THE ALIAXIS GROUP | YEAR IN REVIEW 07

Aliaxis

Aliaxis

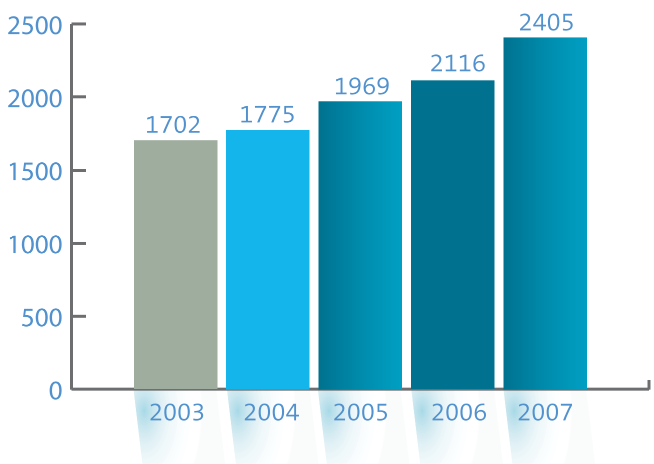
# Key Figures

| | IFRS | | | Belgian GAAP | |
|---|---|---|---|---|---|
| | 2007<br>€ MILLION | 2006<br>€ MILLION | 2005<br>€ MILLION | 2004<br>€ MILLION | 2003<br>€ MILLION |
| **Revenue*** | **2 405** | **2 116** | **1 969** | **1 775**** | **1 702**** |
| | | | | | |
| **EBITDA*** | **369** | **345** | **302** | **267** | **247** |
| % of revenue | 15.3% | 16.3% | 15.3% | 15.0% | 14.5% |
| | | | | | |
| **Current EBIT *** | **298** | **273** | **230** | **199** | **179** |
| % of revenue | 12.4% | 12.9% | 11.7% | 11.2% | 10.5% |
| | | | | | |
| **EBIT *** | **292** | **271** | **208** | **199** | **179** |
| % of revenue | 12.2% | 12.8% | 10.6% | 11.2% | 10.5% |
| | | | | | |
| **Net Profit (Group Share) *** | **180** | **165** | **122** | **61** | **43** |
| | | | | | |
| **Capital Expenditure (incl leasing)*** | **102** | **84** | **73** | **74** | **58** |
| % of depreciation and amortisation | 136% | 121% | 103% | 109% | 85% |
| % of EBITDA | 28% | 24% | 24% | 28% | 23% |
| | | | | | |
| **Total Equity** | **1 013** | **858** | **754** | **576***** | **555***** |
| | | | | | |
| **Net Financial Debt *** | **473** | **473** | **573** | **659** | **720** |
| | | | | | |
| **Return on Capital Employed *** | **19.1%** | **19.3%** | **15.2%** | **14.9%** | **12.8%** |
| | | | | | |
| **Return on Equity (Group Share)*** | **19.4%** | **20.8%** | **18.7%** | **11.0%** | **8.1%** |
| | | | | | |
| **Average Number of Employees** | **15 786** | **12 020** | **11 529** | **11 610** | **12 049** |

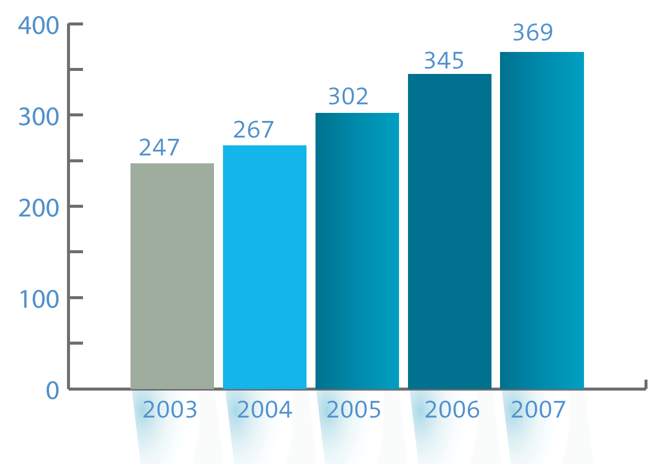
| | € per share | € per share | € per share | € per share | € per share |
|---|---|---|---|---|---|
| **Earnings** | | | | | |
| Basic | 2.11 | 1.93 | 1.43 | - | - |
| Diluted | 2.09 | 1.92 | 1.42 | - | - |
| | | | | | |
| **Gross Dividend** | **0.210** | **0.190** | **0.160** | **0.1467** | **0.133** |
| | | | | | |
| **Net Dividend** | **0.16** | **0.14** | **0.12** | **0.11** | **0.10** |
| | | | | | |
| **Payout Ratio*** | **10.0%** | **9.8%** | **11.2%** | **-** | **-** |
| | | | | | |
| **Outstanding shares at 31 December (net of treasury shares)** | **85 020 028** | **85 022 128** | **85 640 538** | **85 635 288** | **88 210 933** |

* Defined in Glossary in Financial Report
** Revenue in 2004 and 2003 adjusted to reclassify transport costs into cost of sales
*** Adjusted to exclude proposed dividend and treasury shares

## REVENUE

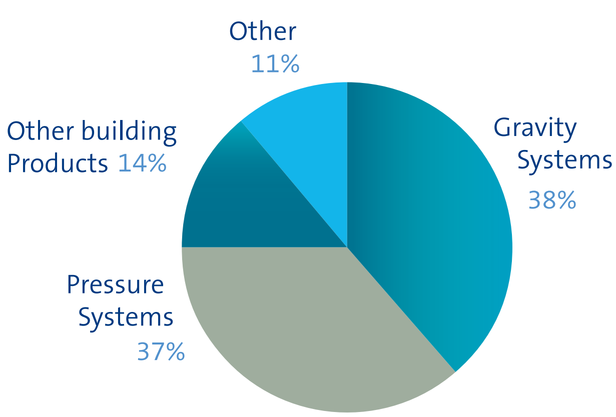



## EBITDA

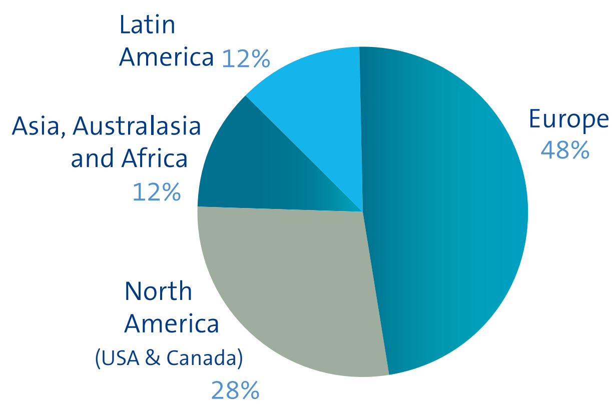



# Analysis of revenue

## BY INDUSTRIAL ACTIVITY




## BY GEOGRAPHICAL AREA




## AGENDA

**Annual General Shareholders' Meeting**
- Wednesday 28 May 2008

*At the Group's Registered Office, Avenue de Tervueren, 270, B-1150 Brussels, Belgium*

**Payment of Dividend**
- Wednesday 2 July 2008

**First half 2008 results**
- Board Meeting to approve results: September 2008
- Press Announcement: September 2008

**Full year 2008 results**
- Board Meeting to approve results: April 2009
- Press Announcement: April 2009

"To be a **global leader** in plastic solutions for fluid transport in the building, industrial and utilities sectors" *Together we go further*

The Aliaxis Group is an international group consisting of businesses primarily engaged in the manufacture and commercialisation of plastic products for fluid transport relating to four key market segments; building, sanitary, industrial and utilities.

The Group's products target both residential and commercial construction, in new build and renovation, as well as in a wide range of industrial and public utility applications.

Aliaxis was created as an independent group in 2003 and has been a major force in its industry from the beginning. The Aliaxis Group today employs more than 15,000 people, is present in over 50 countries throughout the world, and is represented in the marketplace through more than 100 manufacturing and commercial companies, many of which trade using strong regional brands. Each of these brands is firmly established with the community of trade professionals in its local market, and a number of them are widely recognised international brands.

In addition, Aliaxis is actively involved in developing and commercialising Sustainable Water Solutions. These solutions target three primary market needs: storm water management, water conservation and water treatment.

### Our People

The entrepreneurial spirit thrives in Aliaxis people - the balance between the independent entrepreneurial spirit combined with the strength, resources and discipline of an international company set Aliaxis apart.

### Our Know-How

Market and customer know-how. At Aliaxis we combine our knowledge of the markets, customers, regulations and building habits at a local level and leverage this knowledge at a regional and global level.

### Our Reach

Global presence, local awareness, it is this balance that Aliaxis strives to maintain. We truly are a global company seeking to solidify our positions in key areas throughout the world.

## OUR GOAL AS A GROUP IS TO OPTIMISE THE USE OF OUR RESOURCES IN ORDER TO IMPROVE ALIAXIS' PERFORMANCE AND COMPETITIVENESS

**Yves Noiret**

**Jean-Louis Piérard**

After 2006, which was an excellent year in terms of the Aliaxis Group's overall results, the initial prospects for 2007 were very uncertain due the continued weakness in our North American markets which we had foreseen late in 2006. Indeed the weakness in those markets continued and even worsened towards the middle of the year with the emergence of the sub-prime crisis. Although this crisis first hit the US real estate industry, it soon had an impact on the entire American, and even, to a certain extent, global economy. Thankfully, our North American results were supported by strong activity in Western Canada, whose economy was positively impacted by the oil field industry. This, together with resilient margins particularly in the rest of Canada, has supported the Group's overall result in North America.

This slight erosion in our North American performance was in any case offset by the very good results obtained in Europe and the rest of the world. These results were particularly strong during the first half of the year, although the second half of the year was significantly more difficult in certain European countries, due to a slow-down in construction and consumption linked to rising interest rates and the uncertainty caused in the financial markets by the sub-prime crisis.
In these circumstances and despite historically high raw material costs and a falling US dollar, the Group generated good operational results and significant cash flow which both exceeded the levels of 2006. Consequently, the Group's net debt was maintained at a relatively low level, despite a significant investment in Aliaxis Latinoamerica, our Latin American alliance with the Durman Group, made at the beginning of 2007.

Aliaxis Latinoamerica entered its operational phase at the beginning of the year, and as a result Aliaxis is now one of the three largest industrial groups in its sector operating in this region. The knowledge of local markets and vitality of our partner, the Durman Group, combined with the diversity of the Aliaxis offering, are such that we expect to achieve significant growth in these markets over the medium-term. Moreover, the year 2007 confirmed our expectations, with revenue in Latin America reaching € 283 million, although margins declined somewhat as a result of weaker economic conditions in certain larger countries such as Mexico.

In the rest of the Group, significant resources were allocated to planning and starting a number of major initiatives intended to reinforce the manufacturing, commercial, logistical and administrative cooperation between the Group's companies. Our goal as a Group is to optimise the use of our resources in order to improve Aliaxis' performance and competitiveness in the future. Aliaxis intends to accomplish this goal while respecting the individuality of its companies and the entrepreneurial spirit of their managers which has played such an important part in their success.
These initiatives, which began with the active participation of the Managing Directors of our companies, has resulted in many projects which are now moving from the analytical phase to the execution phase. These high-profitability projects will lead to an increase in capital expenditure over the next few years.

The year 2007 also showed us that even those Group companies having significant positions in their respective markets were nevertheless able to find growth possibilities by further investing in new products and product line extensions. This encourages us to continue more than ever on the path of improving the coordination and optimisation of Group-wide Research and Development resources. In addition, pilot experiments involving new project management methods have led to an improvement in the process used to select ideas for new products, resulting in significantly shorter product commercial launch times. As a result of the very good results obtained we are considering the more widespread use of these methods.

From a more strategic standpoint, the Group continued its policy of refocusing its core business by selling at the end of the year the Friatec metallic valves manufacturing business in Germany and, in February 2008, its UK business Greenwood Air

"It is our people, our know-how and geographic reach that make the difference at Aliaxis."

Management, which is active mainly in the ventilation products sector. Conversely, at the start of 2008 we announced our intention to acquire the Italian firm Dalpex, a company active in manufacturing and marketing soil and waste and hot and cold water solutions in PE/Aluminum/PE multi-layer pipe. Negotiations are also underway with respect to a number of other possible acquisition opportunities in our core business, which may materialise in 2008. In that respect, we have very recently signed an agreement to purchase the shares of Rx Plastics Limited, which will help to reinforce our product offering in New Zealand.
In terms of organic geographical growth, we also created a sales subsidiary in India, and work is in progress for the opening of our first local production of fittings for the gas and water transportation market in that country.

Many initiatives are under way and we remain optimistic about the future of the Group, despite the troubled and fragile global economy foreseen in 2008, which inevitably will be felt in the building industry. Our balanced approach both in markets and geographies helps us off-set market weaknesses and industry fluctuations.
However, now more than ever, the mobilisation of all of our human resources is critical to attaining our objectives.
Aliaxis' past and present performance reflects the expertise and motivation of the company's employees. It is our people, our know-how and our geographic reach that makes the difference at Aliaxis.
We would like to thank our employees for their individual achievement and to encourage them to continue to contribute enthusiastically to the Group's success.

| **Yves Noiret** | **Jean-Louis Piérard** |
|---|---|
| *Chief Executive Officer* | *Chairman* |

"The Board is committed to maintaining high standards of corporate governance throughout the Group"

## COMPOSITION OF THE BOARD OF DIRECTORS

**The members of the Board of Directors during 2007 were as follows:**

> **Jean-Louis Piérard**
> Chairman

> **Olivier van der Rest**
> Deputy Chairman

> **Yves Noiret**
> Chief Executive Officer

> **Andréa Hatschek**

> **ASB Invest SPRL**
> (represented by Philippe Leemans)

> **Kieran Murphy**

> **Alain Siaens**

> **Bernard Steyaert**

> **Henri Thijssen**

> **Philippe Voortman**

## COMMITTEES OF THE BOARD OF DIRECTORS

Aliaxis S.A. is a private company whose shares are not listed on any regulated stock market. Nevertheless, the Board is committed to maintaining high standards of corporate governance throughout the Group. The Board of Directors met four times during 2007. There are four standing committees, each of which supports the Board in specific aspects of its role of monitoring and supervising the activities and management of the Group:

### Strategy Committee

The Strategy Committee is responsible for reviewing the strategic direction of the Group, including its business plans and major opportunities for investment including capital expenditure, acquisitions, strategic alliances and joint ventures. The Committee met four times during 2007, and consisted of **Jean-Louis Piérard** (Chairman), **Kieran Murphy, Yves Noiret, Olivier van der Rest** and **Henri Thijssen.**

### Financial Audit Committee

The Financial Audit Committee supports the Board in monitoring the accounting and financial reporting of the Group and in reviewing the scope and results of its external and internal audit procedures. The Committee met three times during 2007, and its members were **Philippe Voortman** (Chairman) and **ASB Invest SPRL** (represented by Philippe Leemans), plus an external member, **Anthony Wilson**, a former Chief Executive of Glynwed International PLC.

### Remuneration Committee

The Remuneration Committee supports the Board in reviewing remuneration at Executive Committee level. The Committee, which met three times during 2007, consisted of **Alain Siaens** (Chairman) and **Bernard Steyaert**.

### Selection Committee

The Selection Committee advises on Board-level appointments to the Company. The Committee consisted of **Jean-Louis Piérard** (Chairman), **Olivier van der Rest** and **Henri Thijssen**.

## EXECUTIVE COMMITTEE

The Board delegates responsibility for the day to day management of the Group to Yves Noiret (Chief Executive Officer) in his capacity as Managing Director of the Group. Mr Noiret is assisted in this task by an Executive Committee consisting of a group of senior managers of the Group representing its various operating divisions and corporate functions. The primary role of the Executive Committee is to develop and implement the strategy of the Group as approved by the Strategy Committee and the Board of Directors.

## AUDITOR

Klynveld Peat Marwick Goerdeler
Bedrijfsrevisoren – Reviseurs d'Entreprises
represented by Benoit Van Roost
Avenue du Bourget, 40
B-1130 Brussels, Belgium

## REGISTERED OFFICE

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Tel: +32 2 775 50 50 - Fax: +32 2 775 50 51
**Web-site: www.aliaxis.com**
**E-mail address: aliaxis@aliaxis.com**

**The Executive Committee**
(from left to right): Yves Mertens (Finance Director/Division Director), Hubert Dubout (Company Secretary), Alistair Vearonelly (Division Director), Yves Noiret (Chief Executive Officer), Corrado Mazzacano (Division Director), Paul Graddon (Division Director), Giorgio Valle (Division Director), Doug McCollum (Strategic Marketing and Development Director).

“ Our industrial products are successfully sold worldwide and we will continue to innovate and make new solutions available to our customers. We are confident of further success, particularly in emerging markets”

# Aliaxis industrial solutions meeting the needs of customers & markets world-wide

The Aliaxis Industrial offering provides solutions for fluid handling in targeted industries and applications such as chemical processing, pharmaceutical and biotech, water treatment, cooling, fuel transportation, metal mining and refining, metal surface treatment and chlorine-alkali electrolysis. In addition large community buildings such as hospitals, airports, train stations, stadiums and prisons, thermal and wellness spas and swimming pools are key application areas. The Division also supplies specialist drainage solutions such as chemical waste systems for laboratories in schools and hospitals.

Aliaxis and the respective companies within the Group that manufacture and market these solutions have a long history of proven performance worldwide.

Leveraging the combined strength of the individual companies and their specific product and application knowledge has been key to improving the Group's performance and value to our target markets. It has been the comprehensive integration of these companies' offerings and competencies that has set and raised the competitive standard.

Aliaxis industrial solutions for these markets include plastic and non-plastic pumps, valves, actuations, flow measurement fittings and pipe-related products and accessories. A significant portion of the industrial product range focuses on thermoplastic piping systems which offer cost-effective solutions while providing chemical resistance, abrasion resistance and safety performance.

A key success factor for Aliaxis industrial solutions is product substitution, utilising the most cost-effective materials for the target market and applications. In this way the Group has been able to grow at an accelerated rate, benefiting not only from each specific sector's growth but achieving the added effect of displacing other materials for the same application.

**Corrado Mazzacano**
Industry Division Director


"Sanitary Systems offering innovation,
quality and design"

# Continued product & solution innovation and development has always been key in these target markets

Aliaxis group companies design, manufacture and market solutions for kitchen and bathroom applications, targeting delivery of water to and extraction of waste water from both residential and commercial buildings.

Many of these products are behind the wall, under the sink or in the floor. Functionality, ease of installation and trouble-free operation are key parameters for this offering. However customer aesthetic trends for products that are visible, such as flushing plates and shower drains are placing an increasing importance on design, creating unique opportunities for new products. In addition, an increasing focus on specific issues such as water saving and acoustic performance, creates continuing opportunities for product development and innovation.

Specific products in this category include water closet cisterns, flushing mechanisms and showerheads, shower and floor drainage, waste outlets and traps, ventilation products such as extractor fans and passive window and domestic ventilation systems and residential hot and cold water systems.

Sanitary products target three primary outlets: professional (wholesalers), DIY and OEMs. Continuous product and solutions innovation and development have always been key success factors in these target markets. Those Aliaxis companies active in the sanitary market work closely with OEMs, who come to Aliaxis for technological solutions for specific design challenges such as special waste and trap fittings for sinks, or electronic sink operating systems.

**Yves Mertens**
Finance Director / Sanitary Division Director

# Building Products with a competitive advantage

Aliaxis Building Products' primary focus is on the domestic & commercial plumbing, drainage and water management markets.

Products for these markets include rainwater gutters and down pipes, soil and waste fittings, fittings for sewage and underground drainage and surface drains and gullies for domestic and public utility applications.

The strategy of replacing traditional building materials with alternative value added products in plastic materials has continued, particularly against a background of increased environmental and ecological sensitivities. Plastic materials have provided tangible benefits including design flexibility, easier installation and weight savings. A prime example is the range of plastic-based channel drains designed by Nicoll in France to replace the traditional polymer-concrete products available in the market. The new channel drains are lighter and thus easier to install, more robust, and highly cost-efficient. Their market acceptance continues to increase significantly since their introduction.

Aliaxis is among the industry leaders in Europe in plastic waste water and rainwater systems with a wide range of products. The Group's intention is to maintain this leadership by continually introducing new, innovative products to meet customer requirements, while minimising manufacturing cost. In addition the increasing market acceptance of plastic rain gutters continues to fuel growth in other geographic regions throughout the world.

An area where Aliaxis offers particularly innovative solutions is in hotels and apartment blocks where sensitivity to noise from the flushing of toilet systems is particularly important. The Group's range of sound-absorbing soil and waste evacuation systems are a cost effective way to reduce these noise levels.

Advances in plastic resin formulation and converting technology continue to create new opportunities for Aliaxis building products. By leveraging its competency in converting plastics with its global reach and local presence, Aliaxis continues to make progress throughout the world in creating new opportunities in this important sector.

**Alistair Vearonelly**
Building Products Division Director

"The intention is to maintain this leadership by continually introducing new, innovative products to meet customer requirements, while minimising manufacturing cost"

# Meeting the evolving needs of the gas and water companies worldwide

The Aliaxis companies have a long history of supplying pipe systems solutions to the utilities sector throughout the globe.

These solutions are primarily targeted at applications for the distribution of water and gas through polyethylene pipe systems.

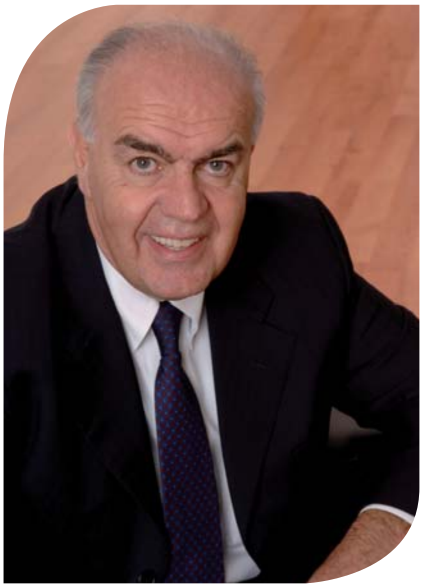
Polyethylene (PE) is the dominant material used for such pipe systems in the worldwide gas market, and is also gaining share in the water sector where it continues to replace existing materials such as metal. In Europe today it is estimated that 90% of new installations utilise PE, and that demand is expected to double in the next 20 years. These solid market fundamentals, together with the development of the infrastructure in other parts of the world, will continue to drive growth in the future.

Aliaxis companies have focused primarily on electrofusion technology in their ranges of products to connect pipes, create branched outlets, tapping tees, transitional fittings and flow control devices such as valves. Several Aliaxis companies were pioneers in this technology and still have market leadership positions today.

The broader Aliaxis offering, however, also includes PE pipe and coextruded pipe for various applications such as the transport of water on brownfield sites.

Product innovation has always been a key element in meeting the evolving needs of the gas and water companies. Aliaxis companies have always been leaders in innovative products in this sector. The Group will continue to invest to maintain its market leadership position, providing new products that meet its customers' needs.

"The FRIATEC FRIALOC shut-off valve is a prime example of the Division exceeding its customers' needs with innovative solutions. The first ever shut-off valve made of PE with an innovative two-valve system, allows for a continuous PE piping system without flanges, gaskets or metal transition fittings, providing long life, safety and economy"



**Giorgio Valle**
Utilities Division Director

“The solid market fundamentals combined with developing infrastructures throughout the world continue to drive growth”

" Drawing on our vast experience, international coverage and ongoing R&D investment, the Aliaxis Group has come together in response to customers' needs, market trends and impending legislation centring on the way we manage and control water today and tomorrow"

# Sustainable Water Solutions for OUR Future

Aliaxis has always considered protection of the environment as a key priority and understands the issues concerning water management.

With the impact of changes in our environment, continuously evolving legislation and health concerns around waste disposal high on the community and political agenda, we are all forced to change our approach to water management, and take action for the longer term. This has led Aliaxis into new and innovative areas.

In response to customers' needs, market trends and impending legislation centring on the way we manage and control water today and tomorrow, Aliaxis has drawn on its vast experience, international coverage and ongoing R&D investment, to produce **Sustainable Water Solutions**.

Sustainable Water Solutions combines global knowledge, integrated technologies and managed delivery. Our presence means that not only do we understand local issues, but we also have the integrated resources and international supply chain to deliver a complete solution - on time and within budget.

By joining capabilities and sharing expertise worldwide, we offer contemporary, practical solutions for capturing, storing, transporting and disposing of the water in residential, commercial and industrial settings.

Aliaxis decided to face these challenges by developing a specific strategy concentrating its effort to address three main areas of concern:

**Storm Water:** Managing the rainwater around buildings and providing solutions to limit flooding risk and environmental impact.

**Water harvesting and recycling:** Providing intelligent solutions to collect and recycle rainwater to save consumption of potable water.

**Water treatment:** Limiting the impact on the environment of small residential buildings not connected to a public sewage network. Aliaxis will provide solutions for engineering designers, municipalities and developers confronted by new European and regional legislation.

Aliaxis is concentrating its efforts and resources on developing economical solutions in these priority areas to contribute to the protection of the environment. Aliaxis' experience in the building industry will be an important asset in achieving its goal of improving water quality and consumption.

**Waterloc installation at new Wolseley UK Headquarters**
A combination of standard and heavy-duty Waterloc cells have been installed at the site of the Wolseley distribution depot next door to its new headquaters in Leamington Spa.
This installation is one of three attenuation systems on site, constructed to store and disperse rainwater in a controlled manner.

# Europe
# Higher growth in both the Utilities and Industrial sectors

The Eurozone economies started the year strongly, bolstered by several factors including a mild spring and initially positive economic factors including an anticipated acceleration in GDP growth in several of the leading European countries.

As the year progressed, economic forecasts were generally downgraded partially as a result of the sub-prime crisis in the USA, combined with regional weaknesses in the economies of Spain and Germany. However even with a slow-down in the second half, European sales exceeded our forecast for 2007, and were significantly ahead of 2006. These European results were positively influenced by higher growth in both the Utilities and Industrial sectors.

## Building Products

In Europe the market for building products remained positive and robust in the first six months of 2007, until the sub-prime crisis and subsequent general credit tightening caused the market to slow down. The resulting reduction in housing starts was felt particularly strongly in the UK and Spanish markets.

The performance of Nicoll in France was very good, and its growth exceeded that of the market, particularly thanks to the launch of new products and product line extensions. Italy experienced a challenging year in a very competitive market place. The market in Germany, particularly in the DIY sector where Marley Deutschland has a strong position, showed some signs of recovery compared to recent years. Sales in the DIY sector were also strong in Poland and Hungary.

Given the expectation of a more difficult trading environment throughout Europe during 2008, the emphasis will be on launching more innovative products targeting the emerging environmental sector.

The economic forecast for 2008 is flat, with many countries likely to show marginal growth or decline depending on their local circumstances. Customer pressures are expected to become greater, bringing commercial issues to the forefront and increasing pressure on prices. The Group will continue to innovate and will be launching a number of new products during the year. These will include a coherent portfolio of products for water management both throughout Europe and across the Group.

During 2007 significant progress was made in optimising manufacturing through the use of facilities located in low-cost territories such as Poland, Hungary and Malaysia. Shared services is another initiative to increase operating efficiencies, by centralising functions such as human resources, purchasing and IT.

## Industrial

The Aliaxis Industry Division achieved a very solid performance in Western Europe and the emerging markets.
During 2007, FIP (Italy) renewed its valve range and introduced several new and innovative products. SED (Germany) made excellent progress by supplying high profile pharmaceutical companies with tailor-made stainless steel valves for the pharmaceutical and biotech industries, where the extremely stringent requirements for purity are met by SED's products. GIRPI (France) was very successful in targeting applications for community buildings.

An additional business area that falls within the Industry Division is industrial ceramics, which has been successful, particularly in applications such as fuel cells and high precision instruments, where materials that are extremely tough, corrosion-resistant and temperature-resistant are required.

The 2008 outlook is for a slowdown in Western Europe, but the Division is confident that new opportunities will lead to gains in market share. SED will target the pharmaceutical and biotech industries in India and China, part of a wider Divisional action to look for opportunities in the Middle East, the Indian sub-continent and South-East Asia. FIP will continue to revamp its valve range throughout the year.

## Sanitary

2007 was a satisfactory trading year for the Sanitary Division. It continues to innovate and develop new products for the market, and during 2007 this regular flow of new products for various applications was a contributory factor to healthy sales figures. The Division continues to work closely with OEMs providing technological solutions to specific design challenges.

An overall trend in the sanitary sector is the increasing demand for concealed cisterns, which are popular design features of new bathrooms. There is also a trend towards smaller operating plates in modern designs and tiled shower floors.

A further trend that also has applications outside the sector is the use of multilayer pipe for both domestic and commercial hot and cold water. This PE/aluminium/PE "sandwich" has the advantage of flexibility so the pipe can easily be bent into shape. It is also less expensive than traditional copper piping. The multilayer pipe is steadily gaining market acceptance in various countries.

A substantial part of the Division's business came from Spain which has been experiencing a construction boom over the last few years. The anticipated slow-down has started but a satisfactory level of performance has been maintained. Aliaxis' businesses in Spain, Jimten and Riuvert, introduced some range extensions, while Riuvert further developed the water management business with its micro stations to treat waste water. The key for both companies is to keep growing in the increasingly difficult environment of the Spanish construction industry.

The performance of SAS, the Group's business in France, continues to show a positive trend.
A key development in France was Aliaxis' decision to build a new factory near Lyon. This will replace the current two locations which are situated 40 km from each other. The new plant should be operational by the end of 2009 and will feature a fully optimised manufacturing and logistics layout. The decision reflects Aliaxis' commitment to support the growth of this business and meet the service needs of its customers.

In the highly competitive German environment, Sanit and Abu-Plast both enjoyed a successful year thanks to the introduction of a number of new products. Sanit launched a range of concealed products, including a highly compact 8 cm concealed cistern, along with a number of new operating plates. Abu-Plast launched a number of innovative valves in 2007 and continues to expand the range of applications for its products. It also completed the installation of a new fully automated assembly line for float valves.

Friatec Building Services has rejuvenated its range of concealed cisterns, and introduced some new operating plate designs. The company is also active in the hot and cold water market and continues to promote its innovative push-fit fitting technology for multi-layer pipe.

Since the acquisition of Dux Industries Limited in 2006 there have been numerous contacts with other Group companies in the Sanitary Division to maximise synergies and sell products manufactured in Europe into the New Zealand and Australian markets.

Similar opportunities are being explored with Durman in Latin America.
Regarding the outlook for 2008, business in France is anticipated to be satisfactory. In Germany the residential housing market showed signs of weakness in the second half of 2007, and the trading environment is expected to remain challenging in 2008. In Spain a significant slow-down is anticipated due to the decline in housing starts.

## Utilities

The Utilities Division supplies PE pipe systems for water and gas applications and electrofusion fittings for PE pipes.

PE is the dominant material in the gas market worldwide and is gaining share in the water sector where it continues to replace existing materials such as steel. The Aliaxis companies active in these sectors are GPS in the UK and MASA in Spain. GPS UK is the second largest supplier of PE pipes to the UK gas industry and the number one supplier to the UK water industry. MASA serves the utilities industry in Spain and



A Siphonic Roof Drainage: New IKEA's customer distribution center

## Europe continued

the south of France, and in its home market the company is one of the top two national suppliers in both the gas and water markets.

In 2007, business was exceptionally strong in the UK water sector, where the government has sought to impose a certain level of investment on the privatised water companies to expand, renovate and maintain their networks. The UK gas industry has a 30-year investment plan, and demand remained at a similar level to previous years. In Spain the market slightly decreased in line with the declining domestic housing market.

During 2007 PE raw material was in short supply, leading to a strong increase in price, exacerbated by an increase in the oil price. It is expected that this situation will be rectified later in 2008 when a number of plants in the Middle East are due to come on stream, and price reductions are anticipated as more raw material comes onto the market.

In 2007 Friatec launched a new and innovative PE valve for the water industry – the first PE valve available worldwide for water applications. It offers excellent corrosion resistance and enables a whole pipe system to be constructed out of the same material.

Another product growing in use is the barrier pipe, which is selling particularly well in the UK. It combines all of the advantages of conventional high quality PE pipe with an aluminium barrier layer to prevent permeation. It is specifically designed for the safe transportation of drinking water through brownfield sites and other types of contaminated land. Demand for barrier pipes is increasing strongly.

### Master Distribution

The Group's Master Distribution Division, located in both Western and Eastern Europe and Scandinavia, promotes and distributes a wide range of the Group's products in countries where otherwise it would only have a limited presence.

The Division continued its development during 2007, with sales growth in existing product lines together with new agreements with Group manufacturing companies boosting the order intake. The first half of the year was stronger than the second half, and strong growth was seen in Eastern Europe and Russia throughout the year. A number of organisational changes were made, which will result in a leaner and more effective organisation, and the project to standardise the IT system throughout the Division is progressing. This will further enhance the service capabilities of the Division.

The distribution centre in Denmark was moved to new, larger premises to better serve the Scandinavian market.


The New Merano Thermal Baths located in Merano, Italy cover a total area of 7,650 sq.m., a large part of which is located inside the stone and timber structure. 2,000 sq.m. are covered by water, of which 1,250 sq.m. are in the park and 750 sq.m. inside the building.
FIP provided solutions for the water treatment facility including 13 indoor and 12 outdoor pools

# North America
# The third best year on record for Aliaxis

United States

2007 was the third best year on record for Aliaxis in the United States. This impressive performance was achieved despite a 29% decline in housing starts, the well-publicised sub-prime mortgage crisis, and the intensifying decline in construction activity in the US.

Over the last five years a number of product development initiatives have been implemented which have added 70 new product lines, 46 new product line extensions and 1,460 SKUs. The sales resulting from these initiatives represented a full 15% of total sales. Investments in new product developments will continue as this is clearly a key contribution to a successfully expanding business.

**In the industrial sector**, the re-launch of the Blaze Master fire sprinkler system led to encouraging sales in the last half of the year. Significant market share continues to be gained in this sector at the expense of traditional materials such as cast iron and copper. A highly successful new product launch during 2007 was a new gas flue venting system, which led to an encouraging market response. This heat-resistant plastic system is designed for high-temperature furnaces. In the highly competitive gasket business, Ipex relocated and reconfigured some of its production facilities in the US, and will continue to reduce costs and improve customer service to enhance its market position.

The Group's industrial products distribution business, Harrington Industrial Plastics, which has branches across the US, was less exposed to the declining housing market.

**In the electrical sector**, market share has been gained in both the conduit fittings and core product lines. Market share was also gained in the challenging environment of the municipal and plumbing markets in the US. Good performance was recorded in the water treatment industry with sales of the Vortex product range increasing by 60%. This is an environmentally-friendly system to replace the use of chemicals to combat sewer odour. Another environmentally attractive product is a triple-wall pipe that uses 50% post-industrial PVC. Manufacturing capacity is due to be increased to meet demand.

2008 is likely to be a challenging year in the US, in which the company has to live with the consequences of the sub-prime mortgage crisis that is going to drive housing starts down below one million per year for the first time in recent history. It is compounded by the impact of fewer fixed rate mortgages that has not yet been well publicised.

Canada

In Canada, growth of 42% year on year was achieved in proprietary/branded products that have been launched in the last five years, again reflecting a successful focus on the development of new products in the portfolio. In municipal pressure fittings, 22% growth in sales was achieved, largely at the expense of metal fittings. Growth was also achieved in the retail sector. Satisfactory growth was recorded in high-rise multiple-level building applications with PVC pipe systems. Such growth was achieved in the face of high resin costs and the Canadian dollar appreciating significantly over the course of the year.

Two Canadian plants received awards from environmental associations for their eco-friendly products and operations. Safety remains a vital focus of Aliaxis, and seven plants have gone accident-free for between four and seven years, clearly demonstrating the company's commitment to the safety of people and plants.

In 2008, business in Canada is likely to be buoyed by a strengthening industrial sector which continues to invest, creating employment and stimulating housing construction, particularly in the west of the country. The work generated by the 2010 Winter Olympics in Vancouver will certainly provide a significant boost to business in 2008 and beyond. It could be fair to say that the strong economy of the resource-rich regions of west Canada will to some degree offset the negative situation in the US.

**Paul Graddon**
Division Director North America Manufacturing

"AS THE LEADER IN PLASTIC PIPING SYSTEMS IN NORTH AMERICA, ALIAXIS COMPANIES ARE COMMITTED TO THE ONGOING DEVELOPMENT OF INNOVATIVE SOLUTIONS IN ALL OF THE DIVERSE MARKETS THEY SERVE"

# Latin America
# First year's trading for Aliaxis Latinoamerica

**Francis Durman**
Aliaxis Latinoamerica

Growth in the Latin American region was strong, although margins in some markets were under pressure. The level of trading was influenced in many countries in the region by the timing of elections, which can have a significant impact on central and local government spending in the pre and post election periods. Although the region was not materially affected in 2007 by the economic turbulence in North America and elsewhere, there are clear risks that the effects of the credit crisis along with sustained high oil prices, may impact activity in 2008.

## Mexico

The initial expectation for 2007 was optimistically based on the new government releasing funds for long-delayed projects, but in the first half of the year public investment was largely absent, and although there was some recovery in the second half, it was not enough to close the gap. The level of private investment was also held back by uncertainty following a change in corporate tax legislation that will take effect in 2008.
Both sales and margins were below target, with almost all product groups affected and Rib Loc, windows and water treatment plant showing the greatest shortfalls.
In 2008, the level of both public and private investment is expected to recover as previously postponed projects get under way and the economy resumes a stronger growth pattern.

## Central America & Puerto Rico

With the exception of Nicaragua all Central American countries had solid GDP growth during 2007, which contributed to good trading results for the region. Overall, sales were slightly below the original target for the year, but margins were significantly higher than expected in all countries except Puerto Rico, helped by more stable market conditions. In Puerto Rico volumes suffered as a result of lower demand for pipes, and the need to import some products from Costa Rica to cover a shortfall in local production arising from interruptions to carry out plant improvements. Local competition in Puerto Rico was also particularly fierce, and margins were lower as a result.

Central America is relatively stable in political and macroeconomic terms, and growth rates of between 3.7% and 8% are projected for 2008. Costa Rica benefits from a high level of investment following approval of the Free Trade Agreement with the US, and Panama will similarly benefit from increased housing investment and enlargement of the Canal. In Honduras and El Salvador the construction sector in 2008 is expected to improve ahead of elections due in 2009, although growth in Guatemala will be lower following the recent elections. Nicaragua's geopolitical policies are expected to hold back growth in the absence of foreign investment in the country.

"EVEN WITH THE INCREASING VOLATILITY OF THE GLOBAL ECONOMY, LATIN AMERICA OFFERS GREAT OPPORTUNITIES FOR INVESTMENT AND GROWTH, WHICH IS WHY WE HAVE SIGNED OUR ALLIANCE WITH ALIAXIS"

### Colombia

During 2007, economic growth in Colombia was strong, partly driven by exports to Venezuela which has benefited from the high oil price. The growth in the domestic economy of Colombia reflects a construction boom, high consumer borrowing, high foreign investment and strong demand for commodities.

The Group's sales in 2007 were more than 20% higher than the target for the year. Strong demand for building materials enabled prices to be increased, and thus margins were higher than anticipated at the start of the year. The local companies Tubotec and Tuvinil were also able to gain additional market share during 2007. The major issue to be addressed in 2008 is the inadequate manufacturing facility that prevents the business from increasing production capacity due to lack of space.

### Peru

The economy in Peru continued to be strong, thanks partly to its exports of commodities such as copper and zinc. Both public and private investment benefited from the strength of the economy, and the trading performance in Peru was good despite some disruption from the merger, following the creation of Aliaxis Latinoamerica, between Aliaxis' own business Nicoll Peru and the Durman Peru business. The new Nicoll company has become the market leader in PVC manufacture. The merger was achieved without any loss of sales, and the new business has been consolidated in two locations in Lima, one dedicated to extrusion and the other to injection moulding. Nicoll's market presence has been improved thanks to a reorganisation of the sales forces, and an ongoing rationalisation of the brands is expected to give more flexibility and lower manufacturing costs.

### Argentina, Uruguay and Brazil

GDP growth in Argentina in 2007 was amongst the highest in Latin America at around 8%, but was accompanied by higher inflation which has begun to affect growth. Uruguay maintained its recovery with growth of 4.5%, and a similar growth rate was recorded in Brazil.

The management of Aliaxis Latinoamerica's businesses in these countries was reorganised under a simplified structure following the merger with Durman, and 2007 was thus a year of transition. Both sales and margins were solid during the year, although some difficulties in production and inventory levels, especially in Nicoll Argentina, affected their presence in the market. Management effort has been directed towards resolving these issues to improve market positioning. However, monetary policies to control inflation in Argentina and shortages of electricity generating capacity there may limit the rate of local investment and hold back growth in 2008.

Salvador - Over 1,800 linear meters of Ribsteel piping with a diameter of 2,750 & 3,000 mm was installed in 2007 for the residential areas in Salvador

# Asia, Australasia and Africa

### South Africa
Once again, the Group's businesses in South Africa delivered a good performance, with strong sales growth in a competitive environment. A key focus of the business is to improve manufacturing productivity and this will continue in 2008 with some significant capital expenditure planned. The outlook for 2008 is less positive, however, due to the weakness of the Rand and electricity shortages changing the short term outlook.

### Malaysia
Malaysia remained an extremely difficult market with intense price competition and a further drift towards low quality products in the marketplace. The outlook for 2008 is for similarly difficult market conditions. Paling is offsetting this trend with both its own new products and by manufacturing product for other Group companies.

### China
Universal had a good year in 2007 as the Chinese economy continued to expand. The business is experiencing pressure on labour costs as new regulations come into force and as labour becomes more difficult to recruit. These factors are putting an increasing emphasis on productivity.

### Australia
Philmac achieved very strong sales growth in both domestic demand and in exports to the UK and Central America. During the year Aquadux (formerly a subsidiary of Dux) was integrated into Philmac to focus on the plumbing and building segments. The 2008 outlook will be negatively impacted by severe flooding in parts of Australia, particularly in Queensland,which has impacted heavily on demand in early 2008. Philmac is working to broaden its base in the domestic market through Aquadux products as well as products sourced from within the Group.

### New Zealand
The New Zealand economy performed above expectations in 2007, although housing markets declined in the first half and continued to weaken during the second half. On the positive side the civil and rural markets were strong as record dairy prices fuelled irrigation markets. All companies traded as expected, with Dux Industries, having joined the Group in April 2006, performing particularly well as it grew its market share in hot and cold water systems. Marley's product mix moved away from plumbing more to civil and rural ranges in line with changes in the market. As a consequence margins were down slightly.

The outlook for 2008 is for a continuing softening of the market led by a weakening consumer sentiment as a result of high energy prices, falling housing demand and prices and high interest rates. Countering this, civil and rural markets are expected to continue to remain strong.

**Colin Leach**
Division Director Asia, Australasia & Africa

"OUR REGION MET EXPECTATIONS IN 2007 WITH STRONG PERFORMANCES COMING FROM MARLEY PIPE SYSTEMS IN SOUTH AFRICA AND DUX INDUSTRIES IN NEW ZEALAND. RISING RAW MATERIAL COSTS AND INCREASING COMPETITION HAVE PUT ADDITIONAL PRESSURE ON MARGINS"

DURAPIPE Petro-Line has been installed as part of the construction of the Olympic Qingdao sailing project in China.

# Aliaxis - A Global Company

## EUROPE

**United Kingdom**
- Hunter Plastics
- Marley Plumbing & Drainage
- Greenwood Air Management
- Stainless Fittings/DPL
- Durapipe
- GPS-PE Products
- Philmac

**France**
- Nicoll
- Girpi
- S.A.S.
- Friatec
- Innoge (Monaco)

**Scandinavia**
- Glynwed Denmark
- Glynwed Sweden

**Benelux**
- Nicoll Belgique
- Akatherm
- Glynwed
- Vigotec
- Arnomij
- Akatherm International

**Germany**
- Sanitartechnik
- Marley Deutschland
- Friatec
- Akatherm FIP
- Abu-Plast
- Wefa Plastic
- SED

**Austria**
- Marley Osterreich
- Glynwed

**Switzerland**
- Glynwed
- Straub

**Spain**
- Jimten
- Riuvert
- MASA
- GPS Ibérica

**Italy**
- Redi / Redi HT
- Europlast
- Nicoll
- Astore Valves & Fittings
- Glynwed
- FIP

**East Europe**
- Marley (CZ - HU - PL)
- Glynwed (BU - CZ - HU - LT - PL - RO - RU)
- Poliplast (PL)

## ASIA AUSTRALASIA & AFRICA

**Asia**
- Universal Hardware
- Zhongshan Universal
- Paling Industries
- GPS Malaysia
- GPS Asia
- Glynwed India

**Australia/New Zealand**
- Philmac
- Marley New Zealand
- Dynex Extrusions
- Chemvin
- Dux

**South Africa**
- Marley Pipe Systems
- Rhine Ruhr Pumps & Valves

## NORTH AMERICA

**USA**
- Canplas
- Ipex
- Friatec
- Harrington Ind. Plastics

**Canada**
- Canplas
- Ipex
- Straub Tadco

## LATIN AMERICA

**Argentina**
- Nicoll

**Brazil**
- Glynwed

**Central America**
- Durman (CR - GT - NI - PA)
- Dureco (GT - HN - SV)

**Chile**
- Duratec Vinilit (40%)

**Colombia**
- Tubotec
- Tuviril

**Peru**
- Nicoll
- Durman

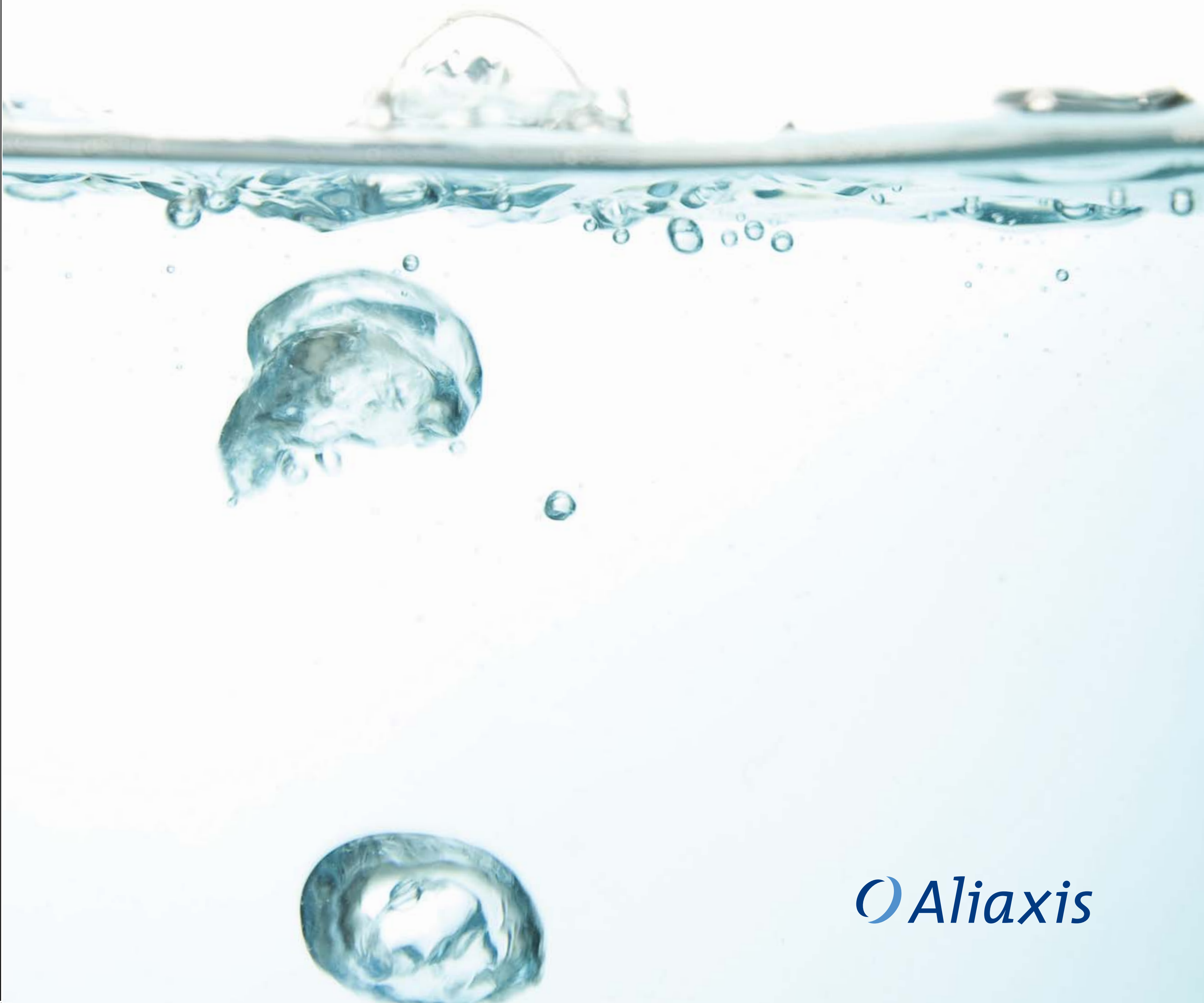
**Mexico**
- Durman
- Ipex
- Multitubos

**Puerto Rico**
- Transworld Industries

**Uruguay**
- Nicoll

# Notes

# Financial Report



Aliaxis

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# 2007 Financial Report

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## Trading Overview

Aliaxis' performance in 2007 capped a series of consecutive years of strong growth in sales and earnings. This was achieved thanks to good organic growth supplemented by targeted efforts such as the new investment in Aliaxis Latinoamerica. The 2007 results exceeded expectations primarily due to the ability of our North American operations to maintain much of their volume and margin in what can only be described as very challenging market conditions.

In North America sales volumes, as expected, were lower than in 2006, due mainly to the persistent weakness in the housing market. However, the impact on margins was contained, and the performance achieved by our North American operations was satisfying in difficult circumstances.

In Europe, the Eurozone economies started the year strongly but tended to fade as the year progressed. Several factors accounted for this trend, including an initial optimistic outlook and a very mild spring. Later in the year, the trickle-down effect of the sub-prime crisis, combined with regional weaknesses in the economies of Spain and Germany, impacted our results primarily in the Building Products and Sanitary sectors. However, sales exceeded our forecast for 2007 as a whole, despite the slow-down in the second half. These strong European results were made possible by better then expected growth in both the Utilities and Industrial sectors.

The Group's presence in Latin America was expanded significantly through its investment to acquire 51% of Aliaxis Latinoamerica, a newly-created subsidiary which combined Aliaxis' existing activities with those of the Durman Group. Growth in the region was strong, despite a slow first half in Mexico and some weakness in Puerto Rico and Nicaragua resulting in pressure on margins. Colombia and Peru were especially buoyant, and in Peru the successful consolidation of the Aliaxis and Durman businesses improved Aliaxis' market presence.

In Asia, Australasia and Africa results in 2007 were mixed as a result of the widely differing economic forces driving such a large area. The Chinese economy continued to expand. The business is experiencing pressure on labour costs as new regulations come into force and as labour is becoming more difficult to recruit. As a result, there is an increasing emphasis on productivity.

Paling in Malaysia experienced an extremely difficult year with intense price competition and a further drift in the market towards lower quality products. Paling is offsetting this trend both with its own new products and by manufacturing products for other Aliaxis Group companies.

In Australia, 2007 was a very good year for Philmac with strong domestic demand and export growth in the UK and Central American markets. During the year Aquadux (formerly a subsidiary of Dux Industries, acquired in 2006) was assimilated into Philmac to focus on the plumbing and building segments.

In New Zealand all companies met expectations with Dux Industries performing particularly strongly.

In South Africa results were encouraging with strong sales growth in a competitive environment. A key focus of the business is to improve manufacturing productivity and this will continue in 2008 with plans for significant capital expenditure.

## Financial Review

### Introduction

The consolidated financial statements for the year ended 31 December 2007 are reported in accordance with International Financial Reporting Standards (IFRS). The change to reporting under IFRS took place in the year ended 31 December 2006, and at the same time the 2005 figures presented for comparative purposes were restated in accordance with IFRS 1. Financial statements for earlier years were prepared in accordance with Generally Accepted Accounting Principles in Belgium (Belgian GAAP).

### Changes in the Scope of Consolidation

The main changes in the scope of the consolidation during 2007 were:

- The acquisition in February of a 51% interest in a new company, Aliaxis Latinoamerica Cooperatief U.A. The new company combines Aliaxis' existing businesses in Latin America with Durman Esquivel S.A. (Durman), a Costa Rican company having operations in eleven countries in Mexico, Central America and South America.
- The acquisition in February by Canplas in Canada of the business and certain assets of Hayden Industries Inc, a manufacturer of components for central vacuum systems.
- The disposal of two businesses in October; the DPL division of Glynwed Pipe Systems in the UK, and the valves division of Friatec in Germany.

These transactions are described more fully in Note 6 (Acquisitions and disposals of subsidiaries and minority interests) to the consolidated financial statements.

### Profit and Loss Account

Revenue from sales in 2007 was €2,405 million (2006: €2,116 million). The overall increase in revenue was 13.7%, and at constant exchange rates, and excluding the impact of changes in the scope of the consolidation, the increase was 5.0%. Changes in the scope of the consolidation accounted for an increase of 10.9%. The fluctuation of foreign exchange rates during the year had an overall negative impact on revenue of 2.2%. Although the New Zealand and Australian dollars were stronger by 3.8% and 1.9% respectively, the Group's other major trading currencies were weaker, principally the US dollar (9.2%) and the Canadian dollar (3.1%).
The gross profit was €713 million (2006: €655 million), representing 29.6% (2006: 30.9%) of revenue. Commercial, administrative and other charges amounted to €421 million (2006: € 383 million), representing 17.4% (2006: 18.1%) of sales.

Operating income for the year was €292 million (2006: €271 million), representing 12.2% (2006: 12.8%) of revenue, after charging €9 million (2006: €4.5 million) of restructuring costs. There was no charge for goodwill impairment in 2007 (2006: €2 million). The overall increase in operating income was 7.8%, and at constant exchange rates, and excluding the impact of changes in the scope of the consolidation, the increase remained 7.8%. Changes in the scope of the consolidation contributed 1.8% to the operating income, but exchange rate movements had a negative impact of 1.8%. EBITDA reached €369 million (2006: €345 million), representing 15.3% (2006: 16.3%) of revenue.

Finance income and expense mainly consisted of net interest expenses of €35 million (2006: €31 million), a loss of €2.3 million on the sale of businesses in Germany and the UK, and of bank charges of €2.9 million. An analysis of finance income and expense is given in Notes 10 and 11 of the consolidated financial statements

The Group operates a policy of managing its interest rate exposure, and the major part of its debt was covered throughout the year by the use of fixed interest rate swaps with appropriate caps, floors and similar derivative instruments. The proportion of the debt covered by such instruments reduces in line with the debt maturity dates. The balance of the Group's debt remained at variable interest rates. The management of interest rate exposure is more fully explained in Note 27 (Financial instruments) to the consolidated financial statements.

Income taxes, consisting of current and deferred taxes, amounted to €73 million (2006: €81 million), representing an effective income tax rate of 29.1% (2006: 33.6%). The decrease of €8 million in the net tax charge in 2007 is mainly the result of changes in future enacted tax rates (€7 million) and the impact of a range of other movements which are set out in Note 12 (Income taxes) to the consolidated financial statements.

The Group's share in the results of equity accounted investees, mainly corresponding to its 40% shareholding in Duratec-Vinilit in Chile, was €3 million (2006: €5 million).

After deducting the share of profits attributable to minorities of €2 million (2006: €1 million), the Group's share of profit for 2007 was €180 million (2006: €165 million).

The Group's basic earnings per share in 2007 were €2.11 (2006: €1.93), an increase during the year of 9%. On a fully diluted basis, the earnings per share were €2.09 (2006: €1.92).

**Balance Sheet**

Intangible assets, consisting of goodwill and other intangible assets, amounted to €609 million at 31 December 2007 (2006: €496 million). The major part of the increase was attributable to goodwill of €110 million arising on the consolidation of Durman and on other acquisitions and transfers (€6 million). Amortisation of intangible assets amounted to €3 million and negative exchange differences were €2 million. Further details of movements in intangible assets are set out in Notes 6 (Acquisitions and disposals of subsidiaries and minority interests) and 13 (Intangible assets) to the consolidated financial statements.

Property, plant and equipment amounted to €607 million at 31 December 2007, compared with €553 million at the end of the previous year. The net increase of €54 million was largely attributable to the addition of Durman and other changes to the consolidation scope (€42 million) and new investment of €101 million, less the depreciation charge of €73 million, the elimination of assets disposed of (€7 million) and the negative impact of currency exchange movements (€7 million).

Non-Current Investments at 31 December 2007 of €31 million (2006: €30 million), consisted mainly of the Group's 40% shareholding in an associated company, Duratec-Vinilit (Chile), and investment properties leased to third parties.

Deferred Tax Assets at 31 December 2007 were €13 million (2006: €19 million). The reduction of €6 million principally represents the utilisation of €8 million of deferred tax assets (of which €5 million was in respect of tax losses available for carry forward), together with exchange rate losses of €1 million. An additional deferred tax asset of €3 million was recognised as a result of the inclusion of new businesses in the scope of the consolidation.

Non-cash working capital amounted to €438 million at 31 December 2007 (31 December 2006: €347 million), an increase of €91 million (26%) during the year which was largely attributable to the addition of Durman to the consolidation. At the year end working capital represented 18.2% (2006: 16.4%) of revenue, which represents the lowest point in the annual cycle, reflecting the seasonal nature of the Group's activities.

The equity attributable to equity holders of the Group increased from €847 million to €1,002 million mainly as a result of the Group's share of net profit for the year (€180 million), less the dividend paid (€16 million) and the negative impact of exchange rate movements including cash flow hedges (€10 million).

Minority interests at 31 December 2007 remained unchanged at €11 million, with the minority share of the result of the year (€2 million) offset by dividends paid to the minority shareholders and the impact of exchange rate movements.

Non-current liabilities (excluding interest-bearing loans and borrowings) were as follows:

| € million | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Employee benefits | 64 | 78 |
| Deferred tax liabilities | 48 | 52 |
| Other provisions and amounts payable | 118 | 13 |
| Total | 230 | 143 |

The decrease of €14 million in the provision for employee benefits is partly the result of special contributions made in December 2007 to the defined benefit plans in France and the UK and other improvements in the funding position of the plans. The decrease in deferred tax liabilities of €4 million reflects decreases in future enacted tax rates (€7 million) and temporary timing differences (€2 million), less an increase of €5 million arising from changes in the scope of the consolidation. The increase in other provisions and amounts payable includes €105 million which represents the fair value of the outstanding 49% minority interest in Aliaxis Latinoamerica, pursuant to the Group's commitment to acquire that interest following the possible exercise of general put options beginning in 2011.

Net Financial Debt at 31 December 2007 remained unchanged at €473 million. The major cash flows during the year arose from cash generated by the Group's operations (€327 million), the disposal of assets (€28 million) and the proceeds of the sale of the 49% minority interest in Aliaxis Latinoamerica (€113 million), less tax payments (€83 million), investments made during the year including acquisitions (€270 million), net interest payments made during the year (€35 million) and net dividends paid (€16 million). Net financial debt was as follows:

| € million | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Non-current borrowings | 508 | 460 |
| Current borrowings | 53 | 61 |
| | 561 | 521 |
| Cash and cash equivalents | (114) | (82) |
| Bank overdrafts | 26 | 34 |
| Total | 473 | 473 |

The return on capital employed in 2007 reached 19.1% (2006: 19.3%) and the Group share of return on equity was 19.4% (2006: 20.8%).

## Research and Development

In order to ensure that the Group is able to meet the constantly changing demands of the market sectors in which it is present, Aliaxis' Research and Development ("R&D") organisation plays a key role in the Group's activities. R&D's influence extends to many aspects of each product's life-cycle, from its initial design and development, raw material formulation and design improvements to improve performance, through to the recycling of end-of-life waste material back into new products.

R&D also plays an important part in providing technical assistance to the Group's companies in the continuous process of improving production efficiency especially in the core technologies of plastic extrusion and injection moulding.

The R&D organisation consists of a total of more than 190 employees, including a corporate research centre, Aliaxis R&D, based at Vernouillet in France, working in close partnership with a network of centres of excellence located throughout the world in the Group's businesses.

Aliaxis R&D specialises in applied research programmes on topics of general strategic importance for the Group, for example the characteristics of different polymers, new formulations and formula modifications as well as developments in manufacturing processes. Thus, Aliaxis R&D plays a crucial role in new product development and testing and, thanks to its investment in modern facilities and highly skilled staff, is able to provide technical and scientific assistance to the Group's operating businesses.

The R&D activities in the centres of excellence are more market specific, and (with the assistance of Aliaxis R&D), focus on the development of new products for individual markets or applications to meet local requirements.

During 2007, particular efforts have been made to reinforce the resources of the centres of excellence. In addition to investment in new R&D equipment and the recruitment of research specialists, the efforts have focussed on improving the innovative capability of the Group through the introduction of new methodologies for New Product Development. These changes will enable Aliaxis to achieve a significant reduction in the lead time for launching new products to market.

Among the many products introduced in 2007 is Frialoc developed by Friatec. This revolutionary new valve is designed to replace the traditional metal valves which are frequently affected by the corrosion in water distribution networks. Frialoc has been designed by means of computer fluid mechanics simulations, and required the construction of a brand new hydraulic test laboratory.

Aliaxis continues to maintain close contacts with universities which conduct fundamental research or provide additional expertise in particular application fields.

The threat from counterfeit products remains very real, and to try and protect its existing and new products, the Group has an active policy of patent, design and strategic trademark protection.

## Environmental review

Aliaxis is committed to the principle of corporate social responsibility, whereby environmental concerns rank alongside both economic and social concerns in the interests of all major stakeholders of the Group, including the shareholders, employees, customers and communities in which the Group's companies operate. A respect for the environment thus remains a major concern of Aliaxis, and with increasing regulation adherence to environmental standards and best practice has become more and more integrated into the Group's operations.

The Group's approach to environmental issues begins with design and a life-cycle approach to all products. This approach considers both the development of products whose functions themselves contribute to the protection of the environment, and the environmental performance of the products themselves. The Aliaxis R&D function plays a key role in this process, both in designing products for new applications and in seeking to improve existing products in the light of newer, more environmentally beneficial product formulations or to achieve better technical, aesthetic or economic characteristics.

In common with manufacturing industries in other industries, the Group is increasingly expected to provide environmental information about its products during their entire life cycle, and has decided to adopt the use of Environmental Product Declarations (“EPD”), drawn up in accordance with international standards and based on a Life Cycle Assessment. In France, the development of High Environmental Quality requires the provision of EPDs for construction products and in 2008 the French association of manufacturers of PVC pipes and fittings will publish collective EPDs; however, both Nicoll and Girpi will publish specific EPDs for their own major product lines.

At the same time, ahead of the implementation in 2008 of the European regulations on chemicals (“REACH”), the Group has formed an internal working group from among its European companies. A REACH co-ordinator has been designated whose responsibility, in conjunction with the Group’s environmental management, is to establish in each case what action needs to be taken.

At individual company level, Aliaxis has for some time encouraged its businesses to adopt ambitious targets to reduce the impact on the environment of its manufacturing and distribution activities in line with the standards of the countries where they are established, particularly in terms of energy and water consumption and recovery and recycling of waste material.

Certification in accordance with a recognised standard is a benchmark against which to measure the formal management systems needed to achieve these targets. Aliaxis encourages its businesses to obtain ISO 14001 certification, or registration with the environment management programme developed by the Vinyl Council of Canada (which Aliaxis considers to be similar to ISO 14001 certification). At the end of 2007 52% of the Group’s production sites had received the appropriate certification, and in 2008, the target is to reach 70%.

The introduction of recycled material in place of virgin resin has been shown to improve the environmental profile of products, and thus the recovery and recycling of waste material is an important area of focus for Aliaxis. Internal recycling of plastic production waste is one source of such material, and in 2007 again exceeded 99% of waste generated.

The other main source of recycled material is through the re-processing of end-of-life products. It is very encouraging to see the success in Canada of Ipex’s "Ecolotub" a sanitation pipe manufactured using co-extrusion technology, the inner layer of which consists of up to 100% recycled resin. The success of “Ecolotub” has stimulated efforts to introduce recycled material into both PE and PP-based products.

End-of-life product management plays an increasingly important role in the industry and the Group continues to support the principle of shared responsibility, for example through its participation in Europe’s Vinyl 2010 Voluntary Commitment for the collection of end-of-life products. In France, PVC Recyclage SARL, a company created by members of the French PVC pipes industry (including Girpi and Nicoll), in 2007 recycled 12,500 tonnes of PVC, an increase of 43% over 2006. A further substantial increase is expected in 2008.

## Human Resources

The average number of employees of the Group increased to 15,786 during 2007, including those employed within the newly-created joint venture Aliaxis Latinoamerica. Of this total, 45% were employed in Europe, 17% in North America and 27% in Latin America, with the remainder spread throughout the rest of the world.

The Group's policy is to provide equal opportunities to all and it recruits and promotes employees on the basis of their skills, qualifications, attitude and aptitude. The Group invests in its people and encourages them to develop to their maximum potential.

During the year, Aliaxis continued to identify further ways in which it could better integrate its human resource activities on a country by country basis, in line with the stated aim of maximizing synergies between its operating businesses. One result was the decision to completely centralize its UK human resource function, and this centralization was fully implemented by the end of the year. This decision is expected to lead to a number of significant benefits being realized during the course of 2008 and beyond.

Work continued during the year on the development of the Group's senior management competency model, and its integration into the Group's overall performance management and succession planning processes.

The Group continuously invests in the training and development of its employees at all levels, and during 2007 a number of new development initiatives were launched in Italy, France and the UK. These initiatives will provide the foundation in 2008 for the intended launch of a group-wide management development programme targeted at all its senior managers around the world. This programme is aimed not only at creating a stronger culture and developing the skills of its senior managers, but also at supporting its succession planning processes.

The Group is committed to ensuring a good level of communication with all its employees around the world. One cornerstone of this policy is the Group internal magazine "Image", which was published three times during the year and is aimed at keeping all its employees up to date with developments, priorities and initiatives within the Group. The format of this magazine is currently being reviewed and in 2008 will be modified to reflect the Group's changing corporate image and culture.

A continuing open and honest dialogue with its employee representatives is also very important in helping the Group achieve its strategic aims and during 2007 regular meetings took place at local and where appropriate national level in order to achieve this. In support of this a meeting of the European Works Council took place in June and a further meeting will take place in 2008. This forum provides the senior management of the Group with the opportunity to update its senior employee representatives on future Group plans and strategies.

At all levels in the organisation the effective management of health and safety remains a key priority with local managers being empowered to take the necessary action to ensure the health, safety and welfare of all their employees. During the course of 2007 no major areas of concern were identified.

## Risks and Uncertainties

The risk profile of the companies within the Aliaxis Group is similar to that of other manufacturing and distribution companies operating in an international environment, and includes macroeconomic and sector risks as well as credit, liquidity and market risks arising from exposure to currencies, interest rates and commodity prices. The Group is also exposed to more specific risks of, for example, public, product and employer's liability, property damage and business interruption and the risks from administrative and fiscal proceedings.

Developments in respect of administrative and fiscal proceedings (in particular risks relating to legal proceedings in North America) are described as appropriate in Notes 25 (Provisions) and 30 (Contingencies) to the consolidated financial statements.

The Group has adopted a range of internal policies and procedures to identify reduce and manage these risks either at individual company level or, where appropriate, at Group level.

The Group's approach to the management of credit, liquidity and market risks (including credit, liquidity, commodity, interest rate fluctuations and exchange rate fluctuations) is set out in Note 5 (Financial risk management) to the consolidated financial statements.

## Use of Derivative Financial Instruments

Risks relating to credit worthiness, interest rate and exchange rate movements, commodity prices and liquidity arise in the Group's normal course of business. However the most significant financial exposures for the Group relate to the fluctuation of interest rates on the Group's financial debt, and to fluctuations in currency exchange rates.

The Group's approach to the management of these risks is described in Note 27 (Financial instruments) to the consolidated financial statements.

## Subsequent Events

On 29 February 2008, the Group completed the sale of the shares of its subsidiary Ventilation Holding UK Limited, which held the trade and assets of Greenwood Air Management.

Further details of this subsequent event are set out in Note 33 (Subsequent events) to the consolidated financial statements.

## Outlook for 2008

There are many uncertainties in looking forward to 2008. Throughout the world, the economies and markets in which we operate are becoming increasingly volatile, making it difficult to predict the outcome of the year. The Group will continue to look for targeted acquisition opportunities which either add key technologies or enhance our position in desirable markets. We will focus both on our customer and the end-users of our products to ensure we are increasing our value in the marketplace.

In North America we are expecting another challenging year. We will be looking to maintain our position and preserve our margins. As a result of the sub-prime crisis, coupled with uncertainty ahead of the US elections, we do not foresee any appreciable positive movement in our US markets.

The European outlook will be more difficult in several key markets. We anticipate a continued softening in the Spanish and German markets, with modest gains in Eastern Europe. We will focus our efforts on targeting our offering to specific markets and enhancing that offering to increase its value throughout the customer supply chain. We strongly believe that through innovation and product switching we can achieve a growth rate higher than the construction sector.

Latin America should be a bright spot in terms of demand and continued strong growth, and we will continue to build on the very positive start made by Aliaxis Latinoamerica, our alliance with the Durman Group.

Aliaxis' main priority will be to focus on leveraging its core competencies and resources across the Group. We have started several key initiatives to ensure our competitiveness throughout the world and we will be focused on moving these projects forward and beginning to realise the benefits in 2008. In addition, we will continue to focus the Group's resources on innovation, targeting two main platforms; Sustainable Water Solutions, and pipe systems for both domestic and commercial water distribution applications.

## Board Composition

Upon the advice of the Selection Committee, the Board of Directors of Aliaxis S.A. will propose to the General Meeting of Shareholders to be held on 28 May 2008, the appointment of an additional independent non-executive director, Mr. Jean-Lucien Lamy.

Mr. Lamy will bring to the Group his experience of international industrial management, and his broad perspective on strategic and business issues will be a valuable asset in the future development of the Group.

Brussels, 24 April 2008
The Board of Directors

# CONSOLIDATED FINANCIAL STATEMENTS

# Consolidated income statement

| (€ '000s)<br>**Continuing operations** | **Notes** | **2007** | **2006** |
|---|---|---|---|
| **Revenue** | | **2,404,655** | **2,116,393** |
| Cost of sales | | (1,691,969) | (1,461,717) |
| **Gross profit** | | **712,686** | **654,676** |
| | | | |
| Commercial expenses | | (220,751) | (206,278) |
| Administrative expenses | | (167,080) | (145,691) |
| R&D expenses | | (21,556) | (19,880) |
| Other operating income / (expenses) | **7** | (10,813) | (9,444) |
| **Profit from operations before non-recurring items** | | **292,486** | **273,384** |
| | | | |
| Non-recurring items | **8** | - | (1,976) |
| | | | |
| **Operating income** | | **292,486** | **271,408** |
| | | | |
| Finance income | **10** | 6,873 | 10,736 |
| Finance expense | **11** | (47,942) | (39,782) |
| | | | |
| **Profit before income taxes** | | **251,417** | **242,363** |
| | | | |
| Income taxes | **12** | (73,090) | (81,409) |
| Share in the result of equity accounted investees | **16** | 3,362 | 5,163 |
| | | | |
| **Profit of the year** | | **181,690** | **166,116** |
| | | | |
| Attributable to: | | | |
| **Minority interests** | | **2,008** | **1,326** |
| **Equity holders of the Group** | | **179,681** | **164,791** |
| | | | |
| Earnings per share (in €): | | | |
| **Basic earnings per share** | **21** | **2.11** | **1.93** |
| **Diluted earnings per share** | **21** | **2.09** | **1.92** |

# Consolidated balance sheet

| (€ '000s)<br>As at 31 December | Notes | 2007 | 2006 |
|---|---|---|---|
| **Non current assets** | | **1,280,077** | **1,125,765** |
| Intangible assets | 6.13 | 608,563 | 496,451 |
| Property, plant & equipment | 14 | 607,320 | 553,236 |
| Investment properties | 15 | 10,083 | 10,392 |
| Equity accounted investees | 16 | 20,527 | 19,723 |
| Other non current assets | | 20,708 | 26,873 |
| Deferred tax assets | 24 | 12,875 | 19,090 |
| **Current assets** | | **913,070** | **760,285** |
| Inventories | 17 | 412,023 | 360,992 |
| Amounts receivable | 18, 27 | 386,428 | 317,254 |
| Cash & cash equivalents | 19 | 114,365 | 82,040 |
| Non current assets held for sale | | 255 | - |
| **TOTAL ASSETS** | | **2,193,147** | **1,886,050** |
| **Equity attributable to equity holders of Aliaxis** | | **1,001,661** | **846,620** |
| Share capital | 20 | 62,648 | 62,625 |
| Share premium | 20 | 13,138 | 12,889 |
| Retained earnings and reserves | 20 | 925,875 | 771,107 |
| **Minority interest** | | **11,161** | **11,126** |
| **Total equity** | | **1,012,821** | **857,746** |
| **Non current liabilities** | | **738,000** | **602,634** |
| Interest bearing loans and borrowings | 22, 27 | 508,154 | 459,861 |
| Employee benefits | 23 | 63,891 | 77,836 |
| Deferred tax liabilities | 24 | 47,562 | 51,922 |
| Provisions | 25 | 9,130 | 10,188 |
| Other amounts payable | 26 | 109,262 | 2,827 |
| **Current liabilities** | | **442,326** | **425,670** |
| Interest bearing loans and borrowings | 22, 27 | 53,139 | 60,695 |
| Bank overdrafts | 19 | 25,831 | 33,884 |
| Provisions | 25 | 13,638 | 11,092 |
| Amounts payable | 26, 27 | 349,719 | 319,999 |
| **Total liabilities** | | **1,180,325** | **1,028,304** |
| **TOTAL EQUITY & LIABILITIES** | | **2,193,147** | **1,886,050** |

# Consolidated statement of changes in equity

| (€ '000s) | Notes | ATTRIBUTABLE TO EQUITY HOLDERS OF ALIAXIS | | | | | | | MINORITY INTEREST | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|
| | | ***Share capital*** | ***Share premium*** | *Retained earnings* | *Hedging reserve* | *Reserve for own shares* | *Translation reserve* | ***Total Retained earnings and reserves*** | ***Total*** | |
| ***As at 1 January 2006*** | | **62,609** | **12,720** | **692,882** | **(3,361)** | **(21,931)** | **(1,056)** | **666,535** | **12,136** | **753,999** |
| Result of the year | | | | 164,791 | | | | **164,791** | **1,326** | **166,116** |
| Result recognised directly in equity : | | | | | | | | | | |
| - Foreign currency translation differences | **20** | | | | | | (43,556) | **(43,556)** | **(749)** | **(44,305)** |
| - Cash flow hedges | **27** | | | | 3,975 | | | **3,975** | | **3,975** |
| Share options exercised | **23** | 16 | 169 | | | | | | | **185** |
| Share-based payments | **23** | | | 1,008 | | | | **1,008** | | **1,008** |
| Own shares acquired | **20** | | | | | (7,975) | | **(7,975)** | | **(7,975)** |
| Dividends to shareholders | **20** | | | (13,670) | | | | **(13,670)** | **(1,418)** | **(15,088)** |
| Acquisition of minority interest | | | | | | | | | **(169)** | **(169)** |
| ***As at 31 December 2006*** | | **62,625** | **12,889** | **845,010** | **614** | **(29,905)** | **(44,612)** | **771,107** | **11,126** | **857,746** |
| Result of the year | | | | 179,681 | | | | **179,681** | **2,008** | **181,690** |
| Result recognised directly in equity : | | | | | | | | | | |
| - Foreign currency translation differences | **20** | | | | | | (10,057) | **(10,057)** | **(402)** | **(10,460)** |
| - Cash flow hedges | **27** | | | | 379 | | | **379** | | **379** |
| Share options exercised | **23** | 23 | 249 | | | | | | | **272** |
| Share-based payments | **23** | | | 1,878 | | | | **1,878** | | **1,878** |
| Own shares acquired | **20** | | | | | (954) | | **(954)** | | **(954)** |
| Dividends to shareholders | **20** | | | (16,154) | | | | **(16,154)** | **(1,571)** | **(17,725)** |
| Other | | | | 261 | (266) | | | **(5)** | **0** | **(5)** |
| ***As at 31 December 2007*** | | **62,648** | **13,138** | **1,010,677** | **727** | **(30,860)** | **(54,670)** | **925,875** | **11,161** | **1,012,821** |

# Consolidated cash flow statement

| (€ '000s) | Notes | 2007 | 2006 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before income tax | | 251,417 | 242,363 |
| Depreciation | **14.15** | 72,240 | 67,313 |
| Impairment losses on goodwill | **13** | - | 1,976 |
| Amortisation of intangible fixed assets | **13** | 2,966 | 2,172 |
| Impaiment losses (other than goodwill) | | 1,941 | 2,678 |
| Equity-settled share-based payments | **23** | 1,878 | 1,008 |
| Financial instruments - fair value adjustment through income statement | **11** | (631) | (2,007) |
| Net interest (income) / expense | **10** | 34,954 | 30,842 |
| Dividend income | **11** | (226) | (282) |
| Loss / (gain) on sale of property, plant and equipment | **7** | (6,447) | (2,687) |
| Loss / (gain) on sale of non-current assets held-for-sale | | (38) | - |
| Loss / (gain) on sale of businesses | **6** | 2,313 | (4) |
| Other - miscellaneous | | 575 | (475) |
| **Cash flow from operating activities before changes in working capital and provisions** | | **360,943** | **342,895** |
| Decrease / (increase) in inventories | | (3,709) | (36,108) |
| Decrease / (increase) in amounts receivable | | (8,270) | 1,909 |
| Increase / (decrease) in amounts payable | | (7,739) | 10,165 |
| Increase / (decrease) in provisions | | (14,365) | (7,783) |
| **Cash flow generated from operations** | | **326,859** | **311,078** |
| Income tax paid | | (82,707) | (74,587) |
| **Cash flow from operating activities** | | **244,152** | **236,491** |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | 11,684 | 6,597 |
| Proceeds from sale of intangible fixed assets | | 77 | - |
| Proceeds from sale of non-current assets held-for-sale | | 9,448 | - |
| Proceeds from sale of investments | | 114 | 28 |
| Repayment of loans granted | | 264 | 48 |
| Sale of businesses, net of cash disposed of | | 6,189 | 4 |
| Acquisition of businesses, net of cash acquired | **6** | (163,287) | (17,507) |
| Acquisition of property, plant and equipment | **14** | (97,611) | (77,575) |
| Acquisition of intangible assets | **13** | (3,741) | (2,585) |
| Acquisition of investment property | **15** | (1) | (7) |
| Acquisition of other investments | | (1,006) | (589) |
| Loans granted | | (4,184) | (4,321) |
| Dividends received | | 1,981 | 1,602 |
| Interest received | | 5,570 | 3,364 |
| **Cash flow from investing activities** | | **(234,504)** | **(90,942)** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from the issue of share capital | **20** | 272 | 185 |
| (Purchase) / sale of treasury shares | **20** | (954) | (7,975) |
| Proceeds / (repayment) of/from borrowings | | (23,963) | (93,191) |
| Dividends paid | | (18,281) | (15,090) |
| Interest paid | | (40,288) | (33,944) |
| Proceeds from disposal of a minority interest | **26** | 113,321 | - |
| Other | | (3) | 4 |
| **Cash flow from financing activities** | | **30,104** | **(150,011)** |
| **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **39,752** | **(4,463)** |
| Cash and cash equivalents at the beginning of the period | **19** | 48,156 | 61,967 |
| Effect of exchange rate fluctuations | | 626 | (9,349) |
| **Cash and cash equivalents at the end of the period** | **19** | **88,534** | **48,156** |

# Notes to the consolidated financial statements

# Notes to the consolidated financial statements

## 1. Corporate information

Aliaxis S.A. ("the Company") is a company domiciled in Belgium. The address of the Company's registered office is Avenue de Tervueren, 270, B-1150 Brussels. The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company, its subsidiaries and interest in equity accounted investees (together referred to as the "Group" or "Aliaxis").

Aliaxis today employs around 15,800 people, is present in 50 countries throughout the world, and is represented in the marketplace through more than 100 manufacturing and selling companies, many of which trade using their individual brand identities. The Group is primarily engaged in the manufacture and sale of plastic pipe systems and related building and sanitary products which are used in residential and commercial construction and renovation as well as in a wide range of industrial and public utility applications.

The financial statements have been authorised for issue by the Company's Board of Directors on 24 April 2008.

## 2. Basis of preparation

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the related interpretations issued by the International Accounting Standards Board (IASB), the International Financial Reporting Interpretations Committee (IFRIC) and the Standard Interpretations Committee (SIC), effective and adopted by the European Union as at the reporting date.

Aliaxis was not obliged to apply any European carve-outs from IFRS, meaning that the financial statements fully comply with IFRS. The Company has not elected for early application of any standards or interpretations which were not yet effective on the reporting date.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- financial instruments held to maturity.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Euro, which is the Company's functional currency. All financial information presented in Euro has been rounded to the nearest thousand.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6 – business combinations;
- Note 13 – measurement of the recoverable amounts of cash-generating units;
- Note 23(b) – measurement of defined benefit obligations;
- Note 23(c) – measurement of share-based payments;
- Note 24 – utilisation of tax losses;
- Notes 25 and 30 – provisions and contingencies;
- Note 26(a) – right of put by minority;
- Note 27 – valuation of derivative financial instruments.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. IFRS 7 *Financial Instruments: Disclosures* and the complementary amendment to IAS 1 *Presentation of Financial Statements – Capital disclosure* were adopted in 2007. Those standards introduced new requirements to improve the information on financial instruments that is given in the notes to the financial statements.

These policies have been applied consistently by all of the reporting entities Aliaxis has defined in its reporting and consolidation process.

Aliaxis has chosen 31 December as the reporting date. The consolidated financial statements are presented before the effect of the profit appropriation of the Company proposed to the annual shareholders' meeting, and dividends therefore are recognised as a liability in the period they are declared.

### (a) Basis of consolidation

A list of the most important subsidiaries and equity accounted investees is presented in Note 32.

**Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when Aliaxis has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### Associates and joint ventures (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when Aliaxis holds, directly or indirectly through subsidiaries, 20% or more of the voting power of an entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions.

Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses and the share in equity of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that Aliaxis has an obligation or has made payments on behalf of the investee.

### Minority interests

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see Note 4) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## (b) Foreign currencies

### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Aliaxis entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are carried at historical cost are translated at the reporting date at exchange rates at the dates of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the reporting date at the exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation (see below), which are recognised directly in equity under translation reserve.

### Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Euro at average exchange rates for the year approximating the foreign exchange rates at the dates of the transactions. The components of shareholders' equity are translated at historical exchange rates.

Foreign currency differences are recognised directly in equity under translation reserve. When a foreign operation is disposed of (in part or in full), the relevant differences are transferred to the income statement as an adjustment to the profit or loss on disposal.

### Hedge of net investment in a foreign operation

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in equity under translation reserve, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in the income statement. When the hedged net investment is disposed of, in part or in full, the relevant cumulative amount in equity is transferred to the income statement as an adjustment to the profit or loss on disposal.

In addition, monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future are a part of the Group's net investment in such foreign operation. Any foreign currency differences on these items are recognised directly in equity under translation reserve, and the relevant cumulative amount in equity is transferred to the income statement when the investment is disposed of, in part or in full.

### Exchange rates

The following major exchange rates have been used in preparing the consolidated financial statements.

| | **Average** | | **Reporting date** | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **AUD** | 1.635 | 1.667 | 1.676 | 1.669 |
| **CAD** | 1.468 | 1.424 | 1.445 | 1.528 |
| **GBP** | 0.685 | 0.682 | 0.733 | 0.672 |
| **NZD** | 1.863 | 1.937 | 1.902 | 1.873 |
| **USD** | 1.371 | 1.256 | 1.472 | 1.317 |

## (c) Intangible assets

### Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (or negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

As part of its transition to IFRS, the Group elected not to restate those business combinations that occurred prior to 1 January 2005; goodwill represented the amount, net of accumulated amortisation, recognised under the Group's previous accounting framework, Belgian GAAP.

For acquisitions on or after 1 January 2005, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

The carrying amount of goodwill is allocated to those reporting entities that are expected to benefit from the synergies of the business combination and those are considered as the Group's cash-generating units.

Goodwill is expressed in the functional currency of the reporting entity to which it is allocated and is translated to Euro using the exchange rate at the reporting date.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Goodwill is measured at cost less accumulated impairment losses (see Note 3(k)).

**Intangible assets acquired in a business combination**

Intangible assets such as customers' relationships, trademarks, patents acquired in a business combination initially are recognised at fair value. If the criteria for separate recognition are not met, they are subsumed under goodwill.

**Research and development**

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and Aliaxis intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. If the recognition criteria referred to above are not met, the expenditure is recognised in the income statement as an expense when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation (see below) and accumulated impairment losses (see Note 3(k)).

**Other intangible assets**

Other intangible assets that are acquired by Aliaxis which have finite useful lives are measured at cost less accumulated amortisation (see below) and accumulated impairment losses (see Note 3(k)).

**Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as an expense when incurred.

### Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets with a finite life, from the date that they are available for use. The estimated useful lives are as follows:

| | |
|---|---|
| • Patents, concessions and licenses | 5 years |
| • Customer lists | 3 years |
| • Capitalised development costs | 3-5 years |
| • IT software | 5 years |

**(d) Property, plant and equipment**

### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses (see Note 3(k)). Aliaxis elected to measure certain items of property, plant and equipment at 1 January 2005, the date of transition to IFRS, at fair value and used those fair values as deemed cost at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset; e.g. costs incurred to bring the asset to its working condition and location for its intended use, any relevant costs of dismantling and removing the asset and restoring the site on which the asset was located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs incurred for the purpose of acquiring, constructing or producing qualifying assets are recognised in the income statement as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income/expenses in the income statement.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

### Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within such part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

### Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless there is certainty that the Group will take ownership at the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

| | |
|---|---|
| • Buildings: | |
| - Structure | 40-50 years |
| - Roof and cladding | 15-40 years |
| - Installations | 15-20 years |
| • Plant, machinery and equipment: | |
| - Silos | 20 years |
| - Machinery and surrounding equipment | 10 years |
| - Moulds | 3-5 years |
| • Furniture | 10 years |
| • Office machinery | 3-5 years |
| • Vehicles | 5 years |
| • IT & IS | 3-5 years |

Depreciation methods and useful lives, together with residual values if not insignificant, are reassessed at each reporting date.

**(e) Leased assets**

Leases under the terms of which Aliaxis assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset, as well as the lease liability, is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

**(f) Investment properties**

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at cost less accumulated depreciation and impairment losses (see Note 3(k)).

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful life of the property consistent with the useful lives for property, plant and equipment (see Note 3(d)).

The fair values, which are determined for disclosure purposes, are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

**(g) Other non current assets**

**Investments in equity securities**

Investments in equity securities are undertakings in which Aliaxis does not have significant influence or control. These investments are designated as available-for-sale financial assets which are, subsequent to initial recognition, measured at fair value, except for those equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Those equity instruments that are excluded from fair valuation are stated at cost. Changes in the fair value, other than impairment losses (see Note 3(k)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

**Investments in debt securities**

Investments in debt securities are classified at fair value through profit or loss or as being available-for-sale and are carried at fair value with any resulting gain or loss respectively recognised in the income statement or directly in equity. Impairment losses (see Note 3(k)) and foreign exchange gains and losses are recognised in the income statement.

**Other financial assets**

A financial asset is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if Aliaxis manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the income statement when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

**Other non-current assets**

These assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

### (h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle for raw materials, packaging materials, consumables, purchased components and goods purchased for resale, and on the first-in first-out principle for finished goods, work in progress and produced components.

The cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost also includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### (i) Amounts receivable

Amounts receivable which comprise trade and other receivables represent amounts owing for goods supplied by the Group prior to the end of the reporting date which remain unpaid. These amounts are carried at amortised cost, less impairment losses (see Note 3(k)).

### (j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

## (k) Impairment

### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis; the remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised and such reversal is recognised in the income statement. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

### Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories (see Note 3(h)) and deferred tax assets (see Note 3(v)), are reviewed at each reporting date to determine whether there is any external or internal indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit ("CGU") exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination. The Group's overall approach as to the level for testing goodwill impairment is at the reporting entity level. The recoverable amount of the CGUs to which the goodwill belongs is based on a discounted free cash flow approach, based on acquisition valuation models. These calculations are corroborated by valuation multiples or other available fair value indicators.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (l) Discontinued operations and non-current assets held for sale

#### Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

#### Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group) are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

### (m) Share capital

#### Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

#### Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity within the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

#### Dividends

Dividends are recognised as liabilities in the period in which they are declared.

## (n) Interest bearing loans and borrowings

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

## (o) Employee benefits

### Post employment benefits

Post employment benefits include pensions, post employment life insurance and medical care benefits. The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the company. Aliaxis maintains funded and unfunded pension plans.

- **Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

- **Defined benefit plans**

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed with sufficient regularity by qualified actuaries using the projected unit credit method.

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

In respect of actuarial gains and losses that have arisen subsequent to 1 January 2005 (date of transition to IFRS when all actuarial gains and losses were recognised) in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

When the calculation results in a benefit to Aliaxis, the recognised asset is limited to the net total of any unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

### Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans such as service anniversary bonuses is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

#### Termination benefits

Termination benefits are recognised as an expense when Aliaxis is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if Aliaxis has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

#### Short-term benefits

Short-term employee benefit obligations such as bonuses are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if Aliaxis has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### Share-based payment transactions

The fair value of options granted to employees is measured at grant date. The amount is recognised as an employee expense, with a corresponding increase in equity within retained earnings, and spread over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of options granted to employees is measured using a standard stock option valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

### (p) Provisions

A provision is recognised if, as a result of a past event, Aliaxis has a present legal or constructive obligation as a result of past events that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation, and is reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. In addition, incremental costs (e.g. lawyer and expert fees) are included in the measurement of the provisions.

### Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

### Restructuring

A provision for restructuring is recognised when Aliaxis has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

### Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

## (q) Amounts payable

Amounts payable which comprise trade and other amounts payable represent goods and services provided to the Group prior to the end of the reporting date which are unpaid. These amounts are carried at amortised cost.

## (r) Derivative financial instruments

Aliaxis holds derivative financial instruments to hedge its exposure to foreign currency and interest rate risks arising from operational, financing and investment activities. The net exposure of all subsidiaries is managed on a centralised basis. As a policy, Aliaxis does not engage in speculative transactions and does not therefore hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

### Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects profit or loss.

#### Hedge of net investment in foreign operation

Where a derivative financial instrument hedges a net investment in a foreign operation, the portion of the gain or the loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity within the translation reserve, while the ineffective portion is reported in the income statement.

#### Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of foreign currency gains and losses.

### (s) Revenue

#### Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

#### Rental income

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of the lease.

#### Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that Aliaxis will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset.

### (t) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group’s right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets (except losses on receivables) and losses on hedging instruments that are recognised in the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

**(u) Lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as a reduction of the total lease expense, over the term of the lease. When an operating lease is terminated before the lease period is expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**(v) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity.

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

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (including differences arising from fair values of assets and liabilities acquired in a business combination). Deferred tax is not recognised for the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and on the same taxable entity or group of entities.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(w) Contingencies**

Contingent liabilities are not recognised in the consolidated financial statements, except if they arise from a business combination. They are disclosed, when material, unless the possibility of a loss is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed, when material, if the inflow of economic benefits is probable.

### (x) Events after the reporting date

Events after the reporting date which provide additional information about the Group's position as at the reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the reporting date which are non-adjusting events are disclosed in the notes to the consolidated financial statements, when material.

### (y) Earnings per share

Aliaxis presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

### (z) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements. Those which will be applicable for Aliaxis in the future are summarised below.

- Revised IFRS 3 *Business Combinations* and revised IAS 27 *Consolidated and Separate Financial Statements* (applicable for business combinations occurring in the first accounting period beginning on or after 1 July 2009; the amendments are still subject to endorsement by the European Union). These standards complete the second phase of the IASB's project on business combinations. The new requirements take effect prospectively.
- Revised IAS 1 *Presentation of Financial Statements* (applicable for annual periods beginning on or after 1 January 2009; the amendment is still subject to endorsement by the European Union). The amendment will affect the presentation of changes in equity.
- Revised IAS 23 *Borrowing Costs* (applicable for annual periods beginning on or after 1 January 2009; the amendment is still subject to endorsement by the European Union). The impact on the Group's accounts is not expected to be significant.
- IFRIC 13 *Customer Loyalty Programmes* (applicable for accounting years beginning on or after 1 July 2008; the interpretation is still subject to endorsement by the European Union). The Group has not yet determined the potential impact of the interpretation.
- IFRIC 14 *IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction* (applicable for accounting years beginning on or after 1 January 2008; the interpretation is still subject to endorsement by the European Union). The Group has not yet determined the potential impact of the interpretation.

## 4. Business combinations

### (a) Acquisition method

The acquisition method is applied to account for a business combination. The assets, liabilities and contingent liabilities of the acquired entity are measured at their fair values at the date of acquisition. The cost of acquisition is measured as the fair value of assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's share of the fair value of the net assets of the entity acquired is recorded as goodwill. If Aliaxis' share in the fair value of the net assets exceeds the cost of acquisition, the excess is recognised immediately in the income statement. Where necessary, the acquired entity's accounting policies are changed to ensure consistency with the policies adopted by Aliaxis.

### (b) Determination of fair values

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at acquisition date as follows:

- The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.
- The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.
- The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.
- Contingent liabilities are recognised at fair value on acquisition, if their fair value can be measured reliably. The amount represents what a third party would charge to assume those contingent liabilities, and such amount reflects all expectations about possible cash flows and not the single most likely or the expected maximum or minimum cash flow. If, after initial recognition, the contingent liability becomes a liability, and the provision required is higher than the fair value recognised at acquisition, then the liability is increased. The additional amount is recognised as a current period expense. If, after initial recognition, the provision required is lower than the amount recognised at acquisition, then the liability is recognised at the fair value on acquisition and decreased, if appropriate, for the amortisation of the contingent liability to unwind the discount embedded in the fair value of the contingent liability.

### (c) Acquisitions of minority interests in subsidiaries

If the cost to acquire minority interests in a subsidiary is higher than the respective carrying amount of the minority interests at the date of the acquisition, the difference shall be allocated to goodwill. No re-measurement of assets, liabilities and contingent liabilities is undertaken. Aliaxis continues to consolidate the subsidiary at its carrying amounts before the acquisition of the minority interests.

If a minority interest holder has the right to put its minority interest to Aliaxis, this commitment is recorded as a financial liability. The minority interest in equity and the profit of the year attributable to it are calculated. The minority interest at the reporting date is classified in non-current liabilities under other amounts payable and the result of the year attributable to the minority interest is recorded in financial result under other financial charges unless it is a loss. Based on the information prepared for the annual goodwill impairment test and on the terms of the exercise of the put, Aliaxis determines a fair value of the stake the minority interest holder will have at the time the put option may be exercised, after consideration for discounting using an estimate of the cost of equity. Such value is then compared to the minority interest at the reporting date. If it is not probable that the fair value will differ, the calculated minority interest liability is not adjusted. If it is however probable that the fair value will differ, the liability is either increased with a contra-entry in goodwill or decreased together with the recognition of an impairment loss on goodwill.

## 5. Financial risk management

### (a) Overview

This note presents information about the Group's exposure to credit, liquidity and market risks, the Group's objectives, policies and processes for measuring and managing risk, as well as the Group's management of capital. Further quantitative disclosures are included throughout the notes to the consolidated financial statements.

Risks relating to credit worthiness, interest rate and exchange rate movements, commodity prices and liquidity arise in the Group's normal course of business. However, the most significant financial exposures for the Group relate to the fluctuation of interest rates on the Group's financial debt and to fluctuations in currency exchange rates.

The Group addresses these risks and defines strategies to limit their economic impact on its performance in accordance with its financial risk management policy. Such policy includes the use of derivative financial instruments. Although these derivative financial instruments are subject to fluctuations in market prices subsequent to their acquisition, such changes are generally offset by opposite changes in the value of the underlying items being hedged.

The Financial Audit Committee is responsible for overseeing how management monitors compliance with the Group's financial risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Financial Audit Committee relies on the monitoring performed by management.

### (b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk is influenced by the individual characteristics of each customer, its industry and the country or region where it operates**.** The Group's main sales distribution channels are wholesale and retail do-it-yourself (DIY) chains. Despite a trend towards consolidation in Europe and North America, the diversity of Aliaxis' product range helps it to maintain a wide customer portfolio and to avoid exposure to any significant individual customer.

Aliaxis management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit above a certain amount. The Group does not require collateral, except in very rare circumstances, in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties that have a robust credit rating. Transactions involving derivatives are with counterparties with whom the Group has a signed netting agreement and who have sound credit ratings. Management does not expect any counterparty to fail to meet its obligations.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives in the balance sheet.

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

In addition, the Group has a multi currency revolving credit facility of € 1 billion committed by a syndicate of banks up to May 2010. The Group obtained two 1 year extensions for € 954 million until May 2011 and € 936 million until May 2012.

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, interest rates or equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the financial risk management policies. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

### Currency risk

The Group is exposed to foreign currency risk on transactions such as sales, purchases, borrowings, dividends, fees and interest denominated in non-Euro currencies. Currencies giving rise to such risk are primarily the Canadian dollar (CAD), sterling (GBP) and the US dollar (USD). Where there is no natural hedge, the foreign currency risk is primarily managed by the use of forward exchange contracts. All contracts have maturities of less than one year. Foreign currency risk on firm commitments and forecast transactions is subject to hedging (in whole or in part) when the underlying operating transactions are reasonably expected to occur within a determined time frame. Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of foreign exchange gains and losses.

The Group's policy is to partially hedge the risk arising from consolidating net assets denominated in non-Euro currencies by permanently maintaining borrowings in such non-Euro currencies. Where a foreign currency borrowing is used to hedge a net investment in a foreign operation, exchange differences arising on translation of the borrowing are recognised directly in equity within translation reserve. The Group's net investments in Canada, USA, UK, New Zealand, Australia and South Africa are partially hedged through borrowings maintained in Canadian dollars, US dollars, sterling, New Zealand dollars, Australian dollars and South African rand.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily Euro, CAD, GBP and USD. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

### Commodity risk

Raw materials used to manufacture the Group's products mainly consist of plastic resins such as polyvinylchloride (PVC), polyethylene (PE) and polypropylene (PP), which are a significant element of the cost of the Group's products. The prices of these raw materials are volatile and tend to be cyclical, and Aliaxis is generally able to recover raw material price increases through higher product selling prices, although sometimes after a time lag. The Group tries to optimise its resin purchases thanks to a centralised approach to the procurement of major raw materials.

In addition, the Group is also exposed to the volatility of energy prices (particularly electricity).

### Interest rate risk

The Group's floating-rate borrowings are exposed to the risk of changes in cash flows due to changes in interest rates.

The Group's policy is to hedge its interest rate risk through swaps, caps, synthetic options and other derivatives. No derivatives are ever acquired or maintained for speculative or leveraged transactions.

**Other market price risk**

Demand for the Group's products is principally driven by the level of construction activity in its main markets, including new housing, repairs, maintenance and improvement, infrastructure and industrial markets. Its geographical and industrial spread provides a degree of risk diversification. Demand is influenced by fluctuations in the level of economic activity in individual markets, the key determinants of which include GDP growth, changes in interest rates, the level of new housing starts and industrial and infrastructure investment.

### (f) Capital management

The Board's policy is to maintain a strong capital base so as to maintain the confidence of investors, creditors and other stakeholders and to sustain future development of the business. The Board of Directors monitors the return on equity (profit of the year attributable to equity holders of the Group divided by the average of equity attributable to equity holders of Aliaxis at the beginning and end of the reporting period).

The Board of Directors also monitors the level of dividends to ordinary shareholders. The Group's present intention is to recommend to the shareholders' meeting a dividend increasing in line with past practice and subject to annual review in light of the future profitability of the Group.

No assurance can however be given that the Company will pay dividends in the future. Such payments will depend upon a number of factors, including prospects, strategies, results of operations, earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors considered relevant by the Board. Pursuant to the Belgian Company code, the calculation of amounts available for distribution to shareholders, as dividends or otherwise must be determined on the basis of the Company's non-consolidated Belgian GAAP financial statements by which the Company is required to allocate each year at least 5% of its annual net profits to its legal reserve, until the legal reserve equals at least 10% of the Company's share capital. As a consequence of these factors, there can be no assurance as to whether dividends or similar payments will be paid out in the future or, if they are paid, what their amount will be.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. In 2007, the return on equity was 19.4% (2006: 20.8%). In comparison the weighted average interest expense on interest-bearing borrowings was 6.7% (2006: 5.7%).

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 6. Acquisitions and disposals of subsidiaries and minority interests

On 14 February 2007, the Group acquired Durman Esquivel SA and its subsidiaries ("the Durman Group"). The Durman group has its headquarters in Costa Rica and subsidiaries in Mexico, several Central American countries, Peru and Colombia. Also in the first quarter of 2007 the Group acquired a small central ventilation components business in Canada.

The acquisitions had the following effect on the Group's assets and liabilities at the acquisition date:

| | | Durman group | | | Other | Total |
|---|---|---|---|---|---|---|
| (€ '000s) | Notes | Pre-acquisition carrying amounts | Fair value adjustments | Recognised values on acquisition | Recognised values on acquisition | Recognised values on acquisition |
| **Non current assets** | | | | | | |
| Intangible assets | **13** | 328 | - | 328 | 462 | 790 |
| Property, plant and equipment | **14** | 40,750 | 3,340 | 44,090 | 481 | 44,571 |
| Equity accounted investees | **16** | 687 | - | 687 | | 687 |
| Other non current assets | | 1,633 | (1,013) | 620 | | 620 |
| Deferred tax assets | **24** | 3,200 | - | 3,200 | | 3,200 |
| **Current asset** | | | | | | |
| Inventories | | 55,186 | 5,635 | 60,821 | 613 | 61,434 |
| Amounts receivable | | 68,318 | 125 | 68,443 | | 68,443 |
| Non current assets held for sale | | 6,749 | 3,015 | 9,764 | | 9,764 |
| **Non current liabilities** | | | | | | |
| Interest bearing loans and borrowings | | (21,655) | - | (21,655) | | (21,655) |
| Deferred tax liabilities | **24** | (2,149) | (3,088) | (5,237) | | (5,237) |
| Provisions | **25** | (1,474) | (866) | (2,340) | | (2,340) |
| Other amounts payable | | (1,719) | - | (1,719) | | (1,719) |
| **Current liabilities** | | | | | | |
| Interest bearing loans and borrowings | | (45,834) | - | (45,834) | | (45,834) |
| Provisions | **25** | (6) | - | (6) | | (6) |
| Amounts payable | | (59,586) | (618) | (60,204) | | (60,204) |
| **Net identifiable assets and liabilities** | | **44,428** | **6,530** | **50,958** | **1,556** | **52,514** |
| Goodwill on acquisition | **13** | | | 110,108 | 664 | 110,773 |
| **Total net cash outflow** | | | | **161,066** | **2,220** | **163,286** |
| *consisting of:* | | | | | | |
| - Consideration paid, satisfied in cash | | | | 166,297 | 2,220 | 168,517 |
| - Acquisition costs, net of tax | | | | 2,308 | - | 2,308 |
| - Cash and cash equivalents acquired | | | | (7,539) | - | (7,539) |
| **Total** | | | | **161,066** | **2,220** | **163,286** |

The value of assets and liabilities recognised on acquisition are their estimated fair values (see Note 4 for methods used in determining fair values).

Goodwill is attributable to the profitability and the growth potential of the acquired businesses.

During the last quarter of 2007 the Group sold two small businesses, in the UK and in Germany, for a total consideration of € 6.2 million and resulting in a net loss on disposal of € 2.3 million (see Note 11).

## 7. Other operating income and expenses

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| Government grants | 669 | 532 |
| Rental income from investment properties | 896 | 885 |
| Operating costs of investment properties | (455) | (517) |
| Capital gain/(loss) on the sale of fixed assets | 6,484 | 2,687 |
| Restructuring costs | (9,066) | (4,540) |
| Taxes to be considered as operating expenses | (9,264) | (9,236) |
| Other rental income | 1,697 | 1,534 |
| Insurance recovery | 121 | 159 |
| Other | (1,896) | (947) |
| **Other operating income / (expenses)** | **(10,813)** | **(9,444)** |

## 8. Non-recurring items

| (€ '000s) | Notes | 2007 | 2006 |
|---|---|---|---|
| Impairment of goodwill | **13** | - | (1,976) |
| **Non-recurring items** | | **-** | **(1,976)** |

## 9. Additional information on operating expenses

The following personnel expenses are included in the operating result:

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| Wages & salaries | 437,517 | 397,765 |
| Social security contributions | 76,216 | 67,547 |
| Net change in restructuring provisions | (98) | (69) |
| Expenses for defined benefit plans | 12,255 | 16,471 |
| Contributions to defined contribution plans | 7,000 | 6,051 |
| Share-based payments (see note 23C) | 1,878 | 1,008 |
| Other personnel expenses | 16,249 | 13,919 |
| **Personnel expenses** | **551,015** | **502,692** |

The total average number of personnel was as follows:

| (in units) | 2007 | 2006 |
|---|---|---|
| Production | 10,618 | 8,204 |
| Sales and marketing | 3,212 | 2,321 |
| R&D and administration | 1,956 | 1,495 |
| **Total workforce** | **15,786** | **12,020** |

The Durman Group has added 3,730 personnel members with a total associated personnel cost of approximately € 40 million.

Personnel expenses, depreciation, amortisation and impairment charges are included in the following line items of the income statement:

| (€ '000s) | Personnel expenses | Depreciation and impairment of property, plant & equipment and investment property | Amortisation and impairment of intangible fixed assets | Total depreciation, amortisation and impairment |
|---|---|---|---|---|
| Cost of sales | 306,901 | 61,967 | 450 | 62,416 |
| Commercial expenses | 131,994 | 1,854 | 123 | 1,976 |
| Administrative expenses | 93,309 | 6,859 | 2,130 | 8,988 |
| R&D expenses | 13,605 | 626 | 158 | 784 |
| Other operating income / (expenses) | 5,206 | 1,650 | 219 | 1,870 |
| Non recurring items | - | - | - | - |
| **Total** | **551,015** | **72,955** | **3,079** | **76,034** |

## 10. Finance income

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| Interest income on bank deposits | 5,226 | 2,620 |
| Interest income on other assets | 569 | 650 |
| Dividend income | 226 | 282 |
| Net change in the fair value of hedging derivatives | 686 | 4,380 |
| Net foreign exchange gain | - | 1,839 |
| Other | 166 | 964 |
| **Total** | **6,873** | **10,736** |

## 11. Finance expense

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| Interest expense on financial liabilities measured at amortised cost | (40,003) | (33,373) |
| Amortisation of deferred arrangement fees | (582) | (583) |
| Interest expense on other liabilities | (165) | (157) |
| Fair value of cash flow hedges transferred to profit and loss | (52) | (2,124) |
| Net foreign exchange loss | (36) | - |
| Loss on disposal of businesses, net | (2,313) | - |
| Bank fees | (2,854) | (2,234) |
| Other | (1,939) | (1,312) |
| **Finance expense** | **(47,942)** | **(39,782)** |

## 12. Income taxes

Income taxes recognised in the income statement can be detailed as follows:

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| Current taxes for the year | (74,821) | (76,736) |
| Adjustments to current taxes in respect of prior periods | 1,212 | 2,063 |
| **Total current tax expense** | **(73,609)** | **(74,673)** |
| Origination and reversal of temporary differences | (9,972) | (6,820) |
| Impact of change in enacted tax rates | 7,470 | - |
| Adjustment to deferred taxes in respect of prior periods | 1,990 | (263) |
| Recognition of deferred tax assets on tax losses and tax credits | 1,033 | 347 |
| **Total deferred tax income/(expense)** | **520** | **(6,736)** |
| **Income tax expense in the income statement** | **(73,090)** | **(81,409)** |

The reconciliation of the effective tax rate with the aggregated weighted nominal tax rate can be summarised as follows:

**RECONCILIATION OF EFFECTIVE TAX RATE**

| (€ '000s) | 2007 | % | 2006 | % |
|---|---|---|---|---|
| Profit before taxes | 251,417 | | 242,363 | |
| Tax at aggregated weighted nominal tax rate | (84,778) | 33.7% | (81,689) | 33.7% |
| Tax effect of: | | | | |
| Non-deductible expenses | (2,602) | 1.0% | (2,044) | 0.8% |
| Non-deductible impairment of goodwill | - | 0.0% | (246) | 0.1% |
| Current year losses for which no deferred tax asset is recognised | (1,774) | 0.7% | (312) | 0.1% |
| Change in enacted tax rates | 7,470 | -3.0% | - | |
| Taxes on distributed and undistributed earnings | (3,431) | 1.4% | (7,281) | 3.0% |
| Withholding taxes on interest and royalty income | (1,341) | 0.5% | (1,168) | 0.5% |
| Utilisation of tax losses not previously recognised | 490 | -0.2% | 1,262 | -0.5% |
| Tax savings from special tax status | 13,135 | -5.2% | 8,374 | -3.5% |
| Current tax adjustments in respect of prior periods | 1,212 | -0.5% | 2,063 | -0.9% |
| Deferred tax adjustments in respect of prior periods | 1,990 | -0.8% | (263) | 0.1% |
| Recognition of deferred tax assets on tax losses and tax credits | 1,033 | -0.4% | 347 | -0.1% |
| Other | (4,493) | 1.8% | (453) | 0.2% |
| **Income tax expense in the income statement** | **(73,090)** | **29.1%** | **(81,409)** | **33.6%** |

## 13. Intangible assets

| (€ '000s) | 2007 Goodwill | 2007 Other intangible assets (finite life) | 2007 Total intangible assets | 2006 Total intangible assets |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 January | 511,360 | 29,060 | 540,420 | 560,956 |
| Movements during the year: | | | | |
| Changes in the consolidation scope | 110,773 | 664 | 111,437 | 7,408 |
| *- New consolidation* | 110,773 | 1,066 | 111,838 | 7,408 |
| *- Deconsolidation* | - | (401) | (401) | - |
| Acquisitions | - | 3,741 | 3,741 | 2,585 |
| Disposals & retirements | (184) | (508) | (692) | (986) |
| Transfers | - | 2,168 | 2,168 | 155 |
| Other movements | (375) | - | (375) | 1,029 |
| Exchange difference | (1,910) | 153 | (1,756) | (30,727) |
| **As at 31 December** | **619,664** | **35,279** | **654,943** | **540,420** |
| **Amortisation and impairment losses** | | | | |
| As at 1 January | (21,628) | (22,341) | (43,969) | (40,158) |
| Movements during the year: | | | | |
| Changes in the consolidation scope | - | 10 | 10 | (80) |
| *- New consolidation* | - | (276) | (276) | (80) |
| *- Deconsolidation* | - | 286 | 286 | - |
| Charge for the year | - | (3,079) | (3,079) | (4,159) |
| *- Ordinary amortisation* | - | (2,966) | (2,966) | (2,172) |
| *- Impairment (recognized) / reversed* | - | (113) | (113) | (1,987) |
| Disposals & retirements | 184 | 399 | 583 | 934 |
| Transfers | - | 1 | 1 | (103) |
| Other movements | - | - | - | (870) |
| Exchange difference | 293 | (220) | 73 | 468 |
| **As at 31 December** | **(21,150)** | **(25,230)** | **(46,380)** | **(43,969)** |
| **Carrying amount at the end of the period** | **598,514** | **10,049** | **608,563** | **496,451** |
| **Carrying amount at the end of the previous period** | **489,732** | **6,719** | **496,451** | **520,798** |

The recognition criteria regarding capitalisation of development expenditure were not met and this expenditure has therefore been recognised in the income statement as an expense.

The Group's goodwill relates mainly to the plastic activities acquired through the purchases of Etex SA (1994), Marley (1999), Glynwed Pipe Systems (2001) and Durman Esquivel (2007).

The carrying amount of goodwill is as follows at 31 December:

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| **Reporting unit, country** | | |
| Ipex, Canada and USA | 252,991 | 242,375 |
| Durman, Central America | 64,174 | - |
| FIP, Italy | 61,887 | 61,887 |
| Friatec, Germany | 44,425 | 44,425 |
| Philmac, Australia | 31,174 | 31,298 |
| Nicoll, France | 26,495 | 26,495 |
| Durman, Mexico | 25,643 | - |
| Marley, Germany | 19,402 | 19,402 |
| Marley Plastics, UK | 7,813 | 8,532 |
| Nicoll, Peru | 7,169 | - |
| Durapipe, UK | 5,635 | 6,154 |
| Other (1) | 51,704 | 49,164 |
| **Goodwill** | **598,514** | **489,732** |

(1) Carrying amount of goodwill for various CGUs of which none is individually significant

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The projections are made in the functional currency of the CGUs, except for emerging economies where a stable currency (€) is used. All assumptions have been adjusted accordingly. The value-in-use calculations use free cash flow projections based on actual operating results and the 2008 budget. For subsequent years, free cash flows are extrapolated using the strategic plan assumptions for each reporting unit as approved by key management of the Group.

The terminal value is based on a normalised cash flow for each business and a sustainable nominal growth rate (including the expected inflation rate) of on average 2.5% for developed countries and 3.5% for emerging economies to reflect the higher growth prospects for the latter. The terminal value is discounted at the unit's pre-tax weighted average cost of capital which ranged primarily between 11% and 16.5%. The cost of the equity component for developed economies is based on a risk free rate and an equity risk premium. For emerging economies a country risk premium is added. The cost of the debt component for both types of economies reflects the estimated long term cost of funding in the corresponding economies.

The above calculations are corroborated by valuation multiples.

The tests indicated that no impairment of goodwill was required in 2007 (2006: € 1,976).

## 14. Property, plant and equipment

| (€ '000s) | 2007 Land & buildings | 2007 Plant, mach. & equip. | 2007 Other | 2007 Under construct. & advance payments | 2007 Total | 2006 Total |
|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | |
| As at 1 January | 364,969 | 913,112 | 88,465 | 35,059 | **1,401,605** | **1,373,896** |
| Movements during the year: | | | | | | |
| Changes in the consolidation scope | 14,726 | 40,437 | 5,585 | 4,646 | **65,394** | **4,036** |
| *- New consolidation* | *18,441* | *45,940* | *6,502* | *4,646* | ***75,530*** | ***4,036*** |
| *- Deconsolidation* | *(3,715)* | *(5,504)* | *(917)* | *-* | ***(10,135)*** | ***-*** |
| Acquisitions | 5,562 | 40,260 | 8,572 | 47,036 | **101,429** | **81,790** |
| Disposals & retirements | (3,642) | (30,887) | (6,697) | (425) | **(41,651)** | **(21,606)** |
| Transfers | 20,005 | 23,156 | 1,786 | (48,906) | **(3,958)** | **(155)** |
| Other movements | - | - | - | - | **-** | **257** |
| Exchange difference | (2,254) | (10,448) | (2,386) | (697) | **(15,785)** | **(36,612)** |
| **As at 31 December** | **399,365** | **975,630** | **95,326** | **36,714** | **1,507,035** | **1,401,605** |
| **Depreciation and impairment losses** | | | | | | |
| As at 1 January | (84,144) | (694,348) | (69,877) | - | **(848,369)** | **(817,202)** |
| Movements during the year: | | | | | | |
| Changes in the consolidation scope | 201 | (20,011) | (3,395) | - | **(23,206)** | **-** |
| *- New consolidation* | *(1,979)* | *(24,767)* | *(4,213)* | *-* | ***(30,959)*** | ***-*** |
| *- Deconsolidation* | *2,180* | *4,756* | *817* | *-* | ***7,753*** | ***-*** |
| Charge for the year | (13,182) | (52,153) | (7,376) | (14) | **(72,726)** | **(69,572)** |
| *- Ordinary depreciation* | *(13,163)* | *(51,702)* | *(7,145)* | *-* | ***(72,011)*** | ***(67,078)*** |
| *- Impairment (recognised) / reversed* | *(20)* | *(451)* | *(230)* | *(14)* | ***(715)*** | ***(2,494)*** |
| Disposals & retirements | 1,565 | 26,561 | 6,200 | - | **34,327** | **17,090** |
| Transfers | 13 | 1,772 | (259) | - | **1,526** | **103** |
| Other movements | - | - | - | - | **-** | **(257)** |
| Exchange difference | (213) | 7,149 | 1,797 | - | **8,733** | **21,467** |
| **As at 31 December** | **(95,760)** | **(731,030)** | **(72,911)** | **(14)** | **(899,714)** | **(848,369)** |
| **Carrying amount at the end of the period** | **303,606** | **244,600** | **22,415** | **36,699** | **607,320** | **553,236** |
| **Carrying amount at the end of the previous period** | **280,825** | **218,763** | **18,588** | **35,059** | **553,236** | **556,695** |
| *Of which:* | | | | | | |
| Leased assets at the end of the period | 6,357 | 3,309 | 2,727 | 169 | **12,563** | **10,514** |
| Leased assets at the end of the previous period | 6,765 | 2,418 | 1,330 | - | **10,514** | **10,433** |

Management considers that residual values of depreciable property, plant and equipment are insignificant.

Leased assets principally consist of buildings and machinery. During the year 2007 new leased assets were acquired for a total amount of € 3,818 (2006: € 4,215).

## 15. Investment properties

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| **Cost** | | |
| As at 1 January | 11,788 | 11,901 |
| Movements during the year: | | |
| Acquisitions | 1 | 7 |
| Exchange difference | (104) | (120) |
| **As at 31 December** | **11,684** | **11,788** |
| **Depreciation and impairment losses** | | |
| As at 1 January | (1,396) | (1,187) |
| Movements during the year: | | |
| Charge for the year | (229) | (235) |
| *- Ordinary depreciation* | (229) | (235) |
| Exchange difference | 24 | 26 |
| **As at 31 December** | **(1,601)** | **(1,396)** |
| **Carrying amount as at 31 December** | **10,083** | **10,392** |

Investment property comprises three commercial properties which are leased (in whole or in part) to third parties. The fair market value of the investment properties is estimated at € 15.8 million.

## 16. Equity accounted investees

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| Carrying amount as at 1 January | 19,723 | 19,824 |
| Movements during the year: | | |
| Changes in the consolidation scope | 687 | - |
| *- New consolidation* | 687 | - |
| Dividends | (2,474) | (2,276) |
| Result of the year | 3,362 | 5,163 |
| Exchange difference | (771) | (2,988) |
| **Carrying amount as at 31 December** | **20,527** | **19,723** |

The carrying amount of equity accounted investees mainly represents the investment in Duratec-Vinilit.

| **Summarised financial information [1]:** (€ '000s) | 2007 | 2006 |
|---|---|---|
| Property, plant & equipment | 12,168 | 12,219 |
| Other non current assets | 1,949 | 1,944 |
| Current assets | 55,028 | 48,172 |
| Non current liabilities | (1,214) | (701) |
| Current liabilities | (16,827) | (12,327) |
| **Total net assets** | **51,102** | **49,308** |
| Net sales | 56,561 | 57,838 |
| Operating profit | 8,529 | 14,789 |
| Profit after income tax | 8,504 | 12,907 |

[1] Not adjusted for the percentage ownership held by Aliaxis

## 17. Inventories

| (€ '000s)<br>**As at 31 December** | **2007** | **2006** |
|---|---|---|
| Raw materials, packaging materials and consumables | 79,373 | 51,730 |
| Components | 41,068 | 37,840 |
| Work in progress | 17,375 | 17,290 |
| Finished goods | 229,231 | 212,190 |
| Goods purchased for resale | 44,975 | 41,942 |
| **Inventories, net of write-down** | **412,023** | **360,992** |

The write-down of inventories as at 31 December 2007 amounts to € 25,786 (2006: € 30,267).

The cost of write-down recognised in the income statement during the period amounted to € 5,730 (2006: € 4,421).

## 18. Amounts receivable

| (€ '000s)<br>**As at 31 December** | **2007** | **2006** |
|---|---|---|
| Trade receivables - gross | 343,294 | 291,262 |
| Allowance for doubtful debtors | (14,498) | (12,977) |
| **Trade receivables** | **328,796** | **278,285** |
| Income taxes recoverable | 9,476 | 7,633 |
| Other taxes recoverable | 24,063 | 13,099 |
| Derivative financial instruments with positive fair values | 6,247 | 6,209 |
| Other | 17,846 | 12,028 |
| **Other amounts receivable** | **57,632** | **38,968** |
| **Amounts receivable** | **386,428** | **317,254** |

## 19. Cash and cash equivalents

| (€ '000s)<br>**As at 31 December** | **2007** | **2006** |
|---|---|---|
| Short term bank deposits | 29,653 | 8,628 |
| Bank current accounts | 84,024 | 73,187 |
| Cash | 688 | 225 |
| **Cash & cash equivalents** | **114,365** | **82,040** |
| Bank overdrafts | (25,831) | (33,884) |
| **Cash & cash equivalents in the cash flow statement** | **88,534** | **48,156** |

## 20. Equity

**Share capital and share premium**

The share capital and share premium of the Company as of 31 December 2007 amounts to € 75,786 (2006: € 75,514), represented by 91,108,515 fully paid ordinary shares without par value (2006: 91,074,465).

During 2007 the share capital and share premium increased by € 23 and € 249 respectively as a result of the exercise of stock options of the 2000 stock option plan (see Note 23(c)).

The holders of ordinary shares are entitled to receive dividends as declared and have one vote per share at shareholders' meetings of the Company.

**Hedging reserve**

The hedging reserve comprises the effective portion of the accumulated net change in the fair value of cash flow hedge instruments for a total amount of € 727 (2006: € 614). In this respect see also Note 27.

**Reserve for own shares**

At 31 December 2007 the Group held 6,088,487 of the Company's shares (2006: 6,052,337).

During 2007, the Group acquired in total 36,150 shares of which 10,350 were acquired from Group personnel (puts exercised in respect of shares acquired under the 2000 stock option plan) and 25,800 shares were acquired as a result of the exercise by Etex Group personnel of share options under the 2000 Etex Group share option plan. The Group paid a total of € 954 for the 36,150 shares acquired.

During 2006, the Group acquired in total 641,510 shares of which 1,200 were acquired from Group personnel (puts exercised in respect of shares acquired under the 2000 stock option plan) and 640,311 shares were acquired from a third party. The Group paid a total of € 7,975 for the 641,510 shares acquired.

**Translation reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign entities of the Group. The negative change in the translation reserve during 2007 amounts to € 10,057 and is mainly attributable to the weakening of the USD versus the EUR only partially compensated by the strengthening of the CAD versus the EUR.

In 2006, the negative change in the translation reserve amounted to € 43,556 and was mainly attributable to the weakening of the CAD and USD versus the EUR.

**Dividends**

On 2 July 2007 a dividend of € 17,304 (a gross dividend of € 0.19 per share) was declared and paid by Aliaxis.

A dividend of € 19,133 (a gross dividend of € 0.21 per share) is proposed by the directors for the current year. This dividend has not been provided for.

## 21. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of Aliaxis of € 179,681 (2006: € 164,791) and the weighted average number of ordinary shares outstanding during the year net of treasury shares, calculated as follows:

| **Weighted average number of ordinary shares, net of treasury shares** (in thousands of shares) | **2007** | **2006** |
|---|---|---|
| Issued ordinary shares | 91,074 | 91,051 |
| Treasury shares | (6,052) | (5,411) |
| Issued ordinary shares at 1 January, net of treasury shares | 85,022 | 85,641 |
| Effect of shares issued during the year | 14 | 9 |
| Effect of treasury shares acquired during the year | (4) | (199) |
| **Weighted average number of ordinary shares as at 31 December, net of treasury shares** | **85,032** | **85,450** |

### Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of Aliaxis of € 179,681 (2006: € 164,791) and the weighted average number of ordinary shares outstanding during the year net of treasury shares and after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

| **Weighted average number of ordinary shares (diluted), net of treasury shares** (in thousands of shares) | **2007** | **2006** |
|---|---|---|
| Weighted average number of ordinary shares, net of treasury shares (basic) | 85,032 | 85,450 |
| Effect of share options | 985 | 576 |
| **Weighted average number of ordinary shares as at 31 December (diluted), net of treasury shares** | **86,017** | **86,026** |

## 22. Interest bearing loans and borrowings

| (€ '000s) As at 31 December | 2007 | 2006 |
|---|---|---|
| **Non-current** | | |
| Secured bank loans | 12,510 | 902 |
| Unsecured bank loans | 447,655 | 428,013 |
| Deferred arrangement fees | (284) | (880) |
| Finance lease liability | 9,224 | 8,234 |
| Other loans and borrowings | 39,049 | 23,593 |
| **Non-current interest bearing loans and borrowings** | **508,154** | **459,861** |
| **Current** | | |
| Secured bank loans | 24,333 | 485 |
| Unsecured bank loans | 23,147 | 57,802 |
| Deferred arrangement fees | (567) | (586) |
| Finance lease liability | 2,327 | 1,819 |
| Other loans and borrowings | 3,899 | 1,176 |
| **Current interest bearing loans and borrowings** | **53,139** | **60,695** |
| **Interest bearing loans and borrowings** | **561,293** | **520,557** |

The main source of financing of the Group is a five year committed multi-currency revolving credit facility of € 1 billion between Aliaxis Finance SA and a syndicate of banks, which was arranged in May 2005.
This syndicated loan is unsecured and subject to standard covenants and undertakings for this type of facility. The borrowing rate is based on a short-term interest rate plus margin. The management of interest rate risk is described in Note 27.
In May 2007 the Group requested and obtained a second one year extension of this facility. The total amount of the facility is therefore € 1 billion until May 2010, € 954 million until May 2011 and € 936 million until May 2012.
At 31 December 2007 € 447 million of the facility was taken up (2006: € 427 million).

Other facilities of Aliaxis Finance SA and other subsidiaries of the Group include a number of additional bilateral and multilateral credit facilities.

The terms and conditions of significant interest bearing loans and borrowings were as follows:

(€'000s)

| As at 31 December | | | | 2007 | | 2006 | |
|---|---|---|---|---|---|---|---|
| | Curr. | Nominal interest rate | Year of maturity | Face value | Carrying amount | Face value | Carrying amount |
| **Secured bank loans** | | | | | | | |
| | MXN | various | 2008 | 4,863 | 4,863 | - | - |
| | USD | various | 2011 | 6,407 | 6,407 | - | - |
| | USD | Libor + 1.15% | 2008 | 12,207 | 12,207 | - | - |
| | GTQ | 7 - 7.50% | 2009-2014 | 3,881 | 3,881 | - | - |
| | USD | 6.72% - 8.35% | 2012-2015 | 2,322 | 2,322 | - | - |
| | USD | 7.61% - 6.72% | 2012-2015 | 2,201 | 2,201 | - | - |
| **Unsecured syndication bank facility** | | | | | | | |
| | CAD | Libor + 0.35% | 2012 | 207,627 | 207,627 | 196,322 | 196,322 |
| | AUD | Libor + 0.35% | 2012 | 17,903 | 17,903 | 17,974 | 17,974 |
| | EUR | Euribor + 0.35% | 2012 | 113,000 | 113,000 | 84,000 | 84,000 |
| | GBP | Libor + 0.35% | 2012 | 58,635 | 58,635 | 74,460 | 74,460 |
| | NZD | Libor + 0.35% | 2012 | 15,770 | 15,770 | 16,021 | 16,021 |
| | USD | Libor + 0.35% | 2012 | 33,965 | 33,965 | 37,965 | 37,965 |
| **Other unsecured bank facility** | | | | | | | |
| | NZD | O/N BKBM + 0.35% | 2008 | 7,725 | 7,725 | 7,477 | 7,477 |
| | AUD | Libor + 0.35% | 2008 | 3,581 | 3,581 | 3,355 | 3,355 |
| | GBP | Libor + 0.35% | 2007 | - | - | 19,732 | 19,732 |
| | EUR | Euribor + 0.35% | 2007 | - | - | 9,300 | 9,300 |
| | ZAR | Jibar + 0.35% | 2008 | 5,982 | 5,982 | 6,513 | 6,513 |
| **Unsecured bonds issues** | | | | | | | |
| | EUR | TMOP | 2009 | 20,000 | 20,000 | 20,000 | 20,000 |
| | CRC | tasa basica + 2.25% | 2009 | 2,731 | 2,731 | - | - |
| | CRC | tasa basica + 2.50% | 2011 | 2,731 | 2,731 | - | - |
| | CRC | tasa basica + 0.15% | 2012 | 13,656 | 13,656 | - | - |
| **Other**[1] | | | | | | | |
| | | | | 26,107 | 26,107 | 27,438 | 27,438 |
| **Total interest bearing loans and borrowings** | | | | **561,293** | **561,293** | **520,557** | **520,557** |

[1] Other interest bearing loans and borrowings include loans and finance lease liabilities in many different currencies at both fixed and floating rates.

**Terms and debt repayment schedule**

| (€ '000s) | Total | 1 year or less | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|
| Secured bank loans | 36,843 | 24,333 | 1,766 | 2,691 | 8,053 |
| Unsecured bank loans | 470,802 | 23,147 | 755 | 446,899 | - |
| Deferred arrangement fees | (851) | (567) | (284) | - | - |
| Finance lease liability | 11,551 | 2,327 | 1,945 | 3,306 | 3,973 |
| Other loans and borrowings | 42,948 | 3,899 | 21,151 | 17,898 | - |
| **Total as at 31 December 2007** | **561,293** | **53,139** | **25,333** | **470,795** | **12,026** |

**Finance lease liabilities**

| (€ '000s) | 2007 Minimum lease payments | 2007 Interest | 2007 Principal | 2006 Minimum lease payments | 2006 Interest | 2006 Principal |
|---|---|---|---|---|---|---|
| Less than 1 year | 2,782 | 455 | 2,327 | 2,177 | 358 | 1,819 |
| Between 1 and 5 years | 6,127 | 875 | 5,251 | 4,513 | 710 | 3,803 |
| More than 5 years | 4,620 | 648 | 3,973 | 5,168 | 737 | 4,431 |
| **Total as at 31 December** | **13,528** | **1,978** | **11,551** | **11,858** | **1,806** | **10,053** |

## 23. Employee benefits

Aliaxis maintains benefit plans such as retirement and medical care plans, termination plans and other long-term benefit plans in several countries in which the Group operates.
In addition the Group also has some share-based payment plans.

### (a) Defined contribution plans

For defined contribution plans, Group companies pay contributions to pension funds or insurance companies.
Once the contributions have been paid, the Group companies have no further payment obligation. The regular contributions constitute an expense for the year in which they are due. In 2007, the defined contribution plan expenses for the Group amounted to € 7,000 (2006: € 6,051).

### (b) Defined benefit plans

Aliaxis has a total of 78 defined benefit plans, which provide the following benefits:

- Retirement benefits : 51
- Long service awards : 16
- Termination benefits : 7
- Medical benefits : 4

All the plans have been established in accordance with common practice and legal requirements in each relevant country. The retirement benefit plans generally provide a benefit related to years of service and rates of pay close to retirement. The plans in Belgium, South Africa, Switzerland and the UK are separately funded through external insurance contracts or through separate funds. There are both funded and unfunded plans in Canada, Germany and France. The plans in Italy, New Zealand and USA are unfunded.

The termination benefit plans consist of early retirement plans in Germany. The medical plans provide medical benefits after retirement to former employees in France, South Africa, USA and the UK. The long service awards are granted in Austria, Germany, New Zealand and France.

The Group's net liability for post-employment, termination and other long term benefit plans comprises the following at 31 December:

| (€ '000s) | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Retirement and medical plans** | **Termination benefits** | **Other long term benefits** | **TOTAL** | **Retirement and medical plans** | **Termination benefits** | **Other long term benefits** | **TOTAL** |
| Present value of funded obligations | 194,313 | - | - | 194,313 | 215,529 | - | - | 215,529 |
| Fair value of plan assets | (197,147) | - | - | (197,147) | (185,134) | - | - | (185,134) |
| **Present value of net funded obligations** | **(2,834)** | **-** | **-** | **(2,834)** | **30,395** | **-** | **-** | **30,395** |
| Present value of unfunded obligations | 40,902 | 4,071 | 2,996 | 47,970 | 44,451 | 4,697 | 2,969 | 52,117 |
| Unrecognised actuarial gains/(losses) | 19,286 | - | - | 19,286 | (3,677) | - | - | (3,677) |
| Unrecognised past service cost | (1,393) | - | - | (1,393) | (2,222) | - | - | (2,222) |
| Unrecognised asset due to asset limit | 862 | - | - | 862 | 1,223 | - | - | 1,223 |
| **Total defined benefit liabilities / (assets)** | **56,824** | **4,071** | **2,996** | **63,891** | **70,170** | **4,697** | **2,969** | **77,836** |
| Liabilities | 57,791 | 4,071 | 2,996 | 64,858 | 70,230 | 4,697 | 2,969 | 77,896 |
| Assets | (967) | - | - | (967) | (60) | - | - | (60) |
| **Net liability as at 31 December** | **56,824** | **4,071** | **2,996** | **63,891** | **70,170** | **4,697** | **2,969** | **77,836** |

The movements in the net liability for defined benefit obligations recognised in the balance sheet at 31 December are as follows:

| (€ '000s) | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Retirement and medical plans** | **Termination benefits** | **Other long term benefits** | **TOTAL** | **Retirement and medical plans** | **Termination benefits** | **Other long term benefits** | **TOTAL** |
| Net liability in the balance sheet at 1 January | 70,170 | 4,697 | 2,969 | 77,836 | 79,703 | 5,064 | 2,785 | 87,552 |
| Employer contributions | (24,056) | (1,452) | (188) | (25,696) | (23,736) | (1,456) | (187) | (25,379) |
| Pension expense recognised in the income statement | 11,201 | 826 | 228 | 12,255 | 15,016 | 1,089 | 366 | 16,471 |
| Scope changes | - | - | - | - | - | - | 58 | 58 |
| Exchanges differences | (491) | - | (12) | (504) | (813) | - | (52) | (865) |
| **Net liability as at 31 December** | **56,824** | **4,071** | **2,996** | **63,891** | **70,170** | **4,697** | **2,969** | **77,836** |

The changes in the present value of the defined benefit obligations are as follows:

| (€ '000s) | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Retirement and medical plans** | **Termination benefits** | **Other long term benefits** | **TOTAL** | **Retirement and medical plans** | **Termination benefits** | **Other long term benefits** | **TOTAL** |
| Defined benefit obligation at 1 January | 259,980 | 4,697 | 2,969 | 267,646 | 243,820 | 5,064 | 2,785 | 251,668 |
| Service cost | 11,827 | 155 | 274 | 12,256 | 14,300 | - | 248 | 14,549 |
| Interest cost | 12,927 | 157 | 98 | 13,182 | 11,843 | - | 88 | 11,931 |
| Actuarial (gains) / losses | (26,299) | 514 | (143) | (25,928) | (9,141) | 1,089 | 30 | (8,021) |
| Past service cost | 458 | - | - | 458 | 2,707 | - | - | 2,707 |
| (Gains) / losses on curtailment | (1,559) | - | - | (1,559) | (123) | - | - | (123) |
| Benefits paid | (9,002) | (1,452) | (188) | (10,642) | (9,822) | (1,456) | (187) | (11,465) |
| Scope changes | - | - | - | - | - | - | 58 | 58 |
| Other movements (1) | - | - | - | - | 5,815 | - | - | 5,815 |
| Exchange differences | (13,118) | - | (12) | (13,130) | 581 | - | (52) | 528 |
| **Defined benefit obligation as at 31 December** | **235,215** | **4,071** | **2,996** | **242,283** | **259,980** | **4,697** | **2,969** | **267,646** |

(1) Other movements in 2006 related to the recognition of two defined contribution plans with a minimum guaranteed return in Switzerland.

The changes in the fair value of plan assets are as follows:

| (€ '000s) | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | Retirement and medical plans | Termination benefits | Other long term benefits | TOTAL | Retirement and medical plans | Termination benefits | Other long term benefits | TOTAL |
| Fair value of plan assets at 1 January | (185,134) | - | - | (185,134) | (149,442) | - | - | (149,442) |
| Expected return | (12,781) | - | - | (12,781) | (10,742) | - | - | (10,742) |
| Actuarial (gains) / losses | 3,093 | - | - | 3,093 | (1,945) | - | - | (1,945) |
| Contributions by employer and employee | (25,351) | (1,452) | (188) | (26,991) | (25,169) | (1,456) | (187) | (26,812) |
| Benefits paid | 9,002 | 1,452 | 188 | 10,642 | 9,822 | 1,456 | 187 | 11,465 |
| Other movements (1) | - | - | - | - | (6,303) | - | - | (6,303) |
| Exchange differences | 14,024 | - | - | 14,024 | (1,354) | - | - | (1,354) |
| **Fair value of plan assets as at 31 December** | **(197,147)** | **-** | **-** | **(197,147)** | **(185,134)** | **-** | **-** | **(185,134)** |

(1) Other movements in 2006 related to the recognition of two defined contribution plans with a minimum guaranteed return in Switzerland.

The actual return on plan assets in 2007 and 2006 was € 9,303 and € 12,810 respectively.

During 2007, the defined benefit obligation decreased and the fair value of plan assets increased. For the defined benefit obligation this is due to plans being one year older, more than offset by a higher discount rate and exchange differences. The funded position, i.e. the ratio of assets to the defined benefit obligation, has increased from around 69% to around 81%. The increase in the funded position is essentially due to the special contributions made in December 2007.

The total contributions amounted to € 26,991 (2006: € 26,812) of which € 25,696 was contributed by the employer (2006: € 25,379) and € 1,295 was contributed by the employee (2006: € 1,433).

The net defined benefit liability has substantially decreased during the year from € 77 million to € 64 million. This decrease is essentially due to the special contributions made in December 2007 to pension plans in France (€ 2,500) and in the UK (€ 6,932).

The total employer contributions are € 13.4 million higher than the pension expense. The pension expense for 2007 is € 12.3 million (2006: € 16.5 million).

The Group expects to contribute approximately € 16.5 million to its defined benefit plans in 2008.

The historical evolution of the present value of the defined benefit obligation, the fair value of plan assets, the unrecognised actuarial gains and losses, the unrecognised past service costs and the unrecognised assets is as follows:

| (€ '000s)<br>**As at 31 December** | **2007** | **2006** | **2005** |
|---|---|---|---|
| Present value of defined benefit obligations | 242,283 | 267,646 | 251,668 |
| Fair value of plan assets | (197,147) | (185,134) | (149,442) |
| Unrecognised actuarial gains/(losses) | 19,286 | (3,677) | (14,674) |
| Unrecognised past service costs | (1,393) | (2,222) | - |
| Unrecognised asset due to asset limit | 862 | 1,223 | - |
| | | | |
| Change in the actuarial gains/(losses) during the year | 22,835 | 9,966 | (15,027) |
| of which: | | | |
| * due to experience adjustments | 3,486 | 1,950 | 10,156 |
| * due to assumption adjustments | 19,349 | 8,017 | (25,183) |

The expense recognised in the income statement with regard to defined benefit plans can be detailed as follows:

| (€ '000s) | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Retirement and medical plans** | **Termination benefits** | **Other long term benefits** | **TOTAL** | **Retirement and medical plans** | **Termination benefits** | **Other long term benefits** | **TOTAL** |
| Current service cost | 10,532 | 155 | 274 | 10,961 | 12,867 | - | 248 | 13,116 |
| Interest cost | 12,927 | 157 | 98 | 13,182 | 11,843 | - | 88 | 11,931 |
| Expected return on plan assets | (12,781) | - | - | (12,781) | (10,742) | - | - | (10,742) |
| Actuarial (gains) / losses recognised in the year | 556 | 514 | (143) | 926 | (111) | 1,089 | 30 | 1,008 |
| Past service cost | 1,287 | - | - | 1,287 | 485 | - | - | 485 |
| (Gains) / losses on curtailments & settlements | (1,008) | - | - | (1,008) | (122) | - | - | (122) |
| Other (1) | - | - | - | - | 162 | - | - | 162 |
| Change in amount not recognised as an asset | (313) | - | - | (313) | 633 | - | - | 633 |
| **Total** | **11,201** | **826** | **228** | **12,255** | **15,016** | **1,089** | **366** | **16,471** |

(1) Other in 2006 related to the recognition of two defined contribution plans with a minimum guaranteed return in Switzerland.

The employee benefit expense is included in the following line items of the income statement:

| (€ '000s) | **2007** | **2006** |
|---|---|---|
| Cost of sales | 4,925 | 6,578 |
| Commercial expenses | 2,085 | 2,684 |
| Administrative expenses | 4,613 | 6,492 |
| R&D expenses | 368 | 393 |
| Other operating income / (expenses) | 264 | 325 |
| **Total** | **12,255** | **16,471** |

The principal actuarial assumptions at the reporting date (expressed as weighted averages) can be summarised as follows:

| | 2007 | 2006 |
|---|---|---|
| Discount rate as at 31 December | 5.63% | 4.96% |
| Expected return on assets at 31 December | 6.91% | 6.81% |
| Rate of salary increases | 4.17% | 3.90% |
| Medical cost trend rate | 5.68% | 5.43% |
| Pension increase rate | 2.64% | 2.50% |

The discount rate and the salary increase rate have been weighted by the defined benefit obligation. The expected return on assets has been weighted by the fair value of plan assets.
The medical trend rate has been weighted by the defined benefit obligation of those plans paying pensions rather than by lump sums on retirement.
At 31 December, the plan assets are broken down into the following categories according to the asset portfolios weighted by the amount of assets:

| | 2007 | 2006 |
|---|---|---|
| Government bonds | 14.91% | 14.81% |
| Corporate bonds | 9.53% | 8.90% |
| Equity instruments | 55.98% | 57.03% |
| Cash | 4.44% | 5.63% |
| Insurance contracts | 7.43% | 7.80% |
| Other | 7.71% | 5.83% |
| | **100.00%** | **100.00%** |

The plan assets do not include investments in the Group’s own shares or in property occupied by the Group.

### (c) Share-based payments

On 23 June 2004, Aliaxis approved a share option programme entitling key management personnel and senior employees to purchase shares of the Company, and authorising the issuance of up to 3,250,000 options to be granted annually over a period of 5 years. Four stock option plans were accordingly granted on 5 July 2004 (SOP 2004), 4 July 2005 (SOP 2005), 3 July 2006 (SOP 2006) and 4 July 2007 (SOP 2007) respectively.

One option gives the beneficiary the right to buy one ordinary share of the Company. The vesting period is 4 years after the grant date, and the options can be exercised subsequently during a period of 3 years with one exercise period per year. Options are to be settled by the physical delivery of shares using the treasury shares held by Aliaxis (see Note 20).

Each beneficiary is also granted a put option, as long as the Group remains unlisted, whereby Aliaxis shares acquired under these plans can be sold back to the Group at a price to be determined at each put exercise period. The put exercise periods run in parallel with the exercise periods of each plan.

At each grant/exercise date, Aliaxis determines the fair value of the shares by applying market multiples derived from a representative sample of listed companies to its last annual financial performance.

Details of these stock option plans are as follows:

| | Date granted | Exercise price (in €) | Number of stock options | | | | Exercise periods 1 June - 20 June |
|---|---|---|---|---|---|---|---|
| | | | Granted | Exercised | Forfeited | Outstanding | |
| SOP 2004 | 05.07.2004 | 9.19 | 647,500 | - | 11,518 | 635,982 | 2008 - 2011 |
| SOP 2005 | 04.07.2005 | 12.08 | 617,000 | - | 14,732 | 602,268 | 2009 - 2012 |
| SOP 2006 | 03.07.2006 | 18.35 | 594,000 | - | 17,946 | 576,054 | 2010 - 2013 |
| SOP 2007 | 04.07.2007 | 26.82 | 610,000 | - | 21,161 | 588,839 | 2011 - 2014 |
| | | | **2,468,500** | **-** | **65,357** | **2,403,143** | |

The number and weighted average exercise price of share options is as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price per option (in €) | Number of options | Weighted average exercise price per option (in €) |
| **Outstanding as at 1 January** | **1,840,215** | **13.07** | **1,264,500** | **10.60** |
| Movements during the year: | | | | |
| Options granted | 610,000 | 26.82 | 594,000 | 18.35 |
| Options exercised | - | - | - | - |
| Options forfeited | 47,072 | 19.73 | 18,285 | 13.78 |
| **Outstanding as at 31 December** | **2,403,143** | **16.43** | **1,840,215** | **13.07** |
| **Exercisable as at 31 December** | **-** | | **-** | |

The fair value of the services received in return for share options granted is based on the fair value of share options granted, measured using the Black & Scholes valuation model, with the following assumptions:

| Fair value and assumptions | SOP 2007 | SOP 2006 | SOP 2005 | SOP 2004 |
|---|---|---|---|---|
| Fair value at grant date (€ per option) | 7.13 | 4.39 | 2.39 | 1.93 |
| Share price (€) | 26.82 | 18.35 | 12.08 | 9.19 |
| Exercise price (€) | 26.82 | 18.35 | 12.08 | 9.19 |
| Expected volatility (%) | 20 | 21 | 21 | 21 |
| Expected option average life (years) | 5.5 | 5.5 | 5.5 | 5.5 |
| Expected dividends (€) | 0.13 | 0.12 | 0.11 | 0.10 |
| Risk-free interest rate (%) | 4.84 | 4.08 | 2.76 | 3.75 |

The expected volatility percentage is based on the historical volatility which is observed for comparable companies in Belgium. Expected dividends take into account a 10% growth per annum. The risk-free interest rate is based on the SWAP Euro interest rate corresponding to the expected options' average life. The vesting expectations are based on historical data of key management personnel turnover.

Personnel expenses for share-based payments recorded in the income statement (see Note 9) are as follows:

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| SOP 2004 | 312 | 312 |
| SOP 2005 | 369 | 369 |
| SOP 2006 | 653 | 327 |
| SOP 2007 | 544 | - |
| **Share-based payments related expense** | **1,878** | **1,008** |

Additionally, one share option arrangement was granted in the year 2000. This plan results in the issuance of new shares pursuant to the exercise of these options, together with the acquisition by Aliaxis of these shares following put options granted together with the options. At 31 December 2007, 26,550 options are outstanding. The recognition and measurement principles in IFRS 2 have not been applied to this plan.

## 24. Deferred tax assets and liabilities

The change in deferred tax assets and liabilities is as follows:

| (€ '000s) | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| As at 1 January | 45,373 | 58,099 | (78,204) | (83,217) | (32,831) | (25,118) |
| Recognised in the income statement | (8,190) | (9,999) | 8,710 | 3,263 | 520 | (6,736) |
| Scope changes | 3,200 | 118 | (5,237) | - | (2,037) | 118 |
| Other | 375 | - | - | - | 375 | - |
| Exchange difference | (1,351) | (2,845) | 637 | 1,750 | (713) | (1,095) |
| **As at 31 December** | **39,406** | **45,373** | **(74,093)** | **(78,204)** | **(34,687)** | **(32,831)** |

Deferred tax assets and liabilities are attributable to the following items:

| (€ '000s) | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Intangible assets | 3,196 | 3,757 | (421) | (451) | 2,775 | 3,306 |
| Property, plant and equipment | 1,055 | 1,086 | (58,213) | (65,621) | (57,158) | (64,535) |
| Inventories | 6,488 | 6,249 | (3,060) | (1,044) | 3,428 | 5,205 |
| Post employment benefits | 12,174 | 16,723 | (625) | (116) | 11,549 | 16,606 |
| Provisions | 3,950 | 4,072 | (523) | (534) | 3,426 | 3,538 |
| Loans and borrowings | 68 | 0 | (218) | (335) | (150) | (335) |
| Undistributed earnings | - | - | (4,432) | (4,398) | (4,432) | (4,398) |
| Other assets and liabilities | 8,924 | 7,696 | (6,601) | (5,705) | 2,323 | 1,991 |
| Loss carry forwards | 3,551 | 5,790 | - | - | 3,551 | 5,790 |
| **Tax assets / (liabilities)** | **39,406** | **45,373** | **(74,093)** | **(78,204)** | **(34,687)** | **(32,831)** |
| Set-off of assets and liabilities | (26,531) | (26,282) | 26,531 | 26,282 | - | - |
| **Net tax assets / (liabilities)** | **12,875** | **19,090** | **(47,562)** | **(51,922)** | **(34,687)** | **(32,831)** |

Tax losses carried forward on which no deferred tax asset is recognised amount to € 114 million (2006: € 114 million). € 105 million of these tax losses do not have an expiration date. € 9 million will expire by the end of 2016.
Deferred tax assets have not been recognised on these tax losses available for carry forward because it is not likely that future taxable profits will be available against which the unused tax losses can be utilised.

## 25. Provisions

| Current & non current provisions (€ '000s) | Product liability | Restructuring | Other | TOTAL |
|---|---|---|---|---|
| As at 1 january 2007 | 12,774 | 2,123 | 6,382 | **21,280** |
| Movements during the year: | | | | |
| Change in consolidation scope | - | - | 2,346 | **2,346** |
| Provisions created | 5,035 | 6,228 | 2,927 | **14,190** |
| Provisions used | (4,068) | (4,186) | (1,520) | **(9,774)** |
| Provisions reversed | (3,803) | (84) | (1,272) | **(5,159)** |
| Other movements | 300 | (327) | 42 | **15** |
| Exchange difference | 244 | (99) | (276) | **(130)** |
| **As at 31 December 2007** | **10,481** | **3,656** | **8,630** | **22,767** |
| Non current balance at the end of the period | 1,721 | 141 | 7,268 | **9,130** |
| Current balance at the end of the period | 8,761 | 3,515 | 1,362 | **13,638** |

## 26. Amounts payable

### (a) Non current other amounts payable

| (€ '000s) As at 31 December | 2007 | 2006 |
|---|---|---|
| Right of put by minority | 105,257 | - |
| Other | 4,005 | 2,827 |
| **Other amounts payable** | **109,262** | **2,827** |

In February 2007, Aliaxis Latinoamerica Cooperatief UA ('Aliaxis Latinoamerica') acquired 100% of the Durman Group.

As part of this transaction, the Group sold a 49% membership in Aliaxis Latinoamerica for € 113.3 million to a company owned by the former majority shareholders of the Durman Group. In addition, Aliaxis Latinoamerica acquired, in the course of 2007, the former operations of the Group in Argentina, Peru, Uruguay and Mexico.

The transaction also comprised a right of put (whereby the minority member can request the Group to acquire the whole or part of said 49% in Aliaxis Latinoamerica) and a right of call (whereby the Group can request the minority member to sell the whole or part of said 49% in Aliaxis Latinoamerica).

The right of put can be exercised for the first time in January 2011 (and thereafter in January of each subsequent year) and the right of call can be exercised for the first time in January 2013 (and thereafter in January of each subsequent year).

The interest to be acquired pursuant to the rights of put exercisable in 2011 and 2012) will be valued as a multiple of the EBITDA minus the net financial debt of the Aliaxis Latinoamerica businesses in the year preceding the date the put is exercised. In the following years the valuation will be based on a fair market value.

At 31 December 2007, the right of put by the minority takes into account the initial amount paid by the minority member for the 49% stake in Aliaxis Latinoamerica (€ 113.3 million) and 49% of the accumulated translation losses on the equity of Aliaxis Latinoamerica and its subsidiaries (€ 8.0 million).

At the reporting date, Group management has determined the fair value that the right of put by minority will have at the time the put option may be exercised. Based on such determination, Group management believes that it is not probable that the fair value will differ from the calculated minority interest liability (€ 105.3 million), and therefore the liability has not been further adjusted.

### (b) Current amounts payable

| (€ '000s)<br>**As at 31 December** | **2007** | **2006** |
|---|---|---|
| Trade payables | 226,149 | 193,232 |
| Payroll and social security payable | 83,193 | 78,621 |
| Income taxes payable | 14,940 | 22,686 |
| Taxes (other than income) payable | 12,797 | 8,438 |
| Derivative financial instruments with negative fair values | 1,764 | 3,358 |
| Interest payable | 2,601 | 2,025 |
| Other payables | 8,274 | 11,638 |
| **Amounts payable** | **349,719** | **319,999** |

## 27. Financial instruments

### (a) Foreign currency risk

Exposure

The Group's exposure to its most significant foreign currencies, based on notional amounts, was as follows:

| (€ '000 of currency)<br>**As at 31 December** | **2007** | | | | **2006** | | | |
|---|---|---|---|---|---|---|---|---|
| | **EUR** | **USD** | **CAD** | **GBP** | **EUR** | **USD** | **CAD** | **GBP** |
| Trading assets | 2,364 | 60,353 | - | 148 | 1,673 | 14,013 | - | 486 |
| Financial assets | 220 | 72,576 | - | 22,450 | 1,243 | 10,618 | - | 19,293 |
| Trading liabilities | (9,369) | (99,394) | (340) | (409) | (7,471) | (37,801) | (53) | (2,634) |
| Financial liabilities | - | (63,287) | (41,301) | - | - | (13,307) | (7,775) | (18,121) |
| **Balance sheet exposure** | **(6,785)** | **(29,752)** | **(41,641)** | **22,188** | **(4,555)** | **(26,477)** | **(7,829)** | **(976)** |
| Forward FX contracts | 833 | 5,949 | - | 93 | 1,379 | 7,802 | 7,500 | 120 |
| Cross currency interest rate swap (CCRS) | - | 4,735 | - | - | - | - | - | - |
| FX options | - | 14,000 | - | - | - | - | - | - |
| **Net exposure** | **(5,952)** | **(5,067)** | **(41,641)** | **22,281** | **(3,176)** | **(18,675)** | **(329)** | **(856)** |

Sensitivity analysis

A 10% strengthening of the Euro at 31 December against the currencies listed above would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10% weakening of the Euro against those same currencies would have had the equal but opposite effect.

| (€ '000s) As at 31 December | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | USD | CAD | GBP | USD | CAD | GBP |
| Equity | 3,088 | 6,692 | (971) | 3,451 | 4,436 | 1,376 |
| Profit or loss | 313 | 2,620 | (2,762) | 1,289 | 20 | 116 |

Transaction exposure
The change in the fair value of forward exchange contracts contracted to manage currency risk where there is no natural hedge and outstanding at 31 December 2007, represents an income of € 281, recorded in finance income in the income statement (2006: expense of € 850).

Net investment exposure
At 31 December 2007, € 856 of exchange losses on borrowings designated as a hedge of net investments in foreign operations were accounted for in equity under translation reserve (2006: gains of € 8,976).

### (b) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Carrying amount | |
|---|---|---|
| (€ '000s) | 2007 | 2006 |
| Other non current assets | 11,488 | 9,288 |
| Current amounts receivable | 346,642 | 292,612 |
| Interest rate instruments used for hedging | 3,798 | 6,135 |
| Forward exchange contracts used for hedging | 2,449 | 74 |
| Cash and cash equivalents | 114,365 | 82,040 |
| **As at 31 December** | **478,742** | **390,149** |

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

| (€ '000s) | Carrying amount 2007 | 2006 |
|---|---|---|
| Euro-zone countries | 158,709 | 158,396 |
| United Kingdom | 29,051 | 27,779 |
| United States | 23,930 | 29,803 |
| Canada | 15,462 | 12,872 |
| New Zealand and Australia | 16,982 | 18,190 |
| Latin America | 59,127 | 6,491 |
| Other regions | 25,536 | 24,756 |
| **As at 31 December** | **328,796** | **278,285** |

Impairment losses

The ageing of trade receivables at the reporting data was:

| (€ '000s) | Gross 2007 | Impairment 2007 | Gross 2006 | Impairment 2006 |
|---|---|---|---|---|
| Not past due | 220,279 | 1,040 | 197,403 | 2,486 |
| Past due 0 - 30 days | 68,395 | 921 | 59,433 | 377 |
| Past due 31 - 90 days | 28,693 | 1,806 | 20,524 | 1,228 |
| Past due 91 - 365 days | 19,276 | 5,887 | 8,813 | 4,421 |
| Past due more than one year | 6,650 | 4,845 | 5,090 | 4,464 |
| **As at 31 December** | **343,294** | **14,498** | **291,262** | **12,977** |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| (€ '000s) | 2007 |
|---|---|
| As at 1 January | 12,977 |
| Movements during the year: | |
| Changes in the consolidation scope | 4,016 |
| Impairment losses recognised | 3,244 |
| Impairment provisions used | (2,796) |
| Impairmant provisions reversed | (2,254) |
| Exchange difference | (689) |
| **As at 31 December** | **14,498** |

### (c) Commodity risk

At 31 December 2007, the Group had entered into energy hedging contracts in order to manage exposure to energy prices in Canada and a negative fair value reduction of € 133 was accounted for as a credit in the income statement.

### (d) Interest rate risk

Description and fair value of derivatives

The table below provides an overview of the nominal amounts (by maturity) of the derivative financial instruments used to hedge the interest rate risk associated to the interest bearing loans and borrowings (as presented in Note 22).

| (€ '000s) As at 31 December | Nominal amount 2007 | | | Nominal amount 2006 | | |
|---|---|---|---|---|---|---|
| **Type of derivative financial instrument** | **1 year or less** | **1 to 5 years** | **More than 5 years** | **1 year or less** | **1 to 5 years** | **More than 5 years** |
| Interest rate swaps | - | 114,151 | - | 20,000 | 180,372 | - |
| Options ( caps, floors or collars) | - | 238,288 | - | - | 130,189 | - |
| Other interest derivatives | - | 72,478 | - | - | 100,286 | - |

The table below presents the positive and negative fair values of derivative financial instruments as reported in the balance sheet under current amounts receivable and current amounts payable respectively. Also included are the notional amounts of the derivative financial instruments per maturity as presented in the balance sheet.

| (€ '000s) | Fair value | | Notional amount | | | | |
|---|---|---|---|---|---|---|---|
| | **Positive** | **Negative** | **less than 6 months** | **6 to 12 months** | **1 to 5 years** | **More than 5 years** | **Total** |
| Interest rate swaps | 908 | 179 | | | 93,697 | | 93,697 |
| Interest rate options | 239 | - | | | 55,367 | | 55,367 |
| CCRS | | 295 | | | 3,075 | | 3,075 |
| **Derivatives held as cash flow hedges** | **1,147** | **474** | **-** | **-** | **152,139** | **-** | **152,139** |
| Interest rate swaps | - | 162 | - | - | 20,454 | | 20,454 |
| **Derivatives held as not effective cash flow hedge** | **-** | **162** | **-** | **-** | **20,454** | **-** | **20,454** |
| Interest rate swaps | 166 | 166 | | | | | 0 |
| Interest rate options | 2,396 | 71 | | | 182,921 | | 182,921 |
| Other interest rate derivatives | 89 | 255 | | | 72,478 | | 72,478 |
| FX derivatives | 2,449 | 635 | | 9,510 | 67,930 | 67,930 | 145,370 |
| **Derivatives not qualifying as hedges** | **5,100** | **1,128** | **-** | **9,510** | **323,329** | **67,930** | **400,769** |
| **Total** | **6,247** | **1,764** | **-** | **9,510** | **495,922** | **67,930** | **573,362** |

Some assets classified as other non-current assets and some finance lease debts may have a fair value which differs from their carrying amount. Any such differences are insignificant.

Accounting for derivatives

The Group has applied cash flow hedge accounting for derivative financial instruments with a total notional amount of €152,139 (2006: € 151,122).

Consequently, the fair value adjustment for the effective portion of these derivatives is recognised directly in equity under hedging reserve.

The fair value adjustment for the ineffective portion of these derivatives is accounted for in the income statement. The amount of such adjustment was insignificant in both 2007 and 2006.

The evolution in the hedging reserve is as follows:

| (€ '000s) | 2007 | 2006 |
|---|---|---|
| As at 1 January | 614 | (3,361) |
| Effective portion of changes in fair value of new instruments added | 6 | 266 |
| Effective portion of changes in fair value of exisitng instruments | 474 | 860 |
| Existing instruments settled | (132) | 746 |
| Changes in the consolidation scope | (266) | - |
| *- New consolidation* | *(266)* | - |
| Fair value of cash flow hedges transferred to profit or loss | 52 | 2,124 |
| Exchange difference | (20) | (21) |
| **As at 31 December** | **727** | **614** |

Those derivative financial instruments which do not meet the criteria to be considered as cash flow hedges are accounted for as derivatives held-for-trading and the fair value adjustments to these instruments are accounted for in the income statement.
In 2007, the net fair value adjustment was a gain of € 535 (2006: € 7,030).
Sensitivity to interest rate variations

At the reporting date, more than 90% of the financial assets and liabilities in the Group were at floating rate.
A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.
The analysis was performed on the same basis as in 2006.

| (€ '000s)<br>**As at 31 December** | **2007** | | | | **2006** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Profit or loss** | | **Equity** | | **Profit or loss** | | **Equity** | |
| | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Variable rate instruments | (4,830) | 4,830 | - | - | (4,797) | 4,797 | - | - |
| Interest rate derivatives | 3,477 | (3,155) | 2,595 | (3,331) | 6,227 | (5,709) | 4,135 | (4,297) |
| **Cash flow sensitivity (net)** | **(1,353)** | **1,675** | **2,595** | **(3,331)** | **1,430** | **(912)** | **4,135** | **(4,297)** |

### (e) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments.

| | At 31 December 2007 | | | | |
|---|---|---|---|---|---|
| (€ '000s) | **Carrying amount** | **Contractual cash flows** | **1 year or less** | **1 to 5 years** | **More than 5 years** |
| **Non-derivative financial liabilities** | | | | | |
| Unsecured bank facilities | (470,802) | (573,998) | (47,264) | (526,734) | - |
| Secured bank loans | (36,843) | (41,208) | (23,705) | (7,551) | (9,952) |
| Other loans and borrowings | (42,948) | (50,162) | (6,322) | (43,841) | - |
| Finance lease | (11,551) | (13,529) | (2,782) | (6,126) | (4,621) |
| Trade and other payables | (333,014) | (333,014) | (332,775) | (239) | - |
| Bank overdraft | (25,831) | (25,831) | (25,831) | - | - |
| **Derivative financial liabilities** | | | | | |
| Swaps or options used for hedging | 2,965 | 2,254 | 885 | 1,369 | - |
| CCRS - outflows | - | (3,891) | (1,048) | (2,843) | - |
| CCRS - inflows | (295) | 3,376 | 892 | 2,484 | - |
| | **(918,318)** | **(1,036,003)** | **(437,949)** | **(583,482)** | **(14,573)** |

| | At 31 December 2006 | | | | |
|---|---|---|---|---|---|
| (€ '000s) | **Carrying amount** | **Contractual cash flows** | **1 year or less** | **1 to 5 years** | **More than 5 years** |
| **Non-derivative financial liabilities** | | | | | |
| Unsecured bank facilities | (485,814) | (561,874) | (81,456) | (480,418) | - |
| Secured bank loans | (1,387) | (1,801) | (554) | (1,096) | (151) |
| Other loans and borrowings | (24,769) | (26,721) | (5,637) | (21,084) | - |
| Finance lease | (10,053) | (11,858) | (2,177) | (4,513) | (5,168) |
| Trade and other payables | (293,954) | (293,954) | (293,954) | - | - |
| Bank overdraft | (33,884) | (33,884) | (33,884) | - | - |
| **Derivative financial liabilities** | | | | | |
| Swaps or options used for hedging | 3,474 | 3,701 | 790 | 2,911 | - |
| CCRS - outflows | - | - | - | - | - |
| CCRS - inflows | - | - | - | - | - |
| | **(846,387)** | **(926,391)** | **(416,872)** | **(504,201)** | **(5,319)** |

In particular, the following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges, are expected to occur and to impact the income statement.

**At 31 December 2007**

| (€ '000s) | Carrying amount | Expected cash flows | 1 year or less | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|
| Interest rate swaps | 888 | 948 | 209 | 739 | - |
| Caps, collars | 239 | 22 | 18 | 4 | - |
| CCRS - outflows | - | (3,891) | (1,048) | (2,843) | - |
| CCRS - inflows | (295) | 3,376 | 892 | 2,484 | - |
| | **833** | **454** | **71** | **383** | **-** |

**At 31 December 2006**

| (€ '000s) | Carrying amount | Expected cash flows | 1 year or less | 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Interest rate swaps | 200 | 116 | (15) | 131 | - |
| Caps, collars | 791 | 743 | 208 | 536 | - |
| CCRS - outflows | - | - | - | - | - |
| CCRS - inflows | - | - | - | - | - |
| | **991** | **860** | **193** | **667** | **-** |

## 28. Operating leases

| (€ '000s) | Cost as a lessee |
|---|---|
| **Incurred during the year** | **19,193** |
| Committed to: | |
| Not later than one year | 16,804 |
| Later than one year and not later than 5 years | 31,871 |
| Later than 5 years | 17,154 |
| **Total committed** | **65,829** |

Operating leases mainly relate to buildings, warehouses and vehicles.

## 29. Guarantees, collateral and contractual commitments

| (€ '000s)<br>**As at 31 December** | **2007** | **2006** |
|---|---|---|
| Personal guarantees given for third party commitments (1) | 24,374 | 192,273 |
| Real guarantees given | 11,742 | 5,873 |
| Contractual commitments to acquire assets (1) (2) | 51,000 | 192,692 |

(1) In 2006, € 172 million was related to the acquisition of the Durman Group

(2) In 2007, € 13.7 million relates to the acquisition of an industrial property in the UK

## 30. Contingencies

As is common with many manufacturing and distribution businesses, the Aliaxis companies may, in the ordinary course of their activities, be involved from time to time in legal and administrative proceedings. In cases where the outcome of such proceedings remains unknown, a contingent liability may exist.

IPEX Inc. and/or IPEX USA LLC ("IPEX") have been named, together with other defendants, in a number of lawsuits in the United States including two threatened class actions and a lawsuit in the State of Nevada, certified as a class action in October 2006, alleging that a plumbing product sold by IPEX was defective. The amount of damages claimed has not yet been ascertained, nor has the exact number of buildings that contain the product been determined. IPEX has filed cross claims or third-party actions against the developers and their plumbing subcontractors. IPEX continues to vigorously defend the action in Nevada which in the absence of a negotiated settlement will proceed to trial in May 2009.

In December 2007, a class action was filed against IPEX in the State of Washington (USA) in relation to alleged defects in a different plumbing product. At this time the class action has not been certified and the amount of damages has not been specified. IPEX will vigorously contest this action.

Based upon the information available at this stage, it is not possible to estimate the potential liabilities which could result from these proceedings.

## 31. Related parties

### *Key management compensation*

The total remuneration costs of the Board of Directors and the Executive Committee during 2007 amounted to € 8,429 (2006: € 7,456). For members of the Board of Directors this predominantly related to directors' fees while for members of the Executive Committee this comprised fixed base salaries, variable remuneration, retirement benefits as well as share based payments.

| (€ '000s) | **2007** | **2006** |
|---|---|---|
| Salaries (fixed and variable) | 7,364 | 6,462 |
| Retirement benefits | 492 | 640 |
| Share-based payments | 573 | 354 |
| **Total** | **8,429** | **7,456** |

## 32. Aliaxis companies

The most important Aliaxis companies are listed below. A complete list of the Company's investments is available upon request.

### *List of fully consolidated companies*

| Company | % Participation | City | Country |
|---|---|---|---|
| **HOLDING AND SUPPORT COMPANIES** | | | |
| Aliaxis S.A. | 100.00 | Brussels | Belgium |
| Aliaxis Finance S.A. | 100.00 | Brussels | Belgium |
| Aliaxis Latinoamerica Cooperatief U.A. | 100.00 | Panningen | The Netherlands |
| Aliaxis Holding Italia Spa | 100.00 | Zola Predosa | Italy |
| Aliaxis Holdings UK Ltd | 100.00 | Sevenoaks | UK |
| Aliaxis Ibérica S.L. | 100.00 | Madrid | Spain |
| Aliaxis North America Inc | 100.00 | Toronto | Canada |
| Aliaxis Participations S.A. | 100.00 | Paris | France |
| Aliaxis R&D S.A.S. | 100.00 | Vernouillet | France |
| Aliaxis Services S.A. | 100.00 | Vernouillet | France |
| DE Investments Group SARL | 100.00 | Luxemburg | Luxemburg |
| GDC Holding Ltd | 100.00 | Sevenoaks | UK |
| Gepros S.A.S. | 100.00 | Vernouillet | France |
| Glynwed Dublin Corporation | 100.00 | Dublin | Ireland |
| Glynwed Holding B.V. | 100.00 | Nieuwegein | The Netherlands |
| Glynwed Inc | 100.00 | Wilmington | USA |
| Glynwed Overseas Holdings Ltd | 100.00 | Sevenoaks | UK |
| Glynwed Pacific Holdings Pty Ltd | 100.00 | Adelaide | Australia |
| Glynwed USA Inc | 100.00 | Wilmington | USA |
| GPS Holding Germany GmbH | 100.00 | Mannheim | Germany |
| IPLA BV | 100.00 | Panningen | The Netherlands |
| Marley European Holdings GmbH | 100.00 | Wunstorf | Germany |
| Marley Holdings New Zealand Ltd | 100.00 | Auckland | New Zealand |
| Marley Plastics Australia Holdings Pty Ltd | 100.00 | Hallam | Australia |
| Panningen Finance BV | 100.00 | Panningen | The Netherlands |
| Société Financière des Etangs S.A. | 100.00 | Brussels | Belgium |
| Société Financière du Héron SA | 100.00 | Brussels | Belgium |
| Société Financière du Souverain S.A. | 100.00 | Brussels | Belgium |
| Tervueren Finance SA | 100.00 | Brussels | Belgium |
| The Marley Company (NZ) Ltd | 100.00 | Auckland | New Zealand |
| Tubo Fort LLC | 100.00 | Delaware | USA |
| **OPERATING COMPANIES** | | | |
| Abuplast Kunststoffbetriebe GmbH | 100.00 | Rodental | Germany |
| Akatherm Benelux N.V. | 50.00 | Puurs | Belgium |
| Akatherm FIP GmbH | 100.00 | Mannheim | Germany |
| Akatherm International B.V. | 100.00 | Panningen | The Netherlands |
| Arnomij B.V. | 100.00 | Noordwijkerhout | The Netherlands |
| Astore Valves & Fittings Srl | 100.00 | Genoa | Italy |
| Canplas Industries Ltd | 100.00 | Barrie | Canada |
| Canplas USA LLC | 100.00 | Denver | USA |
| Chemvin Plastics Ltd | 100.00 | Auckland | New Zealand |
| Corporacion de Inversiones Dureco SA | 100.00 | Guatemala | Guatemala |
| Dureco de Honduras SA | 100.00 | Tegucigalpa | Honduras |
| Dureco El Salvador SA de CV | 100.00 | San Salvador | El Salvador |
| Durman Esquivel SA | 100.00 | San José | Costa Rica |

| Company | % Participation | City | Country |
| --- | --- | --- | --- |
| **OPERATING COMPANIES** | | | |
| Durman Esquivel SA | 100.00 | Panama | Panama |
| Durman Esquivel Guatemala SA | 100.00 | Guatemala | Guatemala |
| Durman Esquivel Industrial de Nicaragua SA | 100.00 | Managua | Nicaragua |
| Dux Industries Ltd | 100.00 | Hutt City | New Zealand |
| Dynex Extrusions Ltd | 100.00 | Auckland | New Zealand |
| Europlast Spa | 100.00 | Santa Lucia Di Piave | Italy |
| FIP Srl | 100.00 | Casella | Italy |
| Friatec AG | 100.00 | Mannheim | Germany |
| Friatec DPL S.A.S. | 100.00 | Nemours | France |
| Friatec Rheinhutte Pumps & Valves LLC | 100.00 | Hampton | USA |
| Friatec SARL | 100.00 | Nemours | France |
| Girpi S.A.S. | 100.00 | Harfleur | France |
| Glynwed AB | 100.00 | Solna | Sweden |
| Glynwed AG | 100.00 | Neuthausen | Switzerland |
| Glynwed A/S | 100.00 | Roskilde | Denmark |
| Glynwed B.V. | 100.00 | Willemstad | The Netherlands |
| Glynwed GmbH | 100.00 | Vienna | Austria |
| Glynwed Ltda | 100.00 | Teresopolis | Brazil |
| Glynwed N.V. | 100.00 | Kontich | Belgium |
| Glynwed Pipe Systems Ltd | 100.00 | Cannock | UK |
| Glynwed S.A.S. | 100.00 | Mèze | France |
| Glynwed Srl | 100.00 | Milan | Italy |
| Glynwed s.r.o. | 100.00 | Prague | Czech Rep. |
| GPS Asia Pte Ltd | 100.00 | Singapore | Singapore |
| GPS Ibérica S.L. | 100.00 | Sta Perpetua de Mogoda | Spain |
| GPS Malaysia Sdn Bhd | 100.00 | Jala | Malaysia |
| Harrington Industrial Plastics LLC | 100.00 | Chino | USA |
| Hunter Plastics Ltd | 100.00 | London | UK |
| Innoge PEI | 100.00 | Monaco | Monaco |
| Ipex Inc | 100.00 | Don Mills | Canada |
| Ipex USA LLC | 100.00 | Wilmington | USA |
| Ipex de Mexico SA de CV | 100.00 | Mexico DF | Mexico |
| Jimten S.A. | 100.00 | Alicante | Spain |
| Marley Deutschland GmbH | 100.00 | Wunstorf | Germany |
| Marley Magyarorszag RT | 100.00 | Szekszard | Hungary |
| Marley New Zealand Ltd | 100.00 | Manurewa | New Zealand |
| Marley Pipe Systems (Pty) Ltd | 100.00 | Sandton | South Africa |
| Marley Plastics Ltd (as of 2008 Ventilation Holding UK Ltd) | 100.00 | Maidstone | UK |
| Marley Polska Sp.zo.o | 100.00 | Warsaw | Poland |
| Marley Properties Pty Ltd | 100.00 | Hallam | Australia |
| Material de Aireación S.A. | 98.67 | Okondo | Spain |
| Multi Fittings Corporation | 100.00 | Wilmington | USA |
| Multitubos SA de CV | 100.00 | Mexico DF | Mexico |
| Nicoll Belgique S.A. | 100.00 | Herstal | Belgium |
| Nicoll Eterplast S.A. | 100.00 | Buenos Aires | Argentina |
| Nicoll Italia Srl | 100.00 | Santa Lucia di Piave | Italy |
| Nicoll Peru S.A. | 100.00 | Lima | Peru |
| Nicoll Uruguay S.A. | 100.00 | Montevideo | Uruguay |
| Paling Industries Sdn Bhd | 60.00 | Selangor Darul Ehsan | Malaysia |
| Panel Ex SA | 100.00 | San José | Costa Rica |
| Perforacion y Conduccion de Aguas SA | 100.00 | San José | Costa Rica |
| Phetco (England) Ltd (as of 2008 Marley Plastics Ltd) | 100.00 | Sevenoaks | UK |
| Philmac Pty Ltd | 100.00 | North Plympton | Australia |
| Durman Esquivel de Mexico SA de CV | 100.00 | Mexico DF | Mexico |
| Poliplast Sp.zo.o | 100.00 | Olesnica | Poland |
| Raccords et Plastiques Nicoll S.A.S. | 100.00 | Cholet | France |
| Redi HT Srl | 100.00 | Barbarano | Italy |
| Redi Spa | 100.00 | Zola Predosa | Italy |
| Rhine Ruhr Pumps & Valves (Pty) Ltd | 74.90 | Sandton | South Africa |
| Riuvert S.A. | 100.00 | Tibi Alicante | Spain |
| Sanitaire Accessoires Services S.A.S. | 100.00 | St Laurent de Mure | France |
| Sanitärtechnik GmbH | 100.00 | Eisenberg | Germany |

| Company | % Participation | City | Country |
|---|---|---|---|
| **OPERATING COMPANIES** | | | |
| SCI Frimo | 100.00 | Nemours | France |
| SCI LAML | 100.00 | Nemours | France |
| SED Flow Control GmbH | 100.00 | Bad Rappenau | Germany |
| Sociedad Immobiliaria Interandina SA | 100.00 | Lima | Peru |
| Sonac S.A.S. | 100.00 | Argenton Château | France |
| Straub Werke AG | 100.00 | Wangs | Switzerland |
| The Universal Hardware and Plastic Fact. Ltd | 51.00 | Kowloon | China |
| Durman Esquivel Puerto Rico Corp. | 100.00 | Sabana Grande | Puerto Rico |
| Tubotec SA | 100.00 | Bogota | Colombia |
| Tuvinil SA | 100.00 | Cartagena | Colombia |
| Vigotec N.V. | 50.00 | Puurs | Belgium |
| WEFA Plastic Kunststoffverarbeitungs GmbH | 100.00 | Attendorn | Germany |
| Zhongshan Universal Enterprises Ltd | 51.00 | Zhongshan City | China |

***List of equity accounted investees***

| Company | % Participation | City | Country |
|---|---|---|---|
| Duratec - Vinilit S.A. | 40,00 | Santiago | Chile |
| Advance Drainage Systems Costa Rica Limitada | 50,00 | San José | Costa Rica |
| Sistemas Avanzados de Drenaje ADS Cia Limitada | 50,00 | Guatemala | Guatemala |
| ADS Centroamerica Ltda de CV | 50,00 | San Salvador | El Salvador |

## 33. Subsequent events

On 29 February 2008, the Group completed the sale of the shares of its subsidiary Ventilation Holding UK Limited, which held the trade and assets of Greenwood Air Management. The proceeds of the sale were received in cash on the completion date, generating a capital gain in excess of €30 million. The revenue and operating income of Greenwood Air Management in the year ended 31 December 2007 were €21 million and €5.2 million respectively.

## 34. Services provided by the statutory auditor

During the year the statutory auditor provided audit services for €2.4 million, audit-related services for € 0.3 million, tax related services for € 1.1 million and other services for € 0.1 million.

KPMG Bedrijfsrevisoren - Réviseurs d'Entreprises
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# Statutory auditor's report to the General Meeting of Shareholders of Aliaxis SA on the consolidated financial statements for the year ended 31 December 2007

In accordance with legal and statutory requirements, we report to you on the performance of our audit mandate. This report includes our opinion on the consolidated financial statements together with the required additional comment.

## Unqualified audit opinion on the consolidated financial statements

We have audited the consolidated financial statements of Aliaxis SA ("the Company") and its subsidiaries (jointly "the Group"), prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated accounts comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, the statement of changes in equity and the cash flow statement for the year then ended, as well as the summary of significant accounting policies and the other explanatory notes. The total of the consolidated balance sheet amounts to € 2,193 million and the consolidated income statement shows a profit for the year of € 181.7 million.

The board of directors of the Company is responsible for the preparation of the consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Réviseurs d'Entreprises/Instituut der Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. We have also evaluated the appropriateness of the accounting policies used, the reasonableness of accounting estimates made by the Company and the presentation of the consolidated financial statements, taken as a whole. Finally, we have obtained from management and responsible officers of the Company the explanations and information necessary for our audit. We believe that the audit evidence we have obtained provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the Group's net worth and financial position as of 31 December 2007 and of its results and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

**Additional comment**

The preparation of the management report and its content are the responsibility of the board of directors. Our responsibility is to supplement our report with the following additional comment, which does not modify our audit opinion on the consolidated financial statements:

- The management's report on the consolidated financial statements includes the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the Group is facing, and on its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 30 April 2008

KPMG Réviseurs d'Entreprises
Statutory auditor
represented by

Benoit Van Roost

## NON-CONSOLIDATED ACCOUNTS AND PROFIT DISTRIBUTION

The annual statutory accounts of Aliaxis S.A. are summarised below.

In accordance with the Belgian Company Code, the annual accounts of Aliaxis S.A., including the Directors' Report and the Auditors' Report, will be registered at the Belgian National Bank within the required legal timeframe.

These documents are also available upon request at:

Aliaxis S.A.
Group Finance Department
Avenue de Tervueren, 270
1150 Brussels, Belgium

The Auditor, Klynveld Peat Marwick Goerdeler Réviseurs d'Entreprises, represented by Benoit Van Roost, has expressed an unqualified opinion on the annual statutory accounts of Aliaxis S.A.

### SUMMARISED BALANCE SHEET AFTER PROFIT DISTRIBUTION

| **€ '000s** | **At 31 December 2007** | **At 31 December 2006** |
|---|---|---|
| **ASSETS** | | |
| **FIXED ASSETS** | **996,842** | **994,487** |
| Intangible assets | 69 | 32 |
| Tangible assets | 351 | 258 |
| Financial assets | 996,422 | 994,197 |
| **CURRENT ASSETS** | **2,484** | **1,019** |
| **TOTAL ASSETS** | **999,326** | **995,506** |
| **EQUITY AND LIABILITIES** | | |
| **CAPITAL AND RESERVES** | **969,235** | **881,009** |
| Capital | 62,648 | 62,625 |
| Share premium account | 13,138 | 12,889 |
| Revaluation reserve | 92 | 92 |
| Reserves | 848,922 | 743,567 |
| Profit carried forward | 44,435 | 61,836 |
| **CREDITORS** | **30,091** | **114,497** |
| **TOTAL EQUITY AND LIABILITIES** | **999,326** | **995,506** |

## SUMMARISED PROFIT AND LOSS ACCOUNT

### YEAR ENDED 31 DECEMBER

| € '000s | 2007 | 2006 |
|---|---|---|
| Income from operations | 4,155 | 2,960 |
| Operating charges | (10,030) | (8,117) |
| **OPERATING LOSS** | **(5,875)** | **(5,157)** |
| Financial result | 112,974 | 113,755 |
| Extraordinary result | - | (15) |
| **INCOME TAXES** | **(13)** | **-** |
| **PROFIT FOR THE PERIOD** | **107,086** | **108,583** |
| **PROFIT FOR THE PERIOD AVAILABLE FOR APPROPRIATION** | **107,086** | **108,583** |

### PROFIT DISTRIBUTION

The Board of Directors will propose at the General Shareholders' Meeting on 28 May 2008 a net dividend of € 0.1575 per share. The proposed gross dividend is € 0.21, representing 10.0% of the basic earnings per share of € 2.11.

The dividend will be paid on 2 July 2008 against the return of coupon No. 5 at the following premises:

- Banque Degroof
- Fortis Banque
- Dexia Banque
- Crédit Agricole Indosuez Luxembourg

as well as at our registered office.

The profit appropriation would be as follows:

| €' 000s | |
|---|---|
| Profit brought forward | 61,836 |
| Profit for the period | 107,086 |
| Gross dividend to be distributed to the 91,108,515 issued shares | (19,133) |
| Legal reserve | (5,354) |
| Other reserve | (100,000) |
| Profit carried forward | 44,435 |

## STATUTORY NOMINATIONS

Upon the advice of the Selection Committee, the Board of Directors of Aliaxis S.A. will propose to the General Meeting of Shareholders to be held on 28 May 2008, the appointment, for a period of three years, of an additional independent non-executive director, Mr. Jean-Lucien Lamy. His mandate will expire at the General Meeting of Shareholders to be held in 2011.

## GLOSSARY OF KEY TERMS AND RATIOS

**Revenue (Sales)**

Amounts invoiced to customers for goods and services provided by the Group, less credits for returns, rebates and allowances and discounts for cash payments

**EBITDA**

EBIT before charging depreciation, amortisation and impairment

**Current EBIT**

Profit from operations before non-recurring items

**EBIT**

Operating income

**Net Profit (Group Share)**

Profit of the year attributable to equity holders of the Group

**Capital Expenditure**

Expenditure on the acquisition of property plant and equipment, investment properties and intangible assets

**Net Financial Debt**

The aggregate of (i) non-current and current interest-bearing loans and borrowings and (ii) bank overdrafts, less (iii) cash and cash equivalents

**Capital Employed**

The aggregate of (i) intangible assets, (ii) property, plant & equipment, (iii) investment properties, (iv) inventories and (v) amounts receivable, less the aggregate of (a) current provisions, and (b) current amounts payable

**Non-Cash Working Capital**

The aggregate of (i) inventories and (ii) amounts receivable, less the aggregate of (a) current provisions, and (b) current amounts payable

**Return on Capital Employed (%)**

EBIT / Average of Capital Employed at 1 January and 31 December * 100

**Return on Equity (Group Share) (%)**

Net Profit (Group Share) / Average of Equity attributable to equity holders of Aliaxis at 1 January and 31 December * 100

**Effective Income Tax Rate (%)**

Income Taxes / Profit before income taxes * 100

**Payout Ratio (%)**

Gross dividend per share / Basic earnings per share * 100