

Notes to the consolidated financial statements

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24 Financial instruments

Exposure to credit, interest rate and currency risks arise in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange and interest rates.

The Group does not trade in financial instruments nor does it engage in speculative derivative transactions.

Credit risk

The Group's principal financial assets are trade and other receivables and bank and cash balances. These represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group has stringent procedures to manage counterparty risk and the assessment of customer credit risk is embedded in the contract tendering processes. Customer credit risk is mitigated by the Group's relatively small average contract size and its diversity, both geographically and in terms of end markets. As a result, no customer represented more than 5% of sales in 2009. The counterparty risk on bank and cash balances is managed by limiting the aggregate amount of exposure to any such institution by reference to their credit rating and by regular review of these ratings. The ageing of trade receivables that were past due but not impaired is shown in note 18.

Currency risk

The Group faces currency risk principally on its net assets, of which a large proportion is in currencies other than sterling. The Group aims to reduce the impact that retranslation of these net assets might have on the consolidated balance sheet, by matching the currency of its borrowings, where possible, with the currency of its assets. The majority of the Group's borrowings are US dollar-denominated, in order to provide a hedge against the Group's US dollar denominated net assets.

The Group manages its currency flows to minimise currency transaction exchange risk. Forward contracts and other derivative financial instruments are used to hedge significant individual transactions. The majority of such currency flows within the Group relate to repatriation of profits and intra-group loan repayments. The Group's foreign exchange cover is executed primarily in the UK.

At 31 December 2009, the fair value of foreign exchange forward contracts outstanding was £0.4m (2008: £nil).

Interest rate risk

Interest rate risk is managed by mixing fixed and floating rate borrowings depending upon the purpose of the financing.

Liquidity risk and capital management

The Group's capital structure is kept under constant review, taking account of the need for, availability and cost of various sources of finance. The capital structure of the Group consists of net debt, as disclosed in note 24, and equity attributable to equity holders of the parent as shown in the consolidated balance sheet. The Group maintains a balance between certainty of funding and a flexible, cost effective financing structure with all main borrowings being from committed facilities. The Group's policy continues to be to ensure that its capital structure is appropriate to support this balance and the Group's operations.

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

The Group's debt and committed facilities mainly comprise a US\$100m private placement, repayable US\$30m in 2011 and US\$70m in 2014, an £80m syndicated revolving credit facility expiring in 2011 and a £65m syndicated revolving credit facility expiring in 2010. These facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt and interest to profit. The Group has complied with these covenants throughout the period.

At the year end, the Group also had other committed and uncommitted borrowing facilities totalling £72.2m (2008: £79.5m) to support local requirements.

Hedging

In October 2004 US\$100m was raised through a private placement with US institutions. The proceeds of the issue of US\$30m 5.05% notes due 2011 and US\$70m 5.48% notes due 2014 were used to refinance existing debt.

The US private placement loans are accounted for on an amortised cost basis, adjusted for the impact of hedge accounting (as described below), and retranslated at the spot exchange rate at each period end. The carrying value of the private placement liabilities at 31 December 2009 was £66.6m (2008: £76.1m).

The US\$100m fixed rate private placement liabilities have been swapped into floating rates, US\$75m by means of US dollar interest rate swaps and US\$25m through a dollar euro cross-currency and interest rate swap (together, 'the 2004 swaps'). The 2004 swaps have the same maturity as the private placement loans. The fair value of the 2004 swaps at 31 December 2009 represented an asset of £3.0m (2008: £5.3m) which is included in other non-current assets and a liability of £1.5m (2008: £nil) which is included in other non-current liabilities.

The US\$75m 2004 interest rate swaps have been designated as fair value hedges of the Group's exposure to changes in the fair value of US\$75m of the US private placement loans arising from changes in US interest rates. The US\$ leg of the 2004 cross currency interest rate swap has been designated a fair value hedge of the Group's exposure to changes in fair value of US\$25m of the private placement loans arising from changes in sterling dollar exchange rates and US interest rates. The effective portion of the change in fair value of these hedging instruments during the year, a loss of £4.8m (2008: £11.8m gain), has been taken to the income statement along with the equal and opposite movement in fair value of the corresponding hedged items.

US\$75m of the private placement liabilities, together with the euro leg of the 2004 cross currency interest rate swap, are designated as net investment hedges of the Group's dollar and euro-denominated net assets. The effective portion of the change in fair value of these hedging instruments during the year, a gain of £6.1m (2008: £19.0m loss), has been taken to the translation reserve through other comprehensive income along with the foreign exchange gains and losses arising on retranslation of the dollar- and euro-denominated assets they hedge.

In June 2006 US\$185m of floating rate intra-group debt was swapped into sterling floating rates by means of dollar sterling cross currency interest rate swaps ('the 2006 swaps'). The 2006 swaps have the same maturity as the intra-group debt and have been designated as cash flow hedges of the Company's

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exposure to the variability of cash flows on the intra-group debt resulting from changes in foreign exchange rates. The fair value of the 2006 swaps at 31 December 2009 represented a liability of £15.6m (2008: £27.5m) included in other non-current liabilities. The effective portion of changes in the fair value of the 2006 swaps, a gain of £11.3m (2008: £35.1m loss), has been taken to the hedging reserve and fully recycled through the income statement during the year.

All hedges are tested for effectiveness every six months using the cumulative dollar offset method. All hedging relationships remained effective during the year. The ineffective portion of the movement in the fair value of the hedging instruments was £0.6m gain (2008: £0.5m loss).

Effective interest rates and maturity analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature. The undiscounted cash flows of these financial instruments are not materially different from their carrying values.

	2009 Effective interest rate %	2009 Due within 1–2 years £m	2009 Due within 2–5 years £m	2009 Due after more than 5 years £m	2009 Total non- current £m	2009 Due within 1 year £m	2009 Total £m
Bank overdrafts	1.9	–	–	–	–	(6.0)	(6.0)
Bank loans*	1.9	(38.9)	–	–	(38.9)	(0.6)	(39.5)
Other loans	3.4	(19.7)	(46.7)	–	(66.4)	–	(66.4)
Obligations under finance leases*	4.0	(0.7)	(0.2)	–	(0.9)	(1.3)	(2.2)
Total loans and borrowings		(59.3)	(46.9)	–	(106.2)	(7.9)	(114.1)
Bank balances	0.2	–	–	–	–	34.7	34.7
Short-term deposits*	5.4	–	–	–	–	0.6	0.6
Net debt		(59.3)	(46.9)	–	(106.2)	27.4	(78.8)
Derivative financial instruments		1.0	0.4	(15.5)	(14.1)	0.6	(13.5)

	2008 Effective interest rate %	2008 Due within 1–2 years £m	2008 Due within 2–5 years £m	2008 Due after more than 5 years £m	2008 Total non- current £m	2008 Due within 1 year £m	2008 Total £m
Bank overdrafts	5.9	–	–	–	–	(2.1)	(2.1)
Bank loans*	4.6	(0.3)	(49.9)	–	(50.2)	(0.8)	(51.0)
Other loans	5.2	–	(22.1)	(54.0)	(76.1)	–	(76.1)
Obligations under finance leases*	4.6	(1.3)	(0.8)	–	(2.1)	(1.9)	(4.0)
Total loans and borrowings		(1.6)	(72.8)	(54.0)	(128.4)	(4.8)	(133.2)
Bank balances	3.4	–	–	–	–	47.5	47.5
Short-term deposits*	3.1	–	–	–	–	1.1	1.1
Net debt		(1.6)	(72.8)	(54.0)	(128.4)	43.8	(84.6)
Derivative financial instruments		0.6	1.2	(24.0)	(22.2)	–	(22.2)

* These include assets/liabilities bearing interest at a fixed rate.

In addition, there were non-interest-earning financial liabilities comprising trade and other payables of £216.4m (2008: £276.3m) which were payable within one year.

The Group had unutilised committed banking facilities of £88.4m at 31 December 2009 (2008: £77.4m). This mainly comprises the Group's £65m facility which expires on 23 July 2010 and the unutilised portions of the Group's £80m revolving credit facility which expires on 20 June 2011. In addition, the Group had unutilised uncommitted facilities totalling £34.2m at 31 December 2009 (2008: £42.7m). All of these borrowing facilities are unsecured.

Future obligations under finance leases totalled £2.3m (2008: £4.3m), including interest of £0.1m (2008: £0.3m).

Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Derivatives

The fair value of interest rate and cross currency swaps is calculated based on discounted expected future principal and interest cash flows. In 2009 and in 2008, the valuation methods of all of the Group's derivative financial instruments carried at fair value are categorised as Level 2. Level 2 is defined as inputs, other than quoted prices (unadjusted) in active markets for identical assets or liabilities, that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other payables and receivables and construction work in progress

For payables and receivables with a remaining life of one year or less, the carrying amount is deemed to reflect the fair value. All other payables and receivables are discounted to determine their fair value.

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Interest rate and currency profile

The profile of the Group's financial assets and financial liabilities after taking account of swaps was as follows:

	2009 Sterling	2009 USD	2009 Euro	2009 AUD	2009 Total
Weighted average fixed debt interest rate	7.0%	–	1.7%	–	n/a
Weighted average fixed debt period (years)	2.0	–	3.0	–	n/a
	2009 £m	2009 £m	2009 £m	2009 £m	2009 £m
Fixed rate financial liabilities	(0.2)	–	(2.0)	–	(2.2)
Floating rate financial liabilities	(22.8)	(48.4)	(36.2)	(4.5)	(111.9)
Financial assets	2.0	7.0	25.0	1.3	35.3
Net debt	(21.0)	(41.4)	(13.2)	(3.2)	(78.8)
	2008 Sterling	2008 USD	2008 Euro	2008 AUD	2008 Total
Weighted average fixed debt interest rate	7.0%	8.0%	3.5%	–	n/a
Weighted average fixed debt period (years)	4.0	1.0	2.0	–	n/a
	2008 £m	2008 £m	2008 £m	2008 £m	2008 £m
Fixed rate financial liabilities	(0.5)	(0.5)	(3.5)	–	(4.5)
Floating rate financial liabilities	(22.7)	(73.7)	(32.1)	(0.2)	(128.7)
Financial assets	1.2	5.8	39.5	2.1	48.6
Net debt	(22.0)	(68.4)	3.9	1.9	(84.6)

Sensitivity analysis

At 31 December 2009, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before taxation by approximately £1.0m (2008: £0.9m). The impact of interest rate swaps has been included in this calculation.

It is estimated that a general increase of ten percentage points in the value of sterling against other principal foreign currencies would have decreased the Group's profit before taxation by approximately £8m for the year ended 31 December 2009 (2008: £11m). This sensitivity relates to the impact of retranslation of foreign earnings only. The impact on the Group's earnings of currency transaction exchange risk is not significant.

25 Share capital and reserves

Authorised

Equity share capital:

80,000,000 ordinary shares of 10p each (2008: 80,000,000)

2009
£m

2008
£m

8.0

8.0

Allotted, called up and fully paid

Equity share capital:

66,468,235 ordinary shares of 10p each (2008: 66,318,235)

6.6

6.6

The Company has one class of ordinary shares, which carries no rights to fixed income. There are no restrictions on the transfer of these shares. All shares issued in the year related to share options that were exercised.

The capital redemption reserve is a non-distributable reserve created when the Company's shares were redeemed or purchased other than from the proceeds of a fresh issue of shares.

During the period, the Company repurchased nil (2008: 2.2 million) shares, all of which are held in Treasury. In addition, the Company purchased a further 330,000 shares (2008: 325,000) specifically to satisfy Performance Share Plan awards. The average cost of purchased shares was £4.81 (2008: £6.81).