

## Notes to the financial statements (continued)

### 32. Derivative financial instruments (continued)

#### C. Interest rate swaps

Interest rate swaps are used to swap borrowings under the Group's EMTN Programme from fixed interest rates to floating interest rates. As at 3 January 2009, the nominal value of the contracts outstanding was £400 million (29 December 2007: £400 million). The Group has designated these contracts as fair value hedges in relation to the borrowings. During 2008, the Group recognised a net fair value gain of \$75.7 million (2007: net gain of \$7.0 million; 2006: net loss of \$36.3 million) in relation to these contracts and the carrying amount of the hedged borrowings was increased by \$75.6 million (2007: increased by \$5.4 million; 2006: reduced by \$38.0 million) to reflect the change in the fair value of the borrowings attributable to the hedged risk and the amortisation of the transitional adjustment that was recognised on adoption of IAS 39. During 2008, a net gain of \$0.1 million (2007: net gain of \$1.6 million; 2006: net gain of \$1.7 million) was therefore recognised within other finance expense in relation to these hedges.

Interest rate swaps are also used to restrict the amount of floating rate US dollar debt. As at 3 January 2009, the nominal value of these contracts held was \$65.0 million (29 December 2007: \$130.0 million). During 2008, a net fair value loss of \$2.1 million (2007: net loss of \$3.8 million; 2006: net loss of \$1.7 million) was recognised within other finance expense in relation to these contracts that did not qualify for hedge accounting under IAS 39.

The profile of interest rate swaps held by the Group was as follows:

	Notional principal amount million	Interest rate				Variable rate index
		Payable		Receivable		
		Variable	Fixed	Variable	Fixed	
<b>As at 3 January 2009</b>						
Maturity date:						
– December 2011	£150.0	5.7%	–	–	8.0%	6 month LIBOR
– September 2015	£250.0	4.0%	–	–	6.1%	3 month LIBOR
– December 2009	\$65.0	–	4.6%	1.5%	–	3 month LIBOR
<b>As at 29 December 2007</b>						
Maturity date:						
– December 2011	£150.0	8.6%	–	–	8.0%	6 month LIBOR
– September 2015	£250.0	7.2%	–	–	6.1%	3 month LIBOR
– June 2008	\$65.0	–	3.8%	4.9%	–	3 month LIBOR
– December 2009 (commencing June 2008)	\$65.0	–	4.6%	–	–	3 month LIBOR

### 33. Financial risk management

#### A. Risk management policies

The Group's central treasury function is responsible for procuring the Group's capital resources and maintaining an efficient capital structure, together with managing the Group's liquidity, foreign exchange and interest rate exposures.

All treasury operations are conducted within strict policies and guidelines that are approved by the Board. Compliance with those policies and guidelines is monitored by the regular reporting of treasury activities to the Board.

A key element of the Group's treasury philosophy is that funding, interest rate and currency decisions and the location of cash and debt balances are determined independently of each other. The Group's borrowing requirements are met by raising funds in the most favourable markets. Management aims to retain net debt in proportion to the currencies in which the net assets of the Group's operations are denominated. The desired currency profile of net debt is achieved by entering into currency derivative contracts. The proportion of investments in foreign operations effectively funded by shareholders' equity is not hedged. The net income of foreign operations is not hedged but the effect of currency fluctuations on the Group's reported net income is partly offset by interest payable on net debt denominated in foreign currencies.

From time to time, the Group also enters into currency derivative contracts to manage currency transaction exposures.

The Group's interest rate profile is managed within the policy established by the Board. The desired interest rate profile of net debt in each currency is achieved by entering into interest rate derivative contracts.

The Group's portfolio of cash and cash equivalents is managed such that there is no significant concentration of credit risk in any one bank or other financial institution. Management monitors closely the credit quality of the institutions with which it holds deposits. Similar considerations are given to the Group's portfolio of derivative financial instruments.

The Group's borrowing facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines. Management's policy is to reduce liquidity risk by diversifying the Group's funding sources and by staggering the maturity of its borrowings.

The Group has established long-term credit ratings of Baa3 Stable with Moody's and BBB Stable with Standard & Poor's and short-term credit ratings of P-3 with Moody's and A-2 with Standard & Poor's. Management aims to achieve an appropriate mix of debt and equity to ensure an efficient capital structure and to preserve these ratings.

Disclosures about the Group's capital are set out in note 43.

## B. Financial assets and liabilities

Financial assets and liabilities analysed by the categories defined in IAS 39 were as follows:

	Loans and receivables \$ million	Available-for-sale \$ million	Liabilities at amortised cost \$ million	Fair value through profit or loss		Total carrying value \$ million	Fair value \$ million
				Designated hedging relationships \$ million	Trading \$ million		
<b>As at 3 January 2009</b>							
<b>Financial assets</b>							
Trade and other receivables:							
– Non-derivative assets	757.7	–	–	–	–	757.7	757.7
– Derivative assets	–	–	–	73.4	1.1	74.5	74.5
	757.7	–	–	73.4	1.1	832.2	832.2
Available-for-sale investments	–	0.8	–	–	–	0.8	0.8
Cash and cash equivalents	291.9	–	–	–	–	291.9	291.9
	1,049.6	0.8	–	73.4	1.1	1,124.9	1,124.9
<b>Financial liabilities</b>							
Trade and other payables:							
– Non-derivative liabilities	–	–	(452.4)	–	–	(452.4)	(452.4)
– Derivative liabilities	–	–	–	(32.5)	(13.6)	(46.1)	(46.1)
	–	–	(452.4)	(32.5)	(13.6)	(498.5)	(498.5)
Bank overdrafts	–	–	(13.7)	–	–	(13.7)	(13.7)
Bank and other loans:							
– Current	–	–	(29.5)	–	–	(29.5)	(29.0)
– Non-current	–	–	(711.0)	(51.9)	–	(762.9)	(583.4)
Obligations under finance leases	–	–	(6.9)	–	–	(6.9)	(6.9)
	–	–	(1,213.5)	(84.4)	(13.6)	(1,311.5)	(1,131.5)
	1,049.6	0.8	(1,213.5)	(11.0)	(12.5)	(186.6)	(6.6)

## Notes to the financial statements (continued)

## 33. Financial risk management (continued)

## B. Financial assets and liabilities (continued)

	Loans and receivables \$ million	Available- for-sale \$ million	Liabilities at amortised cost \$ million	Fair value through profit or loss		Total carrying value \$ million	Fair value \$ million
				Designated hedging relationships \$ million	Trading \$ million		
<b>As at 29 December 2007</b>							
<b>Financial assets</b>							
Trade and other receivables:							
– Non-derivative assets	957.0	–	–	–	–	957.0	957.0
– Derivative assets	–	–	–	6.2	5.6	11.8	11.8
	957.0	–	–	6.2	5.6	968.8	968.8
Available-for-sale investments	–	3.0	–	–	–	3.0	3.0
Cash and cash equivalents	295.9	–	–	–	–	295.9	295.9
	1,252.9	3.0	–	6.2	5.6	1,267.7	1,267.7
<b>Financial liabilities</b>							
Trade and other payables:							
– Non-derivative liabilities	–	–	(529.2)	–	–	(529.2)	(529.2)
– Derivative liabilities	–	–	–	(13.2)	(3.4)	(16.6)	(16.6)
	–	–	(529.2)	(13.2)	(3.4)	(545.8)	(545.8)
Bank overdrafts	–	–	(15.7)	–	–	(15.7)	(15.7)
Bank and other loans:							
– Current	–	–	(39.8)	–	–	(39.8)	(39.8)
– Non-current	–	–	(827.9)	7.4	–	(820.5)	(827.4)
Obligations under finance leases	–	–	(9.6)	–	–	(9.6)	(9.6)
	–	–	(1,422.2)	(5.8)	(3.4)	(1,431.4)	(1,438.3)
	1,252.9	3.0	(1,422.2)	0.4	2.2	(163.7)	(170.6)

Available-for-sale investments are listed and are valued by reference to quoted market prices.

Cash and cash equivalents and current bank and other loans largely attract floating interest rates. Accordingly, their carrying amounts are considered to approximate to fair value.

Non-current bank and other loans principally comprise borrowings under the Group's multi-currency revolving credit facility that attract floating interest rates, the carrying amount of which is considered to approximate to fair value, and the listed bonds issued under the EMTN Programme, the fair value of which is based on their quoted market prices.

Finance lease obligations attract fixed interest rates that are implicit in the lease rentals and their fair value has been assessed by reference to prevailing market interest rates.

Derivative assets and liabilities represent the fair value of foreign currency derivatives and interest rate derivatives held by the Group at the balance sheet date. Foreign currency derivatives are valued by reference to prevailing forward exchange rates. Interest rate derivatives are valued by discounting the related cash flows using prevailing market interest rates.

**C. Credit risk**

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Management considers the Group's maximum exposure to credit risk to be as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Trade and other receivables:		
– Derivative assets	74.5	11.8
– Non-derivative assets	757.7	957.0
	<b>832.2</b>	<b>968.8</b>
Cash and cash equivalents	291.9	295.9
	<b>1,124.1</b>	<b>1,264.7</b>

As at 3 January 2009, 92% (29 December 2007: 86%) of the Group's cash and cash equivalents were held with institutions rated at least A-1 by Standard & Poor's and P-1 by Moody's. Credit risk disclosures with respect to trade receivables are set out in note 25.

**D. Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

As at 3 January 2009, the Group had undrawn committed borrowing facilities of \$455.1 million (29 December 2007: \$761.3 million) available under the multi-currency revolving credit facility that expires on 8 August 2010. Borrowings under this facility are at prevailing LIBOR rates, plus an agreed margin, dependent on the period of drawdown. In addition, the Group had uncommitted borrowing facilities of \$495.4 million (29 December 2007: \$507.6 million), of which \$34.7 million (29 December 2007: \$44.8 million) had been drawn down for cash. Consequently, the Group's committed borrowing headroom was \$420.4 million (29 December 2007: \$532.4 million) in addition to cash and cash equivalents of \$291.9 million (29 December 2007: \$295.9 million). The Group also had outstanding performance bonds, letters of credit and bank guarantees amounting to \$164.5 million (29 December 2007: \$184.1 million).

The Group is subject to covenants, representations and warranties commonly associated with investment grade borrowings in respect of its committed borrowing facilities and bonds issued under the EMTN Programme.

The Group is subject to two financial covenants in respect of its committed borrowing facilities that are calculated by applying UK GAAP extant as at 31 December 2002. The ratio of net debt to consolidated earnings before interest, tax, depreciation and amortisation must not exceed 2.5 times (at the end of 2008, the ratio was 0.8 times). The ratio of consolidated operating profit to the consolidated net interest charge must not be less than 3.0 times (for 2008, the ratio was 7.5 times).

The Group complied with the borrowing covenants throughout each of the periods presented in the financial statements. Any future non-compliance with the borrowing covenants could, if not waived, constitute an event of default and may, in certain circumstances, lead to an acceleration of the maturity of borrowings drawn down and the inability to access committed facilities.

## Notes to the financial statements (continued)

## 33. Financial risk management (continued)

## D. Liquidity risk (continued)

Contractual cash flows related to the Group's financial liabilities are as follows:

	Within 1 year \$ million	Between 1 and 2 years \$ million	Between 2 and 3 years \$ million	Between 3 and 4 years \$ million	Between 4 and 5 years \$ million	After 5 years \$ million	Total \$ million
<b>As at 3 January 2009</b>							
Bank overdrafts	(13.6)	–	–	–	–	–	(13.6)
Bank and other loans:							
– Principal	(20.9)	(129.3)	(219.2)	(0.3)	(0.3)	(365.4)	(735.4)
– Interest payments	(41.6)	(39.9)	(39.9)	(22.4)	(22.4)	(38.2)	(204.4)
Finance lease obligations	(1.9)	(1.5)	(1.1)	(0.8)	(0.6)	(3.6)	(9.5)
Trade and other payables:							
– Non-derivative liabilities	(434.7)	(17.7)	–	–	–	–	(452.4)
– Derivative liabilities							
Payments	(677.0)	(5.9)	–	–	–	–	(682.9)
Receipts	655.9	7.9	–	–	–	–	663.8
Cash flows on financial liabilities	(533.8)	(186.4)	(260.2)	(23.5)	(23.3)	(407.2)	(1,434.4)
Related financial assets:							
– Derivative assets							
Payments	(328.8)	(27.2)	(29.2)	(17.3)	(18.2)	(31.7)	(452.4)
Receipts	353.9	39.8	39.9	22.4	22.4	44.5	522.9
Cash flows on related financial assets	25.1	12.6	10.7	5.1	4.2	12.8	70.5
	(508.7)	(173.8)	(249.5)	(18.4)	(19.1)	(394.4)	(1,363.9)
<b>As at 29 December 2007</b>							
Bank overdrafts	(15.7)	–	–	–	–	–	(15.7)
Bank and other loans:							
– Principal	(45.1)	–	(35.9)	(298.9)	–	(498.2)	(878.1)
– Interest payments	(59.2)	(56.6)	(56.6)	(55.8)	(30.5)	(91.5)	(350.2)
Finance lease obligations	(2.4)	(2.0)	(1.8)	(1.2)	(0.8)	(4.6)	(12.8)
Trade and other payables:							
– Non-derivative liabilities	(510.7)	(18.5)	–	–	–	–	(529.2)
– Derivative liabilities							
Payments	(1,238.2)	(13.6)	(8.4)	–	–	–	(1,260.2)
Receipts	1,223.2	12.6	8.0	–	–	–	1,243.8
Cash flows on financial liabilities	(648.1)	(78.1)	(94.7)	(355.9)	(31.3)	(594.3)	(1,802.4)
Related financial assets:							
– Derivative assets							
Payments	(91.9)	(53.6)	(53.6)	(53.6)	(30.3)	(91.3)	(374.3)
Receipts	90.9	56.2	56.2	56.2	30.5	91.5	381.5
Cash flows on related financial assets	(1.0)	2.6	2.6	2.6	0.2	0.2	7.2
	(649.1)	(75.5)	(92.1)	(353.3)	(31.1)	(594.1)	(1,795.2)

## Group financial statements

Information on the Group's exposure to liquidity risk analysed by currency is presented below.

	Within 1 year \$ million	Between 1 and 2 years \$ million	Between 2 and 3 years \$ million	Between 3 and 4 years \$ million	Between 4 and 5 years \$ million	After 5 years \$ million	Total \$ million
<b>As at 3 January 2009</b>							
Cash flows on financial liabilities:							
– US dollar	(771.2)	(114.6)	(0.4)	(0.4)	(0.2)	–	(886.8)
– Sterling	480.0	(75.8)	(259.1)	(22.7)	(22.4)	(403.5)	(303.5)
– Euro	(39.6)	6.4	(0.7)	(0.4)	(0.4)	(3.7)	(38.4)
– Canadian dollar	(37.8)	–	–	–	–	–	(37.8)
– Other	(165.2)	(2.4)	–	–	(0.3)	–	(167.9)
	(533.8)	(186.4)	(260.2)	(23.5)	(23.3)	(407.2)	(1,434.4)
Cash flows on related financial assets:							
– US dollar	289.6	–	–	–	–	–	289.6
– Sterling	2.0	12.6	10.7	5.1	4.2	12.8	47.4
– Euro	(97.8)	–	–	–	–	–	(97.8)
– Canadian dollar	(105.6)	–	–	–	–	–	(105.6)
– Other	(63.1)	–	–	–	–	–	(63.1)
	25.1	12.6	10.7	5.1	4.2	12.8	70.5
<b>As at 29 December 2007</b>							
Cash flows on financial liabilities:							
– US dollar	(773.3)	(14.9)	(0.6)	(0.4)	(0.4)	(0.4)	(790.0)
– Sterling	749.1	(46.8)	(84.5)	(354.7)	(30.5)	(589.7)	(357.1)
– Euro	(222.4)	(12.2)	(9.6)	(0.8)	(0.4)	(4.2)	(249.6)
– Canadian dollar	(220.9)	–	–	–	–	–	(220.9)
– Other	(180.6)	(4.2)	–	–	–	–	(184.8)
	(648.1)	(78.1)	(94.7)	(355.9)	(31.3)	(594.3)	(1,802.4)
Cash flows on related financial assets:							
– US dollar	(16.1)	–	–	–	–	–	(16.1)
– Sterling	(0.6)	2.6	2.6	2.6	0.2	0.2	7.6
– Euro	(4.0)	–	–	–	–	–	(4.0)
– Canadian dollar	0.4	–	–	–	–	–	0.4
– Other	19.3	–	–	–	–	–	19.3
	(1.0)	2.6	2.6	2.6	0.2	0.2	7.2

Maturities in all of the liquidity tables above are based on the earliest date on which the Group could be required to settle the liabilities.

Floating interest payments and payments and receipts on interest rate derivatives are estimated based on market interest rates prevailing at the balance sheet date.

## Notes to the financial statements (continued)

## 33. Financial risk management (continued)

## E. Interest rate risk

Interest rate risk is the risk that the fair value of or future cash flows associated with a financial instrument will fluctuate because of changes in market interest rates.

The interest rate profile of the Group's financial assets and liabilities, after taking into account the effect of the Group's interest rate hedging activities, was as follows:

	As at 3 January 2009				As at 29 December 2007			
	Interest-bearing			Total \$ million	Interest-bearing			Total \$ million
	Floating rate \$ million	Fixed rate \$ million	Non-interest bearing \$ million		Floating rate \$ million	Fixed rate \$ million	Non-interest bearing \$ million	
Financial assets								
Trade and other receivables	3.8	–	828.4	832.2	5.8	–	963.0	968.8
Available-for-sale investments	–	–	0.8	0.8	–	–	3.0	3.0
Cash and cash equivalents (note 27)	252.0	–	39.9	291.9	270.0	–	25.9	295.9
	255.8	–	869.1	1,124.9	275.8	–	991.9	1,267.7
Financial liabilities								
Trade and other payables	–	–	(498.5)	(498.5)	–	–	(545.8)	(545.8)
Borrowings (note 29)	(739.4)	(65.3)	(1.4)	(806.1)	(800.5)	(73.9)	(1.6)	(876.0)
Obligations under finance leases	–	(6.9)	–	(6.9)	–	(9.6)	–	(9.6)
	(739.4)	(72.2)	(499.9)	(1,311.5)	(800.5)	(83.5)	(547.4)	(1,431.4)
	(483.6)	(72.2)	369.2	(186.6)	(524.7)	(83.5)	444.5	(163.7)

On the assumption that the change in interest rates is applied to the risk exposures in existence at the balance sheet date and that designated fair value hedges are highly effective, an increase/decrease of 100 basis points in the interest rates applying to financial assets and liabilities would increase/decrease the Group's profit before tax by \$4.0 million. No amounts would be taken directly to equity.

## F. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises on financial assets and liabilities that are denominated in a currency other than the functional currency of the entity by which they are held.

The Group's exposure to currency risk was as follows:

	Net foreign currency financial assets/(liabilities)					
	US dollar \$ million	Sterling \$ million	Euro \$ million	Canadian dollar \$ million	Other \$ million	Total \$ million
<b>As at 3 January 2009</b>						
Functional currency of entity:						
– US dollar	–	(7.0)	(1.4)	–	6.4	(2.0)
– Sterling	3.7	–	0.5	–	12.3	16.5
– Euro	(2.3)	(0.1)	–	(0.6)	–	(3.0)
– Canadian dollar	(1.4)	–	–	–	(0.1)	(1.5)
– Other	(11.2)	(0.7)	19.7	31.7	–	39.5
	(11.2)	(7.8)	18.8	31.1	18.6	49.5
<b>As at 29 December 2007</b>						
Functional currency of entity:						
– US dollar	–	(0.2)	(3.2)	0.2	6.4	3.2
– Sterling	24.3	–	10.4	–	0.2	34.9
– Euro	(4.4)	(0.2)	–	–	–	(4.6)
– Canadian dollar	3.0	(0.4)	(0.2)	–	(0.4)	2.0
– Other	(24.3)	(7.4)	2.8	(2.2)	–	(31.1)
	(1.4)	(8.2)	9.8	(2.0)	6.2	4.4

Currency exposures shown above take into account the effect of the Group's transaction hedging activities.

On the assumption that the change in exchange rates is applied to the risk exposures in existence at the balance sheet date and that designated net investment hedges are highly effective, an increase/decrease of 10% in the value of the functional currencies of the entities concerned against the currencies in which the financial assets and liabilities are denominated would increase/decrease the Group's profit before tax by \$5.0 million. No amounts would be taken directly to equity.

Currency exposures on the Group's net assets, after taking into account the translation hedges applied to the Group's borrowings, were as follows:

	As at 3 January 2009			As at 29 December 2007		
	Net assets excluding net (debt)/funds \$ million	Net (debt)/funds \$ million	Net assets \$ million	Net assets excluding net (debt)/funds \$ million	Net (debt)/funds \$ million	Net assets \$ million
Currency:						
– US dollar	1,164.2	(305.8)	858.4	1,390.1	(428.3)	961.8
– Sterling	101.9	(12.7)	89.2	169.8	(12.4)	157.4
– Euro	229.9	(94.6)	135.3	241.5	(85.7)	155.8
– Canadian dollar	171.6	(104.4)	67.2	519.6	(157.0)	362.6
– Other	548.1	41.1	589.2	525.3	91.9	617.2
	2,215.7	(476.4)	1,739.3	2,846.3	(591.5)	2,254.8

### 34. Post-employment benefit obligations

#### A. Background

The Group operates pension plans throughout the world, covering the majority of its employees. The plans are structured to accord with local conditions and practices in each country and include defined contribution plans and defined benefit plans.

The Group provides defined contribution pension benefits in most of the countries in which it operates; in particular, the majority of the Group's employees in the US are entitled to such benefits. The expense recognised in the income statement in respect of these plans represents the contributions payable by the Group for the period at rates that are specified in the rules of the plans. At the balance sheet date, the Group had not paid over to the plans contributions due amounting to \$15.1 million (29 December 2007: \$14.9 million). All amounts due for the period were paid over subsequent to the balance sheet date.

The Group operates defined benefit pension plans in several countries; in particular, in the US and the UK. Generally, the pension benefits provided under these plans are based upon pensionable salary and the period of service of the individual employees. The assets of the plans are held separately from those of the Group in funds that are under the control of trustees. The majority of the defined benefit pension plans operated by the Group are closed to new entrants. In addition to the funded defined benefit pension plans, the Group has unfunded defined benefit obligations to certain employees.

The Group also provides other post-employment benefits, principally health and life insurance cover, to certain of its employees in North America. These plans, which are unfunded, are defined benefit plans.