

The Spectris logo is positioned at the top left of the slide. It features the word "spectris" in a lowercase, sans-serif font. The letter "t" is highlighted in red, while the remaining letters are black. The background of the slide is a dark, abstract image with a grid pattern and a globe-like structure on the left side.

spectris

*Enhancing productivity through precision
instrumentation and controls*

International Financial Reporting Standards (IFRS)

Steve Hare – Group Finance Director

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Standards currently in issue and adopted by the EU are subject to interpretation issued from time to time by the International Financial Reporting Interpretations Committee (IFRIC). Further standards may be issued by the IASB that will be adopted for financial years beginning on or after 1 January 2005. Additionally, IFRS is currently being applied in the United Kingdom and in a large number of countries simultaneously for the first time. Furthermore, due to a number of new and revised Standards included within the body of Standards that comprise IFRS, there is not yet significant established practice on which to draw in forming decisions regarding the interpretation and application. Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the Company's first IFRS financial statements for the year ended 31 December 2005 may be subject to change.

The IFRS results presented here are unaudited, but our auditors have agreed the principles and methodologies that have now been adopted by the group.

Summary

Impact on Spectris

Performance measurement

Q & A

- Overall IFRS has a minimal impact on the accounts
- No change to segmental reporting
- Potential volatility in unadjusted earnings following adoption of IAS 39 'Financial Instruments' from 1 January 2005
- No effect on cash flow
- No effect on commercial decision making
- A revised adjusted earnings measure
- Spectris adopted FRS 17 early in 2001, therefore the IFRS retirement benefit accounting rules have minimal impact

31 December 2004

£m	IFRS	UK GAAP	Impact
Revenue	614.1	614.2	(0.1)
Operating profit*	64.6	65.2	(0.6)
Profit before tax*	50.5	51.1	(0.6)
Earnings per share*	31.6p	32.1p	(0.5p)
£m			
Net assets	234.3	196.0	38.3

*Adjusted for amortisation of intangibles, asset impairments, and gains or losses on disposals of businesses and tangible fixed assets such as property

From 1 January 2004 onwards

- IFRS 2 Share-based payments
- IFRS 3 Business combinations
- IAS 12 Income taxes
- IAS 18 Revenue recognition
- IAS 19 Employee benefits (Holiday pay)
- Others

From 1 January 2005 onwards

- IAS 32/39 Financial instruments

Key IFRS change

- Expense recognised for share options in the income statement based on fair value at grant date
- Charge spread over option vesting period
- May be adjusted to reflect changed expectations and number of options finally vesting in certain cases
- Applied to grants post 7 November 2002 only

Impact on Spectris

- Stochastic model used as basis of fair value calculation
- Expense of £0.4m in year to 31 December 2004 (£0.2m at half year)
- Annual expense expected to increase to approximately £0.7m in 2005
- No impact on net assets
- No impact on cash flow

Key IFRS change

- Goodwill no longer amortised, instead subject to annual impairment review
- Goodwill on business combinations since 1 January 2004 required to be analysed for any intangible assets
- Intangible assets are amortised

Impact on Spectris

- Goodwill amortisation of £13.0m previously expensed in 2004, reversed under IFRS
- Intangible assets of £5.8m arising on 2004 bolt-on acquisitions reclassified from goodwill
- Amortisation of £1.2m charged in 2004 on these reclassified assets (£0.4m at half year)

Key IFRS change

- Deferred tax assets and liabilities are calculated by reference to temporary differences
- More balance sheet focussed than UK GAAP

Impact on Spectris

- No significant impact on underlying tax rate
- Goodwill from acquisition of US businesses previously gave rise to a £17.6m deferred tax liability, due to the current tax deduction obtained each year – under IFRS the goodwill gives rise to a £11.0m deferred tax asset
- Recognition of £12.2m deferred tax asset as exceptional tax credit under UK GAAP in 2004 relating to Danish tax losses existing at acquisition date - IFRS requires corresponding reduction in goodwill
- Deferred tax in respect of non-tax IFRS adjustments

Key IFRS change

- IFRS provides more guidance for accounting for contracts including installation activity

Impact on Spectris

- Revenue of £2.3m is deferred under IFRS at 31 December 2004 (half year deferral is £1.5m) – most of this is charged to reserves in the opening balance sheet
- In the income statement at 31 December 2004, the reduction in profit before tax is £0.2m (half year increase of £0.6m)

Key IFRS changes

- IFRS accounting for defined benefit schemes is substantially similar to UK GAAP's FRS 17 but has more options available
- Short term accumulating benefits such as holiday pay accrued over the period to which entitlement is earned

Impact on Spectris

- Spectris adopted FRS 17 in the 31 December 2001 accounts, so IAS 19 has no impact on defined benefit scheme accounting
- Liability of £1.1m relating to holiday pay at 31 December 2004
- No impact on income statement at full year (half year £0.1m)

Other standards relevant to Spectris' transition:

- IAS 10 'Events after the balance sheet date' – dividends are now recognised when declared. Dividends of £12.4m in the 2004 accounts reversed under IFRS and recognised in 2005
- IAS 38 'Intangible assets' – IFRS requires research and development expenditure to be capitalised when certain criteria are met. No expenditure currently meets the criteria
- IAS 14 – 'Segment reporting' – Spectris will continue to report the same segments as under UK GAAP

31 December 2004

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- Operational actions unaffected by IFRS
 - Better and more consistent cash generation
 - Effective use of free cash
 - Reduce interest costs
- Currency
 - Natural hedges
 - More pro-active hedging of transactional exposure and so less use of average rate options

On track with implementation of Treasury Management Systems which will help give further impetus to progress against the above actions

This slide illustrates the impact on the opening balance sheet at 1 January 2005 following Spectris adoption IAS 39 'Financial Instruments'

Net assets	1 January 2005
Net assets under IFRS at 31 December 2004	234.3
- Swaps relating to private placements	(9.5)
- Average rate options	1.8
- Forward exchange contracts	0.8
Deferred tax	(0.2)
Net assets on 1 January 2005 under IFRS following adoption of IAS 39	227.2

Previous UK GAAP adjusted profit and earnings measure adjusted for:

- Goodwill amortisation; and
- 'Exceptional items' - IFRS does not have a concept of exceptional items

Revised IFRS measure adjusts for:

- Intangible asset amortisation;
- Asset impairment charges;
- Gains or losses on disposals of businesses;
- Gains or losses on disposal of tangible fixed assets, such as property;
- Volatility arising in the income statement due to adoption of IAS 39; and
- The tax effect of the above

NB: The only new item is IAS 39 volatility

- Overall IFRS has a minimal impact on the accounts
- No effect on commercial decision making
- No effect on cash flow

SPeE

Questions

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Appendices



- Retrospective application of IFRS to share-based payments transactions from 7 November 2002 only
- IFRS 3 'Business combinations' will not be applied retrospectively to periods ending before 1 January 2004
- Cumulative actuarial gains and losses on employee post-retirement benefit schemes will be recognised at the date of transition, 1 January 2004
- IAS 32/39 'Financial instruments' will be applied from 1 January 2005 onwards

Key IFRS change

- Derivative instruments are accounted for at fair value
- Subject to strict criteria, hedge accounting may be used
- For an effective hedge, movements in fair value go through reserves
- For an ineffective hedge, movements go to the income statement
- Spectris has adopted from 1 January 2005
- No impact on adjusted profits and earnings per share measures

Impact on Spectris

Average rate options – hedge accounting not achieved

- Options have fair value of £1.8m as at 1 January 2005
- Future changes in fair value through the income statement
- Had IAS 32/39 been adopted at 1 January 2004, the pro-forma charge in the income statement at 31 December 2004 would have been £0.1m

Forward currency contracts – full hedge accounting achieved

- Fair value of contracts at 1 January 2005 was £0.8m
- Provision made for deferred tax of £0.2m
- Future movements in fair value through reserves
- Had IAS 32/39 been adopted at 1 January 2004, there would have been no pro-forma charge to the income statement for the year to 31 December 2004

Cross currency interest rate swaps – partial hedge accounting achieved

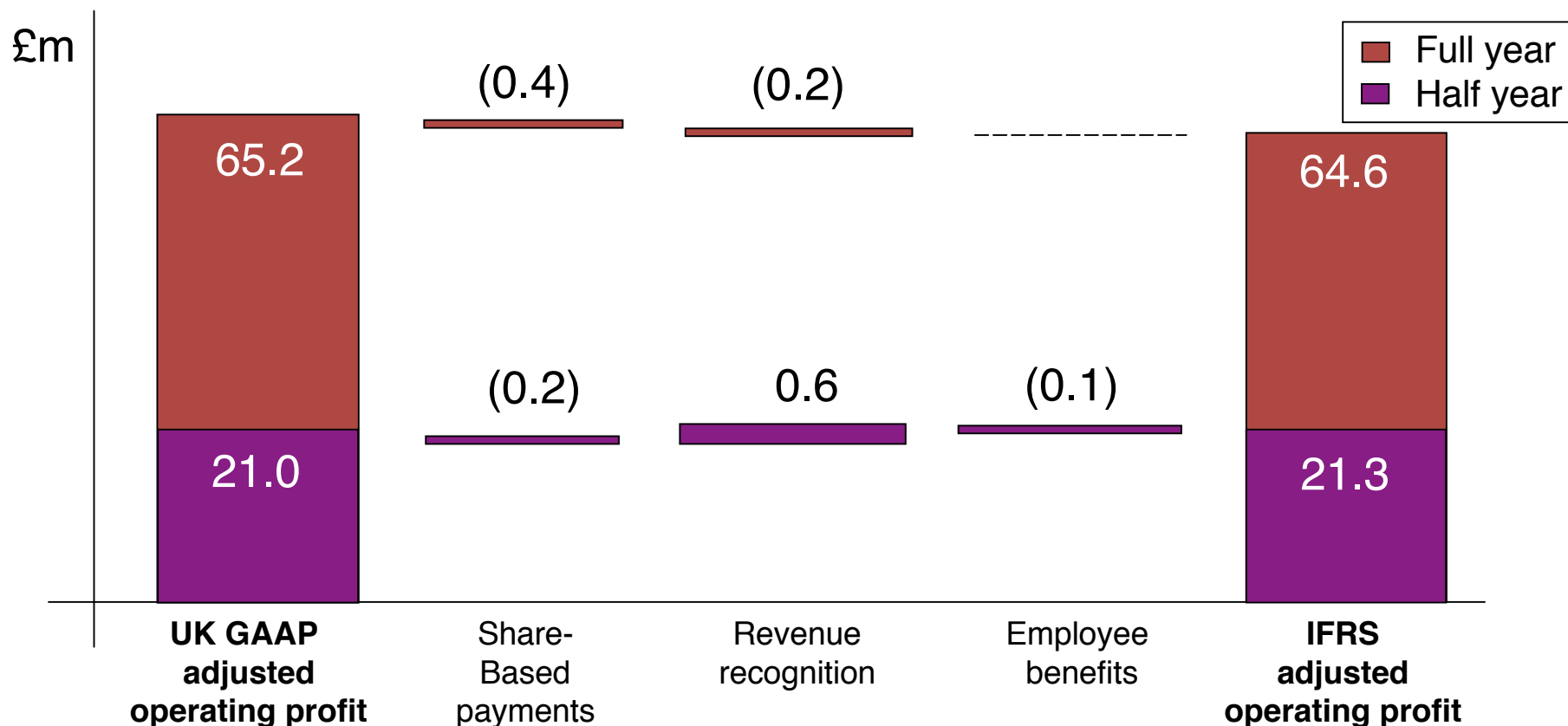
- Cross-currency interest rate swaps taken out to convert US dollar debt to fixed interest synthetic Euro debt
- A portion of the Euro debt is designated as a hedge of the net investment in the group's European businesses – as a result exchange gains and losses are recognised in reserves
- The part of the swap that fixes the Euro interest rate is considered ineffective as a hedge by IAS 39 and movements in fair value of this portion are through the income statement
- The ineffective part of the swaps have a fair value of £9.5m liability as at 1 January 2005
- Had IAS 32/39 been adopted at 1 January 2004, the pro-forma charge to the income statement at 31 December 2004 would have been £4.9m

Pro-forma impact of adoption of IAS 39 on 2004

This slide illustrates the impact on the accounts had Spectris adopted IAS 39 'Financial Instruments' from 1 January 2004

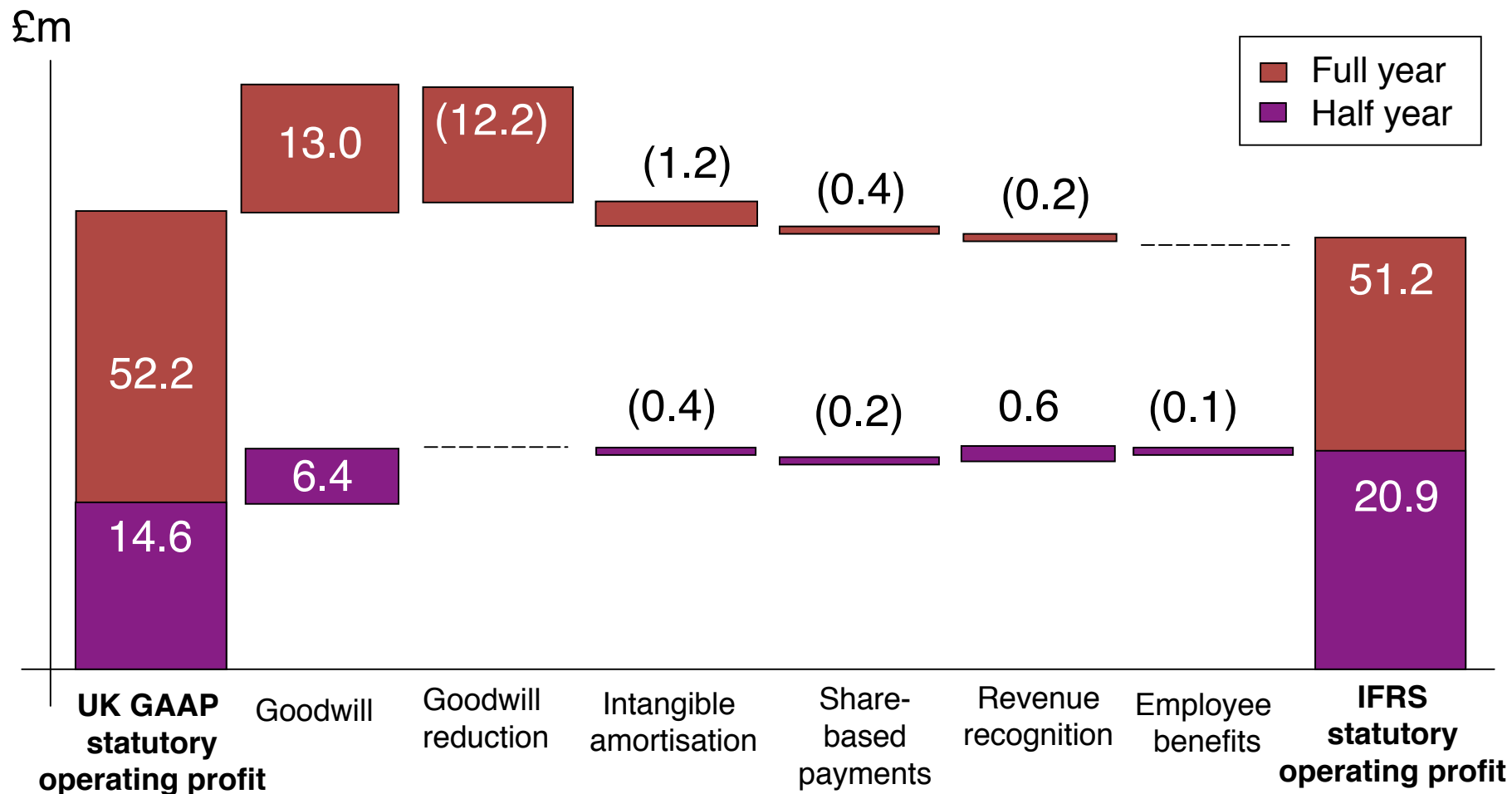
Pro forma profit before tax	31 December 2004	
	Unadjusted (£m)	Adjusted (£m)
Profit before tax under IFRS pre IAS 39	35.9	50.5
Pro forma adjustments from IAS 39 adoption		
- Swaps relating to private placements	(4.9)	-
- Average rate options	(0.1)	-
Pro forma profit before tax under IFRS to reflect adoption of IAS 39	<u>30.9</u>	<u>50.5</u>
Pro-forma reconciliation of unadjusted to adjusted profit before tax		
Unadjusted profit before tax	35.9	
Amortisation of intangibles	1.2	
Goodwill reduction	12.2	
Loss on sale or termination of business	1.2	
Adjusted profit before tax	<u>50.5</u>	

Appendix 3 - Restated adjusted operating profit



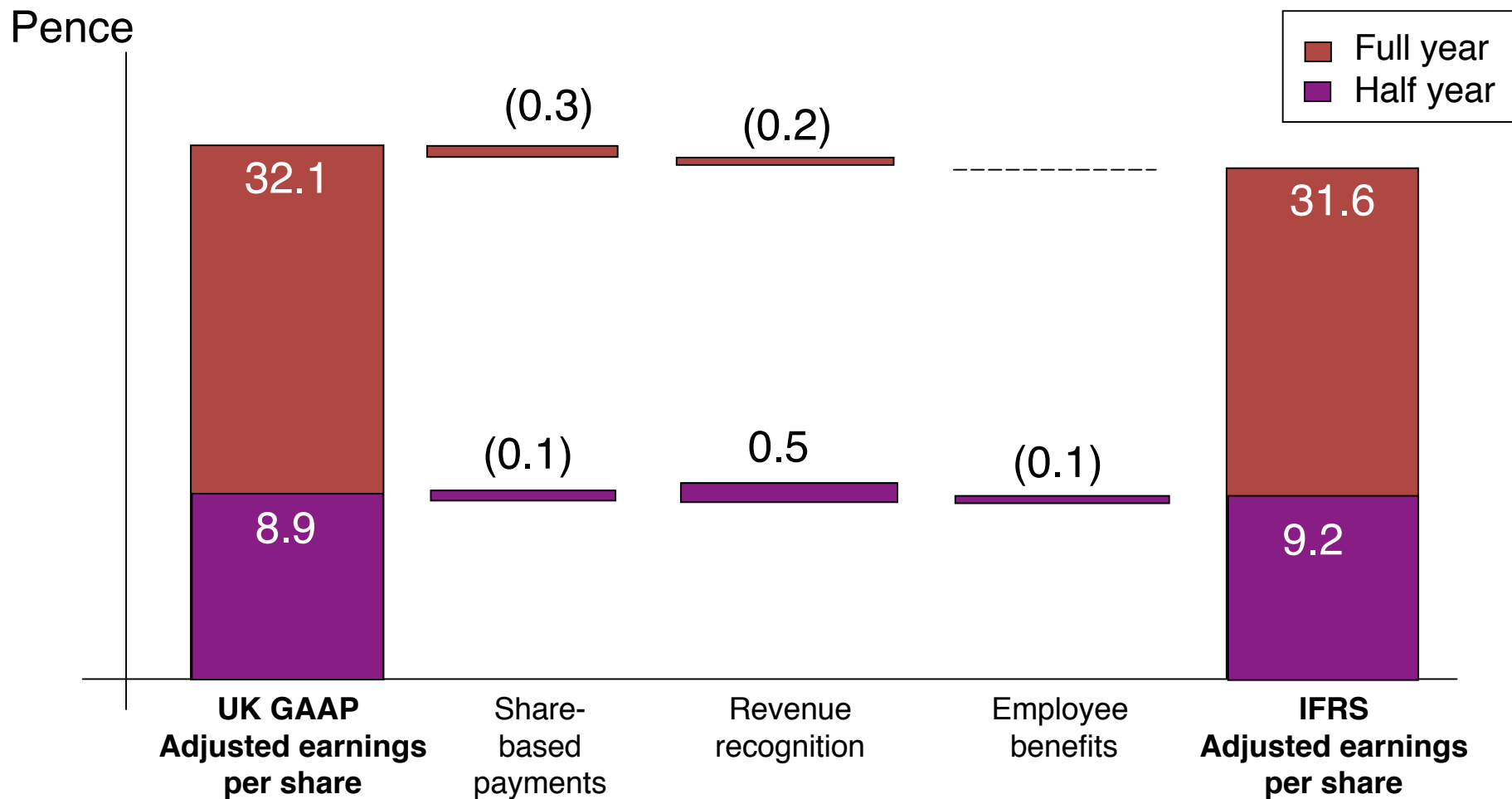
- Overall impact on adjusted operating profits is - £0.6m reduction in full year
- £0.3m increase in half year
- Impact on adjusted profits before tax - reduction of £0.6m from £51.1m to £50.5m
- half year increase of £0.3m from £14.2m to £14.5m

Appendix 4 - Restated statutory operating profit



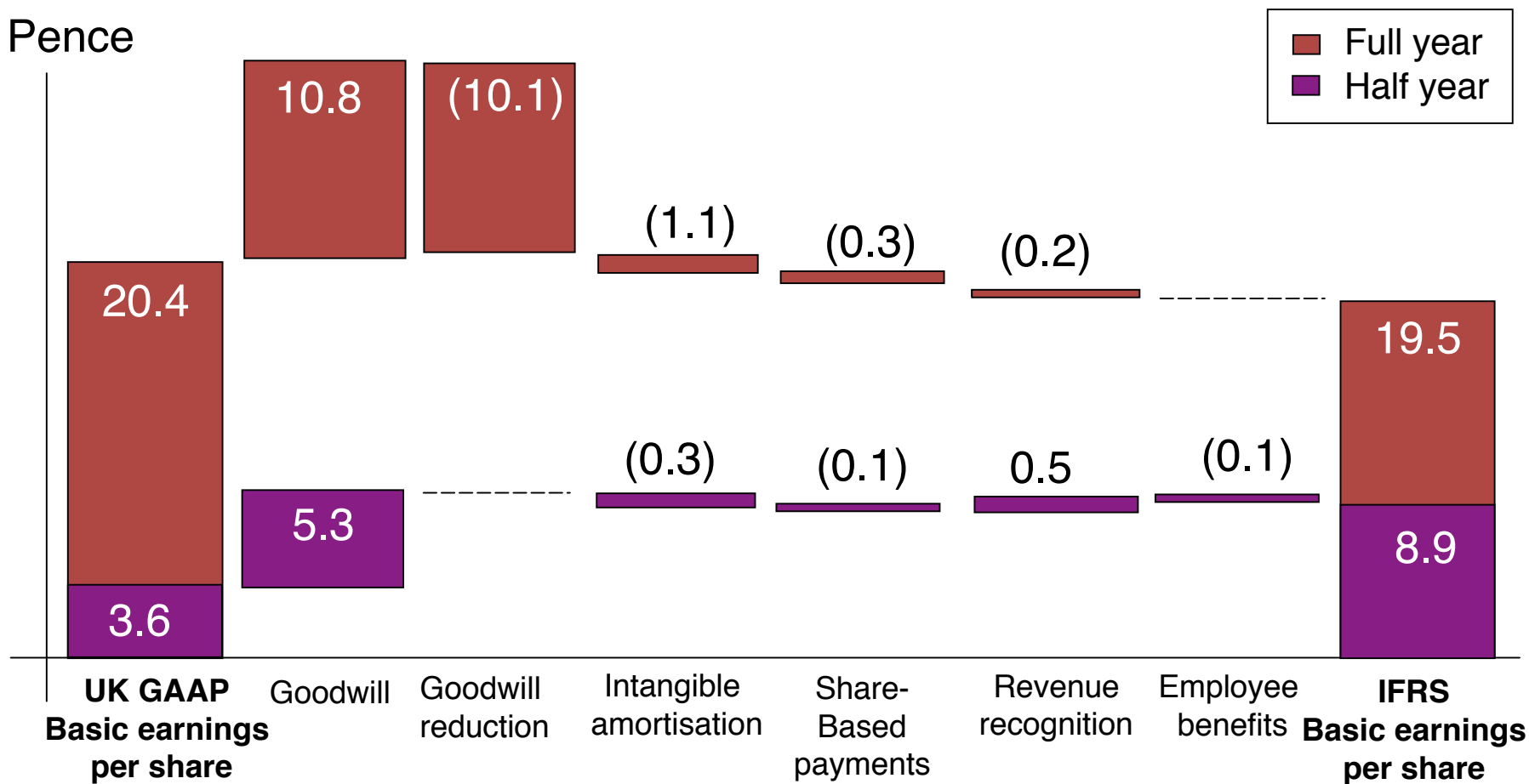
Overall impact on statutory operating profit - £1.0m reduction in full year
 - £6.3m increase at half year

Appendix 5 - Restated adjusted earnings per share

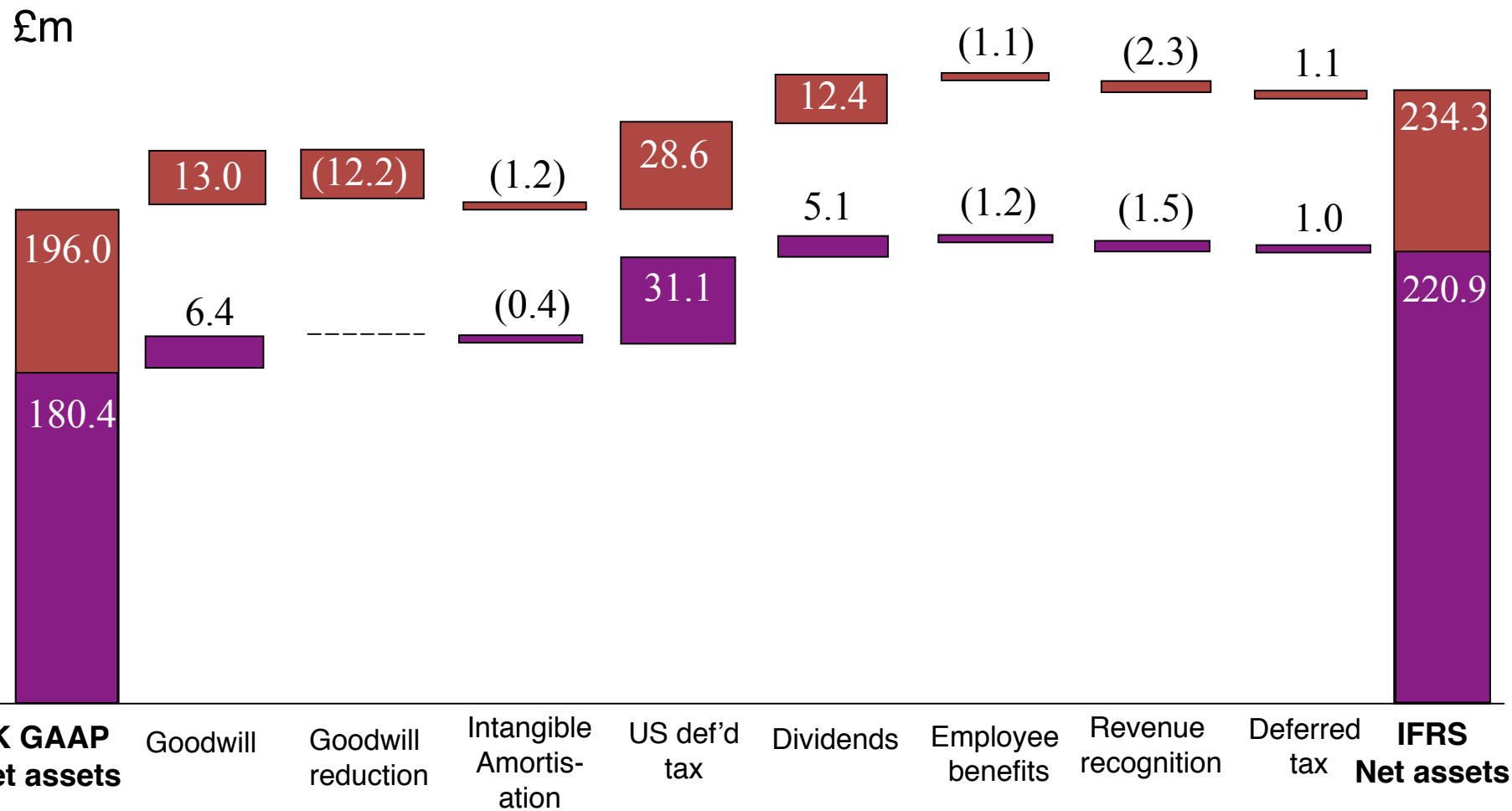


Appendix 6 - Restated basic earnings per share

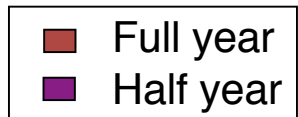
Pence



Appendix 7 - Restated net assets (before adoption of IAS 39)



- Overall impact on net assets - £38.3m at 31 December 2004
- £40.5m at 30 June 2004



Appendix 8 - Restated net assets (following adoption of IAS 39)

£m

