

Other financial matters

Financial risk management

The Group is exposed to market risks arising from its international operations and the financial instruments which fund them. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and liquidity risk. The Group has well defined policies for the management of interest rate, liquidity, foreign exchange and counterparty exposures, which have been consistently applied during the financial years ended 31 July 2008 and 2009. By the nature of its business the Group also has trade credit and commodity price exposures, the management of which is delegated to operating businesses. There has been no change since the year end in the major financial risks faced by the Group.

The Treasury Committee of the Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies are regularly reviewed. The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables, that arise directly from its operations. The Group also enters into derivative transactions (principally interest rate swaps and forward foreign currency contracts). The purpose of such transactions is to hedge certain interest rate and currency risks arising from the Group's operations and its sources of finance.

The Group's policy is to control credit risk by only entering into financial instruments with authorised counterparties after taking account of their credit rating. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments or speculative transactions be undertaken.

Details of financial instruments are shown on pages 110 and 111 in note 29 to the financial statements.

Capital structure and covenants

The Group's sources of funding currently comprise cash flows generated by operations, equity contributed by shareholders and borrowings from banks and other financial institutions. To assess the appropriateness of its capital structure to current and forecast trading, the Group's principal measure of financial gearing is the ratio of net debt to EBITDA. The Group aims to maintain this ratio in the range of 1.5:1 to 2.3:1, and the Group's active main borrowing facilities all contain a financial covenant limiting the ratio of net debt to EBITDA to 3.5:1. As at 31 July 2009 the ratio was 1.4:1 (2008: 2.7:1), calculated as shown in the table below.

In addition, the Group monitors the ratio of net debt to shareholders' funds for consistency with the targeted ratio of net debt to EBITDA. At 31 July 2009 the ratio of the net debt to shareholders' funds was 28.4 per cent (2008: 73.5 per cent).

In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Liquidity risk

The Group maintains a policy of ensuring sufficient borrowing headroom to finance all investment and bolt-on acquisitions for the following financial year with an additional contingent safety margin. Large acquisitions are funded shortly before the acquisition is made.

In March 2009, the Group entered into a €1 billion forward start multi-currency syndicated facility, which was a restatement and extension of the Group's existing €2.8 billion facility. This €1 billion facility will commence when the existing facility matures on 1 August 2011 or is cancelled by the Group before this date, and will expire on 1 August 2013. Following the share placing and rights issue which was completed in April 2009, the Group cancelled facilities amounting to £1,017 million which were no longer required.

	2009 £m	2008 £m
Operating profit	(606)	301
Amortisation and impairment of acquired intangibles	595	306
Depreciation and other amortisation	321	242
Exceptional one-off costs	458	76
EBITDA	768	925
Depreciation included in exceptional costs	(77)	(9)
Acquisition adjustment	-	6
Disposal adjustment	(1)	(1)
Covenant EBITDA	690	921
Year end net debt	959	2,469
Net debt: EBITDA	1.4	2.7

Other financial matters continued

The maturity profile of the Group's borrowings and committed undrawn facilities at 31 July 2009 was as follows:

Maturity date	Drawn on uncommitted facilities £m	Private placement £m	Drawn on committed facilities £m	Drawn amounts £m	Undrawn amounts £m	Capacity £m
Borrowing facilities expiring in						
Less than one year	42	–	–	42	100	142
1–2 years	1	124	–	125	–	125
2–3 years	1	–	829	830	683	1,513
3–4 years	1	50	–	51	43	94
4–5 years	1	–	–	1	852	853
After 5 years	1	432	217	650	–	650
Total	47	606	1,046	1,699	1,678	3,377
Amounts drawn on uncommitted facilities						(47)
Total committed debt facilities as at 31 July 2009						3,330
As at 31 July 2008				2,716	1,159	3,875

In August 2008 the Group entered into a €127.5 million uncommitted receivables funding arrangement in France. In December 2008 the Group entered into a £100 million receivables funding arrangement in the UK, committed for two years, and in July 2009 this arrangement was increased to £140 million.

The undrawn loan facilities are available to fund working capital, investments and general corporate purposes.

Foreign currency risk

The Group has significant overseas businesses whose revenues are mainly denominated in the currencies of the countries in which the operations are located. The Group does not normally hedge profit translation exposure since such hedges have only temporary effect.

Most of the foreign currency earnings generated by the Group's overseas operations are reinvested in the business to fund growth in those territories. The Group's policy for the year ended 31 July 2009, and subsequently, is to adjust the currencies in which its debt is denominated to match the currencies in which its trading profits are generated, as this hedges the ratio of net debt to EBITDA in the covenant calculation.

The Group's policy for the year ended 31 July 2008 and earlier was to maintain the majority of its debt in the currencies of its operating companies as this hedged both the net assets and cash flows of the Group.

Interest rate risk

To manage the Group's exposure to interest rate fluctuations, the Group's policy is that at least 20 per cent of bank borrowings required during the next two years should be at fixed rates. The Group borrows in the desired currencies principally at floating rates of interest, and then uses interest rate swaps to generate the desired interest rate profile.

Financial reporting

These financial statements have been prepared under IFRS. The Group's accounting policies set out on pages 78 to 83 of the accounts have remained unchanged from those disclosed last year, except for the inclusion of new policies for associates and discontinuing operations following the Stock disposal transaction, which have resulted in additional disclosures but have not had a significant impact on the Group's financial position or results of operations.

Insurance

The Group has a captive insurance company which is registered and operational in the Isle of Man. No policies are written for third parties. The administration is undertaken by a specialist management company. The Group's insurance arrangements are reviewed annually.

Going concern

The Directors are confident, on the basis of current financial projections and facilities available, and after considering sensitivities, that the Company and the Group has sufficient resources for its operational needs and will enable the Group to remain in compliance with the financial covenant in its bank facilities for at least the next 12 months. Accordingly the Directors continue to adopt the going concern basis in preparing the financial statements.



Stephen P Webster Chief Financial Officer
28 September 2009