

## Directors' Remuneration Report

The directors present their remuneration report for the year ended 31 December 2009.

### 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 and the head of corporate development.

The remuneration committee consists of the Chairman (who was independent on appointment) and the non-executive directors (all of whom are independent), these being at the date of this report Anthony Reading (chairman), Peter Chambré, John Hughes and John Warren. The Chief Executive may be in attendance by invitation and the committee takes into consideration his recommendations regarding the remuneration of his executive colleagues. The Chief Executive is not involved in discussions concerning his own remuneration.

The committee has appointed Hewitt New Bridge Street to advise on various aspects of the Chairman's and executive directors' remuneration. They additionally provide services to the committee and to the company in relation to IFRS 2 reporting on the company's share plans and total shareholder return performance calculations in relation to the company's Performance Share Plan. Hewitt New Bridge Street have been paid £29,323 in respect of services undertaken in 2009 (2008: £34,174).

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 individuals 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 balance between fixed and variable pay.

### Salaries and fees

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

Salary and fee levels for all Board members were frozen at the review date of 1 January 2009 to the levels determined at the 1 January 2008 review. A reduction of 7.7% (equivalent to two weeks' pay) was then volunteered by all Board members and head office staff from 1 July 2009 for the remainder of 2009, reflecting the difficult economic conditions faced by the company and similar initiatives volunteered by a number of operating business management teams. With the exception of the Chairman, who declined a review, all salaries and fees were increased by 2% at the review date of 1 January 2010 and will not be further reviewed until 1 January 2011.

### Bonuses

To align remuneration with shareholders' interests, a proportion of executive directors' potential total remuneration is related to annual corporate performance.

Under the 2009 arrangements, bonuses of up to 100% of base salary were achievable upon the attainment of demanding profitability (75% potential) and personal (25% potential) targets set in relation to carefully considered business plans. Bonus payments commence only at a level which shows an acceptable financial result in the context of economic circumstances and market expectations, with an 'on-plan' performance yielding a payment of approximately half the maximum potential. Targets for maximum outturn are set at highly stretching, albeit attainable, levels. There is no change to the 2010 bonus potential and the same performance measurement framework remains in place. No bonuses will be payable to the executive directors in respect of 2009 performance.

### Share-based incentives

The remuneration committee keeps under review the company's share-based incentive arrangements and takes advice on market practice. The committee is of the view that offering senior

management the opportunity to be awarded and then retain 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 Spectris Performance Share Plan (the 'Plan'), approved by shareholders at the 2006 AGM, is intended to support this objective and to facilitate the retention of senior management over the longer term.

Under the Plan, annual awards of shares may be made which vest at the end of a three-year period subject to continued employment, the satisfaction of challenging performance conditions and justification of vesting in relation to the overall underlying financial performance of the company. The maximum award of performance shares that can be made to any participant in any financial year is limited to shares with a market value equal to 125% of the participant's salary. Awards to executive directors in 2009 were over shares worth no more than 100% of base salary. However, the median award for FTSE 250 companies is now at or above 125% of base salary. The committee's policy for 2010 and beyond, therefore, will be to determine awards by reference to a base award over shares worth 125% of salary, which may then be flexed downwards from year to year depending on corporate and personal performance.

Awards to executive directors are currently structured so that 50% of the award is subject to an earnings per share ('EPS') target and 50% subject to a total shareholder return ('TSR') target. Each condition operates over a fixed three-year period with no opportunity for retesting.

The performance criteria for grants made in 2008 and 2009 are summarised in the tables below.

Company EPS performance	% of award that vests (expressed as a percentage of one-half of the total number of shares subject to an award)
Consumer Prices Index ('CPI') + 12% compound per annum ('c.p.a.')	100%
Between CPI + 5% and 12% c.p.a.	Pro-rata straight line between 25% and 100%
CPI + 5% c.p.a.	25%
Less than CPI + 5% c.p.a.	0%
Company TSR performance relative to the FTSE 250 (excluding Investment Trusts)	% of award that vests (expressed as a percentage of one-half of the total number of shares subject to an award)
Upper quintile or above	100%
Between upper quintile and median	Pro-rata straight line between 25% and 100%
Median	25%
Below median	0%

The above criteria will continue to apply to Performance Share Plan awards to be made in 2010.

For grants made in 2006 and 2007, the upper end of each vesting scale was set at a) CPI + 10% c.p.a. and b) upper quartile. The reference level for a base award of shares in 2006 and 2007 was 67% of salary.

For awards in excess of 100% of salary, the committee has undertaken that the percentage of an award that will vest for threshold performance will be limited to 25% of a participant's base salary rather than 25% of the number of shares subject to an award, with pro-rata straight line vesting from this lower point up to 100% of the award. This restriction will apply to awards made in 2010 and beyond.

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

It is the intention of the committee that all future share-based incentives granted to senior managers or executive directors are made under the Plan; the ten-year terms of the company's executive share option schemes having expired without renewal. Executive directors may, however, continue to participate in grants made under the Spectris Savings Related Share Option Scheme which is applicable to all UK employees.

Exercise of share options granted under the 1996 executive share plan or the 1999 executive share option scheme, was subject to prior achievement of performance conditions, requiring compound annual growth in earnings per share before exceptional items and amortisation of goodwill ('EPS') over three financial years to be between 3% and 5% per annum ahead of the increase in the retail prices index ('RPI'). This condition has now been met for all outstanding option grants.

### Share retention

It is intended that each executive director should, subject to personal circumstances, build a retained shareholding in Spectris plc greater than two times base salary in value within a five-year period from appointment. Executive directors are required to apply the post-tax benefit of any vested Plan awards or bonus payments exceeding 60% of base salary to the acquisition of shares until this level of shareholding is achieved.

### Benefits

Company car and health insurance benefits are subject to income tax. The executive directors have defined contribution pension arrangements to which the company contributes at a rate of 25% of base salary.

### Contractual terms

All executive directors have rolling contracts subject to 12 months' notice of termination by either party, or to summary notice in the event by the director of serious breach of obligations, dishonesty, serious misconduct or other conduct bringing the company into disrepute.

Mr O'Higgins' and Mr Watson's contracts of employment, concluded in 2006, also contain an option, at the sole discretion of the Board, for the contract to be terminated by way of payments in lieu of notice equivalent to 1.65 times monthly basic salary. In such circumstances, the executive becomes subject to a contractual best endeavours obligation to seek alternative employment, and full mitigation reflective of any earnings from a new position applies so as to reduce the payments otherwise due from the company during the notice period. Additionally, in these circumstances, bonus entitlements are calculated to the date of notice of termination only, with the phased payment provision, subject to reduction as explained above, then applying in lieu of all remuneration and benefits otherwise payable during the notice period and in full and final settlement of all employment-related claims. The 0.65 uplift on monthly salary is intended to account for the 25% employer pension contribution; company car, insurance and fuel benefits; mobile telephone provision; life, disability and medical expenses insurances; any claim or expectation of a forward bonus payment mitigated to a level well below target and settlement of any statutory employment claims that may arise from termination. No other payments would be made.

Whether the Board elects to apply this payment in lieu option will depend on the circumstances underlying termination and the best interests of shareholders at the time.

Mr Webster's contract, concluded in 1998, provides for a predetermined compensation payment in lieu of notice (equivalent to total notice period remuneration – salary, bonus and benefits) in the event of termination by the employer within 12 months of a change in control of the group. Termination payments in other circumstances would be a matter for negotiation and remain, at the discretion of the committee, subject to mitigation and/or reduction for accelerated payment.

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

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

### External appointments

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

approval of the Board. Mr Watson is a non-executive director of Spirax-Sarco Engineering plc and was paid a fee of £22,948 during 2009 (from his appointment on 17 July 2009) and Mr Webster is a non-executive director of Raymarine plc and was paid a fee of £35,000 during 2009. No other external directorships are held by the executive directors.

### Remuneration below board level

Remuneration for presidents of the group's trading companies is set at competitive levels to reflect the size, complexity and geographic locations of these businesses. Base salaries fall within a range between £110,000 and £300,000. Additionally, the group's presidents participate in share awards under the Spectris Performance Share Plan (typically over 60% of base salary) and in profit-related bonus arrangements linked to base salary and payable against their business annual operating profit after exchange, plus or minus a financing charge/credit arising from changes in working capital over the year. On plan performance delivers a c. 30% of base salary bonus with the upper limit of the payment range delivering 50% of base salary.

### Internal relativity

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

### Non-executive directors

Non-executive directors' fees are agreed by the Chairman and executive directors by reference to market practice. The base fee is supplemented by allowances for chairmanship of the audit and remuneration committees and the pension scheme trustee board. There is no participation in bonus, share option, or pension arrangements and no participation in the Spectris Performance Share Plan. All non-executive directors' conditions of appointment provide for a six-month period of notice 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 2009 of £100 invested in Spectris plc 5p ordinary shares on 31 December 2004 compared with the value of £100 invested in the FTSE 250 index (excluding investment trusts) over the same period. The graph was selected as the most appropriate comparison measure because the company is a constituent member of the FTSE 250 index and the members of the FTSE 250 (excluding investment trusts) form the comparator group for the purposes of the TSR performance test under the Spectris Performance Share Plan.

## Total shareholder return



This graph shows the value, by 31 December 2009, of £100 invested in Spectris on 31 December 2004 compared with the value of £100 invested in the FTSE 250 index (excluding investment trusts). The other points plotted are the values at intervening financial year-ends.

## Service contracts

The following table sets out a summary of the directors' service contracts or terms of appointment. Executive directors' service contracts provide for automatic termination on the director reaching the age of 65.

	Date of contract	Expiry date	Notice period	Length of service at 22 February 2010
<b>Executive directors</b>				
J E O'Higgins	1.1.06	3.2.29	12 months	4 years 1 month
C G Watson	1.10.06	4.2.23	12 months	3 years 4 months
J C Webster	27.3.98	21.6.15	12 months	16 years 4 months
<b>Non-executive directors</b>				
P A Chambré	1.8.06	16.5.10	6 months	3 years 6 months
J L M Hughes	1.6.07	16.5.11	6 months	2 years 8 months
A J Reading	10.3.04	16.5.10	6 months	5 years 11 months
J A Warren	7.3.06	16.5.12	6 months	3 years 11 months

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

Mr O'Higgins' and Mr Watson's contracts provide, subject to a duty of mitigation, for phased monthly payments 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.

## Directors' Remuneration Report continued

### Directors' remuneration and interests

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

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

	Salary and/or fees	Bonus	Benefits in kind	Taxable expenses	2009 Total	2008 Total
<b>Executive directors</b>						
J E O'Higgins	404	–	13	5	<b>422</b>	780
C G Watson	264	–	11	5	<b>280</b>	498
J C Webster	240	–	22	–	<b>262</b>	466
S C Harris	–	–	–	–	–	48
<b>Non-executive directors</b>						
P A Chambré	37	–	–	–	<b>37</b>	39
J L M Hughes	135	–	–	–	<b>135</b>	102
A J Reading	43	–	–	–	<b>43</b>	45
J A Warren	54	–	–	–	<b>54</b>	56
J W Poulter	–	–	–	–	–	53
					<b>1,233</b>	2,087

1. 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.
2. For Mr Reading and Mr Warren, their base fee of £38,500 p.a. is increased by an additional fee of £6,500 p.a. for their chairmanship of, respectively, the Remuneration and Audit Committees. Additionally, Mr Warren receives a fee of £15,000 p.a. for his chairmanship of Spectris Pension Trustees Limited, following his appointment to that position in April 2008.
3. During the year Mr Watson received £22,948 in respect of his appointment as a non-executive director of Spirax-Sarco Engineering plc and Mr Webster received £35,000 in respect of his appointment as a non-executive director of Raymarine plc.
4. All directors volunteered a 7.7% reduction in salary or fees over the second half of 2009, equivalent to two weeks' pay.

#### b) Directors' pensions

Company contributions to defined contribution plans:

	2009 £000	2008 £000
J E O'Higgins	<b>105</b>	105
C G Watson	<b>69</b>	69
J C Webster	<b>63</b>	63
S C Harris	–	10

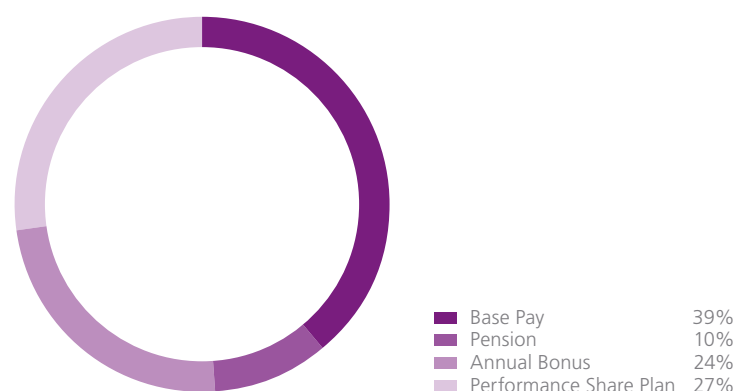
The company contributes at the rate of 25% of salary.

#### c) Directors' total remuneration

	2009 £000	2008 £000
Aggregate emoluments	<b>1,233</b>	2,087
Company pension contributions to defined contribution schemes	<b>237</b>	247
Gains made on exercise of share options	<b>469</b>	–
	<b>1,939</b>	2,334

### Balance of remuneration

The balance of remuneration for the executive directors is such that a significant part of overall remuneration is subject to achieving performance conditions over both the short and long term. The reward mix for the Chief Executive, finance director and business group director is shown in the chart below. This assumes Performance Share Plan awards with a value on grant equal to 125% of the director's basic salary, giving an expected vesting of 55% of the award (68.75% of basic salary) and an annual bonus on-plan expectation of 60% of salary.



Note: based on remuneration for 2010.

### d) Directors' interests in options to purchase ordinary shares

	Date granted	Options held 1 Jan 09	Granted during the year	Exercise price (p)	Exercised during the year	Share price at date of exercise (p)	Lapsed during the year	Options held 31 Dec 09	Date exercisable	Expiry date
<b>J E O'Higgins</b>										
SAYE	Oct 2006	1,529		618	1,529	713.5		0	Dec 2009	Jun 2010
SAYE	Oct 2009		1,255	723				1,255	Dec 2012	Jun 2013
		<b>1,529</b>						<b>1,255</b>		
<b>C G Watson</b>										
SAYE	Oct 2007	1,146		837				1,146	Dec 2010	Jun 2011
		<b>1,146</b>						<b>1,146</b>		
<b>J C Webster</b>										
	Sep 2005	85,000		589				85,000	Sep 2008	Sep 2015
		<b>85,000</b>						<b>85,000</b>		
<b>Total</b>		<b>87,675</b>	<b>1,255</b>		<b>1,529</b>			<b>87,401</b>		

Shares other than those marked SAYE relate to executive share option grants. Entitlement to exercise grants under the Unapproved 1996 Executive Share 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 (please refer to the Directors' Remuneration Report on page 43 for further explanation). This condition has been met for all outstanding option grants. 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.

Mr O'Higgins exercised his 2006 SAYE option on 16 December 2009. The gain on exercise was £1,460.

## Directors' Remuneration Report continued

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

	Number of shares subject to award at 1 Jan 09	Granted during the year	Exercised during the year	Addition of reinvested dividends*	Lapsed during the year	Number of shares subject to award at 31 Dec 09	Market value of each share at date of award (p)	Date exercisable	Expiry date
<b>J E O'Higgins</b>	56,000		(53,404)	7,017	(9,613)	0	622.5	May 2009	May 2010
	35,500					35,500	865	Mar 2010	Mar 2011
	53,400					53,400	786.5	Feb 2011	Feb 2012
		96,600				96,600	434.5	Feb 2012	Feb 2013
	<b>144,900</b>					<b>185,500</b>			
<b>C G Watson</b>	6,500		(5,964)	580	(1,116)	0	640.0	Oct 2009	Oct 2010
	21,500					21,500	865	Mar 2010	Mar 2011
	34,900					34,900	786.5	Feb 2011	Feb 2012
		63,200				63,200	434.5	Feb 2012	Feb 2013
	<b>62,900</b>					<b>119,600</b>			
<b>J C Webster</b>	24,500		(21,960)	1,665	(4,205)	0	622.5	May 2009	May 2010
	20,500					20,500	865	Mar 2010	Mar 2011
	31,700					31,700	786.5	Feb 2011	Feb 2012
		57,500				57,500	434.5	Feb 2012	Feb 2013
	<b>76,700</b>					<b>109,700</b>			
<b>Total</b>	<b>284,500</b>	<b>217,300</b>	<b>(81,328)</b>	<b>9,262</b>	<b>(14,934)</b>	<b>414,800</b>			

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

The above awards were made as conditional rights to acquire shares (structured as nominal cost options) and the number of shares awarded were based on the mid-market closing price of the company's shares on the business day prior to the date of grant. In respect of the 2009 award, for each of Mr O'Higgins, Mr Watson and Mr Webster, the value of the award was equivalent to 100% of their base salaries at the date of grant. Following satisfaction, in whole or part, of the performance criteria attaching to the awards (as summarised on page 43), the directors may call for the release to them of the vested shares during the above-shown exercise periods.

The awards granted to Mr O'Higgins, Mr Watson and Mr Webster in 2006 of 56,000, 6,500 and 24,500 award shares, respectively, became exercisable and were exercised by them during the year. The awards had two performance conditions attaching to them. The earnings per share target was met in full (50% of the award) and the total shareholder return target was met to 32.84% of the award.

In determining the level of vesting against the TSR target, the committee took into account the company's underlying financial performance.

The awards were satisfied from the company's treasury shares.

The Spectris Performance Share Plan operates within the dilution limits laid down by the Association of British Insurers.

Mr O'Higgins retained 53,404 shares arising from two separate exercises of his award. On 2 June 2009 he exercised 25,097 award shares and the gain on exercise was £130,943. On 26 November 2009 he exercised 28,307 award shares and the gain on exercise was £191,001.

Mr Watson retained 5,964 shares arising from the exercise of his award on 1 December 2009. The gain on exercise was £39,168.

Mr Webster retained 12,794 shares arising from the exercise of his award on 20 May 2009 and sold 9,166 shares arising on that date. The gain on exercise was £108,244.

The aggregate gains on exercise for all directors were thus £469,356 (2008: £nil).

## f) Directors' interests

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

	Shareholdings	
	2009 31 Dec (or date of resignation)	2009 1 Jan (or date of appointment)
J L M Hughes	8,000	8,000
J E O'Higgins	92,933	27,000
P A Chambré	5,197	5,000
A J Reading	11,000	11,000
J A Warren	3,000	3,000
C G Watson	24,964	12,500
J C Webster	118,736	105,942

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 2009 the middle market closing share price on the London Stock Exchange was 738p. The highest share price in the year was 759p and the lowest was 382.5p.

By order of the Board



**A J Reading**  
Chairman of the Committee  
23 February 2010

Company No. 2025003