

Accounting policies

for the year ended 30 September 2008

Introduction

The significant accounting policies adopted in the preparation of the Group's financial statements are set out below:

A Accounting convention and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations as adopted by the European Union at 30 September 2008 and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. They have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments.

In the current year, the Group has adopted IFRS 7 'Financial Instruments: Disclosures' which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 'Presentation of Financial Statements'. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies'; IFRIC 8 'Scope of IFRS 2'; IFRIC 9 'Reassessment of Embedded Derivatives'; and IFRIC 10 'Interim Financial Reporting and Impairment'. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 October 2008 or later periods. The Group has identified IAS 23 '(Revised) Borrowing Costs', IFRS 8 'Operating Segments', IFRIC 11 'IFRS 2 Group and Treasury Share Transactions' and IFRIC 12 'Service Concession Arrangements' as being relevant to its business but the Group has not adopted these early. The Group does not anticipate that any of these standards and interpretations will have a material impact on the Group's financial statements.

IFRIC 14 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' was adopted early in the year ended 30 September 2007. The Group has not recognised actuarial surpluses of £nil arising on defined benefit obligations in its accounts for the year ended 30 September 2008 (2007: £92 million).

B Use of assumptions and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year are discussed below.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the results for the year and the respective income tax and deferred tax provisions in the year in which such determination is made.

Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in section M below. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates and assumptions consistent with the most up-to-date budgets and plans that have been formally approved by management. The key assumptions used for the value in use calculations are set out in note 10 to the financial statements.

Post-employment benefits

Defined benefit schemes are reappraised annually by independent actuaries based on actuarial assumptions. Significant judgement is required in determining these actuarial assumptions. The principal assumptions used are described in note 23 to the financial statements.

C Basis of consolidation

The consolidated financial statements consist of the financial statements of the Company, entities controlled by the Company (its subsidiaries) and the Group's share of interests in joint ventures and associates made up to 30 September each year.

D Subsidiaries, associates and joint ventures

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control.

Joint ventures

Joint ventures are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and other venturers under a contractual agreement. The Group's share is accounted for using the proportionate consolidation method. The consolidated income statement and balance sheet include the Group's share of the income, expenses, assets and liabilities.

Associates

Associates are undertakings that are not subsidiaries or joint ventures over which the Group has significant influence and can participate in financial and operating policy decisions. Investments in associated undertakings are accounted for using the equity method. The consolidated income statement includes the Group's share of the profit after tax of the associated undertakings. Investments in associates include goodwill identified on acquisition and are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value.

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Adjustments

Where necessary, adjustments are made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used in line with those used by the Group.

Acquisitions and disposals

The results of subsidiaries, associates or joint ventures acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Intra-group transactions

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Where a Group subsidiary transacts with a joint venture of the Group, profits or losses are eliminated to the extent of the Group's interest in the relevant joint venture.

E Acquisitions

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed are recognised at the fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale which are recognised and measured at fair value less costs to sell.

The cost of the acquisition in excess of the Group's interest in the net fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

F Foreign currency

The consolidated financial statements are prepared in pounds Sterling, which is the functional currency of the Company.

In preparing the financial statements of individual companies within the Group, transactions in currencies other than pounds Sterling are recorded at the rates of exchange on the dates of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates on the balance sheet date. Gains and losses arising on retranslation are included in the income statement for the period, except for where they arise on items taken directly to equity, in which case they are also recognised in equity.

In order to hedge its exposure to certain foreign exchange risks the Group enters into forward contracts (see section Q below for the Group's accounting policies in respect of derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations (expressed in their functional currencies, being the currency of the primary economic environment in which each entity operates) are translated at the exchange rates on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

G Revenue

Revenue is recognised in the period in which services are provided in accordance with the terms of the contractual relationships with third parties. Revenue represents the fair value of the consideration received or receivable for goods and services provided in the normal course of business, excluding trade discounts, value added tax and similar sales taxes.

Management fee contracts

Revenue from management fee contracts comprises the total of sales made to consumers, the subsidy charged to clients, together with the management fee charged to clients.

Fixed price contracts

Revenue from fixed price contracts is recognised in proportion to the volume of services that the Group is contracted to supply in each period.

Inter-segment transactions

There is minimal intra-group trading between the reported business segments. Where such trading does take place it is on similar terms and conditions to those available to third parties.

H Rebates and other amounts received from suppliers

Rebates and other amounts received from suppliers include agreed discounts from suppliers' list prices, value and volume-related rebates.

Income from value and volume-related rebates is recognised based on actual purchases in the period as a proportion of total purchases made or forecast to be made over the rebate period.

Agreed discounts relating to inventories are credited to the income statement as the goods are consumed.

Rebates relating to items purchased but still held at the balance sheet date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

Rebates received in respect of plant and equipment are deducted from the costs capitalised.

I Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

J Operating profit

Operating profit is stated before the share of results of associates, investment revenue and finance costs.

K Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

L Tax

Income tax expense comprises current and deferred tax. Tax is recognised in the income statement except where it relates to items taken directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and the Group intends to settle its current tax assets and liabilities on a net basis.

M Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill is tested annually for impairment and is carried at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. A CGU is identified at the lowest aggregation of assets that generate largely independent cash inflows, and that which is looked at by management for monitoring and managing the business. This is generally the total business for a country. However, in some instances, where there are distinct separately managed business activities within a country, particularly if they fall within different secondary business segments, the CGU is identified at this lower level.

If the recoverable amount of the CGU is less than the carrying amount, an impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment is immediately recognised in the income statement and an impairment loss recognised for goodwill is not subsequently reversed.

On disposal, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent gain or loss on disposal.

Other intangible assets

Intangible assets acquired separately are capitalised at cost or, if acquired as part of a business combination, are capitalised at fair value as at the date of the acquisition. Internally generated intangible assets are not capitalised. Amortisation is charged on a straight-line basis on assets over their expected useful lives.

The following rates applied for the Group:

- Contract-related intangible assets: the life of the contract; and
- Computer software: 6% to 33% per annum.

The typical life of contract-related intangibles is 2-20 years.

Contract-related intangible assets arising on acquisition of a business are recognised at fair value and amortised over the life of the contract. Underlying operating profit and underlying earnings per share exclude the amortisation of contract-related intangible assets arising on acquisition of a business as it is not considered to be relevant to the underlying trading performance of the Group.

N Property, plant and equipment

All tangible fixed assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. Freehold land is not depreciated. All other property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value.

Depreciation is provided on a straight-line basis over the anticipated useful lives of the assets.

The following rates applied for the Group:

- Freehold buildings and long-term leasehold property: 2% per annum;
- Short-term leasehold property: the life of the lease;
- Plant and machinery: 8% to 33% per annum; and
- Fixtures and fittings: 8% to 33% per annum.

When assets are sold, the difference between sales proceeds and the carrying amount of the assets is dealt with in the income statement.

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O Assets held for sale

Non-current assets and disposal groups are classified as held for sale if the carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, management is committed to a sale plan, the asset is available for immediate sale in its present condition and the sale is expected to be completed within one year from the date of classification. These assets are measured at the lower of carrying value and fair value less costs to sell.

P Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using either the weighted average price or the first in, first out method as appropriate to the circumstances. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Q Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities, including derivative financial instruments, denominated in foreign currencies are translated into Sterling at period-end exchange rates. Gains and losses are dealt with through the income statement, unless hedge accounting treatment is available.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Borrowings

Borrowings are recognised initially at the proceeds received, net of direct issue costs. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of direct issue costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Liabilities in respect of option agreements

Option agreements that allow minority shareholders to require the Group to purchase the minority interest are treated as derivatives over equity instruments. These are recorded in the balance sheet at fair value which is re-evaluated at each period end. Fair value is based on the present value of expected cash outflows. The movement in fair value is recognised as income or expense within finance costs in the income statement.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with changes in foreign exchange rates and interest rates. Such derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

The use of financial derivatives is governed by the Group's policies approved by the Board of directors that provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges (interest rate swaps) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity.

When fair value hedge accounting is discontinued, any adjustment to the carrying amount of the hedged item for the designated risk or interest-bearing financial instruments is amortised to profit or loss, with amortisation commencing no later than when the hedged item ceases to be adjusted.

The Group's policy is to convert a proportion of its floating rate debt to fixed rates, using floating to fixed interest rate swaps. The Group designates these as cash flow hedges of interest rate risk.

In relation to cash flow hedges (forward foreign exchange contracts) to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost of other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivative financial instruments that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement in the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. 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.

Additional information can be found in note 20 to the financial statements.

R Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. 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 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 directly against income.

Payments made under operating leases are charged to income on a straight-line basis over the period of the lease. Any incentives to enter into an operating lease are also spread on a straight-line basis over the lease term.

S Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the cost of settling these liabilities and are discounted to present value where the effect is material.

T Employee benefits

Pension obligations

Payments made to defined contribution pension schemes are charged as an expense when they fall due. Payments made to state-managed schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution pension scheme.

For defined benefit pension schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The pension obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Other post-employment obligations

Some Group companies provide other post-employment benefits. The expected costs of these benefits are accrued over the period of employment using a similar basis to that used for defined benefit pension schemes. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Share-based payments

The Group issues equity-settled and cash-settled share-based payments to certain employees. In accordance with the requirements of IFRS 2 'Share-based Payments', the Group has applied IFRS 2 to all equity-settled share options granted after 7 November 2002 that were invested at 1 January 2005. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using either the binomial distribution or Black-Scholes pricing models as is most appropriate for each scheme. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

Holiday pay

Paid holidays and similar entitlements are regarded as an employee benefit and are charged to the income statement as the benefits are earned. An accrual is made at the balance sheet date to reflect the fair value of holidays earned but not taken.