

# Financial risk management

## 1 Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including foreign exchange price risk), credit risk, liquidity risk, cash flow and interest rate risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of non-derivative financial instruments, and investing excess liquidity.

### (a) Market risk

#### (i) Foreign exchange risk and hedging activities

The group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the Euro and the UK pound. Foreign exchange risk arises primarily from recognised assets and liabilities and net investments in foreign operations. The group has significant investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through hedging borrowings denominated in foreign currencies against the net assets of foreign operations denominated in the same currencies.

The group documents these hedging relationships at inception and assesses, both at inception and on an on-going basis, whether they are highly effective. Where the hedges are highly effective gains or losses on the borrowings are recognised in equity. The gains or losses relating to the ineffective portion are recognised immediately in the income statement.

#### (ii) Cash flow and interest rate risk

The group's income and operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The group does not enter into fixed rate borrowings of greater than six months nor enter into floating to fixed rate interest rate swaps. Instead the group minimises effective interest rates using cash pooling and tight management of working capital.

### (b) Credit risk

The group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the group's liquidity position on the basis of expected and projected cash flow.

#### Contractual obligations

	Less than 1 year £'000	2-5 years £'000	More than 5 years £'000	Total £'000
Long term debt obligations	3,998	97,570	217	101,785
Finance lease obligations	182	187	6	375
Operating leases	10,396	17,611	4,134	32,141
	14,576	115,368	4,357	134,301

Long term debt obligations comprise the principal amount of borrowings where the borrowings are drawn down against a facility which is available for more than one year. Under the facility each drawing is a separate utilisation and interest is payable at the maturity of each utilisation. No utilisation is made for a period greater than six months.

Deferred tax, deferred consideration, and post employment benefit liabilities are not included in the table above. The group has agreed a deficit funding plan with the trustees of the Brammer Services Limited Retirement Benefit Scheme, which provides for the group to make payments of £1.95 million, indexed for inflation, in the years 2007 to 2017 (inclusive).

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## 2 Capital risk management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The group monitors capital on the basis of headroom against its committed borrowing facilities, compliance with the covenants imposed by the committed borrowing facilities, and the group's ability to raise further equity capital.

The group was in full compliance with all its financial covenants throughout each of the periods presented.

In November 2008 the group successfully renegotiated its €66 million 364 day revolving facility to be coterminous with its €99 million term loan so that fully committed facilities of €165 million are in place through to 28 February 2012.

The group's headroom against its central borrowing facility was as follows:

	2008 £m	2007 £m
Committed central facility	159.6	121.1
Current utilisation	95.8	61.7
Headroom (note 15)	63.8	59.4

Under the terms of the central borrowing facility the group is permitted to enter into up to €30.0 million of additional net borrowings outside this facility.

## 3 Key accounting estimates, judgements and assumptions

Estimates and judgements 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 accounting estimates will, by definition, seldom equal the related actual results. The 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 discussed below.

### (a) estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated on page 51. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

### (b) income tax provisions

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the world-wide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### (c) determination of deferred consideration payable

The level of deferred consideration recognised in respect of acquisitions is subject to continual evaluation by the directors. Any revision to the amounts recognised will have no impact on the group's results as any adjustments will be reflected in the carrying value of goodwill.

### (d) retirement benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net expense for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.