

Appian Technology plc – Adoption of IFRS

Appian Technology plc today announces that it has completed its preparations to adopt International Financial Reporting Standards (IFRS).

Appian Technology plc will prepare consolidated financial statements in line with EU adopted IFRS from 1 October 2007.

The first results produced under IFRS will be for the 6 months to 31 March 2007 and the first set of financial statements will be for the year to 30 September 2008.

Transition to IFRS has not resulted in any adjustments to the previously reported results and balance sheets other than in respect of the format and disclosure requirements.

This announcement highlights the impact of IFRS on the presentation of the Group's consolidated financial statements and provides details of the accounting policies adopted by the Group.

IFRS are subject to possible amendment by and interpretative guidance from the International Accounting Standards Board as well as ongoing review and endorsement by the EU and are, therefore, still subject to change.

It is therefore possible there may be adjustments to the previously reported UK GAAP numbers before their inclusion in the IFRS financial statements for the 12 months to 30 September 2008.

Impact of IFRS

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

Goodwill amortisation:

Goodwill is fixed at the 1 October 2006 value. All goodwill balances are subject to annual impairment tests from this date.

Development costs:

Under IAS 38, an intangible asset arising from development expenditure (or from the development phase of an internal project) must be recognised, if all of the following criteria are met:

- (a) It is technically feasible to complete the intangible asset so that it will be available for use or sale,

- (b) Its intention to complete the intangible asset and use or sell it,
- (c) Its ability to use or sell the intangible asset,
- (d) The intangible asset will generate probable future economic benefits (i.e. this could be cost savings through improved efficiency or linked to new business),
- (e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and,
- (f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Therefore any expenditure that meets the recognition criteria for an intangible asset arising from development costs must be recognised as an intangible asset.

Under the UK GAAP accounting policies, development expenditure was written off, except where the directors were satisfied as to the technical, commercial and financial viability of individual projects, which is in-line with IFRS requirements.

As a result any development costs that have been written off during the transition period have been assessed against the criteria above. No change has resulted.

Foreign exchange & derivatives:

Under UK GAAP, revenues, costs and non-monetary assets were translated at the exchange rates ruling at the dates of the transactions, except that where a transaction is covered by a forward exchange contract, the contracted exchange rate is used.

Under IFRS the contracted rate from the forward contracts cannot be used as hedge accounting is not being applied.

As a result Appian Technology will change its accounting policy to the use of the rate on day of transaction for ALL transactions.

The forward exchange contracts, as derivative financial instruments, will be measured at their fair value at each reporting date, with fair value gains and losses being recognised immediately in profit or loss.

The historical impact of this change in accounting treatment is immaterial.

Merger accounting:

Merger Accounting is not applicable under IFRS. However, the merger accounting took place before the date of transition to IFRS, and therefore, by utilisation of the business combinations exemption, no adjustment is required.

The merger reserve has been renamed as "other reserves".

Investment:

The group's 30% investment in CVA meets the measurement criteria of an available-for-sale financial instrument and, in accordance with the requirements of IAS 39 is measured and recognised at its fair value.

The carrying values at each reporting date have been determined to be equivalent to the corresponding fair values of the investment.

The impairment of the investment recognised in the last financial year meets the criteria and applicable accounting treatment for the impairment of an available-for-sale investment and therefore no change is required.

IFRS 1 Exemptions

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

Appian Technology plc has taken the following key exemptions:

- Business combinations – Business combinations that took place prior to 1 October 2006 have not been restated.
- Fair value or revaluation as deemed cost – At the date of transition, fair value has been used as deemed cost for property, plant and equipment assets previously measured at fair value.
- Share-based payment – the Group has applied the requirements of IFRS 2 Share-based payments to all grants of equity instruments after 7 November 2002 that were unvested as of 1 October 2006. The company has previously applied FRS 20 under UK GAAP, therefore there will be no further change.
- Cumulative translation differences – Cumulative translation differences for all foreign operations have been set to zero at 1 October 2006.

Accounting Policies

The following accounting policies have been adopted following the transition of IFRS:

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention, except for the revaluation of certain financial instruments.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company, its subsidiaries made up to 30 September each year.

Intra-Group transactions, balances, income and expenses are eliminated fully on consolidation.

Control is achieved where Appian Technology plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to income statement in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group.

For hardware and software maintenance contracts, revenue is realised over the period to which it relates. Costs associated with these contracts are expensed as incurred.

Engineering services, not the subject of an ongoing maintenance contract, such as repair, training and consultancy, are recognised when the services are performed.

Revenue and profit generated from fixed-price contracts, is recognised having regard to the proportion of the total contract which has been completed at the balance sheet date. Provision is made in full for any expected losses on uncompleted contracts.

Research and development:

Research

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

Development

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

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their respective useful lives, from the date at which they are available for use, using the straight-line method. This period is between three and five years.

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

Intangible assets:

Goodwill

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

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

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

On disposal of a subsidiary, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Other intangible assets, which consist of software intellectual property rights, are amortised over seven years, which reflects the directors' estimate of their useful economic life.

Property, Plant and Equipment

Property, plant and equipment is stated at the lower of cost or net present value, less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on the cost of assets less any residual value over their estimated useful lives by equal instalments, as follows:

- Furniture, fittings and equipment 3 years
- Motor vehicles 3 years

The residual value and the useful life of each asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

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

Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments

of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leased assets:

Finance lease

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

Assets held under finance leases are included in the balance sheet at fair value, or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease less depreciation and impairment losses.

These assets are depreciated, on a straight-line basis, over the shorter of the asset's useful life and the lease term.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating lease

Leases where the third party lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

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

Lease incentives received are recognised in the income statement on a straight-line basis as an integral part of the total lease expense.

Inventories and work in progress

Inventory is stated at the lower of cost and net realisable value.

Cost comprises of the direct material costs of purchase, and where applicable, the direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Net realisable value comprises the actual or estimated selling price (net of trade but before settlement discounts) less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Work in progress is valued on the basis of direct costs plus directly attributable overheads based on normal levels of activity.

Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Foreign currency

Transactions denominated in foreign currencies are translated into sterling (the functional currency of the Group) at the rates ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Gains and losses arising on translation are included in the net profit or loss for the period.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Revenues and costs are translated at the exchange rates ruling at the dates of the transactions.

Profits and losses arising from other currency translations and on settlement of amounts receivable and payable in other currencies are included in the net profit or loss for the period.

Financial Instruments

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the income statement in the financial period to which it relates.

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

All interest-related charges are recognised as an expense in “finance cost” in the income statement. Bank loans are raised for support of long-term funding of the Group’s operations. They are recognised at proceeds received, net of direct issue costs.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the

convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Derivatives:

The group uses foreign exchange forward contracts to hedge its foreign currency exchange rate exposures. The group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the group's policies approved by the board of directors.

Changes in the fair value of derivative financial instruments are recognised immediately in the income statement as they arise, and a corresponding financial asset or financial liability is recognised in the balance sheet.

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

Trade and other payables

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

Equity Instruments

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

Taxation

The charge for current tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is provided in full and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or any discount on acquisition) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share based payments

The Group issues share options to its employees under two schemes: the 2000 Executive Share Option Scheme ("SOS") and under an Enterprise Management Incentives Plan ("EMI").

The Group also issues warrants to its directors. In accordance with IFRS 2, the charges for these share options and warrants are measured at fair value at date of grant, using the Monte Carlo pricing model for the warrants and the SOS plan and the binomial pricing model for the EMI plan.

The fair value is then expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest, updated at each balance sheet date for options that have lapsed or been exercised.

All options and warrants are equity settled. The principal assumptions used to calculate the value of options and warrants are included in the notes to the financial statements. In assessing the volatility of the share price the Group has used historical share price data dating back to 1 May 1998.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. 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 only of the statement of cash flows.

Accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

Revenue recognition on projects

At the year end, there were projects which were partially complete. In accordance with the Group's accounting policy revenue and profit are recognised in accordance with the stage of completion of the contract. This is based on costs incurred to date and an estimate of future costs.

Share based payments

The charge to the income statements in relation to options and incentive plans is based on the Black Scholes valuation technique. This technique requires a number of assumptions to be made such as those in relation to share price volatility, movement in interest rates, dividend yields and staff behavioural patterns.

Impairment

Impairment tests require a number of assumptions and judgments to be made. An explanation of these judgments and estimates are detailed in the impairment accounting policy.