and the Pensions and Lifetime Savings Association. The feedback received from this process was considered and incorporated in the proposals for the Directors' Remuneration Policy.

Directors' Remuneration Report continued

Implementation report

Implementation of the Remuneration Policy for 2017

| Element of Remuneration Policy | Implementation detail |
|--|--|
| Base salary | Increase in the Chief Executive's salary to £597,000 and the Group Finance Director's salary to £378,500 with effect from 1 January 2017. In line with the Directors' Remuneration Policy, these increases are at a level consistent with the average increase in general UK wage inflation. |
| Annual bonus | <p>Bonus maximum for the Chief Executive has been increased to 150% of base salary (formerly 125% of base salary). Bonus maximum for the Group Finance Director is unchanged at 125% of base salary. Performance measures for the annual bonus in 2017 are weighted as follows:</p> <ul style="list-style-type: none"> • Chief Executive: 125% adjusted profit before tax, 25% personal objectives. • Group Finance Director: 100% adjusted profit before tax, 25% personal objectives. <p>The performance targets for the adjusted profit before tax measure and details of the personal objectives will be disclosed within the 2017 Directors' Remuneration Report.</p> |
| Performance Share Plan | <p>Award levels for the Executive Directors for 2017 are unchanged at 200% of base salary. A two-year holding period will be added for new awards from 2017 onwards.</p> <p>The performance measures for 2017 awards remain unchanged, with one-third weightings to each of growth in EPS, relative TSR and EP.</p> <p>For 2017 awards, the EPS growth range will be reduced from CPI + 5-13% p.a. to CPI + 5-11% p.a, which remains more demanding than the norm across FTSE 250 companies generally. The TSR condition will remain subject to measurement against the constituents of the FTSE 250 (excluding investment trusts) with a median to upper quintile vesting range. The aggregate EP over the performance period for the 2017 award will result in the following levels of vesting:</p> <ul style="list-style-type: none"> • Less than £150 million – Nil • £150 million – 20% • Between £150 million and £280 million – between 20% and 100% • £280 million or more – 100% <p>Additional details:</p> <ul style="list-style-type: none"> • The aggregate EP range is determined by the Committee for each new three-year performance period. • The performance periods for the EPS and EP measures for the 2017 award will be the three financial years 2017, 2018 and 2019. • 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. • For EP, the weighted average cost of capital was set at 11% for the 2017 awards. • 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. |
| Pension and benefits in kind | <p>No changes to these elements from 2016:</p> <ul style="list-style-type: none"> • 25% of base salary pension contribution for the Executive Directors. • No change to benefits in kind provided. |
| All-employee share plans | Continued opportunity to participate in an HMRC tax-advantaged Savings Related Share Option Scheme on the same basis as all other UK employees. |
| Share ownership guidelines | 300% of base salary. |
| Chairman and Non-Executive Director fees and travel allowance | Increase in the Chairman's fee to £220,000 p.a., the Non-executive Directors' fee to £55,000 p.a. and the Senior Independent Director's fee to £10,000 p.a. The Audit and Risk and Remuneration Committee Chairmen's fees of £10,000 p.a. were not increased. The travel supplement paid to W C Seeger and M B Wyrsh was increased to £15,000 p.a. |

Voting outcomes from the 2016 AGM

The 2015 Directors' Remuneration Report was supported by

99.6% of those registering votes by proxy in advance of the 2016 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 2015 | 98,824,502 | 99.6% | 290,398 | 0.3% | 3,992 | 0.1% |

A vote to approve the current Directors' Remuneration Policy was passed at the 2014 AGM. Details of the votes cast in relation to this resolution were disclosed in the Company's Directors' Remuneration Report for 2014 which is available as part of the Spectris plc Annual Report and Accounts for 2014.

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 | M B Wyrsh |
|--------------------------------|-------------|------------------|---------------|---------------------------|----------------|--------------|-------------|----------------|---------------|--------------|
| A. Base salary/fees | 2016 | 578 | 367 | 210 | 49 | 25 | 68 | 53 | 71 | 61 |
| | 2015 | 570 | 362 | 200 | 53 | 61 | 68 | 53 | 69 | 61 |
| B. Taxable benefits | 2016 | 18 | 15 | – | – | – | – | – | – | – |
| | 2015 | 17 | 15 | – | – | – | – | – | – | – |
| C. Bonus | 2016 | 647 | 416 | – | – | – | – | – | – | – |
| | 2015 | – | – | – | – | – | – | – | – | – |
| D. PSP and Save As You Earn | 2016 | – | – | – | – | – | – | – | – | – |
| | 2015 | – | – | – | – | – | – | – | – | – |
| E. Pension-related benefits | 2016 | 145 | 92 | – | – | – | – | – | – | – |
| | 2015 | 142 | 90 | – | – | – | – | – | – | – |
| Total | 2016 | 1,388 | 890 | 210 | 49 | 25 | 68 | 53 | 71 | 61 |
| | 2015 | 729 | 467 | 200 | 53 | 61 | 68 | 53 | 69 | 61 |

The total aggregate base salaries, fees, benefits, cash bonuses and cash in lieu of pension for all Directors in 2016 was £2,815,000 (2015: £1,790,000).

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

2016 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 2016 performance, based on the targets set at the start of the financial year, was as follows (as a percentage of salary at 31 December 2016):

| | |
|---------------|---------|
| J E O'Higgins | 111.94% |
| C G Watson | 113.44% |

Within the above entitlement for Mr J E O'Higgins and Mr C G Watson, 88.44% related to the profit before tax target and the balance to achievement of personal objectives.

Directors' Remuneration Report continued

The profit before tax bonus range established by the Committee for 2016 was as follows:

| Bonus level (as percentage of maximum for this element) | 0% | 50% | 100% |
|---|----------------|----------------|--------------|
| Adjusted profit before tax | £165.4 million | £181.4 million | £200 million |

The 2016 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

| Objectives | Weighting |
|--|-----------|
| <p>Strategy: Continued execution of the agreed strategy. Progress development of a solutions platform comprising product and service offerings with complementary software strategies. Define a growth map for an Industrial Internet of Things driven strategy. Continue sector-specific strategies focusing on life sciences, energy and industrial services. Maintain focus on larger transformational platform acquisition ideas which utilise the Group's current strong balance sheet. Develop alternative scenarios towards achieving these strategic goals. Consider shareholder value creation strategies where a large acquisition is not possible in 2016.</p> | 15% |
| <p>Organisation values and operational excellence: Improve the Group's customer focus through implementing common customer satisfaction metrics. Embed and implement the common talent management programme across the Group. Deepen the reach of Lean Six Sigma principles across the Group as a consistent basis for improving operational excellence beyond manufacturing activities. Maintain leadership focus on Spectris' Code of Business Ethics and improve diversity.</p> | 10% |

Group Finance Director

| Objectives | Weighting |
|---|------------------------|
| <p>Cost control: Align cost growth with sales growth. Build cost control mechanisms. Ramp up process excellence projects across all Head Office finance functions.</p> | 25% for all objectives |
| <p>Tax and treasury: Improve monthly average working capital to sales percentage ratio.</p> | |
| <p>Internal audit: Process improvements – implement audit findings tracking database.</p> | |

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.

Similar financial and personal targets have been set for 2017 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 2016 are shown as nil since there was nil vesting of those shares subject to a TSR performance condition within the 2013 PSP grant (which vested on 27 February 2016) and the number of shares vesting during 2017 in respect of the portion of the 2014 PSP award subject to an EPS growth condition was also zero.

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 EP 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 for the 2015 and 2016 awards:

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

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 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 EP 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.

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.

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 million 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 during the year, nor currently participates in a defined benefit plan.

Directors' Remuneration Report continued

Directors' shareholdings (subject to audit)

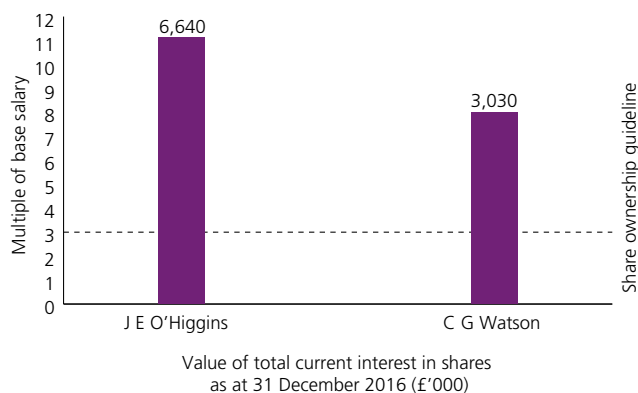
Each Executive Director is, subject to personal circumstances, required to build a retained shareholding in Spectris plc of at least three-times base salary in value and is required to apply the post-tax benefit of any vested PSP awards or any bonus payments exceeding 60% of base salary to the acquisition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

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

Directors' retained shareholdings

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

Executive Directors' retained shareholdings



| | Shareholdings | |
|---------------------|---------------------|-------------------|
| | 2016 31 December | 2016 1 January |
| Dr J L M Hughes CBE | 10,000 | 10,000 |
| J E O'Higgins | 287,104 | 286,574 |
| R J King | 3,000 | 3,000 |
| W C Seeger | 3,000 | 3,000 |
| U Quellmann | 1,500 | 1,000 |
| C G Watson | 131,000 | 131,000 |
| M B Wyrsh | 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 (normally) limited to one per Director at any time and are subject to the approval of the Board. Mr Watson is a non-executive director of Spirax-Sarco Engineering plc and was paid a fee of £57,000 during 2016. 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 an eight-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 (%) |
|----------------------|---|---|---|
| 2016 | 1,388 | 90 | 0 |
| 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 eight 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

Source: Datastream (Thomson Reuters)



This graph shows the value, by 31 December 2016, of £100 invested in Spectris on 31 December 2008, compared with the value of £100 invested in the FTSE 250 Index (excluding investment trusts) on the same date.

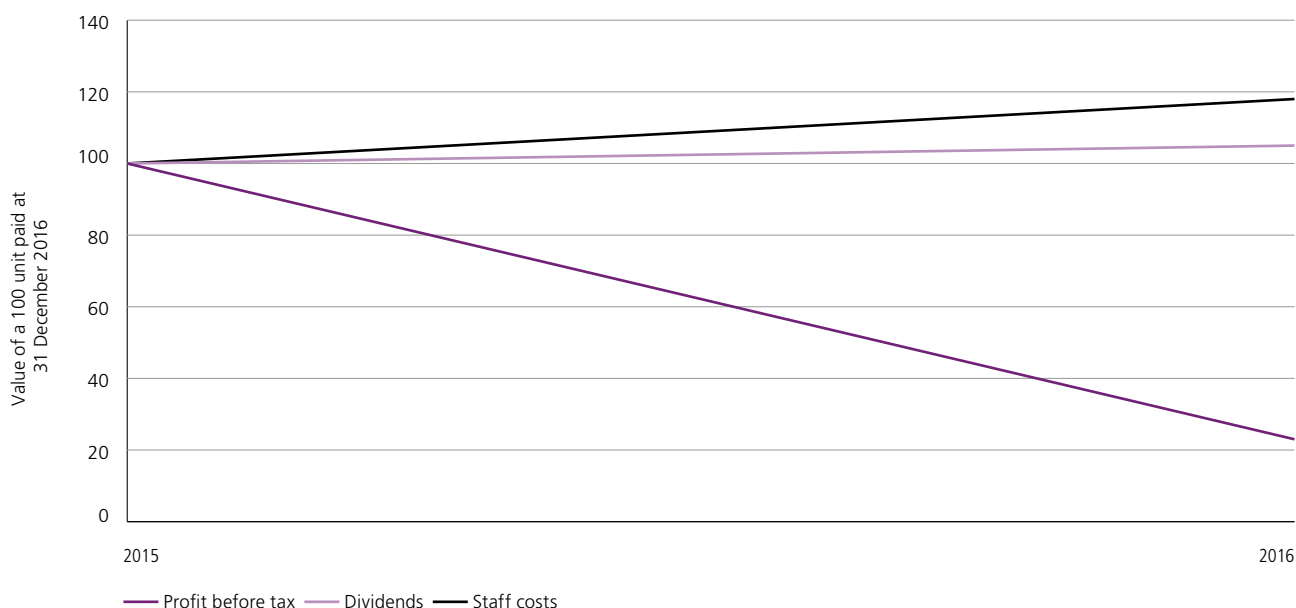
The other points plotted are the values at intervening financial year ends.

Directors' Remuneration Report continued

Percentage change in the remuneration of the Chief Executive

The base salary and taxable benefits of the Chief Executive increased by 3.3% and 4.4%, respectively, in 2016. The 2016 bonus of the Chief Executive (paid in February 2017) rose from 0% in 2015 to 111.94% in 2016. This compares to a 3% base salary increase awarded on average to the Company's UK employees, a decrease in their taxable benefits of 27.1% and an increase in their bonuses of 9.2% in 2016. The 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 above 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.

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 16 | Granted during the year | Exercise price (p) | Exercised during the year | Face value of options at date of grant (£) | Share price at date of exercise (p) | Lapsed during the year | Options held 31 Dec 16 | Date exercisable | Expiry date |
|----------------------|--------------|-----------------------|-------------------------|--------------------|---------------------------|--|-------------------------------------|------------------------|------------------------|------------------|-------------|
| J E O'Higgins | | | | | | | | | | | |
| SAYE | Sep 2012 | 530 | – | 1,695 | 530 | 8,984 | 1,675 | – | – | 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 | Jun 2019 |
| Total | | 2,012 | – | | 530 | 35,966 | – | – | 1,482 | | |

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

| | Number of shares subject to award at 1 Jan 16 | Date granted | Exercise price (p) | Granted during the year | Addition of reinvested 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 16 | Market value of each share at date of award (p) | Performance period end date/date exercisable | Expiry date |
|------------------|---|--------------|--------------------|-------------------------|---|--------------------------------------|---------------------------|------------------------------|------------------------|--|---|--|-------------|
| J E | | | | | | | | | | | | | |
| O'Higgins | 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 |
| | 51,830 | Mar 2015 | 5 | | | 1,138,809 | | | | 51,830 | 2,197.2 | Mar 2018 | Mar 2025 |
| | | Feb 2016 | 5 | 67,460 | | 1,155,995 | | | | 67,460 | 1,713.6 | Feb 2019 | Feb 2026 |
| Total | 129,660 | | | 67,460 | | 4,073,321 | | | (27,370) | 169,750 | | | |
| C G | | | | | | | | | | | | | |
| Watson | 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 |
| | 32,930 | Mar 2015 | 5 | | | 723,538 | | | | 32,930 | 2,197.2 | Mar 2018 | Mar 2025 |
| | | Feb 2016 | 5 | 42,860 | | 734,449 | | | | 42,860 | 1,713.6 | Feb 2019 | Feb 2026 |
| Total | 82,370 | | | 42,860 | | 2,587,763 | | | (17,390) | 107,840 | | | |
| Total | 212,030 | | | 110,320 | | 6,661,084 | | | (44,760) | 277,590 | | | |

Note

1 Under the terms of the PSP, notional dividends of the Company are applied over award shares during the period until vesting (and from 2017, for any applicable holding period until exercise), thereby increasing the number of award shares granted. These additional award shares are subject to application of the performance criteria attaching to the award.

20% 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 1,713.6 pence for the 2016 awards. For each of Mr O'Higgins and Mr Watson, the value of the 2016 PSP award was equivalent to 200% of their base salaries. Details of the performance measures applicable to 2016 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. 4.1% of the 5% limit has been utilised.

The awards granted to Mr O'Higgins and Mr Watson in 2013 of 27,370 and 17,390 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 TSR performance condition is measured independently by Aon. 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.

The aggregate gains on exercise for all Directors under the Company's share plans were therefore £nil (2015: £nil).

Loss of office payments and payments to former Directors

No compensation payments on termination of employment were made to Directors during the year and no such payments were made to former Directors.

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 2016, the mid-market closing share price on the London Stock Exchange was 2,313 pence. The highest mid-market closing share price in the year was 2,313 pence and the lowest was 1,442 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
14 February 2017

Company Registration No. 2025003

Other Statutory Information

The Directors' Report on pages 53 to 94 is formed of the Corporate Governance Report, the Directors' Remuneration Report and Other Statutory Information. 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 Guidance and Transparency Rules and the Listing Rules.

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 10 and 11;
- likely future developments of the business on page 7;
- the Group's principal risks and risk management policies on pages 30 to 39;
- the Directors' viability statement on page 40;
- greenhouse gas emissions, methodologies used for reporting and intensity ratios on pages 43 and 44;
- the Group's employment policies, including approach to diversity, the employment of disabled people and employee involvement on pages 45 to 47; and
- the Group's R&D activities on pages 6 and 7.

Results and dividends

The results for the year are set out on pages 99 to 169. Adjusted operating profit for the year amounts to £200.8 million (2015: £181.1 million).

Dividends paid and proposed are as follows:

| | 2016 | 2015 |
|------------------|-----------------|-----------------|
| Dividends | Pence per share | Pence per share |
| Interim (paid) | 18.0 | 17.3 |
| Final (proposed) | 34.0 | 32.2 |
| Total dividend | 52.0 | 49.5 |

The final dividend will be paid on 30 June 2017 to shareholders on the register on 26 May 2017.

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, 26 May 2017 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 2016 AGM can be found on page 72. There was no significant vote against any of the resolutions. The results of the 2017 AGM will be published on the Company's website (www.spectris.com) shortly after the meeting.

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 73 to 91.

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 21 to the Financial Statements on page 139. The Articles, available on the Company's website, contain provisions governing the ownership and transfer of shares.

Authority to purchase own shares

At the 2016 AGM, shareholders authorised the Directors to make market purchases of the Company's ordinary shares up to a maximum number of 11,910,000 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 13 February 2017, the Company had 125,005,123 ordinary shares in issue, of which 5,839,577 were held in treasury. During the year, 58,395 shares were transferred out of treasury to meet the Company's obligations under its share plans, with no shares being cancelled out of treasury.

Authority to make further market purchases of the Company's ordinary shares, if believed appropriate, will be sought at the forthcoming AGM. The Board currently has no intention of using this authority.

Authority to allot shares

Included in the special business of the 2017 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 Guidance 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 2016 | Percentage of issued share capital as at the date of this report |
|---|---------------------------------------|--|---|
| MFS Investment Management | 14,720,317 | 13.16 | 12.36 |
| Fidelity Management & Research Company | 8,141,073 | 6.74 | 6.83 |
| Wellington Management Company | 6,488,075 | 5.01 | 5.44 |
| Marathon Asset Management LLP | 5,616,834 | 4.79 | 4.71 |
| MassMutual Life Insurance Company | 5,430,114 | 4.55 | 4.56 |
| Sprucegrove Investment Management | 4,351,150 | 3.74 | 3.65 |
| BlackRock Inc | 4,021,546 | 3.21 | 3.37 |

No changes have been disclosed in accordance with these rules in the period 31 December 2016 to the date of this report.

Disclosures required under UK Listing Rule 9.8.4R

For the purposes of Listing Rule 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 | Not applicable | – |
| (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 150 to 153.

Auditor

As described in the Audit and Risk Committee Report, the Audit Committee led a competitive tender process in which KPMG was not invited to take part. The Audit and Risk Committee recommended to the Board that Deloitte be appointed as external auditor for the 2017 financial year. Resolutions to approve the appointment of Deloitte as the Company's auditor and authorising the Audit and Risk Committee to determine their remuneration will be proposed at the forthcoming AGM.

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 that would provide for enhanced compensation for loss of office or employment following a takeover bid.

Other Statutory Information continued

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 (2015: nil).

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, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and Article 4 of the IAS Regulation and have also 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 accounting 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 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 issues 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, performance, business model and strategy.

By order of the Board.

Roger Stephens

Secretary

14 February 2017

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 2016 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 on pages 99 to 170. 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 2016 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, in decreasing order of audit significance, were as follows:

Valuation of goodwill and intangible assets, in particular the balances relating to Omega Engineering and ESG Solutions £899.5 million (2015: £786.6 million) Risk vs 2015: ▲

Refer to page 64 (Audit and Risk Committee Report), pages 105-106 (accounting policy), page 105 (critical accounting judgements and sources of estimation uncertainty) and pages 125-128 (financial disclosures).

The risk:

- The Group has goodwill of £654.3 million and intangible assets of £245.2 million as at 31 December 2016. Management has allocated the above assets to 14 individual cash-generating units ('CGUs') which operate across a broad range of markets and geographies. Goodwill must be tested for impairment on at least an annual basis.
- Pre-tax impairment charges of £94.4 million and £18.9 million were recorded during the year against the carrying amount of goodwill in relation to Omega Engineering and ESG Solutions respectively. Additionally, a pre-tax impairment charge of £1.0 million was recorded during the year against the carrying amount of other intangible assets in relation to ESG Solutions.
- The assessment of the recoverability of goodwill and intangible assets is determined based on the recoverable amount of the CGU, being the higher of its value-in-use

and fair value less costs to dispose. Recoverable amounts are calculated based on management's view of the future business prospects, forecast trading performance and the appropriate discount rates to be applied.

- The key sources of estimation uncertainty in determining the recoverable amount of the Omega Engineering and ESG Solutions CGUs are in respect of the forecast cash flows, the long-term growth rates applied and use of appropriate discount rates.
- Difficult trading conditions in North America, the primary market for Omega Engineering coupled with operational challenges; and a prolonged period of low oil and gas prices, a key driver of the performance of ESG Solutions; have had an adverse effect on these two CGU's performance. This, together with the inherent uncertainties associated with forecasting and discounting future cash flows means that the valuation of goodwill and intangible assets is a key area of judgement that our audit concentrated on.
- In addition, the Omega Engineering goodwill as at 31 December 2016 has been determined by management to be sensitive to reasonable possible changes in the assumptions used, which could result in the calculated recoverable amount being lower than the carrying value of the CGU. Additional sensitivity disclosures have been included in the Group Financial Statements in respect of Omega Engineering.

Our response:

- We evaluated the process management undertook to prepare the cash flow forecasts in its impairment model and compared them against the latest Board approved plans and management approved forecasts.
- We evaluated the historical accuracy of the above plans and forecasts, by comparing the forecasts used in the prior year model to the actual performance of the business in the current year.
- We critically assessed the appropriateness of management's key assumptions (being forecast cash flows, long-term growth rates and discount rates), specifically focusing on Omega Engineering and ESG Solutions CGUs, based upon our own assessments and a benchmarking against industry and economic forecasts and peer group comparators. For ESG Solutions, we also considered metrics such as future market oil prices.
- We challenged management on the appropriateness of its sensitivity calculations by applying our own sensitivity analysis to the key assumptions to evaluate the extent to which reasonably possible adverse changes would, either individually or in aggregate, require an impairment of either the goodwill or intangible assets.
- We identified that the goodwill acquired with Omega Engineering was most sensitive to changes in key assumptions. Management has described the impairment charges recorded and these sensitivities in the 'Goodwill and other intangible assets' Note 11 to the Group Financial Statements. We considered the adequacy of the Group's disclosures in this regard.

Independent Auditor's Report to the Members of Spectris plc only *continued*

Accounting for acquisitions, in particular Millbrook Group £174.2 million (2015: £44.8 million) Risk vs 2015: ▲

Refer to pages 64 (Audit and Risk Committee Report), page 105 (accounting policy), page 105 (critical accounting judgements and sources of estimation uncertainty) and pages 144-147 (financial disclosures).

The risk:

- During the year, the Group acquired six businesses including Millbrook Group for a total consideration of £174.2 million. These acquisitions gave rise to goodwill and intangible assets of £81.5 million and £45.1 million respectively.
- There is significant judgement and estimation 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 intangible assets.
- The acquisition of Millbrook Group in the year for cash consideration of £125.7 million involved the acquisition of a number of tangible assets including a purpose-built test facility for cars and heavy duty vehicles and other specialised test and validation equipment; the valuation and useful economic life of these specific assets (in total £54.3 million) required significant judgement as there are no readily available market values for these assets.
- The liability for contingent consideration arrangements in respect to past acquisitions was £16.2 million at 31 December 2016. Payments to be made under these arrangements are contingent on the achievement of future sales targets and the outcome of key non-financial metrics. Given the inherent uncertainty regarding achievement of these targets, significant judgement is required in measuring the fair value of the contingent consideration obligation at the acquisition date and in re-measuring to its fair value at each reporting date.

Our response:

- Our audit procedures included testing the accuracy of the input data used in the valuation models and critically challenging the key valuation assumptions and methodologies used by management as the basis to identify the assets and liabilities acquired and determine their fair value. 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. Additionally, we considered the appropriateness of the useful economic lives together with considering what is represented by residual goodwill.
- In respect of the tangible fixed assets acquired as part of Millbrook Group we used our own valuation specialists to assess the work performed and critically challenge the valuations and useful economic life prepared by third party valuation experts engaged by management.
- In respect of contingent consideration we inspected the terms of the acquisition contracts to determine whether the accounting treatment of performance-related consideration arrangements is appropriate based on the criteria of the relevant accounting standards.

- Our substantive work over contingent consideration focused on critically challenging the forecast outcome of key non-financial metrics and the performance of the acquired business which is the basis for the estimate of the contingent consideration liability. The key assumptions underlying the sales forecasts were compared with management's planned development of the businesses and also the historical trading performance of the acquired businesses and results since the acquisition date.
- We also considered the adequacy of the Group's disclosures (see Notes 24 and 26) with respect to the acquisitions and contingent consideration.

Valuation of inventory £187.8 million (2015: £182.5 million) Risk vs 2015: ◀▶

Refer to page 64 (Audit and Risk Committee Report), page 106 (accounting policy), page 105 (critical accounting judgements and sources of estimation uncertainty) and page 130 (financial disclosures).

The risk:

- The Group has a provision against gross inventory of £65.9 million as at 31 December 2016. Management has applied judgement to assess the level of provisions required to write down obsolete, excess and slow-moving inventory items to their net realisable value.
- 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.
- 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 inventory provisions being one of the key judgemental areas that our audit concentrated on.

Our response:

- 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. 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.

We continue to perform procedures over all working capital provisions, including provisions for doubtful trade receivable balances. However, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year. This is due to the collections experience and degree of judgement involved, as management consistently applied its credit risk

management policy, which requires all balances overdue for above 120 days to be provided for in full.

Provision for uncertain tax exposures £10.9 million (2015: £9.9 million) Risk vs 2015: ◀▶

Refer to page 64 (Audit and Risk Committee Report), page 107 (accounting policy), page 105 (critical accounting judgements and sources of estimation uncertainty) and pages 121-123 (financial disclosures).

The risk:

- Periodic challenge of transfer pricing and financing arrangements, in particular, by local tax authorities in the normal course of business may result in tax exposures and potential interest and penalties.
- Management apply judgement to the recognition and measurement of provisions for tax exposures relating to open tax years. The group operates in multiple jurisdictions. Given the complexities of cross-border transactions including transfer pricing arrangements and other national tax laws and regulations and the time taken for tax matters to be agreed with tax authorities, this is one of our areas of focus. Movements in tax provisions also impact earnings.
- Where the amount of tax is uncertain, the Group establishes provisions based on management's judgement and estimate of the probable amount of the liability.
- As at 31 December 2016 the group had current taxes payable of £36.8 million.

Our response:

- Our principal audit procedures included the use of our own international and local tax specialists to assess the Group's tax positions and its latest correspondence with the relevant tax authorities. We analysed and challenged the assumptions used by management 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 also considered the adequacy of the Group's disclosures in respect of tax and uncertain tax exposures.

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 £7.4 million (2015: £7.0 million), determined with reference to a benchmark of Group profit before tax, before the impairment charge relating to Omega Engineering and ESG, of which it represents 5% (2015: 5%).

We report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.4 million (2015: £0.4 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at key reporting components in the following countries: Australia, China, Denmark, France, Germany, Korea, Sweden, Switzerland, the Netherlands and the United Kingdom. Specific risk-focused audit procedures were performed at reporting components in Singapore, the United Kingdom 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-focused 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 75% (2015: 68%) of total Group revenue; 87% (2015: 82%) of Group profit before tax; and 74% (2015: 69%) of total Group assets.

The remaining 25% (2015: 32%) of total Group revenue, 13% (2015: 18%) of Group profit before tax and 26% (2015: 31%) of total Group assets is represented by reporting components none of which individually represent more than 3% (2015: 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 £2.3 million (2015: £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 valuation of goodwill and intangible assets, accounting for acquisitions and provision for uncertain tax exposures. The Group audit team performed the audit work and were physically present at two out of five reporting components in scope in the USA, the Group's single largest geographical market. The Group audit team also physically visited key reporting components in the United Kingdom and the USA. This included a member of the Group team performing an extended visit to the Omega Engineering component team in the USA, reviewing the audit procedures and documentation.

In addition to these visits, telephone and/or online meetings were held with component auditors. The findings reported to the Group audit team were discussed in more detail with component auditors as necessary, and any further work required by the Group audit team was performed by the component auditor.

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 the Directors' Report for the financial year is consistent with the Financial Statements.

Independent Auditor's Report to the Members of Spectris plc only *continued*

Based solely on the work required to be undertaken in the course of the audit of the Financial Statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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 40, 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 2019; 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 93 and page 40 respectively; and
- the part of the Corporate Governance Report on pages 53-94 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 page 94, 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
14 February 2017

Consolidated Income Statement

For the year ended 31 December 2016

| | Note | 2016 £m | 2015 £m |
|--|-------|----------------|------------|
| Continuing operations | | | |
| Revenue | 2,3,4 | 1,345.8 | 1,190.0 |
| Cost of sales | | (585.3) | (506.9) |
| Gross profit | | 760.5 | 683.1 |
| Indirect production and engineering expenses | | (108.9) | (98.6) |
| Sales and marketing expenses | | (320.1) | (274.4) |
| Administrative expenses | | (177.9) | (164.9) |
| Impairment of goodwill and other acquisition-related intangible assets | | (115.3) | (1.6) |
| Operating profit before acquisition-related items and impairment | | 200.8 | 181.1 |
| Net acquisition-related costs and fair value adjustments | 2 | (10.1) | (2.9) |
| Depreciation of acquisition-related fair value adjustments to tangible assets | 2,12 | (0.2) | – |
| Amortisation of acquisition-related intangible assets | 2,11 | (36.9) | (33.0) |
| Impairment of goodwill and other acquisition-related intangible assets | 2,11 | (115.3) | (1.6) |
| Operating profit | 2,3,5 | 38.3 | 143.6 |
| Financial income | 7 | 0.5 | 3.3 |
| Finance costs | 7 | (6.9) | (5.3) |
| Profit before tax | | 31.9 | 141.6 |
| Taxation – UK | 8 | (4.4) | (1.3) |
| Taxation – Overseas | 8 | (17.2) | (26.5) |
| Profit after tax for the year from continuing operations attributable to owners of the Parent Company | | 10.3 | 113.8 |
| Basic earnings per share | 10 | 8.6p | 95.6p |
| Diluted earnings per share | 10 | 8.6p | 95.4p |
| Interim dividends paid and final dividends proposed for the period (per share) | 9 | 52.0p | 49.5p |
| Dividends paid during the period (per share) | 9 | 50.2p | 47.8p |

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 2016

| | Note | 2016 £m | 2015 £m |
|---|------|---------------|------------|
| Profit for the year attributable to owners of the Parent Company | | 10.3 | 113.8 |
| Other comprehensive income: | | | |
| Items that will not be reclassified to the Consolidated Income Statement: | | | |
| Re-measurement of net defined benefit obligations, net of foreign exchange | 19 | (12.6) | (7.9) |
| Tax on items above | 8 | 3.0 | 1.7 |
| | | (9.6) | (6.2) |
| Items that are or may be reclassified subsequently to the Consolidated Income Statement: | | | |
| Net (loss)/gain on effective portion of changes in fair value of forward exchange contracts on cash flow hedges | | (3.1) | 0.1 |
| Foreign exchange movements on translation of overseas operations | | 160.4 | (1.9) |
| Tax on items above | 8 | 0.7 | – |
| | | 158.0 | (1.8) |
| Total comprehensive income for the year attributable to owners of the Parent Company | | 158.7 | 105.8 |

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | 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 2016 | 6.2 | 231.4 | 694.9 | 33.0 | (2.9) | 3.1 | 0.3 | 966.0 |
| Profit for the year | - | - | 10.3 | - | - | - | - | 10.3 |
| Other comprehensive income: | | | | | | | | |
| Net loss on effective portion of changes in fair value of forward exchange contracts, net of tax | - | - | - | - | (2.4) | - | - | (2.4) |
| Foreign exchange movements on translation of overseas operations | - | - | - | 160.4 | - | - | - | 160.4 |
| Re-measurement of net defined benefit obligations, net of foreign exchange and tax | - | - | (9.6) | - | - | - | - | (9.6) |
| Total comprehensive income for the year | - | - | 0.7 | 160.4 | (2.4) | - | - | 158.7 |
| Transactions with owners recorded directly in equity: | | | | | | | | |
| Equity dividends paid by the Company | - | - | (59.8) | - | - | - | - | (59.8) |
| Share-based payments, net of tax | - | - | 2.3 | - | - | - | - | 2.3 |
| Share options exercised from own shares (treasury) purchased | - | - | 0.2 | - | - | - | - | 0.2 |
| Balance at 31 December 2016 | 6.2 | 231.4 | 638.3 | 193.4 | (5.3) | 3.1 | 0.3 | 1,067.4 |

| | 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 |
|--|---------------------|---------------------|-------------------------|---------------------------|-----------------------|----------------------|----------------------------------|--------------------|
| For the year ended 31 December 2015 | | | | | | | | |
| 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 obligations, 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 |

Consolidated Statement of Financial Position

As at 31 December 2016

| | Note | 2016 £m | 2015 £m |
|--|------|----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets: | | | |
| Goodwill | 11 | 654.3 | 584.9 |
| Other intangible assets | 11 | 245.2 | 201.7 |
| | | 899.5 | 786.6 |
| Property, plant and equipment | 12 | 238.8 | 160.8 |
| Deferred tax assets | 20 | 13.4 | 17.2 |
| | | 1,151.7 | 964.6 |
| Current assets | | | |
| Inventories | 13 | 187.8 | 182.5 |
| Income taxation recoverable | | 2.4 | 0.7 |
| Trade and other receivables | 14 | 306.6 | 253.1 |
| Cash and cash equivalents | 15 | 83.5 | 58.2 |
| | | 580.3 | 494.5 |
| Total assets | | 1,732.0 | 1,459.1 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Short-term borrowings | 16 | (12.3) | (1.7) |
| Derivative financial instruments | 26 | (4.2) | (0.4) |
| Trade and other payables | 17 | (259.2) | (206.6) |
| Income taxation payable | | (36.8) | (27.5) |
| Provisions | 18 | (19.5) | (22.2) |
| | | (332.0) | (258.4) |
| Net current assets | | 248.3 | 236.1 |
| Non-current liabilities | | | |
| Medium- and long-term borrowings | 16 | (222.1) | (155.1) |
| Other payables | 17 | (29.0) | (16.6) |
| Retirement benefit obligations | 19 | (40.3) | (22.1) |
| Deferred tax liabilities | 20 | (41.2) | (40.9) |
| | | (332.6) | (234.7) |
| Total liabilities | | (664.6) | (493.1) |
| Net assets | | 1,067.4 | 966.0 |
| EQUITY | | | |
| Share capital | 21 | 6.2 | 6.2 |
| Share premium | | 231.4 | 231.4 |
| Retained earnings | | 638.3 | 694.9 |
| Translation reserve | | 193.4 | 33.0 |
| Hedging reserve | | (5.3) | (2.9) |
| Merger reserve | | 3.1 | 3.1 |
| Capital redemption reserve | | 0.3 | 0.3 |
| Total equity attributable to equity holders of the Parent Company | | 1,067.4 | 966.0 |
| Total liabilities and equity | | 1,732.0 | 1,459.1 |

The Financial Statements on pages 99 to 154 were approved by the Board of Directors on 14 February 2017 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 2016

| | Note | 2016 £m | 2015 £m |
|--|------|----------------|---------------|
| Cash flows from operating activities | | | |
| Profit after tax | | 10.3 | 113.8 |
| Adjustments for: | | | |
| Taxation | 8 | 21.6 | 27.8 |
| Finance costs | 7 | 6.9 | 5.3 |
| Financial income | 7 | (0.5) | (3.3) |
| Depreciation | 12 | 23.0 | 19.6 |
| Amortisation of intangible assets | 11 | 42.4 | 37.8 |
| Impairment of goodwill and other acquisition-related intangible assets | 11 | 115.3 | 1.6 |
| Acquisition-related fair value adjustments | | 5.6 | (0.1) |
| (Profit)/loss on sale of property, plant and equipment | 5 | (1.2) | 0.2 |
| Equity-settled share-based payment transactions | 6 | 2.1 | 0.7 |
| Operating cash flow before changes in working capital and provisions | | 225.5 | 203.4 |
| Increase in trade and other receivables | | (7.1) | (17.1) |
| Decrease/(increase) in inventories | | 25.4 | (7.6) |
| Increase in trade and other payables | | 8.2 | 3.5 |
| (Decrease)/increase in provisions and employee benefits | | (6.3) | 4.7 |
| Net income taxes paid | | (29.8) | (33.5) |
| Net cash flows generated from operating activities | | 215.9 | 153.4 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment and software | | (28.7) | (26.0) |
| Proceeds from disposal of property, plant and equipment and software | | 5.4 | 0.9 |
| Acquisition of businesses, net of cash acquired | 24 | (160.9) | (40.1) |
| Interest received | | 0.5 | 0.2 |
| Net cash flows used in investing activities | | (183.7) | (65.0) |
| Cash flows from financing activities | | | |
| Interest paid | | (4.6) | (4.7) |
| Dividends paid | 9 | (59.8) | (56.9) |
| Proceeds from exercise of share options (treasury shares) | | 0.2 | 0.3 |
| Proceeds from borrowings | | 41.0 | 85.0 |
| Repayment of borrowings | | – | (85.5) |
| Net cash flows used in financing activities | | (23.2) | (61.8) |
| Net increase in cash and cash equivalents | | 9.0 | 26.6 |
| Cash and cash equivalents at beginning of year | | 56.5 | 32.3 |
| Effect of foreign exchange rate changes | | 5.7 | (2.4) |
| Cash and cash equivalents at end of year | 15 | 71.2 | 56.5 |
| Reconciliation of changes in cash and cash equivalents to movements in net debt | | | |
| | Note | 2016 £m | 2015 £m |
| Net increase in cash and cash equivalents | | 9.0 | 26.6 |
| Proceeds from borrowings | | (41.0) | (85.0) |
| Repayment of borrowings | | – | 85.5 |
| Effect of foreign exchange rate changes | | (20.3) | (0.1) |
| Movement in net debt | | (52.3) | 27.0 |
| Net debt at start of year | 16 | (98.6) | (125.6) |
| Net debt at end of year | 16 | (150.9) | (98.6) |

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 99 to 154 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 2016 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 2016 and the Group's financial performance for the year ended 31 December 2016, which incorporate the financial statements of Spectris plc and its subsidiaries.

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 52. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 26 to 29. 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 2016 was £150.9m (2015: £98.6m), with available undrawn committed borrowing facilities of £406.0m (2015: £371.1m).

The Board has reviewed sensitivity analysis on the Group's forecasts to 30 June 2018, 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 40 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 2016 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 and provides a single, principles-based, five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. It replaces the separate model for goods and services of IAS 18 'Revenue'. The Directors do not consider the impact of IFRS 15 to be significant on the sale of goods where revenue is currently recognised on delivery, or on contracts that involve a significant element of installation or testing of equipment. The supply of goods, ongoing support, servicing and maintenance under these contracts that cover judgement will be applied when recognising revenue, although the year-on-year impact on profit is not considered to be significant. 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.

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

- IFRS 16 'Leases' was revised on 13 January 2016 and is effective for the 31 December 2019 year end and will require all leases to be recognised on the statement of financial position. Currently, IAS 17 'Leases' only requires those categorised as finance leases to be recognised on the statement of financial position, with leases categorised as operating leases not recognised and expensed through the income statement. The impact of IFRS 16 will be to recognise a lease liability and a corresponding asset in the statement of financial position for leases currently classified as operating leases. The Directors are continuing to evaluate the full impact of the adoption of this standard.

Significant accounting judgements and estimates

In preparing the Consolidated Financial Statements, management have 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:

- 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 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.
- 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.
- Notes 8 and 20 – Taxation and deferred tax. The assessment and recognition of tax provisions requires judgement. Note 8 summarises the basis for that judgement being exercised in respect of tax matters.

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 and additionally when there is an indication that a cash-generating unit may be impaired. 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 in the Consolidated Income Statement. 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.

Notes to the Accounts continued

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. Tangible assets arising from a business combination are recognised initially at fair value at the date of acquisition.

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 available 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 and automotive testing tracks – 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 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.

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 comprise 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.

Notes to the Accounts continued

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

Foreign currency translation

The functional currency for each entity in the Group is determined with reference to the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses on settlement of foreign currency transactions are 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 gain and loss previously deferred in equity is transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

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

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights 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 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.

Notes to the Accounts continued

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 as they exclude foreign exchange movements and the impact of acquisitions. Adjusted figures exclude certain non-operational items that are predominantly acquisition- or disposal-related items which management have defined as:

- amortisation and impairment of acquisition-related goodwill and other intangible assets;
- depreciation of acquisition-related fair value adjustments to tangible assets;
- acquisition-related costs and contingent consideration fair value adjustments;
- profits or losses on termination or disposal of businesses;
- unwinding of the discount factor on deferred and contingent consideration;
- unrealised changes in the fair value of financial instruments;
- gains or losses on retranslation of short-term inter-company loan balances; and
- related tax effects on the above and other tax items which do not form part of the underlying tax rate (see Note 8).

During the year, the Group acquired Millbrook Group Limited, an engineering services business that owns a significant amount of tangible assets. On acquisition, IFRS 3 (Revised) 'Business Combinations' requires tangible assets to be accounted for at fair value and as the book value of these tangible assets was lower than the fair value this has resulted in a significant fair value adjustment to increase the carrying value of the tangible assets (Note 24).

In order for management to assess the underlying trading performance of the business, the additional depreciation charge due to the fair value adjustment on these assets above book value has been excluded from the adjusted figures.

The Board reviews and compares current and prior year segmental sales and adjusted profit at constant exchange rates. The constant exchange rate comparison uses the current year reported segmental information, stated in each entity's functional currency, and translates the results into its presentation currency using prior years' monthly exchange rates, irrespective of the underlying transactional currency.

Within the In-line Instrumentation segment, the BTG business has large functional currency mismatches against its underlying transaction currencies which distort like-for-like ('LFL') comparison at times of significant currency movements. Accordingly, BTG's LFL results are translated into Sterling by using the actual underlying transaction currency mix for determining transactional gains/losses to provide more accurate and reliable information on BTG's underlying performance. This 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.

The Board reviews current and prior year segmental sales and adjusted profit at constant exchange rates excluding the incremental impact of acquisitions for the first 12 months of ownership from the month of purchase. By removing the acquisition-related sales and operating profit, this allows the Board to assess the underlying trading performance of the businesses on a LFL basis.

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

| | 2016 £m | 2015 £m |
|--------------------------------------|----------------|------------|
| Sales | | |
| Sales as reported under adopted IFRS | 1,345.8 | 1,190.0 |
| Constant exchange rate adjustment | (141.1) | 16.7 |
| Sales at constant exchange rates | 1,204.7 | 1,206.7 |
| Acquisitions | (36.7) | (36.1) |
| LFL sales | 1,168.0 | 1,170.6 |

Notes to the Accounts continued

2. Adjusted performance measures continued

| | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2016 Total £m |
|--------------------------------------|-----------------------------|-------------------------------|----------------------------------|------------------------------|---------------------|
| Sales by segment – 2016 | | | | | |
| Sales as reported under adopted IFRS | 418.9 | 404.5 | 275.6 | 246.8 | 1,345.8 |
| Constant exchange rate adjustment | (41.9) | (44.9) | (27.4) | (26.9) | (141.1) |
| Sales at constant exchange rates | 377.0 | 359.6 | 248.2 | 219.9 | 1,204.7 |
| Acquisitions | (5.4) | (21.8) | (4.1) | (5.4) | (36.7) |
| LFL sales | 371.6 | 337.8 | 244.1 | 214.5 | 1,168.0 |

| | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2015 Total £m |
|--------------------------------------|-----------------------------|-------------------------------|----------------------------------|------------------------------|---------------------|
| Sales by segment – 2015 | | | | | |
| Sales as reported under adopted IFRS | 364.4 | 351.3 | 255.0 | 219.3 | 1,190.0 |
| Constant exchange rate adjustment | 9.0 | 15.9 | 3.8 | (12.0) | 16.7 |
| Sales at constant exchange rates | 373.4 | 367.2 | 258.8 | 207.3 | 1,206.7 |
| Acquisitions | (13.0) | (21.4) | – | (1.7) | (36.1) |
| LFL sales | 360.4 | 345.8 | 258.8 | 205.6 | 1,170.6 |

| | Materials Analysis % | Test and Measurement % | In-line Instrumentation % | Industrial Controls % | 2016 Total % |
|--------------------------------------|----------------------------|------------------------------|---------------------------------|-----------------------------|--------------------|
| Sales growth – 2016 | | | | | |
| Sales as reported under adopted IFRS | 15.0 | 15.1 | 8.1 | 12.4 | 13.1 |
| Sales at constant exchange rates | 3.5 | 2.4 | (2.6) | 0.2 | 1.2 |
| LFL sales | 2.0 | (3.8) | (4.2) | (2.3) | (1.9) |

| | Materials Analysis % | Test and Measurement % | In-line Instrumentation % | Industrial Controls % | 2015 Total % |
|--------------------------------------|----------------------------|------------------------------|---------------------------------|-----------------------------|--------------------|
| Sales growth – 2015 | | | | | |
| Sales as reported under adopted IFRS | 4.5 | 2.4 | (2.4) | (0.6) | 1.4 |
| Sales at constant exchange rates | 7.0 | 7.1 | (1.0) | (6.0) | 2.8 |
| LFL sales | 3.3 | 0.9 | (1.0) | (6.8) | (0.3) |

| | Note | 2016 £m | 2015 £m |
|---|------|------------|------------|
| Adjusted operating profit | | | |
| Operating profit as reported under adopted IFRS | | 38.3 | 143.6 |
| Net acquisition-related costs and fair value adjustments | | 10.1 | 2.9 |
| Depreciation of acquisition-related fair value adjustments to tangible assets | 12 | 0.2 | – |
| Amortisation of acquisition-related intangible assets | 11 | 36.9 | 33.0 |
| Impairment of goodwill and other acquisition-related intangible assets | 11 | 115.3 | 1.6 |
| Adjusted operating profit | | 200.8 | 181.1 |
| Constant exchange rate adjustment | | (22.6) | 4.8 |
| Operating profit at constant exchange rates | | 178.2 | 185.9 |
| Acquisitions | | (8.3) | (5.2) |
| LFL operating profit | | 169.9 | 180.7 |

2. Adjusted performance measures continued

| | Note | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2016 Total £m |
|---|------|-----------------------------|-------------------------------|----------------------------------|------------------------------|---------------------|
| Adjusted operating profit by segment – 2016 | | | | | | |
| Operating profit/(loss) as reported under adopted IFRS | | 66.2 | 26.7 | 37.6 | (92.2) | 38.3 |
| Net acquisition-related costs and fair value adjustments | | 0.2 | 2.1 | 0.3 | 7.5 | 10.1 |
| Depreciation of acquisition-related fair value adjustments to tangible assets | | – | 0.2 | – | – | 0.2 |
| Amortisation of acquisition-related intangible assets | | 9.8 | 11.9 | 3.3 | 11.9 | 36.9 |
| Impairment of goodwill and other acquisition-related intangible assets | | – | 20.9 | – | 94.4 | 115.3 |
| Adjusted operating profit | 3 | 76.2 | 61.8 | 41.2 | 21.6 | 200.8 |
| Constant exchange rate adjustment | | (7.7) | (7.8) | (5.4) | (1.7) | (22.6) |
| Operating profit at constant exchange rates | | 68.5 | 54.0 | 35.8 | 19.9 | 178.2 |
| Acquisitions | | (0.3) | (5.1) | (0.6) | (2.3) | (8.3) |
| LFL operating profit | | 68.2 | 48.9 | 35.2 | 17.6 | 169.9 |

| | Note | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2015 Total £m |
|---|------|-----------------------------|-------------------------------|----------------------------------|------------------------------|---------------------|
| Adjusted operating profit by segment – 2015 | | | | | | |
| 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 |
| Depreciation of acquisition-related fair value adjustments to tangible assets | | – | – | – | – | – |
| Amortisation of acquisition-related intangible assets | | 9.3 | 10.2 | 2.5 | 11.0 | 33.0 |
| Impairment of goodwill and other acquisition-related intangible assets | | 1.6 | – | – | – | 1.6 |
| Adjusted operating profit | 3 | 53.7 | 55.3 | 36.8 | 35.3 | 181.1 |
| Constant exchange rate adjustment | | 1.5 | 3.6 | 2.2 | (2.5) | 4.8 |
| Operating profit at constant exchange rates | | 55.2 | 58.9 | 39.0 | 32.8 | 185.9 |
| Acquisitions | | (2.8) | (2.2) | – | (0.2) | (5.2) |
| LFL operating profit | | 52.4 | 56.7 | 39.0 | 32.6 | 180.7 |

Notes to the Accounts continued

2. Adjusted performance measures continued

| | Materials Analysis % | Test and Measurement % | In-line Instrumentation % | Industrial Controls % | 2016 Total % |
|---|----------------------------|------------------------------|---------------------------------|-----------------------------|--------------------|
| Operating profit growth – 2016 | | | | | |
| Operating profit as reported under adopted IFRS | 55.4 | (38.8) | 9.9 | (497.4) | (73.3) |
| Adjusted operating profit | 41.8 | 11.7 | 11.9 | (38.7) | 10.9 |
| Operating profit at constant exchange rates | 27.6 | (2.4) | (2.9) | (43.5) | (1.6) |
| LFL operating profit | 27.0 | (11.6) | (4.4) | (50.2) | (6.2) |

| | Materials Analysis % | Test and Measurement % | In-line Instrumentation % | Industrial Controls % | 2015 Total % |
|---|----------------------------|------------------------------|---------------------------------|-----------------------------|--------------------|
| Operating profit growth – 2015 | | | | | |
| Operating profit as reported under adopted IFRS | (11.3) | (4.5) | (25.0) | (20.0) | (14.7) |
| Adjusted operating profit | 0.8 | 6.0 | (23.3) | (21.1) | (8.6) |
| Operating profit at constant exchange rates | 3.6 | 12.8 | (18.7) | (26.4) | (6.1) |
| LFL operating profit | (1.7) | 8.6 | (18.7) | (26.7) | (8.8) |

Net acquisition-related costs and fair value adjustments comprises acquisition costs of £4.5m (2015: £3.0m) that have been recognised in the Consolidated Income Statement under IFRS 3 (Revised) 'Business Combinations', fair value adjustments to inventory of £nil (2015: £0.7m) and other fair value adjustments resulting in a debit of £5.6m (2015: credit of £0.8m). 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 £5.4m (2015: £3.9m) have been excluded from adjusted operating cash flow.

| | Materials Analysis % | Test and Measurement % | In-line Instrumentation % | Industrial Controls % | 2016 Total % |
|--|----------------------------|------------------------------|---------------------------------|-----------------------------|--------------------|
| Return on sales by segment – 2016 | | | | | |
| Using operating profit as reported under adopted IFRS | 15.8 | 6.6 | 13.6 | (37.4) | 2.8 |
| Using adjusted operating profit | 18.2 | 15.3 | 15.0 | 8.7 | 14.9 |
| Using adjusted operating profit at constant exchange rates | 18.2 | 15.0 | 14.4 | 9.0 | 14.8 |
| Using adjusted LFL operating profit | 18.4 | 14.5 | 14.4 | 8.2 | 14.5 |

| | Materials Analysis % | Test and Measurement % | In-line Instrumentation % | Industrial Controls % | 2015 Total % |
|--|----------------------------|------------------------------|---------------------------------|-----------------------------|--------------------|
| Return on sales by segment – 2015 | | | | | |
| 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 |
| Using adjusted operating profit at constant exchange rates | 14.8 | 16.1 | 15.1 | 15.8 | 15.4 |
| Using adjusted LFL operating profit | 14.5 | 16.4 | 15.1 | 15.9 | 15.4 |

| | Note | 2016 £m | 2015 £m |
|---|------|------------|------------|
| Reconciliation to adjusted profit before tax and adjusted operating profit | | | |
| Profit before tax as reported under adopted IFRS | | 31.9 | 141.6 |
| Add/(deduct): | | | |
| Net acquisition-related costs and fair value adjustments | | 10.1 | 2.9 |
| Depreciation of acquisition-related fair value adjustments to tangible assets | 12 | 0.2 | – |
| Amortisation of acquisition-related intangible assets | 11 | 36.9 | 33.0 |
| Impairment of goodwill and other acquisition-related intangible assets | 11 | 115.3 | 1.6 |
| Net loss/(gain) on retranslation of short-term inter-company loan balances | 7 | 0.8 | (3.0) |
| Unwinding of discount factor on deferred and contingent consideration | 7 | 0.6 | 0.2 |
| Adjusted profit before tax | | 195.8 | 176.3 |
| Adjusted net finance costs (see opposite) | | 5.0 | 4.8 |
| Adjusted operating profit | | 200.8 | 181.1 |

2. Adjusted performance measures continued

| | Note | 2016 £m | 2015 £m |
|--|------|--------------|--------------|
| Adjusted net finance costs | | | |
| Net interest costs as reported under adopted IFRS | 7 | (6.4) | (2.0) |
| Net loss/(gain) on retranslation of short-term inter-company loan balances | 7 | 0.8 | (3.0) |
| Unwinding of discount factor on deferred and contingent consideration | 7 | 0.6 | 0.2 |
| Adjusted net finance costs | | (5.0) | (4.8) |

| | | 2016 £m | 2015 £m |
|---|--|--------------|--------------|
| Adjusted operating cash flow | | | |
| Net cash flows generated from operating activities under adopted IFRS | | 215.9 | 153.4 |
| Acquisition-related costs paid | | 5.4 | 3.9 |
| Net income taxes paid | | 29.8 | 33.5 |
| Purchase of property, plant and equipment and software | | (28.7) | (26.0) |
| Proceeds from sale of property, plant and equipment | | 5.4 | 0.9 |
| Adjusted operating cash flow | | 227.8 | 165.7 |
| Adjusted operating cash flow conversion | | 113% | 91% |

| | Note | 2016 £m | 2015 £m |
|---|------|--------------|--------------|
| Adjusted earnings per share | | | |
| Profit after tax as reported under adopted IFRS | | 10.3 | 113.8 |
| Adjusted for: | | | |
| Net acquisition-related costs and fair value adjustments | | 10.1 | 2.9 |
| Depreciation of acquisition-related fair value adjustments to tangible assets | 12 | 0.2 | – |
| Amortisation of acquisition-related intangible assets | 11 | 36.9 | 33.0 |
| Impairment of goodwill and other acquisition-related intangible assets | 11 | 115.3 | 1.6 |
| Net loss/(gain) on retranslation of short-term inter-company loan balances | 7 | 0.8 | (3.0) |
| Unwinding of discount factor on deferred and contingent consideration | 7 | 0.6 | 0.2 |
| Tax effect of the above and other non-recurring items | 8 | (22.3) | (12.4) |
| Adjusted earnings | | 151.9 | 136.1 |
| Weighted average number of shares outstanding (millions) | 10 | 119.1 | 119.0 |
| Adjusted earnings per share (pence) | | 127.5 | 114.3 |

| | Note | 2016 £m | 2015 £m |
|--|------|--------------|--------------|
| Adjusted diluted earnings per share (pence) | | | |
| Diluted weighted average number of shares outstanding (millions) | 10 | 119.6 | 119.3 |
| Adjusted diluted earnings per share (pence) | | 127.0 | 114.1 |

Basic and diluted earnings per share in accordance with IAS 33 'Earnings per Share' are disclosed in Note 10.

| | Note | 2016 £m | 2015 £m |
|-----------------------------|------|--------------|--------------|
| Analysis of net debt | | | |
| Bank overdrafts | 16 | 12.3 | 1.7 |
| Bank loans – unsecured | 16 | 222.1 | 155.1 |
| Total borrowings | | 234.4 | 156.8 |
| Cash balances | 15 | (83.5) | (58.2) |
| Net debt | | 150.9 | 98.6 |

Notes to the Accounts continued

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 focused towards specific industries. These segments reflect the internal reporting provided to the Chief Operating Decision Maker (considered to be the Board) on a regular basis 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. Malvern Instruments and PANalytical merged as from 1 January 2017.
- Test and Measurement supplies test, measurement and analysis equipment, software and services for product design optimisation and validation, manufacturing control, microseismic monitoring and environmental noise monitoring. The operating companies in this segment are Brüel & Kjær Sound & Vibration, ESG Solutions, HBM and Millbrook.
- 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 16 to 25.

| | Materials Analysis £m | Test and Measurement £m | In-line Instrumentation £m | Industrial Controls £m | 2016 Total £m |
|---|-----------------------------|-------------------------------|----------------------------------|------------------------------|---------------------|
| Information about reportable segments | | | | | |
| Segment revenues | 419.0 | 404.7 | 275.6 | 247.5 | 1,346.8 |
| Inter-segment revenue | (0.1) | (0.2) | – | (0.7) | (1.0) |
| External revenue | 418.9 | 404.5 | 275.6 | 246.8 | 1,345.8 |
| Reportable segment adjusted operating profit for continuing operations | 76.2 | 61.8 | 41.2 | 21.6 | 200.8 |
| Net acquisition-related costs and fair value adjustments | (0.2) | (2.1) | (0.3) | (7.5) | (10.1) |
| Depreciation of acquisition-related fair value adjustments to tangible assets | – | (0.2) | – | – | (0.2) |
| Amortisation of acquisition-related intangible assets | (9.8) | (11.9) | (3.3) | (11.9) | (36.9) |
| Impairment of goodwill and other acquisition-related intangible assets | – | (20.9) | – | (94.4) | (115.3) |
| Operating profit/(loss) | 66.2 | 26.7 | 37.6 | (92.2) | 38.3 |
| Financial income ¹ | | | | | 0.5 |
| Finance costs ¹ | | | | | (6.9) |
| Profit before tax | | | | | 31.9 |
| Tax ¹ | | | | | (21.6) |
| Profit after tax | | | | | 10.3 |

¹ Not allocated to reportable segments.

3. Operating segments continued

| | 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 adjusted operating 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) |
| Depreciation of acquisition-related fair value adjustments to tangible assets | – | – | – | – | – |
| Amortisation of acquisition-related intangible assets | (9.3) | (10.2) | (2.5) | (11.0) | (33.0) |
| Impairment of goodwill and other acquisition-related intangible assets | (1.6) | – | – | – | (1.6) |
| 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 |

¹ Not allocated to reportable segments.

Reportable segment adjusted operating 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.

Notes to the Accounts continued

3. Operating segments continued

| | Carrying amount of segment assets | | Carrying amount of segment liabilities | |
|---|-----------------------------------|------------|--|------------|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Materials Analysis | 400.6 | 355.5 | (118.2) | (93.6) |
| Test and Measurement | 581.7 | 378.9 | (104.5) | (85.8) |
| In-line Instrumentation | 271.5 | 218.4 | (53.4) | (41.5) |
| Industrial Controls | 378.9 | 430.2 | (31.6) | (24.5) |
| Total segment assets and liabilities | 1,632.7 | 1,383.0 | (307.7) | (245.4) |
| Cash and borrowings | 83.5 | 58.2 | (234.4) | (156.8) |
| Derivative financial instruments | – | – | (4.2) | (0.4) |
| Retirement benefit obligations | – | – | (40.3) | (22.1) |
| Taxation | 15.8 | 17.9 | (78.0) | (68.4) |
| Consolidated total assets and liabilities | 1,732.0 | 1,459.1 | (664.6) | (493.1) |

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 | |
|-------------------------|---------------------------------|------------|---|------------|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Materials Analysis | 17.3 | 8.8 | 16.4 | 16.9 |
| Test and Measurement | 170.3 | 42.7 | 43.6 | 18.5 |
| In-line Instrumentation | 23.4 | 7.2 | 9.5 | 8.0 |
| Industrial Controls | 2.9 | 8.6 | 111.2 | 15.6 |
| | 213.9 | 67.3 | 180.7 | 59.0 |

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 | 2016 Total £m |
|-----------------------|-----------------------------|-------------------------------|----------------------------------|------------------------------|---------------------|
| UK | 15.1 | 26.4 | 6.7 | 7.2 | 55.4 |
| Germany | 26.6 | 67.3 | 20.8 | 11.1 | 125.8 |
| France | 13.4 | 20.1 | 7.3 | 2.6 | 43.4 |
| Rest of Europe | 63.6 | 66.9 | 44.8 | 11.6 | 186.9 |
| USA | 88.5 | 80.7 | 80.7 | 159.9 | 409.8 |
| Rest of North America | 13.9 | 9.5 | 10.7 | 11.9 | 46.0 |
| Japan | 30.8 | 26.2 | 13.5 | 3.1 | 73.6 |
| China | 62.4 | 55.0 | 40.6 | 18.3 | 176.3 |
| South Korea | 16.4 | 14.6 | 6.9 | 5.5 | 43.4 |
| Rest of Asia | 54.9 | 21.4 | 25.6 | 11.8 | 113.7 |
| Rest of the world | 33.3 | 16.4 | 18.0 | 3.8 | 71.5 |
| | 418.9 | 404.5 | 275.6 | 246.8 | 1,345.8 |

3. Operating segments continued

| | 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 |

| | Non-current assets | |
|---------------------------------|--------------------|------------|
| | 2016 £m | 2015 £m |
| UK | 183.9 | 85.1 |
| Germany | 63.8 | 25.2 |
| France | 0.2 | 0.1 |
| Rest of Europe ¹ | 340.3 | 269.0 |
| USA | 477.6 | 487.0 |
| Rest of North America | 27.7 | 41.0 |
| Japan | 0.6 | 0.6 |
| China | 4.9 | 4.3 |
| South Korea | 4.2 | 4.4 |
| Rest of Asia | 31.4 | 27.9 |
| Rest of the world | 3.7 | 2.8 |
| | 1,138.3 | 947.4 |
| Deferred taxation ² | 13.4 | 17.2 |
| Total non-current assets | 1,151.7 | 964.6 |

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:

| | 2016 £m | 2015 £m |
|-------------------|----------------|------------|
| Sale of goods | 1,137.7 | 1,029.0 |
| Services rendered | 208.1 | 161.0 |
| Revenue | 1,345.8 | 1,190.0 |

No individual customer accounted for more than 2% of external revenue in either 2016 or 2015.

Notes to the Accounts continued

5. Operating profit

Operating profit has been arrived at after charging/(crediting):

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Net foreign exchange (gains)/losses | (2.7) | 1.1 |
| Research and development expenditure | 98.6 | 88.8 |
| Amortisation of intangible assets | 42.4 | 37.8 |
| Impairment of goodwill and other acquisition-related intangible assets | 115.3 | 1.6 |
| Depreciation of property, plant and equipment | 23.0 | 19.6 |
| (Profit)/loss on sale of property, plant and equipment and software | (1.2) | 0.2 |

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Auditor's remuneration | | |
| Fees payable to the Company's auditor for audit of the Company's annual accounts | 0.6 | 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 | 1.2 |
| – audit-related assurance services ¹ | 0.1 | 0.1 |
| – tax compliance services | 0.1 | – |
| – tax advisory services | – | 0.1 |
| | 2.0 | 1.9 |

¹ Review of the half-year Financial Statements.

6. Employee costs and other information

Employee costs, including Directors' remuneration, comprise:

| | Note | 2016 £m | 2015 £m |
|--|------|--------------|--------------|
| Wages and salaries | | 420.8 | 355.4 |
| Social security costs | | 72.8 | 63.8 |
| Defined benefit pension plans: | | | |
| – current service cost | 19 | 2.1 | 1.5 |
| – settlement and past service credit | 19 | (1.4) | (0.3) |
| Defined contribution pension plans | 19 | 13.7 | 12.1 |
| Equity-settled share-based payment expense | | 2.1 | 0.7 |
| Cash-settled share-based payment expense | | 1.2 | 0.8 |
| | | 511.3 | 434.0 |

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Directors' remuneration | | |
| Short-term benefits | 2.8 | 1.8 |
| Equity-settled share-based payment expense | 0.4 | 0.3 |
| | 3.2 | 2.1 |

Further details of Directors' remuneration and share options are given in the Directors' Remuneration Report on pages 73 to 91.

6. Employee costs and other information continued

| | 2016 | 2015 |
|------------------------------------|---------------|--------|
| Average number of employees | Number | Number |
| Production and engineering | 3,718 | 3,676 |
| Sales, marketing and service | 3,724 | 3,601 |
| Administrative | 796 | 776 |
| | 8,238 | 8,053 |

7. Financial income and finance costs

| | 2016 | 2015 |
|--|------------|------|
| Financial income | £m | £m |
| Interest receivable | 0.5 | 0.3 |
| Net gains on retranslation of short-term inter-company loan balances | - | 3.0 |
| | 0.5 | 3.3 |

| | 2016 | 2015 |
|---|------------|------|
| Finance costs | £m | £m |
| Interest payable on loans and overdrafts | 5.1 | 4.9 |
| Unwinding of discount factor on deferred and contingent consideration | 0.6 | 0.2 |
| Net losses on retranslation of short-term inter-company loan balances | 0.8 | - |
| Net interest cost on pension scheme obligations | 0.3 | 0.1 |
| Other finance costs | 0.1 | 0.1 |
| | 6.9 | 5.3 |

Net interest costs of £4.6m (2015: £4.6m) for the purposes of the calculation of interest cover comprise bank interest receivable of £0.5m (2015: £0.3m) and interest payable on loans and overdrafts of £5.1m (2015: £4.9m).

8. Taxation

| | 2016 | | | 2015 | | |
|--|--------------|----------------|---------------|----------|----------------|-------------|
| | UK £m | Overseas £m | Total £m | UK £m | Overseas £m | Total £m |
| Current tax charge | 5.9 | 32.0 | 37.9 | 2.7 | 32.8 | 35.5 |
| Adjustments in respect of current tax of prior years | 0.7 | (3.6) | (2.9) | (1.0) | (1.5) | (2.5) |
| Deferred tax – origination and reversal of temporary differences (Note 20) | (2.2) | (11.2) | (13.4) | (0.4) | (4.8) | (5.2) |
| | 4.4 | 17.2 | 21.6 | 1.3 | 26.5 | 27.8 |

Notes to the Accounts continued

8. Taxation continued

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the Group's profits, is -13.8% (2015: 25.4%). The standard rate of corporation tax for the year is a credit due to the statutory tax rates applying to the impairment of goodwill and other acquisition-related intangible assets. In the absence of any impairment losses, the standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the Group's profits, would have been a charge of 23.4% (2015: 25.4%). The tax charge for the year is higher (2015: lower) than the standard rate of corporation tax for the reasons set out in the following reconciliation:

| | 2016 £m | 2015 £m |
|--|-------------|-------------|
| Profit before taxation | 31.9 | 141.6 |
| Corporation tax (credit)/charge at standard rate of -13.8% (2015: 25.4%) | (4.4) | 36.0 |
| Non-deductible goodwill impairment losses | 33.8 | – |
| Non-taxable income and gains | (4.1) | (3.6) |
| Other non-deductible expenditure | 3.6 | 1.3 |
| Movements on unrecognised deferred tax assets | 0.7 | 0.5 |
| Tax credits and incentives | (4.4) | (5.0) |
| Change in tax rates | (0.4) | – |
| Adjustments relating to prior year acquisitions | (3.1) | – |
| Adjustments to prior year current and deferred tax charges | (0.1) | (1.4) |
| Total taxation | 21.6 | 27.8 |

'Tax credits and incentives' above refers principally to research and development tax credits and other reliefs for innovation such as the UK Patent Box regime and Dutch innovation box regime, as well as tax reliefs available for manufacturing activities located in the USA.

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.

| | 2016 £m | 2015 £m |
|---|------------|------------|
| Tax on items recognised directly in the Consolidated Statement of Comprehensive Income | | |
| Tax credit on net loss on effective portion of changes in fair value of forward exchange contracts | (0.7) | – |
| Tax credit on re-measurement of net defined benefit obligations, net of foreign exchange | (3.0) | (1.7) |
| Aggregate current and deferred tax credit relating to items recognised directly in the Consolidated Statement of Comprehensive Income | (3.7) | (1.7) |

| | 2016 £m | 2015 £m |
|---|------------|------------|
| Tax on items recognised directly in the Consolidated Statement of Changes in Equity | | |
| Tax credit in relation to share-based payments | (0.3) | (0.1) |
| Aggregate current and deferred tax credit on items recognised directly in the Consolidated Statement of Changes in Equity | (0.3) | (0.1) |

8. Taxation continued

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 | 2016 £m | 2015 £m |
|---|--------------------|--------------------|
| Tax credit on amortisation of acquisition-related intangible assets | (12.3) | (11.2) |
| Tax credit on impairment of goodwill and other acquisition-related intangible assets | (5.1) | – |
| Tax credit on net acquisition-related costs and fair value adjustments | (1.7) | (0.6) |
| Tax charge on retranslation of short-term inter-company loan balances | 0.2 | (0.5) |
| Tax credit on unwinding of discount factor on deferred and contingent consideration | (0.3) | (0.1) |
| Tax credit relating to prior year acquisitions | (3.1) | – |
| Total tax credit | (22.3) | (12.4) |

The effective adjusted tax rate for the year was 22.4% (2015: 22.8%) as set out in the reconciliation below:

| Reconciliation of total tax charge on adopted IFRS basis to adjusted tax charge | 2016 £m | 2015 £m |
|---|--------------------|--------------------|
| Total tax charge on adopted IFRS basis | 21.6 | 27.8 |
| Tax credit on items of income and expense that are excluded from the Group's adjusted profit before tax | 22.3 | 12.4 |
| Adjusted tax charge | 43.9 | 40.2 |

Management judgement is applied to determine the level of provisions required in respect of both direct and indirect taxes. The Group is potentially subject to tax audits 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. Spectris estimates and accrues taxes that will ultimately be payable when reviews or audits by tax authorities of tax returns are completed. These estimates include judgements about the position expected to be taken by each tax authority.

The Group applies judgement in respect of possible tax audit adjustments primarily in respect of transfer pricing as well as in respect of financing arrangements and tax credits and incentives. In respect of transfer pricing, the level of provision is determined by reference to management judgements of the adjustments that would arise in the event that certain intra-group transactions are successfully challenged as not being at arm's length.

Management estimates of the level of risk arising from tax audit may change in the next year as a result of changes in legislation or tax authority practice or correspondence with tax authorities during a specific tax audit. It is not possible to quantify the impact that such future developments may have on the Group's tax positions. Actual outcomes and settlements may differ significantly from the estimates recorded in these Consolidated Financial Statements.

Judgement is also applied relating to the recognition of deferred tax assets which are dependent on an assessment of the generation of future taxable income in the countries concerned in which temporary differences become deductible or in which tax losses can be utilised. These estimates may change in the next year if there are changes in the forecast profitability of the relevant company.

The UK's dividend taxation regime prior to July 2009 is the subject of long-running litigation between HMRC and other taxpayers in relation to the tax charge on dividends received from EU-based companies. The outcome of this dispute is likely to be relevant to the Group in respect of certain dividends received by UK Group companies before that date. Pending resolution in the courts, a tax creditor of £12.6m (2015: £12.6m) continues to be held for the potential tax liabilities arising if the final decision is made by the courts in HMRC's favour.

Within the tax charge is a credit of £3.1m (2015: £nil) relating to recognition of the net benefit of unused tax losses arising from the acquisition of Spectraseis AG in 2015. The ultimate utilisation of these losses is now considered probable as a result of the post-acquisition restructuring of the business.

Notes to the Accounts continued

9. Dividends

| | 2016 | 2015 |
|---|-------------|------|
| | £m | £m |
| Amounts recognised and paid as distributions to owners of the Parent Company in the year | | |
| Final dividend for the year ended 31 December 2015 of 32.2p (2014: 30.5p) per share | 38.4 | 36.3 |
| Interim dividend for the year ended 31 December 2016 of 18.0p (2015: 17.3p) per share | 21.4 | 20.6 |
| | 59.8 | 56.9 |

| | 2016 | 2015 |
|--|-------------|------|
| | £m | £m |
| Amounts arising in respect of the year | | |
| Interim dividend for the year ended 31 December 2016 of 18.0p (2015: 17.3p) per share | 21.4 | 20.6 |
| Proposed final dividend for the year ended 31 December 2016 of 34.0p (2015: 32.2p) per share | 40.5 | 38.4 |
| | 61.9 | 59.0 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 26 May 2017 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.

| | 2016 | 2015 |
|--|--------------|-------|
| Basic earnings per share | | |
| Profit after tax (£m) | 10.3 | 113.8 |
| Weighted average number of shares outstanding (millions) | 119.1 | 119.0 |
| Basic earnings per share (pence) | 8.6 | 95.6 |

| | 2016 | 2015 |
|--|--------------|-------|
| Diluted earnings per share | | |
| Profit after tax (£m) | 10.3 | 113.8 |
| Basic weighted average number of shares outstanding (millions) | 119.1 | 119.0 |
| Weighted average number of dilutive 5p ordinary shares under option (millions) | 0.8 | 0.6 |
| Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions) | (0.3) | (0.3) |
| Diluted weighted average number of shares outstanding (millions) | 119.6 | 119.3 |
| Diluted earnings per share (pence) | 8.6 | 95.4 |

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 2015 | | 602.8 | 162.9 | 172.0 | 45.3 | 983.0 |
| Additions | | – | – | – | 5.0 | 5.0 |
| Recognised on acquisitions | | 24.0 | 15.0 | 8.0 | – | 47.0 |
| Adjustments to provisional fair values | | (7.1) | – | – | – | (7.1) |
| Transfers from property, plant and equipment | | – | – | – | 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 |
| Additions | | – | – | – | 5.8 | 5.8 |
| Recognised on acquisitions | 24 | 81.5 | 14.3 | 30.7 | 0.1 | 126.6 |
| Adjustments to provisional fair values | 24 | (0.2) | – | – | – | (0.2) |
| Transfers from property, plant and equipment | 12 | – | – | – | 0.3 | 0.3 |
| Other movements | | – | – | – | – | – |
| Disposals | | – | – | – | (1.1) | (1.1) |
| Foreign exchange difference | | 108.5 | 26.7 | 36.9 | 6.9 | 179.0 |
| At 31 December 2016 | | 805.9 | 221.4 | 251.3 | 59.7 | 1,338.3 |
| Accumulated amortisation and impairment | | | | | | |
| At 1 January 2015 | | 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 |
| Charge for the year | | – | 19.2 | 17.7 | 5.5 | 42.4 |
| Impairment | | 114.3 | – | 1.0 | – | 115.3 |
| Disposals | | – | – | – | (1.0) | (1.0) |
| Foreign exchange difference | | 6.1 | 14.6 | 15.7 | 4.4 | 40.8 |
| At 31 December 2016 | | 151.6 | 131.8 | 114.3 | 41.1 | 438.8 |
| Carrying amount | | | | | | |
| At 31 December 2016 | | 654.3 | 89.6 | 137.0 | 18.6 | 899.5 |
| At 31 December 2015 | | 584.9 | 82.4 | 103.8 | 15.5 | 786.6 |

Notes to the Accounts continued

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 14 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:

| | 2016 | | 2015 | |
|--------------------------------|----------------|-------------------------------|----------------|-------------------------------|
| | Goodwill £m | Pre-tax discount rate % | Goodwill £m | Pre-tax discount rate % |
| Omega Engineering | 119.9 | 12.8 | 178.9 | 13.4 |
| PANalytical | 101.6 | 11.4 | 87.7 | 12.0 |
| HBM | 93.5 | 11.8 | 81.4 | 12.4 |
| Brüel & Kjær Sound & Vibration | 87.7 | 11.2 | 63.4 | 11.9 |
| BTG | 68.5 | 11.1 | 49.3 | 11.8 |
| Millbrook | 54.1 | 12.1 | – | – |
| Red Lion Controls | 43.3 | 13.8 | 35.9 | 14.4 |
| Malvern | 36.1 | 10.8 | 32.2 | 11.5 |
| Servomex | 26.0 | 12.3 | 24.4 | 12.3 |
| ESG Solutions | – | 17.8 | 16.2 | 18.3 |
| Other | 23.6 | 13.1–13.8 | 15.5 | 12.7–15.4 |
| | 654.3 | | 584.9 | |

Included within 'Other' are four (2015: four) cash-generating units, in which none of the goodwill balances are considered to be individually significant.

Goodwill is not amortised but is tested for impairment annually or whenever there is an indication that the asset may be impaired. As part of the annual impairment review, the carrying amount of goodwill has been assessed with reference to its recoverable amount, determined based on value in use. In assessing value in use, the forecast projected cash flows of each cash-generating unit, which are based on actual operating results, the most recent budget for the next financial year as approved by the Board, detailed strategic review projections and an assumed long-term growth rate to perpetuity are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the cash-generating unit.

The key assumptions on which the value in use calculations are based relate to future business performance over the forecast period (generally three years, with the exception of Omega Engineering ('Omega') where in 2016 four years is used), projected long-term growth rates and the discount rates applied. The forecast cash flows include management's latest estimates on sales volumes and pricing, production and other costs. The key judgements applied in the impairment review are the forecast level of revenue, operating margins and the proportion of operating profit converted to cash in each year. A long-term growth rate of 2.0% (2015: 2.5%) has been consistently applied in the impairment review for all cash-generating units based on 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 of between 10.8% and 17.8% (2015: 11.5% and 18.3%). These rates have been determined by taking into account the size of business and specific geographical and industry risk factors. As a result of the impairment review, a total impairment charge of £114.3m (2015: £nil) has been recognised within operating profit in the Consolidated Income Statement in respect of the Omega and ESG Solutions ('ESG') businesses, as explained opposite.

11. Goodwill and other intangible assets continued

Omega Engineering

An impairment charge of £94.4m (2015: £nil) has been recognised in respect of the Omega business, which forms part of the Industrial Controls segment, using the value in use basis. The impairment charge is driven by the current year's trading performance, primarily in Omega's largest market in North America, and lower projected cash flows within the budget and strategic review period. This resulted in management reassessing the expected future business performance in light of the trading environment and the actions, and time required, to improve operational efficiency and profitability. Accordingly, for the purposes of the impairment test, a four-year forecast period for Omega has been used (2015: three years), with a lowered long-term growth rate of 2.0% (2015: 2.5%), which is consistent with that used for all other cash-generating units.

The key assumptions used in the value in use calculations are:

- sales: projected sales are built up with reference to market, geography and product categories. They incorporate past performance, historical growth rates and market segment projections;
- operating margins: projected operating margins reflect historical performance, the net benefit from initiatives required to improve operational efficiency, and a continued focus on cost control;
- operating cash conversion: the proportion of operating profit converted to cash each year is based on historical performance and projected benefits from working capital management initiatives; and
- discount rate: this is calculated based on the Group's weighted average cost of capital and cash-generating unit specific risks, including the size of business and specific geographical and industry risk factors. For the purposes of the impairment test, a pre-tax discount rate of 12.8% (2015: 13.4%) has been used.

ESG Solutions

An impairment charge of £19.9m (2015: £nil) has been recognised in respect of the ESG business, which forms part of the Test and Measurement segment, using the value in use basis. The carrying value of goodwill has been impaired in full, with £1.0m of other intangible assets additionally impaired following the impairment review. The impairment charge is driven by the continuing difficult external market conditions caused by low global oil and gas prices, which have adversely impacted demand from ESG's customers for its products and services. This has resulted in management reassessing the expected future business performance based on external market data for the upstream oil and gas market of a recovery in the oil price in 2019. For the purposes of the impairment test, a three-year forecast period has been used (2015: three years) with a lowered long-term growth rate of 2.0% (2015: 2.5%), which is consistent with that used for other cash-generating units.

The key assumptions used in the value in use calculations are:

- sales: projected sales are built up with reference to market, geography and product categories, with the key assumption being a recovery in the oil price in 2019, which is in line with external market data;
- operating margins: projected operating margins reflect historical performance, the forecast improvement in line with higher sales associated with a recovery in the oil price, and a continued focus on cost control. The projections do not include the impact of future restructuring projects which are not yet committed;
- operating cash conversion: the proportion of operating profit converted to cash each year is based on historical performance and projected benefits from working capital management initiatives; and
- discount rate: this is calculated based on the Group's weighted average cost of capital and cash-generating unit specific risks, including the size of business and specific geographical and industry risk factors. For the purposes of the impairment test, a pre-tax discount rate of 17.8% (2015: 18.3%) has been used.

Sensitivity analysis

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 been undertaken 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 1.0pp to 1%; and
- if the cash flow projections for cash-generating units were reduced by 25% in each of the next two years.

Notes to the Accounts continued

11. Goodwill and other intangible assets continued

For each cash-generating unit, with the exception of Omega, the Directors do not consider that there are any reasonably possible sensitivities for the business that could arise in the next 12 months that could result in an impairment charge being recognised. For Omega, based on current projections, reasonable possible changes in the key assumptions could cause the estimated recoverable amount to fall below the carrying value based on the sensitivity analysis performed, as shown below. Since the carrying value of goodwill has been impaired in full for ESG, the business will no longer be subject to an annual impairment review as required under IFRS. However, should future performance fall below current projections, the carrying value of the remaining net assets of the ESG business will be reviewed.

| | Increase in impairment charge Omega £m |
|---|--|
| Sensitivities – 2016 | |
| 2pp increase in pre-tax discount to 14.8% | 46 |
| Reduction in long-term growth rate to 1% | 31 |
| Reduction in cash flow projections by 25% in each of the next two years | 10 |

Millbrook

Millbrook was acquired by the Group on 1 September 2016. Given the proximity to the year end, the carrying value of goodwill has been assessed by reference to the value in use based on the acquisition business plan that assumed long-term growth rates in line with that anticipated for the rest of the Group and certain post-acquisition synergies. These synergies include the benefit from leveraging the Group's wider customer base and sales and marketing channels and being part of a wider Group with shared support functions. Given the assumptions built into the Millbrook acquisition business case, the Directors do not consider that there is a significant risk of impairment of the Millbrook acquisition goodwill arising in the next 12 months.

Other intangible assets

Of the total amortisation charge of £42.4m (2015: £37.8m), the amount attributable to the amortisation of acquisition-related intangible assets was £36.9m (2015: £33.0m).

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 (2015: £nil).

The trade names and technology assets recognised on the acquisition of Omega in 2011, and included within the Industrial Controls reportable segment, are considered significant by the Directors as they represent 43.9% (2015: 49.4%) of total customer-related and trade names, and 20.0% (2015: 23.6%) of total patents, contractual rights and technology, respectively. The carrying amount of the trade name intangible asset at 31 December 2016 is £59.3m (2015: £51.3m) and is being amortised over 20 years with the remaining amortisation period being 14.8 years. The carrying amount of the technology intangible asset at 31 December 2016 is £17.3m (2015: £17.4m) and is being amortised over ten years with the remaining amortisation period being 4.8 years.

12. Property, plant and equipment

| Cost | Note | Freehold property £m | Leasehold property £m | Plant and equipment £m | Total £m |
|--------------------------------------|------|---------------------------------|----------------------------------|-----------------------------------|---------------------|
| At 1 January 2015 | | 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 | | – | – | (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 |
| Additions | | 3.8 | 1.1 | 18.0 | 22.9 |
| Recognised on acquisitions | 24 | 43.7 | – | 15.1 | 58.8 |
| Transfers to other intangible assets | 11 | – | – | (0.3) | (0.3) |
| Transfers to property | | 0.7 | – | (0.7) | – |
| Disposals | | (4.5) | (0.4) | (8.2) | (13.1) |
| Foreign exchange difference | | 21.4 | 2.0 | 28.2 | 51.6 |
| At 31 December 2016 | | 203.5 | 16.4 | 221.9 | 441.8 |

Accumulated depreciation and impairment

| | | | | | |
|--------------------------------------|--|-------------|-------------|--------------|--------------|
| At 1 January 2015 | | 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 |
| Charge for the year | | 4.4 | 1.4 | 17.2 | 23.0 |
| Transfers to other intangible assets | | – | – | – | – |
| Transfers to property | | 0.3 | – | (0.3) | – |
| Disposals | | (1.7) | (0.4) | (6.9) | (9.0) |
| Foreign exchange difference | | 7.8 | 1.5 | 18.6 | 27.9 |
| At 31 December 2016 | | 53.3 | 11.4 | 138.3 | 203.0 |

Carrying amount

| | | | | | |
|----------------------------|--|--------------|------------|-------------|--------------|
| At 31 December 2016 | | 150.2 | 5.0 | 83.6 | 238.8 |
| At 31 December 2015 | | 95.9 | 4.8 | 60.1 | 160.8 |

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £11.9m (2015: £1.4m).

No borrowing costs met the required criteria for capitalisation during the year (2015: £nil).

Of the total depreciation charge of £23.0m (2015: £19.6m), the amount attributable to the depreciation on fair value adjustments of acquisition-related tangible assets was £0.2m (2015: £nil).

Included within Freehold property is an amount of £11.9m (2015: £nil) attributable to automotive testing tracks.

Notes to the Accounts continued

13. Inventories

| | 2016 £m | 2015 £m |
|--|--------------|------------|
| Raw materials | 67.2 | 69.1 |
| Work in progress | 39.7 | 36.2 |
| Finished goods and goods held for resale | 80.9 | 77.2 |
| | 187.8 | 182.5 |

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 £28.1m (2015: £18.3m) in respect of inventory provisions and crediting £10.2m (2015: £8.0m) relating to the reversal of previously recognised provisions.

Inventory carried at fair value less cost to sell is £nil (2015: £nil) 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 £364.9m (2015: £314.0m).

A 10% increase in the proportion of raw materials provided for would increase the provision by £3.3m (2015: £2.0m) and a 10% increase in the proportion of finished goods provided for would increase the provision by £2.0m (2015: £1.4m).

14. Trade and other receivables

| | 2016 £m | 2015 £m |
|--------------------------------|--------------|------------|
| Trade receivables | 258.4 | 213.0 |
| Prepayments and accrued income | 26.4 | 17.8 |
| Other receivables | 21.8 | 22.3 |
| | 306.6 | 253.1 |

Included within Prepayments and accrued income and Other receivables are amounts receivable in more than one year of £4.9m (2015: £4.7m).

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 £7.5m (2015: £5.8m) and the reversal of previously recognised provisions for impairment of £3.7m (2015: £5.4m).

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

| | 2016 £m | 2015 £m |
|-----------------------|--------------|------------|
| UK | 15.1 | 10.0 |
| Germany | 20.9 | 15.7 |
| France | 13.1 | 9.7 |
| Rest of Europe | 44.5 | 39.7 |
| USA | 71.7 | 58.7 |
| Rest of North America | 13.3 | 11.8 |
| Japan | 16.3 | 15.3 |
| China | 19.0 | 18.8 |
| South Korea | 6.9 | 3.5 |
| Rest of Asia | 22.4 | 18.4 |
| Rest of the world | 15.2 | 11.4 |
| | 258.4 | 213.0 |

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:

| | 2016 | | 2015 | |
|---------------------------|--------------|------------------|-------------|------------------|
| | Gross £m | Impairment £m | Gross £m | Impairment £m |
| Not past due | 188.9 | 0.1 | 158.8 | 0.2 |
| One month past due | 44.8 | – | 32.1 | 0.1 |
| Two months past due | 14.7 | 0.1 | 12.2 | 0.2 |
| Three months past due | 6.1 | 0.1 | 6.1 | 0.1 |
| Four months past due | 4.2 | – | 4.7 | 0.3 |
| Over four months past due | 12.9 | 12.9 | 7.7 | 7.7 |
| | 271.6 | 13.2 | 221.6 | 8.6 |

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

| | 2016 £m | 2015 £m |
|-----------------------------|-------------|------------|
| Balance at 1 January | 8.6 | 9.5 |
| Impairment loss recognised | 7.5 | 5.8 |
| Impairment loss utilised | (0.3) | (1.2) |
| Impairment loss released | (3.7) | (5.4) |
| Foreign exchange difference | 1.1 | (0.1) |
| Balance at 31 December | 13.2 | 8.6 |

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

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

15. Cash and cash equivalents

| | Note | 2016 £m | 2015 £m |
|---|------|-------------|------------|
| Cash balances | | 83.5 | 58.2 |
| Bank overdrafts | 16 | (12.3) | (1.7) |
| Cash and cash equivalents in the Consolidated Statement of Cash Flows | | 71.2 | 56.5 |

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 | Repayable date | 2016 £m | 2015 £m | |
|--------------------------------|-------------------------|-------------------------|--------------|------------|
| Bank overdrafts | on demand | 12.3 | 1.7 | |
| Non-current | Effective interest rate | Agreement maturity date | 2016 £m | 2015 £m |
| Bank loans – unsecured | 0.86% | 30 October 2019 | 41.0 | – |
| Bank loans unsecured – €94.8m | 2.56% | 14 October 2020 | 81.4 | 69.7 |
| Bank loans unsecured – €116.2m | 1.15% | 9 September 2022 | 99.7 | 85.4 |
| Total unsecured borrowings | | | 222.1 | 155.1 |

Notes to the Accounts continued

16. Borrowings continued

At 31 December 2016, the Group had available £406.0m (2015: £371.1m) of undrawn committed borrowing facilities in respect of its US Dollar \$550m revolving credit facility, of which all conditions precedent had been met.

| Analysis of net debt | Note | 2016 £m | 2015 £m |
|-----------------------------|------|-------------------|------------|
| Bank overdrafts | | 12.3 | 1.7 |
| Bank loans – unsecured | | 222.1 | 155.1 |
| Total borrowings | | 234.4 | 156.8 |
| Cash balances | 15 | (83.5) | (58.2) |
| Net debt | | 150.9 | 98.6 |

17. Trade and other payables

| Current | 2016 £m | 2015 £m |
|--------------------------|-------------------|------------|
| Trade payables | 85.9 | 73.5 |
| Accruals | 95.2 | 74.1 |
| Deferred income | 41.7 | 31.8 |
| Other non-trade payables | 36.4 | 27.2 |
| | 259.2 | 206.6 |
| | 2016 £m | 2015 £m |
| Non-current | | |
| Other non-trade payables | 29.0 | 16.6 |

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

| | Note | Reorganisation £m | Product warranty £m | Legal, contractual and other £m | Total £m |
|----------------------------------|------|----------------------|---------------------------|--|--------------|
| At 1 January 2016 | | 3.0 | 10.0 | 9.2 | 22.2 |
| Additional provision in the year | | 0.7 | 6.9 | 2.5 | 10.1 |
| Acquired on acquisition | 24 | – | 0.5 | 0.9 | 1.4 |
| Utilised during the year | | (2.7) | (5.7) | (1.4) | (9.8) |
| Released during the year | | (0.3) | (1.4) | (5.1) | (6.8) |
| Foreign exchange difference | | – | 1.6 | 0.8 | 2.4 |
| At 31 December 2016 | | 0.7 | 11.9 | 6.9 | 19.5 |

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.

18. Provisions continued

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 decrease in the provision during the year is due to a lower 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, assess that it is probable 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 defeated 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, 14 overseas subsidiaries (2015: 12) in three overseas countries provide defined benefit plans. Other UK and overseas subsidiaries have their own defined contribution plans invested in independent funds.

Defined benefit schemes

The UK, German, Dutch and Swiss plans provide pensions in retirement, death in service 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 accruals. 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.

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 trustee also holds interest rate and inflation swaps to help protect against the impact of changes in prevailing interest rates and price inflation. Trustee investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The funding requirements are based on the individual funds' actuarial measurement framework set out in the funding policies of the various plans.

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 2016.

The last full actuarial valuation for the UK plan was 31 December 2014 and for the overseas plans was 31 December 2016. Where applicable, the valuations were updated to 31 December 2016 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 2016 were £1.9m (2015: £1.4m). Contributions for 2017 are expected to be £2.3m for the overseas plans.

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

Notes to the Accounts continued

19. Retirement benefit schemes continued

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

| | 2016 | | 2015 | |
|--------------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| | UK plan % p.a. | Overseas plans % p.a. | UK plan % p.a. | Overseas plans % p.a. |
| Discount rate | 2.6 | 0.55–2.0 | 3.7 | 0.8–1.9 |
| Salary increases | 4.5 | 1.0–3.0 | 4.7 | 1.0–3.0 |
| Pension increases in payment | 2.2–3.8 | 0.0–2.0 | 2.1–3.7 | 0.0–2.0 |
| Pension increases in deferment | 2.6–3.5 | | 2.3–3.2 | |
| Inflation assumption | 2.6–3.5 | 1.0–2.0 | 2.3–3.2 | 1.0–2.0 |
| Interest credit rate | | 0.0–1.0 | | 0.0–1.0 |

The weighted average duration of the defined benefit obligation at 31 December 2016 was approximately 16 years (2015: 16 years) for the UK plan and 14.7 years (2015: 13.7 years) for the overseas plans.

Pensioner life expectancy assumed in the 31 December 2016 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 2016 tables |
| Swiss plan | BVG 2015 generational |

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

| | Male | Female |
|----------------------------|-----------|-----------|
| Pensioners aged 65 in 2016 | 84.2–87.3 | 88.2–89.8 |
| Pensioners aged 65 in 2026 | 85.5–89.2 | 89.5–91.7 |

| Amounts recognised in the Consolidated Income Statement | UK plans | | Overseas plans | | Total | |
|---|------------|------------|----------------|------------|------------|------------|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Current service cost | – | – | 2.1 | 1.5 | 2.1 | 1.5 |
| Net interest cost/(income) | 0.1 | (0.1) | 0.2 | 0.2 | 0.3 | 0.1 |
| Administrative cost | 0.4 | 0.2 | 0.1 | 0.1 | 0.5 | 0.3 |
| Settlement and past service credit | – | – | (1.4) | (0.3) | (1.4) | (0.3) |
| | 0.5 | 0.1 | 1.0 | 1.5 | 1.5 | 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 £0.3m (2015: £0.4m) were paid.

19. Retirement benefit schemes continued

The total return on scheme assets in the year was £15.6m (2015: £0.3m).

| Amounts recognised in the Consolidated Statement of Comprehensive Income | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Actuarial losses recognised in the current year | (13.0) | (5.5) | 0.4 | (2.4) | (12.6) | (7.9) |
| Foreign exchange gains in the current year | – | – | (3.7) | – | (3.7) | – |
| Total losses recognised in the current year | (13.0) | (5.5) | (3.3) | (2.4) | (16.3) | (7.9) |
| Cumulative actuarial losses since 1 January 2004 | (49.0) | (36.0) | (15.9) | (12.6) | (64.9) | (48.6) |

| Amounts recognised in the Consolidated Statement of Financial Position | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Present value of defined benefit obligations | (138.4) | (116.0) | (59.2) | (44.4) | (197.6) | (160.4) |
| Fair value of scheme assets | 122.9 | 114.0 | 34.4 | 24.3 | 157.3 | 138.3 |
| Net deficit in schemes | (15.5) | (2.0) | (24.8) | (20.1) | (40.3) | (22.1) |

| Reconciliation of movement in net deficit | Note | UK plans | | Overseas plans | | Total | |
|---|------|------------|------------|----------------|------------|------------|------------|
| | | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| At 1 January | | (2.0) | 3.6 | (20.1) | (17.6) | (22.1) | (14.0) |
| Current service cost | | – | – | (2.1) | (1.5) | (2.1) | (1.5) |
| Net interest (cost)/income | | (0.1) | 0.1 | (0.2) | (0.2) | (0.3) | (0.1) |
| Scheme administrative cost | | (0.4) | (0.2) | (0.1) | (0.1) | (0.5) | (0.3) |
| Liabilities acquired in business combinations | 24 | – | – | (2.3) | – | (2.3) | – |
| Settlement | | – | – | 0.1 | – | 0.1 | – |
| Past service credit | | – | – | 1.3 | 0.3 | 1.3 | 0.3 |
| Contributions from sponsoring company | | – | – | 1.9 | 1.4 | 1.9 | 1.4 |
| Actuarial (losses)/gains | | (13.0) | (5.5) | 0.4 | (2.4) | (12.6) | (7.9) |
| Foreign exchange difference | | – | – | (3.7) | – | (3.7) | – |
| At 31 December | | (15.5) | (2.0) | (24.8) | (20.1) | (40.3) | (22.1) |

Notes to the Accounts continued

19. Retirement benefit schemes continued

| | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Analysis of movement in the present value of the defined benefit obligation | | | | | | |
| At 1 January | 116.0 | 118.7 | 44.4 | 38.4 | 160.4 | 157.1 |
| Current service cost | – | – | 2.1 | 1.5 | 2.1 | 1.5 |
| Interest cost | 4.2 | 4.3 | 0.5 | 0.5 | 4.7 | 4.8 |
| Liabilities acquired in business combinations | – | – | 8.3 | – | 8.3 | – |
| Settlement | – | – | (0.5) | – | (0.5) | – |
| Past service credit | – | – | (1.3) | (0.3) | (1.3) | (0.3) |
| Contributions from scheme members | – | – | 0.9 | 0.8 | 0.9 | 0.8 |
| Actuarial losses/(gains) – financial | 25.6 | (0.2) | 0.9 | 2.7 | 26.5 | 2.5 |
| Actuarial losses/(gains) – demographic | – | 0.2 | (1.7) | – | (1.7) | 0.2 |
| Actuarial (gains)/losses – experience | (1.3) | (0.9) | 0.3 | 1.6 | (1.0) | 0.7 |
| Benefits paid | (6.1) | (6.1) | (3.5) | (1.5) | (9.6) | (7.6) |
| Foreign exchange difference | – | – | 8.8 | 0.7 | 8.8 | 0.7 |
| At 31 December | 138.4 | 116.0 | 59.2 | 44.4 | 197.6 | 160.4 |

Analysed as:

| | | | | | | |
|--|-------|-------|------|------|-------|-------|
| Present value of unfunded defined benefit obligation | – | – | 7.9 | 6.7 | 7.9 | 6.7 |
| Present value of funded defined benefit obligation | 138.4 | 116.0 | 51.3 | 37.7 | 189.7 | 153.7 |

| | UK plans | | Overseas plans | | Total | |
|--|------------|------------|----------------|------------|------------|------------|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Reconciliation of movement in fair value of plan assets | | | | | | |
| At 1 January | 114.0 | 122.3 | 24.3 | 20.8 | 138.3 | 143.1 |
| Return on plan assets | 4.1 | 4.4 | 0.3 | 0.3 | 4.4 | 4.7 |
| Scheme administration cost | (0.4) | (0.2) | (0.1) | (0.1) | (0.5) | (0.3) |
| Assets acquired in business combinations | – | – | 6.0 | – | 6.0 | – |
| Settlement | – | – | (0.4) | – | (0.4) | – |
| Contributions from sponsoring company | – | – | 1.4 | 0.9 | 1.4 | 0.9 |
| Contributions from scheme members | – | – | 0.9 | 0.8 | 0.9 | 0.8 |
| Actuarial gains/(losses) | 11.3 | (6.4) | (0.1) | 1.9 | 11.2 | (4.5) |
| Benefits paid | (6.1) | (6.1) | (3.0) | (1.0) | (9.1) | (7.1) |
| Foreign exchange difference | – | – | 5.1 | 0.7 | 5.1 | 0.7 |
| At 31 December | 122.9 | 114.0 | 34.4 | 24.3 | 157.3 | 138.3 |

| | UK plans | | Overseas plans | | Total | |
|--------------------------------------|------------|------------|----------------|------------|------------|------------|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Fair value of assets | | | | | | |
| Equity instruments | 7.5 | 6.7 | – | – | 7.5 | 6.7 |
| Corporate bonds | 112.0 | 107.2 | – | – | 112.0 | 107.2 |
| Government bonds | 5.6 | 5.2 | – | – | 5.6 | 5.2 |
| Cash and financial derivatives (net) | (2.2) | (5.1) | – | – | (2.2) | (5.1) |
| Insurance policies | – | – | 34.4 | 24.3 | 34.4 | 24.3 |
| At 31 December | 122.9 | 114.0 | 34.4 | 24.3 | 157.3 | 138.3 |

19. Retirement benefit schemes continued

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 2016 | |
|-----------------------------------|----------------------|---|-------------------|
| | | UK plans | Overseas plans |
| Discount rate | Increase by 1% | Decrease by £20.8m | Decrease by £9.1m |
| Rate of price inflation (RPI) | Increase by 1% | Increase by £13.8m | Increase by £2.8m |
| Assumed life expectancy at age 65 | Increase by 1 year | Increase by £4.5m | Increase by £1.8m |

Defined contribution plans

The total cost of the defined contribution plans for the year ended 31 December 2016 was £13.7m (2015: £12.1m). There were no outstanding or prepaid contributions to these plans as at 31 December 2016 or 31 December 2015.

20. Deferred tax

The movement in the deferred tax account is shown below:

| | Note | 2016 £m | 2015 £m |
|--|------|------------|------------|
| At 1 January | | 23.7 | 24.8 |
| Foreign exchange difference | | 6.0 | 0.8 |
| Acquisition of subsidiary undertakings | 24 | 15.5 | 4.8 |
| Deferred tax on changes in fair value of forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income | | (0.7) | – |
| Deferred tax on re-measurement of net defined benefit liability recognised in the Consolidated Statement of Comprehensive Income | | (3.0) | (1.7) |
| Deferred tax on share-based payments recognised in equity | | (0.3) | 0.2 |
| Credited to the Consolidated Income Statement | 8 | (13.4) | (5.2) |
| At 31 December | | 27.8 | 23.7 |
| Comprising: | | | |
| Deferred tax liabilities | | 41.2 | 40.9 |
| Deferred tax assets | | (13.4) | (17.2) |
| | | 27.8 | 23.7 |

Notes to the Accounts continued

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 | Total £m |
|--|---|--------------------------------------|-------------------------|--|------------------------------|---|--------------------|--------------------|
| At 1 January 2016 | 4.6 | (14.3) | (3.0) | (5.1) | (5.6) | 49.1 | (2.0) | 23.7 |
| Foreign exchange difference | – | – | – | – | – | 6.0 | – | 6.0 |
| Acquisition of subsidiary undertakings | – | – | – | – | (0.4) | 11.0 | 4.9 | 15.5 |
| Deferred tax on changes in fair value of forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income | – | – | – | – | – | – | (0.7) | (0.7) |
| Deferred tax on re-measurement of net defined benefit obligations recognised in the Consolidated Statement of Comprehensive Income | – | – | – | – | (3.0) | – | – | (3.0) |
| Deferred tax on share-based payments recognised in equity | – | – | – | – | – | – | (0.3) | (0.3) |
| Charged/(credited) to the Consolidated Income Statement | 0.5 | (5.3) | 0.6 | (0.6) | (0.3) | (7.2) | (1.1) | (13.4) |
| At 31 December 2016 | 5.1 | (19.6) | (2.4) | (5.7) | (9.3) | 58.9 | 0.8 | 27.8 |

| 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 | 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 changes in fair value of forward exchange contracts recognised in the Consolidated Statement of Comprehensive Income | – | – | – | – | – | – | – | – |
| Deferred tax on re-measurement of net defined benefit obligations 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 |

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. £2.5m will expire before 31 December 2023. There is no expiry date associated with the remaining tax losses of £17.1m.

| | 2016 £m | 2015 £m |
|-----------------------------|-------------|-------------|
| Tax losses | 19.6 | 35.4 |
| Other temporary differences | 1.5 | 1.3 |
| | 21.1 | 36.7 |

Phased reductions in the UK corporation tax rate to 19% effective from 1 April 2017 and 17% from 1 April 2020 were substantively enacted in the UK Finance (No.2) Act 2015 and UK Finance Act 2016, respectively.

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, £68.2m (2015: £47.9m) of those earnings may still result in a tax liability, principally as a result of the dividend withholding taxes levied by the overseas tax jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £3.3m (2015: £2.3m), of which only £1.3m (2015: £1.0m) 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

| | 2016 | | 2015 | |
|---|---------------------------------|-----|---------------------------------|-----|
| | Number of shares Millions | £m | Number of shares Millions | £m |
| Issued and fully paid (ordinary shares of 5p each): | | | | |
| At 1 January and 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 into Sterling 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 2016, the Group held 5,840,513 treasury shares (2015: 5,898,908). During the year, 58,395 of these shares were issued to satisfy options exercised by employees which were granted under the Group's share schemes (2015: 155,927). No shares were repurchased by the Group during the year (2015: nil) and no shares were cancelled during the year (2015: nil).

Notes to the Accounts continued

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 ('PSP') (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 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 ('EP') 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 this 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 PSP awards vest after a period of three years and must be exercised during the seven-year period following vesting.

Since 2011, PSP 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 an aggregate 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 PSP 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

| SAYE – year of grant | | | 2016 | 2015 |
|----------------------|---------------------|-----------------------------|---------------------|---------------------|
| | Exercise price £ | Expected life of options | Number Thousands | Number Thousands |
| 2012 | 16.95 | nil | – | 23 |
| 2013 | 22.45 | 1 year | 12 | 16 |
| 2014 | 20.15 | 2 years | 26 | 30 |
| 2015 | 17.37 | 3 years | 57 | 64 |
| 2016 | 19.38 | 4 years | 31 | – |
| | | | 126 | 133 |

The weighted average remaining contractual life of the SAYE options is 2.27 years (2015: 2.43 years).

23. Share-based payments continued

| | | | 2016 | 2015 |
|--|---------------------|--------------------------------|---------------------|---------------------|
| | Exercise price £ | Contractual life of options | Number Thousands | Number Thousands |
| Performance Share Plan (unapproved) – year of grant | | | | |
| 2007 | 0.05 | 1 year | 1 | 1 |
| 2008 | 0.05 | 2 years | 7 | 7 |
| 2009 | 0.05 | 3 years | 29 | 29 |
| 2010 | 0.05 | 4 years | 45 | 52 |
| 2011 | 0.05 | 5 years | 69 | 90 |
| 2012 | 0.05 | 6 years | 3 | 4 |
| 2013 | 0.05 | 7 years | 3 | 386 |
| 2014 | 0.05 | 8 years | 411 | 457 |
| 2015 | 0.05 | 9 years | 482 | 536 |
| 2016 | 0.05 | 10 years | 680 | – |
| | | | 1,730 | 1,562 |

The weighted average remaining contractual life of the unapproved awards is 7.89 years (2015: 7.84 years).

| | | | 2016 | 2015 |
|--|---------------------|--------------------------------|---------------------|---------------------|
| | Exercise price £ | Contractual life of options | Number Thousands | Number Thousands |
| Performance Share Plan (approved) – year of grant | | | | |
| 2011 | 11.30 | 5 years | 2 | 2 |
| 2012 | 17.31 | 6 years | 2 | 3 |
| 2013 | 23.78 | 7 years | 1 | 21 |
| 2014 | 23.03 | 8 years | 16 | 18 |
| 2015 | 21.79 | 9 years | 41 | 47 |
| 2016 | 17.33 | 10 years | 24 | – |
| | | | 86 | 91 |

The weighted average remaining contractual life of the approved awards is 8.08 years (2015: 8.33 years).

| | | | 2016 | 2015 |
|---|---------------------|--------------------------------|---------------------|---------------------|
| | Exercise price £ | Contractual life of options | Number Thousands | Number Thousands |
| Restricted Shares Plan – year of grant | | | | |
| 2014 | 0.05 | 1 year | 64 | 70 |
| 2015 | 0.05 | 2 years | 76 | 84 |
| 2016 | 0.05 | 3 years | 129 | – |
| | | | 269 | 154 |

The weighted average remaining contractual life of the restricted share plan awards is 1.41 years (2015: 1.72 years).

| | 2016 | | | 2015 | | |
|----------------------------|---------------------|--|---------------------------|---------------------|--|--------------------------|
| | Number Thousands | Weighted average exercise price £ | Value of shares £ m | Number Thousands | Weighted average exercise price £ | Value of shares £m |
| SAYE | | | | | | |
| At 1 January | 133 | 18.55 | 2.46 | 111 | 19.16 | 2.12 |
| Granted | 31 | 19.38 | 0.60 | 65 | 17.37 | 1.13 |
| Exercised | (12) | 17.04 | (0.20) | (14) | 15.24 | (0.22) |
| Forfeited | (26) | 18.31 | (0.47) | (29) | 19.93 | (0.57) |
| At 31 December | 126 | 18.93 | 2.39 | 133 | 18.55 | 2.46 |
| Exercisable at 31 December | 12 | 22.45 | 0.2 | 23 | 16.95 | 0.38 |

Notes to the Accounts continued

23. Share-based payments continued

| | 2016 | | | 2015 | | |
|--|---------------------|--|--------------------------|---------------------|--|--------------------------|
| | Number Thousands | Weighted average exercise price £ | Value of shares £m | Number Thousands | Weighted average exercise price £ | Value of shares £m |
| Performance Share Plan (unapproved) | | | | | | |
| At 1 January | 1,562 | 0.05 | 0.08 | 1,710 | 0.05 | 0.09 |
| Shares granted | 734 | 0.05 | 0.04 | 557 | 0.05 | 0.03 |
| Addition of reinvested dividends | 5 | 0.05 | 0.00 | 7 | 0.05 | 0.00 |
| Exercised | (46) | 0.05 | (0.00) | (139) | 0.05 | (0.01) |
| Forfeited | (525) | 0.05 | (0.03) | (573) | 0.05 | (0.03) |
| At 31 December | 1,730 | 0.05 | 0.09 | 1,562 | 0.05 | 0.08 |
| Exercisable at 31 December | 150 | 0.05 | 0.01 | 728 | 0.05 | 0.04 |

| | 2016 | | | 2015 | | |
|--|---------------------|--|--------------------------|---------------------|--|--------------------------|
| | Number Thousands | Weighted average exercise price £ | Value of shares £m | Number Thousands | Weighted average exercise price £ | Value of shares £m |
| Performance Share Plan (approved) | | | | | | |
| At 1 January | 91 | 22.08 | 2.00 | 113 | 19.37 | 2.20 |
| Shares granted | 25 | 21.67 | 0.55 | 47 | 21.79 | 1.02 |
| Exercised | (1) | 11.30 | (0.01) | (3) | 14.90 | (0.05) |
| Forfeited | (29) | 20.64 | (0.59) | (66) | 17.56 | (1.17) |
| At 31 December | 86 | 22.58 | 1.95 | 91 | 22.08 | 2.00 |
| Exercisable at 31 December | – | – | – | – | – | – |

| | 2016 | | | 2015 | | |
|-------------------------------|---------------------|--|--------------------------|---------------------|--|--------------------------|
| | Number Thousands | Weighted average exercise price £ | Value of shares £m | Number Thousands | Weighted average exercise price £ | Value of shares £m |
| Restricted Shares Plan | | | | | | |
| At 1 January | 154 | 0.05 | – | 77 | 0.05 | – |
| Shares granted | 133 | 0.05 | – | 88 | 0.05 | – |
| Forfeited | (18) | 0.05 | – | (11) | 0.05 | – |
| At 31 December | 269 | 0.05 | – | 154 | 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 2015 and 2016, the fair value of options granted and the assumptions used in the calculation are as follows:

| | Performance Share Plan SAYE | | Performance Share Plan (unapproved) | | Performance Share Plan (approved) | | Restricted Shares Plan | |
|---|--------------------------------|----------|--|-------|--------------------------------------|--------|------------------------|-------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Weighted average share price at date of grant (£) | 19.86 | 16.78 | 17.17 | 22.08 | 17.34 | 21.99 | 17.72 | 22.00 |
| Weighted average exercise price (£) | 19.38 | 17.37 | 0.05 | 0.05 | 17.33 | 21.79 | 0.05 | 0.05 |
| Expected volatility | 25.99% | 27.20% | n/a | n/a | 26.76% | 27.72% | n/a | n/a |
| Expected life | 3.44 yrs | 3.44 yrs | 3 yrs | 3 yrs | 3 yrs | 3 yrs | 3 yrs | 3yrs |
| Risk-free rate | 0.15% | 0.88% | 0.46% | 0.84% | 0.43% | 0.84% | n/a | n/a |
| Expected dividends (expressed as a yield) | 2.52% | 2.85% | 0% | 0% | 2.86% | 2.12% | 0% | 0% |
| Fair value per option (£) | 3.06 | 2.19 | | | | | | |

Weighted average fair values at date of grant (£):

| | | | | |
|-----------------------------------|--------------|-------|-------------|--------------------|
| Equity-settled (TSR condition) | 10.29 | 12.11 | 2.46 | 3.59 |
| Equity-settled (Profit condition) | 17.09 | 21.78 | 2.42 | 3.68 |
| Equity-settled (EPS condition) | 17.02 | 21.69 | 2.45 | 3.69 |
| Equity-settled (EP condition) | 17.05 | 22.17 | – | 3.76 |
| Cash-settled (TSR condition) | 10.47 | 13.19 | | n/a n/a |
| Cash-settled (Profit condition) | 17.10 | 22.17 | | 17.10 22.17 |
| Cash-settled (EPS condition) | 17.10 | 22.02 | | 17.10 22.02 |

Weighted average fair values at 31 December (£):

| | | | | |
|---------------------------------|--------------|-------|--|--------------------|
| Cash-settled (TSR condition) | 16.98 | 4.90 | | n/a n/a |
| Cash-settled (Profit condition) | 22.03 | 16.96 | | 22.42 17.37 |
| Cash-settled (EPS condition) | 22.03 | 16.96 | | 22.42 17.32 |

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 2016 was £18.00 (2015: £19.67). The weighted average fair value of cash-settled options outstanding at 31 December 2016 is £22.53 (2015: £17.32) for the EPS condition.

The Group recognised a total share-based payment charge of £3.3m (2015: £1.5m) in the Consolidated Income Statement, of which £2.1m (2015: £0.7m) related to equity-settled share-based payment transactions.

Notes to the Accounts continued

24. Acquisitions

On 23 February 2016, the Group acquired 100% of the share capital of CAS Clean Air Service AG ('CAS'), a company based in Switzerland, for a total consideration of £12.0m (£10.4m net of cash acquired). This extends the Group's capabilities in monitoring and calibration services within the life sciences market. 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), technology, trade name and goodwill of £0.6m, £2.4m, £0.1m, £0.3m and £5.0m, respectively. The goodwill arising is attributable to the acquired workforce and synergies from leveraging the customer base to optimise the sales potential of CAS and Spectris products. Goodwill includes an amount of £0.3m representing the requirement to recognise a net deferred tax liability on the fair value adjustments. The business is being integrated into the Materials Analysis segment.

On 7 June 2016, the Group acquired the trade and certain assets of Integrated Process Systems India, an Indian agent, for a total consideration of £0.9m including £0.2m deferred consideration. 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 £0.5m and £0.5m, respectively. The goodwill arising is attributable to opportunities that will be generated from direct access to the Indian market and benefits arising from improving the productivity of the combined sales and support channels. The business is being integrated into the Test and Measurement segment.

On 17 June 2016, the Group acquired 100% of the share capital of Capstone Technology Corporation, a company based in the USA, for a total consideration of £14.8m (£14.7m net of cash acquired). The company is a provider of software solutions for process control optimisation and decision support, serving multiple industries such as pulp and paper, chemical, utilities, oil and gas, and food and beverage. 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, contractual rights and goodwill of £1.9m, £7.1m, £0.4m and £9.6m, respectively. The goodwill arising is considered to represent the value of the acquired workforce, broadening of the Group's solutions offering in the pulp and paper market and leveraging of the existing Spectris customer base. Goodwill includes an amount of £3.6m representing the requirement to recognise a net deferred tax liability on the fair value adjustments. The business is being integrated into the In-line Instrumentation segment.

On 1 July 2016, the Group acquired the trade and certain assets of Sound and Vibration Technology Limited, a UK business, for a total consideration of £0.4m including £0.1m deferred consideration. The company is a provider of sound and vibration test-based solutions. 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 £0.1m and £0.1m, respectively. The goodwill arising is attributable to the acquired workforce and opportunities expected from expanding the Group's software solutions offering to the automotive market. The business is being integrated into the Test and Measurement segment.

On 26 July 2016, the Group acquired 100% of the share capital of DISCOM – Elektronische Systeme und Komponenten GmbH, a company based in Germany, for a total consideration of £20.4m (£20.0m net of cash acquired) including £5.8m contingent consideration which is based on the achievement of non-financial integration milestones and £1.5m contingent consideration which is based on incremental future revenues over the next three years. The company provides integrated solutions combining hardware and software to enhance production quality and identify potential problems in manufacturing processes. 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, trade name and goodwill of £5.0m, £3.9m, £0.7m and £12.2m, respectively. The goodwill arising is attributable to the acquired workforce and extension to the Group's product offering of innovative customer solutions using instrumentation, software and services. Goodwill includes an amount of £3.0m representing the requirement to recognise a net deferred tax liability on the fair value adjustments. The business is being integrated into the Test and Measurement segment.

On 1 September 2016, the Group acquired 100% of the share capital of Millbrook Group Limited ('Millbrook'), a company based in the UK with operations in Finland, for a total consideration of £125.7m (£120.9m net of cash acquired). This extends the Group's capabilities to provide test, validation and engineering services to the automotive, transport and tyre, petrochemical, defence and securities industries, utilising its proving grounds in the UK and Finland. 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, trade name and goodwill of £8.9m, £2.2m, £10.9m and £54.1m, respectively. The goodwill arising is attributable to the acquired workforce, and the opportunities expected as the business is integrated into the Group where there will be benefit from leveraging the Group's wider customer base and sales and marketing channels, together with sharing capabilities, facilities and technology with other operating companies. Goodwill includes an amount of £7.5m representing the requirement to recognise a net deferred tax liability on the fair value adjustments. The business is being integrated into the Test and Measurement segment.

24. Acquisitions continued

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 contributions from the acquisitions in the year to the Group's results for the year were £28.9m and £2.1m, respectively. Group revenue and operating profit would have been £1,381.5m and £39.2m (adjusted operating profit: £204.9m), respectively, had each of these acquisitions taken place on the first day of the financial year.

Acquisition costs incurred and paid during the year relating to the above acquisitions were £2.5m (2015: £1.3m).

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:

| | Book value | Adjustments | 2016 Fair value |
|---|------------|-------------|--------------------|
| | £m | £m | £m |
| Net assets acquired under 2016 acquisitions | | | |
| Intangible fixed assets | 1.5 | 43.6 | 45.1 |
| Tangible fixed assets | 29.1 | 29.7 | 58.8 |
| Inventories | 1.3 | (0.8) | 0.5 |
| Trade and other receivables | 17.0 | (1.3) | 15.7 |
| Trade and other payables | (14.5) | – | (14.5) |
| Provisions | (1.3) | (0.1) | (1.4) |
| Retirement benefit obligations | – | (2.3) | (2.3) |
| Current tax | (0.6) | – | (0.6) |
| Deferred tax liabilities | (1.1) | (14.4) | (15.5) |
| Cash | 6.9 | – | 6.9 |
| Net assets acquired | 38.3 | 54.4 | 92.7 |
| Goodwill | | | 81.5 |
| Total consideration in respect of 2016 acquisitions | | | 174.2 |
| Total consideration | | | 174.2 |
| Adjustment for cash acquired | | | (6.9) |
| Net consideration in respect of 2016 acquisitions | | | 167.3 |
| Analysis of cash outflow in Consolidated Statement of Cash Flows | | | |
| Total consideration in respect of 2016 acquisitions | | | 174.2 |
| Adjustment for net cash acquired on 2016 acquisitions | | | (6.9) |
| Deferred and contingent consideration on 2016 acquisitions to be paid in future years | | | (7.6) |
| Cash paid in 2016 in respect of 2016 acquisitions | | | 159.7 |
| Acquisitions prior to 2016 | | | |
| Purchase price adjustments relating to prior years' acquisitions | | | (1.4) |
| Deferred and contingent consideration in relation to prior years' acquisitions: | | | |
| – accrued at 31 December 2015 | | | 2.6 |
| Cash paid in 2016 in respect of prior years' acquisitions | | | 1.2 |
| Net cash outflow relating to acquisitions | | | 160.9 |

Where appropriate, a detailed exercise has been undertaken to assess the fair value of assets acquired and liabilities assumed, with the use of third-party experts. The valuation of the above intangible and tangible assets requires the use of assumptions and estimates. Intangible asset assumptions consist of future growth rates, expected inflation and attrition rates, discount rates used and useful economic lives. Tangible asset (including automotive testing tracks) assumptions include comparable market values, replacement costs, expected rental yields and useful economic lives.

Notes to the Accounts continued

24. Acquisitions continued

The fair value of contingent consideration on the 2016 acquisitions amounts to £7.6m. The contingent consideration payable on non-financial milestones could range from £nil to £6.4m depending on the achievement of certain business targets, contingent consideration payable on financial milestones could range from £nil to £2.2m dependent on incremental future revenues and the total contingent consideration is sensitive to risk adjusted discount rates.

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.

£0.5m (2015: £4.0m) 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).

Net assets acquired for significant 2016 acquisitions

| | Book value £m | Adjustments £m | Fair value £m |
|--|------------------|-------------------|------------------|
| Net assets acquired for Millbrook | | | |
| Intangible fixed assets | 0.1 | 21.9 | 22.0 |
| Tangible fixed assets | 26.4 | 27.9 | 54.3 |
| Inventories | 0.1 | – | 0.1 |
| Trade and other receivables | 12.3 | (1.2) | 11.1 |
| Trade and other payables | (11.2) | 0.4 | (10.8) |
| Provisions | (1.3) | – | (1.3) |
| Deferred tax liabilities | (1.1) | (7.5) | (8.6) |
| Cash | 4.8 | – | 4.8 |
| Net assets acquired | 30.1 | 41.5 | 71.6 |
| Goodwill | | | 54.1 |
| Total consideration | | | 125.7 |
| Total consideration | | | 125.7 |
| Adjustment for cash acquired | | | (4.8) |
| Net consideration | | | 120.9 |

The fair value adjustment in relation to tangible fixed assets reflects the increase in fair value of property, tracks and testing equipment amounting to £27.9m. The additional depreciation charge due to the fair value adjustment on these assets above book value depreciation on these assets is an adjusting item in arriving at adjusted operating profit, as stated in Note 2.

A detailed exercise has been undertaken to assess the fair value of the assets acquired and liabilities assumed for Millbrook. The fair value of intangible assets and property, plant and equipment has been assessed by reference to work performed by independent valuation specialists. The main judgements in the valuation of the intangible assets include the identification of existing customer relationships, the importance of the Millbrook trade name and the value attributed to specific technology. In valuing these intangibles, a combination of the following estimates have been used: future growth rates, expected inflation rates, attrition rates, discount rates and contributory asset charges. The main judgements in the valuation of tangible assets (including the automotive testing track) include comparable market values, depreciated replacement costs, expected rental yields and useful economic lives.

24. Acquisitions continued

The following presents the information related to 2015 acquisitions including the effect of the finalisation of acquisition fair values during 2016:

| | Amounts previously recognised at 31 December 2015 | | 2015 |
|---|--|-------------------|------------------------|
| | Book value £m | Adjustments £m | Final fair value £m |
| Net assets acquired under 2015 acquisitions | | | |
| 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 | | | 23.8 |
| Total consideration in respect of 2015 acquisitions | | | 44.8 |
| Total consideration | | | 44.8 |
| Adjustment for cash acquired | | | (2.7) |
| Net consideration in respect of 2015 acquisitions | | | 42.1 |

Analysis of cash outflow in Consolidated Statement of Cash Flows

| | |
|---|-------|
| Total consideration in respect of 2015 acquisitions | 44.8 |
| 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 | 0.5 |
| 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 |

In accordance with IFRS 3 (Revised), the figures above have been amended from those published in the 2015 Annual Report to reflect the working capital receivable of £0.2m relating to the 2015 acquisition of Label Vision Systems.

Notes to the Accounts continued

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, Swiss Franc and Japanese Yen. Where appropriate, the Group manages its foreign currency exposures using derivative financial instruments.

The Group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts. Forward exchange contracts are 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 2016, most 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 2016 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, and 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:

| | 2016 £m | 2015 £m |
|---------------------------------------|----------------|------------|
| Equity shareholders' funds (page 102) | 1,067.4 | 966.0 |
| Committed debt facilities | 628.1 | 526.2 |
| | 1,695.5 | 1,492.2 |

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 2016, 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.

Notes to the Accounts continued

26. Financial instruments

| | 2016 | | |
|--|------------|------------|----------------|
| | Level 2 | Level 3 | Carrying |
| | fair value | fair value | amount |
| Fair value and carrying amount of financial instruments | £m | £m | £m |
| Trade and other receivables excluding prepayments and accrued income | – | – | 280.2 |
| Trade and other payables excluding deferred income | – | (16.2) | (246.5) |
| Cash and cash equivalents | – | – | 83.5 |
| Floating rate borrowings | – | – | (53.3) |
| Fixed rate borrowings | (189.9) | – | (181.1) |
| Forward exchange contracts | (4.2) | – | (4.2) |
| | | | (121.4) |

| | 2015 | | |
|--|------------|------------|---------------|
| | Level 2 | Level 3 | Carrying |
| | fair value | fair value | amount |
| Fair value and carrying amount of financial instruments | £m | £m | £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) |

| | 2016 | |
|--|---------------|---------------|
| | Deferred and | Level 3 |
| | contingent | fair value |
| Reconciliation of level 3 fair values | consideration | £m |
| | £m | £m |
| At 1 January 2016 | (7.0) | (7.0) |
| Deferred and contingent consideration arising from acquisitions | (7.6) | (7.6) |
| Deferred and contingent consideration paid | 2.6 | 2.6 |
| Costs charged to the Consolidated Income Statement: | | |
| Adjustments outside of the measurement period | (2.1) | (2.1) |
| Unwinding of discount factor on deferred and contingent consideration (unrealised) | (0.6) | (0.6) |
| Loss recognised in Other Comprehensive Income: | | |
| Foreign exchange difference | (1.5) | (1.5) |
| Balance at 31 December 2016 | (16.2) | (16.2) |

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.

Deferred and contingent consideration relates to financial (2016: £10.4m, 2015: £7.0m) and non-financial (2016: £5.8m, 2015: £nil) milestones on current and prior year acquisitions, as disclosed in Note 24. The financial milestones are mainly sensitive to risk-adjusted discount rates and annual future revenue targets.

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.

26. Financial instruments continued

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 2016 is a net liability of £4.2m (2015: £0.4m), of which £3.4m has been debited to the hedging reserve (2015: £0.2m) and £0.8m debited to the Consolidated Income Statement (2015: £0.2m). 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 2016 and 2015 were deemed to be effective.

The fair value of deferred and contingent consideration is determined by considering the performance expectations of the acquired entity or the likelihood of non-financial integration milestones whilst applying the entity-specific discount rates. 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.

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Analysis of movements in hedging reserve net of tax | | |
| At 1 January | (2.9) | (3.0) |
| Amounts removed from the Consolidated Statement of Changes in Equity and included in the Consolidated Income Statement during the year | 7.8 | 0.3 |
| Amounts recognised in the Consolidated Statement of Changes in Equity during the year | (10.2) | (0.2) |
| At 31 December | (5.3) | (2.9) |

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 | 2016 | 2015 |
|--|-------|-------|
| Foreign currency sale amount (£m) | 145.7 | 110.8 |
| Percentage of total: | | |
| US Dollar | 51% | 42% |
| Euro | 23% | 35% |
| Japanese Yen | 18% | 16% |
| Other | 8% | 7% |

Notes to the Accounts continued

26. Financial instruments continued

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

| | 2016 | | | 2015 | | |
|--|---------------------------------|-----------------------|-------------|---------------------------------|-----------------------|-------------|
| | Bank loans and overdrafts £m | Unsecured loans £m | Total £m | Bank loans and overdrafts £m | Unsecured loans £m | Total £m |
| Maturity of financial liabilities | | | | | | |
| Due within one year | 12.3 | 3.7 | 16.0 | 1.7 | 2.8 | 4.5 |
| Due between one and two years | – | 3.8 | 3.8 | – | 2.8 | 2.8 |
| Due between two and five years | – | 130.6 | 130.6 | – | 78.0 | 78.0 |
| Due in more than five years | – | 100.9 | 100.9 | – | 87.3 | 87.3 |
| | 12.3 | 239.0 | 251.3 | 1.7 | 170.9 | 172.6 |

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 | | | | Financial liabilities | | | 2016 Net financial assets/ (liabilities) £m |
|--|------------------|------------------------|-----------------------------------|-------------|-----------------------|------------------------|-------------|--|
| | Fixed rate £m | Floating rate £m | Non- interest bearing £m | Total £m | Fixed rate £m | Floating rate £m | Total £m | |
| Sterling | – | 2.9 | 3.8 | 6.7 | – | (51.0) | (51.0) | (44.3) |
| Euro | 0.2 | 3.2 | 17.4 | 20.8 | (181.1) | (0.3) | (181.4) | (160.6) |
| US Dollar | – | 2.5 | 18.6 | 21.1 | – | (0.7) | (0.7) | 20.4 |
| Other | 0.1 | 6.1 | 28.7 | 34.9 | – | (1.3) | (1.3) | 33.6 |
| | 0.3 | 14.7 | 68.5 | 83.5 | (181.1) | (53.3) | (234.4) | (150.9) |

| Interest rate exposure of financial assets and liabilities by currency | Financial assets | | | | Financial liabilities | | | 2015 Net financial assets/ (liabilities) £m |
|--|------------------|------------------------|-----------------------------------|-------------|-----------------------|------------------------|-------------|--|
| | Fixed rate £m | Floating rate £m | Non- interest bearing £m | Total £m | Fixed rate £m | Floating rate £m | Total £m | |
| Sterling | – | 0.9 | 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) |

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.

| | 2016 | | 2015 | |
|--|--------------------------|-------------------------------------|-------------------------------------|--|
| | Decrease in equity £m | Decrease in profit before tax £m | Decrease/(increase) in equity £m | Decrease/(increase) in profit before tax £m |
| Impact on foreign exchange translational exposures against Sterling | | | | |
| 10% weakening in the US Dollar | 93.5 | 5.2 | 84.4 | 5.3 |
| 10% weakening in the Euro/Danish Krone | 53.0 | 5.6 | 40.5 | 5.4 |
| 10% weakening in the Swiss Franc | 4.4 | 1.6 | 2.6 | 1.4 |
| Impact of interest rate movements | | | | |
| 1% (100 basis points) increase in interest rates | 0.4 | 0.4 | (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 which participate in the cross-border Euro zero-balance pooling arrangement. An amount of £2.8m (2015: £8.5m) was outstanding at 31 December 2016.

Other banks

In the normal course of business, Group companies have provided bonds and guarantees through local banking arrangements amounting to £13.7m (2015: £6.6m).

28. Operating lease arrangements

| | 2016 | | 2015 | |
|---|----------------|-------------|----------------|-------------|
| | Property £m | Other £m | Property £m | Other £m |
| Total commitments under non-cancellable operating leases expiring: | | | | |
| Within one year | 13.3 | 5.0 | 11.7 | 4.1 |
| More than one year but less than five years | 25.7 | 5.8 | 16.8 | 4.7 |
| Greater than five years | 12.1 | – | 4.0 | – |
| | 51.1 | 10.8 | 32.5 | 8.8 |

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, £19.9m (2015: £18.6m) was recognised in the Consolidated Income Statement in respect of operating lease rental payments.

29. Capital commitments

At 31 December 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and software amounting to £13.9m (2015: £1.5m) which have not been accrued.

Notes to the Accounts continued

30. Related party transactions

The remuneration of key management personnel during the year was as follows:

| | 2016 | 2015 |
|--------------------------|------------|------------|
| | £m | £m |
| Short-term benefits | 4.9 | 2.4 |
| Post-employment benefits | 0.5 | 0.5 |
| Share-based payments | 0.9 | 0.6 |
| | 6.3 | 3.5 |

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 73 to 91.

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 |
|--|--------------------------|
| Engineering Seismology Group Canada Inc. | Canada |
| 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 |
| Millbrook Group Limited | UK |
| Servomex Group Limited | UK |
| Microscan Systems, Inc. | USA |
| NDC Technologies, Inc. | USA |
| Omega Engineering, Inc. | USA |
| Particle Measuring Systems, Inc. | USA |
| Red Lion Controls, Inc. | USA |

A full list of subsidiaries is given in Note 48.

32. Post balance sheet events

There were no post balance sheet events.

Company Balance Sheet

As at 31 December 2016

| | Note | 2016 £m | 2015 £m |
|---|------|----------------|------------|
| Fixed assets | | | |
| Intangible assets | 36 | 0.9 | 0.4 |
| Tangible assets | 37 | 2.7 | 2.8 |
| Investments | 38 | 1,149.0 | 494.9 |
| | | 1,152.6 | 498.1 |
| Current assets | | | |
| Debtors (due after more than one year: £244.5m (2015: £638.1m)) | 39 | 554.6 | 918.5 |
| Cash at bank and in hand and short-term deposits | | 21.0 | 9.2 |
| | | 575.6 | 927.7 |
| Creditors: amounts falling due within one year | | | |
| Bank loans and overdrafts | 40 | (10.0) | – |
| Creditors | 41 | (365.3) | (231.2) |
| Derivative financial instruments | | (0.8) | (0.2) |
| | | (376.1) | (231.4) |
| Net current assets | | 199.5 | 696.3 |
| Total assets less current liabilities | | 1,352.1 | 1,194.4 |
| Creditors: amounts falling due after more than one year | | | |
| Bank loans and overdrafts | 40 | (222.1) | (155.1) |
| Creditors | 41 | (154.9) | (126.8) |
| | | (377.0) | (281.9) |
| Retirement benefit obligations | 19 | (15.5) | (2.0) |
| Net assets | | 959.6 | 910.5 |
| Capital and reserves | | | |
| Share capital | 42 | 6.2 | 6.2 |
| Share premium | | 231.4 | 231.4 |
| Profit and loss account | | 684.5 | 635.4 |
| Merger reserve | | 3.1 | 3.1 |
| Capital redemption reserve | | 0.3 | 0.3 |
| Special reserve | | 34.1 | 34.1 |
| Shareholders' funds | | 959.6 | 910.5 |

The Notes on pages 157 to 169 form part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 14 February 2017 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 2016

| | 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 2016 | | 6.2 | 231.4 | 3.1 | 0.3 | 34.1 | 635.4 | 910.5 |
| Profit for the year | | - | - | - | - | - | 118.3 | 118.3 |
| Other comprehensive income: | | | | | | | | |
| Re-measurement of net defined benefit obligations, net of tax | | - | - | - | - | - | (11.0) | (11.0) |
| Total comprehensive income for the year | | - | - | - | - | - | 107.3 | 107.3 |
| Transactions with owners recorded directly in equity: | | | | | | | | |
| Equity dividends paid by the Company | 46 | - | - | - | - | - | (59.8) | (59.8) |
| Share-based payments, net of tax | | - | - | - | - | - | 1.4 | 1.4 |
| Share options exercised from own shares (treasury) purchased | | - | - | - | - | - | 0.2 | 0.2 |
| Balance at 31 December 2016 | | 6.2 | 231.4 | 3.1 | 0.3 | 34.1 | 684.5 | 959.6 |

| | 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 |
|---|------|---------------------|---------------------|----------------------|----------------------------------|-----------------------|-------------------------------|--------------------|
| For the year ended 31 December 2015 | | | | | | | | |
| 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 net defined benefit obligations, 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 |

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 in 2015 of the use of the EU-adopted IFRS disclosure exemptions and there were no objections to the adoption of FRS 101 in either 2015 or 2016.

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

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

- A Cash Flow Statement and related notes.
- Comparative period reconciliations for share capital, 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 IFRSs.
- Disclosures in respect of the compensation of key management personnel.

As the Consolidated Financial Statements of Spectris plc (pages 99 to 154) 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 Instruments 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.

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 have 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 £1,149.0m with an impairment loss recognised of £5.7m in 2016 (2015: £16.4m).

Deferred tax

Note 39 – The recognition of deferred tax assets is dependent on assessments of future taxable income.

Notes to the Company Accounts continued

33. Basis of preparation and summary of significant accounting policies continued

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 – 25 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.

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.

33. Basis of preparation and summary of significant accounting policies continued

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.

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.

Notes to the Company Accounts continued

33. Basis of preparation and summary of significant accounting policies continued

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 the 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 scheme or the present value of reductions in future contributions to the scheme.

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.

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 which may result in a credit in a particular year.

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:

| | 2016 Number | 2015 Number |
|----------------|----------------|----------------|
| Administrative | 52 | 48 |

35. Employee numbers and costs continued

The aggregate payroll costs of these persons, including Directors' remuneration, were as follows:

| | 2016 £m | 2015 £m |
|---|-------------|------------|
| Wages and salaries | 9.1 | 6.0 |
| Social security costs | 1.2 | 1.2 |
| Contributions to defined contribution plans | 0.3 | 0.3 |
| Equity-settled share-based payment expense | 1.2 | 0.9 |
| Cash-settled share-based payment expense | 0.1 | – |
| | 11.9 | 8.4 |

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 73 to 91.

36. Intangible assets

| Cost | Software £m |
|----------------------------|----------------|
| At 1 January 2016 | 3.5 |
| Additions | 0.7 |
| At 31 December 2016 | 4.2 |

Accumulated amortisation and impairment

| | |
|----------------------------|------------|
| At 1 January 2016 | 3.1 |
| Charge for the year | 0.2 |
| At 31 December 2016 | 3.3 |

Carrying amount

| | |
|----------------------------|------------|
| At 31 December 2016 | 0.9 |
| At 31 December 2015 | 0.4 |

37. Tangible assets

| Cost | Freehold property £m | Office equipment £m | Total £m |
|----------------------------|----------------------------|---------------------------|-------------|
| At 1 January 2016 | 3.4 | 0.6 | 4.0 |
| Additions | – | 0.1 | 0.1 |
| At 31 December 2016 | 3.4 | 0.7 | 4.1 |

Accumulated depreciation and impairment

| | | | |
|----------------------------|------------|------------|------------|
| At 1 January 2016 | 0.7 | 0.5 | 1.2 |
| Charge for the year | 0.1 | 0.1 | 0.2 |
| At 31 December 2016 | 0.8 | 0.6 | 1.4 |

Carrying amount

| | | | |
|----------------------------|------------|------------|------------|
| At 31 December 2016 | 2.6 | 0.1 | 2.7 |
| At 31 December 2015 | 2.7 | 0.1 | 2.8 |

Notes to the Company Accounts continued

38. Investments

| Cost | Investment in subsidiary undertakings |
|---|--|
| | £m |
| At 1 January 2016 | 580.9 |
| Additions | 659.0 |
| Movements relating to share options granted to subsidiary employees | 0.8 |
| At 31 December 2016 | 1,240.7 |

Provision for impairment

| | |
|----------------------------|-------------|
| At 1 January 2016 | 86.0 |
| Charge for the year | 5.7 |
| At 31 December 2016 | 91.7 |

Carrying amount

| | |
|----------------------------|----------------|
| At 31 December 2016 | 1,149.0 |
| At 31 December 2015 | 494.9 |

Details of the Company's subsidiaries are given in Note 48.

During the year the carrying value of the investment in Servomex Limited was written down to £nil due to the liquidation of the company, resulting in an impairment of £5.7m.

39. Debtors

| Amounts falling due within one year | 2016 | 2015 |
|--|--------------|--------------|
| | £m | £m |
| Amounts owed by Group undertakings | 300.1 | 274.9 |
| Prepayments and accrued income | 1.5 | 1.0 |
| Other debtors | 0.9 | 0.1 |
| Corporation tax recoverable | 4.0 | 3.6 |
| Deferred tax asset | 3.6 | 0.8 |
| | 310.1 | 280.4 |

| Amounts falling due after more than one year | 2016 | 2015 |
|---|--------------|--------------|
| | £m | £m |
| Amounts owed by Group undertakings | 243.6 | 636.8 |
| Prepayments and accrued income | 0.9 | 1.3 |
| | 244.5 | 638.1 |

| | | |
|----------------------|--------------|--------------|
| Total debtors | 554.6 | 918.5 |
|----------------------|--------------|--------------|

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 | Repayable date | 2016 | 2015 |
|-----------------|----------------|-------------|------|
| | | £m | £m |
| Bank overdrafts | on demand | 10.0 | – |

| Non-current | Effective interest rate | Agreement maturity date | 2016 | 2015 |
|-----------------------------------|-------------------------|-------------------------|--------------|-------|
| | | | £m | £m |
| Bank loans – unsecured | 0.86% | 30 October 2019 | 41.0 | – |
| Bank loans unsecured – €94.8m | 2.56% | 14 October 2020 | 81.4 | 69.7 |
| Bank loans unsecured – €116.2m | 1.15% | 9 September 2022 | 99.7 | 85.4 |
| Total unsecured borrowings | | | 222.1 | 155.1 |

41. Creditors

| Amounts falling due within one year | 2016 | 2015 |
|--|--------------|-------|
| | £m | £m |
| Amounts owed to Group undertakings | 359.3 | 225.4 |
| Accruals and deferred income | 6.0 | 5.8 |
| | 365.3 | 231.2 |

| Amounts falling due after more than one year | 2016 | 2015 |
|---|--------------|-------|
| | £m | £m |
| Amounts owed to Group undertakings | 154.9 | 126.8 |

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

| | 2016 |
|---|-------------------------|
| | Number of shares |
| | Millions |
| | £m |
| Allotted, called-up and fully paid | |
| At 1 January 2016 and 31 December 2016 | 125.0 |
| | 6.2 |

No ordinary shares were issued upon exercise under share option schemes during the year (2015: 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 £1.2m related to equity-settled share-based payment transactions in 2016 (2015: £0.9m). In addition, the Company recognised a credit of £0.1m (2015: credit of £0.2m) 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.

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.

Notes to the Company Accounts continued

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 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 contributions made to the defined benefit plan during the year ended 31 December 2016 was £nil (2015: £nil).

Further details of the UK Spectris Pension Plan 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 of 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 £2.8m (2015: £8.5m) was outstanding at 31 December 2016.

46. Dividends

| | 2016 | 2015 |
|--|-------------|------|
| | £m | £m |
| Amounts recognised and paid as distributions | | |
| Final dividend for the year ended 31 December 2015 of 32.2p (2014: 30.5p) per share | 38.4 | 36.3 |
| Interim dividend for the year ended 31 December 2016 of 18.0p (2015: 17.3p) per share | 21.4 | 20.6 |
| | 59.8 | 56.9 |
| | | |
| | 2016 | 2015 |
| | £m | £m |
| Amounts arising in respect of the year | | |
| Interim dividend for the year ended 31 December 2016 of 18.0p (2015: 17.3p) per share | 21.4 | 20.6 |
| Proposed final dividend for the year ended 31 December 2016 of 34.0p (2015: 32.2p) per share | 40.5 | 38.4 |
| | 61.9 | 59.0 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 26 May 2017 and has not been included as a liability in these Financial Statements.

47. Treasury shares

At 31 December 2016, Spectris plc held 5,840,513 treasury shares (2015: 5,898,908). During the year, 58,395 of these shares were issued to satisfy options exercised by employees of Spectris plc and its subsidiaries which were granted under share schemes (2015: 155,927). No shares were repurchased by Spectris plc during the year (2015: nil) and no shares were cancelled during the year (2015: nil).

48. Group companies

The following is a full list of the subsidiaries and joint ventures, the registered office addresses and percentage of equity owned directly or indirectly by Spectris plc, as at 31 December 2016. This information is provided in accordance with Section 409 of the Companies Act 2006.

| Company name | Registered address | Total (%) |
|---|--|-----------|
| Agemont Limited | Fernwood House, Fernwood Road, Jesmond, Newcastle-Upon-Tyne, NE2 1TJ, UK | 100 |
| Analytical Spectral Devices Inc | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Brüel & Kjær EMS (Australia) Pty Ltd | Level 14/409 St Kilda Road, Melbourne VIC 3004, Australia | 100 |
| Brüel & Kjær EMS BV | Panoven 68, 3401 RB IJsselstein, Netherlands | 100 |
| Brüel & Kjær EMS Inc | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Brüel & Kjær EMS Pty Ltd | Level 14/409 St Kilda Road, Melbourne VIC 3004, Australia | 100 |
| Brüel & Kjær France SAS | 46 rue du Champoreux, F-91540 Mennecy, Cedex, France | 100 |
| Brüel & Kjær GmbH | Linzerstrasse 3, D-28359, Bremen, Germany | 100 |
| Brüel & Kjær Iberica SA | Teide 5, E-28700 San Sebastian de los Reyes, Spain | 100 |
| Brüel & Kjær Italia SRL | Viale Milanofiori, Strada 4, Palazzo Q5, I-20089 Rozzano, Milano, Italy | 100 |
| Brüel & Kjær North America Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Brüel & Kjær Polska Sp z.o.o. | ul. Goraszewska 12, PL-02-910 Warszawa, Poland | 100 |
| Brüel & Kjær Sound & Vibration Measurement A/S | Skodsborgvej 307, DK-2850, Nærum, Denmark | 100 |
| Brüel & Kjær UK Limited | Jarman Way, Royston, Hertfordshire, SG8 5BQ, UK | 100 |
| Brüel & Kjær Vibro A/S | Skodsborgvej 307B, 2850, Nærum, Denmark | 100 |
| Brüel & Kjær Vibro GmbH | Leydheckerstrasse 10, D-64293, Darmstadt, Germany | 100 |
| Brüel & Kjær VTS Limited | Jarman Way, Royston, Hertfordshire, SG8 5BQ, UK | 100 |
| BTG Americas Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| BTG Éclépens S.A. | ZI Village, 1312 Eclépens, Switzerland | 100 |
| BTG Holding, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| BTG Instruments AB | Box 602, S-66129 Saffle, Sweden | 100 |
| BTG Instruments GmbH | Arzbergerstrasse 10, 82211, Herrsching, Germany | 100 |
| BTG IPI, LLC | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| BTG Southern Europe Sarl | 46 Rue de Champoreux, 91540, Mennecy, France | 100 |
| Burnfield Limited | Heritage House, Church Road, Egham, Surrey, TW20 9QD, UK | 100 |
| Capstone Technology Asia Pte Ltd | 51 Godhill Plaza, #15-06, Singapore, 308900, Singapore | 100 |
| Capstone Technology Corporation | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| CAS Clean-Air-Service AG | Reinluftweg 1, CH-9630, Zurich, Switzerland | 100 |
| Diamond Blade Oy | Ollinmaentie 43, 86110 Parhalahti, Finland | 100 |
| DISCOM Elektronische Systeme und Komponenten GmbH | Neustadt 10-12, 37073, Gottingen, Germany | 100 |
| Engineering Seismology Group Canada Inc. | 20 Hyperion Court, Kingston ON K7K 7K2, Canada | 100 |
| ESG (Beijing) Seismic Technology Co Ltd | Room 1226, Building No.1, Yinan, North Erlizhuang No.44, Beijing, Dongcheng District | 100 |
| ESG USA Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| HBM Danmark ApS | Nydamsvej 19D, 8362 Horning, Skanderborg, Denmark | 100 |

Notes to the Company Accounts continued

48. Group companies continued

| Company name | Registered address | Total (%) |
|--|--|-----------|
| HBM FiberSensing SA | Rua Vasconcelos Costa 277, Moreira, Maia, Portugal | 100 |
| HBM France SAS | 46 Rue du Champoreux, 91540, Mennecy, France | 100 |
| HBM Italia S.R.L. | Via Pordenone 8, 20132, Milan, Italy | 100 |
| HBM nCode Federal LLC | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| HBM Netherlands B.V. | Schutweg 15a, 5145 NP Waalwijk, Netherlands | 100 |
| HBM Norge AS | Rosenholmveien 25, 1414 Trollasen, 0217 Opgard, Norway | 100 |
| HBM United Kingdom Limited | Technology Centre, Advanced Manufacturing Park, Brunel Way, Catcliffe, Rotherham, South Yorkshire, S60 5WG, UK | 100 |
| Hottinger Baldwin (Suzhou) Electronic Measurement Technology Ltd | 106 Henshan Road, Suzhou New District, Suzhou, Jiangsu Province, 215009, PRC | 100 |
| Hottinger Baldwin Measurements, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Hottinger Baldwin Messtechnik AG | Chriesbaumstrasse 6, 8604 Volketswil, Switzerland | 100 |
| Hottinger Baldwin Messtechnik GmbH | Im Tiefen See 45, D-64293, Darmstadt, Germany | 100 |
| Hottinger Baldwin Messtechnik GmbH | Lemboeckgasse 63/2, A-1230, Wien, Vienna, Austria | 100 |
| Hottinger Baldwin Messtechnik Iberica SL | Plaza de la Encina 10-11, Nucleo 3, 1A, E-28760 Tres Cantos (Madrid), Spain | 100 |
| International Applied Reliability Symposium LLC | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| LLC Spectris CIS | Building 1, Usacheva Street, Moscow 119048, Russian Federation | 100 |
| Malvern Biosciences, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Malvern Instruments Eurl | 30 Rue Jean Rostand, Parc Club de l'Universite, 91893, Orsay, Cedex, France | 100 |
| Malvern Instruments GmbH | Rigipsstrasse 19, 71083 Herrenberg, Germany | 100 |
| Malvern Instruments Incorporated | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Malvern Instruments Limited | Enigma Business Park, Grovewood Road, Malvern, Worcestershire, WR14 1XZ, UK | 100 |
| Malvern Instruments Nordic AB | Vallongatan 1, 752 28, Uppsala, Sweden | 100 |
| Malvern Instruments Nordic Oy | Keskuskatu 7, A-Roschier Holmberg, Asianajotoimisto OY, Finland | 100 |
| Malvern-Aimil Instruments Pvt Limited | Naimex House, A-8, Mohan Co-operative Industrial Estate, Mathura Road, New Delhi – 110044, India | 100 |
| Microscan Mfg., LLC | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Microscan Systems BV | Lemelerberg 17, 2402ZN, Alphen aan den Rijn, Netherlands | 100 |
| Microscan Systems, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Microscan Tooling, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Millbrook European Holdings Limited | Millbrook, Bedford, MK45 2JQ, UK | 100 |
| Millbrook Group Limited | Millbrook, Bedford, MK45 2JQ, UK | 100 |
| Millbrook Proving Ground Limited | Millbrook, Bedford, MK45 2JQ, UK | 100 |
| Millbrook TDC Ltd | Millbrook, Bedford, MK45 2JQ, UK | 100 |
| MPG Bidco Limited | Millbrook, Bedford, MK45 2JQ, UK | 100 |
| MPG Finland Oy | c/o Tilisakut Oy, Kauppakatu 12, Kuopio, 70100, Finland | 100 |
| MPG Midco Limited | Millbrook, Bedford, MK45 2JQ, UK | 100 |

48. Group companies continued

| Company name | Registered address | Total (%) |
|---|--|-----------|
| Nanosight Limited | Enigma Business Park, Grovewood Road, Malvern, Worcestershire, WR14 1XZ, UK | 100 |
| NDC Technologies GmbH | Im Tiefen See 45, D-64293, Darmstadt, Germany | 100 |
| NDC Technologies Limited | Bates Road, Maldon, Essex, CM9 5FA, UK | 100 |
| NDC Technologies S.A. | Rue H Goossens 16 B-4431 Loncin, Belgium | 100 |
| NDC Technologies, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Newport Electronics Limited | One Omega Drive, Northbank, Irlam, Manchester, M44 5BD, UK | 100 |
| Novisim Limited | Jarman Way, Royston, Hertfordshire, SG8 5BQ, UK | 100 |
| Omega Engineering B.V. | C/O Intertrust, Prins Bernhardplein 200, 1097 JB Amsterdam, Netherlands | 100 |
| Omega Engineering GmbH | Daimlerstrasse 26, 75392, Deckenpfronn, Germany | 100 |
| Omega Engineering Limited | One Omega Drive, Northbank, Irlam, Manchester, M44 5BD, UK | 100 |
| Omega Engineering SARL | c/o BDO, 7 Rue de Parc de Clagny, 78000, Versailles, France | 100 |
| Omega Engineering, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Omega Group, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Omega Technologies Limited | One Omega Drive, Riverbend Technology Centre, Northbank Irlam, Manchester, M44 5BD, UK | 100 |
| Omega Technologies, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Omega, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| PANalytical (Proprietary) Limited | Private Bag 4015, Ferndale, 2160, Rep of South Africa | 100 |
| PANalytical B.V. | Lelyweg 1, 7602EA, Almelo, Netherlands | 100 |
| PANalytical GmbH | Nuernbergerstr 113, D 34123 Kassel, Germany | 100 |
| PANalytical Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| PANalytical Limited | 7310 Cambridge Research Park, Waterbeach, Cambridge, CB25 9AY, UK | 100 |
| PANalytical S.A.S. | 22 Avenue Descartes, BP-45, 94454, Limeil-Brevannes, Cedex, France | 100 |
| PANalytical S.R.L. | Via Casati 23, Monza, Milan, Italy | 100 |
| Particle Measuring Systems Germany GmbH | Im Tiefen See 45, D-64293, Darmstadt, Germany | 100 |
| Particle Measuring Systems Limited | Heritage House, Church Road, Egham, Surrey, TW20 9QD, UK | 100 |
| Particle Measuring Systems S.R.L. | Via Aurora n 27, 00013 Fonte Nuova, Italy | 100 |
| Particle Measuring Systems, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Red Lion Controls B.V. | Softwareweg 9, 3821 BN Amersfoort, Netherlands | 100 |
| Red Lion Controls, Inc. | CT Corporation System, Dauphin PA 17101, United States | 100 |
| ReliaSoft Asia Pte Ltd | 2 Bukit Merah Central, #14-02, Spring Singapore, 159835, Singapore | 100 |
| ReliaSoft Corporation | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Reliasoft Corporation Poland sp. z.o.o. | Ul. Wronia 45 lok 200, 01-015, Warsaw, Poland | 100 |
| ReliaSoft India Private Limited | New No.16, Old No.21, Cenotaph 1st Street, Alwarpet, Chennai, 600 018, India | 100 |
| Servomex B.V. | P O Box 406, 2700 AK, W Dreeslaan 436, 2729 NK Zoetermeer, Netherlands | 100 |

Notes to the Company Accounts continued

48. Group companies continued

| Company name | Registered address | Total (%) |
|--|--|-----------|
| Servomex Company | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Servomex GmbH | Munsterstrasse 5, 59065 Hamm, Germany | 100 |
| Servomex Group Limited | Jarvis Brook, Crowborough, East Sussex, TN6 3FB, UK | 100 |
| Servomex Limited | Fernwood House, Fernwood Road, Jesmond, Newcastle-Upon-Tyne, NE2 1TJ, UK | 100 |
| Servomex S.A. | 23 Rue de Roule, 75001, Paris, France | 100 |
| Sound Answers, Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Spectraseis Canada Inc. | 1900, 520 – 3rd Avenue S.W., Calgary AB T2P 0R3, Canada | 100 |
| Spectraseis Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Spectraseis ISM LLC | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Spectris Australia Pty Ltd | Suite 2, 6-10 Talavera Road, PO Box 349, North Ryde, New South Wales 2113, Australia | 100 |
| Spectris Canada Inc. | 4995 Levy Street, Montreal QC H4R 2N9, Canada | 100 |
| Spectris China Limited | Unit 706 7/F, Miramar Tower, 132 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong | 100 |
| Spectris Co., Ltd. | Tsukasa-machi Bldg, 2-6 Kanda Tsukasa-machi, Chiyoda-ku, Tokyo, 101-0048, Japan | 100 |
| Spectris Denmark ApS | Skodsborgvej 307, DK-2850, Nærum, Denmark | 100 |
| Spectris Do Brasil Instrumentos Eletronicos Ltda. | Rua Laguna 276, Santo Amaro, São Paulo SP, CEP 04728-000, Brazil | 100 |
| Spectris Finance Ireland Designated Activity Company | 12 Merrion Square, Dublin 2, Ireland | 100 |
| Spectris Funding B.V. | Lelyweg 1, 7602EA, Almelo, Netherlands | 100 |
| Spectris Germany GmbH | Im Tiefen See 45, D-64293, Darmstadt, Germany | 100 |
| Spectris Group Holdings Limited | Heritage House, Church Road, Egham, Surrey, TW20 9QD, UK | 100 |
| Spectris Holdings Inc. | Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware 19801, USA | 100 |
| Spectris Inc. | The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, DE 19801, USA | 100 |
| Spectris Instrumentation and Systems Shanghai Ltd. | Building 9, No. 88 Lane 2888, HuaNing Road, MingHang District, Shanghai 201108, China | 100 |
| Spectris Korea Ltd. | 7th & 8th Fl, SH Energy Building, 16-6 Sunae-Dong, Bundang-Gu, Seongnam-City Kyeonggi-Do, Republic of Korea | 100 |
| Spectris Mexico, S. De R.L. De C.V. | Av. Pedro Ramirez Vazquez No. 200-13, Nivel 1, Col. Valle Oriente, San Pedro Garza Garcia, C.P. 66269, Mexico | 100 |
| Spectris Netherlands B.V. | Lelyweg 1, 7602 EA Almelo, Netherlands | 100 |
| Spectris Netherlands Cooperatief W.A. | Lelyweg 1, 7602 EA Almelo, Netherlands | 100 |
| Spectris Pension Trustees Limited | Heritage House, Church Road, Egham, Surrey, TW20 9QD, UK | 100 |
| Spectris Praha Spol. s.r.o. | Pocernicka 96, 10800 Praha 10, Czech Republic | 100 |
| Spectris Pte Ltd | 31 Kaki Bukit Road 3, Techlink #04-05/07, Singapore 417818, Singapore | 100 |
| Spectris Taiwan Limited | 13F-1, No. 128, Sec. 3, Min Sheng E. Road, Taipei, Taiwan | 100 |
| Spectris Technologies Private Limited | 202 Anarkali Complex, Jhandelwala Extension, Opp Videcon Tower, New Delhi 110 055, India | 100 |
| Spectris UK Holdings Limited | Heritage House, Church Road, Egham, Surrey, TW20 9QD, UK | 100 |
| Spectris US Holdings Limited | Heritage House, Church Road, Egham, Surrey, TW20 9QD, UK | 100 |

48. Group companies continued

| Company name | Registered address | Total (%) |
|-----------------------------------|--|-----------|
| Test World Holding Oy | Kauniaistentie 13 B 30, Kauniainen, 02700, Finland | 100 |
| Test World Oy | PL 167, Nellimintie 569, Ivalo, 99801, Finland | 100 |
| Viscotek Europe Limited | Heritage House, Church Road, Egham, Surrey, TW20 9QD, UK | 100 |
| Zhuhai Omece Instruments Co., Ltd | Floor 1-3, No 9 R&D Main Building, Keji No 1 Road, Scientific & Technical Innovation Sea Shore, New High Tech Zone, Zuhai, Guangdong Province, China | 100 |

Shareholder Information

Financial calendar

| | |
|-------------------------------------|---------------|
| Annual General Meeting | 26 May 2017 |
| Record date for 2016 final dividend | 26 May 2017 |
| 2016 final dividend payable | 30 June 2017 |
| 2017 half-year results | 25 July 2017 |
| 2017 full-year results | February 2018 |

Company Secretary

Roger Stephens, FCIS

Head of Corporate Affairs

Siobhán Andrews

Email: investor.relations@spectris.com

Registered office

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Tel: +44 (0)1784 470470

Email: info@spectris.com

Company registered in England, No. 2025003

Auditors

KPMG LLP

Bankers

Royal Bank of Scotland Plc

Solicitors

Macfarlanes LLP

Brokers

Jefferies Hoare Govett

J P Morgan Cazenove

Financial PR advisers

FTI Consulting

Registrars

Equiniti Limited

Aspect House

Spencer Road

Lancing

West Sussex

BN99 6DA

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

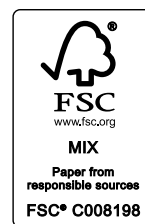
To receive details of press releases and other announcements as they are issued, register with the mail alert service on the Company's website at www.spectris.com

Strategic Report

Governance

Financial Statements

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