

# STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in this Annual Report and Accounts for the year ended 31 December 2008 are set out below.

## BASIS OF PREPARATION

The Accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The Accounts have been prepared under the historical cost convention except for derivative financial instruments that are stated at their fair value.

The Accounts have been prepared on the basis of a going concern as set out on page 25.

At the date of authorisation of these Accounts, there are a number of new standards and interpretations issued but not yet effective (some of which are pending endorsement by the European Union), which the Group has not applied in these Accounts. These include:

- IFRS 8 "Operating Segments" – effective for accounting periods beginning on or after 1 January 2009
- IAS 1 "Presentation of Financial Statements" - revision effective for accounting periods on or after 1 January 2009
- IAS 27 "Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" –revision effective for accounting periods beginning on or after 1 July 2009
- IAS 23 "Borrowing Costs" – effective for costs incurred from 1 January 2009
- IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items" – revision applies retrospectively for accounting periods beginning on or after 1 July 2009.
- IFRS 2 "Share-based Payment" – revision effective for accounting periods beginning on or after 1 January 2009
- IFRS 3 "Business Combinations" – revision effective for accounting periods beginning on or after 1 July 2009
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" – effective for accounting periods beginning on or after 1 October 2008

With the exception of IFRS 3 "Business Combinations", the adoption of these standards in future periods are not expected to have a material impact on the financial results of the Group. IFRS 3 "Business Combinations" is expected to impact the treatment of any acquisition-related costs (for instance finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees incurred on the acquisition of new businesses), with such costs being expensed in the period. IFRS 3 is also expected to impact the treatment of contingent consideration associated with acquisitions.

## BASIS OF CONSOLIDATION

The Consolidated Accounts incorporate the Accounts of the Company and each of its subsidiary undertakings after eliminating all significant inter-company transactions and balances. The results of subsidiary undertakings acquired or sold are consolidated for the periods from or to the date on which control passed.

Minority interests in the net assets of consolidated subsidiaries are identified separately therein. Minority interests consist of the amount of those interests at the date of the original business combination 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 interest of SIG except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

## CONSOLIDATED INCOME STATEMENT DISCLOSURE

In order to give an indication of the underlying earnings of the Group, certain items are presented in the middle column of the Consolidated Income Statement entitled "Other items". These include:

- amortisation of acquired intangibles;
- impairment of goodwill;
- one-off restructuring costs; and
- gains and losses on derivative financial instruments.

## GOODWILL AND BUSINESS COMBINATIONS

All business combinations are accounted for by applying the purchase method.

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets (including intangible assets) and liabilities of the business acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, or more frequently when there is an indication that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from the synergies of the combination. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit

and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of remaining goodwill relating to the entity disposed of is included in the determination of any profit or loss on disposal.

In accordance with the transitional arrangements of IFRS 1, the Group has taken the option to apply IFRS 3 to business combinations from the transition date only (1 January 2004). 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. Goodwill written off to reserves under UK GAAP prior to 1 January 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Goodwill recorded in foreign currency is retranslated at each period end. Any movements in the carrying value of goodwill as a result of foreign exchange rate movements are recognised in the Consolidated Statement of Recognised Income and Expense.

Negative goodwill arising on an acquisition is recognised immediately in the Consolidated Income Statement.

## **INTANGIBLES**

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. The Group recognises two types of intangible assets: acquired and purchased. Acquired intangible assets arise as a result of applying IFRS 3 which requires the separate recognition of intangible assets from goodwill on all business combinations from 1 January 2004. Purchased intangible assets relate primarily to software that is separable from any associated hardware.

Intangible assets are amortised on a straight line basis over their useful economic lives as follows:

	Amortisation period
Customer relationships	Life of the relationship
Brands	Indefinite
Non-compete contracts	Life of the contract
Specific customer contracts	Life of the contract
Order books	Life of the order book
Software	Useful life of software

The Group is currently amortising customer relationships and non-compete contracts on average over 7.4 years and 3.0 years respectively.

An indefinite useful life has been determined for brands on the basis that the brand is expected to be maintained indefinitely and is expected to continue to drive value for the Group. Brands will be reviewed for impairment on at least an annual basis.

## **REVENUE RECOGNITION**

Revenue represents amounts receivable for goods net of allowances and value added tax. Revenue from the sale of goods is recognised when the goods have been received by the customer.

## **BORROWING COSTS**

All borrowing costs are recognised in the Consolidated Income Statement in the period in which they are incurred.

## **PENSION COSTS**

SIG operates five defined benefit pension schemes.

The Group's net obligation in respect of these defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in both current and prior periods. That benefit is discounted using an appropriate discount rate to determine its present value and the fair value of any plan assets is deducted.

Where the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Consolidated 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.

The full service cost of the pension schemes is charged to operating profit. The finance cost of liabilities and expected return on assets are included within finance costs and finance income respectively in the Consolidated Income Statement.

The actuarial gain or loss arising is charged through the Consolidated Statement of Recognised Income and Expense and is made up of the difference between the expected return on assets and those actually achieved, the difference between the actuarial assumptions for liabilities and actual experience in the period and any changes in the assumptions used in the valuations.

The pension scheme deficit is recognised in full and presented on the face of the Consolidated Balance Sheet. The associated deferred tax asset is recognised within non-current assets in the Consolidated Balance Sheet.

For defined contribution schemes the amount charged to the Consolidated Income Statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included within either accruals or prepayments in the Consolidated Balance Sheet.

#### **SHARE-BASED PAYMENT TRANSACTIONS**

In accordance with the transitional provisions, IFRS 2 has been applied to all share options granted after 7 November 2002 that remained unvested as of 1 January 2005. IFRS 2 has also been applied to all share options granted thereafter.

The Group issues equity-settled share-based payments only (share options). Share options are measured at fair value at the date of grant based on the Group's estimate of shares that will eventually vest. The fair value determined is then expensed in the Consolidated Income Statement on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured by use of the Black-Scholes option pricing model.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

#### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash balances and call deposits with an original 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 purposes of the Consolidated Cash Flow Statement.

#### **FINANCIAL ASSETS**

Financial assets are measured initially at fair value and then subsequently at amortised cost using the effective interest rate method.

Financial assets (including trade receivables) are assessed for indicators of impairment on an ongoing basis. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows have been impacted. When there is objective evidence of impairment appropriate allowances are made for estimated irrecoverable amounts based upon expected future cash flows discounted by an appropriate interest rate where applicable. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Other financial assets are classified as either financial assets at fair value through profit or loss or loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

When determining the fair value of financial assets, the expected future cash flows are discounted using an appropriate interest rate.

#### **FINANCIAL LIABILITIES**

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss are initially measured and subsequently stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities (including trade payables) are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method.

When determining the fair value of financial liabilities, the expected future cash flows are discounted using an appropriate interest rate.

#### **FOREIGN CURRENCY**

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction.

At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at that date.

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Consolidated Income Statement.

For the purpose of consolidation, income statements of overseas subsidiary undertakings are translated at the average rate and their balance sheets at the rates ruling at the balance sheet date.

Exchange differences arising on translation of the opening net assets, results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the Consolidated Statement of Recognised Income and Expense.

#### **DERIVATIVE FINANCIAL INSTRUMENTS**

The Group uses derivative financial instruments including interest rate swaps, forward foreign exchange contracts and cross currency swaps to hedge its exposure to foreign currency exchange and interest rate risks arising from operational and financial activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. However derivative financial instruments, or part thereof, that do not qualify for hedge accounting are accounted for as trading instruments. The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than twelve months.

Derivative financial instruments are recognised immediately at cost. Subsequent to their initial recognition, derivative financial instruments are then stated at their fair value. The fair value of derivative financial instruments is derived from "mark-to-market" valuations obtained from the Group's relationship banks.

Unless hedge accounting is achieved, the gain or loss on remeasurement to fair value is recognised immediately as hedge ineffectiveness and is included as part of finance income or finance costs together with other losses on derivative financial instruments within the column of the Consolidated Income Statement entitled "Other items".

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Consolidated Income Statement for the period.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### **CASH FLOW HEDGES**

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the Consolidated Statement of Recognised Income and Expense (i.e. equity). When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or financial liability, then the associated gains or losses that were previously recognised in the Consolidated Statement of Recognised Income and Expense (equity) are reclassified into the Consolidated Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Consolidated Income Statement.

For cash flow hedges, the ineffective portion of any gain or loss is recognised immediately as gains or losses on derivative financial instruments and is included as part of finance income or finance costs within the column of the Consolidated Income Statement entitled "Other items". Gains and losses deferred in the hedging and translation reserve are recognised immediately in profit or loss when the foreign operation is disposed of.

#### **HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS**

The portion of any gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in the Consolidated Statement of Recognised Income and Expense (i.e. equity). The ineffective portion of any gain or loss is recognised immediately as gains or losses on derivative financial instruments and is included as part of finance income or finance costs within the column of the Consolidated Income Statement entitled "Other items". Gains and losses deferred in the hedging and translation reserve are recognised immediately in profit or loss when the foreign operation is disposed of.

#### **FAIR VALUE HEDGES**

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the Consolidated Income Statement. Gains or losses from remeasuring the derivative financial instruments are recognised immediately in the Consolidated Income Statement.

## TAXATION

Income tax on the profit or loss for the periods presented comprises both current and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Consolidated Statement of Recognised Income and Expense.

Current tax is the expected tax payable on the taxable income for the year, using tax rates that have been enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

In accordance with IAS 12, the following temporary differences are not provided for:

- goodwill not deductible for taxation purposes;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at original cost to the Group less accumulated depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their estimated useful lives as follows:

Freehold buildings	–	50 years
Leasehold buildings	–	period of lease
Plant and machinery (including motor vehicles)	–	3 to 8 years

Freehold land is not depreciated.

Residual values, which are based on market rates, are reassessed annually.

## INVENTORIES

Inventories are stated at the lower of cost (including an appropriate proportion of attributable overheads, supplier rebates and discounts) and net realisable value.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving, or defective items where appropriate.

## LEASES AND HIRE PURCHASE AGREEMENTS

The cost of assets held under finance leases and hire purchase agreements is capitalised with an equivalent liability categorised as appropriate under current liabilities or non-current liabilities. The asset is depreciated over its useful life.

Rentals under finance leases and hire purchase agreements are apportioned between finance costs and reduction of the lease obligation. The finance costs are charged in arriving at the profit before tax. Lease charges are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged to the Consolidated Income Statement on a straight line basis over the lease term.

Lease incentives are recognised on a straight line basis over the lease term in the Consolidated Income Statement.

## PROPERTY PROVISIONS

The Group makes provisions in respect of onerous leasehold property contracts and leasehold dilapidation commitments where it is probable that a transfer of economic benefits will be required to settle a present obligation.