ACCOUNTING POLICIES
Year ended 31 March 2014

Basis of preparation
The consolidated and Company financial statements have been prepared on a historical cost basis. They are presented in sterling and all values are rounded to the nearest 0.1 million (£ million) except where otherwise indicated.

The consolidated financial statements of Dairy Crest Group plc have been prepared in accordance with IFRS as adopted by the European Union ('EU'). The separate Company financial statements have been prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

Having reviewed and taken into account Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009, the Directors are satisfied that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. See the Going Concern Statement on page 63 of the Directors' Report.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are (i) the measurement of the impairment of goodwill, intangible assets and property, plant and equipment (ii) the measurement of defined benefit pension scheme assets and obligations (iii) the calculation of promotional discount accruals and (iv) the estimation of tax costs in France in relation to the sale of St Hubert.

(i) The Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. The assessment of value in use is compared to the carrying value of goodwill. This requires estimation of future cash flows and the selection of a suitable discount rate. Goodwill in Dairies was fully impaired in the year ended 31 March 2012.

The Group tests whether intangible assets, property, plant and equipment are impaired where there are indications that there is a risk of impairment. This requires an estimation of the value in use of the cash-generating units in which these assets reside. The assessment of value in use is compared to the carrying value of assets. This requires estimation of future cash flows and the selection of a suitable discount rate.

In the year ended 31 March 2014, the Group tested the intangible assets, property, plant and equipment of the Dairies cash-generating unit for impairment due to indicators of impairment being present. Three key assumptions in performing the test included the projected value and timing of cash flows from property sales, the allocation of corporate costs following the restructure of the business to a single operating unit and the projected profit growth. The result of the test was that no impairment was required however the headroom was low and therefore sensitive to the above assumptions.

(ii) Measurement of defined benefit pension obligations requires estimation of future changes in inflation, mortality rates, the expected return on plan assets and the choice of a suitable discount rate.

(iii) The group accrues for customer claims against agreed promotional funding. Accruals are calculated based on an estimated redemption rate of the promotion. The redemption rate used is dependent on the promotional mechanic. Management consider this to be an area of judgment that is significant due to the potential size of the claims.

(iv) The sale of the St Hubert business will result in tax payable in France both on the chargeable gain on disposal and on dividend payments made to the UK parent between 31 March 2012 and the date of disposal in August 2012. An estimate has been made of the likely tax costs resulting from these transactions however the final assessment has yet to be agreed with the French tax authorities which may result in a change to the level of tax provisioning.

The key areas where judgment has been applied are (i) The timing and nature of exceptional costs and (ii) the judgment that for IFRS 8 purposes only one segment should be reported on.

(i) Items of a material, one-off nature, which result from a restructuring of the business or some other event or circumstance are disclosed separately in the Consolidated Income Statement as exceptional. Management consider this to be an area of judgment due to the assumptions made around the timing and nature of exceptional costs.

(ii) Following the restructure of the Group to a single operating unit in 2013, management has judged that following the implementation of a new structure, the Group comprises one segment under IFRS 8.

Further analysis of the key sources of estimation uncertainty and sensitivities are included in the relevant notes to the accounts.

Changes in accounting policies
The following accounting standards and interpretations became effective for the current reporting period:

International Accounting Standards (IAS/IFRSs)
IFRS 1 – Amendment to IFRS 1 – First Time Adoption of IFRS (effective 1 January 2013)
IFRS 13 – Fair Value Measurement (effective from 1 January 2013)
IFRS 7 – Amendments to IFRS 7 – Financial Instruments: Disclosures (effective 1 January 2013)
IFRS 9 – Financial Instruments (effective 1 January 2015)
IFRS 10 – Consolidated Financial Statements (effective 1 January 2014)
IFRS 11 – Joint Arrangements (effective 1 January 2014)
IFRS 12 – Disclosure of Interest in Other Entities (effective 1 January 2014)
IAS 1 – Amendments to IAS 1: Presentation of Financial Statements (effective from 1 July 2012)
IAS 19R – Amendments to IAS 19: Employee Benefits (effective from 1 January 2013)
IAS 32 – Amendments to IAS 32: Financial Instruments (effective from 1 January 2014)
IAS 27 – Separate Financial Statements (effective 1 January 2014)
IAS 28R – Investments in Associates and Joint Ventures (effective 1 January 2014)
IAS 32 – Improvement to IAS 32: Financial Instruments (effective 1 July 2013)
IFRS 3 – Improvement to IFRS 3: Business Combinations (effective 1 January 2013)

International Financial Reporting Interpretations Committee (IFRIC)
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine (effective from 1 January 2013)

The application of these standards has had no material impact on the net assets, results and disclosures of the Group in the year ended 31 March 2014 with the exception of the amendments to IAS19R – Employee Benefits. The principal impact on the Group of the application of this standard is the requirement to use the discount rate when calculating expected returns on the asset component of pension cost. This change has resulted in higher charges to the Consolidated Income Statement for the pension interest cost. There is no material impact on the reported pension liabilities each year end as the impact in the Consolidated Income Statement is mitigated by an offsetting change in the calculation of actuarial gains and losses in the Statement of Comprehensive Income – namely the difference between actual and expected asset returns will increase.

Further details are included in Note 20 to the accounts.

The impact of IAS 1 – Amendment to IAS 1: Presentation of Financial Statements has resulted in a presentation change to the consolidated statement of comprehensive income that requires the 'other comprehensive income' to be grouped into one of the following:

- To be reclassified to profit and loss in subsequent years; or
- Not to be reclassified to the profit and loss in subsequent years

The IASB and IFRIC have issued the following standards (with an effective date after the date of these accounts) and interpretations:

International Accounting Standards (IAS/IFRSs)
IAS 16 – Improvement to IAS 16: Property, Plant and Equipment (effective 1 July 2014)
IAS 38 – Improvement to IAS 38: Intangible Assets (effective 1 July 2014)
IAS 24 – Improvement to IAS 24: Related Party Disclosure (effective 1 July 2014)
IFRS 13 – Improvement to IFRS 13: Fair Value Measurement (effective 1 July 2014)

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Consolidation
The Group financial statements consolidate the accounts of Dairy Crest Group plc and its subsidiaries drawn up to 31 March each year using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

Subsidiaries acquired during the year are consolidated from the date on which control is transferred to the Group. Subsidiaries continue to be consolidated until the date that control ceases.

Where the Group ceases to control a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences on net assets and borrowings designated as net investment hedges, previously recorded in other comprehensive income; (iv) recognises the fair value of any investment or associate retained; (v) recognises any surplus or deficit in the consolidated income statement; and (vi) reclassifies the parent's share of components previously recognised in other comprehensive income or retained earnings as appropriate.

Interest in associates
The Group's investments in associates are accounted for under the equity method of accounting. Associates are entities over which the Group exerts significant influence. The Company and its associates use consistent accounting policies. The investment in associates are carried in the balance sheet at initial fair value plus post-acquisition changes in the Group's share of net assets, less any impairment in value and any distributions received. The consolidated income statement reflects the share of the post-tax results of associates. Where there has been a change recognised directly in the associates' other comprehensive income, the Group recognises its share of such changes and discloses this, where applicable in other comprehensive income.

Foreign currency translation
The functional and presentational currency of Dairy Crest Group plc and its United Kingdom ('UK') subsidiaries is Sterling (£).

Transactions in foreign currency are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the balance sheet date. Exchange differences on monetary items are taken to the income statement, except where recognised in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

On consolidation, assets and liabilities of foreign subsidiaries are translated into sterling at year end exchange rates. The results of foreign subsidiaries are translated into sterling at average rates of exchange for the year (being an approximation of actual exchange rates). Exchange differences arising from the retranslation of the net investment in foreign subsidiaries at year end exchange rates, less exchange differences on borrowings, which finance or provide a hedge against those undertakings are taken to a separate component of equity as long as IFRS hedge accounting conditions are met. Exchange differences relating to foreign currency borrowings that provide a hedge against a net investment in a foreign entity remain in equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated to write off the cost (less residual value) of property, plant and equipment, excluding freehold land, on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings:	25 years
Leasehold land and buildings:	25 years or, if shorter, the period of the lease
Office equipment:	4 to 6 years
Factory plant and equipment:	6 to 20 years
Vehicles:	4 to 10 years

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value exceeds the estimated recoverable value, the asset is written down to its recoverable amount. The recoverable amount of plant and equipment is the greater of the fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are charged to the consolidated income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year that it is derecognised.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the respective assets.

All other borrowing costs are recognised as an expense in the period they occur.

Investments
The Company recognises its investments in subsidiaries at cost being the fair value of consideration paid, less provisions for impairment where appropriate.

Business Combinations and Goodwill
Business combinations from 1 April 2010 are accounted for using the acquisition method (previously used the purchase method). The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of acquiree's identifiable net assets will be determined on a transaction by transaction basis. Acquisition costs incurred are expensed to profit and loss.

Goodwill on acquisition is initially measured at cost being the cost of the acquisition (see above) less net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. All goodwill was tested for impairment at the time of transition to IFRS and no impairment was identified.

Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at the net book value as at this date and is not subsequently amortised.

As at the acquisition date, any goodwill acquired is allocated to the cash-generating unit or groups of cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

The Group's cash-generating units, for the purpose of considering goodwill, are 'Dairies' (fully impaired), 'Spreads', 'MH Foods' and 'Cheese'. These represent the lowest level at which goodwill is monitored.

Goodwill arising on acquisitions before 1 April 1998 has been charged against the merger reserve and will remain set off against reserves even if the related investment becomes impaired or the business sold.

The Group has not restated business combinations prior to the transition date of 1 April 2004. Acquisitions prior to this date are recorded under previous accounting rules.

Intangible assets
Intangible assets acquired as part of an acquisition of a business are capitalised at fair value separately from goodwill if the fair value can be measured reliably on initial recognition and the future expected economic benefits flow to the Group. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Currently, all the Group's intangible assets have finite useful lives and are amortised over 3 to 15 years. Acquired intangible assets principally comprise acquired brands and, following the sale of St Hubert, principally the Frylight brand which was considered to have a useful life of 15 years at the date of acquisition.

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Intangible assets generated internally comprise software development expenditure. Software development is carried at cost less accumulated amortisation and is amortised over four to seven years. Internally generated intangible assets that are not yet available for use are tested for impairment annually either individually or at the cash-generating unit level or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Research and development
Expenditure on research is written off as incurred. Development expenditure is also written off as incurred unless the future recoverability of this expenditure can reasonably be assured as required by IAS 38: Intangible Assets.

Recoverable amount of non-current assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost includes the purchase price of raw materials (on a first in first out basis), direct labour and a proportion of manufacturing overheads based on normal operating capacity incurred in bringing each product to its present location and condition. Net realisable

value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling costs.

Trade and other receivables
Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

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. For the purposes of the Consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

Interest bearing loans
All loans and borrowings are initially recognised at the fair value net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the Consolidated Income Statement when the liabilities are derecognised.

Net debt
The Group and Company define net debt as cash and cash equivalents, interest bearing loans and finance leases. The calculation of net debt excludes the fair value of derivative financial instruments with the exception of cross currency swaps to fix foreign currency debt in Sterling where they are designated as cash flow hedges. In this case the fixed Sterling debt, not the underlying foreign currency debt retranslated, is included in net debt. It includes any cash or borrowings included within disposal groups classified as held for sale and excludes unamortised upfront facility fees.

Retirement benefit obligations
The Group operates two types of pension arrangements, a defined benefit scheme and defined contribution schemes.

Defined contribution schemes
These pension arrangements do not constitute a future obligation to the Group. Members of these schemes will contribute a percentage of their salary into the scheme and the Company will pay an additional amount into the scheme. The size of an individual's pension on retirement is based on the performance of the asset portfolio and is not linked to salary. Company contributions to the scheme are charged to the profit and loss account in the same period as services are rendered by the relevant employee.

Defined benefit schemes
Under these pension arrangements the individual and company make contributions into a scheme and future benefits to individuals are guaranteed subject to final salary, number of years service, future inflation and other factors. Scheme assets and future liabilities are recorded in the sponsoring company's balance sheet as one net asset or obligation.

The company has closed its defined benefit scheme and therefore no current service costs are required to be charged to Income Statement.

At the beginning of each financial year the scheme actuaries will provide an estimate of the interest cost on the net scheme liability/deficit. This interest is charged/credited to finance income/charges in the profit and loss account in each reporting period. Any correction required to this estimate is done at period 6 and period 12 based on updated calculations provided by the scheme actuary.

Scheme admin costs that are not directly related to investment activities are charged to the profit and loss account. Admin costs that are directly related to investment are recognised as part of the re-measurement exercise through the OCI/reserves.

Scheme admin costs, net pension interest and employer cash contributions (including any additional contributions) are posted to the retirement obligation on the balance sheet. At the half year and full year an updated actuarial valuation is obtained from external advisors. Any movement in the pension asset/liability resulting from changes in assumptions, or differences between expected and actual asset returns (namely actuarial gains or losses) are taken to the statement of comprehensive income in full along with the related deferred tax impact.

Where there is a potential pension surplus, further work would be undertaken by external advisors to ascertain the limit if any on any surplus that can be recognised. The present value of benefits from reduced company contributions beyond the agreed minimum funding level agreement form the upper limit for any recognisable surplus (IFRIC 14).

Any potential tax implications of an estimated scheme surplus would be allowed for in the total pension liability, transacted via deferred tax assets and OCI /reserves.

Any event that has a material impact on the scheme would be discussed with the scheme actuary. Examples of a material event would be a merger or acquisition or the implementation of an insurance buy-in.

Where a scheme-wide curtailment gain occurs because of amendments to the plan, the gain is recognised when the plan terms are amended even if the impact will only take effect in future accounting periods. The announcement itself of scheme term changes does not trigger a curtailment gain.

Share based payments
Equity based performance payments
The Group and Company has issued equity-settled share based payment schemes for which they receive services from employees in consideration for the equity instrument. Equity-settled share based payment schemes are measured at fair value at the grant date by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

The cost of equity settled transactions with employees is measured by reference to the fair value and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees became fully entitled to the award. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately.

Rights granted to employees of subsidiary undertakings over equity instruments of the Company are treated as an investment in the Company's balance sheet.

Employees' Share Ownership Plan ('ESOP')
The shares in the Company held by the Dairy Crest Employees' Share Ownership Plan Trust to satisfy Long Term Incentive Share Plan awards are presented as a deduction from equity in arriving at shareholders' equity. Consideration received from the sale of such shares is also recognised in equity with no gain or loss recognised in the Consolidated Income Statement.

The Group and Company have not adopted the exemption to apply IFRS 2 Share-based payments only to awards made after 7 November 2002.

Leased assets
Assets acquired under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at fair value of the leased asset or, if lower, the present value of the minimum lease payments. The net present value of future lease rentals is included as a liability on the balance sheet. The interest element of lease rentals is charged to the Consolidated Income Statement in the year. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease rentals are charged to the Consolidated Income Statement on a straight-line basis over the lease term.

Revenue
Revenue on sale of food and dairy products is recognised on delivery. Revenue comprises the invoiced value for the sale of goods net of value added tax, rebates and discounts and after eliminating sales within the Group.

Discounts comprise mainly promotional accruals where the Group accrues for customer claims against agreed promotional funding. This is an area of judgment that management consider significant due to the potential size of the claims. Accruals are calculated based on an estimated redemption rate of the promotion. The redemption rate used is dependent on the promotional mechanic and considers known historic data on the performance of that mechanic.

Dividend income is recognised when the Company's right to receive payment is established.

Other income
Other income comprises the profit on disposal of closed household depots.

Exceptional items
Certain items are recorded separately in the Consolidated Income Statement as exceptional. Only items of a material, one-off nature, which result from a restructuring of the business or some other event or circumstance are disclosed in this manner in order to give a better understanding of the underlying operational performance of the Group. The profits arising on disposal of closed sites, other than as a result of depot rationalisation, are reported within exceptional items.

Government and other grants
Government grants are initially recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the Consolidated Income Statement over the expected useful life of the relevant asset in equal annual instalments.

Income tax
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except as indicated below.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset only if a legal enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the group to make a single net payment.

Income tax is charged or credited to Other Comprehensive Income if it relates to items that are charged or credited to Other Comprehensive Income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the Consolidated Income Statement.

Financial assets
The Group and Company classifies financial assets that are within the scope of IAS 39 as:

- financial assets at fair value through profit and loss;
- loans and receivables;
- held-to-maturity investments; or
- available-for-sale financial assets, as appropriate.

The Group and Company determines the classification of financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value. The Group and Company currently hold only loans and receivables.

Derivative instruments
The Group and Company use derivative financial instruments such as forward currency contracts, cross-currency swaps and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value and subsequently re-measured to fair value at each balance sheet date.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap and cross-currency swap contracts is determined by reference to market values for similar instruments and specific valuations performed by counterparties at the balance sheet date.

For the purpose of hedge accounting, hedges are classified as either:

- fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a firm commitment in relation to foreign exchange exposure.

Neither the Group nor the Company has entered into any fair value hedges during the year.

Cash flow hedges
In relation to cash flow hedges 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 Other Comprehensive Income and the ineffective portion is recognised in the Consolidated Income Statement.

When the hedged firm commitment (in relation to foreign exchange exposure) or the highly probable forecast transactions results in the recognition of a non-monetary asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in Other Comprehensive Income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in Other Comprehensive Income are transferred to the Consolidated Income Statement in the same year in which the hedged item affects the net profit and loss, for example when the future sale actually occurs, interest payments are made or when debt matures. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Consolidated Income Statement for the year.

Fair value measurement
The Group measures financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.