

Statement of accounting policies

Significant accounting policies

C&C Group plc (the 'Company') is a company tax resident and incorporated in Ireland. The Group's financial statements for the year ended 28 February 2009 consolidate the individual financial statements of the Company and its subsidiaries (together referred to as "the Group").

The Company and Group financial statements, together the "financial statements", were authorised for issue by the Directors on 12 May 2009.

The accounting policies applied in the preparation of the financial statements for the year ended 28 February 2009 are set out below. These have been applied consistently for all periods presented in these financial statements and by all Group entities except for the change in accounting policy in relation to the measurement of Property, plant & equipment as set out below, the impact of which is described in note 13.

Statement of compliance

As required by European Union (EU) law, the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, which comprise standards and interpretations approved by the International Accounting Standards Board (IASB). The individual financial statements of the Company have been prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2006 which permits a Company that publishes its Company and Group financial statements together to take advantage of the exemption in section 148(8) of the Companies Act, 1963 from presenting its Company Income Statement which forms part of the approved Company financial statements.

IFRSs as adopted by the EU applied by the Company and Group in the preparation of these financial statements are those that were effective for accounting periods ending on or before 28 February 2009. The following provides a brief outline of the likely impact on future financial statements of relevant IFRSs adopted by the EU, which are not yet effective and have not been early adopted in these financial statements:

- Amendments to IFRS 2 *Share-based Payments, Vesting Conditions and Cancellations*. This amendment clarifies the accounting treatment of cancellations and vesting conditions. This amendment will have no impact on the Group's accounts.
- IFRS 3 Revised *Business Combinations*. This standard establishes principles for how an acquirer recognises, measures and discloses in its financial statements the goodwill acquired in a business combination, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The impact on the Group's accounts will depend on future acquisitions.
- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009, sets out the requirements for disclosure of financial and descriptive information about an entity's operating segments in the Group financial statements, its products and services, the geographical areas in which it operates, and its major customers and will replace IAS 14 *Segment Reporting*. The impact of this standard has not yet been fully assessed.
- Amendment to IAS 1 *Presentation of Financial Statement*. This amendment sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. This amendment is not expected to have a significant impact on the presentation of the Group's financial statements.
- IAS 23 *Borrowing Costs (Revised)*. This amendment requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. This amendment will not have a material impact on the Group's financial statements.
- Amendment to IAS 27 *Consolidated and Separate Financial Statements*. The objective of this amendment is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. The introduction of this amendment will impact on Group reporting but this is not expected to be significant.
- Amendment to IAS 32 *Puttable Financial Instruments and Obligations Arising on Liquidation*. This amendment will have no effect on the Group's financial statements.
- Amendment to IAS 39 *Eligible Hedged Items*. This amendment will have no effect on the Group's financial statements.
- IFRIC Interpretation 12 *Service Concession Arrangements*. This interpretation gives guidance on the accounting by operators for public to private service concession arrangements. This IFRIC will have no effect on the Group's financial statements.
- IFRIC Interpretation 13 *Customer loyalty Programmes*. This interpretation gives guidance on accounting for customer loyalty award credits. This IFRIC will not have a material impact on the Group's financial statements.
- IFRIC Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. This interpretation deals with accounting for refunds in contributions and minimum funding requirements. The IFRIC will only be of relevance to the Group if surpluses emerge on the Group's Defined Benefit Pension Schemes and those surpluses are of a sufficient magnitude to warrant application of the surplus cap.
- IFRIC Interpretation 15 *Agreements for the Construction of Real Estate*. This interpretation will have no effect on the Group's financial statements.

Basis of preparation

The Group and individual financial statements of the Company are prepared on the historical cost basis except for the measurement at fair value of share options and derivative financial instruments and the revaluation of certain items of Property, plant & equipment. The accounting policies have been applied consistently by Group entities and for all periods presented, except for the change in accounting policy associated with property, plant & equipment. The financial statements are presented in euro millions to one decimal place.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain critical accounting estimates. In addition, it requires management to exercise judgement in the process of applying the Group and Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, which are documented in the relevant accounting policies and notes as indicated below, relate primarily to:

- the determination of fair value of land and buildings (note 13),
- the determination of depreciated replacement cost in respect of the Group's plant & machinery (note 13),
- assessing goodwill for impairment (note 12),
- accounting for defined benefit pension schemes (note 22),
- measurement of financial instruments (note 23), and,
- valuation of share-based payments (note 5).

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all subsidiaries. The financial year ends of all entities in the Group are coterminous.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

On 30 April 2004, the Group, previously headed by C&C Group International Holdings Limited, underwent a re-organisation by virtue of which C&C Group International Holdings Limited's shareholders in their entirety exchanged their shares for shares in C&C Group plc, a newly formed company, which then became the ultimate parent company of the Group. Notwithstanding the change in the legal parent of the Group, this transaction has been accounted for as a reverse acquisition and the consolidated financial statements are prepared on the basis of the new legal parent having been acquired by the existing Group.

All inter-company balances and transactions, including recognised gains arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

Company Financial Statements

Investments in subsidiaries are carried at cost less provision for impairment. Dividend income is recognised when the right to receive payment is established.

Revenue recognition

Revenue comprises the fair value of goods supplied to external customers exclusive of inter-company sales and value added tax, after allowing for discounts and other pricing related allowances and incentives. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, that it can be reliably measured, and that the significant risks and rewards of ownership of the goods have passed to the buyer. This is deemed to occur on delivery.

Excise duty

Excise duty is levied at the point of production in the case of the Group's manufactured products and at the point of importation in the case of imported products in the key jurisdictions in which the Group operates. The Group accounts for excise duties as a cost of the business and separately discloses this cost in operating costs.

Statement of accounting policies *continued*

Exceptional items

The Group has adopted an accounting policy and income statement format that seeks to highlight significant items of income and expense within Group results for the year. The Directors believe that this presentation provides a more helpful analysis as it highlights one-off items. Such items may include significant restructuring costs, profits or losses on disposal or termination of operations, litigation costs and settlements, profit or loss on disposal of investments, significant impairment of assets and unforeseen gains/losses arising on derivative instruments. The Directors in assessing the particular items, which by virtue of their scale and nature are disclosed in the income statement and related notes as exceptional items, use judgement.

Finance income and expenses

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, amortisation of borrowing issue costs, changes in the fair value of financial assets or liabilities which are accounted for at fair value through profit or loss, losses on hedging instruments that are recognised in profit or loss, gains or losses relating to the effective portion of interest rate swaps hedging variable rate borrowings, impairment losses recognised on financial assets and unwinding of the discount on provisions. All borrowing costs are recognised in profit or loss using the effective interest method.

Research and development

Expenditure on research that is not related to specific product development is recognised in the income statement as incurred.

Expenditure on the development of new or substantially improved products or processes is capitalised if the product or process is technically feasible and commercially viable.

Government grants

Grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and all attaching conditions have been complied with.

Capital grants received and receivable by the Group are credited to government grants and are amortised to the income statement on a straight line basis over the expected useful lives of the assets to which they relate.

Revenue grants are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations and has been disposed of or is held for sale. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the earliest period presented.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products (business segment) or in providing products within a particular economic environment (geographical segment), which is subject to risks and returns different to those of other segments. Supported by the Group's internal organisational and management structure and its system of internal financial reporting, segmentation by business is regarded as being the predominant source and nature of the risks and returns facing the Group and is thus the primary segment under IAS14 *Segment Reporting*. Geographical segmentation is therefore the secondary segment.

The analysis by segment includes both items directly attributable to a segment and those, including central overheads that can be allocated on a reasonable basis. Unallocated items comprise mainly retirement benefit obligations, borrowings and certain exceptional expense items.

Foreign currency translation

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 ("the functional currency"). The consolidated financial statements are presented in euro, which is the presentation currency of the Group and the functional currency of the Company.

Transactions in foreign currencies are translated into the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets carried at historic cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into functional currencies at the foreign exchange rate ruling at that date. Foreign exchange movements arising on translation are recognised in the income statement.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at the foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to euro at the average exchange rate for the financial period. Foreign exchange movements arising on translation of the net investment in a foreign operation, including those arising on long term intra Group loans for which settlement is neither planned nor likely to happen in the foreseeable future, are recognised directly in equity in the foreign currency translation reserve through the statement of recognised income and expense.

Any movements that have arisen since 1 March 2004, the date of transition to IFRS, are recognised in the currency translation reserve and are recycled through the income statement on disposal of the related business. Translation differences that arose before the date of transition to IFRS as adopted by the EU in respect of all non-euro denominated operations are not presented separately.

Goodwill

Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to the future economic benefits arising from assets, which are not capable of being individually, identified and separately recognised.

Goodwill arising on acquisitions prior to the date of transition to IFRS as adopted by the EU has been retained, with the previous Irish GAAP amount being its deemed cost, subject to being tested for impairment. Goodwill written off to reserves under Irish GAAP prior to 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

Goodwill on acquisitions is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the proportion of the cash-generating unit retained.

Property, plant & equipment

As more fully described in note 13, the Group changed its accounting policy in relation to Property, plant & equipment in the year. In line with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the initial application of the accounting policy to revalue these assets did not require a prior year adjustment.

Property (comprising land and buildings) is recognised at estimated fair value with the changes in the value of the property reflected in revaluation gains in the statement of recognised income and expense, except impairment losses, which are recognised in the income statement. The fair value is based on estimated market value at the valuation date, being the estimated amount for which a property could be exchanged in an arms length transaction. Such valuations are determined based on benchmarking against comparable transactions for similar properties in similar locations as those of the Group or on the use of valuation techniques including the use of market yields on comparable properties. Information on the basis on which such valuations were undertaken in the year is set out in note 13.

Plant & machinery is carried at its revalued amount. In view of the specialised nature of the Group's plant & machinery and the lack of comparable market-based evidence of similar plant sold as a 'going concern' i.e. as part of a continuing business, upon which to base a market approach of fair value, the Group uses a depreciated replacement cost approach to determine a fair value for such assets.

Depreciated replacement cost is assessed, firstly, by the identification of the gross replacement cost for each class of plant & machinery. A depreciation factor derived from both the physical and functional obsolescence of each class of asset, taking into account estimated residual values at the end of the life of each class of asset, is then applied to the gross replacement cost to determine the net replacement cost. Finally an economic obsolescence factor, which is derived based on current and anticipated capacity or utilisation of each class of plant & machinery as a function of total available production capacity, is applied to determine the depreciated replacement cost. The Group has adopted a policy of valuing its plant & machinery in this manner annually.

Statement of accounting policies *continued*

Motor vehicles & other equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Borrowing costs related to the acquisition, construction or production of qualifying assets are recognised in profit or loss as incurred. When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment. Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group.

Property, plant & equipment, other than freehold land which is not depreciated, was depreciated during the current year on the following basis:

Buildings	2% straight line
Motor vehicles	15% straight line
Other equipment incl returnable bottles, cases and kegs	5-25% straight line
Plant & machinery	6-10% straight line
Storage tanks	3.33% straight line

As a result of adopting the depreciated replacement cost revaluation policy for plant & machinery at the year end, a reducing balance depreciation method will be applied to Plant & machinery and storage tanks going forward at the following rates:-

Plant & machinery	15-30% reducing balance
Storage tanks	10% reducing balance

The residual value and useful lives of property, plant & equipment are reviewed and adjusted if appropriate at each balance sheet date.

On disposal of property, plant & equipment the cost or valuation and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is taken to the income statement.

The carrying amounts of the Group's property, plant & equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised when the carrying amount of an asset or its cash generation unit exceeds its recoverable amount (being the greater of fair value less costs of sale and value in use). Impairment losses are recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition and is based on the first-in first-out principle.

In the case of finished goods and work in progress, cost includes direct production costs and the appropriate share of production overheads plus excise duties where appropriate. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to complete the sale.

Provision is made for slow-moving or obsolete stock where appropriate.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value at an appropriate rate if the effect of the time value of money is deemed material.

A contingent liability is not recognised but is disclosed where the existence of the obligation will only be confirmed by future events or where it is not probable that an outflow of resources will be required to settle the obligation or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised but are disclosed where an inflow of economic benefits is probable.

Leases

Where the Group has entered into lease arrangements on land and buildings the lease payments are allocated between land and buildings and each component is assessed separately to determine whether it is a finance or operating lease.

Finance leases, which transfer to the Group substantially all the risks and rewards to ownership of the leased asset, are recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement as part of finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Retirement benefit obligations

The Group operates a number of defined contribution and defined benefit pension schemes.

Obligations to the defined contribution pension schemes are recognised as an expense in the income statement as the related employee service is received. Under these schemes, the Group has no obligation, either legal or constructive, to pay further contributions in the event that the fund does not hold sufficient assets to meet its benefit commitments.

The liabilities and costs associated with the Group's defined benefit pension schemes, all of which are funded and administered under trusts which are separate from the Group, are assessed on the basis of the projected unit credit method by professionally qualified actuaries and are arrived at using actuarial assumptions based on market expectations at the balance sheet date. The discount rates employed in determining the present value of the schemes' liabilities are determined by reference to market yields at the balance sheet date on high-quality corporate bonds of a currency and term consistent with the currency and term of the associated post-employment benefit obligations. When the benefits of a defined benefit scheme are improved, the portion of the increased benefit relating to the past service of employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the enhanced benefits vest immediately, the related expense is recognised immediately in the income statement. The net surplus or deficit arising on the Group's defined benefit pension schemes is shown within either non-current assets or non-current liabilities on the face of the Group Balance Sheet. The deferred tax liabilities and assets arising on pension scheme surpluses and deficits are disclosed separately within deferred tax assets or liabilities, as appropriate.

The expected increase in the present value of scheme liabilities arising from employee service in the current or prior periods is recognised in arriving at operating profit or loss together with the expected returns on the scheme assets and the increase during the period in the present value of the scheme liabilities arising from the passage of time. Differences between the expected and the actual return on plan assets, experience gains and losses on scheme liabilities, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in the statement of recognised income and expense.

The defined benefit pension asset or liability in the Group Balance Sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high-quality corporate bonds) less the fair value of plan assets (measured at bid value) out of which the obligations are to be settled directly.

Company

The Company has no direct employees and is not the sponsoring employer for any of the Group's defined benefit pension schemes. There is no stated policy within the Group in relation to the obligations of Group companies to contribute to scheme deficits. Group companies make contributions to the schemes as requested by the sponsoring employers.

Share-based payments

The Group operates an equity settled Executive Share Option Scheme, an equity settled share-based Long Term Incentive Plan (the 'LTIP') and a Joint Share Ownership Plan. Its policy in relation to the granting of share options together with the nature of the underlying market and non-market performance and other vesting conditions is addressed in the Report on Directors' Remuneration on pages 30 to 32 and in note 5 to the financial statements.

Equity settled share-based payment transactions

Group share schemes allow employees to acquire shares in the Company. The fair value of share entitlements granted is recognised as an employee expense in the income statement with a corresponding increase in equity. Share options granted under the Executive Share Option Scheme are subject to non-market vesting conditions. Share entitlements granted by the Company under the LTIP are subject to both market and non-market vesting conditions. A percentage of shares granted under the Joint Share Ownership Plan are subject to both market and non-market vesting conditions while the remainder are subject to non-market vesting conditions only, details of which are set out in the Report on Directors' Remuneration on pages 30 to 32. Market conditions are incorporated into the calculation of fair value at grant date. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for the share entitlements shown in the income statement is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods on a straight line basis over the vesting period. The cumulative charge to the income statement is reversed only where entitlements do not vest because all non-market performance conditions have not been met or where an employee in receipt of share entitlements leaves the Group before the end of the vesting period. No reversal is recorded for failure to vest as a result of market conditions not being met. The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are exercised. Amounts included in the share-based payments reserve are transferred to retained income when vested options are exercised, forfeited or lapse.

Statement of accounting policies *continued*

The Group has no exposure in respect of cash-settled share-based payment transactions and share-based payment transactions with cash alternatives as defined by IFRS 2 Share-Based Payment.

Income tax

Current tax

Current tax expense represents the expected tax amount to be paid in respect of taxable income for the current year. Current tax for the current and prior years, to the extent that it is unpaid, is recognised as a liability in the balance sheet.

Deferred tax

Deferred tax is provided on the basis of the balance sheet liability method on all temporary differences at the balance sheet date. Temporary differences are defined as the difference between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is recognised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised for all temporary differences except where they arise from:-

- the initial recognition of goodwill or the initial recognition of an asset or a liability in a transaction that is not a business combination and affects neither the accounting profit or loss nor the taxable profit or loss at the time of the transaction, or,
- temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary difference is subject to the Group's control and it is probable that a reversal will not be recognised in the foreseeable future.

Deferred tax assets in respect of deductible temporary differences are recognised only to the extent that it is probable that taxable profits or taxable temporary differences will be available against which to offset these items. The carrying amounts of deferred tax assets are subject to review at each balance sheet date and are reduced to the extent that future taxable profits are considered to be inadequate to allow all or part of the deferred tax asset to be utilised.

Deferred tax and current tax are recognised as a component of the tax expense in the income statement except to the extent that they relate to items recognised directly in equity (for example, certain derivative financial instruments and actuarial gains and losses on defined benefit pension schemes), in which case the related tax is recognised in equity.

Financial instruments

Trade & other receivables

Trade receivables are recognised and carried at original invoice value less an allowance for incurred losses. A provision for impairment of trade receivables 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 receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement. Bad debts are written-off in the income statement on identification.

Cash & cash equivalents

Cash & cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form part of the Group's cash management are included as a component of cash & cash equivalents for the purpose of the statement of cash flows.

Trade & other payables

Trade & other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, unless the maturity date is less than 6 months.

Interest-bearing loans & borrowings

Interest-bearing loans & borrowings are recognised initially at fair value less attributable transaction costs and are subsequently measured at amortised cost with any difference between the amount originally recognised and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis. Where the refinancing of a loan results in a significant change in the present value of the expected cashflows, the original loan is de-recognised and the replacement loan is recognised at fair value.

Derivative financial instruments

The Group uses derivative financial instruments (principally interest rate swaps and forward foreign exchange contracts) to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. The Group does not enter into speculative transactions.

Derivative financial instruments are measured at fair value at each reporting date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into the account current interest and currency exchange rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles and equates to the quoted market price at the balance sheet date.

Gains or losses on re-measurement to fair value are recognised immediately in the income statement except where derivatives are designated and qualify for hedge accounting in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Derivative financial instruments entered into by the Group are for the purposes of hedge accounting classified as cash flow hedges which hedge exposure to fluctuations in future cash flows derived from a particular risk associated with a recognised asset, liability, a firm commitment or a highly probable forecast transaction.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised as a separate component of equity with the ineffective portion being reported in the income statement. The associated gains or losses that had previously been recognised in equity are transferred to the income statement contemporaneously with the materialisation of the hedged transaction, except when a firm commitment or forecast transaction results in the recognition of a non-financial asset or a non-financial liability, in which case the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, if the hedged transaction is still probable, any cumulative gain or loss on the hedging instrument recognised as a separate component of equity is kept in equity until the forecast transaction occurs with future changes in fair value recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement in the period.

Share capital

Ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the gross proceeds.

Own shares acquired under share buyback programme

The cost of ordinary shares purchased by the Company on market is recorded as a deduction from retained income on the face of the Group and Company Balance Sheet. An amount equal to the nominal value of shares cancelled is included within the capital redemption reserve fund.

Treasury shares

Where the Company issues equity share capital under its Joint Share Ownership Plan, which is held in trust by the Group's Employee Benefit Trust, the consideration paid is deducted from total shareholders' equity and classified as treasury shares on consolidation.

Dividends

Final dividends on ordinary shares are recognised as a liability in the financial statements only after they have been approved at an annual general meeting of the Company. Interim dividends on ordinary shares are recognised when they are paid.

Company financial assets

The change in legal parent of the Group on 30 April 2004 as disclosed in detail in that year's annual report was accounted for as a reverse acquisition. This transaction gave rise to a financial asset in the Company's accounts, which relates to the value of its investment in subsidiaries. Financial assets are reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Share options granted to employees of subsidiary companies are accounted for as an increase in the carrying value of the investment in subsidiaries and the share-based payment reserve.