

## Porvair plc

### Transition to International Financial Reporting Standards (IFRS)

Porvair plc ("Porvair") is today publishing information about its IFRS accounting policies and restating its results for the year ended 30 November 2005, the six months results to 31 May 2005 and its balance sheets as at 30 November 2004, 2005 and 31 May 2005 in order to give an understanding of the effect of IFRS on the Company's financial reporting. Porvair will report under IFRS for the first time in the 2005/2006 interim results, which will be published in July 2006.

#### Summary of IFRS impact on the year ended 30 November 2005 Income Statement (unaudited)

	Underlying <sup>1</sup> £'000	Statutory £'000
<b>UK GAAP profit before tax</b>	3,028	874
Add back loss on discontinued operations	-	644
<b>UK GAAP profit before tax (continuing operations)</b>	3,028	1,518
Adjustments:		
Amortisation of goodwill	-	2,221
SSAP 24 to IAS19 retirement benefit adjustment	(325)	(325)
Charge for share based payments	(81)	(81)
Interest earned on long term debtor held at fair value	20	20
Net impact of capitalised development costs	40	40
<b>IFRS profit before tax (continuing operations)</b>	2,682	3,393

#### Summary of IFRS impact on earnings per share for the year ended 30 November 2005 (unaudited)

	Underlying <sup>1</sup> pence	Statutory pence
<b>UK GAAP - earnings per share</b>	4.3p	(1.1)p
<b>IFRS - earnings per share</b>		
Basic	3.6p	3.7p
Basic - on continuing operations	3.6p	4.9p

#### Summary of IFRS impact on the Balance Sheet (unaudited)

	1 December 2004 £'000	30 November 2005 £'000	1 December 2005 <sup>2</sup> £'000
<b>Shareholders' funds under UK GAAP</b>	30,472	33,305	33,305
Adjustments (net of deferred tax)			
Goodwill amortisation and currency revaluation	(1,798)	1,389	1,389
Fair value of long term debtor	(105)	(91)	(91)
Retirement benefit provision adjustment	(4,810)	(4,827)	(4,827)
Dividend	368	425	425
Development expenditure	43	71	71
Deferred tax on share based payments	-	26	26
Adoption of IAS 39	-	-	(46)
<b>Shareholders' funds under IFRS</b>	24,170	30,298	30,252

Note 1 Underlying performance is before goodwill amortisation and exceptional items under UK GAAP and before exceptional items under IFRS.

Note 2 Porvair has elected to adopt IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* from 1 December 2005 with no restatement of comparative information.

The Company is not issuing a trading statement. However Porvair believes that the market's estimates for its expected performance in 2006 and beyond are currently based upon UK GAAP and will consequently require adjustment to bring them into line with the new reporting requirements.

The adoption of IFRS changes the presentation of and measurements in the accounts but has no impact on the underlying operations or cash flows of the Group. However the implementation of the new standards may result in increased volatility between periods in the reported results.

For further information please contact:

**Porvair plc**  
Chris Tyler, Group Finance Director

01553 765 500

**Buchanan Communications**  
Charles Ryland / Ben Willey

0207 466 5000

## Introduction

As a consequence of the adoption by the European Union (“EU”) of International Financial Reporting Standards (“IFRS”) Porvair plc (“Porvair”), in common with all companies quoted on the London Stock Exchange, is required to prepare its consolidated financial statements under IFRS for all periods commencing on or after 1 January 2005.

Porvair will first adopt IFRS for the year commencing 1 December 2005 and ending 30 November 2006, including the Interim Statement for the six months ending 31 May 2006. However, the requirement to restate comparative figures on the same basis as the period then under review means that Porvair has:-

- Applied its new IFRS accounting policies to its consolidated 30 November 2004 balance sheet (previously prepared under UK Generally Accepted Accounting Principles (“UK GAAP”)), in order to determine an appropriately adjusted opening position on transition to IFRS as at 1 December 2004 except in respect of IAS 32 and IAS 39, as explained below; and
- Restated its results for the year ended 30 November 2005 and its balance sheet as at 30 November 2005 in line with its new IFRS accounting policies for such comparative purposes, except in respect of IAS 32 and IAS 39, as explained below.

The adoption of IFRS on the Porvair consolidated financial statements affects:

- **Presentation**  
The format and descriptions used in the balance sheet and income statement will change to accord with the new reporting requirements, and
- **Measurement**  
The recognition and measurement of certain assets, liabilities, income and expenses will change in order to comply with the new standards.

This document sets out the changes that are required to the previously reported 2004 balance sheet and the 2005 full year results and cash flows in order to comply with IFRS, and the underlying reasons for those changes. Also included are the consolidated income statement, cash flow statement and balance sheet for the six months ended 31 May 2005 under IFRS. A further balance sheet has been prepared as at 1 December 2005 to illustrate the effect of adopting IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* as at that date.

The financial information represents the Company’s current best estimates, and may need to be revised subsequently due to changes in IFRS, or to the interpretation of its provisions.

**Consolidated Income Statement for the year ended 30 November 2005 (unaudited)**

IFRS format	UK (GAAP)				IFRS		
	Before exceptional items and goodwill amortisation £'000	Goodwill amortisation £'000	Exceptional items £'000	Group £'000	Before Exceptional items £'000	Exceptional items £'000	Group £'000
<b>Continuing operations</b>							
Revenue	44,873			44,873	44,873		44,873
Cost of sales	(30,985)			(30,985)	(30,985)		(30,985)
Gross profit	13,888	-	-	13,888	13,888	-	13,888
Distribution costs	(510)			(510)	(510)		(510)
Administrative expenses	(9,978)	(2,221)	711	(11,488)	(10,144)	711	(9,433)
Operating profit/(loss)	3,400	(2,221)	711	1,890	3,234	711	3,945
Interest payable and similar charges	(557)			(557)	(757)		(757)
Interest receivable	185			185	205		205
Profit/(loss) before tax	3,028	(2,221)	711	1,518	2,682	711	3,393
Taxation	(889)		(213)	(1,102)	(800)	(213)	(1,013)
<b>Profit/(loss) for the year from continuing operations</b>	2,139	(2,221)	498	416	1,882	498	2,380
<b>Discontinued operations</b>							
Loss for the year from discontinued operations	-	-	(451)	(451)	-	(451)	(451)
<b>Profit/(loss) for the year</b>	2,139	(2,221)	47	(35)	1,882	47	1,929
Profit attributable to minority interest	561	(201)	-	360	561	-	561
Profit/(loss) attributable to equity shareholders	1,578	(2,020)	47	(395)	1,321	47	1,368
	2,139	(2,221)	47	(35)	1,882	47	1,929
Earnings/(loss) per share expressed in pence per share							
- basic	4.3p	(5.5)p	0.1p	(1.1)p	3.6p	0.1p	3.7p
- diluted	4.3p	(5.5)p	0.1p	(1.1)p	3.6p	0.1p	3.7p
Earnings per share from continuing operations							
- basic	4.3p	(5.5)p	1.3p	0.1p	3.6p	1.3p	4.9p
- diluted	4.3p	(5.5)p	1.3p	0.1p	3.6p	1.3p	4.9p

**Consolidated Income Statement for the 6 months ended 31 May 2005 (unaudited)**

IFRS format	UK (GAAP)				IFRS		
	Before exceptional items and goodwill amortisation £'000	Goodwill amortisation £'000	Exceptional items £'000	Group £'000	Before Exceptional items £'000	Exceptional items £'000	Group £'000
<b>Continuing operations</b>							
Revenue	21,566			21,566	21,566		21,566
Cost of sales	(15,213)			(15,213)	(15,213)		(15,213)
Gross profit	6,353			6,353	6,353		6,353
Distribution costs	(212)			(212)	(212)		(212)
Administrative expenses	(4,948)	(1,109)	711	(5,346)	(5,039)	711	(4,328)
Operating profit/(loss)	1,193	(1,109)	711	795	1,102	711	1,813
Interest payable and similar charges	(318)			(318)	(418)		(418)
Interest receivable	133			133	143		143
Profit/(loss) before tax	1,008	(1,109)	711	610	827	711	1,538
Taxation	(325)		(213)	(538)	(282)	(213)	(495)
<b>Profit/(loss) for the period from continuing operations</b>	683	(1,109)	498	72	545	498	1,043
<b>Discontinued operations</b>							
Loss for the period from discontinued operations	-	-	(451)	(451)	-	(451)	(451)
<b>Profit/(loss) for the period</b>	683	(1,109)	47	(379)	545	47	592
Profit attributable to minority interest	202	(89)	-	113	202		202
Profit/(loss) attributable to equity shareholders	481	(1,020)	47	(492)	343	47	390
	683	(1,109)	47	(379)	545	47	592
Earnings/(loss) per share expressed in pence per share							
- basic	1.3p	(2.7)p	0.1p	(1.3)p	1.0p	0.1p	1.1p
- diluted	1.3p	(2.7)p	0.1p	(1.3)p	1.0p	0.1p	1.1p
Earnings per share from continuing operations							
- basic	1.3p	(2.7)p	1.4p	-	1.0p	0.1p	1.1p
- diluted	1.3p	(2.7)p	1.4p	-	1.0p	0.1p	1.1p

## **Basis of preparation**

The unaudited financial information contained in this document has been prepared using IFRS policies based on IFRS expected to be applicable to the Company and adopted formally by the EU as at 30 November 2006.

At this stage in the development of IFRS, matters such as the interpretation and application surrounding it are continuing to evolve. In addition IFRS currently in issue and endorsed by the EU are subject to interpretation by IFRIC and further standards may be issued by the IASB that will be endorsed by the EU before 30 November 2006. These uncertainties could result in the need to change the basis of accounting or presentation of certain financial information from that presented in this document.

Porvair is required to establish its IFRS accounting policies for the year ended 30 November 2006, and apply these retrospectively to determine its opening IFRS balance sheet at the transition date of 1 December 2004 and the comparative financial information for the year ending 30 November 2005. However, advantage has been taken of certain exemptions afforded by IFRS 1 *First Time Adoption of International Financial Reporting Standards* as follows:-

- ***Share-based payment***  
Porvair has applied IFRS 2 *Share-based Payment* retrospectively only to equity-settled awards made after 7 November 2002 that had not vested at 1 January 2005.
- ***Financial Instruments***  
Porvair has elected to adopt IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* from 1 December 2005 with no restatement of comparative information. Consequently, the relevant comparative financial information for the six months ended 31 May 2005 and the year ended 30 November 2005 does not reflect the impact of these standards, but includes financial instruments accounted for on a UK GAAP basis. A balance sheet is given to show the impact of these standards as at 1 December 2005.
- ***Business combinations***  
As permitted by IFRS1, goodwill arising on acquisitions before 1 December 2004 (date of transition to IFRS) has been frozen at the UK GAAP amounts subject to being tested for impairment at that date.

## Principal Impacts of IFRS

The key differences between UK GAAP and IFRS that will impact the Group are set out below. The impact of these adjustments is shown in the following tables.

### Research and development

Under UK GAAP Porvair wrote off research and development expenditure in the year in which it was incurred.

Under IFRS the Group capitalises development expenditure from the point that it can be demonstrated that a measurable asset has been created and it is probable that the asset will create future economic benefit. Capitalised expenditure is amortised over the expected life of the developed product from the initial commercial sales. Much of the Group's development expenditure is either in novel technologies or bespoke products for specific customers and in these cases the requirements are not met until the initial commercial trials have been approved.

### Goodwill

Under UK GAAP goodwill on businesses acquired by the Group is capitalised and amortised on a straight-line basis over its anticipated future life up to a maximum of 20 years. Goodwill is calculated at the date of purchase and usually recorded in the functional currency of the acquiring company.

Under IFRS, from 1 December 2004 onwards, goodwill will no longer be amortised, but will instead be subject to an annual impairment review. Goodwill is held in the functional currency of the underlying acquired operation.

### Dividends

Under UK GAAP dividends relating to an accounting period but declared after the balance sheet date are recognised as a liability even if the approval of that dividend took place after the balance sheet date.

Under IFRS, proposed dividends do not meet the definition of a liability until such time as they have been declared and paid, and in the case of the final dividend, approved by shareholders at the Annual General Meeting.

### Share-based payment

Under UK GAAP Porvair does not recognise an expense as options are either issued at market value on which no charge arises or are Save-As-You-Earn schemes for which UK GAAP includes an exemption from recognising an expense.

Under IFRS the cost of all share-based payments, based on the fair value of the options or shares at the date of grant and calculated using an appropriate pricing model, is recognised over the vesting period of the award.

### Retirement benefits

Under UK GAAP the company accounted for its pension scheme under SSAP 24 but had provided disclosures to enable the impact of adopting FRS17 to be derived. Under FRS 17 the assets and liabilities of the Group's defined benefit pension scheme are recognised at fair value in the balance sheet and the operating and financing costs of defined benefit pension schemes are recognised in the income statement as operating costs and finance costs respectively. Variations from expected costs arising from the experience of the plans or changes in actuarial assumptions are recognised immediately in the Statement of Total Recognised Gains and Losses.

The differences between the requirements of FRS17 and IAS 19 *Employee Benefits* have no impact on the Group.

To comply with IFRS, therefore the Group will apply the FRS17 adjustments disclosed in its 2005 report and accounts.

### Deferred taxation

The carrying values of deferred tax assets and liabilities in the balance sheet have been adjusted to reflect the restatement of newly recognised assets and liabilities arising from the adoption of IFRS.

**Computer software**

Under UK GAAP all capitalised computer software was classified within tangible fixed assets. IFRS requires capitalised software that is not an integral part of the hardware to be treated as an intangible asset.

**Forward foreign exchange contracts and currency options**

Porvair uses forward foreign exchange contracts and currency options for the purposes of hedging material contractually committed and forecast foreign currency denominated future sales and purchases. Under UK GAAP a form of hedge accounting was applied to these forward foreign exchange contracts and currency options meaning that these derivatives are held off balance sheet at period ends.

Under IFRS the fair value of all forward foreign exchange contracts and currency options is recognised on the balance sheet. IAS 39 places significant restrictions on the use of hedge accounting and changes the hedge accounting methodology. As a result, from 1 December 2005, Porvair will recognise all forward foreign exchange contracts and currency options on the balance sheet at fair value.

**Long term loan receivable**

Under UK GAAP the Group's long term loan receivable was held at its nominal value and interest was credited to the income statement at the coupon rate on the debtor.

Under IFRS the loan has been restated to its fair value to reflect a market interest rate for the loan.

**IFRS adjustments to consolidated Income Statement for the year ended 30 November 2005 (unaudited)**

<b>IFRS format</b>	<b>UK (GAAP)</b>	<b>Goodwill amortisation</b>	<b>Retirement benefit charge</b>	<b>Share based payments</b>	<b>Income from long term loan</b>	<b>Development expenditure</b>	<b>IFRS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Continuing operations</b>							
Revenue	44,873						44,873
Cost of sales	(30,985)						(30,985)
Gross profit	13,888	-	-	-	-	-	13,888
Distribution costs	(510)						(510)
Administrative expenses	(11,488)	2,221	(125)	(81)		40	(9,433)
Operating profit/(loss)	1,890	2,221	(125)	(81)	-	40	3,945
Interest payable and similar charges	(557)		(200)				(757)
Interest receivable	185				20		205
Profit/(loss) before tax	1,518	2,221	(325)	(81)	20	40	3,393
Taxation	(1,102)		98	9	(6)	(12)	(1,013)
<b>Profit/(loss) for the year from continuing operations</b>	416	2,221	(227)	(72)	14	28	2,380
<b>Discontinued operations</b>							
Loss for the year from discontinued operations	(451)						(451)
<b>Profit/(loss) for the year</b>	(35)	2,221	(227)	(72)	14	28	1,929
Profit attributable to minority interest	360	201					561
Profit/(loss) attributable to equity shareholders	(395)	2,020	(227)	(72)	14	28	1,368
	(35)	2,221	(227)	(72)	14	28	1,929

**IFRS adjustments to consolidated Income Statement for the 6 months ended 31 May 2005 (unaudited)**

<b>IFRS format</b>	<b>UK (GAAP)</b>	<b>Goodwill amortisation</b>	<b>Retirement benefit charge</b>	<b>Share based payments</b>	<b>Income from long term loan</b>	<b>Development expenditure</b>	<b>IFRS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Continuing operations</b>							
Revenue	21,566						21,566
Cost of sales	(15,213)						(15,213)
Gross profit	6,353	-	-	-	-	-	6,353
Distribution costs	(212)						(212)
Administrative expenses	(5,346)	1,109	(80)	(39)		28	(4,328)
Operating profit/(loss)	795	1,109	(80)	(39)	-	28	1,813
Interest payable and similar charges	(318)		(100)				(418)
Interest receivable	133				10		143
Profit/(loss) before tax	610	1,109	(180)	(39)	10	28	1,538
Taxation	(538)		54		(3)	(8)	(495)
<b>Profit/(loss) for the period from continuing operations</b>	<b>72</b>	<b>1,109</b>	<b>(126)</b>	<b>(39)</b>	<b>7</b>	<b>20</b>	<b>1,043</b>
<b>Discontinued operations</b>							
Loss for the period from discontinued operations	(451)						(451)
<b>Profit/(loss) for the period</b>	<b>(379)</b>	<b>1,109</b>	<b>(126)</b>	<b>(39)</b>	<b>7</b>	<b>20</b>	<b>592</b>
Profit attributable to minority interest	113	89					202
Profit/(loss) attributable to equity shareholders	(492)	1,020	(126)	(39)	7	20	390
	(379)	1,109	(126)	(39)	7	20	592

**Consolidated Balance Sheet as at 1 December 2004 – Adjustments and reclassification to IFRS Format (unaudited)**

<b>IFRS format</b>	<b>UK (GAAP)</b>	<b>Goodwill amortisation and currency revaluation</b>	<b>Retirement benefit obligations</b>	<b>Software intangibles</b>	<b>Fair value of long term loan</b>	<b>Dividend</b>	<b>Development expenditure</b>	<b>IFRS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>								
Goodwill	27,785	(1,798)						25,987
Other intangible assets	-			12			62	74
Property, plant and equipment	8,241			(12)				8,229
Other receivable	1,812				(150)			1,662
Deferred tax asset	587		202		45		(19)	815
Pension prepayment	672		(672)					-
	<b>39,097</b>	<b>(1,798)</b>	<b>(470)</b>	<b>-</b>	<b>(105)</b>	<b>-</b>	<b>43</b>	<b>36,767</b>
<b>Current assets</b>								
Inventories	5,897							5,897
Trade and other receivables	8,263							8,263
Cash and cash equivalents	3,047							3,047
	<b>17,207</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,207</b>
<b>Current liabilities</b>								
Trade and other payables	5,853							5,853
Current tax liabilities	532							532
Retirement benefit obligations	550		(550)					-
Bank overdrafts and loans	1,000							1,000
Provisions	190							190
Proposed dividend	368					(368)		-
	<b>8,493</b>	<b>-</b>	<b>(550)</b>	<b>-</b>	<b>-</b>	<b>(368)</b>	<b>-</b>	<b>7,575</b>
<b>Net current assets</b>	<b>8,714</b>	<b>-</b>	<b>550</b>	<b>-</b>	<b>-</b>	<b>368</b>	<b>-</b>	<b>9,632</b>
<b>Non-current liabilities</b>								
Bank loans	10,052							10,052
Retirement benefit obligations	550		4,890					5,440
Long-term provisions	1,218							1,218
	<b>11,820</b>	<b>-</b>	<b>4,890</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,710</b>
<b>Total liabilities</b>	<b>20,313</b>	<b>-</b>	<b>4,340</b>	<b>-</b>	<b>-</b>	<b>(368)</b>	<b>-</b>	<b>24,285</b>
<b>Net assets</b>	<b>35,991</b>	<b>(1,798)</b>	<b>(4,810)</b>	<b>-</b>	<b>(105)</b>	<b>368</b>	<b>43</b>	<b>29,689</b>
<b>Capital and reserves</b>								
Share capital	736							736
Share premium account	28,679							28,679
Cumulative translation adjustment	(1,100)	(1,677)						(2,777)
Retained earnings	2,157	(121)	(4,810)		(105)	368	43	(2,468)
<b>Equity attributable to equity holders of the parent</b>	<b>30,472</b>	<b>(1,798)</b>	<b>(4,810)</b>	<b>-</b>	<b>(105)</b>	<b>368</b>	<b>43</b>	<b>24,170</b>
Minority interests	5,519							5,519
<b>Total equity</b>	<b>35,991</b>	<b>(1,798)</b>	<b>(4,810)</b>	<b>-</b>	<b>(105)</b>	<b>368</b>	<b>43</b>	<b>29,689</b>

**Consolidated Balance Sheet as at 31 May 2005 – Adjustments and reclassification to IFRS Format (unaudited)**

<b>IFRS format</b>	<b>UK (GAAP)</b>	<b>Goodwill amortisation and currency revaluation</b>	<b>Retirement benefit obligations</b>	<b>Software intangibles</b>	<b>Fair value of long term loan</b>	<b>Dividend</b>	<b>Development expenditure</b>	<b>IFRS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>								
Goodwill	26,776	(238)						26,538
Other intangible assets	-			9			90	99
Property, plant and equipment	8,122			(9)				8,113
Other receivable	1,282				(140)			1,142
Deferred tax asset	605		208		42		(27)	828
Pension prepayment	692		(692)					-
	<b>37,477</b>	<b>(238)</b>	<b>(484)</b>	<b>-</b>	<b>(98)</b>	<b>-</b>	<b>63</b>	<b>36,720</b>
<b>Current assets</b>								
Inventories	5,759							5,759
Trade and other receivables	9,160							9,160
Cash and cash equivalents	3,679							3,679
	<b>18,598</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,598</b>
<b>Current liabilities</b>								
Trade and other payables	6,557							6,557
Current tax liabilities	360							360
Retirement benefit obligations	550		(550)					-
Bank overdrafts and loans	1,000							1,000
Provisions	-							-
Proposed dividend	368					(368)		-
	<b>8,835</b>	<b>-</b>	<b>(550)</b>	<b>-</b>	<b>-</b>	<b>(368)</b>	<b>-</b>	<b>7,917</b>
<b>Net current assets</b>	<b>9,763</b>	<b>-</b>	<b>550</b>	<b>-</b>	<b>-</b>	<b>368</b>	<b>-</b>	<b>10,681</b>
<b>Non-current liabilities</b>								
Bank loans	10,509							10,509
Retirement benefit obligations	-		5,002					5,002
Long-term provisions	1,427							1,427
	<b>11,936</b>	<b>-</b>	<b>5,002</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,938</b>
<b>Total liabilities</b>	<b>20,771</b>	<b>-</b>	<b>4,452</b>	<b>-</b>	<b>-</b>	<b>(368)</b>	<b>-</b>	<b>24,855</b>
<b>Net assets</b>	<b>35,304</b>	<b>(238)</b>	<b>(4,936)</b>	<b>-</b>	<b>(98)</b>	<b>368</b>	<b>63</b>	<b>30,463</b>
<b>Capital and reserves</b>								
Share capital	736							736
Share premium account	28,679							28,679
Cumulative translation adjustment	(1,040)	(1,226)						(2,266)
Retained earnings	1,297	988	(4,936)		(98)	368	63	(2,318)
<b>Equity attributable to equity holders of the parent</b>	<b>29,672</b>	<b>(238)</b>	<b>(4,936)</b>	<b>-</b>	<b>(98)</b>	<b>368</b>	<b>63</b>	<b>24,831</b>
Minority interests	5,632							5,632
<b>Total equity</b>	<b>35,304</b>	<b>(238)</b>	<b>(4,936)</b>	<b>-</b>	<b>(98)</b>	<b>368</b>	<b>63</b>	<b>30,463</b>

**Consolidated Balance Sheet as at 30 November 2005 – Adjustments and reclassification to IFRS Format (unaudited)**

IFRS format	UK (GAAP)	Goodwill amortisation and currency revaluation	Retirement benefit obligations	Software intangibles	Fair value of long term loan	Dividend	Share based payments	Development expenditure	IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Non-current assets</b>									
Goodwill	26,502	1,389							27,891
Other intangible assets	-			12				102	114
Property, plant and equipment	8,057			(12)					8,045
Other receivable	1,289				(130)				1,159
Deferred tax asset	715		204		39		26	(31)	953
Pension prepayment	678		(678)						-
	<u>37,241</u>	<u>1,389</u>	<u>(474)</u>	<u>-</u>	<u>(91)</u>	<u>-</u>	<u>26</u>	<u>71</u>	<u>38,162</u>
<b>Current assets</b>									
Inventories	6,103								6,103
Trade and other receivables	7,970								7,970
Cash and cash equivalents	1,001								1,001
	<u>15,074</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,074</u>
<b>Current liabilities</b>									
Trade and other payables	6,776								6,776
Current tax liabilities	676								676
Retirement benefit obligations	812		(812)						-
Bank overdrafts and loans	500								500
Provisions	324								324
Proposed dividend	425					(425)			-
	<u>9,513</u>	<u>-</u>	<u>(812)</u>	<u>-</u>	<u>-</u>	<u>(425)</u>	<u>-</u>	<u>-</u>	<u>8,276</u>
<b>Net current assets</b>	<u>5,561</u>	<u>-</u>	<u>812</u>	<u>-</u>	<u>-</u>	<u>425</u>	<u>-</u>	<u>-</u>	<u>6,798</u>
<b>Non-current liabilities</b>									
Bank loans	9,012								9,012
Retirement benefit obligations	-		5,165						5,165
Long-term provisions	485								485
	<u>9,497</u>	<u>-</u>	<u>5,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,662</u>
<b>Total liabilities</b>	<u>19,010</u>	<u>-</u>	<u>4,353</u>	<u>-</u>	<u>-</u>	<u>(425)</u>	<u>-</u>	<u>-</u>	<u>22,938</u>
<b>Net assets</b>	<u>33,305</u>	<u>1,389</u>	<u>(4,827)</u>	<u>-</u>	<u>(91)</u>	<u>425</u>	<u>26</u>	<u>71</u>	<u>30,298</u>
<b>Capital and reserves</b>									
Share capital	810								810
Share premium account	32,513								32,513
Cumulative translation adjustment	(987)	(711)							(1,698)
Retained earnings	969	2,100	(4,827)		(91)	425	26	71	(1,327)
<b>Equity attributable to equity holders of the parent</b>	<u>33,305</u>	<u>1,389</u>	<u>(4,827)</u>	<u>-</u>	<u>(91)</u>	<u>425</u>	<u>26</u>	<u>71</u>	<u>30,298</u>
Minority interests	-								-
<b>Total equity</b>	<u>33,305</u>	<u>1,389</u>	<u>(4,827)</u>	<u>-</u>	<u>(91)</u>	<u>425</u>	<u>26</u>	<u>71</u>	<u>30,298</u>

**Consolidated Balance Sheet as at 1 December 2005 – Implementation of IAS39 (unaudited)**

IFRS format	IFRS 30 November 2005 £'000	Financial instruments £'000	IFRS 1 December 2005 £'000
<b>Non-current assets</b>			
Goodwill	27,891		27,891
Other intangible assets	114		114
Property, plant and equipment	8,045		8,045
Available for sale investments	1,159		1,159
Deferred tax asset	953	20	973
	<b>38,162</b>	<b>20</b>	<b>38,182</b>
<b>Current assets</b>			
Inventories	6,103		6,103
Trade and other receivables	7,970		7,970
Cash and cash equivalents	1,001		1,001
	<b>15,074</b>	<b>-</b>	<b>15,074</b>
<b>Current liabilities</b>			
Trade and other payables	6,776		6,776
Current tax liabilities	676		676
Bank overdrafts and loans	500		500
Provisions	324		324
Derivative financial instruments	-	66	66
	<b>8,276</b>	<b>66</b>	<b>8,342</b>
<b>Net current assets/(liabilities)</b>	<b>6,798</b>	<b>(66)</b>	<b>6,732</b>
<b>Non-current liabilities</b>			
Bank loans	9,012		9,012
Retirement benefit obligations	5,165		5,165
Long-term provisions	485		485
	<b>14,662</b>	<b>-</b>	<b>14,662</b>
<b>Total liabilities</b>	<b>22,938</b>	<b>66</b>	<b>23,004</b>
<b>Net assets</b>	<b>30,298</b>	<b>(46)</b>	<b>30,252</b>
<b>Capital and reserves</b>			
Share capital	810		810
Share premium account	32,513		32,513
Cumulative translation adjustment	(1,698)		(1,698)
Retained earnings	(1,327)	(46)	(1,373)
<b>Equity attributable to equity holders of the parent</b>	<b>30,298</b>	<b>(46)</b>	<b>30,252</b>
Minority interests	-	-	-
<b>Total equity</b>	<b>30,298</b>	<b>(46)</b>	<b>30,252</b>

Porvair has elected to adopt IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* from 1 December 2005 with no restatement of comparative information. Consequently, the relevant comparative financial information for periods up to the year ended 30 November 2005 will not reflect the impact of these standards, but will include financial instruments accounted for on a UK GAAP basis. The table above shows the prior year adjustment required to the balance sheet as at 1 December 2005 to reflect the adoption of IAS39.

## Consolidated Cash Flow Statement for the year ended 30 November 2005

IFRS format	UK (GAAP)	Goodwill amortisation	Retirement benefit charge	Share based payments	Development expenditure	IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Operating profit from continuing operation	1,179	2,221	(125)	(81)	40	3,234
Adjustments for:						
Exceptional profits	711					711
Goodwill amortisation	2,221	(2,221)				-
Share based payments				81		81
Depreciation	1,506					1,506
Profit on disposal of property, plant and equipment	4					4
Operating cash flows before movement in working capital	5,621	-	(125)	-	40	5,536
Increase in inventories	(19)					(19)
Increase in trade and other receivables	(235)					(235)
Decrease in payables	(85)					(85)
Increase in pensions			125			125
Cash generated from continuing operations	5,282	-	-	-	40	5,322
Operating profit from discontinued operation	(644)					(644)
(Decrease in provisions)	(181)					(181)
Cash used by discontinued operations	(825)	-	-	-	-	(825)
<b>Cash generated from operations</b>	<b>4,457</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40</b>	<b>4,497</b>
Cash generated from operations	4,457				40	4,497
Interest received	185					185
Interest paid	(494)					(494)
Tax paid	(800)					(800)
Net cash from operating activities	3,348	-	-	-	40	3,388
<b>Cash flows from investing activities</b>						
Acquisition of subsidiaries (net of cash acquired)	(6,603)					(6,603)
Purchase of property plant and equipment	(842)					(842)
Purchase of intangible assets					(40)	(40)
Available for sale investments	1,288					1,288
Net cash used in investing activities	(6,157)	-	-	-	(40)	(6,197)
<b>Cash flow from financing activities</b>						
Net proceeds from issue of ordinary share capital	3,908					3,908
Repayment of borrowings	(2,508)					(2,508)
Dividends paid to shareholders	(736)					(736)
Net cash from financing activities	664	-	-	-	-	664
<b>Net decrease in cash and cash equivalents</b>	<b>(2,145)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,145)</b>
Effects of exchange rate changes	99					99
Cash and cash equivalents at the beginning of the period	3,047					3,047
<b>Cash and cash equivalents at the end of the period</b>	<b>1,001</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,001</b>

## Consolidated Cash Flow Statement for the six months ended 31 May 2005

IFRS format	UK (GAAP)	Goodwill amortisation	Retirement benefit charge	Share based payments	Development expenditure	IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Operating profit from continuing operation	84	1,109	(80)	(39)	28	1,102
Adjustments for:						
Exceptional profits	711					711
Goodwill amortisation	1,109	(1,109)				-
Share based payments				39		39
Depreciation	755					755
Operating cash flows before movement in working capital	2,659	-	(80)	-	28	2,607
Decrease in inventories	226					226
Increase in trade and other receivables	(1,144)					(1,144)
Increase in payables	105					105
Increase in pensions			80			80
Cash generated from continuing operations	1,846	-	-	-	28	1,874
Operating profit from discontinued operation	(644)					(644)
Decrease in provisions	(4)					(4)
Cash used by discontinued operations	(648)					(648)
<b>Cash generated from operations</b>	<b>1,198</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>1,226</b>
Cash generated from operations	1,198				28	1,226
Interest received	132					132
Interest paid	(309)					(309)
Tax paid	(482)					(482)
Net cash from operating activities	539	-	-	-	28	567
<b>Cash flows from investing activities</b>						
Purchase of property plant and equipment	(407)					(407)
Purchase of intangible assets					(28)	(28)
Available for sale investments	827					827
Net cash used in investing activities	420	-	-	-	(28)	392
<b>Cash flow from financing activities</b>						
Dividends paid to shareholders	(368)					(368)
Net cash from financing activities	(368)	-	-	-	-	(368)
<b>Net increase in cash and cash equivalents</b>	<b>591</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>591</b>
Effects of exchange rate changes	41					41
Cash and cash equivalents at the beginning of the period	3,047					3,047
<b>Cash and cash equivalents at the end of the period</b>	<b>3,679</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,679</b>

## Significant IFRS Accounting Policies

### **Basis of preparation and statement of compliance**

The financial information presented in this press release comprises unaudited information in respect of the consolidated balance sheets as at 1 December 2004, 30 November 2005 and 31 May 2005 and income statement for the year ended 30 November 2005 and the six months ended 31 May 2005. Prior to the year ending 30 November 2006, the Group prepared its audited annual financial statements and unaudited interim results under UK GAAP.

From 1 December 2005, the Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and implemented in the UK. As the annual 2006 financial statements will include comparatives for 2005, the Group's date of transition to IFRS under IFRS1 (First time adoption of IFRS) is 1 December 2004 and 2005 comparatives have been restated accordingly.

The financial information presented in this press release has been prepared under the historical cost convention, except in respect of certain financial instruments, and has been prepared on a basis consistent with the IFRS accounting policies as set out below. The accounting policies are consistent with those that the directors intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adopted for use in the EU. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the EU at 30 November 2006 are not known with certainty at the time of preparing this financial information.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 November each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenditures are eliminated on consolidation.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

**Revenue recognition**

Revenue comprises the invoiced value of goods and services supplied net of value added tax and other sales taxes. Licence fees are recognised when earned on an accruals basis. Long term contracts are recognised on a progressive basis with profit taken in proportion to the stage of completion of work.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Leasing**

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

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

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

**Foreign currencies**

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations and borrowings and other currency instruments designated as hedges of such investments are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenditure or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**Borrowing costs**

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants for the development of new products are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

**Profit from operations**

Profit from operations is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

**Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Exceptional items**

In accordance with IAS1 ("presentation of financial statements"), the Group presents certain items as "exceptional". These are material items which derive from events or transactions that fall within the Group's ordinary activities and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size, nature or incidence if the financial statements are to give a true and fair view.

### **Property, plant and equipment**

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation for these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	2.5 – 3%
Fixtures and equipment	10 – 30%
Motor vehicles	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in income.

### **Internally-generated intangible assets – research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### **Patents and trademarks**

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

### **Impairment of tangible and intangible assets excluding goodwill**

The Group reviews annually the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss

been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans are classified as "other receivables" in the balance sheet.

### **Trade receivables**

Trade receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within administrative expenses.

### **Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### **Trade payables**

Trade payables are not interest bearing and are stated at their nominal value.

### **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### **Derivative financial instruments and hedge accounting**

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The group uses foreign exchange forward contracts to hedge these exposures. The group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the group's policies approved by the board of directors, which provides written principles on the use of financial derivatives.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

### **Provisions**

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's liability.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

**Share-based payments**

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The charge is then credited back to reserves.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.