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 from 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. While the net income of foreign operations is not hedged, 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.

Where necessary, 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 40.

B. Financial assets and liabilities

The following table analyses financial assets and liabilities by the categories defined in IAS 39. Financial instruments held at fair value, have been categorised into one of three levels to reflect the degree to which observable inputs are used in determining the fair values:

– 'Level 1' fair value measurements are those derived without adjustment from quoted prices in active markets for identical assets or liabilities.

– 'Level 2' fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– 'Level 3' fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During 2009, there were no transfers of financial instruments between Level 1 and Level 2.

	Loans and receivables $ million	Available-for-sale $ million	Liabilities at amortised cost $ million	Fair value through profit or loss: Designated hedging relationships $ million	Fair value through profit or loss: Trading $ million	Total carrying value $ million	Fair value $ million
As at 2 January 2010							
Financial assets not held at fair value							
Trade and other receivables:							
– Non-derivative assets	722.1	–	–	–	–	722.1	722.1
Cash and cash equivalents	445.0	–	–	–	–	445.0	445.0
	1,167.1	–	–	–	–	1,167.1	1,167.1
Financial assets held at fair value							
Level 1:							
– Available-for-sale investments	–	1.2	–	–	–	1.2	1.2
Level 2:							
– Trade and other receivables: Derivative assets	–	–	–	56.9	1.2	58.1	58.1
	–	1.2	–	56.9	1.2	59.3	59.3
Total financial assets	1,167.1	1.2	–	56.9	1.2	1,226.4	1,226.4
Financial liabilities not held at fair value							
Trade and other payables:							
– Non-derivative liabilities	–	–	(506.2)	–	–	(506.2)	(506.2)
Bank overdrafts	–	–	(4.8)	–	–	(4.8)	(4.8)
Bank and other loans:							
– Current	–	–	(11.2)	–	–	(11.2)	(10.2)
– Non-current	–	–	(642.3)	(45.0)	–	(687.3)	(655.3)
Obligations under finance leases	–	–	(4.6)	–	–	(4.6)	(4.6)
	–	–	(1,169.1)	(45.0)	–	(1,214.1)	(1,181.1)
Financial liabilities held at fair value							
Level 2:							
– Trade and other payables: Derivative liabilities	–	–	–	(3.6)	(2.6)	(6.2)	(6.2)
	–	–	–	(3.6)	(2.6)	(6.2)	(6.2)
Total financial liabilities	–	–	(1,169.1)	(48.6)	(2.6)	(1,220.3)	(1,187.3)
	1,167.1	1.2	(1,169.1)	8.3	(1.4)	6.1	39.1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. Financial risk management (continued)

	Loans and receivables $ million	Available-for-sale $ million	Liabilities at amortised cost $ million	Fair value through profit or loss: Designated hedging relationships $ million	Fair value through profit or loss: Trading $ million	Total carrying value $ million	Fair value $ million
As at 3 January 2009							
Financial assets not held at fair value							
Trade and other receivables:							
– Non-derivative assets	757.7	–	–	–	–	757.7	757.7
Cash and cash equivalents	291.9	–	–	–	–	291.9	291.9
	1,049.6	–	–	–	–	1,049.6	1,049.6
Financial assets held at fair value							
Level 1:							
– Available-for-sale investments	–	0.8	–	–	–	0.8	0.8
Level 2:							
– Trade and other receivables:							
Derivative assets	–	–	–	73.4	1.1	74.5	74.5
	–	0.8	–	73.4	1.1	75.3	75.3
Total financial assets	1,049.6	0.8	–	73.4	1.1	1,124.9	1,124.9
Financial liabilities not held at fair value							
Trade and other payables:							
– Non-derivative liabilities	–	–	(452.4)	–	–	(452.4)	(452.4)
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)	(51.9)	–	(1,265.4)	(1,085.4)
Financial liabilities held at fair value							
Level 2:							
– Trade and other payables:							
Derivative liabilities	–	–	–	(32.5)	(13.6)	(46.1)	(46.1)
	–	–	–	(32.5)	(13.6)	(46.1)	(46.1)
Total financial liabilities	–	–	(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)

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 any 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 2 January 2010 $ million	As at 3 January 2009 $ million
Trade and other receivables:		
– Derivative assets	**58.1**	74.5
– Non-derivative assets	**722.1**	757.7
	780.2	832.2
Cash and cash equivalents	**445.0**	291.9
	1,225.2	1,124.1

As at 2 January 2010, 94% (3 January 2009: 92%) 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 2 January 2010, the Group had undrawn committed borrowing facilities of $645.0 million (3 January 2009: $455.1 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. During 2009, the Group entered into a $450 million forward-start facility that will commence on expiry of the existing facility and will itself expire in May 2012.

In addition, the Group had uncommitted borrowing facilities of $381.2 million (3 January 2009: $495.4 million), of which $6.0 million (3 January 2009: $34.7 million) had been drawn down for cash. Consequently, the Group's committed borrowing headroom was $639.0 million (3 January 2009: $420.4 million) in addition to cash and cash equivalents of $445.0 million (3 January 2009: $291.9 million). The Group also had outstanding performance bonds, letters of credit and bank guarantees amounting to $80.3 million (3 January 2009: $164.5 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 2009, the ratio was 0.6 times). The ratio of consolidated operating profit to the consolidated net interest charge must not be less than 3.0 times (for 2009, the ratio was 5.5 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
As at 2 January 2010							
Bank overdrafts	**(4.8)**	**–**	**–**	**–**	**–**	**–**	**(4.8)**
Bank and other loans:							
– Principal	**(0.6)**	**(241.8)**	**(0.3)**	**(0.3)**	**–**	**(403.1)**	**(646.1)**
– Interest payments	**(44.4)**	**(44.0)**	**(24.7)**	**(24.7)**	**(24.7)**	**(24.7)**	**(187.2)**
Finance lease obligations	**(1.3)**	**(0.8)**	**(0.4)**	**(0.4)**	**(0.4)**	**(3.3)**	**(6.6)**
Trade and other payables:							
– Non-derivative liabilities	**(491.9)**	**(14.3)**	**–**	**–**	**–**	**–**	**(506.2)**
Cash flows on non-derivative liabilities	**(543.0)**	**(300.9)**	**(25.4)**	**(25.4)**	**(25.1)**	**(431.1)**	**(1,350.9)**
Cash flows on derivative liabilities:							
– Payments	**(255.7)**	**(1.8)**	**–**	**–**	**–**	**–**	**(257.5)**
– Receipts	**255.6**	**–**	**–**	**–**	**–**	**–**	**255.6**
	(0.1)	**(1.8)**	**–**	**–**	**–**	**–**	**(1.9)**
Cash flows on financial liabilities	**(543.1)**	**(302.7)**	**(25.4)**	**(25.4)**	**(25.1)**	**(431.1)**	**(1,352.8)**
Cash flows on related derivative assets:							
– Payments	**(612.7)**	**(28.9)**	**(20.6)**	**(22.6)**	**(23.8)**	**(17.5)**	**(726.1)**
– Receipts	**635.4**	**44.0**	**24.8**	**24.6**	**24.7**	**24.7**	**778.2**
	22.7	**15.1**	**4.2**	**2.0**	**0.9**	**7.2**	**52.1**
	(520.4)	**(287.6)**	**(21.2)**	**(23.4)**	**(24.2)**	**(423.9)**	**(1,300.7)**

	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
As at 3 January 2009							
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)
Cash flows on non-derivative liabilities	(512.7)	(188.4)	(260.2)	(23.5)	(23.3)	(407.2)	(1,415.3)
Cash flows on derivative liabilities:							
– Payments	(677.0)	(5.9)	–	–	–	–	(682.9)
– Receipts	655.9	7.9	–	–	–	–	663.8
	(21.1)	2.0	–	–	–	–	(19.1)
Cash flows on financial liabilities	(533.8)	(186.4)	(260.2)	(23.5)	(23.3)	(407.2)	(1,434.4)
Cash flows on related 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
	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)

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
As at 2 January 2010							
Cash flows on financial liabilities:							
– US dollar	**(380.2)**	**(10.7)**	**–**	**–**	**–**	**–**	**(390.9)**
– Sterling	**75.0**	**(287.9)**	**(25.0)**	**(24.7)**	**(24.7)**	**(427.8)**	**(715.1)**
– Euro	**(68.2)**	**(1.2)**	**(0.4)**	**(0.4)**	**(0.4)**	**(3.3)**	**(73.9)**
– Canadian dollar	**(37.9)**	**–**	**–**	**–**	**–**	**–**	**(37.9)**
– Other	**(131.8)**	**(2.9)**	**–**	**(0.3)**	**–**	**–**	**(135.0)**
	(543.1)	**(302.7)**	**(25.4)**	**(25.4)**	**(25.1)**	**(431.1)**	**(1,352.8)**
Cash flows on related financial assets:							
– US dollar	**(330.1)**	**–**	**–**	**–**	**–**	**–**	**(330.1)**
– Sterling	**479.4**	**15.1**	**4.2**	**2.0**	**0.9**	**7.2**	**508.8**
– Euro	**(44.2)**	**–**	**–**	**–**	**–**	**–**	**(44.2)**
– Canadian dollar	**(62.3)**	**–**	**–**	**–**	**–**	**–**	**(62.3)**
– Other	**(20.1)**	**–**	**–**	**–**	**–**	**–**	**(20.1)**
	22.7	**15.1**	**4.2**	**2.0**	**0.9**	**7.2**	**52.1**

	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
As at 3 January 2009							
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

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.

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 2 January 2010				As at 3 January 2009			
	Interest-bearing				Interest-bearing			
	Floating rate $ million	Fixed rate $ million	Non-interest bearing $ million	Total $ million	Floating rate $ million	Fixed rate $ million	Non-interest bearing $ million	Total $ million
Financial assets								
Trade and other receivables	**16.0**	**–**	**764.2**	**780.2**	3.8	–	828.4	832.2
Available-for-sale investments	**–**	**–**	**1.2**	**1.2**	–	–	0.8	0.8
Cash and cash equivalents (see note 27)	**378.9**	**–**	**66.1**	**445.0**	252.0	–	39.9	291.9
	394.9	**–**	**831.5**	**1,226.4**	255.8	–	869.1	1,124.9
Financial liabilities								
Trade and other payables	**–**	**–**	**(512.4)**	**(512.4)**	–	–	(498.5)	(498.5)
Borrowings (see note 29)	**(701.3)**	**(0.3)**	**(1.7)**	**(703.3)**	(739.4)	(65.3)	(1.4)	(806.1)
Obligations under finance leases	**–**	**(4.6)**	**–**	**(4.6)**	–	(6.9)	–	(6.9)
	(701.3)	**(4.9)**	**(514.1)**	**(1,220.3)**	(739.4)	(72.2)	(499.9)	(1,311.5)
	(306.4)	**(4.9)**	**317.4**	**6.1**	(483.6)	(72.2)	369.2	(186.6)

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 100% 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 $2.7 million (3 January 2009: $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
As at 2 January 2010						
Functional currency of entity:						
– US dollar	**–**	**(12.5)**	**(1.1)**	**–**	**(1.8)**	**(15.4)**
– Sterling	**1.8**	**–**	**(2.6)**	**–**	**(3.7)**	**(4.5)**
– Euro	**(2.7)**	**(0.2)**	**–**	**(0.1)**	**(0.1)**	**(3.1)**
– Canadian dollar	**(3.0)**	**–**	**–**	**–**	**(0.2)**	**(3.2)**
– Other	**(5.1)**	**(0.9)**	**15.2**	**(0.6)**	**–**	**8.6**
	(9.0)	**(13.6)**	**11.5**	**(0.7)**	**(5.8)**	**(17.6)**
As at 3 January 2009						
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

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 100% 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 $1.8 million (3 January 2009: $5.0 million).

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 2 January 2010			As at 3 January 2009		
	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	**930.8**	**(343.6)**	**587.2**	1,164.2	(305.8)	858.4
– Sterling	**76.2**	**87.8**	**164.0**	101.9	(12.7)	89.2
– Euro	**150.6**	**(33.4)**	**117.2**	229.9	(94.6)	135.3
– Canadian dollar	**137.7**	**(42.8)**	**94.9**	171.6	(104.4)	67.2
– Other	**590.2**	**124.5**	**714.7**	548.1	41.1	589.2
	1,885.5	**(207.5)**	**1,678.0**	2,215.7	(476.4)	1,739.3

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. Contributions payable by the Group to these plans amounted to $33.4 million (2008: $37.9 million; 2007: $47.6 million). At the balance sheet date, the Group had not paid over to the plans contributions due amounting to $14.8 million (3 January 2009: $15.1 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. All 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 current and former 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.

As discussed in note 7, during 2009, the Group recognised a gain of $63.0 million on the amendment of pension and post-retirement healthcare plans in North America.