

Directors' Report

The directors present their report and accounts for the year ended 31 December 2008.

Principal activities

Spectris designs, develops and markets productivity-enhancing instrumentation and controls. For 2008 reporting purposes, the businesses were grouped into four segments: Materials Analysis, Test and Measurement, In-Line Instrumentation and Industrial Controls. Further details of the trading companies can be found in the Business Review (page 6). Developments in the group's business activities are discussed in the Chairman's Statement (page 2), the Chief Executive's Statement (page 4) and the Business Review.

Acquisitions

During the year a number of acquisitions were made. Malvern Instruments acquired Viscotek Corporation, a US-based provider of chromatography solutions for the characterisation of natural and synthetic polymers and proteins. HBM and Particle Measuring Systems acquired their distributors in, respectively, the Nordic countries and China. HBM acquired nCode International, a supplier of durability, test and analysis software and mobile data acquisition instruments. Microscan acquired Siemens' Machine Vision Business, a leader in Automatic Identification and Data Capture (AIDC), specialising in machine vision and inspection systems used in a broad array of manufacturing, packaging and traceability applications. Finally, the LDS Test & Measurement business was acquired and integrated with Brüel & Kjær Sound & Vibration and HBM. LDS is a leader in integrated vibration test and measurement equipment and software for applications in the aerospace, defence, automotive, machinery, electrical and electronics markets. The total consideration, including acquisition expenses and net debt acquired, as well as deferred and contingent consideration expected to be paid in future years, for the above acquisitions, was £88.8 million. Deferred consideration paid and working capital adjustments made during the year in respect of prior year acquisitions amounted to £1.3 million.

Disposals

There were no disposals during the year.

Share capital

The share capital of the company comprises ordinary shares of 5p 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, are shown in Note 25 on page 77. The Articles of Association of the company, available on the company's website, contain provisions governing the ownership and transfer of shares.

At the 2008 Annual General Meeting shareholders authorised the directors to make market purchases of the company's ordinary shares up to a maximum number of 12,500,000 shares, representing approximately 10% of the issued share capital of the company, 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. At the close of business on 23 February 2009, the company had 125,005,123 ordinary shares in issue, of which 9,694,495 were held in Treasury. During the year

21,363 shares were transferred out of Treasury to meet the company's obligations under its share plans and no shares were cancelled out of Treasury. An authority to make further market purchases of the company's ordinary shares, if believed appropriate, will be sought at the forthcoming Annual General Meeting although the Board has no present intention of so doing.

Also included in the special business of the 2009 Annual General Meeting are proposals to renew the directors' authority to allot shares up to prescribed limits.

The company is introducing a Dividend Reinvestment Plan, providing shareholders with the option of using their dividend payments to buy additional Spectris plc shares. Further details are given in the Notice of Annual General Meeting.

At 23 February 2009 interests notified to the company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

Standard Life Investments

10,490,369 shares (9.10% material interest)

AXA SA

6,160,607 shares (5.34% material interest)

Ameriprise Financial Inc.

5,747,326 shares (4.98% material interest)

Legal & General Group Plc

4,997,437 shares (3.99% material interest)

Barclays Global Investors

3,483,251 shares (3.02% material interest)

Takeovers directive

Pursuant to s992 of the Companies Act 2006, which implements the EU Takeovers Directive, the company is required to disclose certain additional information. Such disclosures, which are not covered elsewhere in this Annual Report, include the following:

The company's Articles of Association ('Articles') give power to the Board to appoint directors, but require directors to submit themselves for election at the first Annual General Meeting following their appointment and for re-election where they have been a director at each of the preceding two Annual General Meetings and were not appointed or re-appointed by the company at, or since, either such meeting. The Articles may be amended by special resolution of the shareholders and are available to view on the company's website.

The Board of directors is responsible for the management of the business of the company and may exercise all the powers of the company subject to the provisions of the relevant statutes, the company's Memorandum of Association and the Articles. The 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 Annual General Meeting.

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. In addition, there is a service contract between the company and one of its directors which provides for compensation for loss of office or employment following a change of control of the group (please refer to the Directors' Remuneration Report on page 40 for further explanation). 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 relevant employer covenant.

Dividend

Results for the group are set out in the Consolidated Income Statement on page 45 and in the supporting notes. A final dividend of 17p per ordinary share is proposed for the year to 31 December 2008 (2007: 15.25p). With the interim dividend, this makes a total for the year of 23.4p (2007: 21p). The final dividend will be paid on 26 June 2009 to shareholders on the register on 5 June 2009.

The terms of the Spectris plc Employee Benefit Trust provide that dividends payable on shares held within the Trust are waived to 0.01p. No dividends are payable on shares held in Treasury.

Research and development

Expenditure committed to research and development is focused on new product development, applications engineering and process integration. Costs are expensed as incurred, except where the expenditure meets certain strict criteria for capitalisation. In the year to 31 December 2008, amounts expensed totalled £57.0 million (2007: £45.2 million), and no expenditure met the criteria for capitalisation (2007: £nil).

Fixed assets

Whilst the market values of some properties differ from book values, the directors believe that the differences are not material.

Payment of suppliers

The group's policy on payment of suppliers is to ensure that terms of payment accord with contractual and legal obligations. The company had no trade creditors at the year end (2007: £nil).

Directors

The directors of the company are named on pages 30 and 31. Stephen Harris resigned from the Board on 31 January 2008. John Poulter retired from the Board following the 2008 Annual General Meeting.

John O'Higgins and John Warren retire from the Board by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

The directors' total remuneration for the year and their interests in the shares of the company and its subsidiaries at 31 December 2008 are disclosed in the Directors' Remuneration Report on pages 37 to 43.

In accordance with Section 309C of the Companies Act 1985 the directors disclose a qualifying third-party indemnity provision entered into between the company and its directors and officers which was in force at the date of approval of this report. This indemnity gives contractual force to the Indemnity of Officers provision contained in the company's Articles which were approved by shareholders in May 2005.

Auditors

Separate resolutions to re-appoint KPMG Audit Plc as auditors and to authorise the directors to agree their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of Annual General Meeting to be held at the company's offices on Tuesday 19 May 2009 at 11.30 a.m. is contained in a separate letter from the Chairman accompanying this report.

Corporate governance

Combined Code statement of compliance

Spectris plc is subject to the Combined Code on Corporate Governance ('the Combined Code') that is appended to the Listing Rules of the UK Listing Authority. The Combined Code sets out principles and provisions relating to the good governance of companies.

Corporate governance has been and remains the responsibility of the whole Board. This statement describes how the company applied the principles and complied with the provisions of the Combined Code during 2008. The Board considers that it was throughout the year and continues to be in full compliance with the provisions set out in Section 1 of the Combined Code, save that:

- A majority of the members of the nomination committee are not independent non-executive directors, as required by provision A.4.1. The committee consists of the Chairman, the senior independent director and the Chief Executive and the Board considers this to be the most appropriate composition for the sensitive issues addressed by the committee.

Board composition and procedures

The Board meets formally at regular intervals throughout the year to consider developments in relation to the company's strategy and long-term objectives and to review trading results and operational and business issues. In particular it deals with those matters reserved to it for decision, including the acquisition and disposal of businesses, major capital expenditure, the appointment and, where necessary, removal of directors and Board and senior management succession planning. Additional meetings are convened as required to consider specific topics requiring immediate decision. Usually, two meetings each year are held at operating locations and encompass a detailed review of the relevant business. Operational decisions are delegated by the Board to senior management at trading company level over which the executive directors exercise supervision. All directors receive detailed progress reports one week prior to each Board meeting.

Directors' Report continued

The Board currently comprises the Chairman, three executive directors and three non-executive directors. The Board considers its non-executive directors (Peter Chambré, Anthony Reading and John Warren) to be independent, in that none of them are or have ever been holders of an executive office with the company. The positions of Chairman, Chief Executive and senior independent director are held by separate individuals and, in accordance with the Combined Code, the Board has adopted written profiles for the first two of these. The non-executive directors have all had senior experience in other organisations and offer independent judgement on Board matters. The Chairman's other significant interests are as non-executive chairman of Intec Telecom Systems plc and Telecity Group plc, non-executive deputy chairman of Parity Group plc and non-executive director of Chloride Group plc and Barco N.V. The Board believes that the Chairman's obligations to the company are unaffected by these directorships.

There are procedures for individual Board members to receive induction and training as appropriate and to solicit independent professional advice at the group's expense where specific expertise is required in the course of exercising their duties. All directors have access to the company secretary, who is responsible for ensuring compliance with appropriate statutes and regulations.

All directors are subject to re-election by shareholders at the first Annual General Meeting after their appointment and thereafter at intervals of no more than three years.

The Board delegates specific responsibilities to Board committees, notably the nomination, remuneration and audit committees. The terms of reference of these committees are published on the company's website and the following additional documents are available to shareholders on application to the company secretary:

- schedule of matters reserved for decision by the Board;
- responsibilities of the Chairman, the Chief Executive and the non-executive directors;
- relations with shareholders;
- performance evaluation; and
- procedure for taking independent professional advice.

Board and committee meeting attendance 2008

	Board	Remuneration committee	Audit committee	Nomination committee
Total meetings during year	13	4	3	1
J L M Hughes (Chairman)	13	4	2	n/a
A J Reading (senior independent director)	13	4	3	1
P A Chambré	11	4	3	n/a
J A Warren	12	4	3	n/a
J E O'Higgins (Chief Executive)	13	n/a	n/a	1
C G Watson	13	n/a	n/a	n/a
J C Webster	13	n/a	n/a	n/a
S C Harris	2	n/a	n/a	n/a
J W Poulter	4	n/a	n/a	–

S C Harris and J W Poulter held office for part of the year only. S C Harris attended both of the two Board meetings which he was eligible to attend. J W Poulter attended four of the five Board meetings he was eligible to attend and did not attend the nomination committee meeting he was eligible to attend as its subject matter concerned his succession as Chairman.

Board appointments and performance evaluation

The nomination committee consists of the Chairman, the senior independent director and the Chief Executive and is chaired by the Chairman, save in the event of discussions relating to his succession when the senior independent director takes the chair.

Following a decision of the Board that the appointment of a new director is appropriate, the duty of the committee is to present for Board consideration suitably qualified candidate(s). In making such recommendations, the committee evaluates the balance of skills, knowledge and experience on the Board and develops a description of the role and required capabilities. Candidates are then identified for interview, external search consultants being engaged as part of this process. The committee also makes recommendations to the Board regarding the re-election and/or re-appointment of any director. Similar selection processes apply for the appointment of a chairman.

The nomination committee meets as the need arises. Its terms of reference can be found on the company's website.

The operation of the Board and its committees is reviewed by the Board as a whole annually. The executive directors' and company secretary's performances are appraised annually against objectives established for the prior year. The contributions of the Chairman and non-executive directors are reviewed in advance of the conclusion of their initial three-year term, by the senior independent director and the Chairman respectively, prior to their being proposed to shareholders for re-election. Additionally, the Chairman holds periodic meetings with the non-executive directors only and, led by the senior independent director, the non-executives have the opportunity to meet at least annually without the Chairman present.

An evaluation of the operation and performance of the Board was conducted in 2008. The process included submissions from all Board members in response to a structured questionnaire covering a range of issues, which were considered by the Chairman and the senior independent director and then reviewed by the Board as a whole.

Shareholder relations

Spectris conducts regular dialogue with institutional shareholders and divulges such information as is permitted within the guidelines of the Listing Rules. The content of presentations made after results announcements may be accessed by individual investors on the group website, www.spectris.com.

All shareholders are invited to participate in the Annual General Meeting, where the Chairman, the Chief Executive and the chairmen of the audit, remuneration and nomination committees are available to answer questions. The results of proxy votes are

declared at the Annual General Meeting after each resolution has been dealt with on a show of hands. These are then published on the group website.

The Board is kept informed of the views of major shareholders through periodic reports from the Chief Executive, the company's joint brokers Merrill Lynch and RBS Hoare Govett and the company's shareholder relations adviser, Makinson Cowell. The Chairman and non-executive directors have the opportunity to attend the bi-annual analyst presentations.

Shareholders representing in excess of 3% of the company's issued share capital receive a standing invitation to meet the Chairman, the senior independent director or new non-executive directors. Such meetings would supplement if necessary, but not replace, the regular meetings with the Chief Executive and group finance director.

Audit committee

The audit committee comprises the non-executive directors and is chaired by John Warren who has recent and relevant financial experience as the former group finance director of WH Smith PLC. The committee meets at least twice each year to consider the effectiveness of the group's internal controls, policies and procedures, the process of internal audit and the outcome of the external audit. Its meetings are normally attended by the Chairman, the Chief Executive, the group finance director, the company secretary and the external auditor. All executive directors attend the year end final audit review meeting and processes requiring the disclosure of relevant information by individual directors to the auditor have been adopted. The committee regularly confers with the auditor without the attendance of executive directors. Its terms of reference can be found on the company's website.

The committee is responsible for making recommendations to the Board in relation to the appointment of the external auditor and then for approving the external auditor's remuneration, terms of engagement and scope of work.

The committee has also adopted procedures governing and restricting the appointment of the external auditor for non-audit services. The following services are precluded:

- book-keeping or other services related to the accounting records or financial statements of Spectris plc;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution in kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser or investment banking services; and
- legal services and expert services unrelated to the audit.

A cumulative annual cap of £200,000 is established for all other non-audit services (save for acquisition due diligence and taxation services) above which all engagements are subject to prior approval by the audit committee.

The Head of Internal Audit is employed by the group to perform internal control reviews across the group according to a work programme agreed by the committee. The Head of Internal Audit is assisted in this by two further internal auditors and by other group finance personnel. The nature and scope of the group's internal control review resources is reviewed by the audit committee annually. The audit committee receives reports twice a year on the results of internal control reviews. The Head of Internal Audit has direct access to the chairman of the audit committee and may meet with him in the absence of executive management.

Internal controls

The group's system of internal controls is described on page 23 of the Business Review.

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 the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the group's accounts.

Business Review

The information that fulfils the requirements of the Business Review, as required by Section 417 of the Companies Act 2006, and which should be treated as forming part of this report by reference, is included in the following sections of the annual report:

- Chairman's Statement on pages 2 and 3.
- Chief Executive's Statement on pages 4 and 5.
- Group Overview on pages 6 and 7.
- Operating Review on pages 10 to 19, which includes a review of the external environment.
- Key strategic aims and performance measures are described on pages 8 and 9.
- Principal risks and uncertainties are described on pages 23 and 24.
- Details of the principal operating subsidiaries are set out on pages 12 to 19.
- Financial Review on pages 20 to 22.
- Corporate citizenship on pages 25 to 29 which includes the company's policy on treatment of its employees.

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Directors' Report continued

The group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that 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 1985. 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.

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.

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

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Responsibility statement of the directors in respect of the Annual Report

We, the directors of the company, confirm that to the best of our knowledge:

- a) the financial statements of the group have been prepared in accordance with IFRS as adopted by the EU, and for the company under UK GAAP, in accordance with applicable United Kingdom law and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group; and
- b) the information that is cross-referenced from the Business Review section of the Directors' Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that face the group.

By order of the Board.



R J Stephens

Secretary

24 February 2009