

34 Statement of accounting policies

Basis of accounting

The financial statements have been prepared on the basis of historical cost and in accordance with applicable accounting standards. During the year the Group has adopted both FRS17 – Retirement Benefits and FRS18 – Accounting Policies. FRS17 is dealt with in the Pension accounting policy below. The adoption of FRS18 has had no effect on the current or prior year results.

Consolidation and results

For all subsidiary undertakings the accounts include the results for those companies controlled throughout the year or to the date of disposal or from the date of acquisition as appropriate.

Where local fiscal and company legislation prevents foreign subsidiaries and associated companies from complying with the Group's accounting policies, adjustments are made on consolidation to present the Group accounts on a consistent basis.

Acquisitions and disposals

In accordance with FRS6 and 7, on the acquisition of a business, including an interest in an associated company, fair values are attributed to the Group's share of the identifiable assets and liabilities of the business existing at the date of acquisition and reflecting the conditions at that date. Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and, prior to 1 January 1998, was written off direct to reserves in the year of acquisition.

Following the issue of FRS10 – Goodwill and Intangible Assets, purchased goodwill arising after 1 January 1998 is capitalised and amortised to the profit and loss account over its estimated useful life which will not exceed twenty years. Negative goodwill is capitalised in accordance with FRS10 and is amortised over the expected useful lives of the non-monetary assets acquired. As a matter of accounting policy, goodwill written off directly to reserves prior to 1 January 1998 remains written off against reserves. In accordance with FRS11 – Impairment of Fixed Assets and Goodwill, any impairment of capitalised goodwill will be written off to the profit and loss account in the period in which the impairment is recognised.

The profit or loss on the disposal of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business. A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and either its sale is completed or, if a termination, its former activities have ceased permanently prior to the approval of these financial statements.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end or related forward contract rates. Trading results are translated at the average rates of exchange for the year after eliminating the effects of hyper-inflation in certain countries by using an appropriate stable currency as the functional currency for operations in these countries. Profits and losses on exchange arising in the normal course of trading and realised exchange differences arising on the conversion or repayment of foreign currency borrowings are dealt with in the profit and loss account. Unrealised exchange differences arising on the translation of overseas net assets and matched long term foreign currency borrowings or forward exchange contracts are taken direct to reserves.

Turnover

All turnover and profit figures relate to external transactions and turnover represents the value of goods and services supplied net of returns.

Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Group, or profits and losses on the disposal of fixed assets. In these cases, separate disclosure is provided on the face of the profit and loss account after operating profit.

Grants

Revenue based grants are credited against related expenditure.

Operating lease rentals

Rentals on operating leases are charged to profit and loss account in the year to which they relate.

Research and development expenditure

Expenditure is charged to profit and loss account in the year it is incurred.

Pensions and other post retirement benefits

It is the policy of the Group to comply with legal requirements and established practice in the various countries in which there are employees or former employees.

The Group has adopted FRS17 – Retirement Benefits in these accounts and comparative figures have been restated accordingly. Details of the effect of the change in accounting policy and the restatement of comparative figures are set out in note 29.

The Group operates various defined benefit and contribution pension schemes throughout the world. Contributions to the defined contribution schemes are charged to the accounts as incurred.

The defined benefits schemes provide benefits based on the final pensionable salary. The assets of most of the defined benefit schemes, particularly those in the UK and North America, are held separately from those of the Group. In certain countries in Europe, pension liabilities are unfunded and carried on the Company balance sheets.

Defined benefit pension scheme assets are measured using closing market values. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Under FRS17, any surplus arising based on these valuations is restricted to the present value of any pension contribution holiday. No account is taken of any potential refund from the scheme as these can only be included once agreed by the trustees. The amount included in the accounts is defined as the recognised recoverable surplus.

The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in other finance income.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Liabilities for US post-retirement medical benefits have been accounted for in accordance with FRS17.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and, where appropriate, provision for impairment or estimated losses on disposal. Depreciation is provided to write off the cost of the assets by equal instalments over their expected useful lives.

The rates used are:

Freehold and long leasehold land	Nil	Motor vehicles	20%
Freehold and long leasehold buildings	2%	Electronic office equipment	25%
Short leasehold property	Over period of lease	All other plant and machinery	5% to 25%

Assets held under finance leases are included in tangible fixed assets at a value equal to the original cost incurred by the lessor less depreciation, and obligations to the lessor are shown as part of creditors. The interest element is charged to profit and loss account under the reducing balance method.

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Investments

Fixed asset investments are stated at cost unless, in the opinion of the Directors, there has been an impairment, in which case an appropriate adjustment is made.

Listed current asset investments are stated at the lower of cost or market value, and other current asset investments are stated at the lower of cost and estimated net realisable value.

Associated companies

Investments, excluding those classified as subsidiaries, are regarded as associated companies where the Group has a long term interest in more than 20% of the equity and exercises a significant influence over their affairs on a continuing basis. These are stated in the Consolidated Balance Sheet at the Group's share of net assets after adjustment for goodwill or discount on acquisition.

In accordance with FRS9 – Associates and Joint Ventures, the Group's share of associated companies' operating profits or losses, net interest and exceptional items are shown separately in the financial statements.

Stocks

Stocks are valued on bases consistent with those used in previous years at the lower of cost and net realisable value. Cost is the invoiced value of materials plus, in the case of work in progress and finished goods, labour and factory overheads based on a normal level of production.

Provisions

In accordance with FRS12, provisions are only made for losses arising as a result of restructuring when the Group is constructively obligated to implement the restructuring.

Deferred taxation

Provision is made for taxation liabilities which, under current legislation, are expected to crystallise in the foreseeable future.

Unrelieved advance corporation tax is carried forward only when it can be set against provisions for taxation or to the extent recoverable against tax liabilities in respect of the following period. No provision is made for taxation that would arise on the remittance of retained profits by overseas subsidiaries and associated companies subsequent to the balance sheet date as there is no present intention to remit these retained profits.

Capital instruments

Capital instruments are accounted for in accordance with the principles of FRS4 and are classified as equity share capital, non-equity share capital, minority interest or debt as appropriate. Convertible debt is separately disclosed and is regarded as debt unless conversion actually occurs. Provision is made for any accrued premium payable on redemption of redeemable debt or non-equity interests.

Capital instruments are initially carried at the amount of the net proceeds. The finance costs and issue expenses are allocated to the profit and loss account over the life of the debt at a constant rate on the carrying amount.

Reporting the substance of transactions

In accordance with FRS5, transactions entered into by the Group are recorded in the financial statements taking into account their full commercial substance.

Liquid resources

The Group defines liquid resources as short term deposits and current asset investments maturing or capable of being realised within one year.