

Directors' remuneration report

The directors present their remuneration report for the year ended 31 December 2004.

Remuneration committee

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

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

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

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

The remuneration committee consists of the non-executive directors, these being at the date of this report Martin Lamb (chairman), Andrew Given, Leo Murray and Anthony Reading. John Poulter, Chairman of the Board, is in attendance at most meetings save during discussions relating to his own remuneration. Hans Nilsson, Chief Executive, is also on occasions in attendance by invitation and the committee takes into consideration his recommendations regarding the remuneration of his executive colleagues. Mr Nilsson is not involved in discussions concerning his own remuneration.

The committee has appointed New Bridge Street Consultants LLP to advise on various aspects of the Chairman's and executive directors' remuneration. This firm did not provide any other services to the company during the year.

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

Remuneration policy

The Board, in considering the recommendations of the remuneration committee, complied throughout the year with the provisions of the Combined Code (including the principles for performance-related remuneration set out in Schedule A). The policy objective is to ensure that the high calibre managers required at Board level are fairly and competitively remunerated and incentivised in a manner consistent with the group's strategic objectives.

Base salaries are established by reference to surveys of the terms offered by comparable UK quoted companies. The starting point for comparative surveys is the scope of the position and associated performance of each executive director. Excluding his own position and performance, the Chief Executive is responsible for the definition of the scope of positions and assessment of performance for approval by the remuneration committee. Salaries are set at competitive levels, typically based around the market median, although the remuneration committee reserves the flexibility to respond to individual circumstances. Market ranges are reviewed on an annual basis. The remuneration committee regularly reviews the relative importance of fixed and variable pay and considers the current balance to be appropriate.

Remuneration below Board level, 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 for presidents of the group's European operations fall within a range between €150,000 and €250,000. Base salaries for presidents of the group's US operations fall within a range between \$150,000 and \$250,000. Additionally, the group's presidents participate in annual profit-related bonus arrangements yielding up to 30% of base salary and a medium-term incentive plan capable of yielding an additional 30%–50% of annual base salary if rolling three-year profit growth targets are surpassed.

Executive directors may retain any payments received in respect of external non-executive appointments. Such appointments are limited to one per director at any time and are subject to the approval of the Board.

To align remuneration with shareholders' interests, a significant proportion of executive directors' potential total remuneration is related to corporate performance and it is intended that this balance should continue. Bonuses of up to 75% of base salary are achievable dependent upon the attainment of demanding normalised earnings per share and profit before tax targets set in relation to carefully considered business plans. In a typical year bonus payments will commence only at a level which shows an acceptable degree of progress year-on-year. 50% should be an achievable but stretching target. 75% bonus would only become payable for an exceptional level of performance. Such bonuses are not pensionable and the executive directors have undertaken that any bonus payment in excess of 50% will, after deduction of tax, be used for the purchase of shares in the company to be held until the individual ceases to be employed within the group. 9% bonuses were earned in respect of 2004 performance. Mr Hare's bonus entitlements for 2004 were fixed at £20,000 on appointment.

It is intended that each executive director should, subject to personal circumstances, build (through the exercise of option grants and achievement of bonus levels above 50%) a retained shareholding in Spectris plc greater than one times salary in value within a five-year period from appointment.

Executive directors participate in the group's executive share option plans which are designed to align their rewards with long-term growth in shareholder value. These long-term incentive arrangements are discretionary, not contractual, and are considered on an individual basis with regard to personal performance. Executive directors may also participate in the savings-related option scheme which is open to all UK employees. In normal circumstances, options are not exercisable within three years from grant.

Exercise of share options granted under the 1996 executive share plan or the 1999 approved executive share option scheme are subject to prior achievement of performance conditions, requiring compound growth in earnings per share before exceptional items and amortisation of goodwill ("EPS") over three financial years significantly ahead of the increase in the retail prices index ("RPI"). EPS growth was selected as the appropriate pre-condition to exercise in order to ensure that share option gains would only be received if the company's performance for shareholders had been enhanced. EPS figures to be used will be those published in the audited accounts for each financial year. During the period of transition to international financial reporting standards, the remuneration committee will ensure that EPS figures continue also to be calculated on a UK GAAP basis to ensure that the base and final EPS figures for prior grants are calculated on a consistent basis.

Consideration is given to the granting of options twice-yearly and, at the discretion of the committee, grants may be made up to an annual maximum exercise value of two times base salary. Exercise of 50% of the grant will require the achievement of EPS growth of at least 3% per annum in excess of the increase in RPI over the three financial years following grant, whilst exercise of the other 50% will require EPS growth of at least 5% per annum in excess of the increase in RPI. If the performance condition is not achieved over the three specified financial years, the option will lapse with no opportunity for retesting. Accordingly, options granted in 2002 conditional upon EPS growth over the 2002-2004 financial years lapsed at the year end on failure to achieve the performance condition.

The company does not operate a deferred bonus plan, long-term incentive plan or share incentive plan. However, the company's approach to share or share option performance incentives is kept under constant review.

Company car and health insurance benefits are subject to income tax and none of these benefits is pensionable. The executive directors have defined contribution pension arrangements to which the company contributes at a rate of 25% of salary. The company contribution rate increased from 20% to 25% during 2004 to ensure that these pension arrangements remained competitive with those offered by comparable companies, many of whom provide "final salary" pension benefits.

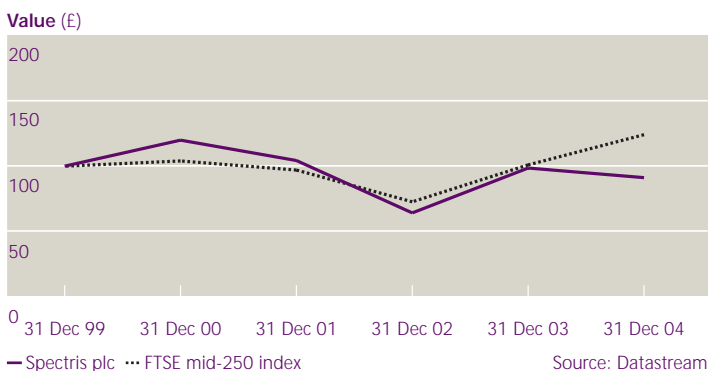
All executive directors have rolling contracts subject to 12 months' notice and expiring at 60 years of age. These provide for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration – salary, bonus and benefits) in the event of termination within 12 months of a change in control of the group. Termination payments in other circumstances remain, at the discretion of the committee, subject to mitigation and/or reduction for accelerated payment.

The Chairman, John Poulter, is retained on a contract of employment subject to six months' notice and terminating at the 2007 AGM. Mr Poulter retains share option grants received during his previous service as an executive director, but will not receive any further share option grants and does not participate in any bonus arrangements or accrue any pension benefits.

Non-executive directors' fees are agreed by the Chairman and executive directors. There is no participation in bonus, share option or pension arrangements. All non-executive directors' conditions of appointment provide for a six-month period of notice within an initial term of three years from election by shareholders at the director's first AGM. The appointment may be renewed by mutual agreement for a further three-year period.

Total shareholder return

The following graph indicates the value by the end of 2004 of £100 invested in Spectris plc 5p ordinary shares on 31 December 1999 compared with the value of £100 invested in the FTSE mid-250 index over the same period. The graph was selected as the most appropriate comparison measure because the company is a constituent member of the FTSE mid-250 index.



Contracts

Details of the directors' contracts are as follows:

	Date of contract	Expiry date	Notice period*	Length of service at 15 March 2005
Executive directors				
H D Nilsson	23.4.01	25.9.15	12 months	7 years 3 months
S Hare	18.11.04	15.4.21	12 months	4 months
S C Harris	2.6.03	15.5.19	12 months	1 year 9 months
J C Webster	27.3.98	21.6.10	12 months	11 years 5 months
P V Boughton	27.3.98	30.9.05	12 months	13 years 7 months
J G Zacharias	27.3.98	13.9.05	12 months	9 years 6 months
Non-executive directors				
A F Given	5.6.01	11.5.05	6 months	3 years 9 months
M J Lamb	12.9.99	10.5.06	6 months	5 years 6 months
L G Murray	8.12.02	10.5.06	6 months	2 years 2 months
J W Poulter	17.2.02	9.5.07	6 months	16 years 10 months
A J Reading	10.3.04	9.5.07	6 months	1 year

* The executive directors' contracts provide for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration – salary, bonus and benefits) in the event of termination within 12 months of a change in control of the group.

Directors' remuneration and interests

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

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

	Salary and/or fees	Bonus	Benefits in kind	Taxable expenses	Termination payments	2004 Total	2003 Total
Executive directors							
H D Nilsson	330	30	3	14	–	377	394
S Hare	29	20	1	1	–	51	–
S C Harris	205	18	18	1	–	242	155
J C Webster	205	18	15	–	–	238	275
P V Boughton	148	45	10	2	–	205	254
J G Zacharias	137	17	2	7	–	163	255
Non-executive directors							
A F Given	35	–	–	–	–	35	25
M J Lamb	35	–	–	–	–	35	25
L G Murray	30	–	–	–	–	30	25
J W Poulter	100	–	1	–	–	101	80
A J Reading	24	–	–	–	–	24	–
P Watson	–	–	–	–	–	–	10
	1,278	148	50	25	–	1,501	1,498

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

During the year H D Nilsson received £33,000 in respect of his appointment as a non-executive director of Novar plc and P V Boughton received £8,333 in respect of his appointment as a non-executive director of London Bridge Software Holdings plc.

The company has entered into termination agreements, incorporating a contractual duty to mitigate loss, with former directors P V Boughton and J G Zacharias, terminating their service agreements on 12 months' notice effective from 4 October 2004 and 13 September 2004 respectively. Under the provisions of these termination agreements, which were concluded in accordance with independent legal advice, they will continue to receive their base salaries and benefits during the notice period or to such earlier date as may be agreed (the "Termination Dates"). 2005 bonus entitlements have been fixed at 40% of salary payments made during 2005 to the Termination Dates. £30,000 compensation will be paid following the Termination Dates for loss of office and termination of employment. On their securing new employment during the notice period, payments will cease and the company will pay to P V Boughton and J G Zacharias 50% of the aggregate value of their salary and contractual benefits which would otherwise have been paid in the period from the Termination Dates to the end of the notice period. These arrangements will incur a maximum cost of £800,000 from the dates of resignation, all of which has been accrued in 2004 although mainly payable in 2005. All unexercised share options will lapse at the Termination Dates. At the date of notice of termination P V Boughton and J G Zacharias had served as directors of the company for in excess of 13 years and nine years respectively. No compensation payments were made in 2003.

A J Reading was appointed to the Board on 10 March 2004 and S Hare was appointed to the Board on 1 December 2004.

b) Directors' pensions Company contributions to defined contribution plans:

	2004 £'000	2003 £'000
H D Nilsson	83	58
S C Harris	51	10
J C Webster	51	41
P V Boughton	30	37
J G Zacharias	27	37

S Hare is not eligible to join the Spectris Defined Contribution Pension Plan until 1 April 2005.

c) Directors' total remuneration

	2004 £'000	2003 £'000
Aggregate emoluments	1,501	1,498
Company pension contributions to defined contribution schemes	242	183
Gains made on exercise of share options	33	440
	1,776	2,121

d) Directors' interests in options to purchase ordinary shares

	Date granted	Options held 1 Jan 04	Granted	Exercise price (p)	Exercised	Share price at date of exercise (p)	Lapsed	Options held 31 Dec 04	Date exercisable	Expiry date
J W Poulter	Sep 1994	30,778		388.9081	30,778	475			Sep 1997	Sep 2004
	Jun 1996	41,037		661.8261				41,037	Jun 1999	Jun 2006
	Mar 1997	25,648		538.5256				25,648	Mar 2000	Mar 2007
	Mar 1998	15,389		550.7095				15,389	Mar 2001	Mar 2008
	Mar 1999	20,518		321.6533				20,518	Mar 2002	Mar 2009
	Mar 2000	48,715		513.1832				48,715	Mar 2003	Mar 2010
	Mar 2001	30,550		498.50				30,550	Mar 2004	Mar 2011
			212,635						181,857	
H D Nilsson	Mar 1998	30,572		550.7095				30,572	Mar 2001	Mar 2008
	Mar 1999	15,389		321.6533				15,389	Mar 2002	Mar 2009
	Mar 2000	33,125		513.1832				33,125	Mar 2003	Mar 2010
	Mar 2001	21,385		498.50				21,385	Mar 2004	Mar 2011
	Oct 2001	50,000		357.50			50,000		Oct 2004	Oct 2011
	Mar 2002	65,000		516.5			65,000		Mar 2005	Mar 2012
	Sep 2002	67,500		342.5			67,500		Sep 2005	Sep 2012
	Mar 2003	100,000		279				100,000	Mar 2006	Mar 2013
	Sep 2003	64,000		468.5				64,000	Sep 2006	Sep 2013
	Mar 2004		66,000	462				66,000	Mar 2007	Mar 2014
	Oct 2004		50,000	406.25				50,000	Oct 2007	Oct 2014
	SAYE	Oct 2003	1,969		468.5				1,969	Dec 2006
		448,940						382,440		
P V Boughton	Sep 1994	20,518		388.9081	20,518	421.5			Sep 1997	Sep 2004
	Sep 1995	20,518		525.3671				20,518	Sep 1998	Sep 2005
	Jun 1996	20,518		661.8261				20,518	Jun 1999	Jun 2006
	Mar 1997	15,389		538.5256				15,389	Mar 2000	Mar 2007
	Mar 1998	10,259		550.7095				10,259	Mar 2001	Mar 2008
	Mar 1999	15,389		321.6533				15,389	Mar 2002	Mar 2009
	Mar 2000	29,229		513.1832				29,229	Mar 2003	Mar 2010
	Mar 2001	18,330		498.50				18,330	Mar 2004	Mar 2011
	Mar 2002	40,000		516.5			40,000		Mar 2005	Mar 2012
	Sep 2002	45,000		342.5			45,000		Sep 2005	Sep 2012
	Mar 2003	60,000		279				60,000	Mar 2006	Mar 2013
	Sep 2003	42,000		468.5				42,000	Sep 2006	Sep 2013
	Mar 2004		38,000	462				38,000	Mar 2007	Mar 2014
	SAYE	Oct 2003	1,969		468.5			1,969	Dec 2006	Jun 2007
		339,119						269,632		

	Date granted	Options held 1 Jan 04	Granted	Exercise price (p)	Exercised	Share price at date of exercise (p)	Lapsed	Options held 31 Dec 04	Date exercisable	Expiry date	
S C Harris	Sep 2003	40,000		468.5				40,000	Sep 2006	Sep 2013	
	Mar 2004		40,000	462				40,000	Mar 2007	Mar 2014	
	Oct 2004		35,000	406.25				35,000	Oct 2007	Oct 2014	
		40,000						115,000			
J C Webster	Sep 1995	20,518		525.3671				20,518	Sep 1998	Sep 2005	
	Jun 1996	20,518		661.8261				20,518	Jun 1999	Jun 2006	
	Mar 1997	15,389		538.5256				15,389	Mar 2000	Mar 2007	
	Mar 1998	10,259		550.7095				10,259	Mar 2001	Mar 2008	
	Mar 1999	15,389		321.6533				15,389	Mar 2002	Mar 2009	
	Mar 2000	30,202		513.1832				30,202	Mar 2003	Mar 2010	
	Mar 2001	18,839		498.50				18,839	Mar 2004	Mar 2011	
	Mar 2002	40,000		516.5			40,000		Mar 2005	Mar 2012	
	Sep 2002	50,000		342.5			50,000		Sep 2005	Sep 2012	
	Mar 2003	65,000		279				65,000	Mar 2006	Mar 2013	
	Sep 2003	44,000		468.5				44,000	Sep 2003	Sep 2013	
	Mar 2004		40,000	462				40,000	Mar 2007	Mar 2014	
	Oct 2004		35,000	406.25				35,000	Oct 2007	Oct 2014	
SAYE	Oct 2003	1,969		468.5				1,969	Dec 2006	Jun 2007	
		332,083						317,083			
J G Zacharias	Mar 1996	4,924		597.4954				4,924	Mar 1999	Mar 2006	
	Jun 1996	20,518		661.8261				20,518	Jun 1999	Jun 2006	
	Mar 1997	15,389		538.5256				15,389	Mar 2000	Mar 2007	
	Mar 1998	10,259		550.7095				10,259	Mar 2001	Mar 2008	
	Mar 2000	29,229		513.1832				29,229	Mar 2003	Mar 2010	
	Mar 2001	18,330		498.50				18,330	Mar 2004	Mar 2011	
	Mar 2002	40,000		516.5			40,000		Mar 2005	Mar 2012	
	Sep 2002	45,000		342.5			45,000		Sep 2005	Sep 2012	
	Mar 2003	60,000		279				60,000	Mar 2006	Mar 2013	
	Sep 2003	42,000		468.5				42,000	Sep 2006	Sep 2013	
	Mar 2004		38,000	462				38,000	Mar 2007	Mar 2014	
			285,649						238,649		

Shares other than those marked SAYE relate to executive share option grants. Entitlement to exercise grants under the unapproved 1996 Executive Share Option Plan is conditional upon a performance criterion requiring compound growth in normalised earnings per share ("EPS") over three years up to 5% per annum in excess of the increase in the retail prices index (refer to the directors' remuneration report on page 29 for further explanation). No consideration was paid by any recipient in relation to the grant of an option and there were no changes to the conditions on which any option was granted during the year.

J W Poulter exercised 30,778 options under the Approved 1988 Executive Share Option Scheme during the year at a gain of £26,497. P V Boughton exercised 20,518 options under the Approved 1988 Executive Share Option Scheme during the year at a gain of £6,687.

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

	Shareholdings	
	31 Dec 2004 (or date of resignation)	1 Jan 2004 (or date of appointment)
J W Poulter	142,687	193,687
H D Nilsson	70,210	65,410
A F Given	5,000	5,000
S Hare	–	–
S C Harris	–	–
M J Lamb	6,000	6,000
L G Murray	–	–
A J Reading	10,000	3,500
J C Webster	79,997	79,997
P V Boughton	100,598	83,080
J G Zacharias	51,216	51,216

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

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

At 31 December 2004 the middle market closing share price on the London Stock Exchange was 382p. The highest share price in the year was 505p and the lowest was 380p. At 31 December 2004 each of the executive directors was deemed to have a non-beneficial interest in 3,212,330 (2003: 3,263,000) ordinary shares held by the Trustees of the Spectris plc Employee Benefit Trust of which the directors are among the class of discretionary beneficiaries.

By order of the Board



Roger Stephens Secretary
15 March 2005