33 FINANCIAL INSTRUMENTS – 2004

As stated in note 32, the Group has taken the exemption from the requirement to restate comparative information for IAS 32 and IAS 39. Accordingly the financial instruments disclosure presented in note 32 on the basis of IAS 32 and IAS 39 is only for 2005.

The following 2004 disclosures are provided in accordance with FRS 13 (Derivatives and Other Financial Instruments). Financial instruments comprise net debt (refer to note 31) together with other instruments deemed to be financial instruments including non-current receivables, payables and provisions. For consistency of presentation with the consolidated balance sheet presented under IFRS the description of items included within this note mirrors the headings used under IFRS rather than UK GAAP.

Policies

Treasury policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its currency, interest rate and counterparty credit risks. The Group's treasury policy is not to engage in speculative transactions. Group treasury acts within clearly defined guidelines that are approved by the Board.

a) Short-term receivables and payables

Current asset receivables and payables have been excluded from all the following disclosures other than the currency risk disclosures as relevant. The fair value of current asset receivables and payables approximates to the carrying amount because of their short maturity. In accordance with FRS 13, deferred tax has been excluded from the following disclosures.

b) Interest rate risk

The Group's policy in 2004 was the same as outlined for 2005 in note 32.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group at 31 December 2004 was:

	31 December 2004		
	Total financial liabilities £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m
Currency			
Sterling	545	25	520
US dollar	1,171	706	465
Australian dollar	1,370	678	692
Euro	424	388	36
Czech koruna	52	12	40
Others	15	1	14
Total	3,577	1,810	1,767

All the Group's current liabilities (other than loans and bonds) are excluded from the above table either due to the exclusion of short-term items or because they do not meet the definition of financial liabilities. There are no material financial liabilities on which interest is not paid.

The effect of the Group interest rate swaps was to classify £692 million of floating rate Australian dollar borrowings, £103 million of floating rate US dollar borrowings, £71 million of floating rate sterling borrowings, £40 million of floating rate Czech koruna borrowings and £36 million of floating rate euro borrowings all at fixed rate in the above table.

In addition to the above, the Group's provisions are considered to be floating rate financial liabilities as, in establishing the provisions, the cash flows have been discounted.

The floating rate financial liabilities comprise bank loans bearing interest rates fixed in advance for various time periods up to 12 months by reference to LIBOR for that time period. The figures in the following tables take into account interest rate and currency swaps used to manage the interest rate and currency profile of financial liabilities and financial assets.

	31 December 2004 Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency		
Sterling	8.74	15
US dollar	5.82	11
Australian dollar	7.92	4
Euro	6.82	3
Czech koruna	3.98	2
Others	7.25	2
Weighted average	7.49	9

33 FINANCIAL INSTRUMENTS – 2004 continued

c) Interest rate risk profile of financial assets

The Group had the following financial assets at 31 December 2004:

	31 December 2004		
	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m
Currency			
Sterling	246	246	–
US dollar	139	139	–
Australian dollar	212	202	10
Euro	578	104	474
Czech koruna	4	4	–
Others	18	18	–
Total	1,197	713	484

Cash deposits comprise deposits placed in money market funds, and a variety of investments with maturities up to three months. All investments are in publicly quoted shares or treasury instruments. Letters of credit totalling £97 million were supported on a cash collateral basis at 31 December 2004.

The previous table includes finance lease receivables which are analysed as follows:

	31 December 2004 Fixed rate financial assets	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency		
Australian dollar	7.15	3
Euro	7.89	14
Weighted average	7.87	14

d) Currency exposures

These policies in 2004 were the same as outlined for 2005 in note 32. The currency exposures in 2004 were not considered to be material.

e) Maturity of financial liabilities

The maturity profile of our financial liabilities, other than current trade and other payables, was as follows:

	31 December 2004 £m
In one year or less, or on demand	100
In more than one year but not more than two years	113
In more than two years but not more than five years	622
In more than five years	2,742
Total	3,577

f) Borrowing facilities

The Group has substantial borrowing facilities available to it. The committed facilities available at 31 December 2004 in respect of which all conditions precedent have been met at that date amounted to £700 million.

	31 December 2004		
	Facility £m	Undrawn £m	Available £m
US$450 million Corporate revolving credit facility (October 2006)[1]	234	78	78
US$50 million ANP Funding 1 revolving credit facility (May 2010)	26	18	18
CZK1,000 million IPO revolving credit facility (May 2007)	23	20	20
US$488 million Tihama term facility (December 2021)	254	181	181
A$92 million Canunda facility (December 2014)	38	12	12
£30 million Corporate letter of credit facility[2]	30	11	11
£95 million Subsidiary facilities in various currencies	95	66	66
Total	700	386	386

(1) The drawn element of the US$450 million Corporate revolving credit facility relates to letters of credit issued.

(2) These facilities include a £30 million letter of credit facility which becomes committed for any letters of credit that have been drawn. At 31 December 2004 £19 million of letters of credit had been drawn from this facility.

Uncommitted facilities available at 31 December 2004 were:

	31 December 2004		
	Total £m	Drawn £m	Undrawn £m
Facility			
Bank borrowing and overdraft facilities	22	–	22
ANP Funding 1 working capital facility	31	–	31
£13 million Subsidiary facilities in various currencies	13	3	10
	66	3	63

Bank borrowing facilities are normally reaffirmed by the banks annually although they can theoretically be withdrawn at any time.

g) Fair values of financial assets and liabilities

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial assets and liabilities as at 31 December 2004:

	31 December 2004	
	Carrying amount £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations		
Financial assets	1,197	1,197
Current liability loans and bonds	(100)	(100)
Non-current liabilities excluding deferred tax	(3,477)	(3,508)

In addition to the above, the Group holds energy derivatives for trading purposes with a carrying amount and fair value of £3 million (gross gain of £37 million, gross loss of £34 million).

Financial assets in the above table comprise finance lease receivables, other long-term receivables, assets held for trading and cash and cash equivalents. Finance lease receivables and other long-term receivables have been estimated by discounting estimated cash flows. The carrying amount of assets held for trading and cash and cash equivalents approximates to fair value because of their short maturity.

The methods and assumptions used to estimate fair values of financial instruments are as follows:

(i) Current asset trade and other receivables and current liability trade and other payables are excluded from the above table. Their carrying amounts approximate to fair value because of their short maturity.

(ii) The fair value of assets held for trading maturing after three months has been estimated using discounted cash flows and quoted market prices.

(iii) The fair value of current liability loans and bonds approximates to carrying amount because of their short maturity.

(iv) The fair value of non-current liability loans and bonds and interest rate swaps has been calculated using market prices when available or the net present value of future cash flows arising.

(v) The fair value of the Group's forward exchange contracts, foreign currency swaps and foreign currency options has been calculated using the market rates in effect at the balance sheet dates.

(vi) The fair value of energy derivatives is measured using value at risk and other methodologies that provide a consistent measure of risk across diverse energy products. Within the above fair values, only the financial assets and liabilities have been marked to market.

33 FINANCIAL INSTRUMENTS – 2004 continued

Derivative financial instruments held to manage the interest rate, currency profile and exposure to energy prices

	Year ended 31 December 2004				
	Carrying amount £m	Fair value £m	Gain/ (loss) £m	Gross gain £m	Gross (loss) £m
Interest rate swaps and similar instruments	–	(38)	(38)	–	(38)
Energy derivatives	–	16	16	90	(74)

h) Hedges

These policies in 2004 were the same as outlined in note 32.

Gains and losses on instruments used for hedging were not recognised until the exposure that is being hedged is itself recognised or expires. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Debt £m	Foreign exchange £m	Energy derivatives £m	Total net gain/(loss) £m
Unrecognised gains and (losses) on hedges at 1 January 2004	(38)	–	37	(1)
Gains and (losses) arising in previous years that were recognised in the year ended 31 December 2004	(15)	–	33	18
Gains and (losses) arising in previous years that were not recognised in the year	(23)	–	4	(19)
Gains and (losses) arising in the year ended 31 December 2004 that were not recognised in the year	(15)	–	12	(3)
Unrecognised gains and (losses) on hedges at 31 December 2004	(38)	–	16	(22)
Of which:				
Gains and (losses) expected to be recognised in the year ended 31 December 2005	(2)	–	16	14
Losses expected to be recognised in the year ended 31 December 2006 or later	(36)	–	–	(36)

The hedging of structural currency exposures associated with foreign currency net investments is recognised in the consolidated balance sheet.

i) Counterparty credit risk

These policies in 2004 were the same as outlined for 2005 in note 32.

34 COMMITMENTS

Lease and capital commitments

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Capital commitments: contracted but not provided	**82**	182
Future minimum lease payments under non-cancellable operating leases:		
Within one year	**6**	6
Between one and five years	**21**	20
After five years	**27**	35
Offset by future minimum receipts under non-cancellable operating subleases	**(8)**	(12)

Operating lease payments substantially represent rentals payable by the Group for office properties and wind turbine equipment.

Fuel purchase and transportation commitments

At 31 December 2005, the Group's subsidiaries had contractual commitments to purchase and/or transport coal and fuel oil. Based on contract provisions, which consist of fixed prices, subject to adjustment clauses in some cases, these minimum commitments are currently estimated to aggregate £96 million (2004: £107 million) expiring within one year, £182 million (2004: £195 million) expiring between one and five years and £326 million (2004: £98 million) expiring after more than five years.