31 NET DEBT

Analysis of net debt

	31 December 2004 £m	On adoption of IAS 32 and IAS 39 £m	1 January 2005 £m	Exchange differences £m	Other non-cash movements £m	Cash flow £m	31 December 2005 £m
Cash and cash equivalents	565	–	565	18	–	37	**620**
Assets held for trading	47	–	47	2	3	–	**52**
	612	–	612	20	3	37	**672**
Debt financing							
Loans due within one year	(71)	–	(71)	–	(73)	(43)	**(187)**
Loans due after more than one year	(2,525)	22	(2,503)	(145)	63	(136)	**(2,721)**
Preferred equity facility	(154)	–	(154)	(18)	(1)	–	**(173)**
Convertible bonds	(158)	22	(136)	(17)	(3)	31	**(125)**
Secured bonds	(449)	–	(449)	–	4	–	**(445)**
Total debt financing	(3,357)	44	(3,313)	(180)	(10)	(148)	**(3,651)**
Net debt	(2,745)	44	(2,701)	(160)	(7)	(111)	**(2,979)**

	1 January 2004 £m	Exchange differences £m	On acquisition of subsidiaries (excluding cash) £m	Other non-cash movements £m	Cash flow £m	31 December 2004 £m
Cash and cash equivalents	696	(10)	–	–	(121)	565
Assets held for trading	47	–	–	–	–	47
	743	(10)	–	–	(121)	612
Debt financing						
Loans due within one year	(531)	34	(39)	466	(1)	(71)
Loans due after more than one year	(704)	(5)	(887)	(437)	(492)	(2,525)
Preferred equity facility	–	–	–	–	(154)	(154)
Convertible bonds	(200)	13	–	(1)	30	(158)
Secured bonds	–	–	(449)	–	–	(449)
Total debt financing	(1,435)	42	(1,375)	28	(617)	(3,357)
Net debt	(692)	32	(1,375)	28	(738)	(2,745)

32 FINANCIAL INSTRUMENTS – 2005

In accordance with IFRS 1, the Group has taken the exemption from the requirement to restate comparative information for IAS 32 and IAS 39. Accordingly the financial instruments disclosure presented in this note on the basis of IAS 32 and IAS 39 is only for 2005. The UK GAAP FRS 13 disclosures for 2004 are shown in note 33.

a) Treasury policy

Treasury policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its currency, interest rate and counterparty credit risks. The Group's treasury policy is not to engage in speculative transactions. Group treasury acts within clearly defined guidelines that are approved by the Board.

b) Risk identification and management

There is a continuous process for identifying, evaluating and managing the key risks faced by the Group. Activities are co-ordinated by the Risk Committee, which is chaired by the CFO, and has responsibility, on behalf of the Board, for ensuring the adequacy of systems for identifying and assessing significant risks, that appropriate control systems and other mitigating actions are in place, and that residual exposures are consistent with the Group's strategy and objectives. Assessments are conducted for all material entities.

c) Interest rate risk and hedge accounting

The Group's policy is to fix interest rates for a significant portion of the debt, 61% as at 31 December 2005 using forward rate or interest rate swap agreements. Significant interest rate management programmes and instruments require the specific approval of the Board. The weighted average interest rate of fixed rate debt was 7%. Where project finance is utilised, our policy is to align the maturity of the debt with the contractual terms of the customer offtake agreement. The Group accounts for interest rate swaps as cash flow hedges where the forecast transaction is highly probable and the hedge is assessed as effective.