

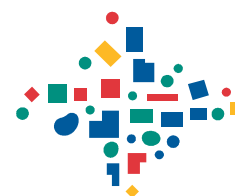
Spector

Cycl - Recreation Product&Svc / Belgium

Target Price EUR 1.83

Expected performance (12 mth) 13.0%

HOLD EUR 1.62 (Closing price 06-Feb-06)



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Solid partners, flexible solutions

Survival in a digital world

7 February 2006

Analyst

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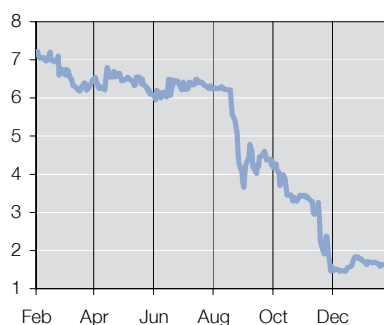
Email: kurt.debaenst@fortisbank.com

Opinion on qualitative criteria

Accounting	IFRS 01/01/2004
Quality of track record	Low
Solvency	Low
Currency risk	Neutral
Risk of asset write-off	Low

Share price performance/EPS revision (EUR)

Price Fortis EPS est. 2006



Source: JCF, Fortis Bank Equity Research

Market capitalisation (EUR m)	59.3
No. of shares (m)	36.6
Free float	55.2%
1/3/12 mth perf. (%)	(12.0)/(52.4)/(78.1)
High/low 52 weeks	7.35/1.45
Next results due	08 February 2006
Price/book value (x)	1.1
Volatility (β) (5yrs/BEL20)	0.2
Reuters symbol	SPEBt.BR
Bloomberg symbol	SPEC BB

Website www.spectorphotogroup.com

Capital increase & debt restructuring required to safeguard future

Spector raised EUR 40m fresh capital to implement a debt reimbursement and restructuring measures. The EUR 40m will be used for debt reimbursement (EUR 15m), restructurings (EUR 11m) and additional working resources (EUR 14m). In addition to the capital increase, a debt to equity swap of EUR 1.8m has been implemented. Given the issue price of EUR 1.40, the capital increase was highly dilutive (more than 440%).

We believe in a turnaround story ... will be visible from '07 onwards

After Spector implemented its restructurings as planned, we believe that Spector can get on the right track again. As of today, there is a clear repayment schedule. We feel comfortable Spector can meet these obligations and avoid the bankruptcy risk. We believe in a turnaround story (transition from analogue to digital photofinishing), which should become visible from 2007 onwards!

Initiating coverage with a Hold rating and a target price of EUR 1.83

Spector's stock price already rose 15.7% versus the issue price of EUR 1.40. Taking into account Spector's high risk profile and the recent negative sector newsflow, we cannot justify a Buy rating anymore. On 8 February at 6pm, Spector will publish its FY05 preliminary sales, estimated at EUR 353m. Note that the Christmas sales are very important for Photo Hall. We initiate our coverage on Spector with a Hold rating and a target price of EUR 1.83.

Year to December	2003	2004	2005e	2006e	2007e
Sales (EUR m)	376.8	357.1	353.2	348.2	351.9
EBITD (EUR m)	46.8	26.5	18.1	22.4	26.7
Net profit excl. extr. (EUR m)	9.0	0.8	(10.9)	(3.5)	0.4
Net profit (EUR m)	8.1	0.8	(13.1)	(3.5)	0.4
REBIT (EUR m)	16.1	7.7	4.4	7.5	5.3
EBITD margin (%)	12.4	7.4	5.1	6.4	7.6
REBIT margin (%)	4.3	2.2	1.2	2.2	1.5
ROCE (%)	8.1	2.2	3.4	5.6	2.9
Net gearing (%)	151.3	342.5	116.1	135.5	126.4
EPS before extr. (EUR)	1.00	0.12	(0.30)	(0.10)	0.01
EPS (EUR)	1.20	0.12	(0.36)	(0.10)	0.01
REPS (EUR)	1.00	0.12	(0.30)	(0.10)	0.01
DPS (EUR)	0.36	0.00	0.00	0.00	0.00
% change sales	(1.1)	(5.2)	(1.1)	(1.4)	1.0
% change EPS (excl. extr.)	47.7	(88.1)	ns	ns	ns
EV/Sales	0.5	0.4	0.3	0.3	0.3
EV/EBITD	3.9	5.1	5.6	4.9	3.9
P/E (excl. extr.)	7.9	77.7	nmf	nmf	nmf
P/E	8.8	77.7	nmf	nmf	154.1
PE/growth (excl. extr.)	0.0	nmf	nmf	nmf	nmf

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1. Investment case

Capital increase required to safeguard Spector's future

Spector raised EUR 40m fresh capital to be able to implement a debt reimbursement and restructuring measures. The EUR 40m will be used for debt reimbursement (EUR 15m), restructurings (EUR 11m) and additional working resources (EUR 14m). In addition to the capital increase, a debt to equity swap of EUR 1.8m has been implemented. Given the issue price of EUR 1.40, the capital increase was highly dilutive (more than 440%).

Restructuring into 2 divisions: Retail and Imaging

Spector's 2 core activities (Retail and Imaging) were historically closely related. Today, they operate independently and in distinct markets. The Retail and Imaging division have different business risk profiles and seasonal curves.

- The Photo Hall (Retail) concept is a well-tested and proven concept. Photo Hall (present in shopping/town centres) has been regularly confronted with new market entrants, but has always maintained its market position. Photo Hall has a different consumer profile than the large distributors or discounters. Photo Hall focuses on A-brands (no private label products), while most integrated electronic chains are also offering 'white goods'. Furthermore, Photo Hall tries to offer a high service at moderate cost (e.g. trained sales people, with tight sales targets).

Stable cashflows in 'Retail'

Although impacted by consumer consumption behavior, sales growth in the Retail division is quite stable over time. Double-digit volume growth is offset by price erosion, resulting in only low single-digit sales growth. Due to lower consumer spending in 2H05, we estimate 2005 sales growth in Retail at 2.5% yoy. Also the EBITDA margin ($\pm 5\%$ -6%) and REBIT margin ($\pm 3\%$ -4%) are quite stable over time. These growth levels should be repeated in the future. Thanks to the transformation from the Hungarian retail chain to the Photo Hall concept, the Hungarian activities will make a positive EBIT contribution (on an annual basis) as from 2006 onwards. This should fully offset the margin impact of increased competition. As a result, we keep the EBIT margin stable at 3.5% from 2006 onwards.

'Imaging' must be fully restructured and therefore needs EUR 11m

- The Imaging division must be fully restructured. As a result, the Imaging division needs financial means in order to bridge the period 2005-2006 and to adapt its business model to these changing markets: EUR 11m one-off restructuring costs for the period 2005-2006, mainly referring to redundancy costs, and partly to investments in central systems. The one-off restructuring cost of EUR 11m should be paid back in 2007 thanks to recurrent savings, which will have a EUR 10.9m positive impact on EBIT level.

EUR 14m additional working resources to develop a new digital business model!

Furthermore, the rest (EUR 14m) is additional working resources, required to bridge 2005-2006 while developing the new digital business model. This implies continued marketing investments in "digital database" to gain market share and assure future profitability, develop common IT platforms, ... The direct marketing represents an important upfront investment (high build-up costs), which is necessary in order for the new strategy to pay-off on the next stage. In 2005-2006, the investment in digital database will still surpass immediate return. Spector Photo Group only expects the equilibrium in digital database between recruitment & fidelisation in 2007.

The turning point in EBIT is expected for 2007 in 'Imaging'!

The transition phase is continuing: the decreasing number of analogue orders were not compensated for by the impressive growth of digital photo prints. While "home printing" represents $\pm 54\%$ of the total printed digital photos, the remaining share for "out-of-home printing" remains an attractive growth segment. By not making a distinction anymore between volumes of analogue and digital photo prints from Mail Order and Trade, a better capacity utilisation of the Wetteren lab can be obtained. Sales from Imaging are

expected to fall 8.0% yoy in '05, 4.3% yoy in '06 and 2.0% in '07. In '08, we estimate a sales growth of 3.2%. As a result of all these above-mentioned measures in the division Imaging, the turning point in EBIT is expected for '07. We estimate EBIT from Imaging to become break-even in '07.

EUR 15m debt reimbursement

As the Imaging activities have squeezed operating cash flows, Spector was not able anymore to meet its debt repayments. According to Spector, net debt after debt reimbursement will fall from EUR 82m at the end of 9M05 to EUR 67m-68m (excluding remaining cash inflow of EUR 25m from the capital increase). Furthermore, net debt will be split between Retail (EUR 31.1m LT and EUR 19m ST debt) and Imaging (EUR 11.9m LT and EUR 6m ST debt). Important to note is that our net debt estimates are more conservative than Spector's guidance. The reason therefore is that we do not take into account the possible proceeds of 'Assets held for sale' (EUR 12.4m in the balance sheet at the end of 9M05). According to our calculations (pre-capital increase), Spector had EUR 94.4m net debt at the end of 9M05 versus EUR 15.3m total equity and a market capitalisation of EUR 23m.

As the capital increase was successful, the subscriptions of the retail investors were allocated for 70% and the requests by institutional investors were reduced at the allocation. After the increase, the Vlerick family (Consortium VIT) owns 18.43% of Spector and Koramic Finance owns 11.15% of Spector.

In addition to the capital increase, a debt to equity swap of EUR 1.8m has been implemented. Given the issue price of EUR 1.40, the capital increase was highly dilutive (more than 440%).

We believe in the turnaround story. This should become visible from 2007 onwards

If Spector implement its restructurings as planned and if the market evolutions are in line with our expectations, we believe Spector can get on the right track. The years 2005 and 2006 will be hard to bridge, but from 2007 onwards the turnaround should become visible in the P&L.

Before the debt restructuring, investors had no visibility on the future debt reimbursement schedule. Anyway, as Spector's free cashflow dried up due to the transition from analogue to digital photography, Spector was not able to meet its annual debt repayments anymore. Hence, a capital increase and debt restructuring was needed to safeguard its future. As of today, there is a clear repayment schedule: on average around EUR 4m per annum for the next five years. We feel comfortable Spector can meet these obligations, hence avoid the bankruptcy risk. We expect Spector to start 2006 with a cash position of EUR 26m after the capital increase.

We initiate our coverage with a Hold rating and a target price of EUR 1.83

After the capital increase, Spector's stock price rose 31.4% to a maximum of EUR 1.84 versus the issue price of EUR 1.40. Due to the recent negative newsflow of Konica Minolta, Nikon, Fuji, ... (you can find more info below the heading 6.3. in this report), Spector's stock price fell again to the current level of EUR 1.62 (still + 15.7% versus the issue price of EUR 1.40). As a result, we took into account a more conservative stance in our valuation (beta of 1.6). We initiate our coverage on Spector with a Hold rating and a target price of EUR 1.83 (13% upside potential).

2. Valuation (post capital increase)

Below you can find our DCF valuation. We took into account a WACC of 7.6% and a perpetual growth rate of 1.0%. This provides us a DCF value per share of EUR 1.83.

DCF valuation

	31/12/2005	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012	Terminal value
EBIT	(2.3)	1.5	5.3	7.5	9.7	11.0	10.6	11.3	
Depreciation	20.4	20.9	21.5	21.8	21.7	22.2	22.8	23.4	
Provisions (change)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net working Capital (change)	(2.0)	0.4	(0.3)	(0.9)	(1.0)	(0.7)	(0.4)	(0.4)	
Gross operating cash flow	16.1	22.8	26.5	28.4	30.5	32.6	33.0	34.3	
Capex	(14.0)	(24.0)	(17.2)	(18.5)	(20.7)	(22.2)	(22.8)	(23.4)	
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other net investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Sale of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Taxes paid	0.6	(0.4)	(1.3)	(1.9)	(2.4)	(2.7)	(2.7)	(2.8)	
Free cash flow (FCF)	2.6	(1.6)	8.0	8.0	7.4	7.6	7.6	8.1	8.5
NOPLAT									
Free cash flow	2.6	(1.6)	8.0	8.0	7.4	7.6	7.6	8.1	128.9
Net present value	2.6	(1.5)	6.9	6.5	5.6	5.3	4.9	4.9	77.9
Total NPV	113.2								
Cash + financial fixed assets	48.1								
Total value	161.4								
Financial debt	92.3								
Pension debt	1.0								
Shareholder value	68.09								
N° shares (m) - fully diluted	37.2								
Per share	1.83								
						Beta		1.60	
						Risk free rate		3.5%	
						Risk premium		4.5%	
						Gross cost of debt		7.0%	
						WACC		7.6%	
						Perpetual growth rate		1.0%	

Source: Fortis Bank Equity Research

As Photo Hall (Retail) generates stable cashflows, we tried to make a rough calculation. This values Photo Hall at ± EUR 1.0 per share stand-alone.

Rough calculation of Photo Hall (EUR m)

	2006e	Comment
Sales	201.14	
EBIT	7.04	
Financial income	(3.50)	7% on EUR 50m financial debt
Pre-tax profit	3.54	
Tax	(0.88)	Tax rate 25%
Net profit	2.65	
Estimated value PhotoHall	35.84	13.5 times earnings
Per share	0.96	37.2m shares

Source: Fortis Bank Equity Research

3. Profile of Spector

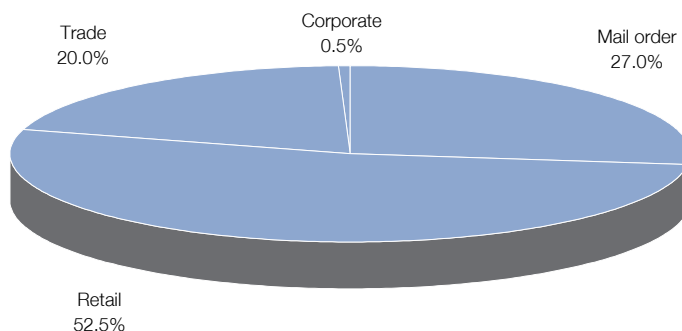
Diversified group in imaging and multimedia

Spector Photo Group is a diversified group in imaging and multimedia, with 1,490 employees in 11 European countries. Its 2 core activities are:

- Imaging (Mail Order and Trade): processing digital and traditional photo captures into photo prints – onto a variety of support media and in the desired format.
- Retail (Multimedia products): retail of multimedia products including photo cameras and photo-related products.

3.1. Two main segments and the Corporate segment

Breakdown of 2004 sales

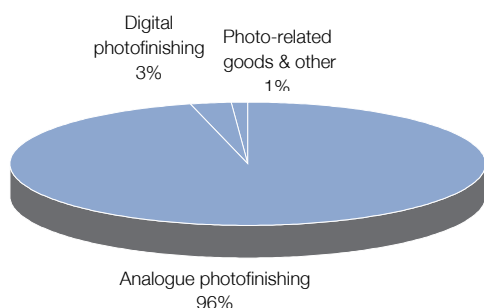


Source: Fortis Bank Equity Research

3.1.1. Imaging – Mail Order

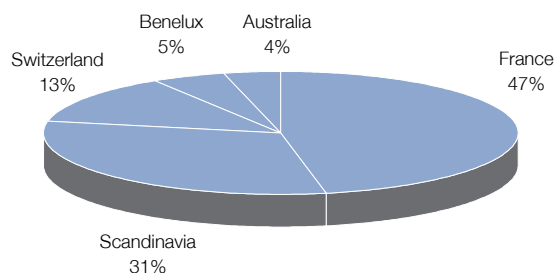
Mail Order refers to business where the clients place their orders by mail or over the internet, and the order is then home delivered by mail (images printed on quality paper or on CD). Through its brands ExtraFilm, Maxicolor and Wistiti, Spector Photo Group supplies mainly analogue and digital photofinishing services, complemented with photo-related goods (e.g. photo frames, albums, photo cameras, photo calendars, photo greeting cards, photo T-shirts, ...). Mail Order refers to direct marketing, based on an effective database system. As ExtraFilm counts 2.5m customers, it is the European leader in terms of photofinishing turnover. It is mainly active in Scandinavia, France, Switzerland and the Benelux, supported by 2 specialized photofinishing labs (Wetteren in Belgium and Tanumshede in Sweden).

Business breakdown of 2004 Mail Order sales



Source: Fortis Bank Equity Research

Geographical breakdown of 2004 Mail Order sales



Source: Fortis Bank Equity Research

3.1.2. Imaging – Trade

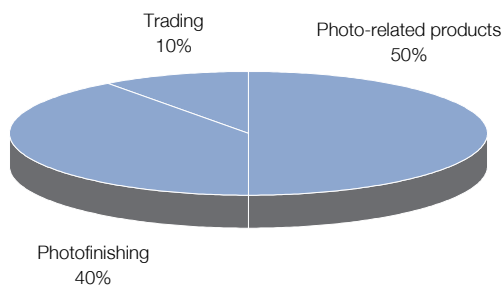
This segment comprises the B2B activities of the group. As a result, the subdivision ‘Trade’ generates lower margins than the ‘Mail Order’ subdivision. It is the wholesaler with additional trade services in the field of photofinishing &

photo-related products. About 75% of 2004 Trade sales is generated from photo specialists in the Benelux, Italy and France. The other 25% is derived from retail chains like Blokker in Belgium and Esselunga in Italy, or on the export markets. This segment is supported by 2 photofinishing labs: Ostend (Belgium) and Milano (Italy) – also significant insourcing of photofinishing from the Mail Order lab in Wetteren (Belgium).

With the development of digital imaging technology, images can also be processed in electronic format or via an electronic channel. Spector Photo Group has opted for a full integration of the e-commerce channel into its existing Business Units. This means that Mail Order customers can “upload” their digitally captured pictures to the local websites of Extra Film or Maxicolor, from where the printed images are home-delivered by mail. The Spector-customer can select the address of his familiar Spector photographer, where he wants to collect the prints that he has ordered of his digital images.

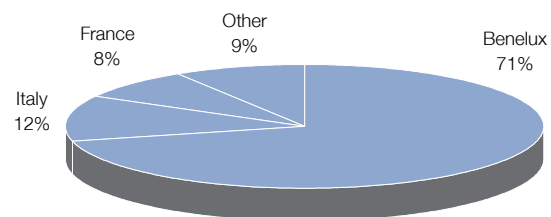
- About 50% of 2004 Trade sales is generated by the sale of photo-related hardware and accessories that are sold by the purchasing organizations Filmobel, Positif, Sacap, and Spector Centers to independent photographers.
- About 40% of 2004 Trade sales is derived from photofinishing services. The group offers 2 brands that the photo specialists can use to approach the end-consumers: Spector and Kodak Images.
 - The Spector concept covers a network of \pm 500 independent photo specialists in Belgium and 150 in the Netherlands. For their photofinishing jobs, they either rely on the lab in Wetteren, or they process these jobs themselves in-store on the minilab for which Spector operates as supplier.
 - The Kodak Images brand is used by \pm 300 independent photographers and 1,800 retail chain outlets in the Benelux, who entrust their photofinishing orders to Litto-Color.
- About 10% of 2004 Trade sales refers to the export of photofinishing materials and equipment, mainly to markets beyond Western Europe. Note that this includes the non-core activities Sacap France and Fotronic.

Breakdown of 2004 Trade sales per product category



Source: Fortis Bank Equity Research

Geographical breakdown of 2004 Trade sales



Source: Fortis Bank Equity Research

3.1.3. Retail

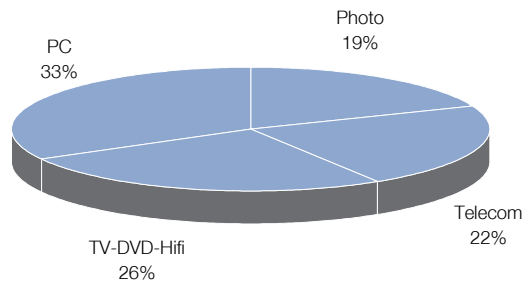
Under the brands Photo Hall Multimedia and Hifi International, Spector Photo Group is active in the retail of multimedia products. It has 4 product categories: photo (cameras, accessories, and photofinishing), telecom (GSM & accessories), TV-DVD-Audio and PC (including auxiliary devices, software, games).

Photo Hall's retail network (165 outlets, mainly in proper management, only 6 franchised) is present in Belgium, Luxembourg, Northeast of France, and

Hungary (Föfoto under the brand of Photo Hall). Hifi International is operating in Luxembourg with 16 outlets.

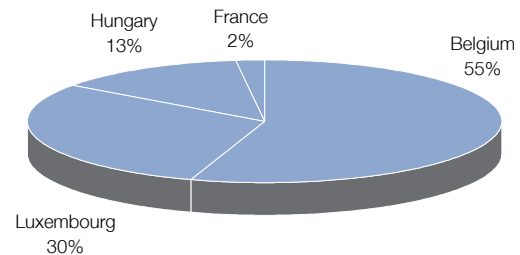
The store concept is mid-sized outlets in shopping malls and city centres with a reach of 30,000-40,000 inhabitants. The average shop surface is 80m² to 150m². The outlets in Luxembourg are generally bigger than the average, while the Hungarian shops tend to be smaller than the average.

Breakdown of 2004 Retail sales per product category



Source: Fortis Bank Equity Research

Geographical breakdown of 2004 Retail sales



Source: Fortis Bank Equity Research

3.1.4. Corporate segment

This segment represents less than 1% of the consolidated group turnover and refers to support services from the headquarters, e.g. ICT.

3.2. Four main brands

Spector's 4 main brands are: ExtraFilm, Spector, Maxicolor and Photo Hall.

3.2.1. ExtraFilm

ExtraFilm is the core brand for Group's Mail Order and Web-to-post activities. The scope of ExtraFilm has been expanded from traditional film and processing to include digital imaging as well. Initially, the name ExtraFilm referred to its system of providing customers with a free extra film roll when delivering their photo prints. In 1982, ExtraFilm entered into its first partnership with Spector Photo Group with the creation of ExtraFilm France. In 1990, the entire ExtraFilm organization joined Spector Photo Group. Today, the ExtraFilm brand is present in Scandinavia and France, as well as Switzerland and Australia. The ExtraFilm.com Web site puts top quality images within reach of the entire world. At present however, its main focus remains on the European market.

3.2.2. Spector

The Spector brand has been created in 1976-1977. Today, the Spector brand is used in the Benelux for the partnerships with independent photo retail outlets. To the specialized photo retailer, the Spector brand represents tailor-made quality, and embodies a partnership with a photofinisher who has explicitly opted to not operate as a wholesaler for large distribution chains. The Spector brand is linked primarily to photofinishing, but also features on film rolls and one-time-use cameras.

3.2.3. Maxicolor

Maxicolor (Mail Order photofinishing) became part of Spector Photo Group in 1996. Today, the Maxicolor brand is only used (anymore) in France. We believe that the brand name Maxicolor will be switched to Extrafilm in the future, which should lead to further cost savings in marketing.

3.2.4. Photo Hall

Photo Hall is the core brand for the multimedia retailing activities of the Group. With the breakthrough of digital technology, the various media are rapidly converging. Photo Hall was founded in 1933. In 1996, Photo Hall became part of Spector Photo Group. Today, the Photo Hall chain is active in Belgium, Luxembourg, Northeast of France and Hungary. In Luxembourg, Photo Hall is linked to the Hifi International brand (high local brand awareness). In Hungary, the group has started in 2002 to convert the existing retail chain to the Photo Hall concept.

3.3. Recent restructuring history

Divested Photo Porst and its wholesale activities in 2001

- In 2001
 - Spector launched the Renaissance Plan to restore group's structural health;
 - Spector divested its German retail-organization (Photo Porst), which led to a complete withdrawal from the German market;
 - Spector also withdrew from the wholesale market segment (in France and Germany) as the wholesale margins for photofinishing became under increasing pressure in 2000.

2002 was characterised by the breakthrough of digital imaging and the full absorption of Photo Hall

- In 2002
 - the Renaissance Plan led to a major debt reduction and resulted in the restoration of its profitability;
 - Spector divested its wholesale lab in Austria;
 - Spector Photo Group fully absorbed Photo Hall (from a 55% stake);
 - breakthrough of digital imaging on the consumer market.

Acquisition of Positif photoGroup and Omninet

- In 2003
 - the Photo Hall concept was implemented by the Retail Division in Hungary (in the Föfoto outlets);
 - in Belgium, Spector acquired Positif photoGroup. As such, it became the largest purchasing organization of photo-related products for independent photo specialists in Belgium;
 - in the Mail Order division, the group anticipated the breakthrough of digital imaging. It developed a pan-European photofinishing Web site under the ExtraFilm brand. Furthermore, it acquired the French company Omninet that operates the "photo-sharing" Web site Wistiti.

In 2004: more investments in digital photofinishing, the acquisitions of Litto-Color and KodaPost and a co-operation with Microsoft and Fujifilm

- In 2004
 - The Spector Group accelerated its investments in digital photofinishing.
 - in April 2004, the first automatic digital photofinishing line was installed in the lab in Wetteren (Belgium);
 - in June 2004, Spector's Swedish mail order subsidiary ExtraFilm starts distributing ExtraFilm@Home, an off-line order program that enables the consumer to burn their order onto a CD, which is mailed to the lab using a traditional mail order pouch;
 - in October 2004, Spector Photo Group lays the foundations for a co-operation with Microsoft and Fujifilm;
 - as of 1 November 2004, Litto-Color (Kodak's photofinishing lab in Ostend servicing the Benelux and northern France) is included in the consolidation scope of Spector. Litto-Color received licensing rights to use the brand name Kodak Images. Note that Litto-Color generated \pm EUR 23m turnover in 2004 (\pm 6.4% of Sectors' total 2004 sales);
 - in December 2004, Spector Photo Group acquired the business of KodaPost, the Scandinavian Mail Order business of Kodak. Along with 250,000 customers in Sweden and Norway, Spector also acquired licensing rights to use the KodaPost brand name in Scandinavia. Spector projected a pay-back period of \pm 1y for this acquisition. Spector high-speed photo-printing line started operations in its Swedish labs.

In 2005: terminated negotiations about the JV between Spector and Valora + closure of Munster lab

- In 2005
 - Negotiations about a joint venture between Spector and Valora for their respective 'Mail Order photofinishing' organisations (i.e. ExtraFilm/Maxicolor (Spector) and Fotolabo Club (Valora)) were terminated in February 2005. As a result, Valora Holding announced its intention to divest Fotolabo Club.
 - Closure of the lab in Munster (France). As a result, the orders from Swiss ExtraFilm and French Maxicolor customers will be processed in the Wetteren lab (1/3 more film volumes), and should increase the lab capacity in Wetteren to 60% -70% on average. The earn-back period for the closure is \pm 15 months.

4. Strategy of Spector

Spector Photo Group has developed its 'Navigating the Future' strategic plan to adjust itself to the market evolutions.

4.1. Highlights of Spector's "Navigating the Future" strategic plan

4.1.1. In general

1) Improving lab profitability

The first part of this plan is aimed at sustaining lab profitability in a decreasing market for processing negative film through:

- the acquisition of additional volume;
- the optimization of fixed costs.

Partitioning the fix costs over a volume as high as possible, is the key to realise this. The recent acquisitions and partnerships must be seen in this context.

2) Strengthening digital imaging growth, introducing new products and making partnerships

The second part of this plan provides for strengthening growth in the number of digital photo prints, as well as the introduction of new products and the conclusion of partnerships. In order to accelerate growth in the number of digital photo prints, Spector group took some measures. Examples:

- it developed the Pixbox digital order station (= kiosk that enables the consumer to order photo prints from his digital images);
- optimising the group's photofinishing Web sites. The 'Web-to-Post' concept requires a longer incubation time than the PixBox. This is probably related to the bandwidth for Internet connections, but also to a certain unfounded hesitation among consumers to test this option.

The strategic focus on niche markets, in which it can hold N° 1 or 2 positions, remains valid.

4.1.2. Imaging – Mail Order: 3 core strategies ... also valid for Trade.

The 3 core strategies for the Mail Order segment are:

- Maintain the level of the traditional activities by external acquisition of volumes. In 2004, Spector Photo Group acquired the business of KodaPost in Scandinavia. In 2005, Spector Photo Group will shift the focus of this strategy towards digital volumes, as a consolidation wave seems to emerge in the web-to-post market (as a number of successful web-to-post companies are currently reaching their limits for processing incoming orders on minilabs).
- Accelerate the growth of digital photo activities by installing order stations (kiosks), optimising the websites & developing partnerships. ExtraFilm now offers 4 different ways of ordering photo prints from digital images.
- Introduce innovative photo products & services, e.g. photo-graphic images on T-shirts, coffee mugs, greeting cards, calendars, ...

The 2 latter strategies should be achieved via partnerships. Spector Photo Group is the preferred photo partner of:

- Telenet and Skynet in Belgium;
- Startpagina in the Netherlands;
- La Redoute in France;
- Bredbandsbolaget in Sweden;
- Vodafone MMS in Belgium/Sweden;
- Canongate at a European scale.

Its cooperation with Microsoft and FujiFilm became operational on 9/12/04.

Partnership & consolidation opportunities

Note that there still exist a lot of partnership & consolidation opportunities in this field with e.g. Google, HP, ...

- Mobile Network Operations (MNOs) embrace imaging, but are looking for a print partner.

- Internet start-ups need to take the hurdle of industrialization, and will either sub-contract printing or look for industrial alliances.

4.1.3. Imaging – Trade

The same 3 core strategies as for the Mail Order segment are valid for the Trade segment. The group is implementing a cost reduction program at a pace that is at least equal to the pace at which the traditional photo market is changing. Spector Photo Group intends to strengthen its leading position in the independent photo specialists channel in the Benelux market by creating synergies between its Spector, Litto-Color, Filmobel and STL business units.

4.1.4. Retail

For Retail, the ‘Navigating the Future’ plan projects a growth based on:

- The introduction of new products. GfK projects that in 2005, 56% of the W-European market for consumer electronics will be generated from selling new products (e.g. flat-screen TVs, MP3 players, ...).
- A permanent optimization of the existing outlet network. The Photo Hall group (159 shops in 2004) projects a net increase of 10 shops to 169 outlets in 2005 (6 in Belgium, 2 in Luxembourg, 3 in Hungary and –1 in France).
- Growth into new geographic markets. With the exception of the ongoing transformation of the Hungarian retail network, there are no specific plans in the short term for expansion in new markets.

4.2. Adapting to the digital age

Spector Group will gradually shift its balance from photofinishing (mono product philosophy) to multimedia, and from mono channels (mail order and retail) to multi channels. To meet consumer’s demand, Spector will offer total solutions through various channels including retail outlets, the Internet, the postal service or a combination of all of these.

Market evolutions

Photo	→	Multimedia
Mono products	→	Multi-products and solutions
Mono channel (mail order, or retail)	→	Multi-channel

Source: Fortis Bank Economic Research

Some examples:

- In June 2005, Spector launched its ‘Give&Get Card’ on the Belgian and Dutch market. The Spector ‘Give&Get Card’ is a regular memory card that can be inserted into a digital still camera for registering photo captures. This card enables the consumer to order digital photo prints in an easy and convenient way. So you don’t need a computer.
- The new Spector Offline Software (SOS) enables you to turn your digital images into a tailor-made photo album. You can choose the type of the cover, backgrounds, layout for each page, ...

5. Competition

5.1. Competition for Imaging – Mail Order

In Western Europe, there is only 1 major competitor with cross-border activities, i.e. Fotolabo Club (Valora Imaging). New competitors with cross-border activities using the ‘web-to-post’ model remain relatively small. For instance, the major pure ‘web-to-post’ competitor Photoways generated EUR 5.7m sales in 2004 versus EUR 96.8m in Spector Photo Group’s Mail Order segment.

Competitors for Mail Order segment

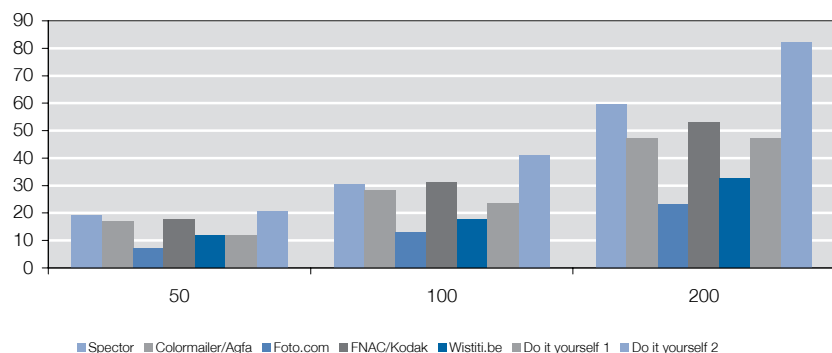
Countries where Spector is active	Share of Mail Order in total market	Share of Spector in this segment	Market position within the Mail Order segment	Main competitor (italic = excl. ‘web-to-post’)
Belgium	6%	50%	1	Fotolabo Club, <i>Foto.com, Pixagogo</i>
The Netherlands	1%	99%	1	<i>Pixum</i>
France	4%	70%	1	Fotolabo Club, <i>Colormailer, Photoways</i>
Denmark	4%	80%	1	
Finland	36%	7%	2	Fotolab Club
Norway	38%	24%	1	Knudsen, Preus
Sweden	40%	40%	1	Apport
Switzerland	50%	16%	3	Kreuzlingen, Fotolabo Club, Belcolor, <i>Colormailer, Photoways, Pixum</i>

Source: Estimates Spector Photo Group, Annual Report 2004

Note: the Spector market share in Sweden and Norway takes into account the acquisition of KodaPost in November 2004.

Via the internet, we tried to find a price/volume comparison for the photo format 10cm x 15cm between different volume offers (50, 100 and 200 photos).

Price/volume comparison for the photo format 10cm x 15cm between different offers



Source: Fortis Bank Equity Research

Note that it is very difficult to compare the prices of different internet photo printing services as there is much more than just photo printing on paper. At some sites, you have the possibility to save your digital photos in online-albums. Some providers are offering this kind of service for free. Furthermore, some are providing alternative printing types, e.g. on T-shirts, calendars, ...

‘DiskIdee’ made a recent market research of different internet photo printing services. Its general conclusion was the following: the winner was ‘Wistiti’, because of its free unlimited online storage of photos and its low prices for prints. ‘Foto.com’ has also low prices, but limited possibilities. ExtraFilm offers more possibilities combined with somewhat higher prices. Without taking into account the prices and the speed of execution, the best printing quality can be found at Fotolabo Club and FastLab. Pixagogo offers the most extended possibilities for people who want to archive their photos online.

5.2. Competition for Imaging – Trade

Although it has no lab in the Benelux, CeWe Color is the largest & most important competitor for Spector in this segment. Also Fuji, which still supplies a full service, is active in this segment. Note that Kodak stopped its analogue activities to fully focus on its digital activities. Also Agfa-Gevaert has pulled out of film.

In Belgium:

- On the Belgian photofinishing market:
 - In the channel of the independent photo specialists, the combination of Spector and Litto-Color is the undisputed market leader. The main competitors in this area are Rainbow Color (CeWe Color), Elka, and Presto Print (Fujicolor). In addition, digital minilabs continue their penetration in this channel (over 30% of the market). Spector is also active in this area.
 - In the channel of the integrated retail chains, Litto-Color holds a leading position as photofinishing supplier (provides photofinishing services for Blokker, Fnac, ...), along with CeWe Color (provides photofinishing services for e.g. 'Kruidvat').
- On the Belgian market for photo cameras and photo-related products:
 - In the channel of the independent photo specialists, the combination of Spector and Filmobel was the leader in 2004. But due to the merger of Selexion and Action 25 in July 2005, the resulting company Euronics became leader in terms of purchase power.

In the Netherlands:

- The combination of Spector and Litto-Color is the biggest provider of central photofinishing services for the independent photo specialist. Within this channel, decentralised photofinishing (minilabs installed in specialists outlets) have a market share of over 50% (considerably more important than in Belgium).
- In the non-specialist channel, Litto-Color is a major supplier along with CeWe and Fujifilm.

In Italy:

- FLT is a leading photofinisher on the northern Italian market (Milan region) and supplies both independent photographers as well as integrated retail chains.

In France:

- Sacap France focuses on the channel of the independent photographer. This channel is currently under tremendous pressure. This is partly due to the rise of digital photography, but also to the development of the market position of the big distribution chains such as Carrefour and Auchan. Over the past 2 years, Sacap has streamlined its organisational structure.

Export markets:

- Fotronic is mainly active in the field of trading photographic paper, film, and other photo-related products in Africa, Eastern Europe, South America and Asia. The export to these markets is highly dependent upon the USD rate. Fotronic purchases the majority of its trade goods in EUR, but sells mainly in USD. This factor forces Fotronic to adhere to an opportunistic strategy.

5.3. Competition for Retail

It is very difficult to find an accurate peer, as few other companies have a comparable product assortment to Photo Hall and Hifi International. Most independent electronic retailers are specialised in 1 or 2 products, but rarely in 4 like Photo Hall. This is precisely the strength of the Photo Hall concept.

- In Belgium: Photo Hall is leader in all 4 product categories within the channel of the specialised retail chains. Competitors of Photo Hall in Belgium are

independent specialist retailers (e.g. Selexion, Eldi, VandenBorre, Kréfel...) and large retail chains (e.g. MediaMarkt, Carrefour, Fnac).

- In Luxembourg: Hifi International is the N° 1 with a 40% market share.
- In Hungary: over the last 2 years, its retail park has been converted into a network of 52 outlets (same concept as in Belgium). These outlets are mainly situated in Budapest and other cities, where MediaMarkt and Dixons are increasingly present as well. Nevertheless, Photo Hall aims to be in the top 3.
- In France: Photo Hall has 5 outlets in the Alsace-Lorraine region. Note that there are no plans to expand the number of shops in France.

Belgian market shares of Photo Hall

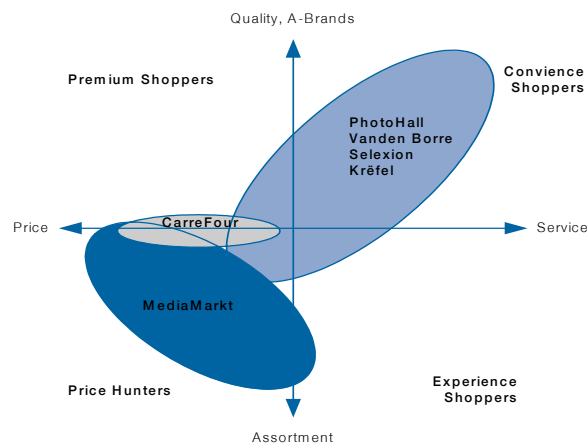
PC	8.0%
Monitors	5.2%
Printers	3.6%
Digicams	6.6%
PDA	2.2%

Source: GfK

“Retail is detail”: central management, limited overheads, high cost consciousness

The Photo Hall (Retail) concept is a well-tested and proven concept. Photo Hall (present in shopping/town centres) has been regularly confronted with new market entrants, but has always maintained its market position.

Retail group: positioning



Source: Spector Photo Group

Photo Hall has a different consumer profile than the large distributors or discounters. Photo Hall focuses on A-brands (no private label products), while most integrated electronic chains are also offering ‘white goods’. Photo Hall tries to make a selection of most popular models with the best price/performance ratio. This facilitates consumer’s choice and limit its stock level. Furthermore, Photo Hall tries to offer a high service at moderate cost (e.g. trained sales people, with high sales targets).

“Size matter”: optimize marketing spent, purchase power, occupy territory, ...

Photo Hall has a long-term relationship with key suppliers to assure product availability and to prevent dumping practices by competition. Last but not least, critical mass (+ the permanent optimization of the existing outlet network) is important to assure optimal return of marketing spending, to gain purchasing power and to pre-empt competition (to prevent new market entrants). As such, Photo Hall is targeting 180 outlets (100 in Belgium, 16 in Luxembourg, 60 in Hungary and 4 in France) by the end of 2007 (versus 165 at the end of 9M05). Note that Photo Hall is targeting to open 2 megastores and 1 logistic centre in Luxembourg. The test concept in France is no success (still loss-making) and should be evaluated at the end of 2005.

6. Latest results + preview FY05 sales

6.1. Preparation of a new business model for core activities

During 3Q05, Spector began its restructuring of core activities into 2 divisions, which are both centrally managed to achieve optimal synergies and focus:

- Retail division, which only includes Photo Hall Group;
- Imaging division, which includes the Mail Order and Trade segments.

To get a better view on the performance of both core activities, Spector also decided to process a number of non-core activities and related assets from the Trade segment in the accounts as 'assets held with the intention of their sale':

- Sacap France and Fotronic;
- Land and buildings of Spector Grand-Est (France), Sacap France and Spector Fotohandel (Austria).

The average N° FTEs has been reduced to 1,490 at the end of 9M05 (versus 1,710 at the end of 2004). N° FTEs could be around 1,450 (± 660 FTEs in Retail and ± 790 in Imaging) at the end of 2005 as Spector already announced in October the further reduction of 21 functions in Wetteren (in Logistics, Customer Service, IT and Administration departments) and as there are 21 functions related to Fotronic and Sacap France.

6.2. 9M05/3Q05 results

9M05 net sales fell 1.1% yoy to EUR 251.66m, while total sales fell 1.2% yoy to EUR 260.29m. However, excluding the turnover generated by Litto-Color (consolidated as of November 1st 2004), sales fell 7.7% yoy. 3Q05 net sales rose 3.4% to EUR 91,3m (-3.5% at comparable basis). 3Q05 REBIT and REBIT margin amounted to EUR 5.1m and 5.56% respectively. As such, 3Q05 REBIT wiped out the 1H05 REBIT of EUR -3.2m. The increased net financial costs can be explained by EUR 0.7m FX changes (EUR versus Swedish crown).

9M05 & 3Q05 results (EUR m)

	9M04	9M05	% yoy	3Q04	3Q05	% yoy
Net turnover	254.48	251.66	(1.1%)	88.29	91.27	3.4%
- Retail	132.0	136.1	3.1%	45.3	46.3	2.2%
- Imaging	136.5	131.9	(3.4%)	48.9	45.7	(6.5%)
- Corporate	2.3	2.9	26.1%	(0.7)	0.9	(228.6%)
- Eliminations	(16.3)	(19.2)	17.9%	(5.2)	(1.6)	(68.8%)
Other operating income	9.01	8.63	(4.2%)	2.05	3.19	55.6%
Total sales	263.49	260.29	(1.2%)	90.33	94.46	4.6%
Total costs of sales	(157.26)	(155.55)	(1.1%)	(50.25)	(55.15)	9.8%
Gross profit	106.22	104.74	(1.4%)	40.08	39.31	(1.9%)
Gross margin	41.7%	41.6%		45.4%	43.1%	
SG&A	(34.58)	(38.29)	10.8%	(10.69)	(12.56)	17.5%
Depreciation and amortisation expenses	(15.12)	(14.86)	(1.7%)	(5.12)	(4.78)	(6.5%)
Other operating expenses	(51.70)	(49.70)	(3.9%)	(20.07)	(16.88)	(15.9%)
REBIT	4.82	1.88	(61.0%)	4.20	5.07	20.7%
REBIT margin	1.89%	0.75%		4.76%	5.56%	
Non-recurring items from operating act.	0.32	(5.19)		0.32	(1.80)	
EBIT after non-recurring items	5.14	(3.31)	nr	4.52	3.27	nr
EBIT margin after non-recurring items	2.02%	(1.32%)		5.12%	3.58%	
Net financial cost, before non-recurring fin. Items	(3.81)	(4.57)		(0.75)	(1.05)	
Non-recurring fin. Items	0.05	(1.97)		0.05	(1.70)	
Tax	(1.38)	(0.61)		(0.39)	(0.24)	
Profit from discontinued operations	(0.67)	(2.20)		(0.67)	(2.04)	
Minorities	(0.13)	0.04		(0.13)	(0.12)	
Net group profit	(0.80)	(12.60)	nr	2.58	(1.88)	nr
Net group profit from continuing activities	(0.13)	(10.05)	nr	3.25	0.16	nr

Source: Fortis Bank Equity Research

Over 9M05, non-recurring costs and results from non-core activities amounted to EUR 9.4m. The already implemented restructuring measures resulted in

EUR 7.2m non-recurring costs in 9M05 (EUR 3.7m for Imaging, EUR 0.2m for Retail, EUR 1.3m for Corporate and EUR 2.0m for financial elements), of which EUR 3.5m in 3Q05:

- EUR 1.9m costs due to the Munster lab closure (Imaging, in 1H05);
- EUR 0.5m dismissal charges due to restructuring (EUR 0.3m in Imaging, and EUR 0.2m in Retail (Photo Hall Hungary) – largely in 1H05);
- EUR 1.9m impairments related to the changed market environment or the initiated restructuring (EUR 1.5m impairments of trade receivables in Imaging and EUR 0.4m impairments of goodwill on assets held for sale);
- EUR 0.9m consultant fees, mainly related to the development of the restructuring plan and the new business model (Corporate – 3Q05);
- EUR 2.0m non-recurring financial charges, i.e. impairments of financial assets (mainly on the current account with Spector Immobilienverwaltung, the German corporation that is accounted for under the equity method – 3Q05).

The result of the assets held with the intention to divest amounted to EUR -2.2m at the end of 9M05 (of which EUR 1.9m impairments of buildings).

6.2.1. Imaging – transition phase is continuing. Light at the end of the tunnel?

- 9M05 net sales from Imaging fell 3.4% yoy to EUR 131.9m (-6.5% yoy in 3Q05). The decreasing number of analogue orders were not compensated for by the continuing growth of digital photo prints. The sales increase of the Trade subdivision can mainly be explained by the acquisition of Litto-Color.
- The average standard price level has remained flat for analogue and digital photo prints, even while promotional actions based on (digital) volume reductions are being run.
- The volume compensation has improved in 3Q05. At the end of 9M05, the LFL growth in the number of digital photo prints has already compensated 84% of the decrease of the number of traditional photo prints. In September alone, a compensation rate of 96% has been achieved. Spector passed the milestone of 100m digital photo prints in mid-October 2005, thus enabling to reconfirm its forecast of 120m digital photo prints for FY05.
- EBIT fell from EUR 6.9m in 9M04 to EUR -3.1m in 9M05 due to:
 - The level of fixed costs. In order to reduce these fixed costs, Spector closed the Mail Order lab in Munster (was only completed in April 2005). Charges for the closure of the Munster lab were booked in 1Q05. This measure will only start to pay off from 2006 onwards.
 - The marketing costs for recruiting digital customers, outweighing the margin from their first orders. Thanks to cost-effective e-mailings to ensure the loyalty of these customers, the total marketing costs will reduce in proportion with sales, resulting in an improved EBIT.
 - The underutilisation of the lab capacity during the transition period.
- But in 3Q05, Imaging generated a EUR 3.3m EBIT, which is a first indication of the imminent turnaround expected in this field. It reflects the effect of the already implemented restructuring measures and the adjusted marketing plans, which is starting to pay off in 3Q05.

6.2.2. Retail – Photo Hall's 9M05 sales +3.1% to EUR 136.1m (54% of total sales)

- Due the hesitant consumer consumption behaviour (as a result of high fuel prices) in especially Belgium and France, the Photo Hall retail chain only generated a 2.2% yoy sales growth in 3Q05 versus a 3.5% growth in 1H05. In Belgium, sales in the TV (flat screen) and PC categories witnessed fair growth, while the Audio/HiFi category performed below expectations.
- In 9M05, Photo Hall opened 9 new shops and closed 6.
- In Hungary, the transformation from the Hungarian retail chain to the Photo Hall concept (as it is known in Belgium) is on track. The results of the own shops have started to compensate for those of the franchised outlets. The 9M05 sales rose 10% yoy. Due to restructuring charges, the Hungarian Photo Hall activities will only make a positive contribution to the group's EBIT on

an annual basis as from 2006 onwards. This seems achievable as Photo Hall Hungary already generated a 6.4% REBIT margin in 3Q05.

6.2.3. Corporate segment

The Corporate segment showed an improved operating result (although still a loss), mainly attributable to the corporate reorganization adjusting to the changing market environment for the group's operational entities.

6.3. Preview FY05 sales

FY05 sales is estimated at EUR 353m

On 8 February, Spector will publish its FY05 preliminary sales. We estimate FY05 sales will fall 1.1% to EUR 353.2m, in line with 9M05 results. Note that especially in the fourth quarter, the Retail and Imaging division have different business risk profiles and seasonal curves.

- Retail: thanks to the Christmas sales, fourth quarter sales are by the most important for Photo Hall. Due to lower consumer spending in 2H05, we estimate 2005 sales growth in Retail at 2.5% yoy. This implies only a 1.2% yoy increase in 4Q05. Nevertheless, Photo Hall should further benefit from the transformation from its Hungarian retail chain to the Photo Hall concept.
- Imaging: the fourth quarter is usually the weakest (after a peak in the third quarter). The decreasing number of analogue orders will not be compensated for by the continuing sharp growth of digital photo prints. We estimate Spector's volumes of digital photo prints will increase from 28m in 2004 to around 120m in 2005, while volumes of analogue photo prints are estimated to decline 25% yoy to 395m in 2005. Note that Litto-Color has been consolidated as of 1 November 2004. All this combined should lead to a 8% yoy decline of Imaging sales to EUR 153.2m.

Estimated 4Q05 and FY05 sales (EUR m)

	4Q04	4Q05e	% yoy	FY04	FY05e	% yoy
Retail	59.3	60.0	1.2%	191.3	196.1	2.5%
Imaging	42.6	40.5	-5.0%	166.5	153.2	-8.0%
Corporate & other	0.7	1.0	n.r.	-0.7	3.9	n.r.
Total net sales	102.62	101.50	-1.1%	357.1	353.2	-1.1%

Source: Fortis Bank Equity Research

Note that sales from Fotronic and Sacab (assets held for sale) will probably already be booked as 'sales from discontinued operations' under IFRS. Note that as long as these assets are not sold, we include the sales in our numbers.

Recent world-wide negative sector news

That the transition from analogue to digital photography is not simple, has been proved by recent world-wide sector news items:

- Konica Minolta, the third largest maker of photographic film, is pulling out of the camera & photo businesses to stem growing losses. Konica Minolta would transfer some of its assets in digital single-lens reflex (SLR) cameras to Sony for an undisclosed amount, and withdraw from the business in March 2006. Konica Minolta, which trails Eastman Kodak and Fuji Photo in the film-making market, will also pull out of the minilab film processing business by March and will end film & paper production by the end of March 2007.
- Nikon will discontinue some SLR cameras to focus on digital models.
- Fuji Photo Film closed its film factory in Tilburg. Due to restructurings of EUR 1.16bn spread over 2 years, Fujifilm recently launched a profit warning.
- In Belgium, 731.000 digital cameras has been sold in 2005 (versus 621.000 in 2004). According to GfK, the sale of digital cameras is only expected to grow 2% in 2006. 6 out of 10 families already own a digital camera in Belgium. But the market of digital cameras is becoming more a replacement market. The average price of a digital camera fell from EUR 550 in 2002 to EUR 340 in 2005. As a result, the large producers tries to sell more expensive SLR cameras (cost price between EUR 800 and EUR 900 per piece). In 2005, 39.000 analogue cameras has been sold in Belgium.

7. Capital increase required

Spector raised EUR 40m fresh capital to be able to implement a debt reimbursement and restructuring measures. The EUR 40m will be used for debt reimbursement (EUR 15m), restructurings (EUR 11m) and additional working resources (EUR 14m).

7.1. EUR 25m for restructuring and for bridging 2005-2006

Spector Photo Group needs financial means (EUR 25m) in order to bridge the period 2005-2006 and to adapt its business model to these changing markets:

- EUR 11m one-off restructuring costs for the period 2005-2006, mainly referring to redundancy costs, and partly to investments in central systems.

Restructuring measures		
Modules	Measures	Objectives
I. Centralisation of functions	Centralisation of corporate functions, Outsourcing of IT and non-core activities	Headcount reduction, increase flexibility
II. Optimisation of capacities	Reduce lab capacity to expected volumes	Decrease of structural cost
III. Adjustment of marketing expenditure	From gifts, free films (analog) to print marketing (analog + digital)	Improvement of marketing efficiency
IV. Simplification of processes & operations	From packaging, to delivery, routing to services	Reduction of complexity

Source: Fortis Bank Equity Research

The one-off restructuring cost of EUR 11m should be paid back in 2007 thanks to recurrent savings, which will have a EUR 10.9m positive impact on EBIT level.

- EUR 14m additional working resources, required to bridge 2005-2006 while developing the new digital business model. This implies continued marketing investments in “digital database” to gain market share and assure future profitability, develop common IT platforms, ...

Gain critical mass/a loyal customer database during the digital build-up phase by focusing on price!

The direct marketing represents an important upfront investment (high build-up costs) which is necessary in order for the new strategy to pay-off on the next stage. To build up an effective “digital database”, it is important to:

- Reach the highest possible number of new digital consumers. To reach this, the best marketing strategy is to offer high-convenience for ordering digital photo prints and attractive price offerings (including “free prints”).
- Generate considerable digital print volumes that enable the sharpest production cost prices. The best distribution strategy is to gain volume through the B2B channel, to establish pan-European partnerships and to approach the European customer database of Extrafilm.

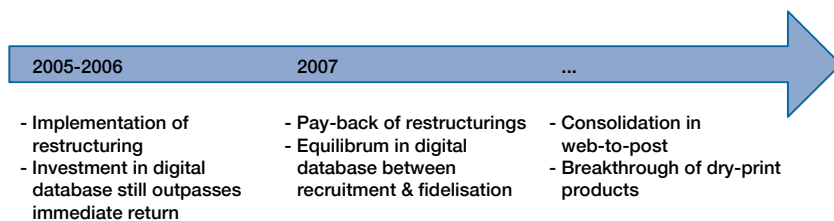
A local customer base is the platform for selling high-margin products (focus from price to convenience)

The next step is to capitalise on the customer database that has been built-up, by gradually shifting the marketing mix from price to convenience. The higher focus on convenience will be the main difference between the “digital market mix” versus the traditional model. Cross-selling high-margin innovative photo products will lead to a cost-efficient database.

In 2005-2006, the investment in digital database will still outpass immediate return. Spector Photo Group only expects the equilibrium in digital database between recruitment & fidelisation in 2007.

Besides the build-up of an effective “digital database”, Spector Photo Group will also shorten the production process, by using JPEG files for flashing on Cyra. Note that the main equipment is multipurpose (analog & digital).

Imaging group: timetable of courses of action



Source: Spector Photo Group

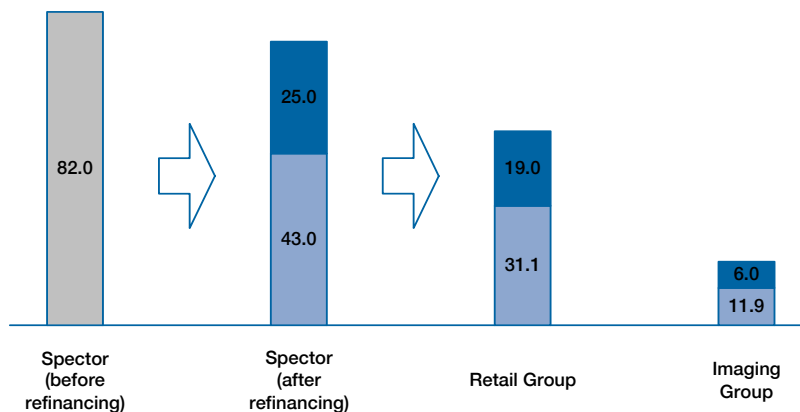
As a result of all these measures, the turning point in EBIT is expected for 2007.

Note that Spector Photo Group recently started to restructure its core activities into 2 divisions (from 14 operational business units), which are both centrally managed to achieve optimal synergies and focus. Spector has adapted its organisation to speed up the decision-making process and the implementation. As a result, the Board of Directors will be reduced from 13 members to 6 members, of whom 3 will be independent directors (including the Chairman Luc Vansteenkiste) and 1 Executive Director (i.e. Mr. T. Van Doorslaer, CEO). As already mentioned above, the N° FTEs has been and will be further reduced.

7.2. EUR 15m debt reimbursement

Furthermore, another EUR 15m will be used for the reimbursement of financial debts, which will improve financial results. According to Spector, net debt after debt reimbursement will fall from EUR 82m at the end of 9M05 to EUR 67m-68m (excluding remaining cash inflow of EUR 15m to EUR 25m from the capital increase). Furthermore, financial debt will be split between Retail (EUR 31.1m amortising and EUR 19m revolving debt) and Imaging (EUR 11.9m amortising and EUR 6m revolving debt).

Evolution & split of (net) debt position



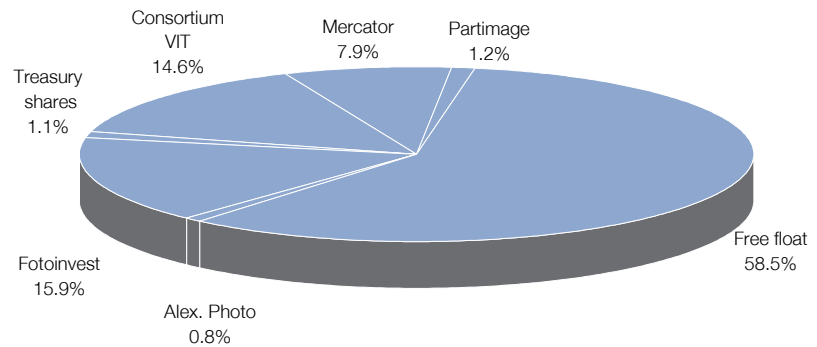
Source: Spector Photo Group

Important to note is that our net debt estimates are more conservative than Spector’s guidance. The reason therefore is that we do not take into account the possible proceeds of ‘Assets held for sale’ (EUR 12.4m in the balance sheet at the end of 9M05). According to our calculations (pre-capital increase), Spector had EUR 94.4m net debt at the end of 9M05 versus EUR 15.3m total equity and a market capitalisation of EUR 23m.

7.3. Shareholdership before & after the capital increase

In the graph below, you can find the shareholder structure before capital increase.

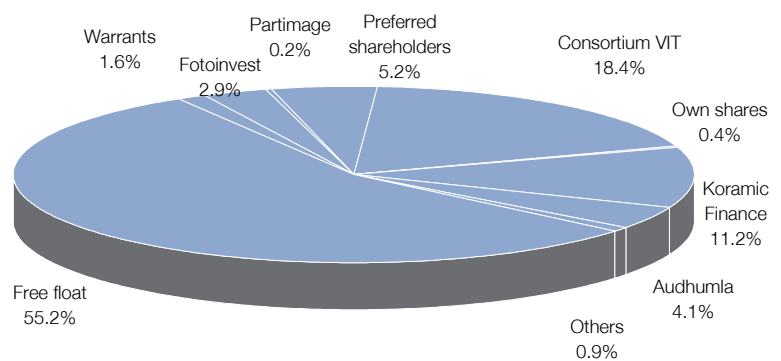
Shareholder structure before capital increase



Source: Spector Photo Group, Annual Report 2004

After the successful capital increase, the family Vlerick (Consortium VIT) owns 18.43% of Spector and Koramic Finance owns 11.15% of Spector.

Shareholder structure after capital increase (post-warrants)



Source: Fortis Bank Equity Research

8. Outlook/Market evolutions

8.1. Spector's 2005 outlook

Below, you can find Spector's 2005 outlook for its 2 core activities.

- Regarding the photofinishing activities (Mail Order and Trade segments):
The decreasing number of analogue orders will not be compensated for by the continuing growth of digital photo prints. In the second half of August 2005, Spector witnessed a production peak of over 1m digital photo prints for the first time. Based on this data, Spector forecast 120m digital photo prints for the full year 2005 (versus 28m digital photo prints and 391m analogue pictures in 2004). The new product lines (photo gift items, photo albums, ...) witnessed a strong start and will build up to a critical mass by 2006.

The suboptimal capacity utilisation for developing analogue films, restructuring charges (e.g. closure of the lab in Munster), and the additional marketing expenses required for creating a digital photo print market will however negatively affect the 2005 result. While the net result will improve further in 2H05, it will still remain significantly below the break-even point.

- Regarding consumer electronics and multimedia products (Retail segment): it remains difficult to provide a quantified forecast. The ever-more attractive selling prices for multimedia products may neutralize or compensate for the lowered consumption appetite.

8.2. Market situation/evolutions for Imaging

The total mail order market for photofinishing (including 'web-to-post') in Western Europe is estimated at EUR 300m.

Impact of the transition from analogue to digital photography ...

Parallel to the 2005 expectations for the global photofinishing market:

- the Western European market for traditional activities is expected to decline 20% to 25%;
- with the rise to the internet and digital photography, 'web-to-post' activities have developed on this market. For these 'web-to-post' activities, a turnover growth of over 100% is projected for 2005. Despite this high growth rate, no full compensation may be expected for 2005.

8.2.1. Advantages of digital photos

- digital pictures can be stored on DVD-disks and watched on High Definition screens;
- the popularity of the media-centre (2006) will also boost the storing and sharing of digital family content via internet;
- no development cost compared to film rolls, ready to be printed;
- they can be immediately viewed, deleted or retaken;
- a memory card can contain 300 to 400 pictures at 256 Mbyte. Note that the prices of flash memory continues to fall;
- mobile phones have been developing into full blown digital cameras.

8.2.2. Disadvantages of digital photos

- the main disadvantage is the security issue. If a harddisk crashes or a DVD scratched, images can be lost forever;
- uploading pictures via internet can be cumbersome and often requires special software. It can also take a lot of time as the upload speed of ADSL is typically 10 times slower than the download speed;
- pictures that are printed at home with a color printer are expensive, often of a lower quality and in any case have a shorter durability than photolab prints;
- internet startups that use a small photolab to develop pictures compete heavily on price, but do not have the same quality as the traditional photolabs or they lack the infrastructure for an efficient mailing service.

In 2004, Spector heavily suffered from the rapid adoption of digital camera's and the consumer behaviour shift. Nevertheless, we believe that the consumer world-wide will gradually increase the print-out of digital photos in the future via the traditional distribution way of shops or mail order (instead of printing at home). The table below proves that photos printing at home is more expensive (and of less quality) than via traditional distribution way.

Price of a digital print 15 x 10 cm format, in Eurocent/piece

Dye sublimation (premium printer, paper & ink included)	84
Inkjet printer Lexmark P707 (ink only - depreciation & paper excluded)	75
Inkjet printer Epson Stylus Photo (ink only - depreciation & paper excluded)	65
Inkjet printer HP Photosmart 7960 (ink only - depreciation & paper excluded)	55
Inkjet printer Canon BJ i905D (ink only - depreciation & paper excluded)	50
Spector print (all included)	45
ExtraFilm print (all included)	24

Source: PC Magazine (Belgium), November 2003

8.3. Market situation/evolutions for Retail

According to GfK, the total European market for the product categories photo-telecom-multimedia-hifi is worth about EUR 125bn. This market is estimated at EUR 850m-1,000m for Belgium, EUR 450m-500m for Hungary and EUR 50m-60m for Luxembourg.

Expected turnover of Consumer Electronics in W-Europe according to GfK in November 2004

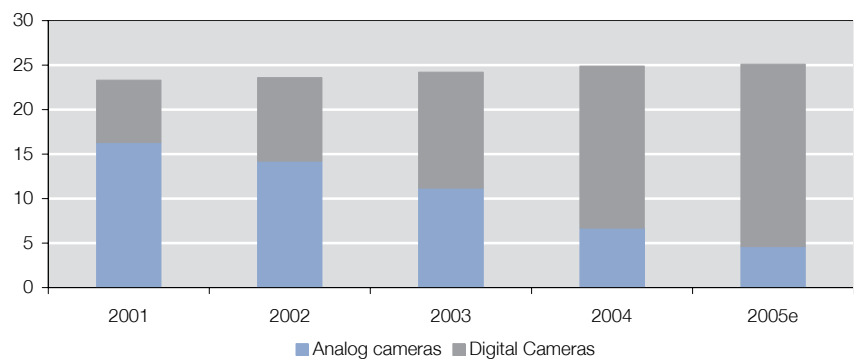
(EUR bn)	2004 estimate	2005 projection	yoy
Replacement market	27	22	(19%)
Installation market (new technology)	21	28	33%
Total	48	50	4%

Source: GfK

At the Consumer Electronics Conference of 26 November 2004 in Nuremberg, GfK provided more details for the Western European market.

While the sales are projected to grow 4% in 2005, the volume growth will be $\pm 15\%$, mainly supported by the growing momentum of sales of new technology applications such as flat-screen TVs, MP3 players, navigation systems, GSM with integrated digital camera and digital still cameras. The growth difference between sales and volume suggests price erosion in the various product categories. As the strongest volume growth is expected from flat-screen TVs and other products with a higher unit price, it is expected that the margin in absolute figures will not erode significantly. These trends are largely valid for the 4 countries Photo Hall is operating. The Luxembourg market is generally slightly ahead for new products and technologies.

Camera sales in the US



Source: Photo Marketing Association International Marketing Research

8.4. Results from a survey of TNS Dimarso made in February 2005

According to a survey of the market research agency TNS Dimarso made in February 2005, 49% of all Belgians own a digital still camera or a mobile phone that is equipped with a digital camera function. Not less than 23% of the interviewed population is strongly considering the purchase of such a digital picture-taking device. Furthermore, 33% of the owners of a digital camera use it at least once a week. The average Belgian takes more pictures with a digital camera than with a traditional film-based camera. The Belgian consumer has his pictures printed out-of-home about 4 to 6 times a year; on average 193 pictures per year.

8.5. Financials ... our estimates

8.5.1. In general

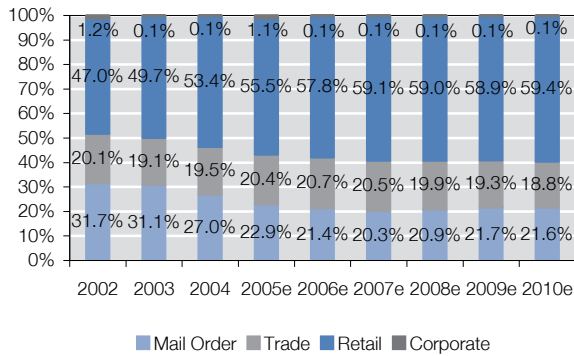
In the tables below, you can find the evolution of the segments between 2002 and 2004 in terms of turnover and EBIT-margin under Belgian GAAP. Pro forma figures before 2002 cannot be calculated as the consolidation scope in 2000 and 2001 has changed substantially. You can also find our estimates for 2005-2010 under IFRS. Due to the switch from Belgian GAAP to IFRS, the yoy comparison between 2004 and 2005 is (somewhat) distorted.

Divisional breakdown of sales (EUR m)

	2002	2003	2004	2005e	2006e	2007e	2008e	2009e	2010e
Imaging	197.3	189.1	166.5	153.2	146.6	143.6	148.2	153.5	155.1
% yoy		(4.2%)	(12.0%)	(8.0%)	(4.3%)	(2.0%)	3.2%	3.5%	1.1%
Retail	179.1	187.2	191.3	196.1	201.1	207.8	214.3	221.0	228.0
% yoy		4.5%	2.2%	2.5%	2.6%	3.3%	3.1%	3.1%	3.2%
Corporate	4.5	0.5	0.3	3.9	0.5	0.5	0.5	0.5	0.5
Total sales	380.9	376.8	358.1	353.2	348.2	351.9	363.0	375.0	383.6
% yoy		(1.1%)	(5.0%)	(1.4%)	(1.4%)	1.0%	3.2%	3.3%	2.3%

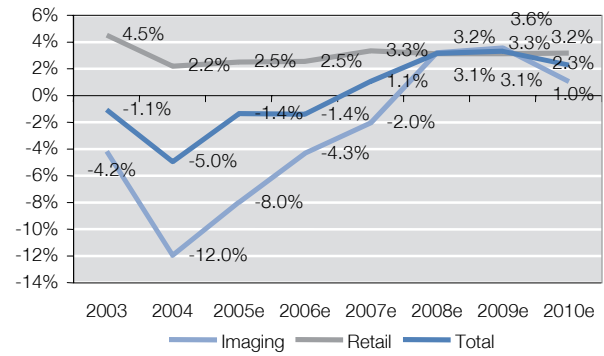
Source: Fortis Bank Equity Research

Divisional breakdown of (expected) sales



Source: Fortis Bank Equity Research

Turnover growth yoy



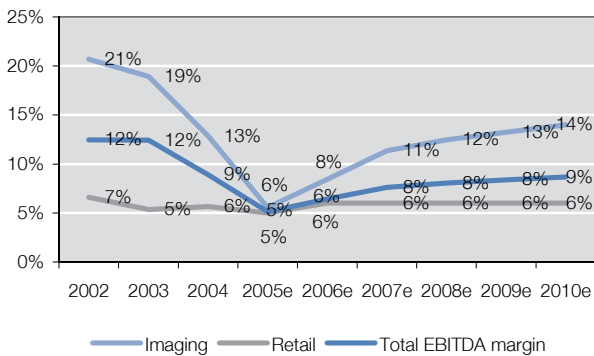
Source: Fortis Bank Equity Research

Divisional breakdown of EBIT (EUR m)

	2002	2003	2004	2005e	2006e	2007e	2008e	2009e	2010e
Imaging	16.7	13.7	0.7	(7.0)	(3.5)	0.0	2.0	4.0	5.0
% yoy		(18.0%)	(94.9%)	nr	nr	nr	nr	100.0%	25.0%
Retail	5.6	6.4	7.2	6.7	7.0	7.3	7.5	7.7	8.0
% yoy		14.3%	12.5%	(6.9%)	5.1%	3.3%	3.2%	3.1%	3.2%
Corporate	(3.6)	(4.0)	(4.2)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Total EBIT	18.7	16.1	3.7	(2.3)	1.5	5.3	7.5	9.7	11.0
% yoy		(13.9%)	(77.0%)	nr	nr	242.2%	42.3%	29.7%	12.8%

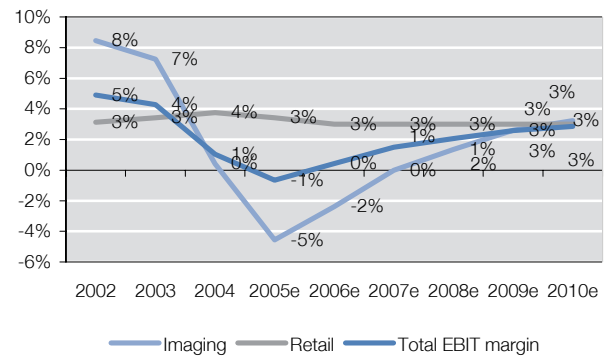
Source: Fortis Bank Equity Research

Evolution of (expected) EBITDA margin



Source: Fortis Bank Equity Research

Evolution of (expected) EBIT margin



Source: Fortis Bank Equity Research

8.5.2. Imaging

- We estimate turnover will still decrease in 2005, 2006 and 2007 despite the growth pace for digital photo prints continues to accelerate month after month and despite the launch of innovative photo products & photo gift items at the end of 2004.
- In 2006 and 2007, we estimate the volumes of analogue photo prints to decline another 25% each year (after a 28% decrease at comparable base in 2005). From 2008 onwards, we estimate the decline at 20% per year.
- Spector's volumes of digital photo prints will increase from 28m in 2004 to around 120m in 2005 (+328.6% yoy or +143% yoy at comparable base). We estimate an yoy increase of 100% in 2006, 50% in 2007, 30% in 2008, 15% in 2009 and 8% in 2010.

Expected evolution of analogue and digital photo prints according to our estimates

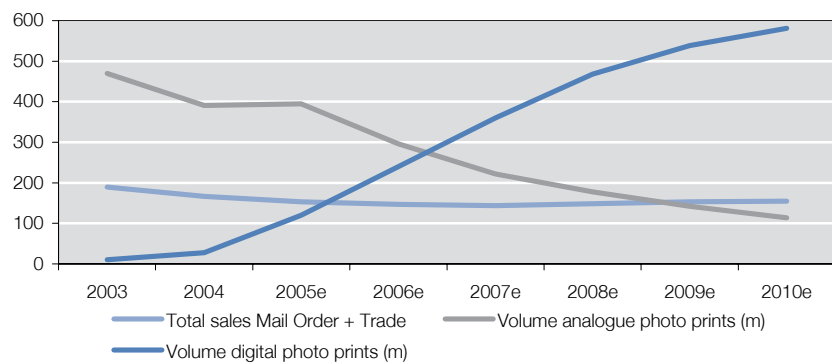
	2003	2004	2005e	2006e	2007e	2008e	2009e	2010e
Volume analogue photo prints (m)	470	391	395	296	222	178	142	114
% yoy		(16.8%)	1.0%	(25.0%)	(25.0%)	(20.0%)	(20.0%)	(20.0%)
LFL % yoy			(28.0%)					
% of total	98%	93%	77%	55%	38%	28%	21%	16%
Volume digital photo prints (m)	10	28	120	240	360	468	538	581
% yoy		180.0%	328.6%	100.0%	50.0%	30.0%	15.0%	8.0%
LFL % yoy			143%					
% of total	2.1%	6.7%	23.3%	44.8%	61.8%	72.5%	79.1%	83.6%
Total volume (m)	480	419	515	536	582	646	680	695
Total sales Mail Order + Trade	189.1	166.5	153.2	146.6	143.6	148.2	153.5	155.1
% yoy		(12.0%)	(8.0%)	(4.3%)	(2.0%)	3.2%	3.5%	1.1%
76% of photofinishing	143.7	126.5	116.4	112.6	110.6	116.2	122.5	125.1
24% of multimedia	45.4	40.0	36.8	34.0	33.0	32.0	31.0	30.0
% yoy		(12.0%)	(8.0%)	(7.5%)	(2.9%)	(3.0%)	(3.1%)	(3.2%)
Avg price/photo (*)	0.299	0.302	0.226	0.210	0.190	0.180	0.180	0.180

Source: Fortis Bank Equity Research

(*): Important remark: this is the average price for photos printed on paper but also printed on T-shirts, calendars, ... (which are much higher).

- According to Spector, the current average price is EUR 0.24 per analogue photo and EUR 0.18 per digital photo. These prices are for an average package of prints and taking start-up costs into account. Note that the advertised price per digital photo is around EUR 0.09. This price is merely an eye-catcher, just to attract consumers. Furthermore, prices per photo on tailor-made albums, calendars, gift items, ... are much higher. We estimate a gradual decrease of the average price per photo from EUR 0.21 in 2006 to EUR 0.18 in 2008. From 2008 onwards, we kept the average price per photo stable (taking into account the evolution of less analogue photos, more digital photos and more higher-margin prints (on T-shirts, calendars, ...) on a relative basis). Note that these higher-margin prints only represent a few percentages of current revenues. By 2007-2008, these prints should generate a substantial contribution (> 10% of Imaging sales). Also note that according to studies of PMA 2005, Morgan Stanley, Business Wire and KPMG, the average price per photo (digital + analogue) will stabilise from 2005 onwards. The US and European photofinishing markets show very similar trends, with the US having a slight head-start of $\pm 1-2y$ (US customers switched earlier from analogue to digital cameras).
- Sales from Imaging are expected to fall 8.0% yoy in 2005.
- 'Imaging' currently has the capacity to process $\pm 250m$ digital prints per year.
- As a result of all these above-mentioned measures in the division Imaging, the turning point in EBIT is expected for 2007. We estimate EBIT from Imaging to become break-even in 2007.

Expected evolution of analogue and digital photo prints according to our estimates



Source: Fortis Bank Equity Research

8.5.3. Retail

- The market trends of 2004 should largely continue into 2005. Nevertheless, have in mind some small restructuring costs in 2005 due to the conversion of Föfoto to Photo Hall in Hungary (which slightly impacted the EBIT margin in 2005).
- Although impacted by consumer consumption behavior, sales growth in the Retail division is quite stable over time. Double-digit volume growth is offset by price erosion, resulting in only low single-digit sales growth. Due to lower consumer spending in 2H05, we estimate 2005 sales growth in Retail at 2.5% yoy. Also the EBITDA margin ($\pm 5\%$ - 6%) and REBIT margin ($\pm 3\%$ - 4%) are quite stable over time. These growth levels should at least be repeated in the future. Thanks to the transformation from the Hungarian retail chain to the Photo Hall concept, the Hungarian activities will make a positive EBIT contribution (on an annual basis) as from 2006 onwards. This should fully offset the margin impact of increased competition. As a result, we keep the EBIT margin stable at 3.5% from 2006 onwards.

Breakdown of Retail sales

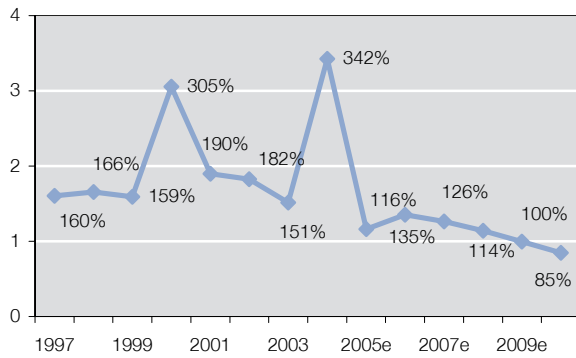
	2003	2004	2005	2006	2007	2008	2009	2010
Photo	30.0	36.3	39.4	42.1	44.2	46.0	47.8	49.7
PC	63.6	63.1	63.1	63.1	63.8	64.4	65.0	65.7
Mobile	33.7	42.1	43.3	44.6	46.0	47.4	48.8	50.3
Home Entertainment	59.9	49.7	50.2	51.2	53.8	56.5	59.3	62.3
Total Sales Retail	187.2	191.3	196.1	201.1	207.8	214.3	221.0	228.0
% yoy		2.2%	2.5%	2.6%	3.3%	3.1%	3.1%	3.2%

Source: Fortis Bank Equity Research

8.5.4. Impact on the balance sheet, bankruptcy risk avoided

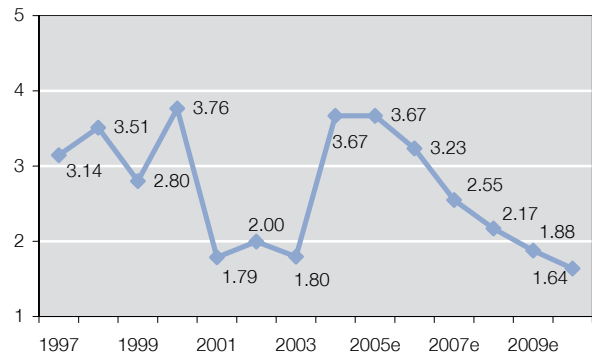
In 2001, 2002 and 2003, Spector reduced its debt and strengthened its financial position. This is evidenced by the evolution of the gearing ratio. Note that the main debt reduction has been realized by the sale of its wholesale activities (around EUR 55m). The gearing ratio reached the highest level (342%) in 2004, which proves the need for a capital increase! Given a capital increase of EUR 40m (+1.8m debt to equity swap), the gearing ratio should sharply improve to 116% in 2005.

Evolution of the gearing ratio



Source: Fortis Bank Equity Research

Evolution of the ratio net debt/EBITD



Source: Fortis Bank Equity Research

Before the debt restructuring, investors had no visibility on the future debt reimbursement schedule. As of today, there is a clear repayment schedule: on average around EUR 4m per annum for the next five years. We feel comfortable Spector can meet these obligations, hence avoid the bankruptcy risk. We expect Spector to start 2006 with a cash position of EUR 26m after our base case scenario for the capital increase.

9. SWOT-analysis

Below, you can find the SWOT-analysis of the Retail Division.

SWOT-analysis of the 'Retail' division

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong market share in Belgium and Luxembourg • LT track record of Photo Hall's business model • Proven financial stability and efficient financial controlling • Centrally managed by experienced retail specialists • Lean cost structure 	<ul style="list-style-type: none"> • Test concept in France is no success (loss-making) • No integrated retail IT system • High gearing ratio after capital increase
Opportunities	Threats
<ul style="list-style-type: none"> • High product innovation rates and short lifecycles enable steady & predictable customer attention and revenues • Growth potential in Luxembourg (2 megastores and a logistic centre) • Significant market potential in Hungary (after transformation phase) • Expansion opportunities in CEE 	<ul style="list-style-type: none"> • Spector's financial situation may affect Photo Hall's reputation with its suppliers, and leaves little room for extra working capital (stock build for Christmas, high-priced new products like flatscreen TVs, ...) • Lower consumer spending due to high fuel prices • Competition: MediaMarkt may cause pressure on margins.

Source: Fortis Bank Equity Research

Below, you can find the SWOT-analysis of the Imaging Division.

SWOT-analysis of the 'Imaging' division

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong position for analogue photofinishing in the Mail Order segment in Scandinavia, Switzerland and France • Profound know-how in analogue photofinishing • Extensive databases on customer behaviour • High-quality production output • Skilled staff 	<ul style="list-style-type: none"> • Lessons on effective marketing spending in digital market are still to be learned today • Reaction to market shifts must be shortened • Customer behaviour for digital market is based on limited historic experience • Cost in production support must be reduced • IT complexity • Financial structure
Opportunities	Threats
<ul style="list-style-type: none"> • Strong growth prospects in digital print volumes and innovative products • Intelligent combination of B2B and B2C business models (market push & pull) • Establish partnerships with high-traffic internet business • Outsourcing new products (dry-prints and gift items) enables the group to fully exploit market potentials at variable costs • Roll-out a successful digital mail order model to other European markets (analyse market size/margin level) 	<ul style="list-style-type: none"> • Price pressure for digital prints • Unknown customer loyalty pattern in digital (home printing) • Risk to have limited financial resources to invest in future opportunities • Risk of being not innovative enough due to lack of speed in product/business development.

Source: Fortis Bank Equity Research

P & L Statement (EUR m) Year to December	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Net sales	680.5	717.8	760.5	515.5	380.9	376.8	357.1	353.2	348.2	351.9
Other income	45.1	44.8	47.5	29.6	15.1	15.5	19.2	18.6	19.0	19.0
Operating costs	(676.4)	(692.1)	(754.4)	(492.1)	(348.9)	(347.0)	(349.8)	(353.7)	(344.8)	(344.1)
EBITD	56.3	71.2	50.8	56.7	47.5	46.8	26.5	18.1	22.4	26.7
Depreciation	(43.0)	(41.5)	(44.5)	(37.7)	(26.4)	(26.9)	(18.8)	(20.4)	(20.9)	(21.5)
Reported provisions	1.0	1.3	(0.5)	0.1	0.2	(0.1)	0.0	0.0	0.0	0.0
Impairments (1)	(5.4)	(5.4)	(5.5)	(4.1)	(2.2)	(2.2)	0.0	0.0	0.0	0.0
EBIT	1.7	24.8	3.1	11.2	18.7	16.1	7.7	(2.3)	1.5	5.3
Net financials	(15.3)	(10.1)	(19.0)	(10.9)	(7.3)	(5.8)	(5.5)	(8.0)	(5.1)	(4.8)
Extraordinary items	5.6	(1.2)	(48.7)	(14.9)	(4.3)	1.3	0.0	(2.2)	0.0	0.0
Profit Before Taxes (PBT)	(8.1)	13.6	(64.6)	(14.6)	7.1	11.6	2.2	(12.5)	(3.5)	0.5
Taxes	(3.1)	(3.1)	(6.2)	(2.2)	(1.7)	(2.6)	(1.3)	(0.6)	0.0	(0.1)
Income from associates	(0.1)	0.0	0.0	0.0	(4.2)	0.0	0.0	0.0	0.0	0.0
Minorities	(1.0)	(3.0)	(1.7)	(1.7)	(0.9)	(0.9)	(0.1)	0.0	0.0	0.0
Net profit before extraordinaries	(17.8)	8.7	(23.8)	(3.7)	4.6	6.8	0.8	(10.9)	(3.5)	0.4
Net reported profit	(12.2)	7.4	(72.5)	(18.6)	0.2	8.1	0.8	(13.1)	(3.5)	0.4
REBIT	1.7	24.8	3.1	11.2	18.7	16.1	7.7	4.4	7.5	5.3
% change in Sales	4.6	5.5	6.0	(32.2)	(26.1)	(1.1)	(5.2)	(1.1)	(1.4)	1.0
% change in EBITD	(11.0)	26.5	(28.6)	11.6	(16.2)	(1.5)	(43.5)	(31.7)	24.2	19.2
% change in PBT	ns	ns	ns	ns	ns	63.1	(80.9)	ns	ns	ns
% change in Net profit before extraordinaries	ns	ns	ns	ns	ns	47.7	(88.1)	ns	ns	ns

(1) Numbers on this line for the years 1995-2003 refer to either goodwill amortisation or impairments booked for these years.

Cash Flow Statement (EUR m)	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
EBITD	56.3	71.2	50.8	56.7	47.5	46.8	26.5	18.1	22.4	26.7
Change in provisions excluding tax provisions	1.0	1.3	(0.5)	0.1	0.2	(0.1)	0.0	0.0	0.0	0.0
Change in net working capital	(5.9)	(18.5)	19.4	33.9	0.9	3.7	3.2	(2.0)	0.4	(0.3)
Gross operating cash flow	51.3	54.0	69.7	90.7	48.6	50.4	29.7	16.1	22.8	26.5
Taxes paid	(3.1)	(3.1)	(6.2)	(2.2)	(1.7)	(2.6)	(1.3)	(0.6)	0.0	(0.1)
Capex	(49.3)	(57.0)	(80.6)	(143.2)	(32.1)	(32.6)	(42.2)	(14.0)	(24.0)	(17.2)
Free cash flow	(1.0)	(6.1)	(17.1)	(54.6)	14.7	15.2	(13.9)	1.5	(1.2)	9.2
Net interest received	(15.3)	(10.1)	(19.0)	(10.9)	(7.3)	(5.8)	(5.5)	(8.0)	(5.1)	(4.8)
Other	0.2	(0.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share issues/buybacks	0.0	0.0	0.0	7.4	4.7	0.0	0.0	41.8	0.0	0.0
Dividend (adj. stock dividend)	0.0	0.0	0.0	0.0	(0.8)	(2.4)	0.0	0.0	0.0	0.0
Extraordinary items (after tax)	5.6	(1.2)	(48.7)	(14.9)	(4.3)	1.3	0.0	(2.2)	0.0	0.0
Change in interest-bearing debt	6.6	(9.9)	(7.6)	(81.7)	(11.0)	(18.9)	11.9	(15.0)	(3.0)	(4.5)
Change in cash & cash equivalents	7.7	(11.5)	0.4	8.1	(4.3)	(8.2)	(1.1)	15.8	(9.2)	(0.1)

Balance Sheet (EUR m)	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Net intangible fixed assets	138.1	136.5	103.8	72.3	73.4	73.3	51.6	48.8	48.8	48.8
Net tangible fixed assets	131.4	122.9	124.9	55.1	50.4	47.0	45.3	32.5	35.6	31.3
Financials fixed assets (FFA)	6.0	6.1	5.9	6.6	2.1	2.3	13.0	24.5	24.5	24.5
Inventories	78.6	107.4	94.8	48.3	44.6	43.1	45.0	45.9	45.3	45.7
Trade debtors	56.3	70.8	80.2	35.3	29.7	28.3	42.1	42.4	41.8	42.2
Other debtors	51.6	60.3	52.1	37.7	33.7	30.7	16.6	24.7	24.4	24.6
Cash & securities	26.8	15.3	15.6	23.7	19.4	11.3	10.1	26.0	16.7	16.6
Total Assets	488.7	519.2	477.3	279.0	253.4	236.1	223.8	244.8	237.1	233.8
Shareholder's equity	109.0	112.5	40.0	29.2	37.3	40.9	27.3	56.0	52.5	52.9
Other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	10.3	12.8	22.6	24.2	14.7	14.7	1.0	1.0	1.0	1.0
Provisions	30.6	26.0	44.6	7.4	5.5	2.7	3.2	3.2	3.2	3.2
Long-term interest bearing debt	99.3	49.6	81.3	76.5	63.5	46.4	18.6	18.6	18.6	18.6
Short-term interest bearing debt	125.1	164.9	125.6	48.8	50.7	48.9	88.6	73.6	70.6	66.1
Trade creditors	59.5	98.2	109.6	55.4	47.3	46.6	61.8	60.0	59.2	59.8
Other non-interest bearing liabilities	46.8	47.7	44.8	30.1	26.8	28.6	15.7	24.7	24.4	24.6
Total Liabilities & Capital	488.7	519.2	477.3	279.0	253.4	236.1	223.8	244.8	237.1	233.8
Enterprise Value (EV)	358.7	424.6	290.3	178.9	185.3	181.6	134.2	100.6	109.4	105.0
Net Debt	197.6	199.2	191.3	101.5	94.8	84.1	97.1	66.3	72.5	68.1
Recognized pension liabilities	14.3	14.7	15.1	0.6	0.6	0.7	1.0	1.0	1.0	1.0
Cumulative goodwill (as of 1991)	(10.8)	(16.2)	(21.7)	(25.8)	(28.0)	(30.3)	(30.3)	(30.3)	(30.3)	(30.3)
Capital Employed (avg.)	355.0	356.8	332.7	238.5	164.8	154.7	142.9	135.1	135.4	134.8
Net working capital	80.2	92.6	72.6	35.8	33.8	26.9	26.2	28.3	27.9	28.2
Discounted value of leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted equity	98.2	96.3	18.3	3.3	9.3	10.6	(2.9)	25.8	22.2	22.6

Per Share Data (EUR)	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Avg. no. of shares (m)	4.8	4.8	4.8	5.6	6.8	6.8	6.8	36.6	36.6	36.6
Eoy. no. of shares (m)	4.8	4.8	4.8	5.6	6.8	6.8	6.8	36.6	36.6	36.6
Avg. no. of shares fully diluted (m)	4.8	4.8	4.8	5.6	6.8	6.8	6.8	37.2	37.2	37.2
Enterprise Value (EV)	74.77	88.50	60.51	32.05	27.41	26.86	19.84	2.75	2.99	2.87
Net debt less FFA plus minorities	42.10	42.93	43.36	21.34	15.88	14.26	12.59	1.17	1.34	1.22
Sales	141.86	149.62	158.50	92.36	56.33	55.74	52.82	9.64	9.51	9.61
EBITD	11.73	14.84	10.59	10.16	7.03	6.92	3.91	0.49	0.61	0.73
EBIT	0.36	5.18	0.64	2.00	2.77	2.38	1.14	(0.06)	0.04	0.14
REBIT	0.36	5.18	0.64	2.00	2.77	2.38	1.14	0.12	0.21	0.14
Net profit before extraordinaries (EUR)	(3.70)	1.81	(4.97)	(0.66)	0.68	1.00	0.12	(0.30)	(0.10)	0.01
REPS (EUR)	(3.70)	1.81	(4.97)	(0.66)	0.68	1.00	0.12	(0.30)	(0.10)	0.01
Cash Flow (EUR)	6.61	11.59	6.15	6.67	4.90	5.33	2.90	0.26	0.47	0.60
Gross Dividend (EUR)	0.00	0.00	0.00	0.00	0.12	0.36	0.00	0.00	0.00	0.00
Book value (EUR)	22.71	23.46	8.34	5.23	5.52	6.05	4.04	1.53	1.43	1.44
Adjusted equity	20.46	20.08	3.81	0.60	1.37	1.57	(0.44)	0.70	0.61	0.62
Free Cash Flow	(0.22)	(1.28)	(3.57)	(9.79)	2.18	2.25	(2.05)	0.04	(0.03)	0.25
% change in EPS before extr.	ns	ns	ns	ns	ns	47.67	(88.06)	ns	ns	ns

Valuation	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
P/E (excl. extr.)	nmf	11.2	nmf	nmf	11.6	7.9	77.7	nmf	nmf	nmf
P/CF (x)	6.6	2.8	4.9	1.4	2.4	2.0	3.2	21.5	3.4	2.7
P/Book (x)	1.3	1.8	1.7	2.0	2.1	2.1	1.8	1.0	1.1	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0	1.0	3.4	0.0	0.0	0.0	0.0
EV/Sales (x)	0.5	0.6	0.4	0.3	0.5	0.5	0.4	0.3	0.3	0.3
EV/EBITD (x)	6.4	6.0	5.7	3.2	3.9	3.9	5.1	5.6	4.9	3.9
EV/EBIT (x)	209.6	17.1	94.9	16.0	9.9	11.3	17.4	nmf	70.9	19.9
EV/REBIT (x)	209.6	17.1	94.9	16.0	9.9	11.3	17.4	22.9	14.5	19.9
EV/Capital Employed (x)	1.0	1.2	0.9	0.7	1.1	1.2	0.9	0.7	0.8	0.8
Share price : High (EUR)	58.37	42.50	42.40	13.80	14.20	13.00	12.40	8.38	1.84	
Share price : Low (EUR)	24.68	28.52	14.00	6.13	8.80	8.01	7.00	1.45	1.59	
Share price : Average (EUR)	43.73	32.86	30.39	9.17	11.72	10.52	9.31	5.56	1.62	1.62
Share price : Year end (EUR)	29.68	42.50	14.00	10.60	11.45	12.50	7.10	1.55	1.62	1.62

Capital Efficiency / Solvability	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Sales/CE (x)	1.9	2.0	2.3	2.2	2.3	2.4	2.5	2.6	2.6	2.6
Sales/Fixed assets (x)	5.2	5.8	6.1	9.4	7.6	8.0	7.9	10.9	9.8	11.2
Sales/Net working capital (x)	8.5	7.7	10.5	14.4	11.3	14.0	13.6	12.5	12.5	12.5
Inventories/Sales (days)	42.2	54.6	45.5	34.2	42.7	41.8	46.0	47.5	47.5	47.5
Trade debtors/Sales (days)	30.2	36.0	38.5	25.0	28.5	27.4	43.0	43.8	43.8	43.8
Trade creditors/Sales (days)	31.9	49.9	52.6	39.2	45.3	45.1	63.2	62.1	62.1	62.1
CAPEX/Depreciation (%)	114.4	137.5	181.0	379.9	121.8	121.3	225.1	68.8	114.9	80.0
Equity/Total assets (%)	22.3	21.7	8.4	10.5	14.7	17.3	12.2	22.9	22.1	22.6
Net debt/Equity (%)	165.7	158.9	305.4	190.0	182.4	151.3	342.5	116.1	135.5	126.4
Interest cover (x)	0.5	3.0	0.4	1.4	2.9	3.1	1.4	(0.3)	0.3	1.1
Dividend payout (%)	0.0	0.0	0.0	0.0	11.9	27.0	0.0	0.0	0.0	0.0
ROCE (average) (%)	0.7	5.4	1.0	5.4	8.6	8.1	2.2	3.4	5.6	2.9

Operating Efficiency & Profitability ratios	1998	1999	2000	2001	2002	2003	2004	2005e	2006e	2007e
Sales per FTE employee ('000s)	178.1	187.8	199.0	134.9	99.7	98.6	93.5	92.4	91.1	92.1
EBIT per FTE employee ('000s)	0.4	6.5	0.8	2.9	4.9	4.2	2.0	(0.6)	0.4	1.4
Gross margin (%)	41.9	40.7	38.0	42.3	37.6	37.8	36.3	36.1	36.0	36.0
EBITD margin (%)	8.3	9.9	6.7	11.0	12.5	12.4	7.4	5.1	6.4	7.6
EBIT margin (%)	0.3	3.5	0.4	2.2	4.9	4.3	2.2	(0.6)	0.4	1.5
REBIT margin(%)	0.3	3.5	0.4	2.2	4.9	4.3	2.2	1.2	2.2	1.5
Net margin (%)	(1.7)	2.4	(2.2)	0.4	3.1	2.6	0.3	(3.1)	(1.0)	0.1
Tax rate (%)	(38.4)	22.9	(9.7)	(15.3)	24.2	22.3	58.5	(4.8)	0.0	25.0

Important disclosures

Issuer	Ticker	Price
Spector	SPEBt.BR	1.62

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Kurt De Baenst

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7 February 2006

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Historical equity recommendations and target price for Spector (EUR)**History of Target Prices**

Date	Recommendation	Target Price
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History of Recommendations

Date	Recommendation	Target Price
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Source: Fortis Bank Equity Research, JCF

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