

Notes to the accounts

1 Accounting policies

General information

Spectris plc is a limited company incorporated and domiciled in the United Kingdom under the Companies Act 1985, whose shares are publicly traded on the London Stock Exchange.

These financial statements are presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

Statement of compliance and basis of preparation

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 70 to 76. Reconciliations required by IFRS 1, *First Time Adoption of IFRS*, are included in Note 36 to these accounts.

The financial statements are prepared rounded to the nearest hundred thousand on the historical cost basis except that the derivative financial instruments are stated at fair value and non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are continually evaluated and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have a significant effect on the carrying amount of assets and liabilities are noted within specific accounting policies below. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except where the policy is indicated as relating to the implementation of IAS 32 or IAS 39 which were adopted from 1 January 2005, or to the implementation of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which was also adopted from 1 January 2005. The accounting policies have been applied consistently by group entities.

Basis of consolidation

The group financial statements include the results of the company and all of its subsidiary undertakings. A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average annual exchange rates. Foreign exchange differences arising on retranslation are recognised directly in a separate translation reserve within equity.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Derivative financial instruments may be purchased to hedge the group's exposure to changes in foreign exchange rates. The accounting policies applied in these circumstances are described under the heading 'Derivative financial instruments and hedge accounting' below.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Derivative financial instruments and hedge accounting

The group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating and financing activities. In accordance with its treasury policy, it does not hold or use derivative financial instruments for trading or speculative purposes.

Following the transition to IFRS and in accordance with the transitional provisions set out in IFRS 1 the group adopted IAS 32, *Financial Instruments: Disclosure and Presentation*, and IAS 39, *Financial Instruments: Measurement and Recognition*, with effect from 1 January 2005. The paragraphs relating to cash flow hedge accounting, net investment hedge accounting, and other derivative financial instruments which follow therefore explain both the previous UK GAAP accounting policy applied in the comparative period ended 31 December 2004 and those new policies applied during the year ended 31 December 2005.

The financial impact of these changes of accounting policy is set out in Note 21.

Cash flow hedge accounting

Derivative financial instruments may be transacted to hedge the variability in cash flows of a recognised asset or liability, or of highly probable forecast transactions, caused by changes in exchange rates.

In the comparative period ended 31 December 2004, the value of such instruments is not recognised until the point at which the transactions being hedged occurred. At the point the hedged transaction occurs, the asset or liability is recorded using the rate of exchange under the related derivative financial instrument.

From adoption of IAS 39 as at 1 January 2005, derivative financial instruments are carried in the balance sheet at fair value. Where a derivative financial instrument is designated in a cash flow hedge relationship with a highly probable forecast transaction, the effective part of any gain or loss arising is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement. When the forecast transaction subsequently occurs and results in the recognition of a financial asset or liability that impacts on the income statement, the associated cumulative gain or loss is removed from equity and presented within the income statement. When the forecast transaction subsequently occurs and results in the recognition of a non-financial asset or liability, the associated cumulative gain or loss is removed from equity and included within the initial cost

of the non-financial asset or liability. If a derivative financial instrument is not formally designated in a cash flow hedge relationship, any change in fair value is recognised in the income statement.

Net investment hedge accounting

The group uses US\$ and euro-denominated borrowings as a hedge against the translation exposure on the group's net investment in overseas companies. In both 2004 and 2005, where the hedge is fully effective at hedging the variability in the net assets of such companies caused by changes in exchange rates, the changes in value of the borrowings are recognised in equity. The ineffective part of any change in value caused by changes in exchange rates is recognised in the income statement.

The group takes advantage of cross-currency swaps for some of its US\$-denominated private placement borrowings. The swaps have the effect of converting fixed rate US\$ borrowings into 'synthetic' fixed rate euro-denominated borrowings. The portion of the swap that locks interest payments at a fixed euro interest rate changes as US\$ variable interest rates, euro variable interest rates, and foreign currency exchange rates change. Under IAS 39's rules, such changes in value are considered to be ineffective as a net investment hedge. In the comparative period ended 31 December 2004, the fair value attributed to the portion of the swap that locks euro interest payments at fixed rates was not recognised. From adoption of IAS 39 as at 1 January 2005, this value is recognised in the balance sheet with any changes in value being recognised in the income statement.

Other derivative financial instruments

Certain other derivative financial instruments are transacted to provide a hedge against the group's overall exposure to changes in foreign currency exchange rates.

In the comparative period ended 31 December 2004, the value of these instruments is not recognised in the balance sheet or income statement until the accounting period they were intended to cover as a hedge. From adoption of IAS 39 as at 1 January 2005, these instruments do not meet IAS 39's hedge accounting criteria and consequently these instruments are carried at fair value with any gain or loss being recognised in the income statement.

Business combinations and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the fair value of the purchase consideration for the interests in subsidiary undertakings over the fair value to the group of the net assets and any contingent liabilities acquired. In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost which represents the amount recorded previously under UK GAAP. Prior to 1 January 1998, goodwill was written off to reserves in the year of acquisition.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. From 1 January 2004, goodwill is allocated on acquisition to cash-generating units that are anticipated to benefit from the combination, and is no longer amortised but is tested annually for impairment. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. This estimate of recoverable amount is performed at each balance sheet date.

The estimate of recoverable amount requires significant judgement, and is based on a number of factors such as the near-term business outlook for the cash generating unit, including both its operating profit and operating cash flow performance. Where the recoverable amount of the cash generating unit is less than the carrying amount, an

impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Non-current assets held for sale

Following the adoption of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* from 1 January 2005, non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and an active programme to locate a buyer and complete the sale must have been initiated. Ordinarily the sale should be expected to qualify for recognition as a completed sale within one year from the date of the classification as held for sale.

Segmental analysis

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmental information is based on two segment formats: the primary format represents the group's business segments whereas the secondary format reflects the geographical segments.

Segment result represents operating profits (including intangible asset amortisation and goodwill charges) and includes an allocation of head office expenses. Segment result excludes tax and financing items.

Segment assets comprise goodwill, other intangible assets, property, plant and equipment, inventories, trade and other receivables and assets held for sale. Segment liabilities comprise trade and other payables, provisions, held for sale liabilities, and other payables. Unallocated items represent corporate and deferred taxation balances, defined benefit scheme liabilities and all components of net debt.

Intangible assets

Self-funded research and development costs are charged to the income statement in the year in which they are incurred unless development expenditure meets certain strict criteria for capitalisation. These criteria include demonstration of the technical feasibility of completing a new intangible asset that will be available for sale and that the asset will generate probable future economic benefits. Where expenditure meets the criteria, development costs are capitalised and amortised over their useful economic lives.

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. Subsequent expenditure on capitalised intangible assets is expensed as incurred.

Amortisation of intangible assets is charged to administrative expenses in the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Patents and trademarks	up to 5 years
Other intangible assets	up to 3 years

Notes to the accounts continued

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairments in value. The group recognises in the carrying amount of property, plant and equipment the subsequent costs of replacing part of such items when there are future economic benefits. All other costs are recognised in the income statement as an expense as they are incurred.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over its estimated useful life. The depreciation charge is revised where useful lives are different to previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Land is not depreciated. Estimated useful lives are as follows:

Freehold and long leasehold property	20 to 40 years
Short leasehold property	over the period of the lease
Plant, machinery and other equipment	5 to 20 years
Motor vehicles	4 years
Tooling, computer hardware and software	3 to 5 years

Impairment of tangible and intangible assets excluding goodwill

The carrying amount of the group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised as an operating expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Trade and other receivables

Trade and other receivables are stated at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Inventories

Inventories and work in progress are carried at the lower of cost and net realisable value. Cost represents direct costs incurred and, where appropriate, a proportion of attributable overheads. Inventory is accounted for on a first-in, first-out basis. Provision is made for slow moving and obsolete items based on an assessment of technological and market developments and on an analysis of historic and projected usage.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash equivalents for the purposes of the statement of cash flows.

Trade and other payables

Trade and other payables are stated at amortised cost.

Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. In respect of warranties a provision is recognised when the underlying products or services are sold. Provisions are recognised at an amount equal to the best estimate of the expenditure required to settle the group's liability. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such a plan will be carried out.

Post-retirement benefits

The group has applied the amendments in IAS 19 (revised 2004) from the date of transition to IFRS, 1 January 2004. The group operates both defined benefit schemes based on final pensionable pay and defined contribution schemes.

The group operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the group. The group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the group's obligations.

The calculation is performed by a qualified actuary using the projected unit method. Actuarial gains and losses are recognised in full in the period in which they arise in the statement of recognised income and expense.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

For defined contribution schemes, the assets are held separately from those of the group in independently administered funds. Payments to defined contribution schemes are charged to the income statement as they fall due.

Share-based payments

The fair value of employee share option grants is calculated at grant date. The resulting cost is charged to the income statement over the vesting period of the plans. The value of the charge is adjusted to reflect expected and actual levels of options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Revenues

Revenues comprise sales to outside customers after discounts and excluding value added tax.

Revenue from the sale of goods is recognised in the income statement when the significant risk and rewards of ownership of the goods have been transferred to the customer. For contracts which involve a significant element of installation or testing of equipment, revenue is recognised at the point of customer acceptance. Revenue from services rendered is recognised in the income statement in proportion to the measurement of the stage of completion of services rendered as at the balance sheet date. Rental income is recognised in the income statement on a straight-line basis over the term of the agreement. Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due.

Interest payable

Interest payable comprises the interest payable on borrowings calculated using the effective interest method.

Interest receivable and payable is recognised in the income statement as it accrues using the effective interest method. Dividend income is recognised in the income statement when the right to receive payment is established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Taxation

Tax on the profit or loss for the year comprises both current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Additional income taxes that arise from the distribution of intra-group dividends are recognised at the same time as the liability to pay the related dividend.

IFRS transitional arrangements

When preparing the group's IFRS balance sheet at 1 January 2004, the date of transition, the following optional exemptions, provided by IFRS 1, *First-time Adoption of International Financial Reporting Standards*, from full retrospective application of IFRS accounting policies have been adopted:

- Business combinations – the provisions of IFRS 3 have been applied from 1 January 2004. The net carrying value of goodwill at 31 December 2003 under the previous accounting policies has been deemed to be the cost at 1 January 2004;
- Financial instruments – the provisions of IAS 32 and IAS 39 have not been applied to the comparative period to 31 December 2004, which, for these purposes, has been prepared on the basis of previous UK GAAP accounting policies as described above;
- Cumulative translation differences arising on consolidation of subsidiaries – IAS 21 requires such differences to be held in a separate reserve, rather than included in the profit and loss reserve under UK GAAP. This reserve has been deemed to be nil on 1 January 2004;
- Share-based payments – IFRS 2 has not been applied to share options granted prior to 7 November 2002 nor to any options that vested prior to 1 January 2005; and
- Employee benefits – the group has elected to recognise all cumulative actuarial gains and losses in relation to employee benefit schemes at the date of transition.

The group's transitional balance sheet, and other reconciliations required by IFRS 1, *First-time Adoption of International Financial Reporting Standards*, together with a description of the significant adjustments applied, are included in Note 36 to these financial statements.

Notes to the accounts continued

2 Financial risk management

The group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the group is exposed to foreign currency risk, interest rate risk, funding risk, and credit risk. Financial risk management is an integral part of the way the group is managed. Financial risk management policies are set by the Board of directors. These policies are implemented by a central treasury department that has formal procedures to manage foreign exchange risk, interest rate risk, and funding risk, including where appropriate the use of derivative financial instruments. The group has clearly defined authority and approval limits.

In accordance with its treasury policy, the group does not hold or use derivative financial instruments for trading or speculative purposes. Such instruments are only used to manage the risks arising from operating or financial assets or liabilities or highly probable future transactions.

a) Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in foreign currencies (transactional exposures) and where the results of overseas companies are consolidated into the group's reporting currency of £sterling (translational exposures). The group has operations around the world which record their results in a variety of different local functional currencies. In countries where the group does not have operations, it invariably has some customers or suppliers that transact in a foreign currency. The group is therefore exposed to the changes in foreign currency exchange rates between a number of different currencies but the group's primary exposures relate to the US\$, euro and £sterling and, to a lesser extent, the Japanese yen. Where appropriate the group manages its foreign currency exposures using derivative financial instruments.

Historically, the group has used zero cost average rate options to manage, to a greater or lesser extent, both transactional and translational foreign currency exposures. The last such derivative financial instrument expired on 31 December 2005 and the group has no current intention of using average rate options as a hedging instrument in future.

The group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts. Forward exchange contracts are typically used to hedge highly probable forecast sale transactions which can be forecast to occur from anything between 1 and 18 months into the future.

The group's translational exposures to foreign currency risks can relate both to the income statement and net assets of overseas subsidiaries. Following the expiry of the last zero cost average rate option on 31 December 2005, the group's policy is not to hedge the translational exposure that arises on consolidation of the income statements of overseas subsidiaries. The group finances overseas company investments partly through the use of foreign currency borrowings in order to provide a natural hedge of foreign currency risk arising on translation of the group's net investment.

b) Interest rate risk

Interest rate risk comprises both the interest rate price risk that results from borrowing at fixed rates of interest and also the interest cash flow risk that results from borrowing at variable rates. Where appropriate interest rate swaps are used to manage the group's interest rate profile.

At this time, the majority of the group's borrowings attract fixed rates of interest payments and therefore the group's principal interest rate risk is a price risk.

c) Funding risk

Funding risk represents the risk that the group encounters difficulties in raising finance in order to meet its financial obligations as they fall due. The group manages this risk by maintaining adequate committed lines of funding from high quality lenders.

During July 2006, the \$100m 1996 Private Placement loans will become due for repayment. New committed facilities have already been negotiated which, together with the free cash flow generated by the group, will provide sufficient funds to repay these loans and ensure that the group's funding risks remain at an acceptable level.

d) Credit risk

Credit risk arises because a counterparty may fail to perform its obligations. The group is exposed to credit risk on financial assets such as cash balances, derivative financial instruments, trade and other receivables.

The group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the balance sheet are net of appropriate allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment. Trade receivables are subject to credit limits and control and approval procedures in the operating companies. Due to its large geographic base and number of customers, the group is not exposed to material concentrations of credit risk on its trade receivables.

Credit risk associated with cash balances and derivative financial instruments is managed by transacting with financial institutions with high quality credit ratings. Accordingly the group's associated credit risk is limited. The group has no significant concentration of credit risk.

The group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the group balance sheet.

3 Adjusted performance measures

Spectris uses adjusted figures as key performance measures in addition to those reported under IFRS. Adjusted figures are stated before amortisation of acquisition-related intangible assets, goodwill charges, profits or losses on termination or disposal of businesses or major fixed assets, unrealised changes in the fair value of financial instruments, related tax effects and other tax items which do not form part of the underlying tax rate (see Note 11).

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

Adjusted operating profit	Notes	2005 £m	2004 £m
Operating profit as reported under IFRS		64.9	51.2
Amortisation of acquisition-related intangible assets	15	1.2	1.2
Goodwill impairment charge	14	7.4	–
Goodwill reduction	14	–	12.2
Adjusted operating profit		73.5	64.6

Adjusted operating profit by segment		Electronic controls £m	In-line instrumentation £m	Process technology £m	2005 Total £m
Segment result under IFRS	4	18.2	15.5	31.2	64.9
Amortisation of acquisition-related intangible assets		–	–	1.2	1.2
Goodwill impairment charge		–	7.4	–	7.4
Adjusted operating profit		18.2	22.9	32.4	73.5

Adjusted operating profit by segment		Electronic controls £m	In-line instrumentation £m	Process technology £m	2004 Total £m
Segment result under IFRS	4	17.2	20.6	13.4	51.2
Amortisation of acquisition-related intangible assets		–	–	1.2	1.2
Goodwill reduction		–	–	12.2	12.2
Adjusted operating profit		17.2	20.6	26.8	64.6

Adjusted profit before tax	Notes	2005 £m	2004 £m
Profit before tax as reported under IFRS		50.8	35.9
Amortisation of acquisition-related intangible assets	15	1.2	1.2
Goodwill impairment charges	14	7.4	–
Goodwill reduction	14	–	12.2
Loss on termination of businesses		–	1.2
Unrealised change in fair value of cross-currency interest rate swaps	10	1.1	–
Unrealised change in fair value of average rate options	10	1.7	–
Other financial income	10	(1.7)	–
Adjusted profit before tax		60.5	50.5

Operating cash flow	2005 £m	2004 £m
Net cash from operating activities under IFRS	74.8	56.6
Corporation tax paid	15.8	7.7
Purchase of property, plant and equipment	(12.3)	(16.5)
Proceeds from sale of property, plant and equipment	0.1	0.7
Sale of own shares by Employee Benefit Trust	–	0.2
Operating cash flow for management purposes	78.4	48.7

Notes to the accounts continued

3 Adjusted performance measures continued

Adjusted earnings per share	Note	2005 £m	2004 £m
Profit after tax as reported under IFRS		35.2	23.6
Adjusted for:			
Amortisation of acquisition-related intangible assets	15	1.2	1.2
Goodwill impairment charge	14	7.4	–
Goodwill reduction	14	–	12.2
Loss on termination of businesses		–	1.2
Unrealised change in fair value of cross-currency interest rate swaps	10	1.1	–
Unrealised change in fair value of average rate options	10	1.7	–
Other financial income	10	(1.7)	–
Tax effect of the above	11	(1.5)	(0.2)
Other tax items not forming part of the underlying tax rate	11	0.8	0.2
Adjusted earnings		44.2	38.2
Weighted average number of shares outstanding (millions)	13	122.1	120.9
Adjusted earnings per share (pence)		36.2p	31.6p
Adjusted diluted earnings per share			
Adjusted earnings (as above)		44.2	38.2
Diluted weighted average number of shares outstanding (millions)	13	122.4	121.1
Adjusted diluted earnings per share (pence)		36.1p	31.5p

4 Segmental information

The group's primary reporting format is business segments and its secondary format is geographical segments. The companies within each business segment, together with the significant products made by each, are detailed within the additional information section of this Annual Report, see the inside front cover.

	Segment revenue		Inter-segment revenue		External customer revenue		Segment result	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Electronic controls	143.6	139.9	(0.1)	(0.2)	143.5	139.7	18.2	17.2
In-line instrumentation	202.8	199.0	(0.5)	(0.6)	202.3	198.4	15.5	20.6
Process technology	311.6	277.4	(1.5)	(1.4)	310.1	276.0	31.2	13.4
Eliminate inter-segment sales	(2.1)	(2.2)	2.1	2.2	–	–	–	–
Total continuing operations	655.9	614.1	–	–	655.9	614.1	64.9	51.2
Loss on termination of businesses							–	(1.2)
Financial income							6.6	4.0
Finance costs							(20.7)	(18.1)
Profit before tax							50.8	35.9
Tax							(15.6)	(12.3)
Profit after tax							35.2	23.6

Inter-segment pricing is done on an arm's length basis. Segments are presented on the basis of actual inter-segment charges made. Loss on termination of businesses of £1.2m in 2004 relates to the Electronic controls sector (£0.6m) and corporate activities (£0.6m).

	Segment assets		Segment liabilities	
	2005 £m	2004 £m	2005 £m	2004 £m
Electronic controls	114.7	115.8	(28.9)	(26.7)
In-line instrumentation	150.3	158.7	(35.1)	(34.6)
Process technology	285.7	283.2	(91.6)	(88.1)
Total segment assets and liabilities	550.7	557.7	(155.6)	(149.4)
Cash and borrowings	77.1	34.4	(181.0)	(193.3)
Derivative financial instruments	–	–	(24.7)	–
Net pension liability	–	–	(22.6)	(20.7)
Taxation (including amounts disclosed within assets and liabilities held for sale)	45.7	42.1	(34.1)	(36.0)
Consolidated total assets and liabilities	673.5	634.2	(418.0)	(399.4)

4 Segmental information continued

	Additions to non-current assets		Depreciation and amortisation		Impairment charges	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Electronic controls	4.9	3.0	3.9	3.9	–	–
In-line instrumentation	4.0	8.1	3.8	3.9	7.4	–
Process technology	4.2	12.9	6.2	6.9	–	–
	13.1	24.0	13.9	14.7	7.4	–

Geographical segments

The group's business operations are each located in several geographical locations, and sell on to external customers in all parts of the world. The following is an analysis of revenue by geographical destination.

	2005 £m	2004 £m
UK	41.4	39.4
Continental Europe	240.1	242.1
North America	169.6	157.3
Japan	54.0	46.2
China	45.6	40.3
Rest of Asia Pacific	70.4	59.1
Rest of the world	34.8	29.7
	655.9	614.1

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Additions to non-current assets	
	2005 £m	2004 £m	2005 £m	2004 £m
UK	67.0	75.5	1.6	5.5
Continental Europe	359.4	370.2	8.4	9.8
North America	79.8	74.1	1.1	4.7
Japan	19.5	17.9	0.3	3.1
China	10.7	8.4	1.5	0.6
Rest of Asia Pacific	12.2	10.9	0.1	0.2
Rest of the world	2.1	0.7	0.1	0.1
	550.7	557.7	13.1	24.0

5 Assets and liabilities held for sale

During the ordinary course of the group's strategic reviews, a decision was taken to dispose of the Arcom business which is included in the Electronic controls segment. In February 2006 Spectris entered into an option agreement to sell the Arcom business to Eurotech S.p.A. Since the year end, Eurotech has paid US\$2m to Spectris in consideration for the option which gives Eurotech 60 days to acquire Arcom on a cash and debt-free basis. Should the acquisition complete, the total consideration will be US\$26m (including the US\$2m option payment already received). As at 31 December 2005, the assets and liabilities of the Arcom business are presented in the group accounts as held for sale and are stated at the lower of their carrying amount and fair value less costs to sell. There was no gain or loss arising as a result of the classification as held for sale.

	2005 £m
Assets held for sale	
Property, plant and equipment	0.1
Deferred tax assets	0.2
Inventory	2.2
Trade and other receivables	3.4
	5.9
Liabilities held for sale	
Trade and other payables	2.9
Current tax liabilities	0.7
Provisions	0.1
	3.7

Notes to the accounts continued

6 Revenue

An analysis of the group's revenue is as follows:

	2005 £m	2004 £m
Sale of goods	600.6	568.0
Services rendered	55.3	46.1
Revenue	655.9	614.1

7 Operating profit

Operating profit has been arrived at after charging:

	2005 £m	2004 £m
Net foreign exchange losses	0.4	1.7
Research and development expenditure	44.9	43.4
Depreciation of property, plant and equipment	12.6	13.4
Amortisation of intangible fixed assets	1.3	1.3
Goodwill impairment charge	7.4	–
Loss on sale of property, plant and equipment	0.3	0.4

Auditors' remuneration

Audit services (including worldwide audit-related services)	0.9	0.8
Other assurance services	0.2	0.1
Tax advisory	0.5	0.5
	1.6	1.4

Amounts payable to KPMG Audit Plc and their associates by the company and its UK subsidiary undertakings in respect of audit services and non-audit services were £0.3m (2004: £0.3m) and £0.2m (2004: £0.1m) respectively.

8 Employee costs

Employee costs, including directors' remuneration	2005 £m	2004 £m
Wages and salaries	190.7	184.7
Social security costs	29.4	28.0
Defined benefit pension plans: Current service cost (see Note 9)	0.7	0.8
Defined contribution pension plans (see Note 9)	6.9	6.3
Share-based payment expense	0.3	0.4
	228.0	220.2

Directors' remuneration

Short-term benefits	1.6	1.5
Post-employment benefits	0.2	0.2
Share-based payment expense	0.3	0.4
	2.1	2.1

Further details of directors' remuneration and share options are given in the Directors' Remuneration Report on pages 23 to 29.

Average number of employees

	2005 Number	2004 Number
Production and engineering	3,206	3,199
Sales and marketing	2,247	2,211
Administrative	492	486
	5,945	5,896

9 Retirement benefit schemes

Spectris plc operates funded defined benefit 'final salary' and defined contribution pension plans for the group's qualifying employees in the UK. In addition, six overseas subsidiaries provide defined benefit plans. Other UK and overseas subsidiaries have their own defined contribution plans invested in independent funds, and the group operates a defined contribution plan in the USA for its US subsidiaries.

Defined contribution plans

The total cost to Spectris plc of the defined contribution plans for the year ended 31 December 2005 was £6.9m (2004: £6.3m). There were no outstanding or prepaid contributions to these plans as at 31 December 2005 (or at 31 December 2004).

Defined benefit plans

The last full actuarial valuations were carried out as at the following dates:

Plan name	Date of last full actuarial valuation
Spectris Pension Plan	31 December 2002
Servomex Pension and Assurance Scheme	30 June 2002
Brüel & Kjær Vibro GmbH	31 December 2005
Hottinger Baldwin Messtechnik GmbH	31 December 2005
Spectris GmbH Sensoren und Systeme	31 December 2005
BTG Müttek GmbH	31 December 2005
Brüel & Kjær GmbH	31 December 2005
PANalytical GmbH	31 December 2005

The valuations were updated to 31 December 2005 for IAS 19 purposes by qualified independent actuaries.

The total contributions made to the defined benefit plans in the year ended 31 December 2005 were £3.2m (2004: £1.5m). Contributions for 2006 are expected to be as follows:

Plan name	Expected 2006 contributions (£m)
Spectris Pension Plan	2.5
Servomex Pension and Assurance Scheme	–
Brüel & Kjær Vibro GmbH	–
Hottinger Baldwin Messtechnik GmbH	0.2
Spectris GmbH Sensoren und Systeme	0.1
BTG Müttek GmbH	–
Brüel & Kjær GmbH	–
PANalytical GmbH	–

The above contribution rates are subject to review at future valuations and periodical certifications of the Schedule of Contributions.

The assets and liabilities of the Servomex Pension and Assurance Scheme were transferred to the Spectris Pension Plan on 31 December 2005 and this is reflected in the above contribution rates.

The Spectris Pension Plan is a closed scheme and hence under the Projected Unit Method, used to calculate the service cost under IAS 19, the current service cost will increase when expressed as a percentage of pensionable pay as the members of the plan approach retirement.

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

UK plans	2005 (% pa)	2004 (% pa)
Discount rate	4.80	5.30
Salary increases	4.40	4.40
Pension increases in payment	2.90 for LPI*	2.90 for LPI*
Pension increases in deferment	2.90	2.90
Inflation assumption	2.90	2.90

* LPI is Limited Price Indexation

Mortality rate assumptions:

Pensioner life expectancy assumed in the 31 December 2005 update is based on the following tables:

Current pensioners	pxa92 mortality tables projected to calendar year 2005
Future pensioners	pxa92 mortality tables projected to calendar year 2020

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

	Male	Female
Pensioner aged 65 in 2005	83.7	86.6
Pensioner aged 65 in 2020	85.0	87.9

Notes to the accounts continued

9 Retirement benefit schemes continued

German plans	2005 (% pa)	2004 (% pa)
Discount rate	4.25	4.75
Salary increases	2.50	2.50
Pension increases in payment	1.50	1.75
Pension increases in deferment	–	–
Inflation assumption	2.50	2.50

Mortality rate assumptions:

Pensioner life expectancy assumed in the 31 December 2005 update is based on the following tables:

Current pensioners and future pensioners Dr K Heubeck pension tables 2005 G

Samples of the ages which pensioners are assumed to live to are as follows:	Male	Female
Pensioner aged 60 in 2005	82.0	86.7
Pensioner aged 60 in 2020	84.3	88.8

Different rates of pension increases apply to some members of the Spectris Pension Plan and the Servomex Pension and Assurance Scheme; the liabilities have been valued at the appropriate rates.

Amounts recognised in the income statement	UK plans		German plans		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Current service cost	0.7	0.7	–	0.1	0.7	0.8
Interest cost	3.9	3.7	0.3	0.3	4.2	4.0
Expected return on scheme assets	(3.7)	(3.6)	(0.1)	(0.1)	(3.8)	(3.7)
	0.9	0.8	0.2	0.3	1.1	1.1

The current service cost is recognised in administrative expenses in the income statement. The interest cost and expected return on scheme assets are both recognised in finance costs in the income statement. Actuarial losses are recognised in the statement of recognised income and expense.

During the year insurance premiums for death-in-service benefits were paid amounting to £0.3m (2004: £0.2m).

The actual return on scheme assets was £9.9m (2004: £4.8m).

Amounts recognised in the statement of recognised income and expense	UK plans		German plans		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Actuarial gains and losses recognised in the current period	(3.9)	(3.0)	(0.2)	(0.4)	(4.1)	(3.4)
Cumulative actuarial gains and losses	(31.5)	(27.6)	(1.2)	(1.0)	(32.7)	(28.6)

Amounts recognised in the balance sheet	UK plans		German plans		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Present value of defined benefit obligations	85.7	74.0	6.1	6.1	91.8	80.1
Fair value of scheme assets	68.1	58.3	1.1	1.1	69.2	59.4
Net deficit in scheme	(17.6)	(15.7)	(5.0)	(5.0)	(22.6)	(20.7)

Reconciliation of movement in net deficit	UK plans		German plans		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	(15.7)	(13.1)	(5.0)	(4.6)	(20.7)	(17.7)
Expected return on plan assets	3.7	3.6	0.1	0.1	3.8	3.7
Contributions from sponsoring company	2.9	1.2	0.3	0.3	3.2	1.5
Current service cost	(0.7)	(0.7)	–	(0.1)	(0.7)	(0.8)
Interest cost	(3.9)	(3.7)	(0.3)	(0.3)	(4.2)	(4.0)
Total actuarial losses	(3.9)	(3.0)	(0.2)	(0.4)	(4.1)	(3.4)
Exchange difference	–	–	0.1	–	0.1	–
At 31 December	(17.6)	(15.7)	(5.0)	(5.0)	(22.6)	(20.7)

9 Retirement benefit schemes continued

Analysis of movement in the present value of the defined benefit obligation	UK plans		German plans		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	74.0	68.4	6.1	5.7	80.1	74.1
Current service cost	0.7	0.7	–	0.1	0.7	0.8
Interest cost	3.9	3.7	0.3	0.3	4.2	4.0
Actuarial losses	10.0	4.1	0.2	0.4	10.2	4.5
Exchange difference	–	–	(0.1)	–	(0.1)	–
Contributions from scheme members	0.3	0.3	–	–	0.3	0.3
Benefits paid	(3.2)	(3.2)	(0.4)	(0.4)	(3.6)	(3.6)
At 31 December	85.7	74.0	6.1	6.1	91.8	80.1

Analysis of defined benefit obligation	UK plans		German plans		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Present value of unfunded defined benefit obligation	–	–	4.7	4.8	4.7	4.8
Present value of funded defined benefit obligation	85.7	74.0	1.4	1.3	87.1	75.3

Reconciliation of movement in fair value of plan assets	UK plans		German plans		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	58.3	55.3	1.1	1.1	59.4	56.4
Expected return on plan assets	3.7	3.6	0.1	0.1	3.8	3.7
Actuarial gains	6.1	1.1	–	–	6.1	1.1
Contributions from sponsoring company	2.9	1.2	0.3	0.3	3.2	1.5
Contributions from scheme members	0.3	0.3	–	–	0.3	0.3
Benefits paid	(3.2)	(3.2)	(0.4)	(0.4)	(3.6)	(3.6)
At 31 December	68.1	58.3	1.1	1.1	69.2	59.4

Analysis of the scheme assets and expected rate of return

UK plans	Expected return		Fair value of assets	
	2005 %	2004 %	2005 £m	2004 £m
Equity instruments	7.8	8.0	31.2	26.4
Debt instruments	4.5	5.0	35.2	31.3
Other assets	4.5	4.5	1.7	0.6
	6.0	6.4	68.1	58.3

German plans	Expected return		Fair value of assets	
	2005 %	2004 %	2005 £m	2004 £m
Insurance policies	4.25	4.75	1.1	1.1

The overall expected return on assets is calculated as the weighted average of the expected return on each individual asset class. The expected return on equities is the sum of inflation, dividend yield and economic growth, less investment expenses. The return on gilts and bonds is the current market yield on long-term gilts and bonds. The expected return on other assets is the current interest rate set by the Bank of England.

History of experience adjustments	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Present value of defined benefit obligations	(91.8)	(80.1)	(74.1)	(68.0)	(62.2)
Fair value of scheme assets	69.2	59.4	56.4	54.6	63.0
Surplus/(deficit) in the scheme	(22.6)	(20.7)	(17.7)	(13.4)	0.8

Experience adjustment on scheme liabilities	2005	2004	2003	2002	2001
Amount (£m)	(10.2)	(4.5)	(7.2)	(4.1)	4.9
Percentage of scheme liabilities (%)	(11.1)	(5.6)	(9.7)	(6.0)	7.9

Experience adjustment on scheme assets	2005	2004	2003	2002	2001
Amount (£m)	6.1	1.1	2.7	(10.7)	(10.8)
Percentage of scheme assets (%)	8.8	1.9	4.8	(19.6)	(17.1)

Notes to the accounts continued

10 Finance costs and financial income

	2005 £m	2004 £m
Financial income		
Bank interest receivable	1.0	0.2
Dividend income	0.1	0.1
Expected return on pension scheme assets	3.8	3.7
Other financial income	1.7	–
	6.6	4.0

Other financial income represents a gain made on disposal of the group's remaining interest in Luxtron Corporation. In 2002, the group disposed of 80.1% of its interest in Luxtron Corporation in exchange for US\$6m 5% preference shares and continued to hold its 19.9% equity interest. The group's preference shares and equity interest were deemed to be impaired and have since been carried in the group balance sheet at a nil value. During 2005, £0.4m of preference shares were redeemed and the group has disposed of its remaining interest in Luxtron for a further £1.3m, generating a gain on disposal of £1.7m. This gain is presented as financial income in the income statement. In addition the group has received dividend income amounting to £0.1m (2004: £0.1m).

	2005 £m	2004 £m
Finance costs		
Interest payable on bank loans and overdrafts	0.9	1.5
Interest payable on other loans	12.8	12.6
Total interest payable	13.7	14.1
Unrealised change in fair value of cross-currency interest rate swaps	1.1	–
Unrealised change in fair value of average rate options	1.7	–
Interest cost on pension scheme liabilities	4.2	4.0
	20.7	18.1

Interest costs of £12.6m (2004: £13.8m) for the purposes of the calculation of interest cover comprise of bank interest receivable of £1.0m (2004: £0.2m), dividend income of £0.1m (2004: £0.1m), and interest payable on bank and other loans and overdrafts of £13.7m (2004: £14.1m).

11 Taxation

	2005			2004		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Current tax charge	3.5	16.4	19.9	9.8	10.7	20.5
Adjustments in respect of current tax of prior years	(1.3)	(1.8)	(3.1)	(0.3)	(0.6)	(0.9)
Deferred tax – origination and reversal of temporary differences	(1.7)	0.5	(1.2)	–	(7.3)	(7.3)
	0.5	15.1	15.6	9.5	2.8	12.3

The standard rate of corporation tax for the year, based on the weighted average of tax rates applied to the group's profits, is 32.8%, (2004: 32.6%). The tax charge for the year is lower (2004: higher) than the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2005 £m	2004 £m
Profit before taxation	50.8	35.9
Corporation tax at standard rate of 32.8% (2004: 32.6%)	16.7	11.7
Non-taxable income and gains	(2.7)	(3.1)
Non-deductible expenditure	2.8	6.8
Movements on unrecognised deferred tax assets	(3.0)	(0.1)
Other current year items	(0.6)	(0.1)
Tax charge on dividends received from EU-based subsidiaries	2.8	9.8
Taxation on other dividend flows	3.6	0.9
Revision of recognition of opening deferred tax assets	(2.5)	(9.6)
Other adjustments to prior year current and deferred tax charges	(1.5)	(4.0)
Total taxation	15.6	12.3

A tax liability of £2.8m (2004: £9.8m) has been recognised on dividends received in the UK from EU-based subsidiaries on the basis of current UK tax legislation. The legality of the UK rules is currently being challenged and the group litigation order test case has been referred to the European Court of Justice. In view of the uncertainties regarding the final outcome of the court proceedings and taking into account current UK tax law, a liability has been recognised. In the event that current UK law is overturned, no tax will be due.

Taxation on other dividend flows of £3.6m (2004: £0.9m) is mitigated by movements on unrecognised deferred tax assets of £1.4m (2004: £0.9m) and current year UK tax losses of £1.9m (2004: £nil). The remaining £0.3m (2004: £nil) relates to withholding tax payments.

11 Taxation continued

The following tax charges/(credits) relate to items of income and expense that are excluded from the group's adjusted performance measures.

	2005 £m	2004 £m
Tax on items of income and expense that are excluded from the group's adjusted profits before tax		
Tax credit on unrealised change in fair value of cross-currency interest rate swaps	(0.3)	–
Tax credit on unrealised change in fair value of average rate options	(0.5)	–
Tax credit on amortisation of intangible assets and goodwill impairment charge	(1.2)	(0.2)
Tax charge on other financial income	0.5	–
Total tax credit	(1.5)	(0.2)

	2005 £m	2004 £m
Other tax items not forming part of the underlying tax rate		
Material transfers from unrecognised tax assets	(2.5)	(9.6)
Material changes in deferred tax rates	0.5	–
Tax charge on dividends received from EU-based subsidiaries	2.8	9.8
Total charge	0.8	0.2

The effective adjusted tax rate for the period was 26.9% (2004: 24.4%) as set out in the reconciliation below.

	2005 £m	2004 £m
Reconciliation of total tax charge on IFRS basis to adjusted tax charge		
Total tax charge on IFRS basis	15.6	12.3
Tax credit on items of income and expense that are excluded from the group's adjusted profits before tax	1.5	0.2
Other tax items not forming part of the underlying tax rate	(0.8)	(0.2)
Adjusted tax charge	16.3	12.3
Adjusted profits before tax	60.5	50.5
Adjusted effective tax rate	26.9%	24.4%

12 Dividends

	2005 £m	2004 £m
Amounts recognised and paid as distributions to equity holders in the year		
Final dividend for the year ended 31 December 2004 of 10.25p (2003: 9.3p) per share	12.4	11.2
Interim dividend for the year ended 31 December 2005 of 4.6p (2004: 4.25p) per share	5.7	5.1
	18.1	16.3

Amounts arising in respect of the year

Interim dividend for the year ended 31 December 2005 of 4.6p (2004: 4.25p)	5.7	5.1
Proposed final dividend for the year ended 31 December 2005 of 11.2p (2004: 10.25p) per share	13.8	12.4
	19.5	17.5

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity shareholders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year but adjusted for the effects of dilutive options. The key features of share option contracts are described in Note 28 to these accounts.

	2005	2004
Basic earnings per share		
Profit after tax (£m)	35.2	23.6
Weighted average number of shares outstanding (millions)	122.1	120.9
Basic earnings per share (pence)	28.8	19.5

Notes to the accounts continued

13 Earnings per share continued

Diluted earnings per share	2005	2004
Profit after tax per income statement (£m)	35.2	23.6
Basic weighted average number of shares outstanding (millions)	122.1	120.9
Weighted average number of dilutive 5p ordinary shares under option (millions)	1.5	0.7
Weighted average number of 5p ordinary shares that would have been issued at average market value from proceeds of dilutive share options (millions)	(1.2)	(0.5)
Diluted weighted average number of shares outstanding (millions)	122.4	121.1
Diluted earnings per share (pence)	28.8	19.5

14 Goodwill

Cost	£m
At 1 January 2004	259.5
Recognised on acquisitions	4.0
Reduction in goodwill associated with recognition of deferred tax assets	(12.2)
Exchange differences	0.7
At 31 December 2004	252.0
Recognised on acquisitions	1.8
Disposals	(0.5)
Exchange differences	(4.6)
At 31 December 2005	248.7

Accumulated amortisation and impairment losses

At 1 January 2004	33.1
Exchange differences	(0.1)
At 31 December 2004	33.0
Impairment charge	7.4
Disposals	(0.5)
Exchange differences	(0.7)
At 31 December 2005	39.2

Carrying amount

At 31 December 2005	209.5
At 31 December 2004	219.0
At 1 January 2004	226.4

From 1 January 2004, goodwill is no longer amortised and is annually tested for impairment. The reduction in goodwill reflects the corresponding adjustment to goodwill for the recognition of Danish deferred tax assets following an acquisition prior to 1 January 2004.

During the year, the carrying value of the group's goodwill has been reviewed and an impairment charge of £7.4m (2004: £nil) has been recognised in order to write down the goodwill to its estimated recoverable amount. This goodwill is attributable to the In-line instrumentation segment.

15 Other intangible assets

	Patents and trademarks £m	Customer- related intangibles £m	Total £m
Cost			
At 1 January 2004	3.4	–	3.4
Additions	2.2	–	2.2
Recognised on acquisitions	1.3	2.4	3.7
At 31 December 2004	6.9	2.4	9.3
Exchange differences	0.2	–	0.2
At 31 December 2005	7.1	2.4	9.5
Accumulated amortisation and impairment losses			
At 1 January 2004	2.8	–	2.8
Charge for the year	0.7	0.6	1.3
At 31 December 2004	3.5	0.6	4.1
Charge for the year	0.8	0.5	1.3
At 31 December 2005	4.3	1.1	5.4
Carrying amount			
At 31 December 2005	2.8	1.3	4.1
At 31 December 2004	3.4	1.8	5.2
At 1 January 2004	0.6	–	0.6

Of the total amortisation charge of £1.3m (2004: £1.3m), the amount attributable to the amortisation of acquisition-related intangible assets was £1.2m (2004: £1.2m).

Notes to the accounts continued

16 Property, plant and equipment

Cost	Freehold property £m	Leasehold property £m	Plant & equipment £m	Total £m
At 1 January 2004	68.0	5.0	127.0	200.0
Additions	2.0	0.6	13.9	16.5
Acquired on acquisition of subsidiary undertakings	0.4	–	1.2	1.6
Disposals	(0.4)	–	(7.2)	(7.6)
Transfers	(0.2)	1.1	(2.8)	(1.9)
Exchange differences	(0.9)	(0.3)	(0.8)	(2.0)
At 31 December 2004	68.9	6.4	131.3	206.6
Additions	1.2	0.4	10.7	12.3
Acquired on acquisition of subsidiary undertakings	0.4	–	0.4	0.8
Disposals	–	–	(3.1)	(3.1)
Assets reclassified as held for sale	–	–	(1.0)	(1.0)
Transfers	1.0	0.4	(2.4)	(1.0)
Exchange differences	(0.9)	0.4	0.7	0.2
At 31 December 2005	70.6	7.6	136.6	214.8

Accumulated depreciation and impairment

At 1 January 2004	14.1	3.6	89.9	107.6
Acquired on acquisition of subsidiary undertakings	–	–	0.9	0.9
Charge for the year	1.9	0.6	10.9	13.4
Disposals	–	–	(6.5)	(6.5)
Transfers	0.9	–	(2.0)	(1.1)
Exchange differences	–	(0.3)	(1.1)	(1.4)
At 31 December 2004	16.9	3.9	92.1	112.9
Charge for the year	1.9	0.7	10.0	12.6
Disposals	–	–	(2.7)	(2.7)
Depreciation on assets reclassified as held for sale	–	–	(0.9)	(0.9)
Transfers	(0.5)	0.1	(0.2)	(0.6)
Exchange differences	(0.3)	0.3	0.7	0.7
At 31 December 2005	18.0	5.0	99.0	122.0

Carrying amount

At 31 December 2005	52.6	2.6	37.6	92.8
At 31 December 2004	52.0	2.5	39.2	93.7
At 1 January 2004	53.9	1.4	37.1	92.4

The amount recognised in the carrying amount of items of plant and equipment in the course of its construction was £2.0m (2004: £1.6m).

The carrying amount of the group's plant and equipment includes an amount of £0.4m (2004: £0.7m) in respect of assets held under finance leases.

The group has pledged land and buildings having a carrying amount of approximately £2.9m (2004: £2.9m) to secure bank loans granted to the group.

17 Inventories

	2005 £m	2004 £m
Raw materials	33.0	36.6
Work in progress	13.6	19.1
Finished goods	41.6	38.3
	88.2	94.0

Inventory is stated after impairments of £4.1m (2004: £2.1m) and reversals of previous impairments of £0.2m (2004: £0.6m). Impairments and reversals of impairments are included within operating profit.

Inventory with a carrying value of £0.1m (2004: £0.1m) was pledged as security for liabilities.

18 Trade and other receivables

	2005 £m	2004 £m
Trade receivables	133.4	126.2
Prepayments and accrued income	10.8	15.3
Other receivables	6.2	4.3
	150.4	145.8

Trade receivables are non-interest bearing. Standard credit terms provided to customers differ according to business and country, and are typically between 30 and 60 days. Included within the above are amounts receivable in more than one year of £0.2m (2004: £0.1m). Trade receivables and other receivables include impairments of £0.3m (2004: £1.4m) and reversals of impairments of £0.7m (2004: £nil). Impairments and reversals of impairments are included within operating profit.

The fair value of non-derivative financial assets approximates to book value due to the short-term maturities associated with these items.

19 Cash and cash equivalents

Cash at bank and in hand is placed on deposit according to the immediate cash requirements of the group. During the year, amounts placed on deposit earned interest at an effective rate of 4.5%. Deposits are usually made on an overnight basis. Amounts not on deposit earned interest at nominal rates. There is no cash held by the group that is not available for use by the group.

Analysis of balances of cash and cash equivalents	2005 £m	2004 £m
Cash balances	77.1	34.4
Bank overdrafts	(1.0)	(0.3)
Cash and cash equivalents in the statement of cash flows	76.1	34.1

Notes to the accounts continued

20 Borrowings

Current	Effective interest rate	Earlier of repricing date or maturity date	2005 £m	2004 £m
Bank loans – secured	see below	see below	0.1	–
Bank overdrafts	4.70%	on demand	1.0	0.3
Unsecured loan notes – 1996 \$100m	see below	15 July 2006	58.0	–
Finance lease liabilities	4.68%	see below	0.3	–
			59.4	0.3
Non-current	Effective interest rate	Earlier of repricing date or maturity date	2005 £m	2004 £m
Bank loans – secured	see below	see below	3.1	2.8
Finance lease liabilities	4.68%	see below	0.2	–
			3.3	2.8
Unsecured loan notes – 1996 \$100m	see below	15 July 2006	–	52.0
Unsecured loan notes – 2000 \$75m	see below	13 September 2010	43.3	56.7
Unsecured loan notes – 2003 \$100m	see below	15 October 2013	57.8	63.8
Unsecured loan notes – 2003 €25m	see below	15 October 2013	17.2	17.7
Total unsecured loan notes			118.3	190.2
Total non-current borrowings			121.6	193.0

At 31 December 2005, the group had available £43.5m (2004: £73.1m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Secured bank loan

Bank loans are secured by fixed charges over property at three of the group's subsidiaries. Of these £1.7m is denominated in Chinese Renminbi and is repayable by instalments until December 2012 with a fixed interest rate of 7.5%, £0.8m is denominated in US dollars and is repayable by instalments until December 2014 with a variable interest rate of LIBOR plus a small margin, and £0.7m is denominated in euros and is repayable by instalments until December 2012 with a variable interest rate of LIBOR plus a small margin.

Unsecured loan notes

In 1996 the group issued US\$100m of loan notes repayable on 15 July 2006 at par. The loan notes bear interest at an average rate of 7.72%, which is fixed until redemption. In 1996 the group entered into treasury locks to underwrite the interest rate at which the loan notes were issued. This produced net proceeds of US\$1.4m. These proceeds are amortised over the period of the loan notes in the income statement. After taking these proceeds into account, the average net rate of interest on the loan notes is 7.5%.

In September 2000 the group issued US\$75m of loan notes repayable on 13 September 2010 at par. The interest rate on these notes is 8.23%. On issue, the group entered into cross-currency interest rate swap arrangements which have the effect of converting the US\$ borrowings into fixed interest euro-denominated debt. The combined effect of the borrowing and swap arrangement results in euro debt of €80.4m with a fixed interest rate of 6.89%. The interest rate is fixed until redemption of the loan notes.

In October 2003 the group issued €25m of loan notes repayable on 15 October 2013. The interest rate on these notes is 5.56% and remains fixed until redemption.

In October 2003 the group issued US\$100m of loan notes repayable on 15 October 2013. The interest rate on these notes is 6.08%. On issue, the group entered into cross-currency interest rate swap arrangements which have the effect of converting the US\$ borrowings into fixed interest euro-denominated debt. The combined effect of the borrowing and swap arrangement results in euro debt of €90.5m with a fixed interest rate of 5.64%. The interest rate remains fixed until redemption.

Interest is paid six-monthly in arrears on all loan notes.

Under IFRS, in the case of both the September 2000 and October 2003 US\$ borrowing arrangements, the value of the underlying US\$ borrowing is presented in this borrowings note and the value of the related cross-currency interest rate swaps is presented separately within derivative financial instruments in Note 21. For management purposes, the value attributed to the portion of the swap arrangements that converts US\$ borrowings into euro borrowings is viewed as part of the group's net debt, as analysed below.

20 Borrowings continued

	2005 £m	2004 £m
Analysis of net debt		
Bank overdrafts	1.0	0.3
Bank loans – secured	3.2	2.8
Unsecured loan notes	176.3	190.2
Cross-currency interest rate swaps – currency portion (see Note 21)	16.0	–
Finance lease liabilities	0.5	–
Total borrowings	197.0	193.3
Cash balances (see Note 19)	(77.1)	(34.4)
Net debt	119.9	158.9

	2005 £m	2004 £m
Maturity profile of borrowings		
Due within one year	59.7	0.3
Due between one and two years	0.4	52.2
Due between two and five years	56.2	0.2
Due in more than five years	80.7	140.6
Total borrowings	197.0	193.3

	2005			2004		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Finance lease liabilities						
Less than one year	0.3	–	0.3	–	–	–
Between one and five years	0.2	–	0.2	–	–	–
More than five years	–	–	–	–	–	–
	0.5	–	0.5	–	–	–

21 Derivative financial instruments

	2005 £m	2004 £m
Forward exchange contracts	(0.6)	–
Cross-currency interest rate swaps	(24.7)	–
	(25.3)	–
Included in current liabilities	(0.6)	–
Included in non-current liabilities	(24.7)	–
	(25.3)	–

Change in accounting policy

Following the transition to IFRS, the group adopted IAS 32, *Financial Instruments: Disclosure and Presentation* and IAS 39, *Financial Instruments: Measurement and Recognition* from 1 January 2005. In accordance with the transitional provisions of IFRS 1, *First Time Adoption of IFRS*, the group has applied the exemption permitting the group not to adopt the standards in the comparative period ended 31 December 2004 and therefore these standards have been applied prospectively from 1 January 2005. From a presentational perspective, the 2004 comparatives are stated in accordance with the UK GAAP standard FRS 13, *Derivatives and Other Financial Instruments*. The nature of the changes arising from the changes in accounting policy are described further below.

Forward exchange contracts

The group utilises forward exchange contracts to hedge the potential variability in cash flow arising from highly probable forecast sale transactions due to changes in foreign currency exchange rates.

Until 31 December 2004 under UK GAAP, the value of these instruments was not recognised until the hedged transactions took place. Following adoption of IAS 39 as at 1 January 2005, these contracts are recorded at each balance sheet date at their fair value on the balance sheet. Assuming the hedge is effective, any change in the fair value of the forward exchange contracts is recognised in the hedging reserve in equity until the point at which the hedged transaction occurs, at which time any amount recognised in the hedging reserve is recycled through the income statement. Any ineffectiveness in the hedging relationship is recognised in the income statement immediately. As at 1 January 2005, following the change in accounting policy described, an asset of £0.8m was recognised in the balance sheet, with a corresponding entry in the hedging reserve.

Notes to the accounts continued

21 Derivative financial instruments continued

The fair value of forward exchange contracts outstanding as at 31 December 2005 is a liability of £0.6m of which £0.5m has been debited to the hedging reserve and £0.1m debited to the income statement. These contracts mature over periods not exceeding 12 months. A summary of the movements in the hedging reserve during the year is presented below.

Analysis of movements in hedging reserve	2005 £m
At 1 January 2005	0.8
Amounts recognised in equity during the year	(0.5)
Amounts removed from equity and included in income statement during the year	(0.8)
At 31 December 2005	(0.5)

The fair value of forward exchange contracts is determined using discounted cash flow techniques based on readily available market data.

Cross-currency interest rate swaps

As described in Note 20, the group has taken out cross-currency interest rate swaps to effectively convert fixed interest US\$ borrowings into fixed interest euro borrowings. These 'synthetic' euro borrowings act as a natural hedge of the net assets of the group's European businesses.

The value of the group's cross-currency interest rate swaps can effectively be split into two components: a portion that is attributable to converting a US\$-denominated borrowing liability into a euro-denominated borrowing liability (the currency portion) – the value of this portion changes as currency exchange rates change; and a portion that is attributable to converting fixed rate US\$ interest payments into fixed rate euro interest payments (the interest portion) – the value of this portion of the swap changes as US\$ variable interest rates, euro variable interest rates and foreign currency exchange rates change.

Until 31 December 2004 under UK GAAP, the combined instruments were accounted for as if they were straightforward fixed interest euro borrowings and were designated as a hedge of the group's net investment in its European businesses. The effect of this accounting policy was that the currency portion of the swaps was effectively recognised within the carrying value of borrowings on the balance sheet and the interest portion of the swap was not recognised on the balance sheet. Any exchange gain or loss on retranslation of the borrowings was recognised in equity. The fair value of the entire cross-currency swap was disclosed in the accounts.

From adoption of IAS 32 and IAS 39, the underlying US\$ borrowings are required to be presented separately in the balance sheet from the cross-currency interest rate swaps. In addition, the fair value of the cross-currency interest rate swaps is required to be recognised in full on the balance sheet. Following adoption of IAS 39 as at 1 January 2005, the previous UK GAAP carrying value of the affected 2000 and 2003 unsecured loan note borrowings (underlying US\$ borrowings and currency portion of the swap) of £120.5m was replaced with the underlying US\$ borrowings of £90.6m and total liability value of the cross-currency interest rate swap of £37.5m. The net effect of this change was to reduce net assets by £7.6m with a corresponding entry in reserves.

At 31 December 2005, the fair value of the cross-currency interest rate swap is a liability of £24.7m. The reduction in value is primarily attributable to the strengthening of the US\$ during the year. The table below shows the movements on the total value of the cross-currency interest rate swap during the year and also how it is attributed to its currency and interest portions.

Fair value of cross-currency interest rate swap	Currency portion £m	Interest portion £m	Total value £m
At 1 January 2005	(29.9)	(7.6)	(37.5)
Change in fair value recognised in reserves	13.9	–	13.9
Change in fair value recognised in income statement	–	(1.1)	(1.1)
At 31 December 2005	(16.0)	(8.7)	(24.7)

The combination of the underlying US\$ borrowings and cross-currency interest rate swap has been designated as a net investment hedge of the group's net investment in its European businesses. However the interest portion of the swap is ineffective in this hedging relationship. Accordingly, the change in value of the currency portion of the swap is recognised together with the change in value of the underlying US\$ borrowings in reserves, and the change in value of the interest portion of the swap is recognised in the income statement within financing costs.

The fair value of cross-currency interest rate swaps is determined using discounted cash flow techniques based on readily available market data. The key terms of the cross-currency interest rate swaps are set out below. The principal borrowing amounts match exactly with the related unsecured loan note borrowings as described in Note 20.

Principal amount	Date taken out	Maturity date	€ swap rate	\$ swap rate
\$75m	13 September 2000	13 September 2010	6.89%	8.23%
\$100m	15 October 2003	15 October 2013	5.64%	6.08%

21 Derivative financial instruments continued

Average rate options

Historically the group has used zero cost average rate options to manage, to a greater or lesser extent, both transactional and translational foreign currency exposures.

Until 31 December 2004 under UK GAAP, the value of these instruments was recognised in the period they were intended to cover as a hedge. Following adoption of IAS 39 from 1 January 2005, the fair value of these instruments is required to be recognised on the balance sheet. Since these instruments do not meet IAS 39's hedge accounting criteria, any change in the fair value of the instruments is recognised in the income statement. As at 1 January 2005, following the change in accounting policy described, an asset of £1.7m was recognised on the balance sheet, with a corresponding entry in reserves.

At 31 December 2005, all outstanding instruments expired with a nil value. The change in fair value during the year ended 31 December 2005 of £1.7m has been recognised in the income statement within financing costs.

Fair value and book values of derivative financial instruments

	Book value 31 December 2005 £m	Fair value 31 December 2005 £m	Book value 1 January 2005 £m	Fair value 1 January 2005 £m
Fair value of derivative financial instruments				
Forward exchange contracts	(0.6)	(0.6)	0.8	0.8
Cross-currency interest rate swaps	(24.7)	(24.7)	(37.5)	(37.5)
Average rate options	–	–	1.7	1.7
	(25.3)	(25.3)	(35.0)	(35.0)

22 Non-derivative financial instruments

This note provides additional information on the group's non-derivative financial assets and liabilities, in addition to that set out in Notes 18 Trade and other receivables, 20 Borrowings and 23 Trade and other payables.

	Fair value 2005 £m	Book value 2005 £m	Fair value 2004 £m	Book value 2004 £m
Fair value of non-derivative financial assets and liabilities				
Cash deposits	77.1	77.1	34.4	34.4
Floating rate borrowings	(2.5)	(2.5)	(1.0)	(1.1)
Fixed rate borrowings	(207.9)	(194.0)	(201.7)	(192.2)
Finance lease liabilities	(0.5)	(0.5)	–	–
	(133.8)	(119.9)	(168.3)	(158.9)

Interest rate exposure of financial assets and liabilities by currency

	Financial assets			Financial liabilities			2005 Net financial assets/ (liabilities) £m
	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	30.9	2.0	32.9	–	–	–	32.9
Euro	16.7	2.5	19.2	(134.3)	(0.7)	(135.0)	(115.8)
US dollar	2.9	1.3	4.2	(58.0)	(0.8)	(58.8)	(54.6)
Japanese yen	0.7	3.2	3.9	–	–	–	3.9
Other	15.4	1.5	16.9	(2.2)	(1.0)	(3.2)	13.7
	66.6	10.5	77.1	(194.5)	(2.5)	(197.0)	(119.9)

	Financial assets			Financial liabilities			2004 Net financial assets/ (liabilities) £m
	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Total £m	
Sterling	0.6	0.1	0.7	–	(0.3)	(0.3)	0.4
Euro	24.1	5.5	29.6	(140.2)	–	(140.2)	(110.6)
US dollar	0.1	1.1	1.2	(52.0)	(0.8)	(52.8)	(51.6)
Japanese yen	0.3	1.3	1.6	–	–	–	1.6
Other	0.1	1.2	1.3	–	–	–	1.3
	25.2	9.2	34.4	(192.2)	(1.1)	(193.3)	(158.9)

Notes to the accounts continued

Currency exposure of monetary assets and liabilities

The following summary shows the net unhedged assets and liabilities of group companies at 31 December 2005 that are not denominated in their functional currency and therefore give rise to exchange gains and losses which are recognised in the income statement.

Functional currency of group operations	Net currency monetary assets/(liabilities)					2005
	Sterling £m	Euro £m	US dollar £m	Yen £m	Other £m	Total £m
Sterling	–	2.2	2.6	–	3.8	8.6
Euro	0.6	–	0.2	0.6	0.7	2.1
US dollar	0.5	2.5	–	0.8	0.8	4.6
Japanese yen	–	–	(0.7)	–	(0.3)	(1.0)
Danish krone	0.7	6.4	1.6	(1.1)	(0.9)	6.7
Swiss franc	0.3	2.3	0.1	–	0.2	2.9
Swedish krona	–	0.2	–	–	1.0	1.2
Other	0.6	(0.5)	1.8	–	1.9	3.8
	2.7	13.1	5.6	0.3	7.2	28.9

Functional currency of group operations	Net currency monetary assets/(liabilities)					2004
	Sterling £m	Euro £m	US dollar £m	Yen £m	Other £m	Total £m
Sterling	–	2.3	1.6	1.3	7.1	12.3
Euro	6.6	–	0.3	0.1	0.2	7.2
US dollar	0.1	1.1	–	–	9.7	10.9
Japanese yen	–	–	(0.5)	–	(0.3)	(0.8)
Danish krone	0.4	7.2	7.0	1.4	1.9	17.9
Swiss franc	0.2	4.3	0.2	–	0.5	5.2
Swedish krona	0.2	0.6	0.1	–	0.5	1.4
Other	2.0	1.3	1.5	–	4.4	9.2
	9.5	16.8	10.2	2.8	24.0	63.3

23 Trade and other payables

	2005 £m	2004 £m
Current		
Trade payables	52.7	58.1
Other creditors	12.6	13.8
Accruals and deferred income	67.1	62.6
	132.4	134.5
Non-current		
Other creditors	6.7	5.4

The fair value of non-derivative financial liabilities approximates to book value due to the short-term maturities associated with these items.

24 Provisions

	Reorganisation £m	Product warranty £m	Other £m	Total £m
At 1 January 2005	–	8.1	1.4	9.5
Transfer from/(to) creditors	–	(2.5)	4.8	2.3
Additional provision in the year	2.6	2.6	1.9	7.1
Utilised during the year	(1.4)	(2.2)	(1.9)	(5.5)
Released during the year	–	(0.2)	(0.3)	(0.5)
Transferred to liability held for resale	–	(0.1)	–	(0.1)
Exchange adjustments	–	0.2	(0.1)	0.1
At 31 December 2005	1.2	5.9	5.8	12.9
Included in current liabilities	1.2	5.8	5.3	12.3
Included in non-current liabilities	–	0.1	0.5	0.6
	1.2	5.9	5.8	12.9

Reorganisation provisions relate to committed restructuring plans in place within the business and represent the directors' best estimate of the cost to complete the restructuring. Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business and included within the group's standard terms and conditions. Warranty commitments typically apply for a 12-month period, with the occasional extension up to 36 months. The provision represents the directors' best estimate of the group's liability based on past experience. Other provisions represent the directors' best estimate of settling various potential claims against the group arising in the ordinary course of business. The timing of utilisation of these provisions is uncertain pending the outcome of ongoing negotiations.

25 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the current corporate tax rate in the relevant local jurisdiction.

The movement on the deferred tax account is shown below.

	2005 £m	2004 £m
At 1 January	(38.3)	(30.6)
Impact of adoption of IAS 39, <i>Financial Instruments: Recognition and Measurement</i> as at 1 January 2005	(1.6)	–
Exchange adjustments	(1.7)	1.6
Acquisition of subsidiary undertaking	–	(1.2)
Transfer from current taxation	–	0.2
Deferred tax on changes in fair value of forward exchange contracts recognised in equity	(0.4)	–
Deferred tax on actuarial loss on pension schemes recognised in equity	(0.6)	(1.0)
Credited to income statement in the year (see Note 11)	(1.2)	(7.3)
At 31 December	(43.8)	(38.3)
Comprising:		
Deferred tax liabilities	1.0	1.9
Deferred tax assets (including £7.3m attributable to the pension scheme deficit (2004: £6.7m))	(44.6)	(40.2)
Deferred tax asset held for sale	(0.2)	–
	(43.8)	(38.3)

Notes to the accounts continued

25 Deferred tax continued

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered. Tax losses do not expire.

No deferred tax liabilities have been provided in respect of the unremitted earnings of non-UK subsidiaries. The amount of such unremitted earnings is estimated to be a retained profit of £353m (2004: £351m).

Deferred tax assets estimated at £4.2m (2004: £10.7m) have not been recognised due to the degree of uncertainty over both the amount and utilisation of the underlying tax losses and deductions in certain jurisdictions. There is no associated expiry date with the unrecognised deferred tax assets in respect of tax losses.

The movements in deferred tax assets and liabilities during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Accelerated tax depreciation £m	Accruals & provisions £m	Tax losses £m	Unrealised profit on inter-company transactions £m	Pension fund £m	Goodwill & intangibles £m	Other £m	2005 Total £m
Net deferred tax assets								
At 31 December 2004	(5.8)	(7.6)	(1.1)	(2.7)	(6.7)	(14.5)	0.1	(38.3)
Impact of adoption of IAS 39 as at 1 January 2005	–	–	–	–	–	–	(1.6)	(1.6)
Exchange adjustments	–	(0.9)	–	–	–	(0.8)	–	(1.7)
Deferred tax on changes in fair value of forward exchange contracts recognised in equity	–	–	–	–	–	–	(0.4)	(0.4)
Deferred tax on actuarial loss on pension schemes recognised in equity	–	–	–	–	(0.6)	–	–	(0.6)
Charged/(credited) to income statement	3.1	(2.7)	(2.7)	(0.1)	–	1.6	(0.4)	(1.2)
At 31 December 2005	(2.7)	(11.2)	(3.8)	(2.8)	(7.3)	(13.7)	(2.3)	(43.8)

	Accelerated tax depreciation £m	Accruals & provisions £m	Tax losses £m	Unrealised profit on inter-company transactions £m	Pension fund £m	Goodwill & intangibles £m	Other £m	2004 Total £m
Net deferred tax assets								
At 31 December 2003	0.2	(6.1)	(3.7)	(2.6)	(5.7)	(13.7)	1.0	(30.6)
Exchange adjustments	–	0.4	0.2	–	–	1.0	–	1.6
Acquisition of subsidiary undertaking	(0.1)	(1.1)	–	–	–	–	–	(1.2)
Transferred from current taxation	–	0.2	–	–	–	–	–	0.2
Deferred tax on actuarial loss on pension schemes recognised in equity	–	–	–	–	(1.0)	–	–	(1.0)
Charged/(credited) to income statement	(5.9)	(1.0)	2.4	(0.1)	–	(1.8)	(0.9)	(7.3)
At 31 December 2004	(5.8)	(7.6)	(1.1)	(2.7)	(6.7)	(14.5)	0.1	(38.3)

26 Share capital and reserves

	2005		2004	
	Number of shares (m)	£m	Number of shares (m)	£m
Authorised:				
Ordinary shares of 5p each	210.0	10.5	210.0	10.5
Issued and fully paid:				
At 1 January	124.3	6.2	124.1	6.2
Issued for cash on exercise of share options	0.3	–	0.2	–
At 31 December	124.6	6.2	124.3	6.2

The group has one class of ordinary voting shares which carry no right to fixed income.

During the year 0.3 million (2004: 0.2 million) ordinary shares were issued upon exercise under share option schemes, giving rise to net proceeds of £1.3m (2004: £0.7m). See Note 28 for a summary of potential issues of ordinary shares under existing share option schemes.

26 Share capital and reserves continued

Other reserves

Movements in reserves are set out in the Reconciliation of movement in capital and reserves in Note 27. The retained earnings reserve includes own shares held by the Employee Benefit Trust (see Note 29). The nature and purpose of other reserves forming part of equity are as follows:

Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries, including gains or losses arising on net investment hedges.

Hedging reserve

This reserve records the fair value of forward exchange contracts where they are designated in effective cash flow hedge relationships.

Merger reserve

This reserve arose on the acquisition of Servomex Limited in 1999, a purchase satisfied substantially by the issue of share capital and therefore eligible for merger relief under the provisions of section 131 of the Companies Act 1985.

Capital redemption reserve

This reserve records the historical repurchase of the group's own shares.

27 Reconciliation of movement in capital and reserves

For the year ended 31 December 2005

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Total equity £m
Equity at 31 December 2003 under UK GAAP	6.2	227.1	(47.3)	–	–	3.1	0.3	189.4
Adjustment on adoption of IFRS	–	–	40.1	–	–	–	–	40.1
At 1 January 2004	6.2	227.1	(7.2)	–	–	3.1	0.3	229.5
Gains and losses – year ended 31 December 2004								
Total recognised income and expense	–	–	21.3	(0.9)	–	–	–	20.4
Total gains and losses	6.2	227.1	14.1	(0.9)	–	3.1	0.3	249.9
Distributions to and transactions with shareholders								
Equity dividends paid	–	–	(16.3)	–	–	–	–	(16.3)
Share-based payments	–	–	0.4	–	–	–	–	0.4
Sale of own shares by Employee Benefit Trust	–	–	0.1	–	–	–	–	0.1
Exercise of equity share options	–	0.7	–	–	–	–	–	0.7
Equity at 31 December 2004	6.2	227.8	(1.7)	(0.9)	–	3.1	0.3	234.8
Change in accounting policy: adoption of IAS 39, <i>Financial Instruments: Recognition and Measurement</i>								
Equity at 1 January 2005	6.2	227.8	(6.0)	(0.9)	0.8	3.1	0.3	231.3
Gains and losses – year ended 31 December 2005								
Total recognised income and expense	–	–	33.2	(1.9)	(1.3)	–	–	30.0
Total gains and losses	6.2	227.8	27.2	(2.8)	(0.5)	3.1	0.3	261.3
Distributions to and transactions with shareholders								
Equity dividends paid	–	–	(18.1)	–	–	–	–	(18.1)
Share-based payments	–	–	0.3	–	–	–	–	0.3
Sale of own shares by Employee Benefit Trust	–	–	10.7	–	–	–	–	10.7
Exercise of equity share options	–	1.3	–	–	–	–	–	1.3
Equity at 31 December 2005	6.2	229.1	20.1	(2.8)	(0.5)	3.1	0.3	255.5

Notes to the accounts continued

28 Share-based payments

The Executive Share Option Scheme and Save As You Earn share option schemes were set up in order to provide executives and selected employees with options to purchase ordinary shares in the company. Under the Executive Share Option Scheme, exercise prices are determined according to the mid-market closing share price prevailing on the day before the date of grant. Share options granted under the Executive Share Option Scheme are also subject to performance criteria, being the fulfilment of earnings growth targets. Options vest after a period of three years, and have a maximum term of ten years.

Under the Save As You Earn scheme, equity shares are issued following a vesting period of three years. Options may be exercised during a six-month period following the vesting date, and exercise prices are determined according to the mid-market closing share price prevailing on the day before the date of grant. There are no performance criteria associated with options granted under the Save As You Earn scheme.

Share options outstanding at the end of the period

SAYE – Year of grant	Exercise price £	Exercise period	2005	2004
			Number thousands	Number thousands
1999	3.96	2005	–	39
2001	3.58	2005	–	17
2002	3.43	2006	4	65
2003	4.69	2007	54	60
2004	4.08	2008	108	123
2005	5.89	2009	36	–
			202	304

Executive Share Option Scheme – Year of grant	Exercise price £	Exercise period	2005	2004
			Number thousands	Number thousands
1995	3.79 – 5.86	1998 – 2005	–	85
1996	5.97 – 7.77	1999 – 2006	78	147
1997	5.38 – 6.60	2000 – 2007	151	196
1998	2.39 – 5.51	2001 – 2008	204	311
1999	3.22 – 3.96	2002 – 2009	104	186
2000	5.13 – 5.25	2003 – 2010	525	724
2001	3.58 – 4.99	2004 – 2011	756	889
2003	4.69	2006 – 2013	443	649
2004	4.06 – 4.62	2007 – 2014	374	453
2005	5.89	2008 – 2015	396	–
			3,031	3,640

Movements in the year

SAYE	2005			2004		
	Number thousands	Weighted average exercise price £	Value of shares £m	Number thousands	Weighted average exercise price £	Value of shares £m
At 1 January	304	4.02	1.2	389	3.80	1.5
Granted	36	5.89	0.2	124	4.08	0.5
Exercised	(94)	3.55	(0.3)	(153)	3.38	(0.5)
Lapsed	(44)	4.00	(0.2)	(56)	4.40	(0.2)
At 31 December	202	4.47	0.9	304	4.02	1.2
Exercisable at 31 December	202	4.47	0.9	304	4.02	1.2

28 Share-based payments continued

	2005			2004		
	Number thousands	Weighted average exercise price £	Value of shares £m	Number thousands	Weighted average exercise price £	Value of shares £m
Executive Share Option Scheme						
At 1 January	3,640	4.34	15.8	4,634	4.20	19.5
Granted	395	5.89	2.3	453	4.06	1.8
Exercised	(475)	4.34	(2.1)	(124)	3.13	(0.4)
Lapsed	(529)	4.89	(2.6)	(1,323)	3.87	(5.1)
At 31 December	3,031	4.45	13.5	3,640	4.34	15.8
Exercisable at 31 December	3,031	4.45	13.5	3,640	4.34	15.8

Share-based payment expense

Share options are valued using a stochastic option pricing model, with support from an independent remuneration consultant. No performance conditions were included in the calculation of fair value. For options granted in 2005 and 2004, the fair value per option granted and the assumptions used in the calculation are as follows:

	SAYE		Executive Share Option Scheme	
	2005	2004	2005	2004
Weighted average share price (pence)	553	408	588	416
Weighted average exercise price (pence)	589	408	589	436
Expected volatility	31.1%	31.1%	36.6%	38.5%
Expected life	3.25 yrs	3.25 yrs	6.0 yrs	6.0 yrs
Risk-free rate	4.2%	4.7%	4.1%	4.6%
Expected dividends (expressed as a yield)	2.7%	3.3%	2.5%	3.1%
Fair value per option	19.6%	23.2%	31.9%	28.9%

The expected volatility is based on historical volatility over the last 6 years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

The group recognised total expenses of £0.3m related to equity settled share-based payment transactions in 2005 (2004: £0.4m).

29 Own shares held by Employee Benefit Trust

The own shares reserve forms part of retained earnings and represents the cost of shares in Spectris plc purchased in the market and held by the Spectris plc Employee Benefit Trust ('EBT') to satisfy options under the group's share option schemes (see Note 28).

	2005 £m	2004 £m
Balance at 1 January	14.2	15.0
Acquired in the period	–	–
Disposed of on exercise of options	(9.2)	(0.1)
Other movement	–	(0.7)
At 31 December	5.0	14.2

The EBT holds ordinary 5p shares in Spectris plc for the purpose of satisfying obligations under the 1996 Executive Share Option Plan for the benefit of the group's employees. The EBT held 1.1 million shares at 31 December 2005 (2004: 3.2 million) at a cost of £5.0m (2004: £14.2m). The market value of the EBT's shares at 31 December 2005 was £7.2m (2004: £12.3m).

The purchase of the shares on the open market is funded by loans directly from Spectris plc. Dividend income in excess of 0.01p per share on the shares held by the EBT has been waived by the Trust and is therefore not included in the group's income statement. Interest and administration costs of the EBT are charged to the profit and loss account of the company for the year.

Notes to the accounts continued

30 Acquisitions

The following table provides an analysis of the assets and liabilities acquired and the related fair value adjustments.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Tangible fixed assets	0.8	–	0.8
Inventories	0.1	–	0.1
Trade and other payables	(0.3)	0.1	(0.2)
Borrowings	(0.7)	–	(0.7)
Net assets acquired			–
Goodwill			1.8
Cash paid (including directly attributable costs)			1.8
Prior year acquisitions			
Deferred consideration in relation to Lumitron acquisition			0.3
Deferred consideration in relation to MTT acquisition			0.2
			0.5
Net cash outflow relating to acquisitions			2.3

It is not possible to state what group revenue and profit would have been had the acquisition been undertaken on the first day of the financial year.

31 Contingent liabilities

Group companies have given indemnities to the Royal Bank of Scotland in respect of guarantees, negotiations and foreign exchange facilities of which £4.6m (2004: £4.9m) was outstanding at 31 December 2005.

The group has, in the ordinary course of business, provided indemnities to JP Morgan Chase NA in respect of outstanding letters of credit of which £1.3m (2004: £0.9m) was outstanding at 31 December 2005.

The group has, in the ordinary course of business, provided indemnities to ABN AMRO Bank NV in respect of outstanding trade finance facilities of which £6.2m (2004: £5.1m) was outstanding at 31 December 2005.

Group companies have, in the normal course of business, provided bonds and guarantees through local banking arrangements amounting to £4.5m (2004: £4.6m).

Spectris plc has issued guarantees in respect of certain of its subsidiary companies' operations in the normal course of business.

32 Operating lease arrangements

	2005		2004	
	Property £m	Other £m	Property £m	Other £m
Total commitments under non-cancellable operating leases				
Within one year	3.3	1.9	2.6	1.4
In the second to fifth years	11.3	5.0	9.8	4.2
After five years	18.6	0.1	17.9	–
	33.2	7.0	30.3	5.6

Group companies are party to a number of operating leases, mainly for plant and machinery, including motor vehicles, and property rentals. The arrangements do not impose any significant restrictions on the group.

During the year, £8.7m (2004: £6.8m) was recognised in the income statement in respect of operating lease rental payments. Total future minimum sub-lease rentals receivable in respect of sub-leases are £0.9m (2004: £0.2m).

33 Capital commitments

At 31 December 2005, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £0.6m (2004: £2.2m), for which provision has not been made.

34 Related party transactions

Details of directors' remuneration (being the key management personnel) are summarised in Note 8 and shown in detail in the Directors' Remuneration Report on page 26. There were no other related party transactions requiring disclosure.

35 Subsidiary undertakings

The following are the group's principal subsidiary undertakings. They operate mainly in the countries of incorporation. All the subsidiaries, other than intermediate holding companies, are involved in the manufacture and sale of in-line instrumentation, electronic controls and process technology systems.

Spectris plc holds 100% of the ordinary share capital of the subsidiaries incorporated in the UK. Subsidiaries incorporated overseas are 100% owned through intermediate holding companies.

	Country of incorporation
Arcom Control Systems Limited	UK
Malvern Instruments Limited	UK
Servomex Group Limited	UK
Spectrum Inspection Systems Limited (previously Loma Systems Limited)	UK
Spectris China Limited	China
Brüel & Kjær Sound & Vibration Measurement A/S	Denmark
Brüel & Kjær Vibro A/S	Denmark
Hottinger Baldwin Messtechnik GmbH	Germany
Spectris Company Limited (Japan)	Japan
BTG Eclépens SA	Switzerland
PANalytical BV	The Netherlands
Beta LaserMike Inc	USA
Fusion UV Systems Inc	USA
Ircon Inc	USA
Microscan Systems Inc	USA
NDC Infrared Engineering Inc	USA
Particle Measuring Systems Inc	USA
Red Lion Controls Inc	USA
Spectris Inc	USA

Notes to the accounts continued

36 Explanation of transition to IFRS

This is the first year the group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was therefore 1 January 2004.

	Note	UK GAAP £m	Transition adjustments (restated) £m	IFRS £m
Reconciliation of equity at 1 January 2004				
Non-current assets				
Goodwill		226.4	–	226.4
Other intangible assets		0.6	–	0.6
Property, plant and equipment		92.4	–	92.4
Financial assets		0.6	–	0.6
Deferred tax asset	(a)	12.5	20.2	32.7
		332.5	20.2	352.7
Current assets				
Inventories	(b)	83.8	(0.2)	83.6
Taxation recoverable		9.2	–	9.2
Trade and other receivables	(b)	132.6	0.2	132.8
Cash and cash equivalents		31.7	–	31.7
		257.3	–	257.3
Total assets		589.8	20.2	610.0
Current liabilities				
Short-term borrowing		(0.8)	–	(0.8)
Trade and other payables	(b), (c), (d)	(131.2)	8.0	(123.2)
Current tax liabilities		(29.1)	–	(29.1)
Provisions		(11.4)	–	(11.4)
		(172.5)	8.0	(164.5)
Net current assets		84.8	8.0	92.8
Non-current liabilities				
Medium and long-term borrowings		(194.3)	–	(194.3)
Other payables		(1.9)	–	(1.9)
Retirement benefit obligations	(a)	(12.0)	(5.7)	(17.7)
Provisions	(a)	(19.7)	17.6	(2.1)
		(227.9)	11.9	(216.0)
Total liabilities		(400.4)	19.9	(380.5)
Net assets		189.4	40.1	229.5
Equity				
Issued capital		6.2	–	6.2
Share premium account		227.1	–	227.1
Retained earnings and other reserves		(43.9)	40.1	(3.8)
Equity shareholders' funds		189.4	40.1	229.5
Total equity and liabilities		589.8	20.2	610.0

36 Explanation of transition to IFRS continued

	Note	UK GAAP £m	Transition adjustments (restated) £m	IFRS £m
Reconciliation of equity at 31 December 2004				
Non-current assets				
Goodwill	(a), (e)	223.5	(4.5)	219.0
Other intangible assets	(e)	0.6	4.6	5.2
Property, plant and equipment		93.7	–	93.7
Deferred tax asset	(a)	21.4	18.8	40.2
		339.2	18.9	358.1
Current assets				
Inventories	(b)	94.3	(0.3)	94.0
Taxation recoverable	(a)	16.5	(14.6)	1.9
Trade and other receivables	(b)	145.7	0.1	145.8
Cash and cash equivalents		34.4	–	34.4
		290.9	(14.8)	276.1
Total assets		630.1	4.1	634.2
Current liabilities				
Short-term borrowing		(0.3)	–	(0.3)
Trade and other payables	(b), (c), (d), (h)	(148.0)	13.5	(134.5)
Current tax liabilities	(a)	(48.7)	14.6	(34.1)
Provisions	(g)	(9.5)	2.5	(7.0)
		(206.5)	30.6	(175.9)
Net current assets		84.4	15.8	100.2
Non-current liabilities				
Medium and long-term borrowings		(193.0)	–	(193.0)
Other payables	(h)	(1.1)	(4.3)	(5.4)
Retirement benefit obligations	(a)	(14.0)	(6.7)	(20.7)
Provisions	(a), (g)	(19.5)	15.1	(4.4)
		(227.6)	4.1	(223.5)
Total liabilities		(434.1)	34.7	(399.4)
Net assets		196.0	38.8	234.8
Equity				
Issued capital		6.2	–	6.2
Share premium account		227.8	–	227.8
Retained earnings and other reserves		(38.0)	38.8	0.8
Equity shareholders' funds		196.0	38.8	234.8
Total equity and liabilities		630.1	4.1	634.2
Reconciliation of profit for 2004				
	Note	UK GAAP £m	Transition adjustments (restated) £m	IFRS £m
Revenue	(b)	614.2	(0.1)	614.1
Cost of sales	(b)	(262.4)	(0.1)	(262.5)
Gross profit		351.8	(0.2)	351.6
Operating costs	(a), (e), (f)	(299.6)	(0.8)	(300.4)
Operating profit		52.2	(1.0)	51.2
Loss on sale or termination of business		(1.2)	–	(1.2)
Profit before interest and tax		51.0	(1.0)	50.0
Financial income	(c)	0.3	3.7	4.0
Finance costs	(c)	(14.4)	(3.7)	(18.1)
Profit before taxation		36.9	(1.0)	35.9
Taxation	(a)	(12.2)	(0.1)	(12.3)
Profit after tax attributable to equity shareholders		24.7	(1.1)	23.6
Basic earnings per share (pence)		20.4p	(0.9p)	19.5p
Dilutive earnings per share (pence)		20.4p	(0.9p)	19.5p

Notes to the accounts continued

36 Explanation of transition to IFRS continued

Notes to the IFRS transition reconciliations

a) Deferred and current taxes

Deferred tax on US goodwill – goodwill from the acquisition of US businesses previously written off to reserves under UK GAAP is deductible for US tax purposes; under IAS 12 this gives rise to a deferred tax asset. Under UK GAAP the current tax deduction obtained each year gave rise to a deferred tax liability.

At 31 December 2004, the deferred tax liability attributable to US goodwill under UK GAAP was £17.6m (1 January 2004: £17.6m). Under IFRS this has been eliminated and replaced with a deferred tax asset of £11.0m (1 January 2004: £13.5m), a combined adjustment of £28.6m (1 January 2004: £31.1m).

The impact on the income statement in the year ended 31 December 2004 was an increase in the taxation charge of £0.2m. The remaining movement of £2.3m between 1 January 2005 and 31 December 2005 represents foreign exchange movements on the asset, and this is recorded in reserves.

Goodwill reduction – when a deferred tax asset is recognised following a business acquisition, IAS 12 requires that goodwill arising on the acquisition be reduced by a corresponding amount, with the reduction in goodwill charged to the income statement. Under UK GAAP, the group recognised a deferred tax asset of £12.2m at 31 December 2004 (1 January 2004: £nil), relating to tax losses brought forward from a prior acquisition that took place in 2000. The corresponding adjustment to goodwill, a reduction in carrying value of £12.2m at 31 December 2004 (1 January 2004: £nil), has been made under IFRS and is included in operating costs in the income statement.

Deferred tax asset on pension scheme deficit – under IFRS, the deferred tax asset arising on the defined benefit pension scheme deficit must not be included within the pension scheme deficit as previously was the case under UK GAAP. Accordingly, a deferred tax asset of £6.7m (1 January 2004: £5.7m) has been reclassified from retirement benefit scheme obligations to deferred tax assets in the balance sheet. There was no impact on the income statement.

Current tax – the 2004 current tax debtor and creditor have been restated to better reflect the 2005 current tax debtor and creditor. The debtors and creditors of companies forming local tax groupings have now been netted off to give a net debtor or creditor for the relevant jurisdiction. The reclassification at 31 December 2004 was a decrease in tax recoverable, and a corresponding increase in current tax payable of £14.6m.

Other tax adjustments – the non-tax IFRS adjustments outlined below have been tax effected as at 31 December 2004. The impact on the balance sheet at 31 December 2004 was an increase in net assets of £1.1m (1 January 2004: £1.0m). The impact on the tax charge in the income statement in the year ended 31 December 2004 was a credit of £0.1m.

b) Revenue recognition

IAS 18, *Revenue* is similar to the UK GAAP treatment for revenue recognition in many respects, although it contains specific additional guidance, such as on accounting for contracts that include installation elements. Following a review of existing policies this gives rise to some subtle differences in the timing of accounting for certain transactions.

The net deferral of revenue and associated costs in the balance sheet at 31 December 2004 was £2.3m (1 January 2004: £2.1m). Of this

deferral, £0.3m (1 January 2004: £0.2m) reduces inventory, £0.1m (1 January 2004: £0.2m) increases trade and other receivables, and £2.1m (1 January 2004: £2.1m) is included within other payables. In the income statement at 31 December 2004, this movement was recognised as a reduction in turnover of £0.1m and an increase in costs of £0.1m.

c) Employee benefits

Pensions – Spectris adopted the UK GAAP standard FRS 17, *Retirement Benefits* in 2001, and therefore the adoption of IAS 19, *Pensions and Other Post-Retirement Benefits* does not result in significant adjustments for the accounting for pensions. The group will continue to recognise immediately any variations in the scheme deficit or surplus in full in a statement of recognised income and expense, outside of the income statement, as permitted by IAS 19.

IAS 1, *Presentation of Financial Statements* requires that items of income and expense are not presented on a net basis in the income statement where no legal right of set-off exists. As a result of this, the finance costs associated with the retirement benefit scheme have been restated on a gross basis on the face of the income statement. This has the effect of increasing financial income at 31 December 2004 by £3.7m, and increasing financial costs by £3.7m. There is no overall impact on the result for the year to 31 December 2004.

Holiday pay – IAS 19 requires short-term accumulating benefits such as holiday pay entitlement and sick pay to be accrued over the period in which the entitlement is earned. The additional liability in the balance sheet at 31 December 2004 is £1.1m (1 January 2004: £1.1m). There was no impact on the income statement for the year to 31 December 2004.

d) Dividends

IAS 10, *Events After the Balance Sheet Date* requires that dividends declared after the balance sheet date should not be recognised as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Under IFRS, dividends are shown as a deduction from reserves; therefore the income statement no longer shows the deduction of dividends. The balance sheet adjustment at 31 December 2004 was a reduction in liabilities of £12.4m (1 January 2004: £11.2m).

e) Intangible assets

IAS 38, *Intangible Assets* requires that goodwill is not amortised. Instead it is subject to an annual impairment review. As the group has elected not to apply IFRS 3, *Business Combinations* retrospectively to acquisitions prior to 1 January 2004, the UK GAAP goodwill balance at 31 December 2003 (£226.4m) has been included in the transitional IFRS balance sheet and is no longer amortised. The goodwill amortisation in the year to 31 December 2004 of £13.0m under UK GAAP has been reversed, resulting in a reduction in operating costs of £13.0m. The related exchange adjustment associated with the reversal of amortisation increased goodwill by a further £0.5m (1 January 2004: £nil).

The group made four bolt-on acquisitions of businesses during 2004. These acquisitions included the purchase of finite-lived intangible assets not previously recognised under UK GAAP. Under IFRS, these intangible assets are reclassified out of goodwill, and amortised over their useful economic lives. The reclassified intangible assets are being amortised over various periods not exceeding five years, depending on their nature; the corresponding amortisation charge for the year to 31 December 2004 was £1.2m, included within operating costs. The balance sheet reclassification of goodwill to intangibles arising from 2004 acquisitions as at 31 December 2004 was £5.8m.

f) Share-based payments

IFRS 2, *Share-based Payments* requires that an expense for share options granted be recognised in the financial statements based on their fair value at the date of grant. This expense is recognised over the vesting period of the options. The charge to the income statement for the year to 31 December 2004 was £0.4m, included within operating costs. As this transaction is settled in equity, there is a net nil effect on the balance sheet.

g) Provisions

Under IAS 1, *Presentation of Financial Statements* the group is required to present balance sheet amounts according to whether the item is current or non-current. Under UK GAAP, provisions were not split between amounts due in less than one year and amounts due in more than one year. Accordingly, the £9.5m of provisions under UK GAAP at 31 December 2004 have been reclassified so that £7.0m is classified as a current liability and £2.5m is classified as a non-current liability.

h) Trade and other payables

A reclassification of £4.3m from current liabilities to non-current liabilities has been made at 31 December 2004 to better reflect the nature of certain amounts. There is no impact on the income statement.

Explanation of material movements to the cash flow statement for 2004

There is no overall impact on the movement in cash and cash equivalents at 31 December 2004. Within the cash flow statement, there are reclassifications between captions for the Employee Benefit Trust and corporation tax. Movements of £0.2m in the Employee Benefit Trust were previously categorised within capital expenditure, under IFRS they are now included within financing. Corporation tax paid of £7.7m is reclassified from its own sub-heading under UK GAAP to within 'Cash flows from operating activities' under IFRS.

Company balance sheet

	Notes	2005 £m	2004 (restated)* £m
Fixed assets			
Tangible fixed assets	39	0.1	0.1
Fixed asset investments	40	331.2	285.6
		331.3	285.7
Current assets			
Debtors	41	394.0	418.9
Cash at bank		32.7	–
		426.7	418.9
Creditors: due within one year			
Short-term borrowing	42	(58.0)	(0.4)
Other creditors	42	(243.2)	(216.0)
		(301.2)	(216.4)
Net current assets			
		125.5	202.5
Total assets less current liabilities			
		456.8	488.2
Creditors: due after more than one year			
Medium and long-term borrowing	43	(118.3)	(190.2)
Derivative financial instruments	44	(24.7)	–
		(143.0)	(190.2)
Provisions for liabilities and charges			
	45	(0.9)	(1.1)
Net assets			
		312.9	296.9
Capital and reserves			
Called up share capital	46	6.2	6.2
Share premium account	47	229.1	227.8
Merger reserve	47	3.1	3.1
Capital redemption reserve	47	0.3	0.3
Special reserve	47	34.1	34.1
Profit and loss account	47	40.1	25.4
Equity shareholders' funds			
		312.9	296.9

*Restated for the adoption of FRS 21, *Events after the Balance Sheet Date*. As described in Note 37, the adoption of FRS 26, *Financial Instruments: Measurement* has not been applied retrospectively and therefore does not result in a restatement of 2004 comparatives.

The financial statements on pages 70 to 76 were approved by the Board of directors on 7 March 2006 and were signed on its behalf by:



Steve Hare
Director

Notes to the company's accounts

37 Accounting policies

The separate financial statements of the company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. In accordance with the exemption provided by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account.

Basis of accounting

The accounts are prepared on the historical cost basis, except that derivative financial instruments are stated at fair value as described in the change in accounting policy paragraph below. The accounts reflect the adoption of FRS 20, *Share-based Payments*, FRS 21, *Events after the Balance Sheet Date*, FRS 23, *The Effects of Changes in Foreign Exchange Rates*, FRS 25, *Financial Instruments: Disclosure and Presentation*, FRS 26, *Financial Instruments: Recognition and Measurement* and FRS 28, *Corresponding Amounts*, as described further below.

Changes in accounting policy

Share-based payments

The company has adopted FRS 20, *Share-based Payments* from 1 January 2005. There was no impact on the balance sheet at 1 January 2005.

The fair value of employee share option grants is calculated at grant date. The resulting cost is charged to the profit and loss account over the vesting period of the plans. The value of the charge is adjusted to reflect expected and actual levels of options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Events after the balance sheet date

The company has adopted FRS 21, *Events after the Balance Sheet Date* from 1 January 2005. This means that dividends are now recognised in the period when they are declared. The balance sheet adjustment at 31 December 2004 was a reduction in liabilities of £12.4m (31 December 2003: £11.2m).

The effects of changes in foreign exchange rates

The company has adopted FRS 23, *The Effects of Changes in Foreign Exchange Rates* from 1 January 2005. There was no impact on the financial statements.

Corresponding amounts

The company has adopted FRS 28, *Corresponding Amounts* from 1 January 2005. This standard contains provisions regarding the content of comparative information, and accordingly the only changes to the financial statements arising from this standard are the provision of prior year information where this has not been required.

Derivative financial instruments

The company uses derivative financial instruments to hedge the group's exposure to foreign exchange and interest rate risks arising from operating and financing activities. In accordance with its treasury policy, it does not hold or use derivative financial instruments for trading or speculative purposes.

Following the adoption of FRS 26, *Financial Instruments: Measurement*, the company has changed its accounting policies in respect of derivative financial instruments with effect from 1 January 2005. In accordance with FRS 26, the comparative results for the year ended 31 December 2004 have not been restated.

Cross-currency interest rate swaps

The company takes advantage of cross-currency interest rate swaps for some of its US\$ denominated private placement borrowings. The swaps have the effect of converting fixed rate US\$ borrowings into fixed rate euro-denominated borrowings.

Until 31 December 2004 under UK GAAP, the combined instruments were accounted for as if they were straightforward fixed interest euro borrowings. The effect of this accounting policy was that the currency portion of the swaps was effectively recognised within the carrying value of borrowings on the balance sheet and the interest portion of the swap was not recognised on the balance sheet. Any exchange gain or loss on retranslation of the borrowings was recognised in the profit and loss account. The fair value of the entire cross-currency swap was disclosed in the accounts.

From adoption of FRS 26, the underlying US\$ borrowings are required to be presented separately in the balance sheet from the cross-currency interest rate swaps. In addition, the fair value of the cross-currency interest rate swap is required to be recognised in full on the balance sheet. All changes in value are recognised in the profit and loss account.

The financial impact of this change in accounting policy is identical to that set out in Note 21 of the group's consolidated financial statements prepared under IFRS, except that the company does not seek to hedge account for any changes in fair value of the financial instruments and consequently all changes in fair value are recognised in the company's profit and loss account.

Average rate options

Average rate options are transacted to provide a hedge against the group's overall exposure to changes in foreign currency exchange rates.

In the comparative period ended 31 December 2004, the value of these instruments is not recognised in the balance sheet or profit and loss account until the accounting period the instruments were intended to cover as a hedge. From adoption of FRS 26 as at 1 January 2005, these instruments are carried at fair value on the balance sheet with any gain or loss being recognised in the profit and loss account.

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the profit and loss account. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost. Depreciation is calculated to write off the difference between the cost or valuation of fixed assets and their residual value over their estimated useful lives on a straight-line basis at the following rates per annum:

Leasehold improvements	5 years
Office equipment	3 years

Notes to the company's accounts continued

37 Accounting policies continued

Fixed asset investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Trade and other receivables

Trade and other receivables are stated at their cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade and other payables

Trade and other payables are stated at cost.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Leasing

Annual payments under operating leases are charged to the profit and loss account on an accruals basis.

Post-retirement benefits

The company participates in group operated defined contribution and defined benefit pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The company is unable to identify its share of the group defined benefit scheme's underlying assets and liabilities and therefore accounts for it as a defined contribution scheme. The amounts charged against profits represent contributions payable to the schemes in respect of the accounting period.

Cash flow statement

The company has not presented a separate cash flow statement in accordance with the exemption provided by FRS 1 (Revised), as its cash flows are included within the cash flows of the group, as set out elsewhere in this Annual Report.

38 Employee costs

Employee costs, including directors' remuneration	2005 £m	2004 £m
Wages and salaries	3.5	2.9
Social security costs	0.7	0.4
Defined benefit pension plans	0.5	0.3
Defined contribution pension plans	0.4	0.4
Share-based payment expense	0.3	0.4
	5.4	4.4

Further details of directors' remuneration and share options are given in Note 8 to the group financial statements and in the Directors' Remuneration Report on pages 26 to 29.

	2005 Number	2004 Number
Average number of employees	27	26

39 Tangible fixed assets

Cost	Leasehold improvements £m	Office equipment £m	Total £m
At 1 January 2005	0.3	0.6	0.9
Additions	–	0.1	0.1
At 31 December 2005	0.3	0.7	1.0
Depreciation			
At 1 January 2005	0.3	0.5	0.8
Charge for the year	–	0.1	0.1
At 31 December 2005	0.3	0.6	0.9
Net book value			
At 1 January 2005 and 31 December 2005	–	0.1	0.1

40 Fixed asset investments

Cost	Investments in subsidiary undertakings £m
At 1 January 2005	287.0
Additions	58.8
Disposals	(8.8)
At 31 December 2005	337.0
Provision for impairment	
At 1 January 2005	1.4
Charge for the year	5.8
Disposals	(1.4)
At 31 December 2005	5.8
Net book value	
At 31 December 2005	331.2
At 1 January 2005	285.6

Notes to the company's accounts continued

41 Debtors

Amounts falling due within one year	2005 £m	2004 £m
Amounts owed by group undertakings	386.7	416.4
Other debtors	0.8	–
Prepayments and accrued income	0.2	0.2
Corporation tax	3.4	2.3
Deferred tax asset	2.9	–
	394.0	418.9

The deferred tax asset is attributable to accelerated capital allowances of £0.3m (2004: £nil) and other short-term timing differences of £2.6m (2004: £nil).

42 Creditors: due within one year

	2005 £m	2004 £m
Short-term borrowing:		
Unsecured loan notes	58.0	–
Bank loans and overdraft	–	0.4
	58.0	0.4
Trade creditors	0.1	–
Amounts owed to group undertakings	235.9	211.4
Other taxation and social security	0.2	–
Accruals and deferred income	7.0	4.6
	243.2	216.0
Total	301.2	216.4

Further details regarding the company's borrowings are set out in Note 20 of the consolidated financial statements.

43 Creditors: due after more than one year

	2005 £m	2004 £m
Medium and long-term borrowing:		
Unsecured loan notes	118.3	190.2

Further details regarding the company's borrowings are set out in Note 20 of the consolidated financial statements.

44 Derivative financial instruments

	2005 £m	2004 £m
Cross-currency interest rate swaps	24.7	–

Further details regarding the company's cross-currency interest rate swaps are set out in Note 21 of the consolidated financial statements.

45 Provisions for liabilities and charges

	£m
At 1 January 2005	1.1
Transfer to creditors	(0.2)
At 31 December 2005	0.9

Provisions represent the directors' best estimate of settling various potential claims against the company arising in the ordinary course of business.

46 Share capital

	2005		2004	
	Number of shares (m)	£m	Number of shares (m)	£m
Authorised:				
Ordinary shares of 5p each	210.0	10.5	210.0	10.5
Issued and fully paid:				
At 1 January	124.3	6.2	124.1	6.2
Issued for cash on exercise of share options	0.3	–	0.2	–
At 31 December	124.6	6.2	124.3	6.2

Share options have been granted to subscribe for ordinary shares of Spectris plc. The adoption of FRS 20, *Share-based Payments* in the current year has had the effect of recognising an expense in the profit and loss account for share-based payments. There is no overall impact on equity in the restated prior year balance sheet. Full details of share options currently in issue, including those issued during the year, together with information regarding the basis of calculation of the share-based payment expense, is contained in Note 28 to the consolidated financial statements.

The company recognised total expenses of £0.3m related to equity settled share-based payment transactions in 2005 (2004: £0.4m).

47 Reserves

	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account (restated) £m	Total (restated) £m
At 1 January 2004	227.1	3.1	0.3	34.1	12.9	277.5
Profit for the year	–	–	–	–	28.7	28.7
Dividends paid	–	–	–	–	(16.3)	(16.3)
Share-based payment expense	–	–	–	–	0.4	0.4
Premium on issues of shares	0.7	–	–	–	–	0.7
Sale of own shares by Employee Benefit Trust	–	–	–	–	0.1	0.1
Other	–	–	–	–	(0.4)	(0.4)
At 31 December 2004	227.8	3.1	0.3	34.1	25.4	290.7
Adoption of FRS 26, <i>Financial Instruments: Measurement</i>	–	–	–	–	(4.1)	(4.1)
At 1 January 2005	227.8	3.1	0.3	34.1	21.3	286.6
Profit for the year	–	–	–	–	25.9	25.9
Dividends paid	–	–	–	–	(18.1)	(18.1)
Share-based payment expense	–	–	–	–	0.3	0.3
Premium on issues of shares	1.3	–	–	–	–	1.3
Sale of own shares by Employee Benefit Trust	–	–	–	–	10.7	10.7
At 31 December 2005	229.1	3.1	0.3	34.1	40.1	306.7

Further details of the Employee Benefit Trust are set out in Note 29 of the consolidated financial statements.

The purpose of the merger reserve and capital redemption reserve is detailed in Note 26 of the consolidated financial statements. The special reserve was created historically following the cancellation of an amount of share premium for the purpose of writing off goodwill. The special reserve is not distributable.

Notes to the company's accounts continued

48 Reconciliation of movement in equity shareholders' funds

	2005	2004 (restated)
	£m	£m
Adjustment on adoption of FRS 26, <i>Financial Instruments: Measurement</i>	(4.1)	–
Profit for the year	25.9	28.7
Dividends paid in the year	(18.1)	(16.3)
Share-based payment expense	0.3	0.4
Issue of new share capital	1.3	0.7
Sale of own shares by Employee Benefit Trust	10.7	0.1
Other	–	(0.4)
Net increase in equity shareholders' funds	16.0	13.2
Opening equity shareholders' funds (as adjusted by £11.2m and £12.4m at 1 January 2004 and 31 December 2004 respectively following adoption of FRS 21, <i>Events after the Balance Sheet Date</i>)	296.9	283.7
Closing equity shareholders' funds	312.9	296.9

49 Pensions

Certain of the company's employees participate in the Spectris Pension Plan, a UK multi-employer defined benefit scheme. Further details of the group's scheme are contained in Note 9 to the consolidated financial statements. The company is unable to identify its share of the Plan's underlying assets and liabilities and therefore accounts for the scheme as a defined contribution scheme. In accordance with the Schedule of Contributions in place for the Spectris Pension Plan for the financial year ending 31 December 2005, employer contributions of 11% p.a. of pensionable salaries plus £480,000 p.a. were due. The actuary certified in 2005 that this level of contributions was adequate for the purposes of the minimum funding requirement. Contributions paid in that year to the Spectris Pension Plan were £0.5m (2004: £0.5m) and to defined contribution plans were £0.3m (2004: £0.4m).

50 Related party disclosures

The company has taken advantage of the exemption under FRS 8, *Related Party Disclosures*, not to disclose related party transactions between subsidiaries.

There are no material transactions with directors and other related parties of the company except those relating to remuneration and share dealing disclosed in the Remuneration Report, enclosed within this Annual Report.

51 Commitments

	Land and buildings	
	2005	2004
	£m	£m
Annual commitments for operating leases expiring		
After five years	0.2	0.2

At the balance sheet date the company had no capital commitments for which provision has not been made (2004: £nil).

52 Contingent liabilities

The company has provided cross-guarantees in respect of the group indemnities to the Royal Bank of Scotland relating to guarantees, negotiations and foreign exchange facilities of which £4.6m (2004: £4.9m) was outstanding at 31 December 2005.

The company has provided cross-guarantees in respect of the indemnities provided by the group, in the ordinary course of business, to JP Morgan Chase NA relating to outstanding letters of credit of which £1.3m (2004: £0.9m) was outstanding at 31 December 2005.

The company has provided cross-guarantees in respect of the indemnities provided by the group, in the ordinary course of business, to ABN AMRO Bank NV relating to outstanding trade finance facilities of which £6.2m (2004: £5.1m) was outstanding at 31 December 2005.

Spectris plc has issued guarantees in respect of certain of its subsidiary companies' operations in the normal course of business.