

The MTL Instruments Group plc – Adoption of IFRS

The MTL Instruments Group plc today announces that it has completed its preparations to adopt International Financial Reporting Standards (IFRS).

In accordance with FSA requirements, The MTL Instruments Group plc will prepare consolidated accounts in line with IFRS from 2005. The first results produced under IFRS will be for the 6 months to June 2005 and the first set of financial statements will be for the year to 31 December 2005.

This announcement provides reconciliations for the year to 31 December 2004 and highlights the impact of IFRS on the presentation of the group's consolidated accounts.

Preliminary IFRS Financial Statements

Summary Results 12 months to 31 December 2004

	UK GAAP £'000	IFRS £'000
Revenue	63,411	63,411
Gross profit	30,433	30,433
Operating profit	4,787	5,859
Profit after tax	2,887	3,962
Retained profit for the period	1,718	2,812
Basic EPS	15.3p	21.0p
Diluted EPS	15.2p	20.9p

Commentary

Introduction

From 2005 The MTL Instruments Group plc will prepare consolidated accounts in line with IFRS.

The first results prepared under IFRS will be for the 6 months to June 2005 and the first set of financial statements will be for the year to 31 December 2005.

The figures detailed in this announcement are based on the IFRS expected to be applicable as at 31 December 2005 and the interpretation of those standards. IFRS are subject to possible amendment by and interpretative guidance from the International Accounting Standards Board as well as ongoing review and endorsement by the EU and are, therefore, still subject to change. It is therefore possible that these figures may require amendment before their inclusion in the IFRS financial statements for the 12 months to 31 December 2005.

Impact of IFRS

The main impacts of implementing IFRS with respect to the group's consolidated accounts are:

- Goodwill amortisation:
Goodwill amortisation from 2004 onwards is reversed and goodwill on earlier acquisitions, is fixed at the 1 January 2004 value. All goodwill balances are subject to annual impairment tests.
- Pension scheme:
Previously the group accounted for the defined benefit pension scheme under UK GAAP in accordance with SSAP24, with additional FRS17 disclosures. From 1 January 2004, under IAS19 the pension scheme's net liability is recognised in the group's consolidated balance sheet under similar accounting treatment to full adoption of FRS17.
- Dividends:
Under IFRS dividends may only be accounted for on payment, previously under UK GAAP proposed dividends were accrued in the financial statements.
- Share option schemes:
Previously the cost of share option schemes did not result in a charge to income. Under IFRS2, all share option schemes result in an expense reflecting the value of benefits received by employees.
- Capitalised development costs:
This relates to the requirement under IAS38 to capitalise those costs relating to the development of products from the point at which a development project meets the "development phase" criteria (as set out in the standard) as internally-generated intangible assets, which must subsequently be amortised over their estimated useful economic lives.
The group routinely invests in research and development expenditure, however only a small proportion of this meets the capitalisation criteria.
- Balance sheet classification:
IFRS requires a number of assets and liabilities to be presented differently.
- EPS:
The calculation methodology for EPS is essentially unchanged from UK GAAP, however a number of the above items impact on the value of EPS computed under IFRS compared to that under UK GAAP.

IFRS 1 Exemptions

IFRS1, First Time Adoption of International Financial Reporting Standards, allows companies adopting IFRS for the first time to elect to utilise some exemptions from the full requirements of IFRS in the transition period.

The MTL Instruments Group plc has taken the following key exemptions:

- Business combinations prior to the transition date (1 January 2004) have not been restated under IFRS.
- All cumulative actuarial gains and losses on group pension schemes have been recognised in equity reserves at the transition date. On an ongoing basis all actuarial gains and losses will be recognised directly in equity reserves via the statement of recognised income and expense (SORIE) in a similar manner to that prescribed under FRS17.
- IAS21 (The Effects of Changes in Foreign Exchange Rates) has not been retrospectively applied with the effect that the cumulative translation differences held in reserves under UK GAAP will be set to zero at 1 January 2004. The gain or loss on any future disposal of foreign operations will therefore only include those foreign exchange differences arising subsequent to 1 January 2004.
- IFRS2 (Share-based Payment) has not been retrospectively applied to equity instruments (equity-settled transactions – namely share options) granted on or before 7 November 2002, nor to those granted after 7 November 2002 that have vested before 1 January 2005.
- IAS32 (Financial Instruments: Disclosure and Presentation) and IAS39 (Financial Instruments: Recognition and Measurement) will only be applied from 1 January 2005. As a result the accounting treatment applied to financial instruments held by the group in 2004 continues to be based on UK GAAP.

Adjustments to Equity

(references refer to reconciliation schedules 1-3)

- (a) Under UK GAAP goodwill is amortised over its estimated useful life up to a maximum of 20 years. Under IFRS goodwill is not amortised, but instead subject to an annual impairment review. Therefore, goodwill amortised in the year to 31 December 2004 is reversed. Goodwill amortisation prior to 1 January 2004, the date of transition to IFRS, is not reversed as goodwill, but is held at the value at this date under IFRS.
- (b) Under UK GAAP the group's defined benefit pension scheme is accounted for under SSAP 24 with contributions to the scheme being expensed. Under IFRS, the net pension scheme liability is recognised in the group balance sheet and the associated deferred tax arising on the liability recognised separately within deferred tax assets.
- (c) Under UK GAAP proposed dividends are accrued in the period-end balance sheet. Under IFRS the liability for a dividend is not recognised until it has been declared. Undeclared accrued dividends are therefore reversed.
- (d) Under IFRS, the fair value of share options issued by the group after 7 November 2002 (that have not vested before 1 January 2005) must be expensed over the option vesting period.

- (e) At transition to IFRS, the cumulative translation differences held in reserves under UK GAAP are set to zero. The balance in the translation reserve subsequent to 1 January 2004 therefore represents the movement since this date.
- (f) Under IFRS, development costs that meet the recognition criteria must be capitalised as internally-generated intangible assets, and subsequently amortised over the expected useful economic life of the intangible asset developed.
- (g) Revaluation reserves are cancelled against equity as the investment property to which the reserves relate is transferred to property plant & equipment to be subsequently held at depreciated cost.

Adjustments to Income

(references refer to reconciliation schedules 4 and 5)

- (h) As noted in (a) above, goodwill is not amortised but is subject to an annual impairment review. Therefore, goodwill which was amortised in the year to 31 December 2004 is reversed.
- (i) As noted in (b) above, under IFRS the pension scheme liability is recognised within the group's balance sheet.
Further, the contributions paid by the group during the period contribute to the movement in the period of the net liability – therefore the expense recognised under UK GAAP is reversed.
Under IFRS the current service cost of the pension scheme is recognised as the expense in the period.
The net interest for the period on the pension liability is recognised within finance costs in the income statement.
Actuarial gains and losses arising in the period on the pension scheme are recognised directly in equity, net of tax.
- (j) As noted in (c) above, only declared dividends are recognised under IFRS. Therefore undeclared dividends accrued under UK GAAP are reversed.
- (k) As noted in (d) above, the fair value of share options issued by the group is expensed over the option vesting period.
- (l) As noted in (f) above, development costs that meet recognition criteria under IFRS are capitalised and subsequently amortised over the useful economic life of the intangible asset developed.

Preliminary International Financial Reporting Standards ("IFRS") Financial Statements

	Schedule
Reconciliations of UK GAAP and IFRS:	
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