

Directors' remuneration report

The directors present their remuneration report for the year ended 31 December 2005.

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 or Chief Executive.

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

The remuneration committee consists of the non-executive directors (who are all independent), these being at the date of this report Anthony Reading (chairman), Andrew Given, Martin Lamb, Leo Murray and John Warren. Martin Lamb served as chairman throughout 2005. John Poulter, Chairman of the Board, is in attendance at most meetings save during discussions relating to his own remuneration. The Chief Executive may also on occasions be in attendance by invitation and the committee takes into consideration his recommendations regarding the remuneration of his executive colleagues. The Chief Executive is not involved in discussions concerning his own remuneration.

The committee has appointed New Bridge Street Consultants LLP to advise on various aspects of the Chairman's and executive directors' remuneration, including the establishment of the proposed new performance share plan for the company's senior management. This firm did not provide any other services to the company during the year.

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

Remuneration policy

The Board, in considering the recommendations of the remuneration committee, complied throughout the year with the provisions of the 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.

The remuneration committee also regularly reviews the relative importance of fixed and variable pay and considers the current balance to be appropriate.

Salaries

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 the Chairman, each executive director and the company secretary. Excluding his own position and performance, the Chief Executive is responsible for the definition of the scope of positions and assessment of performance of each executive director 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 a regular basis.

Bonuses

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, profit before tax, or similar 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 and a 50% of salary payment is set at an achievable but stretching target. Maximum 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% of salary will, after deduction of tax, be used for the purchase of shares in the company until the required once times salary shareholding is achieved.

Mr O'Higgins' bonus entitlements for 2006 include a guaranteed 25% element. This was negotiated as part of the terms of his joining and there will be no guaranteed element in subsequent years.

45.5% bonuses were earned in respect of 2005 performance.

Share-based incentives

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

The remuneration committee keeps under constant review the company's share-based incentive arrangements and takes advice on market practice. Previously, the company has made grants of share options under the 1996 executive share option plan and the 1999 executive share option scheme. The ten-year life of the 1996 plan will expire at the 2006 AGM. Following

Directors' remuneration report continued

a process of consultation with major shareholders, the committee has decided that the replacement scheme should be in the form of a performance share plan. The Board is therefore seeking approval at the 2006 AGM for a performance share plan for senior management to be known as the Spectris Performance Share Plan (the "Plan"), the full details of which are set out in the Chairman's letter accompanying the Notice of AGM.

The committee is of the view that offering senior management the opportunity to be awarded shares in the company is an important part of motivating and rewarding key employees so that they may participate in the future growth in value of the company. The Plan is intended to support this objective and to facilitate the retention of senior management over the longer term.

In summary, under the Plan, annual awards of shares will be made which will vest at the end of a three-year period subject to continued employment and the satisfaction of performance conditions.

The maximum award of performance shares that may be made to any participant in any financial year will be limited to shares with a market value equal to 125% of the participant's salary, although initial awards will be over shares worth a multiple of salary determined by reference to a base award of 67% of salary, which may then be flexed up or down depending on corporate and personal performance.

It is proposed that the performance condition at least in respect of initial awards granted up to the normal level (i.e. awards over shares worth 67% of salary) will be structured so that 50% of awards will be subject to an earnings per share ("EPS") target and 50% will be subject to a total shareholder return ("TSR") target. The performance criteria are summarised in the table below:

Company EPS performance	% of award that vests (expressed as a percentage of one-half of the total number of shares subject to an award)
Consumer Prices Index ("CPI") + 10% compound per annum (c.p.a.)	100%
Between CPI + 5% and 10% c.p.a.	Pro-rata straight line between 25% and 100%
CPI + 5% c.p.a.	25%
Less than CPI + 5% c.p.a.	0%
Company TSR performance relative to the FTSE 250 (excluding Investment Trusts)	% of award that vests (expressed as a percentage of one-half of the total number of shares subject to an award)
Upper quartile of above	100%
Between upper quartile and median	Pro-rata straight line between 25% and 100%
Median	25%
Below Median	0%

If awards in excess of 100% of salary are granted then the percentage of an award that will vest for threshold performance will be limited to 25% of a participant's base salary rather than 25% of the number of shares subject to an award, with pro-rata straight line vesting from this lower point up to 100% of award.

If the Plan is approved, it is the intention of the committee that all further share-based incentives granted to senior managers or executive directors would be made under the Plan and that no further grants would be made under the remaining 1999 executive share option scheme. No option grants have been made during the year to date, nor are any grants envisaged. Executive directors may, however, continue to participate in the savings-related option scheme which is applicable to all UK employees.

Mr Poulter retains share option grants received during his previous service as an executive director, but has not received grants since being appointed Chairman in 2001 and would not receive awards under the proposed Plan.

Exercise of share options which were granted under the 1996 executive share plan or the 1999 executive share option scheme remain 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 to be 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 enable the base and final EPS figures for prior grants to be calculated on a consistent basis. Grants of options made in 2005 will be calculated under IFRS.

Benefits

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.

Contractual terms

All executive directors have rolling contracts subject to 12 months' notice. Mr O'Higgins' contract provides for an initial notice period of 18 months reducing to 12 months over the first six months of employment.

The committee has determined that contracts of employment should, going forward, contain a contractual best endeavours obligation to seek alternative employment in the event of serving of notice of termination by the company, and that full mitigation reflective of any earnings from a new position should apply so as to reduce the payments otherwise due from the company during the notice period. Additionally, in these circumstances, it is the current intention that bonus entitlements should be calculated to the date of notice of termination only and that a phased payment provision, subject to reduction as explained above and equivalent to 1.65 times monthly salary, should apply in lieu of all

remuneration and benefits otherwise payable during the notice period and in full and final settlement of all employment-related claims. Mr O'Higgins' contract of employment reflects these terms.

The contracts for all other executive directors only 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 would be a matter for negotiation and 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.

External appointments

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

Remuneration below board level

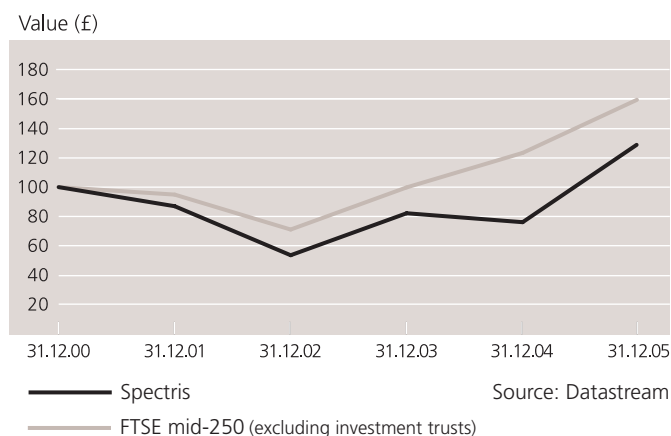
Remuneration for presidents of the group's trading companies is set at competitive levels to reflect the size, complexity and geographic locations of these businesses. Base salaries for presidents of the group's European operations fall within a range between €140,000 and €240,000. Base salaries for presidents of the group's US operations fall within a range between \$160,000 and \$260,000. Additionally, the group's presidents participate in profit-related bonus arrangements yielding up to 75% of base salary dependent upon performance over both the current and subsequent financial years.

Non-executive directors

Non-executive directors' fees are agreed by the Chairman and executive directors by reference to market practice. There is no participation in bonus, share option, or pension arrangements and there will be no participation in the proposed Performance Share Plan. 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 2005 of £100 invested in Spectris plc 5p ordinary shares on 31 December 2000 compared with the value of £100 invested in the FTSE mid-250 index (excluding investment trusts) over the same period. The graph was selected as the most appropriate comparison measure because the company is a constituent member of the FTSE mid-250 index and the members of the FTSE mid-250 (excluding investment trusts) form the comparator group for the purposes of the TSR performance test under the proposed Performance Share Plan.



Directors' remuneration report continued

Contracts

Details of the directors' contracts are as follows:

	Date of contract	Expiry date	Notice period*	Length of service at 7 March 2006
Executive directors				
J E O'Higgins	1.1.06	3.2.29	12 months	2 months
S Hare	18.11.04	15.4.21	12 months	1 year 4 months
S C Harris	2.6.03	15.5.19	12 months	2 years 9 months
J C Webster	27.3.98	21.6.10	12 months	12 years 5 months
H D Nilsson	23.4.01	26.5.06	12 months	8 years 3 months
Non-executive directors				
A F Given	5.6.01	14.5.08	6 months	4 years 9 months
M J Lamb	12.9.99	17.5.06	6 months	6 years 6 months
L G Murray	8.12.02	17.5.06	6 months	3 years 2 months
J W Poulter	17.2.02	16.5.07	6 months	17 years 10 months
A J Reading	10.3.04	16.5.07	6 months	2 years
J Warren	7.3.06	13.5.09	6 months	–

*Save for Mr O'Higgins' contract, 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.

Mr O'Higgins' contract contains a liquidated damages provision equivalent to 1.65 times monthly salary in lieu of all remuneration and benefits otherwise payable during the notice period in full and final settlement of all employment-related claims. The contract also provides for an initial period of 18 months reducing to 12 months over the first six months of employment.

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	2005 Total	2004 Total
Executive directors							
S Hare	250	114	1	21	–	386	51
S C Harris	220	100	18	–	–	338	242
J C Webster	220	100	15	–	–	335	238
P V Boughton	–	–	–	–	–	–	205
H D Nilsson	142	–	1	6	–	149	377
J G Zacharias	–	–	–	–	–	–	163
Non-executive directors							
A F Given	35	–	–	–	–	35	35
M J Lamb	35	–	–	–	–	35	35
L G Murray	30	–	–	–	–	30	30
J W Poulter	215	–	1	–	–	216	101
A J Reading	30	–	–	–	–	30	24
	1,177	314	36	27	–	1,554	1,501

Mr O'Higgins and Mr Warren were appointed to the Board after the year end. Mr O'Higgins is entitled to an annual salary of £350,000 and Mr Warren to annual fees of £35,000.

Mr Poulter's remuneration as Chairman of £100,000 p.a. was supplemented by an additional £115,000 reflecting the responsibilities assumed by Mr Poulter during the period in which he was acting Chief Executive.

Benefits in kind include company cars, private fuel and medical expenses insurance. Taxable expenses relate to an accommodation allowance paid to Mr Hare during his first six months of employment and allowances paid in lieu of company cars and private fuel.

The company has entered into a termination agreement, incorporating a contractual duty to mitigate loss, with former director Mr Nilsson, terminating his service agreement on 12 months' notice effective from 25 May 2005. The table above shows only Mr Nilsson's emoluments paid to the date of his resignation from the Board. Under the provisions of this termination agreement, which was concluded in accordance with independent legal advice, Mr Nilsson will continue to receive his salary and benefits during the subsequent notice period or to such earlier date as may be agreed (the "Termination Date"). Mr Nilsson's 2005 bonus payment is to be based on the percentage authorised by the company's remuneration committee as payable to members of the company's executive committee for the 2005 financial year. Mr Nilsson will receive a fixed bonus payment for 2006 based on his 2005 bonus payment percentage, but pro-rated to reflect the proportion of the 2006 financial year during which he remains in the employ of the company up to the Termination Date. £12,000 will be paid, post the Termination Date, in consideration of Mr Nilsson's compliance with certain post-termination restrictions. In the event of his securing new employment during the notice period, payments will cease and the company will pay to Mr Nilsson 50% of the aggregate value of his salary, contractual benefits, and fixed bonus payment which would otherwise have been paid in the period from the Termination Date to the end of the notice period. The arrangements described will incur a maximum cost of £614,000 (plus £89,000 pension contribution) from the date of resignation, all of which was accrued in 2005. All unexercised share options will lapse at the Termination Date. At the date of notice of termination, Mr Nilsson had served as a director of the company for in excess of 7 years.

b) Directors' pensions

Company contributions to defined contribution plans:

	2005 £'000	2004 £'000
S Hare	47	–
S C Harris	55	51
J C Webster	55	51
P V Boughton	–	30
H D Nilsson	35	83
J G Zacharias	–	27

The company contributes at the rate of 25% of salary. Mr O'Higgins is not eligible to join the Spectris Defined Contribution Pension Plan until 1 April 2006.

c) Directors' total remuneration

	2005 £'000	2004 £'000
Aggregate emoluments	1,554	1,501
Company pension contributions to defined contribution schemes	192	242
Gains made on exercise of share options	54	33
	1,800	1,776

Directors' remuneration report continued

d) Directors' interests in options to purchase ordinary shares

	Date granted	Options held 1 Jan 05	Granted	Exercise price (p)	Exercised	Share price at date of exercise (p)	Lapsed	Options held 31 Dec 05	Date exercisable	Expiry date
J W Poulter	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
			181,857						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
	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	Jun 2007
			382,440						382,440	
S Hare	Sep 2005		115,000	589				115,000	Sep 2008	Sep 2015
			115,000					115,000		
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
	Sep 2005		85,000	589				85,000	Sep 2008	Sep 2015
		115,000	85,000					200,000		
J C Webster	Sep 1995	20,518		525.3671	20,518	586.1757			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	593.244			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 2003	65,000		279				65,000	Mar 2006	Mar 2013
	Sep 2003	44,000		468.5				44,000	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
	Sep 2005		85,000	589				85,000	Sep 2008	Sep 2015
	SAYE	Oct 2003	1,969		468.5			1,969	Dec 2006	Jun 2007
			317,083	85,000		35,907			366,176	

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 24 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 C Webster exercised 20,518 options under the Approved 1988 Executive Share Option Scheme during the year. He sold sufficient shares to pay the exercise and dealing costs, retaining the balance of 2,065 shares. The gain on exercise was £12,476. J C Webster also exercised 15,389 options under the Unapproved 1996 Executive Share Plan during the year. He sold sufficient shares to pay the exercise and dealing costs and income tax due on exercise, retaining the balance of 4,187 shares. The gain on exercise was £41,795.

e) *Directors' interests*

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

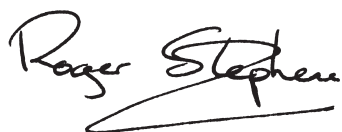
	Shareholdings	
	2005 31 Dec (or date of resignation)	2005 1 Jan (or date of appointment)
J W Poulter	142,687	142,687
A F Given	5,000	5,000
S Hare	–	–
S C Harris	–	–
M J Lamb	6,000	6,000
L G Murray	–	–
A J Reading	10,000	10,000
J C Webster	86,249	79,997
H D Nilsson	70,210	70,210

There were no changes to the above interests between the year end and the date of this report. Mr Warren held 3,000 shares at the date of his appointment. Mr O'Higgins does not hold any shares in the company.

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 2005 the middle market closing share price on the London Stock Exchange was 633.5p. The highest share price in the year was 644p and the lowest was 389p. At 31 December 2005 each of the executive directors was deemed to have a non-beneficial interest in 1,133,395 (2004: 3,212,330) 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
7 March 2006