

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL

Scott Wilson Group plc ('the Company') is a limited liability company incorporated and domiciled in the United Kingdom. The Company's registered office is Scott House, Alençon Link, Basingstoke, Hampshire RG21 7PP. The Company is listed on the London Stock Exchange.

These Financial Statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

ADOPTION OF NEW AND REVISED STANDARDS

At the date of authorisation of these Financial Statements, the following Standards and Interpretations were in issue but not yet effective and have not been early adopted by the Group or Company:

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| IFRS 8 | Segmental Reporting (effective for annual periods beginning on or after 1 January 2009). This standard replaces IAS 14 and requires segment information to be presented on the same basis as used for internal reporting purposes. The expected impact is being assessed in detail and management anticipate that changes will be necessary to the financial statement disclosures upon adoption. |
| IFRS 3 | Business Combinations (amendment effective for accounting periods beginning on or after 1 January 2010). The revised standard makes significant changes to the acquisition method of accounting for business combinations but will only affect the Group's Financial Statements should material acquisitions be made in 2010 or later as the standard will not apply retrospectively. |
| IAS 23 | Borrowing Costs (amendment effective for annual periods beginning on or after 1 January 2009). This eliminates the previously available option to expense all borrowing costs as incurred. It is not currently anticipated that this will result in any adjustment to the Financial Statements. |
| IAS 27 | Consolidation and Separate Financial Statements (Amendment effective for annual periods beginning on or after 1 January 2009). Specifies accounting for transactions with non-controlling interests and where control of any entity is lost. Management do not anticipate any material effect on the Financial Statements as a result of adopting this revision. |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (effective for annual periods beginning on or after 1 January 2009). This interpretation relates to the amount of any pension surplus that can be recognised in the Financial Statements. It is not currently anticipated that this will result in any adjustment to the Financial Statements. |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). Provides guidance on: <ul style="list-style-type: none"> • identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation; • where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting; and • how an entity should determine the amounts to be classified from equity to profit or loss for both the hedging instrument and the hedged item. |

It is not currently anticipated that this will result in any adjustment to the Financial Statements.

The following standards and interpretations are in issue but are not relevant to the Group or Company's Financial Statements (and in some cases have not yet been adopted by the EU):

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| IAS 1
revised | Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). |
| IFRIC 12 | Service Concession Arrangements (effective 1 January 2008). |
| IFRIC 13 | Customer Loyalty Programmes (effective 1 July 2008). |
| IFRIC 15 | Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). |
| IFRIC 17 | Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). |
| IFRIC 18 | Transfers of assets from customers (effective from 1 July 2009). |

2 ACCOUNTING POLICIES

2.1 BASIS OF ACCOUNTING AND PREPARATION

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), adopted by the European Union and therefore the Consolidated Financial Statements comply with Article 4 of the EU IAS Regulation.

The Financial Statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

The Group's business activities, Business Review, financial risk management policies and objectives are set out in the Annual Report and Accounts in the Chairman's Statement, Chief Executive's Report, Finance Report and note 3.

The Financial Statements have been prepared on a going concern basis, as disclosed in the Corporate Governance Report.

2 ACCOUNTING POLICIES (CONTINUED)

2.2 BASIS OF CONSOLIDATION

(A) SUBSIDIARIES

The Financial Statements consolidate the revenues, costs, assets, liabilities and cash flows of the Company and its subsidiaries, being those entities in relation to which the Company has the power to govern the financial and operating policies.

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 (discount on acquisition) is credited to the Consolidated Income Statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities and contingent liabilities recognised.

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 into line with those used by the Group.

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

(B) INTERESTS IN JOINT VENTURES

The Company's interests in jointly controlled entities, being entities governed by a contractual arrangement establishing joint control between the Company and one or more fellow venturers, are accounted for using the equity method.

2.3 FOREIGN CURRENCY TRANSLATION

(A) TRANSACTIONS AND BALANCES

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (its functional currency). The Consolidated Financial Statements are presented in sterling, which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement (see note 9).

(B) CONSOLIDATION

On consolidation, the results and financial position of Group entities that have a functional currency other than sterling are translated as follows:

- assets and liabilities are translated at the rate at the Balance Sheet date; and
- income and expenses are translated at average rates that approximate to the exchange rates prevailing at the dates of the transactions.

Resulting exchange differences are recognised as a separate component of equity.

When a foreign operation is sold, consolidation exchange differences that have been recognised as a separate component of equity are recognised in the Income Statement as part of the gain or loss on sale.

In accordance with the exemption in IFRS 1, consolidation exchange differences arising prior to 1 May 2004 have not been identified and transferred to a separate component of equity and will not be recognised in the Income Statement when the foreign operation is sold.

2.4 REVENUE RECOGNITION AND CONTRACT ACCOUNTING

Substantially all of the Group's activity is undertaken under contracts that constitute construction contracts as defined by IAS 11, the costs on which are recognised when incurred. Costs incurred in tendering for a contract are not included as contract costs but are recognised as an expense when incurred, unless the costs can be separately identified and measured reliably and it is probable that the contract will be obtained.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a contract can be estimated reliably, and it is probable that the contract will be profitable, an appropriate element of profit is recognised. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately.

The Group uses the percentage of completion method to determine the appropriate amount of profit to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the Balance Sheet date as a percentage of total estimated costs for each contract.

The Group presents as 'Amounts recoverable on contracts' within 'Trade and other receivables' the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits less recognised losses exceed amounts invoiced. Amounts invoiced but not yet paid by customers are included within 'Trade and other receivables'. The Group presents as 'Payments on account' within 'Trade and other payables' the gross amount for all contracts in progress for which amounts invoiced to customers exceed costs incurred plus recognised profits less recognised losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2 ACCOUNTING POLICIES (CONTINUED)

2.5 TAXATION

Current tax, including UK corporation tax and foreign taxes, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted (or substantially enacted) by the Balance Sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted (or substantially enacted) by the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax is provided on temporary differences arising in subsidiaries and associates, except where the timing of the reversal is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment assets are stated at cost less depreciation less impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the costs can be measured reliably. All other costs, including repairs and maintenance costs, are charged to the Income Statement in the period in which they are incurred. Advantage was taken of the exemption granted in IFRS 1 to adopt the valuation of one property carried previously on a depreciated valuation basis as its deemed cost at the valuation date. Accordingly the revaluation surplus that arose on that valuation continued to be reflected in a separate reserve in equity, until the sale of the property during the prior financial year, when the gain was transferred to retained earnings.

Depreciation is calculated on a straight-line basis to allocate cost less assessed residual value over estimated useful lives, as follows:

Freehold buildings	50 years
Computer equipment	3 years
Fixtures and other equipment	3–10 years
Plant and machinery	4 years
Motor vehicles	4 years

Freehold land is not depreciated.

2.7 LEASES

THE GROUP AS LESSEE

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The asset subject to the finance lease is depreciated over the shorter of its useful life and the lease term. The corresponding rental obligations, net of finance charges, are included as a liability.

Leases of property, plant and equipment where the Group does not have substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the lease term. Incentives provided by the lessor are credited to the Income Statement on a straight-line basis over the minimum lease term.

THE GROUP AS LESSOR

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant leases.

2.8 INTANGIBLE ASSETS

(A) GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired business at the date of acquisition. It is tested annually for impairment as part of the cash-generating unit to which it relates. Goodwill is carried in intangible assets at cost less accumulated impairment losses. Gains and losses on the disposal of a business include the amount of goodwill relating to that business.

In accordance with the exemption granted by IFRS 1, the goodwill balances at 1 May 2004 under UK GAAP have been assumed as the opening goodwill balances under IFRS at that date, subject to any write down required as a result of impairment testing.

2 ACCOUNTING POLICIES (CONTINUED)

2.8 INTANGIBLE ASSETS (CONTINUED)

(B) OTHER INTANGIBLE ASSETS

Intangible assets with a finite useful life are carried at cost less amortisation less impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the asset less its assessed realisable value over its estimated useful life as follows:

Brands	10 years
Order books	1–3 years
Customer contracts and relationships	4–10 years
Patents and licences	5 years
Computer software	3–5 years

Research expenditure is recognised as an expense as incurred.

The Group does not recognise internally generated intangible assets.

2.9 IMPAIRMENT OF ASSETS

Goodwill and any other assets that are assessed as having an indefinite useful life are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount, being the higher of its fair value less costs to sell and its value in use. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.10 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

(A) DERIVATIVE FINANCIAL INSTRUMENTS

The Group has entered into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and an interest rate collar. Such derivatives are held at fair value in the Balance Sheet. They are not designated as hedges in accordance with IAS39 Financial Instruments: Recognition and Measurement and accordingly gains and losses arising from changes in the fair value of the derivatives are recognised immediately in the Income Statement. Further details on derivative financial instruments are disclosed in note 30 to the Financial Statements.

(B) EMBEDDED DERIVATIVES

Where a contract to which the Group is a party includes a derivative as a component element, the derivative is separated from the host contract and recognised at fair value if, and only if, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Foreign currency derivatives embedded in construction contracts that require payments to be made in the functional currency of any substantial party to the contract, or in a currency that is commonly used in similar contracts in the economic environment in which the transaction takes place, are considered to be closely related to the host contract.

2.11 TRADE RECEIVABLES

Trade receivables are recognised initially at invoiced amount and subsequently measured at invoiced amount less provision for impairment. Provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

2.12 CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents reflected in the Balance Sheet includes cash in hand and deposits held at call with banks and other short term liquid investments with original maturities of three months or less. For Cash Flow Statement purposes, cash and cash equivalents also reflects bank overdrafts to the extent that such overdrafts do not represent core borrowings.

2.13 BORROWINGS AND BORROWING COSTS

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the Balance Sheet date.

Borrowing costs, being interest and other costs incurred in connection with the borrowing of funds, are recognised as an expense when incurred. Redemption premiums on Preference Shares are recognised as an expense over the minimum period to redemption.

2.14 PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A constructive obligation in relation to restructuring is considered to exist only when the Group has a detailed formal plan identifying at least the businesses concerned, the principal locations affected, the approximate numbers and functions of employees who will be compensated for terminating their services, estimated overall expenditure and plan timescales and has raised a valid expectation in those affected that it will carry out the restructuring. Restructuring provisions include only the direct expenditures arising from the restructuring.

Amounts due in more than one year when established are discounted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2 ACCOUNTING POLICIES (CONTINUED)

2.15 SHARE-BASED COMPENSATION

The Group operates various equity-settled share-based compensation schemes. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted calculated using the binomial model, excluding the impact of any non-market vesting conditions, which are included in assumptions about the number of options that are expected to become exercisable. The estimate of the number of options that are expected to become exercisable is revised at each Balance Sheet date and the impact of the revision is recognised in the Income Statement over the remaining vesting period.

The Group additionally operates cash-settled share-based compensation schemes. The expected cash settlement cost is recognised as an expense over the vesting period. The expected cash settlement cost is revised at each Balance Sheet date and the impact of the revision is recognised in the Income Statement over the remaining vesting period.

2.16 PENSIONS

The Group operates a number of pension plans for the benefit of employees, including both defined contribution and defined benefit plans.

In relation to its defined contribution plans, the Group makes contributions to independently administered plans, the contributions being recognised as an expense when they fall due. The Group has no legal or constructive obligation to make any further payments to the plans other than the contributions due.

In relation to its defined benefit schemes, the Group recognises in its Balance Sheet the present value of its defined benefit obligations less the fair value of plan assets, together with any adjustment for unrecognised past service cost. The defined benefit obligation is calculated at each period end by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and which have terms of maturity approximating to the terms of the related pension liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected in the Statement of Recognised Income and Expense in the period in which they arise.

2.17 DIVIDENDS

Dividends on the Company's Ordinary Shares are recognised as a liability in the Group's Financial Statements and as a deduction from equity in the period in which the dividends are declared. Where such dividends are proposed subject to the approval of the Company's shareholders, the dividends are only declared once shareholder approval has been obtained.

2.18 SHARE CAPITAL

The Company's Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new Ordinary Shares or options over Ordinary Shares for the acquisition of a business are included as part of the cost of the acquisition. Incremental costs directly attributable to other issues of new Ordinary Shares or options over Ordinary Shares are reflected in equity as a deduction from share premium.

Ordinary Shares to be issued are classified as equity unless the number of shares to be issued is variable, in which case they are classified as a financial liability. Shares in Group companies that are redeemable at a fixed date or in respect of which the holder may require the shares to be redeemed or repurchased, such as Preference Shares, are classified as financial liabilities.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, in particular currency risk, credit risk, liquidity risk and interest rate risk. The Group has a risk management programme which seeks to manage the potential adverse effects of these risks on the Group's financial performance, whilst not unduly constraining the Group's operations or the exploitation of profitable opportunities.

3.1 FOREIGN CURRENCY RISK MANAGEMENT

As the Group operates internationally, it is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the euro, the Hong Kong Dollar and the Chinese Renminbi. Foreign exchange risk arises from future commercial transactions, the performance of the remaining elements of current contracts, assets and liabilities recognised in the Balance Sheet and net investments in foreign operations.

The Group has entered into derivative contracts under which the exchange rate for the majority of estimated future net US dollar and euro currency inflows on contracts undertaken by UK operating subsidiaries has been fixed through to April 2010 (see note 39).

The Group does not currently hedge the sterling equivalent of the net assets of its overseas operations, as they do not represent a sufficiently significant amount.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 CREDIT RISK MANAGEMENT

The Group generally has no significant concentrations of client credit risk, although the scale of some of the Group's projects means that credit exposure to individual clients can at times be significant. It has a wide spread of clients across countries and across the public and private sectors, although a majority of the Group's operations is undertaken in the UK on behalf of UK based organisations. Policies are in place to ensure that contracts are only undertaken with clients having an appropriate financial standing and on a basis that gives rise to a commercially appropriate cash flow profile.

The Group has an acknowledged but controlled exposure to contracts supported by EU and World Bank funding. Such business, although significant, represents less than 10 per cent of the Group's revenue.

3.3 LIQUIDITY RISK MANAGEMENT

The Group manages liquidity risk by maintaining adequate cash resources through a combination of the cash flow structuring of contracts, the use of finance leases and asset loans to fund certain capital additions and the maintenance of adequate committed borrowing facilities.

3.4 INTEREST RATE RISK MANAGEMENT

The Group borrowings and cash balances are principally at floating interest rates linked to base rates or LIBOR and are therefore exposed to cash flow interest rate risk. The Group has entered into derivative contracts under which the interest rate applying to approximately 50 per cent of its estimated core bank debt has been fixed within upper and lower limits through to July 2010 (see note 39).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The key assumptions made by the Group regarding the future or other key sources of estimation uncertainty that may have a significant risk of giving rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

(A) FUTURE CONTRACT COSTS

The assessment of the ultimate profit or loss to be incurred on contracts in progress at the period end, and the consequential amount of profit or loss to be recognised at that date, requires the estimation of future contract costs. These estimates are made on an individual contract basis having regard inter alia to the contract specifications, experience on the contract to date, current cost rates and anticipated future cost increases.

(B) PROVISION FOR CLAIMS

From time to time, the Group receives notification of potential claims in relation to work it has undertaken or becomes aware of circumstances that may result in a potential claim. Whilst the Group holds commercial insurance cover in respect of such claims, it retains an excess. Judgement is required to be exercised, supported by third party expert opinions where appropriate, as to whether a liability may result and the amount of such liability.

(C) FINANCIAL POSITION OF RETIREMENT BENEFIT PLANS

The net defined benefit pension plan assets or liabilities are recognised in the Group's Balance Sheet. The determination of the financial position requires assumptions to be made regarding inter alia mortality, discount rates, returns on plan assets, salary increases and inflation. The key assumptions made in relation to the pension plans are set out in note 33, together with an analysis of the sensitivity of the balance to movements in the key assumptions.

4.2 CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The judgements made by management that have a potentially significant effect on the amounts recognised in the Financial Statements are:

(A) RECOVERABILITY OF TRADE RECEIVABLES AND AMOUNTS RECOVERABLE ON CONTRACTS

Judgements are required to be made regarding the extent to which value will be received in respect of work undertaken, both invoiced and uninvoiced. This includes an assessment of the extent to which clients accept variations or claims, where additional fees are sought as a result of work being undertaken beyond the terms of the original contract, and of clients' ability to pay.

(B) IMPAIRMENT OF GOODWILL

Consideration of the extent (if any) to which recorded goodwill has been impaired requires an assessment of the recoverable amounts relating to the cash-generating units of which the goodwill forms part. This assessment requires judgements to be made regarding the reflection of risks in the cash flow forecasts, future growth rates and the discount rate to be applied.

(C) RECOGNITION OF CONTRACT PROFITS

An element of profit may only be recognised on contracts assessed as profitable from the point at which the outcome of the contract can be estimated reliably. Notwithstanding the criteria set down in IAS 11 for determining when the outcome of a fixed price contract can be estimated reliably, judgement is necessarily required.

(D) RECOGNITION OF DEFERRED TAX ASSETS

Deferred tax assets may only be recognised for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the differences can be utilised. The determination of the extent to which future taxable profits will be available requires both the forecasting of future profits and the exercise of judgement as to the extent to which those profits are probable.