

Rexam PLC consolidated financial statements 2008

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Statement of directors' responsibilities on the consolidated financial statements

The directors are responsible for preparing the Annual Report, the Remuneration Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State that the consolidated financial statements comply with IFRS as adopted by the European Union.
- Prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Directors and Officers section of the Annual Report, confirms that, to the best of their knowledge:

- The consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Business Review includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Independent auditors' report to the members of Rexam PLC

We have audited the consolidated financial statements of Rexam PLC for the year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Rexam PLC for the year ended 31 December 2008 and on the information in the Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the consolidated financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the unaudited part of the Remuneration Report, the Statement of directors' responsibilities on the consolidated financial statements and the other items as referred to on the contents list. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the consolidated financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
19 February 2009

Notes:

- (a) The maintenance and integrity of the Rexam PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December	Notes	2008 £m	2007 restated £m
Continuing operations			
Sales	2	4,618	3,611
Operating expenses	3	(4,238)	(3,240)
Underlying operating profit	2	466	354
Amortisation of certain acquired intangible assets		(44)	(22)
Exceptional items	6	(42)	39
Operating profit	2	380	371
Share of post tax profits of associates and joint ventures	15	1	–
Retirement benefit obligations net finance cost	24	(7)	(14)
Underlying interest expense	7	(144)	(109)
Fair value changes on financing derivative financial instruments	7	(2)	(2)
Interest expense	7	(146)	(111)
Interest income	7	12	14
Underlying profit before tax		328	245
Amortisation of certain acquired intangible assets		(44)	(22)
Fair value changes on financing derivative financial instruments	7	(2)	(2)
Exceptional items	6	(42)	39
Profit before tax		240	260
Tax on underlying profit		(102)	(73)
Tax on amortisation of certain acquired intangible assets		14	5
Tax on fair value changes on financing derivative financial instruments		1	1
Tax on exceptional items	6	18	(19)
Tax	8	(69)	(86)
Profit for the financial year from continuing operations		171	174
Discontinued operations			
Profit for the financial year from discontinued operations	33	–	66
Total profit for the financial year	26	171	240
Attributable to:			
Equity shareholders of Rexam PLC		172	240
Minority interests		(1)	–
Total profit for the financial year		171	240
Basic earnings per share (pence)			
Continuing operations	9	26.8	28.3
Discontinued operations		–	10.7
Total		26.8	39.0
Diluted earnings per share (pence)			
Continuing operations	9	26.8	28.3
Discontinued operations		–	10.7
Total		26.8	39.0

For details of equity dividends paid and proposed see note 10 to the consolidated financial statements.

The notes on pages 74 to 114 form part of these consolidated financial statements.

Consolidated balance sheet

As at 31 December	Notes	2008 £m	2007 restated £m
Assets			
Non current assets			
Goodwill	11	2,246	1,692
Other intangible assets	12	703	524
Property, plant and equipment	13	1,982	1,310
Investments in associates and joint ventures	15	63	55
Pension asset	24	16	68
Deferred tax assets	8	137	142
Trade and other receivables	18	63	57
Available for sale financial assets	16	30	21
Derivative financial instruments	23	342	173
		5,582	4,042
Current assets			
Inventories	17	614	391
Trade and other receivables	18	833	563
Available for sale financial assets	16	1	1
Derivative financial instruments	23	54	20
Cash and cash equivalents	19	75	113
Assets classified as held for sale	20	39	30
		1,616	1,118
Total assets		7,198	5,160
Liabilities			
Current liabilities			
Borrowings	22	(587)	(164)
Derivative financial instruments	23	(265)	(32)
Current tax		(4)	(13)
Trade and other payables	21	(1,053)	(850)
Provisions	25	(21)	(13)
Liabilities classified as held for sale	20	(15)	(12)
		(1,945)	(1,084)
Non current liabilities			
Borrowings	22	(2,272)	(1,679)
Derivative financial instruments	23	(229)	(5)
Retirement benefit obligations	24	(244)	(249)
Deferred tax liabilities	8	(151)	(162)
Non current tax		(91)	(84)
Other payables	21	(33)	(26)
Provisions	25	(57)	(38)
		(3,077)	(2,243)
Total liabilities		(5,022)	(3,327)
Net assets		2,176	1,833
Equity			
	26		
Ordinary share capital		413	413
Share premium account		1,005	1,004
Capital redemption reserve		351	351
Retained earnings		77	60
Fair value and other reserves		328	3
Shareholders' equity		2,174	1,831
Minority interests	26	2	2
Total equity		2,176	1,833

Approved by the Board on 19 February 2009

Leslie Van de Walle, Chief Executive Officer

David Robbie, Finance Director

Consolidated cash flow statement

For the year ended 31 December	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	29	396	458
Interest paid		(133)	(99)
Tax paid		(62)	(42)
Net cash flows from operating activities		201	317
Cash flows from investing activities			
Capital expenditure		(389)	(311)
Proceeds from sale of property, plant and equipment		6	6
Acquisition of subsidiaries	28	(112)	(906)
Acquisition of joint venture		(2)	(14)
Proceeds from sale of discontinued operations	33	–	259
Proceeds from sale of other subsidiaries		–	1
Interest received		12	12
Net cash flows from investing activities		(485)	(953)
Cash flows from financing activities			
Proceeds from borrowings		477	660
Repayment of borrowings		(115)	(157)
Proceeds from issue of share capital on options		1	3
Proceeds from share placing		–	280
Purchase of Rexam shares by Rexam Employee Share Trust		–	(2)
Dividends paid to equity shareholders		(131)	(118)
Net cash flows from financing activities		232	666
Net (decrease)/increase in cash and cash equivalents		(52)	30
Cash and cash equivalents at the beginning of the year		36	14
Exchange differences and other adjustments		(9)	(8)
Net (decrease)/increase in cash and cash equivalents		(52)	30
Cash and cash equivalents at the end of the year		(25)	36
Cash and cash equivalents comprise:			
Cash at bank and in hand		62	73
Short term bank deposits		13	40
Bank overdrafts		(100)	(77)
		(25)	36

Consolidated statement of recognised income and expense

For the year ended 31 December	2008 £m	2007 £m
Exchange differences before recognition of net investment hedges	651	86
Net investment hedges recognised	(184)	(31)
Net investment hedges transferred to the income statement	–	(3)
Cash flow hedges recognised	(189)	(34)
Tax on cash flow hedges	35	13
Cash flow hedges transferred to inventory	9	(8)
Actuarial (losses)/gains on retirement benefit obligations	(30)	217
Tax on actuarial (losses)/gains on retirement benefit obligations	4	(65)
Changes in market value of available for sale financial assets	3	–
Net profit recognised directly in equity	299	175
Total profit for the financial year	171	240
Total recognised income and expense for the year	470	415
Attributable to:		
Equity shareholders of Rexam PLC	471	415
Minority interests	(1)	–
Total recognised income and expense for the year	470	415

Notes to the consolidated financial statements

1 Principal accounting policies

The consolidated 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 and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments, share based payments and retirement benefit obligations.

In preparing the consolidated financial statements, the following restatements have been made to the comparative amounts:

- (i) The consolidated balance sheet as at 31 December 2007 has been restated for final fair value adjustments applied to the 2007 acquisition of OI Plastics. For further information see note 28 to the consolidated financial statements.
- (ii) The definition of exceptional items was changed in 2008 to exclude the amortisation of certain acquired intangible assets, comprising acquired customer contracts and relationships and acquired technology and patents, and to exclude fair value changes on non hedge accounted financing derivative financial instruments and hedge ineffectiveness on financing derivative financial instruments. These items have been excluded from exceptional items as they are recurring in nature and are now presented separately on the face of the consolidated income statement.

The following accounting standards and amendments to existing standards are not yet effective and have not been early adopted by the Group.

- (i) IFRS8 'Operating Segments'. This new standard requires identification and reporting of operating segments on the basis of internal reports that are regularly reviewed by the Board in order to allocate resources to the segment and assess its performance. The Group will adopt IFRS8 from 1 January 2009.
- (ii) IAS23 (Revised) 'Borrowing Costs'. This revision of an existing standard requires the capitalisation of borrowing costs directly attributable to an acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The Group will adopt IAS23 (Revised) from 1 January 2009.
- (iii) IFRS3 (Revised) 'Business Combinations'. This revision of an existing standard continues to apply the acquisition method to business combinations with certain changes which could impact the Group. For example, all payments to purchase a business must be recorded at fair value at the acquisition date with some contingent payments subsequently remeasured at fair value through the consolidated income statement. In addition, all transaction costs must be expensed. The Group expects to adopt IFRS3 (Revised) from 1 January 2010.
- (iv) IAS27 (Revised) "Consolidated and Separate Financial Statements". This revision to an existing standard requires an entity to attribute total recognised income and expense to the parent company and any minority interest even if this results in the minority interest having a deficit balance. It specifies that changes in a parent company's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary, whereby at the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group expects to adopt IAS27 (Revised) from 1 January 2010.

There are no other accounting standards or IFRICs that are not yet effective that would have an impact on the Group.

Key estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, ultimately actual results may differ from those estimates. The key estimates and assumptions used in these consolidated financial statements are set out below.

Goodwill impairment testing

Goodwill is tested at least annually for impairment in accordance with the accounting policy for goodwill set out below and in note 11 to the consolidated financial statements. The recoverable amounts of cash generating units are determined based on value in use calculations. These calculations require the use of estimates which include cash flow projections for each cash generating unit and discount rates based on the Group's weighted average cost of capital, adjusted for specific risks associated with particular cash generating units.

Valuation of acquired intangible assets

Identifiable intangible assets acquired as part of an acquisition of a business must initially be recorded at fair value. The acquisition of Rostar in 2008 resulted in significant customer contracts and relationships being recognised by the Group. These intangible assets were valued using the income approach. The underlying premise in applying this approach is that the value of an asset can be measured by the present value of the cash receipts and cash payments to be received and made over the life of the asset. In applying this methodology certain key judgements and estimates were required to be made in respect of future gross cash flows and the discount rate.

Retirement benefit obligations

The consolidated financial statements include costs in relation to, and provision for, retirement benefit obligations. There are two principal funded defined benefit pension plans in the UK and US and an unfunded retiree medical plan in the US. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the salary progression of current employees, the returns that plan assets generate and the discount rate used to calculate the present value of the liabilities. The Group uses estimates based on previous experience and third party actuarial advice in determining these future cash flows and in determining the discount rate. If the discount rate was to fall by 0.5%, the net liabilities of the plans at 31 December 2008 would rise by approximately £95m (2007: £120m). If equity values were to fall by 10%, then the plan assets at 31 December 2008 would fall by approximately £75m (2007: £90m). The accounting policy for retirement benefit obligations is set out below and details of the assumptions used for the two principal pension plans and the retiree medical plan are set out in note 24 to the consolidated financial statements.

1 Principal accounting policies continued

Income taxes

Judgement is required in determining the provision for income taxes. There are many transactions and calculations whose ultimate tax treatment is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes are likely to be due. The Group recognises deferred tax assets and liabilities based on estimates of future taxable income and recoverability. Where a change in circumstance occurs, or the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax balances in the year in which that change or outcome is known. The accounting policy for income taxes is set out below.

Basis of consolidation

The consolidated financial statements comprise Rexam PLC and all its subsidiaries, together with the Group's share of the results of its associates and joint ventures. The financial statements of subsidiaries, associates and joint ventures are prepared as of the same reporting date using consistent accounting policies. Intercompany balances and transactions, including any unrealised profits arising from intercompany transactions, are eliminated in full.

Subsidiaries are entities where the Group has the power to govern the financial and operating policies, generally accompanied by a share of more than 50% of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and are included until the date on which the Group ceases to control them. Associates are entities over which the Group has significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has joint control, whereby the strategic, financial and operating decisions relating to the venture require the unanimous consent of the parties sharing control and are generally accompanied by a 50% share of voting rights. Investments in associates and joint ventures are accounted for using the equity method. If the Group's share of losses in an associate or joint venture equals or exceeds its investment in the associate or joint venture, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate or joint venture.

All acquisitions are accounted for by applying the purchase method. The cost of an acquisition is measured as the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity instruments issued by the Group, together with any costs directly attributable to the acquisition. The identifiable assets, liabilities and contingent liabilities of the acquiree are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

Foreign currencies

The financial statements for each of the Group's subsidiaries, associates and joint ventures are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Group is sterling. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Exchange differences resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in currencies other than the functional currency are recognised directly in the consolidated income statement. Exceptions to this are where the monetary items form part of the net investment in a foreign operation or designated as hedges of a net investment, or designated as cash flow hedges. Such exchange differences are initially recognised in equity.

The balance sheets of foreign operations are translated into sterling using the exchange rate at the balance sheet date and the income statements are translated into sterling using the average exchange rate for the year. Where this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, the exchange rate on the transaction date is used. Exchange differences on translation into sterling arising since 1 January 2004 are recognised as a separate component of equity. On disposal of a foreign operation, any cumulative exchange differences held in equity are transferred to the consolidated income statement.

Following the acquisition of Rostar, which had the Russian rouble as its functional currency, the functional currency of Rexam's pre existing Russian business was changed, with effect from 1 January 2008, from the US dollar to the Russian rouble. This change was made to reflect the primary economic environment in which the combined business operates.

The principal exchange rates against sterling used in these consolidated financial statements are as follows:

	Average 2008	Closing 2008	Average 2007	Closing 2007
Euro	1.26	1.04	1.46	1.37
US dollar	1.86	1.48	2.00	1.99

Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration, net of rebates and trade discounts. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer, when the amount of revenue can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group, typically on delivery of goods. The Group makes certain advance payments to customers in relation to contracts which are charged in the consolidated income statement over the useful economic lives of the contracts.

1 Principal accounting policies continued

Exceptional items

Items which are exceptional, being material in terms of size and/or nature are presented separately from underlying business performance in the consolidated income statement. The separate reporting of exceptional items helps provide an indication of the Group's underlying business performance. The principal events which may give rise to exceptional items include the restructuring and integration of businesses, significant changes to retirement benefit obligations, gains or losses on the disposal of businesses, major asset impairments and significant litigation and tax claims. The definition of exceptional items was changed in 2008 as explained above.

Retirement benefit obligations

The Group operates defined benefit pension plans and defined contribution pension plans.

A defined benefit pension plan is one that specifies the amount of pension benefit that an employee will receive on retirement. The Group operates both funded defined benefit pension plans, where actuarially determined payments are made to trustee administered funds, and unfunded defined benefit pension plans, where no such payments are made. The asset or liability recognised in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets at the balance sheet date. The defined benefit obligation is calculated, at least triennially, by independent actuaries using the projected unit credit method and is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The current service cost and gains and losses on settlements and curtailments are included in operating expenses in the consolidated income statement. Past service costs are similarly included where the benefits have vested, otherwise they are amortised on a straight line basis over the vesting period. The expected return on assets of funded defined benefit pension plans, less administration expenses of pension plans, and the interest on pension plan liabilities comprise the pension element of the net finance cost in the consolidated income statement. Differences between the actual and expected return on assets, experience gains and losses and changes in actuarial assumptions are included in the consolidated statement of recognised income and expense.

A defined contribution plan is one under which fixed contributions are paid to a third party. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised in the consolidated income statement when they are due. Prepaid contributions are recognised in the consolidated balance sheet as an asset to the extent that a cash refund or a reduction in the future payments is likely.

The Group also provides post retirement healthcare benefits (retiree medical) to certain of its current and former employees. The entitlement to these benefits is usually conditional on an employee remaining in service up to retirement age and the completion of a minimum service period. The consolidated income statement and consolidated balance sheet treatment with respect to retiree medical is similar to that for defined benefit pension plans. These obligations are valued by independent actuaries, usually on an annual basis.

Share based payment

The Group operates various equity settled and cash settled share option schemes. For equity settled share options, the services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date and recognised in the consolidated income statement, together with a corresponding increase in equity, on a straight line basis over the vesting period, based on an estimate of the number of options that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value. For cash settled share options, the services received from employees are measured at the fair value of the liability and recognised in the consolidated income statement on a straight line basis over the vesting period. The fair value of the liability is measured at each balance sheet date and at the date of settlement with changes in fair value recognised in the consolidated income statement. IFRS2 'Share based Payment' has been applied to equity settled share options granted after 7 November 2002 and to all cash settled share options. The Rexam Employee Share Trust holds ordinary shares in Rexam PLC which are presented in the consolidated balance sheet as a deduction from equity.

Interest

Interest on cash and cash equivalents and borrowings held at amortised cost is recognised in the consolidated income statement using the effective interest method. Interest includes exchange differences arising on cash and cash equivalents and borrowings, where such exchange differences are recognised in the consolidated income statement. Interest includes all fair value gains and losses on derivative financial instruments, and corresponding adjustments to hedged items under designated fair value hedging relationships, where they relate to financing activities and are recognised in the consolidated income statement. Interest relating to payments made over an extended period of development of large capital projects is added to the capital cost and amortised over the expected lives of those projects.

Non hedge accounted financing derivative financial instruments fair value changes and hedge ineffectiveness on financing derivative financial instruments are separately disclosed, within interest, on the face of the consolidated income statement.

Segment reporting

The Group's primary reporting format is business segments and its secondary format is geographic segments. A business segment is a component of the Group that is engaged in providing a group of related products and is subject to risks and returns that are different from those of other business segments. A geographic segment is a component of the Group that operates within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Non specific central costs are allocated on the basis of net assets excluding investments in associates and joint ventures, net borrowings, deferred tax, current tax and non current tax.

1 Principal accounting policies continued

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. At the date of acquisition, goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill arising on acquisitions on or before 31 December 1997 has been deducted from equity. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold except for any goodwill deducted from equity. Goodwill arising on the acquisition of subsidiaries is presented in goodwill and goodwill arising on the acquisition of associates and joint ventures is presented in investments in associates and joint ventures. Internally generated goodwill is not recognised as an asset.

Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when an asset is available for use and is calculated on a straight line basis to allocate the cost of the asset over its estimated useful life as follows:

Acquired computer software	2 to 3 years
Computer software development	Up to 7 years
Acquired customer contracts and relationships	5 to 20 years
Acquired technology and patents	5 to 20 years
Development projects	Up to 5 years

The cost of intangible assets acquired in an acquisition is the fair value at acquisition date. The cost of separately acquired intangible assets, including computer software, comprises the purchase price and any directly attributable costs of preparing the asset for use. Computer software development costs that are directly associated with the implementation of major business systems are capitalised as intangible assets. Expenditure on research is recognised as an expense in the consolidated income statement as incurred. Expenditure incurred on development projects is capitalised as an intangible asset if it is probable that the expenditure will generate future economic benefits and can be measured reliably.

The amortisation of certain acquired intangible assets, comprising acquired customer contracts and relationships and acquired technology and patents, is separately disclosed within operating profit on the face of the consolidated income statement.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Cost comprises purchase price and directly attributable costs. Freehold land and assets under construction are not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight line basis to allocate cost, less residual value of the assets, over their estimated useful lives as follows:

Freehold buildings	Up to 50 years
Leasehold buildings	Shorter of 50 years or lease term
Manufacturing machinery	7 to 17 years
Computer hardware	Up to 8 years
Fixtures, fittings and vehicles	4 to 10 years

Residual values and useful lives are reviewed at least at each financial year end.

Impairment of assets

This policy applies to all assets except inventories, deferred tax assets, financial assets and non current assets classified as held for sale. At each balance sheet date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes an estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is written down to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount of the cash generating unit to which the asset belongs is determined. Discount rates reflecting the asset specific risks and the time value of money are used for the value in use calculation. When an asset is written down to its recoverable amount the impairment loss is recognised in the consolidated income statement in the year in which it is incurred. Impairment losses incurred in a cash generating unit or group of cash generating units are applied against the carrying amount of any goodwill allocated to the units. Where no goodwill exists, the impairment losses reduce the other assets of the cash generating units. Should circumstances change which result in a reversal of a previous impairment loss, the value of the asset is increased and the reversal is recognised in the consolidated income statement in the year in which it occurs. The increase in the carrying amount of the asset is limited to the amount of which would have been recorded had no impairment loss been recognised in prior years. Impairment losses applied to goodwill are not reversed.

1 Principal accounting policies continued

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on a first in first out or a weighted average cost basis. Cost comprises directly attributable purchase and conversion costs and an allocation of production overheads based on normal operating capacity. Net realisable value is the estimated selling price less estimated costs of completion and selling costs.

Cash and cash equivalents

Cash and cash equivalents for the purposes of the consolidated cash flow statement comprise cash at bank and in hand, money market deposits and other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are presented in borrowings within current liabilities in the consolidated balance sheet.

Assets and liabilities classified as held for sale

The assets and liabilities classified as held for sale are available for immediate sale in their present condition and a sale is highly probable within one year. Assets and liabilities classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Non current assets classified as held for sale are not depreciated or amortised and any future write down to fair value less costs to sell will be recognised as an impairment loss.

Grants

Grants received in respect of property, plant and equipment are capitalised and released to the consolidated income statement in equal instalments over the estimated useful lives of the related assets.

Leases

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Group. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the liability and finance charge to produce a constant rate of interest on the finance lease balance outstanding. Assets capitalised under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Leases other than finance leases are classified as operating leases. Payments made under operating leases are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Any incentives to enter into operating leases are recognised as a reduction of rental expense over the lease term on a straight line basis.

Income taxes

The tax expense represents the sum of current tax, non current tax and deferred tax.

Current tax and non current tax are based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax arising from initial recognition of an asset or liability in a transaction, other than an acquisition, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Tax is recognised in the consolidated income statement, unless the tax relates to items recognised directly in equity, in which case the tax is recognised directly in equity through the consolidated statement of recognised income and expense.

Provisions

Provisions are recognised when a present obligation exists in respect of a past event and where the amount can be reliably estimated. Provisions for restructuring are recognised for direct expenditure on business reorganisations where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken on or before the balance sheet date. Provisions are discounted where the time value of money is considered to be material.

Dividends

Final equity dividends to the shareholders of Rexam PLC are recognised in the period that they are approved by the shareholders. Interim equity dividends are recognised in the period that they are paid.

1 Principal accounting policies continued

Financial instruments

Derivative financial instruments are measured at fair value. Derivative financial instruments utilised by the Group include interest rate swaps, cross currency swaps, forward foreign exchange contracts and forward aluminium, resin and energy commodity contracts.

Certain derivative financial instruments are designated as hedges in line with the Group's risk management policies. Hedges are classified as follows:

- (i) Fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability.
- (ii) Cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.
- (iii) Net investment hedges where they hedge exposure to changes in the value of the Group's interests in the net assets of foreign operations.

For fair value hedges, any gain or loss from remeasuring the hedging instrument at fair value is recognised in the consolidated 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 similarly recognised in the consolidated income statement.

For cash flow hedges and net investment hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, with any ineffective portion recognised in the consolidated income statement. When hedged cash flows result in the recognition of a non financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges and embedded derivatives that are not closely related to the host contract are recognised immediately in the consolidated income statement.

Gains and losses on derivative financial instruments related to operating activities are included in operating profit when recognised in the consolidated income statement. Gains and losses on derivative financial instruments related to financing activities are included in interest when recognised in the consolidated income statement.

Borrowings are measured at amortised cost except where they are hedged by an effective fair value hedge, in which case the carrying value is adjusted to reflect the fair value movements associated with the hedged risk. Where borrowings are used to hedge the Group's interests in the net assets of foreign operations, the portion of the exchange gain or loss on the borrowings that is determined to be an effective hedge is recognised in equity.

Available for sale financial assets are measured at fair value. Unrealised gains and losses are recognised in equity except for impairment losses, interest and dividends arising from those assets which are recognised in the consolidated income statement.

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less any provision for impairment. Trade and other receivables are discounted when the time value of money is considered material. Trade and other payables are measured at cost.

2 Segment analysis**(i) Analysis by business segment 2008 – continuing operations**

	Sales £m	Underlying operating profit £m	Underlying return on sales %	Profit £m
Beverage Cans	3,289	306	9.3	270
Plastic Packaging	1,273	157	12.3	107
Disposals and businesses for sale	56	3	5.4	3
	4,618	466	10.1	380
Share of post tax profits of associates and joint ventures				1
Retirement benefit obligations net finance cost				(7)
Net interest expense				(134)
Profit before tax				240
Tax				(69)
Total profit for the financial year				171

	Segment assets £m	Segment liabilities £m	Capital expenditure £m	Depreciation and amortisation £m	Impairment £m
Beverage Cans	3,846	(768)	277	120	14
Plastic Packaging	2,632	(396)	117	102	2
Disposals and businesses for sale	33	(15)	–	–	3
	6,511	(1,179)	394	222	19
Associates and joint ventures	63	–	–	–	–
Unallocated assets and liabilities	624	(3,843)	–	–	–
	7,198	(5,022)	394	222	19

Share of post tax profits of associates and joint ventures are wholly attributable to Beverage Cans. Segment assets are disclosed after deducting inter segment assets of £5m for Beverage Cans and £4m for Plastic Packaging. Segment liabilities are disclosed after deducting inter segment liabilities of £7m for Beverage Cans and £2m for Plastic Packaging. Of the £63m of assets of associates and joint ventures, £53m are attributable to Beverage Cans and £10m are attributable to Plastic Packaging.

Underlying operating profit comprises operating profit from continuing operations before exceptional items, the amortisation of certain acquired intangible assets and fair value changes on financing derivative financial instruments. Underlying operating profit is included as it is felt that adjusting operating profit for exceptional items, the amortisation of certain acquired intangible assets and fair value changes on financing derivative financial instruments provides a better indication of the Group's performance.

Underlying return on sales comprises underlying operating profit divided by sales.

Unallocated assets comprise derivative financial instrument assets, deferred tax assets, pension asset and cash and cash equivalents which are used as part of the Group's financing offset arrangements. Unallocated liabilities comprise borrowings, derivative financial instrument liabilities, current and non current tax, deferred tax liabilities and retirement benefit obligations.

2 Segment analysis continued
(ii) Analysis by business segment 2007

	Sales £m	Underlying operating profit £m	Underlying return on sales %	Profit £m
<i>Continuing operations</i>				
Beverage Cans	2,686	244	9.1	285
Plastic Packaging	880	105	11.9	80
Disposals and businesses for sale	45	5	11.1	6
	3,611	354	9.8	371
Retirement benefit obligations net finance cost				(14)
Net interest expense				(97)
Profit before tax				260
Tax				(86)
Profit for the financial year				174
<i>Discontinued operations</i>				
Profit for the financial year				66
Total profit for the financial year				240

	Segment assets restated £m	Segment liabilities restated £m	Capital expenditure £m	Depreciation and amortisation £m	Impairment £m
<i>Continuing operations</i>					
Beverage Cans	2,608	(644)	236	88	–
Plastic Packaging	1,951	(283)	70	68	1
Disposals and businesses for sale	30	(12)	2	2	–
	4,589	(939)	308	158	1
Associates and joint ventures	55	–	–	–	–
Unallocated assets and liabilities	516	(2,388)	–	–	–
Total continuing operations	5,160	(3,327)	308	158	1
<i>Discontinued operations</i>					
	–	–	17	8	1
	5,160	(3,327)	325	166	2

Segment assets are disclosed after deducting inter segment assets of £4m for Beverage Cans and £4m for Plastic Packaging. Segment liabilities are disclosed after deducting inter segment liabilities of £6m for Beverage Cans and £2m for Plastic Packaging. Of the £55m of assets of associates and joint ventures, £47m are attributable to Beverage Cans and £8m are attributable to Plastic Packaging.

2 Segment analysis continued

(iii) Analysis by geography

	2008 Sales £m	2008 Segment assets £m	2008 Capital expenditure £m	2007 Sales £m	2007 Segment assets restated £m	2007 Capital expenditure £m
Continuing operations						
USA	1,825	2,714	130	1,450	2,011	86
Other Europe	1,064	1,190	113	866	844	99
Brazil	460	587	30	361	420	22
Rest of world	416	437	25	339	306	21
Russia	314	388	19	131	105	30
UK	204	405	10	195	332	9
France	181	516	57	162	333	30
Germany	154	274	10	107	238	11
	4,618	6,511	394	3,611	4,589	308
Associates and joint ventures	–	63	–	–	55	–
Unallocated assets	–	624	–	–	516	–
Total continuing operations	4,618	7,198	394	3,611	5,160	308
Discontinued operations						
	–	–	–	213	–	17
	4,618	7,198	394	3,824	5,160	325

Sales are stated by customer location.

Segment assets are disclosed after deducting inter segment assets of £9m for USA (2007: £13m), £28m for Other Europe (2007: £18m), £5m for Brazil (2007: £1m), £12m for Rest of world (2007: £7m), £nil for Russia (2007: £nil), £133m for UK (2007: £73m), £13m for France (2007: £8m) and £16m for Germany (2007: £1m). Assets of associates and joint ventures are wholly attributable to Rest of world.

3 Operating expenses

	2008 Continuing operations underlying profit £m	2008 Continuing operations exceptional and other items ¹ £m	2008 Continuing operations total £m	2007 Continuing operations underlying profit £m	2007 Continuing operations exceptional and other items ¹ £m	2007 Continuing operations total £m	2007 Discontinued operations £m
Raw materials used	(2,488)	–	(2,488)	(1,921)	–	(1,921)	(43)
Changes in inventories of WIP and finished goods	12	–	12	3	–	3	2
Employee benefit expense (note 4)	(693)	(9)	(702)	(577)	63	(514)	(57)
Depreciation of property, plant and equipment	(166)	–	(166)	(126)	–	(126)	(8)
Amortisation of intangible assets	(12)	(44)	(56)	(10)	(22)	(32)	–
Impairment	(3)	(16)	(19)	–	(1)	(1)	(1)
Freight costs	(209)	–	(209)	(158)	–	(158)	(12)
Operating lease rental expense	(42)	–	(42)	(31)	–	(31)	(1)
Operating lease rental income	3	–	3	6	–	6	–
Fair value movements on operating derivatives	–	–	–	3	–	3	–
Other operating expenses	(565)	(17)	(582)	(459)	(24)	(483)	(67)
Other operating income	11	–	11	13	1	14	–
	(4,152)	(86)	(4,238)	(3,257)	17	(3,240)	(187)

¹ Other items comprise the amortisation of certain acquired intangible assets.

Operating expenses from continuing operations include research and development expenditure of £19m (2007: £14m). Fair value movements on operating derivatives comprise embedded derivatives of £nil (2007: £2m) and forward foreign exchange contracts not hedge accounted of £nil (2007: £1m).

4 Employee costs and numbers

(i) Employee benefit expense

	2008 £m	2007 £m
<i>Continuing operations</i>		
Wages and salaries	(593)	(490)
Social security	(83)	(62)
Share based payment	(2)	(3)
Retirement benefit obligations operating profit (charge)/credit	(24)	41
Total continuing operations	(702)	(514)
<i>Discontinued operations</i>		
	-	(57)
	(702)	(571)

(ii) Key management compensation (including directors of Rexam PLC)

	2008 £m	2007 £m
Salaries and short term employee benefits	(7)	(10)
Post employment benefits	(2)	(2)
Termination payments	-	(1)
Share based payment	(2)	(2)
	(11)	(15)

Key management comprises all Rexam PLC directors and those members of the Rexam PLC Executive Leadership Team who are not Rexam PLC directors. For details of directors' remuneration see the Remuneration Report.

(iii) Average number of employees

	2008 Number	2007 Number
<i>Continuing operations</i>		
Beverage Cans	8,200	7,100
Plastic Packaging	15,600	14,900
Disposals and businesses for sale	300	300
Total continuing operations	24,100	22,300
<i>Discontinued operations</i>		
	-	1,500
	24,100	23,800

	2008 Number	2007 Number
<i>Continuing operations</i>		
USA	7,200	6,700
China	5,800	5,800
France	2,600	2,700
Other Europe	2,200	2,000
Brazil	1,800	1,700
Rest of world	1,800	1,400
Germany	1,000	900
Russia	1,000	300
UK	700	800
Total continuing operations	24,100	22,300
<i>Discontinued operations</i>		
	-	1,500
	24,100	23,800

5 Auditors' remuneration

	2008 £m	2007 £m
Fees payable to PricewaterhouseCoopers LLP for the audit of the consolidated financial statements	0.7	0.6
Statutory audit fees payable to associate members of PricewaterhouseCoopers LLP	2.7	2.2
Total audit fees	3.4	2.8
Other fees in respect of services required by legislation	0.2	0.9
Fees for tax services	0.9	0.8
Fees for other services	0.4	0.3
	4.9	4.8

Included within other fees in respect of services required by legislation in 2007 was £0.7m relating to the acquisition of OI Plastics. In 2007, £0.1m of statutory audit fees and £0.2m of fees for tax services related to discontinued operations.

6 Exceptional items

	2008 £m	2007 restated £m
Restructuring and integration of businesses	(46)	(6)
Retirement benefit obligations	4	61
Legacy and other tax based exposures	–	(17)
Disposal of subsidiaries	–	1
Exceptional items included in operating profit and profit before tax	(42)	39
Tax on exceptional items	18	(19)
Total exceptional items after tax	(24)	20

The total restructuring and plant closure cost in respect of the integration of OI Plastics is estimated to be £21m; a £6m exceptional charge was recorded in 2007 and a further £1.5m has been charged in 2008 reflecting the closure of three plants. During 2008 the Group announced its intention to reduce capacity in its North American Beverage Can business by closing two facilities, decommissioning a 12oz can line and repositioning its specialty can and other product offering. The business realignment will cost approximately £36m in total and the exceptional charge in 2008 is £31m.

Changes in the provision of retiree medical benefits, substantially effected in 2007, resulted in a further exceptional gain of £4m, including legal costs.

7 Interest

	2008 £m	2007 £m
Interest expense		
Bank overdrafts	(16)	(18)
Bank loans	(24)	(23)
US public bond	(14)	–
US private placement	(6)	–
Subordinated bond	(47)	(18)
Medium term notes	(58)	(46)
Finance leases	–	(1)
Fair value gains/(losses) on financial instruments	19	(5)
	(146)	(111)
Attributable to:		
Underlying interest expense	(144)	(109)
Fair value changes on financing derivative financial instruments	(2)	(2)
	(146)	(111)
Interest income		
Cash and cash equivalents	12	14

7 Interest continued

An analysis of fair value gains/(losses) on financial instruments is set out below.

	2008 £m	2007 £m
Fair value hedges		
Interest rate swaps	10	(3)
Cross currency swaps	191	48
Fair value adjustment to borrowings	(172)	(44)
	29	1
Not hedge accounted		
Interest rate swaps	–	(2)
Cross currency swaps	(231)	3
Forward foreign exchange contracts	3	–
Foreign exchange gains/(losses) on cash and cash equivalents and borrowings	218	(7)
	(10)	(6)
Fair value gains/(losses) on financial instruments	19	(5)
Attributable to:		
Net foreign exchange gains/(losses)	21	(3)
Fair value changes on financing derivative financial instruments	(2)	(2)
	19	(5)

The gain on fair value hedges of £29m (2007: £1m) represents the total ineffectiveness for the year.

8 Tax

(i) Tax included in the income statement

	2008 Underlying profit £m	2008 Exceptional and other items ¹ £m	2008 Total £m	2007 Underlying profit £m	2007 Exceptional and other items ¹ £m	2007 Total £m
Continuing operations						
Current tax charge	(52)	(1)	(53)	(47)	–	(47)
Adjustment in respect of prior years	5	–	5	6	–	6
Current tax	(47)	(1)	(48)	(41)	–	(41)
Origination and reversal of temporary differences	(55)	30	(25)	(32)	(12)	(44)
Adjustment in respect of prior years	–	4	4	–	(1)	(1)
Deferred tax	(55)	34	(21)	(32)	(13)	(45)
Total continuing operations	(102)	33	(69)	(73)	(13)	(86)
Discontinued operations						
	–	–	–	(8)	(10)	(18)
	(102)	33	(69)	(81)	(23)	(104)

¹ Other items comprise the amortisation of certain acquired intangible assets and fair value changes on financing derivative financial instruments.

(ii) Tax included in equity

	2008 £m	2007 £m
Retirement benefit obligations	4	(65)
Cash flow hedges	35	13
Tax included in equity	39	(52)

8 Tax continued**(iii) Tax reconciliation**

A reconciliation of the tax charge applicable to the Group's profit before tax on continuing operations at the UK statutory rate of 28.5% (2007: 30%) with the tax charge based on the Group's effective rate is set out below.

	2008 Underlying profit £m	2008 Exceptional and other items ¹ £m	2008 Total £m	2007 Underlying profit £m	2007 Exceptional and other items ¹ £m	2007 Total £m
Profit before tax on continuing operations	328	(88)	240	245	15	260
Tax at the UK statutory rate of 28.5% (2007: 30%)	(93)	25	(68)	(73)	(5)	(78)
Non deductible and non taxable items	(6)	–	(6)	2	(5)	(3)
Higher domestic tax rates on overseas earnings	(8)	4	(4)	(8)	(2)	(10)
Tax overprovided/(underprovided) in prior years	5	4	9	6	(1)	5
Tax in the income statement on continuing operations	(102)	33	(69)	(73)	(13)	(86)
Effective rate of tax on continuing operations	31%		29%	30%		33%

¹ Other items comprise the amortisation of certain acquired intangible assets and fair value changes on financing derivative financial instruments.

(iv) Analysis of deferred tax

	2008 £m	2007 £m
Deferred tax assets	137	142
Deferred tax liabilities	(151)	(162)
Net deferred tax liabilities	(14)	(20)

	Retirement benefit obligations £m	Tax losses £m	Accelerated tax depreciation £m	Goodwill and other intangible assets £m	Other temporary differences £m	Total £m
At 1 January 2008	50	9	(59)	(36)	16	(20)
Exchange differences	16	7	(23)	(15)	7	(8)
Acquisition of subsidiaries	–	–	(2)	(7)	–	(9)
(Charge)/credit for the year	(12)	16	(25)	(5)	5	(21)
Credit to equity	4	–	–	–	35	39
Other movements	–	–	–	–	5	5
At 31 December 2008	58	32	(109)	(63)	68	(14)
At 1 January 2007	146	13	(68)	(33)	8	66
Exchange differences	(2)	1	1	–	(5)	(5)
Acquisition of subsidiaries	3	–	–	–	–	3
Disposal of subsidiaries	1	–	15	–	(2)	14
(Charge)/credit for the year	(33)	(5)	(7)	(3)	2	(46)
(Charge)/credit to equity	(65)	–	–	–	13	(52)
At 31 December 2007	50	9	(59)	(36)	16	(20)

Deferred tax assets and liabilities are presented as non current in the consolidated balance sheet. Of the total deferred tax assets, £29m (2007: £14m) are recoverable within one year. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balance net.

Deferred tax assets have been recognised where it is probable that they will be recovered. In recognising deferred tax assets, the Group has considered if it is more likely than not that sufficient future profits will be available to absorb tax losses and other temporary differences. Deferred tax assets of £45m (2007: £35m) have not been recognised in respect of losses, tax credits on dividends and other temporary differences due to the uncertainty of the availability of suitable profits in the foreseeable future. The principal items on which no deferred tax assets have been recognised are tax losses of £90m (2007: £60m) and UK tax credits on foreign dividends of £20m (2007: £18m). There is no expiry date on either of these items.

No deferred tax has been recognised on the unremitted earnings of overseas subsidiaries. If the earnings were remitted in full, tax of £278m (2007: £205m) would be payable.

9 Earnings per share

(i) Basic and diluted earnings per share

	2008 Basic Pence	2008 Diluted Pence	2007 Basic Pence	2007 Diluted Pence
From continuing operations	26.8	26.8	28.3	28.3
From discontinued operations	–	–	10.7	10.7
Total	26.8	26.8	39.0	39.0

	2008 £m	2007 £m
Profit for the financial year from continuing operations	171	174
Profit for the financial year from discontinued operations	–	66
Total profit for the financial year	171	240
Attributable to:		
Equity shareholders of Rexam PLC	172	240
Minority interests	(1)	–
Total profit for the financial year	171	240

	2008 Millions	2007 Millions
Weighted average number of shares in issue	642.3	615.3
Dilution on conversion of outstanding share options	0.2	0.5
Weighted average number of shares in issue on a diluted basis	642.5	615.8

(ii) Underlying earnings per share

	2008 Pence	2007 Pence
Underlying earnings per share	35.3	28.0

	2008 £m	2007 £m
Underlying profit before tax	328	245
Tax on underlying profit	(102)	(73)
Underlying profit for the financial year	226	172
Attributable to:		
Equity shareholders of Rexam PLC	227	172
Minority interests	(1)	–
Underlying profit for the financial year	226	172

Underlying earnings per share is based on underlying profit for the financial year attributable to equity shareholders of Rexam PLC divided by the weighted average number of shares in issue. Underlying profit for the financial year is profit from continuing operations before exceptional items, the amortisation of certain acquired intangible assets and fair value changes on financing derivative financial instruments. Underlying earnings per share is included as it is felt that adjusting basic earnings per share for exceptional items, the amortisation of certain acquired intangible assets and fair value changes on financing derivative financial instruments provides a better indication of the Group's performance.

10 Equity dividends

	2008 £m	2007 £m
Interim dividend for 2008 of 8.7p paid on 4 November 2008	56	–
Final dividend for 2007 of 11.7p paid on 3 June 2008	75	–
Interim dividend for 2007 of 8.3p paid on 6 November 2007	–	53
Final dividend for 2006 of 11.1p paid on 6 June 2007	–	65
	131	118

A final dividend per equity share of 12.3p has been proposed for 2008 and, subject to shareholder approval, is payable on 2 July 2009. The proposed final dividend has not been accrued in these consolidated financial statements.

11 Goodwill

	2008 £m	2007 restated £m
<i>Cost and carrying value</i>		
At 1 January	1,692	1,399
Exchange differences	520	43
Acquisition of subsidiaries	34	321
Disposal of subsidiaries	–	(71)
At 31 December	2,246	1,692

Goodwill acquired through acquisitions has been allocated to cash generating units or groups of cash generating units for impairment testing as set out below.

	2008 £m	2007 restated £m
Europe	697	567
USA	382	284
Brazil	205	152
Russia	48	–
Egypt	38	27
Mexico	8	6
India	3	3
Beverage Cans	1,381	1,039
Healthcare	325	247
Closures	301	229
Personal Care	239	177
Plastic Packaging	865	653
Total carrying value of goodwill	2,246	1,692

The recoverable amounts of all cash generating units or groups of cash generating units were determined based on value in use calculations. The cash flow projections used in these calculations were based on the financial budget for 2009, as approved by senior management in January 2009, and the plans for 2010 and 2011, as approved by management in October 2008 (together the budget projections). The plans for 2010 and 2011 have been adjusted, where appropriate, to reflect any significant expected changes in trading or market conditions since October 2008. Cash flows beyond the three year period have been extrapolated using a growth rate not in excess of the long term average growth rate in the sectors and countries in which each cash generating unit or group of cash generating units operate.

The principal accounting policies confirm that the calculation of value in use requires the use of estimates which, although based on managements' best knowledge, may ultimately differ from actual results.

The discount rates used in the goodwill impairment calculations have a significant impact. The pre tax discount rates used for the cash generating units for which the carrying amount of goodwill is significant in comparison with the total Group are as set out below.

	2008 %	2007 %
Beverage Cans Europe	11	11
Beverage Cans USA	11	11
Beverage Cans Brazil	16	14
Plastic Packaging (Healthcare, Closures and Personal Care)	11	11

Other key assumptions used in the recoverable amount calculation include:

- (i) Sales and margins. Forecasts are based on sector level analyses of sales, markets, costs and competitors used for the budget projections. Consideration is given to past experience and knowledge of future contracts.
- (ii) Raw materials and energy price inflation. Forecasts for aluminium are based on forward prices at the time the budget projections are prepared and take into account pass through of costs and hedging. Forecasts for other raw materials and energy are based on inflation forecasts and supply and demand factors.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash generating unit to exceed its recoverable amount.

12 Other intangible assets

	Computer software acquired £m	Computer software internally generated £m	Technology and patents acquired £m	Customer contracts and relationships acquired £m	Other intangibles £m	Total £m
Cost						
At 1 January 2008	65	11	147	375	6	604
Exchange differences	23	5	51	133	3	215
Acquisition of subsidiaries	–	–	5	32	2	39
Additions	12	4	1	–	1	18
Disposals	(2)	–	–	–	–	(2)
Reclassifications	(6)	6	–	–	–	–
Transfers	2	–	–	–	–	2
At 31 December 2008	94	26	204	540	12	876
Accumulated amortisation						
At 1 January 2008	(38)	(5)	(9)	(25)	(3)	(80)
Exchange differences	(13)	(3)	(6)	(14)	(2)	(38)
Disposals	2	–	–	–	–	2
Amortisation for the year	(7)	(4)	(18)	(26)	(1)	(56)
Reclassifications	2	(2)	–	–	–	–
Transfers	(1)	–	–	–	–	(1)
At 31 December 2008	(55)	(14)	(33)	(65)	(6)	(173)
Carrying value at 31 December 2008	39	12	171	475	6	703
Cost						
At 1 January 2007	64	10	22	81	18	195
Exchange differences	3	1	4	7	–	15
Acquisition of subsidiaries	–	–	121	287	–	408
Additions	6	1	–	–	2	9
Disposal of subsidiaries	(5)	(1)	–	–	(11)	(17)
Disposals	(3)	–	–	–	–	(3)
Utilisation to settle obligation	–	–	–	–	(3)	(3)
At 31 December 2007	65	11	147	375	6	604
Accumulated amortisation						
At 1 January 2007	(35)	(5)	(2)	(9)	(11)	(62)
Exchange differences	(1)	–	–	(1)	(1)	(3)
Disposal of subsidiaries	3	1	–	–	11	15
Disposals	3	–	–	–	–	3
Amortisation for the year	(8)	(1)	(7)	(15)	(1)	(32)
Impairment	–	–	–	–	(1)	(1)
At 31 December 2007	(38)	(5)	(9)	(25)	(3)	(80)
Carrying value at 31 December 2007	27	6	138	350	3	524

Impairment of £1m in 2007 related to emission rights in the discontinued Glass segment following a fall in the market price of carbon dioxide emission rights.

13 Property, plant and equipment

	Property £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost				
At 1 January 2008	406	1,574	183	2,163
Exchange differences	145	523	64	732
Acquisition of subsidiaries	19	30	–	49
Additions	6	48	322	376
Disposals	(2)	(52)	–	(54)
Capitalisation of interest	–	–	1	1
Transfers	(5)	(2)	–	(7)
Reclassifications	34	254	(288)	–
At 31 December 2008	603	2,375	282	3,260
Accumulated depreciation				
At 1 January 2008	(86)	(767)	–	(853)
Exchange differences	(36)	(254)	–	(290)
Disposals	1	43	–	44
Depreciation for the year	(19)	(147)	–	(166)
Impairment	–	(16)	–	(16)
Transfers	2	1	–	3
At 31 December 2008	(138)	(1,140)	–	(1,278)
Carrying value at 31 December 2008	465	1,235	282	1,982
Cost				
At 1 January 2007	398	1,624	93	2,115
Exchange differences	14	70	6	90
Acquisition of subsidiaries	31	98	12	141
Additions	15	90	211	316
Disposal of subsidiaries	(78)	(394)	(5)	(477)
Disposals	(7)	(16)	–	(23)
Capitalisation of interest	–	–	1	1
Reclassifications	33	102	(135)	–
At 31 December 2007 – restated	406	1,574	183	2,163
Accumulated depreciation				
At 1 January 2007	(74)	(851)	–	(925)
Exchange differences	(6)	(42)	–	(48)
Disposal of subsidiaries	8	233	–	241
Disposals	–	14	–	14
Depreciation for the year	(14)	(120)	–	(134)
Impairment	–	(1)	–	(1)
At 31 December 2007	(86)	(767)	–	(853)
Carrying value at 31 December 2007 – restated	320	807	183	1,310

The carrying value of property, plant and equipment includes finance leased assets of £41m (2007: £33m) in respect of property and £3m (2007: £4m) in respect of plant and equipment.

The impairment of £16m comprises a £14m write down of assets to their estimated fair value as part of the restructuring of the North American Beverage Can business and a £2m write down of assets to their estimated fair value as part of the integration of OI Plastics (2007: £1m restructuring of a Plastic Packaging business in the United States).

Interest capitalised in the carrying value of property, plant and equipment of £1m relates to the construction of a beverage can plant in Denmark (2007: £1m construction of a beverage can plant in Austria).

14 Investments in subsidiaries

The principal subsidiaries, all of which are wholly owned, are shown below. An asterisk indicates that the capital is directly owned by Rexam PLC. Subsidiaries incorporated in the UK are registered in England and Wales.

	Country of incorporation	Principal area of operation	Identity of capital held	Nature of business activities
Rexam Beverage Can Company	USA	USA	Common stock	Consumer packaging
Rexam Beverage Can South America SA	Brazil	South America	Common stock	Consumer packaging
Rexam do Brazil Ltda	Brazil	South America	Quotas	Consumer packaging
Rexam European Holdings Limited	UK	UK	Ordinary shares	Holding company
Rexam France SA	France	France	Ordinary shares	Consumer packaging
Rexam Group Holdings Limited*	UK	UK	Ordinary shares	Holding company
Rexam Holdings AB	Sweden	Continental Europe	Ordinary shares	Consumer packaging
Rexam Inc	USA	USA	Common stock	Holding company
Rexam Overseas Holdings Limited	UK	UK	Ordinary shares	Holding company
Rexam Plastic Packaging Inc	USA	USA	Common stock	Holding company

15 Investments in associates and joint ventures

The principal associate and joint venture are set out below.

	Group share	Country of operation
Hanil Can Company Limited – associate	40%	Korea
Controladora Envases Universales Rexam SA – joint venture	50%	Guatemala

	Associates £m	Joint ventures £m	Total £m
At 1 January 2008	37	18	55
Exchange differences	–	5	5
Acquisition of businesses	–	2	2
Share of post tax profits	–	1	1
At 31 December 2008	37	26	63
At 1 January 2007	32	–	32
Exchange differences	(1)	–	(1)
Acquisition of businesses	6	18	24
At 31 December 2007 – restated	37	18	55

The following table sets out summary information on all associates and joint ventures on a 100% basis.

	2008 Associates £m	2008 Joint ventures £m	2007 Associates £m	2007 Joint ventures £m
Sales	116	41	104	15
Profit/(loss) after tax	–	2	(2)	1
Assets	147	63	139	46
Liabilities	(58)	(11)	(50)	(14)

16 Available for sale financial assets

	2008 £m	2007 £m
At 1 January	22	23
Exchange differences	7	1
Income for the year	1	1
Changes in market value	3	–
Disposal of subsidiaries	–	(1)
Transfer to retirement benefit obligations	(2)	(2)
At 31 December	31	22
Non current assets	30	21
Current assets	1	1
At 31 December	31	22

Available for sale financial assets at 31 December 2008 include £30m (2007: £21m) of investments used to satisfy certain US retirement obligations, of which £28m (2007: £21m) comprises fixed rate listed investments, the fair values of which are determined directly by reference to published price quotations in an active market, and £2m (2007: £nil) comprises cash and cash equivalents. Also included in available for sale financial assets at 31 December 2008 are unlisted investments of £1m (2007: £1m).

The carrying amounts of available for sale financial assets are denominated in the following currencies, which are the functional currencies of the respective subsidiaries.

	2008 £m	2007 £m
US dollar	30	21
Euro	1	1
	31	22

17 Inventories

	2008 £m	2007 restated £m
Raw materials, stores and consumables	257	148
Work in progress	28	13
Finished goods	329	230
	614	391

An analysis of provisions against inventories is set out below.

	2008 £m	2007 £m
At 1 January	(21)	(38)
Exchange differences	(7)	(1)
Disposal of subsidiaries	–	15
Charge for the year	(10)	(5)
Released in the year	2	4
Utilised	6	4
At 31 December	(30)	(21)

Provisions released in the year comprise £1m (2007: £1m) relating to sales of spare parts in Beverage Cans, £1m (2007: £1m) relating to various provisions in Plastic Packaging and £nil (2007: £2m) on the sale of glass containers to an independent customer at original cost and for the use of consumables that were fully provided in the discontinued Glass segment.

18 Trade and other receivables

	2008 £m	2007 £m
<i>Non current assets</i>		
Trade receivables	4	3
Provision for impairment	(4)	(3)
Net trade receivables	–	–
Prepayments	37	30
Taxes	3	3
Other receivables	23	24
	63	57
<i>Current assets</i>		
Trade receivables	616	443
Provision for impairment	(7)	(3)
Net trade receivables	609	440
Prepayments	46	23
Taxes	66	37
Collateral deposits	42	–
Other receivables	70	63
	833	563
Total trade and other receivables	896	620

Collateral deposits relate to funds placed with derivative counterparties in respect of certain commodity contracts where the market value of the contract exceeded a predetermined threshold in favour of the derivative counterparties.

An analysis of provision for impairment of trade and other receivables is set out below.

	2008 £m	2007 £m
At 1 January	(6)	(6)
Exchange differences	(3)	–
Impairment in the year	(4)	(1)
Released in the year	2	–
Disposal of subsidiaries	–	1
At 31 December	(11)	(6)

An analysis of total trade and other receivables including those which are past due but not impaired is set out below.

	2008 £m	2007 £m
Not yet due	806	569
Past due less than 1 month	72	42
Between 1 and 2 months	12	6
Between 2 and 3 months	4	2
Between 3 and 6 months	2	1
	896	620

The maximum amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet. Customer credit facilities for new customers must be approved by designated managers at business level or by senior sector management. Credit limits are set with reference to trading history and reports from credit rating agencies. Customer credit facilities are reviewed at the sales order entry stage and at the time of shipment so as not to exceed customer limits. Overdue accounts are regularly reviewed and impairment provisions are created where necessary. As a matter of policy, all outstanding trade balances greater than three months are fully provided except as approved by senior sector management and with due regard to the historical risk profile of the customer. The Group has extremely low historical levels of customer credit defaults, due in part to the blue chip multinational nature of many of its customers and the long term relationships it has with them. There were no new customers in 2008 where the Group considered there was a risk of significant credit default. There are no trade and other receivables that would otherwise be past due or impaired whose terms have been renegotiated.

18 Trade and other receivables continued

The carrying amounts of total trade and other receivables are denominated in the following currencies, which in most instances are the functional currencies of the respective subsidiaries.

	2008 £m	2007 £m
US dollar	337	232
Euro	260	191
Brazilian real	121	99
Russian rouble	46	–
Sterling	32	27
Chinese renminbi	30	19
Swedish krona	22	20
Other	48	32
	896	620

19 Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	62	73
Short term bank deposits	13	40
	75	113

The carrying amounts of cash and cash equivalents are denominated in the following currencies.

	2008 £m	2007 £m
Brazilian real	17	44
Russian rouble	17	3
Chinese renminbi	13	14
Sterling	10	12
US dollar	9	31
Other	9	9
	75	113

20 Assets and liabilities classified as held for sale

An analysis of the assets and liabilities classified as held for sale at 31 December is set out below.

	2008 Petainer £m	2008 Other £m	2008 Total £m	2007 Petainer and total £m
Property, plant and equipment	20	4	24	15
Deferred tax assets	1	–	1	1
Inventories	9	–	9	9
Trade receivables	5	–	5	5
Total assets	35	4	39	30
Trade payables	(14)	–	(14)	(11)
Retirement benefit obligations	(1)	–	(1)	(1)
Total liabilities	(15)	–	(15)	(12)
Carrying value	20	4	24	18

The Petainer plastic bottle business is in the process of being sold. Offers have been received for the business consistent with its carrying value and advanced discussions are now being held with a preferred bidder. In accordance with IFRS5 'Non Current Assets Held for Sale and Discontinued Operations', the related assets and liabilities of the business are separately classified in the consolidated balance sheet as held for sale. No depreciation or amortisation has been charged for the year. An impairment of £3m has been recognised in 2008 in order to align the carrying value with fair value less costs to sell. The impairment has been disclosed in the consolidated income statement within operating expenses.

Other assets classified as held for sale of £4m (2007: £nil) comprise a property deemed surplus to requirements resulting from the restructuring of the North American Beverage Can business.

21 Trade and other payables

	2008 £m	2007 restated £m
<i>Current liabilities</i>		
Trade payables	(679)	(579)
Social security and other taxes	(71)	(43)
Accrued expenses	(184)	(151)
Other payables	(119)	(77)
	(1,053)	(850)
<i>Non current liabilities</i>		
Accrued expenses	(12)	(9)
Other payables	(21)	(17)
	(33)	(26)
Total trade and other payables	(1,086)	(876)

The carrying amounts of total trade and other payables are denominated in the following currencies, which in most instances is the functional currencies of the respective subsidiaries.

	2008 £m	2007 restated £m
US dollar	(541)	(464)
Euro	(327)	(240)
Brazilian real	(83)	(77)
Sterling	(49)	(54)
Chinese renminbi	(25)	(18)
Russian rouble	(20)	(1)
Other	(41)	(22)
	(1,086)	(876)

22 Borrowings

	2008 £m	2007 restated £m
<i>Current liabilities</i>		
Bank overdrafts	(100)	(77)
Bank loans	(41)	(17)
US public bond	(2)	–
US private placement	(1)	–
Subordinated bond	(25)	(24)
Medium term notes	(416)	(37)
Finance leases	(2)	(9)
	(587)	(164)
<i>Non current liabilities</i>		
Bank loans	(313)	(265)
US public bond	(369)	–
US private placement	(151)	–
Subordinated bond	(771)	(540)
Medium term notes	(664)	(870)
Finance leases	(4)	(4)
	(2,272)	(1,679)
Total borrowings	(2,859)	(1,843)

22 Borrowings continued

In 2008, the Group issued a US\$550m US public bond and made a US\$225m US private placement, both at fixed interest rates and maturing in 2013. Proceeds from these have been used initially to pay down drawings under a revolving credit facility but will ultimately refinance £370m of medium term notes which mature in March 2009.

The Group has a range of bank borrowings maturing between 2009 and 2012. These facilities may generally be drawn in a range of freely available currencies and are at floating rates of interest. In addition the Group has a subordinated bond and a number of medium term notes in issue. The subordinated bond is denominated in euros with a maturity of 2067. It was issued at a fixed rate of interest but has been swapped to US dollar floating rates of interest through the use of cross currency and interest rate derivatives. The medium term notes are denominated in euros and sterling with maturities between 2009 and 2013. They were issued at fixed rates of interest although some have been swapped to floating rates of interest in euro and US dollar through the use of cross currency and interest rate derivatives. Those medium term notes not swapped to floating rates of interest are denominated in euros and are issued at a fixed rate of 4.375% per annum.

The carrying amounts of total borrowings are denominated in the following currencies.

	2008 £m	2007 £m
Euro	(1,483)	(1,112)
US dollar	(777)	(195)
Sterling	(447)	(455)
Other	(152)	(81)
	(2,859)	(1,843)

Included within borrowings are secured loans of £15m (2007: £10m), the security for which is principally property.

	2008 £m	2007 £m
Finance lease minimum lease payments:		
Less than 1 year	(2)	(9)
Between 1 and 5 years	(4)	(4)
Over 5 years	(1)	(1)
Total minimum lease payments	(7)	(14)
Future finance charges	1	1
Present value of finance leases	(6)	(13)
Present value of finance leases:		
Less than 1 year	(2)	(9)
Between 1 and 5 years	(3)	(3)
Over 5 years	(1)	(1)
	(6)	(13)

23 Financial instruments

(i) Carrying amount and fair value of financial assets and liabilities

An analysis of the carrying values and fair values at 31 December, by category and by class, of financial assets and liabilities is set out below.

	Derivatives used for hedging £m	Derivatives used for trading £m	Loans and receivables £m	Available for sale £m	Other financial liabilities £m	Total carrying amount £m	Total fair value £m
At 31 December 2008							
Financial assets							
Cash and cash equivalents	–	–	75	–	–	75	75
Trade and other receivables ¹	–	–	744	–	–	744	744
Available for sale financial assets	–	–	–	31	–	31	31
Derivative financial instruments	376	20	–	–	–	396	396
Financial liabilities							
Trade and other payables ²	–	–	–	–	(1,015)	(1,015)	(1,015)
Bank overdrafts	–	–	–	–	(100)	(100)	(100)
Bank loans	–	–	–	–	(354)	(354)	(354)
US public bond	–	–	–	–	(371)	(371)	(373)
US private placement	–	–	–	–	(152)	(152)	(153)
Subordinated bond	–	–	–	–	(796)	(796)	(442)
Medium term notes	–	–	–	–	(1,080)	(1,080)	(958)
Finance leases	–	–	–	–	(6)	(6)	(6)
Derivative financial instruments	(262)	(232)	–	–	–	(494)	(494)
	114	(212)	819	31	(3,874)	(3,122)	(2,649)
At 31 December 2007							
Financial assets							
Cash and cash equivalents	–	–	113	–	–	113	113
Trade and other receivables ¹	–	–	527	–	–	527	527
Available for sale financial assets	–	–	–	22	–	22	22
Derivative financial instruments	164	29	–	–	–	193	193
Financial liabilities							
Trade and other payables ²	–	–	–	–	(833)	(833)	(833)
Bank overdrafts	–	–	–	–	(77)	(77)	(77)
Bank loans	–	–	–	–	(282)	(282)	(282)
Subordinated bond	–	–	–	–	(564)	(564)	(500)
Medium term notes	–	–	–	–	(907)	(907)	(901)
Finance leases	–	–	–	–	(13)	(13)	(13)
Derivative financial instruments	(26)	(11)	–	–	–	(37)	(37)
	138	18	640	22	(2,676)	(1,858)	(1,788)

1 Excludes prepayments and taxes.

2 Excludes social security and other taxes.

Market values have been used to determine the fair values of available for sale financial assets, bank overdrafts and floating rate loans. The carrying value of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short term nature. The fair values of the US public bond, subordinated bond and medium term notes have been determined by reference to quoted market prices at the close of business on 31 December. As the US private placement is not a publicly traded instrument, its fair value has been approximated using the market value of the US public bond, which has a similar maturity date. The fair values of interest rate swaps, cross currency swaps, fixed rate loans and finance leases have been determined by discounting cash flows at prevailing interest rates. The fair value of forward foreign exchange contracts has been determined by marking those contracts to market against prevailing forward foreign exchange rates. The fair value of forward commodity contracts has been determined by marking those contracts to market at prevailing forward prices.

23 Financial instruments continued**(ii) Financial risk management**

The Group bases its financial risk management on sound economic objectives and good corporate practice. Group Treasury operations are carried out under strict policies and parameters defined by the Rexam Board and supervised by its Finance Committee. Group Treasury is not operated as a separate profit centre nor does it enter into any transactions for speculative purposes.

The Group's major operational hedges comply with IAS39 and hedge accounting treatment is applied. Some smaller trading exposures are hedged on an economic basis and hedge accounting treatment is not applied where the compliance burden is deemed to be onerous and the income statement volatility arising is not expected to be significant.

(a) Market risk: currencies

Currency risks arise from the multi currency cashflows within the Group. These risks arise from exchange rate fluctuations relating to the translation of balance sheet items of foreign subsidiaries (translation risk) and from currency flows from sales and purchases (transaction risks).

The policy regarding translation risk is to mitigate the impact of foreign exchange movements between overseas currencies and sterling arising on the translation of the value of non UK operations into sterling for reporting purposes. This is achieved by borrowing a proportion of debt, either directly or through the use of cross currency swaps and forward foreign exchange contracts, in currencies which match or are closely linked to the currencies of the overseas businesses. This approach also provides some protection against the foreign exchange translation of overseas earnings as it matches the currency of earnings to the currency of the interest expense. These amounts are included in the consolidated financial statements by translation into sterling at the balance sheet date and, where hedge accounted, offset in equity against the translation movement in net assets.

The policy regarding transaction risk is to hedge the reported net transaction exposure in full less an allowance for variability in forecasting. This is generally achieved through the use of forward foreign exchange contracts with amounts hedged being based on the reporting from individual Group businesses. None of the foreign exchange derivative instruments at 31 December 2008 related to derivative trading activity, although some fair value gains and losses were taken to the consolidated income statement because IAS39 hedge accounting treatment was not applied. Foreign exchange derivative instruments are used for hedging general business exposures in foreign currencies such as the purchase and sale of goods, capital expenditure and dividend flows.

Transactional foreign exchange risks are hedged by Group Treasury unless it is a legal requirement in the country where the foreign exchange risk arises that hedging is carried out locally. In this case, hedging is carried out by the individual responsible for treasury within the local business, but still operating within the overall Group policy on foreign exchange management.

The net consolidated balance sheets of the Group at 31 December, split by underlying significant currencies, is set out below.

	Total £m	Euro £m	US dollar £m	Russian rouble £m	Sterling £m	Other £m
At 31 December 2008						
Underlying net assets	4,777	1,131	2,675	352	110	509
Net borrowings before the impact of financing derivatives	(2,742)	(1,453)	(732)	13	(460)	(110)
Impact of financing derivatives	141	1,080	(1,331)	(20)	386	26
Net borrowings	(2,601)	(373)	(2,063)	(7)	(74)	(84)
Net assets	2,176	758	612	345	36	425
At 31 December 2007						
Underlying net assets	3,395	800	1,736	(1)	74	786
Net borrowings before the impact of financing derivatives	(1,730)	(1,087)	(168)	3	(422)	(56)
Impact of financing derivatives	168	855	(1,125)	–	426	12
Net borrowings	(1,562)	(232)	(1,293)	3	4	(44)
Net assets	1,833	568	443	2	78	742

(b) Market risk: interest rates

Changes in interest rates on interest bearing receivables and floating rate debt in different currencies create interest rate risk. The objective of the Group's interest rate risk management is to manage its exposure to the impact of changes in interest rates in the currencies in which debt is borrowed. Group policy is to keep between 20% and 80% of interest at fixed rates. Interest rate risk is managed through the issue of fixed rate debt and through the use of interest rate derivatives that are used to manage the overall fixed to floating mix of debt, which was 48% fixed and 52% floating at 31 December 2008 (2007: 32% and 68%). Group Treasury operates within a broad framework in respect of the mix of fixed and floating rate debt, as the optimum blend will vary depending on the mix of currencies and the Group's view of the debt markets at any point in time.

23 Financial instruments continued

Cash at bank earns interest at floating rates based on bank deposit rates in the relevant currency. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rates. Other floating rate financial instruments are at the appropriate LIBOR interest rates as adjusted by variable margins. Interest on floating rate financial instruments is re-priced at intervals of less than one year. Interest on fixed rate financial instruments is fixed until maturity of the instrument.

Some interest rate swaps used to manage the Group's fixed to floating debt mix, while economically effective, are ineligible for hedge accounting treatment. Fair value gains and losses on these hedges are recognised in the consolidated income statement. In 2008, there was a net loss of £2m (2007: £2m) on fair value changes on financing derivative financial instruments, disclosed separately within interest in the consolidated income statement.

(c) Market risk: commodity prices

Changes in the market price of commodities used by the Group create commodity risk. Group policy is to manage these risks through both its supply chain management and through use of financial derivatives. Where financial derivatives are used, the Group uses mainly over the counter instruments transacted with banks, which are themselves priced through a recognised commodity exchange, such as the London Metal Exchange. The Group manages the purchase of certain raw materials, including aluminium, resin and energy costs through physical supply contracts which, in the main, relate directly to commodity price indices. With regard to aluminium, which represents the Group's largest commodity exposure, the policy is to eliminate as far as possible any market price variability through hedging in tandem with contractual commitments. For other commodities, the policy is to hedge a reducing proportion of exposure over typically three years ahead, the extent of the forward cover taken is judged according to market conditions and prices of futures prevailing at the time. None of the commodity derivative financial instruments at 31 December 2008 related to derivative trading activity, although some fair value gains and losses were taken to the consolidated income statement because IFRS hedge accounting was not applied. The commodity hedges mainly relate to contracted and expected future purchases of aluminium, but also include resin and energy.

(d) Market risk: sensitivities

A sensitivity analysis for financial assets and liabilities affected by market risk is set out below. Each risk is analysed separately and shows the sensitivity of financial assets and liabilities when a certain risk is changed. The sensitivity analysis has been performed on balances at 31 December each year and therefore is not representative of transactions throughout the year. The rates used are based on historical trends and, where relevant, projected forecasts.

Key methods and assumptions made when performing the sensitivity analysis (net of hedging):

- (a) For the floating rate element of interest rate swaps, the sensitivity calculation is performed based on the floating rates as at 31 December each year and the number of days since the last interest rate reset date.
- (b) The translation impact of overseas subsidiaries is not included in the sensitivity analysis.
- (c) The sensitivity analysis ignores any tax implications.

Currencies

The foreign exchange rate sensitivity analysis set out in the table below is based on foreign currency positions, other than each Group entity's own functional currency, on the balance sheet at 31 December. The analysis includes only risks arising from financial instruments and gives the estimated impact on profit before tax and equity of a reasonable increase and decrease in exchange rates between currency pairs with significant currency positions.

	Increase %	Impact on profit before tax £m	Impact on equity £m	Decrease %	Impact on profit before tax £m	Impact on equity £m
At 31 December 2008						
Sterling/US dollar	20	(26)	32	(20)	39	(48)
Sterling/euro	20	40	77	(20)	(58)	(119)
Euro/US dollar	20	40	(81)	(20)	(49)	81
Brazilian real/US dollar	20	3	10	(20)	(5)	(15)
At 31 December 2007						
Sterling/US dollar	5	(14)	–	(5)	15	–
Sterling/euro	2	4	7	(2)	(4)	(7)
Euro/US dollar	5	12	(13)	(5)	(12)	13
Brazilian real/US dollar	7	3	–	(7)	(3)	–

The impact of currency risk on net investment hedges is offset by the translation of overseas subsidiaries on consolidation.

23 Financial instruments continued*Interest rates*

At 31 December 2008, if the US dollar interest rate was increased or reduced by 2% with all other variables held constant, profit before tax would reduce or increase by £21m, respectively (2007: 1% and £4m), mainly as a result of US dollar denominated floating rate debt. There was no significant interest rate risk relating to equity in either year.

Commodity prices

There was no price risk relating to the income statement since all commodity derivatives are treated as cash flow hedges, with movements being reflected in equity. At 31 December 2008, if the aluminium price was increased or reduced by 20% with all other variables held constant, equity would increase or decrease by £68m, respectively (2007: 10% and £27m).

Equity prices

The Group is not subject to any significant equity price risk.

(e) Liquidity risk

The Group monitors its liquidity to maintain a sufficient level of undrawn committed debt facilities, thereby ensuring financial flexibility. As at 31 December 2008, Rexam had £732m of undrawn committed debt facilities available, (2007: £707m). The increase in undrawn committed facilities reflects Rexam's action to reduce liquidity risk in response to deteriorating conditions in the financial markets. Since 31 December 2008, £480m of new committed debt facilities have been signed with maturities ranging between February 2011 and April 2011.

Group Treasury mitigates refinancing risk by raising its debt requirements from a range of different sources and with a range of maturity dates. As at 31 December 2008, committed debt maturities ranged from less than one year (13% of drawn debt) (2007: less than two years (18% of drawn debt)) to 2067 (24% of drawn debt) (2007: 2067, (32% of drawn debt)). No more than 42% of drawn debt (2007: 32% of drawn debt) expires in any one financial year.

An analysis of undiscounted contractual maturities for non derivative financial liabilities and derivative financial liabilities and assets is set out below.

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total contractual maturity £m
At 31 December 2008					
Trade and other payables	(982)	(17)	(2)	(14)	(1,015)
Bank overdrafts	(100)	–	–	–	(100)
Bank loans	(50)	(234)	(71)	(19)	(374)
US public bond	(25)	(25)	(447)	–	(497)
US private placement	(9)	(9)	(180)	–	(198)
Subordinated bond	(49)	(49)	(146)	(916)	(1,160)
Medium term notes	(426)	(29)	(761)	–	(1,216)
Finance leases	(2)	(2)	(2)	(1)	(7)
Derivative contracts – payments	(1,364)	(140)	(176)	(1,413)	(3,093)
Derivative contracts – receipts	1,394	163	228	1,526	3,311
Derivative contracts – net settlements	3	3	7	–	13
Commodity contracts	(220)	(15)	–	–	(235)
	(1,830)	(354)	(1,550)	(837)	(4,571)
At 31 December 2007					
Trade and other payables	(807)	(9)	(7)	(10)	(833)
Bank overdrafts	(77)	–	–	–	(77)
Bank loans	(27)	(16)	(254)	(16)	(313)
Subordinated bond	(37)	(37)	(111)	(695)	(880)
Medium term notes	(57)	(419)	(66)	(533)	(1,075)
Finance leases	(9)	(2)	(2)	(1)	(14)
Derivative contracts – payments	(809)	(375)	(222)	(1,308)	(2,714)
Derivative contracts – receipts	775	529	231	1,359	2,894
Derivative contracts – net settlements	(2)	2	2	–	2
Commodity contracts	(3)	–	–	–	(3)
	(1,053)	(327)	(429)	(1,204)	(3,013)

23 Financial instruments continued

(f) Credit risk

The maximum credit risk exposure of the Group's financial assets at 31 December is represented by the amounts reported under the corresponding balance sheet headings. There are no significant concentrations of credit risk associated with financial instruments of the Group. Credit risk arises from exposures to external counterparties. In order to manage this risk, the Group has strict credit quality measures that are applied to counterparty institutions and also limits on maximum exposure levels to any one counterparty.

To manage credit risk, the maximum limits for Group bank exposures held under company policy are set out below by counterparty credit rating category. These limits are used when making investments and for the use of derivative instruments. The table also sets out the Group's financial asset exposure at 31 December for each counterparty credit rating category.

Credit rating	2008 Individual counterparty limit £m	2008 Cash and cash equivalents £m	2008 Collateral deposits £m	2008 Derivatives £m	2008 Total £m	2007 Individual counterparty limit £m	2007 Cash and cash equivalents £m	2007 Derivatives £m	2007 Total £m
AA+	80 to 100	–	11	63	74	80 to 100	1	34	35
AA	70 to 90	–	–	3	3	70 to 90	19	1	20
AA–	60 to 80	3	29	86	118	60 to 80	20	126	146
A+	50 to 70	23	2	163	188	50 to 70	9	9	18
A	40 to 60	32	–	77	109	40 to 60	32	1	33
A–	20 to 40	5	–	4	9	20 to 40	–	22	22
BBB+ and below	10 to 30	12	–	–	12	10 to 30	32	–	32
		75	42	396	513		113	193	306

(g) Capital risk management

The Group's objective is to minimise its cost of capital by optimising the efficiency of its capital structure, being the balance between equity and debt. This objective is always subject to an overriding principle that capital must be managed to ensure the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group is able to adjust its capital structure through the issue or redemption of either debt or equity and by adjustment to the dividend paid to equity holders. The Group uses a range of financial metrics to monitor the efficiency of its capital structure, including its weighted average cost of capital and net debt to EBITDA and ensures that its capital structure provides sufficient financial strength to allow it to secure access to debt finance at reasonable cost.

At 31 December 2008, the Group's net debt to EBITDA for financial covenant purposes was 2.7 times (2007: 2.2 times). The Group aims to keep this ratio within the range 1.25 times to 3.5 times. For this purpose net debt is broadly net borrowings adjusted to exclude interest accruals, certain derivative financial instruments and an equity portion of the subordinated bond and reflects non sterling amounts at average exchange rates. EBITDA is underlying operating profit from continuing operations after adding back depreciation and amortisation of computer software and adjusted to include acquisitions on a pro forma basis and excludes disposed businesses.

23 Financial instruments continued**(iii) Derivative financial instruments**

The net fair values of the Group's derivative financial instruments designated as fair value or cash flow hedges and those not designated as hedging instruments are set out below.

	2008 £m	2007 £m
Fair value hedges		
Cross currency swaps	337	146
Interest rate swaps	12	2
	349	148
Cash flow hedges		
Forward aluminium commodity contracts	(220)	(3)
Forward resin commodity contracts	(9)	–
Forward gas commodity contracts	(3)	–
Forward foreign exchange contracts	(3)	(7)
	(235)	(10)
Total hedge accounted	114	138
Not hedge accounted		
Cross currency swaps	(211)	20
Forward foreign exchange contracts (operating and financing derivatives)	(1)	(2)
Total not hedge accounted	(212)	18
Total net fair value of derivative financial instruments	(98)	156

Fair value hedges

The Group has designated interest rate swaps and the interest element of cross currency swaps as fair value hedges whereby interest is receivable at fixed interest rates varying from 4.375% to 7.1% (2007: 4.375% to 7.1%) and payable at floating rates. These swaps hedge the exposure to changes in the fair value of medium term notes which mature in 2009 and 2013 (2007: 2009 and 2013). The cross currency swaps hedge changes in the fair value of the euro subordinated bond which matures in 2067. Ineffectiveness gains of £29m were included in interest in 2008 (2007: £1m).

Cash flow hedges

The Group has designated forward foreign exchange, aluminium commodity, resin commodity and gas commodity contracts as cash flow hedges. Forward foreign exchange contracts hedge foreign currency transaction risk and mature between 2009 and 2010 (2007: between 2008 and 2009). The aluminium commodity, resin commodity and gas commodity contracts hedge anticipated future purchases of aluminium, resin and gas respectively, and mature between 2009 and 2011 (2007: aluminium between 2008 and 2009).

Not hedge accounted

Derivatives are not used for trading purposes. However, under IAS39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate.

Net investment hedges

An analysis of the Group's non derivative financial instruments designated as net investment hedges with respect to its subsidiaries, principally in the Eurozone and USA, are set out below.

	Bank loans £m	US public bond £m	Medium term notes £m	Total £m
At 1 January 2008	(11)	–	(350)	(361)
Net increase in designations	(24)	(143)	(22)	(189)
Exchange differences recognised in equity	(8)	(49)	(127)	(184)
At 31 December 2008	(43)	(192)	(499)	(734)
At 1 January 2007	(140)	–	(538)	(678)
Net decrease in designations	131	–	220	351
Exchange differences recognised in equity	1	–	(32)	(31)
Exchange differences transferred from equity to the income statement	(3)	–	–	(3)
At 31 December 2007	(11)	–	(350)	(361)

23 Financial instruments continued

An analysis of the notional amounts and maturity dates for derivative financial instruments is set out below.

	Maturity	2008 Notional amounts £m	2007 Notional amounts £m
Fair value hedges			
Cross currency swaps – euro	2017	721	547
Cross currency swaps – sterling	2017	(505)	(505)
Interest rate swaps – sterling	2009	370	370
Interest rate swaps – euro	2013	192	146
Cash flow hedges			
Forward foreign exchange contracts – US dollar	2009 to 2010	417	280
Forward foreign exchange contracts – Brazilian real	2009	61	–
Forward foreign exchange contracts – Sterling	2009	(26)	(10)
Forward foreign exchange contracts – Swedish krona	2009	(69)	(55)
Forward aluminium commodity contracts – US dollar	2009 to 2011	567	282
Forward resin commodity contracts – US dollar	2009	16	–
Forward gas commodity contracts – US dollar	2009 to 2011	13	3
Not hedge accounted			
Cross currency swaps – sterling	2009 to 2017	875	875
Cross currency swaps – US dollar	2009 to 2017	(1,052)	(782)
Interest rate swaps – US dollar	2009	241	179

For forward foreign exchange contracts, there are other currencies traded which have been excluded based on the fair valuation amounts for these trades being immaterial.

24 Retirement benefit obligations

(i) Summary

	Defined benefit pensions £m	Other pensions £m	Total pensions £m	Retiree medical £m	Gross retirement benefit obligations £m
At 1 January 2008	(63)	(17)	(80)	(98)	(178)
Exchange differences	(25)	(4)	(29)	(33)	(62)
Current service cost	(15)	(9)	(24)	(1)	(25)
Exceptional items	(3)	–	(3)	4	1
Net finance cost	–	–	–	(7)	(7)
Actuarial changes	(30)	1	(29)	(1)	(30)
Cash contributions and benefits paid	53	9	62	9	71
Transfers	2	–	2	–	2
At 31 December 2008	(81)	(20)	(101)	(127)	(228)
At 1 January 2007	(326)	(22)	(348)	(163)	(511)
Exchange differences	–	(1)	(1)	3	2
Acquisition of subsidiaries	(7)	–	(7)	(1)	(8)
Current service cost – continuing operations	(15)	(6)	(21)	(1)	(22)
Exceptional items – continuing operations	–	–	–	63	63
Net finance cost – continuing operations	(4)	–	(4)	(10)	(14)
Actuarial changes	217	–	217	–	217
Cash contributions and benefits paid	47	8	55	11	66
Transfers	2	–	2	–	2
Total – discontinued operations	23	4	27	–	27
At 31 December 2007	(63)	(17)	(80)	(98)	(178)

	2008 £m	2007 £m
Gross retirement benefit obligations	(228)	(178)
Deferred tax	58	50
Net retirement benefit obligations	(170)	(128)

24 Retirement benefit obligations continued**(ii) Defined benefit pension plans**

The Group operates various defined benefit pension plans throughout the world, the largest being in the UK and USA. With respect to the UK, a full actuarial valuation by a qualified actuary was carried out as at 31 March 2008 and updated to 31 December 2008. With respect to the USA, a full actuarial valuation by a qualified actuary was carried out as at 1 January 2008 and updated to 31 December 2008.

	UK 2008 £m	USA 2008 £m	Other 2008 £m	Total 2008 £m	UK 2007 £m	USA 2007 £m	Other 2007 £m	Total 2007 £m
(a) Amounts recognised in the consolidated balance sheet								
Fair value of plan assets	1,310	1,186	9	2,505	1,491	861	9	2,361
Present value of funded obligations	(1,294)	(1,200)	(16)	(2,510)	(1,423)	(931)	(10)	(2,364)
Funded defined benefit pension plans	16	(14)	(7)	(5)	68	(70)	(1)	(3)
Present value of unfunded obligations	–	(40)	(36)	(76)	–	(31)	(29)	(60)
Net (liability)/asset	16	(54)	(43)	(81)	68	(101)	(30)	(63)
(b) Amounts recognised in the consolidated income statement								
<i>Continuing operations</i>								
Current service cost	(10)	(4)	(1)	(15)	(10)	(3)	(2)	(15)
Exceptional items – curtailment	–	(3)	–	(3)	–	–	–	–
Employee benefit expense	(10)	(7)	(1)	(18)	(10)	(3)	(2)	(15)
Expected return on plan assets	94	46	–	140	90	37	–	127
Interest cost	(79)	(60)	(1)	(140)	(75)	(55)	(1)	(131)
Net finance credit/(charge)	15	(14)	(1)	–	15	(18)	(1)	(4)
Total – continuing operations	5	(21)	(2)	(18)	5	(21)	(3)	(19)
Total – discontinued operations	–	–	–	–	10	–	13	23
(c) Amounts recognised in the statement of recognised income and expense								
Actuarial (losses)/gains on plan assets	(255)	38	(4)	(221)	37	44	–	81
Actuarial gains on retirement benefit obligations	166	26	(1)	191	112	11	13	136
Total recognised in the statement of recognised income and expense	(89)	64	(5)	(30)	149	55	13	217
(d) Changes in the fair value of plan assets								
At 1 January	1,491	861	9	2,361	1,388	856	69	2,313
Exchange differences	–	302	4	306	–	(13)	2	(11)
Expected return on plan assets – continuing operations	94	46	–	140	90	37	–	127
Expected return on plan assets – discontinued operations	–	–	–	–	–	–	2	2
Adjustment on sale – discontinued operations	–	–	–	–	–	–	(65)	(65)
Actuarial (losses)/gains	(255)	38	(4)	(221)	37	44	–	81
Employer contributions	32	18	–	50	30	13	1	44
Plan participant contributions	3	–	–	3	2	–	1	3
Benefits paid	(55)	(79)	–	(134)	(56)	(76)	(1)	(133)
At 31 December	1,310	1,186	9	2,505	1,491	861	9	2,361
	%	%	%	%	%	%	%	%
(e) Major categories of plan assets								
Equities	45	11	67	29	53	17	72	39
Bonds	53	89	27	69	45	83	24	59
Cash	2	–	6	2	2	–	4	2

24 Retirement benefit obligations continued

(f) Changes in the present value of defined benefit pension obligations

	UK 2008 £m	USA 2008 £m	Other 2008 £m	Total 2008 £m	UK 2007 £m	USA 2007 £m	Other 2007 restated £m	Total 2007 restated £m
At 1 January	(1,423)	(962)	(39)	(2,424)	(1,514)	(1,002)	(123)	(2,639)
Exchange differences	–	(319)	(12)	(331)	–	15	(4)	11
Acquisition of subsidiaries	–	–	–	–	–	(7)	–	(7)
Current service cost – continuing operations	(10)	(4)	(1)	(15)	(10)	(3)	(2)	(15)
Exceptional items – curtailment	–	(3)	–	(3)	–	–	–	–
Interest cost – continuing operations	(79)	(60)	(1)	(140)	(75)	(55)	(1)	(131)
Current service cost – discontinued operations	–	–	–	–	–	–	(1)	(1)
Interest cost – discontinued operations	–	–	–	–	–	–	(2)	(2)
Adjustment on sale – discontinued operations	–	–	–	–	10	–	79	89
Actuarial gains/(losses)	166	26	(1)	191	112	11	13	136
Plan participant contributions	(3)	–	–	(3)	(2)	–	(1)	(3)
Benefits paid	55	80	2	137	56	77	3	136
Transfer from available for sale financial assets	–	2	–	2	–	2	–	2
At 31 December	(1,294)	(1,240)	(52)	(2,586)	(1,423)	(962)	(39)	(2,424)

(g) Principal actuarial assumptions

	UK 2008 %	USA 2008 %	Other 2008 %	UK 2007 %	USA 2007 %	Other 2007 %
Future salary increases	4.30	4.00	3.07	4.80	4.00	3.05
Future pension increases	2.80	–	2.00	3.30	–	2.00
Discount rate	6.00	6.25	5.05	5.60	6.00	5.08
Inflation rate	2.80	2.50	2.00	3.30	2.50	2.00
Expected return on plan assets (net of administration expenses):						
Equities	7.47	7.49	8.70	7.87	7.34	7.15
Bonds	4.47	4.50	3.20	4.62	4.70	3.65
Cash	1.82	3.01	4.00	5.37	3.16	3.35

To develop the expected return on plan assets assumptions, the Group considered the current level of expected returns on risk free investments, primarily government bonds, the historical level of the risk premium associated with the asset class concerned and the expectations for future returns of the asset class. The resulting returns for equities, bonds and cash were then reduced to allow for administration expenses.

The mortality assumptions used in valuing the liabilities of the UK pension plan in 2008 and 2007 are based on the standard tables PA92 as published by the Institute and Faculty of Actuaries. These tables are adjusted to reflect the circumstances of the plan membership. The life expectancy assumed for male pensioners aged 65 is 21.2 years (2007: 19.6 years) and for female pensioners aged 65 is 24.3 years (2007: 22.4 years). The life expectancy at age 65 assumed for male non pensioners currently aged 45 is 23.4 years (2007: 21.8 years) and for female non pensioners currently aged 45 is 26.7 years (2007: 24.5 years).

The mortality assumptions used in valuing the liabilities of the US pension plans in 2008 are based on the RP2000 combined active and retiree mortality table projected to 2006 (2007: RP2000 combined active and retiree mortality table projected to 2006) weighted 70% blue collar and 30% white collar. The life expectancy assumed for male pensioners aged 65 is 17.8 years (2007: 17.8 years) and for female pensioners aged 65 is 20.2 years (2007: 20.2 years).

(h) Historic information on defined benefit plans

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of plan assets	2,505	2,361	2,313	2,357	2,089
Present value of defined benefit obligations	(2,586)	(2,424)	(2,639)	(2,871)	(2,566)
Net liability	(81)	(63)	(326)	(514)	(477)
Cumulative actuarial gains/(losses)	223	253	36	(99)	(79)

24 Retirement benefit obligations continued

	2008	2007	2006	2005	2004
Experience (losses)/gains arising on plan assets:					
Amount (£m)	(221)	81	32	145	63
Percentage of plan assets (%)	(9)	3	1	6	3
Experience gains/(losses) arising on defined benefit obligations:					
Amount (£m)	191	136	103	(165)	(142)
Percentage of present value of defined benefit obligations (%)	7	6	4	(6)	(6)

The Group expects to contribute £20m in cash to its defined benefit pension plans in 2009.

(iii) Other pension plans

The Group operates a number of defined contribution plans, included as part of other pensions in (i) above, for which the charge in the consolidated income statement for the year was £8m (2007: £6m) and cash contributions were £8m (2007: £6m).

(iv) Retiree medical

Certain current and former employees in the USA are provided with cover for medical costs and life assurance, referred to in these consolidated financial statements as retiree medical. These unfunded benefits are assessed with the advice of a qualified actuary.

	2008 £m	2007 £m
(a) Amounts recognised in the consolidated balance sheet		
Present value of the retiree medical obligation	(127)	(98)
(b) Amounts recognised in the consolidated income statement		
Current service cost	(1)	(1)
Exceptional item – past service credit	3	63
Exceptional item – curtailment	1	–
Employee benefit credit	3	62
Interest cost (including administration costs of £1m (2007: £1m))	(7)	(10)
	(4)	52
(c) Amounts recognised in the statement of recognised income and expense		
Actuarial losses	(1)	–
(d) Changes in the present value of the retiree medical obligation		
At 1 January	(98)	(163)
Exchange differences	(33)	3
Acquisition of subsidiaries	–	(1)
Current service cost	(1)	(1)
Exceptional items	4	63
Interest cost	(7)	(10)
Actuarial losses	(1)	–
Benefits paid	9	11
At 31 December	(127)	(98)

(e) Principal actuarial assumptions

	2008 %	2007 %
Discount rate	6.25	6.00
Healthcare cost trend rate	9 reducing to 5 over 9 years	9 reducing to 5 over 7 years

The mortality assumptions used in valuing the liabilities for retiree medical for 2008 are based on the RP2000 combined active and retiree blue collar table projected to 2006 (2007: RP2000 combined active and retiree blue collar table projected to 2006). The life expectancy assumed for male pensioners aged 65 is 16.8 years (2007: 16.8 years) and for female pensioners aged 65 is 19.6 years (2007: 19.6 years).

24 Retirement benefit obligations continued

Assumed healthcare cost trend rates can have a significant effect on amounts reported for retiree medical. A one percentage point change in assumed rates would have the impact as set out below.

	2008 £m	2007 £m
1% increase – Service cost and interest cost combined increase	–	(1)
1% increase – Retiree medical obligation increase	(4)	(3)
1% decrease – Service cost and interest cost combined reduction	–	1
1% decrease – Retiree medical obligation reduction	5	4

(f) Historic information on retiree medical

	2008	2007	2006	2005	2004
Present value of retiree medical obligation (£m)	(127)	(98)	(163)	(244)	(269)
Cumulative actuarial gains/(losses) (£m)	14	15	15	(5)	(13)
Experience (losses)/gains arising on retiree medical obligation:					
Amount (£m)	(1)	–	20	8	(13)
Percentage of present value of retiree medical obligation (%)	(1)	–	12	3	(5)

25 Provisions

	Environmental compliance £m	Restructuring and integration of businesses £m	Indirect tax exposures £m	Other £m	Total £m
At 1 January 2008	(18)	(8)	(14)	(11)	(51)
Exchange differences	(7)	(5)	–	(2)	(14)
Charge for the year	(4)	(28)	–	–	(32)
Released in the year	–	–	–	1	1
Utilised	2	19	1	1	23
Other movements	–	–	(5)	–	(5)
At 31 December 2008	(27)	(22)	(18)	(11)	(78)
At 31 December 2008					
Current liabilities	(4)	(16)	–	(1)	(21)
Non current liabilities	(23)	(6)	(18)	(10)	(57)
	(27)	(22)	(18)	(11)	(78)
At 31 December 2007					
Current liabilities	(3)	(7)	(1)	(2)	(13)
Non current liabilities	(15)	(1)	(13)	(9)	(38)
	(18)	(8)	(14)	(11)	(51)

Environmental compliance mainly relates to the USA and France and is long term in nature with the timing of utilisation unknown due to the need to complete remedial investigations, to negotiate remedial plans with local authorities and to implement agreed plans. The provision for restructuring and integration of businesses at 31 December 2008 includes £1.5m for the restructuring of the North American Beverage Can business and £3m for the integration of OI Plastics. Indirect tax exposures relate to Brazil and are long term in nature, with the timing of payment, if any, dependent upon the outcome of tax cases and exposures. Other provisions comprise £9m (2007: £8m) in respect of a legacy litigation claim relating to an acquired business where the amount of the final liability and timing of payment, if any, is dependent upon the outcome of the litigation, £2m (2007: £2m) in respect of onerous property and other contracts, the timing of the utilisation of which is in accordance with those contracts and £nil (2007: £1m) in respect of incentives relating to the cash settled phantom share option scheme.

26 Equity**(i) Total equity**

	Attributable to equity shareholders of Rexam PLC						Total equity £m
	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Fair value and other reserves £m	Minority interests £m	
At 1 January 2008	413	1,004	351	60	3	2	1,833
Exchange differences before recognition of net investment hedges	–	–	–	–	651	–	651
Net investment hedges recognised	–	–	–	–	(184)	–	(184)
Cash flow hedges recognised	–	–	–	–	(189)	–	(189)
Tax on cash flow hedges	–	–	–	–	35	–	35
Cash flow hedges transferred to inventory	–	–	–	–	9	–	9
Actuarial losses on retirement benefit obligations	–	–	–	(30)	–	–	(30)
Tax on actuarial losses on retirement benefit obligations	–	–	–	4	–	–	4
Changes in market value of available for sale financial assets	–	–	–	–	3	–	3
Net profit/(loss) recognised directly in equity	–	–	–	(26)	325	–	299
Total profit/(loss) for the financial year	–	–	–	172	–	(1)	171
Total recognised profit/(loss) for the year	–	–	–	146	325	(1)	470
Share options value of services provided	–	–	–	2	–	–	2
Share options proceeds from shares issued	–	1	–	–	–	–	1
Dividends paid	–	–	–	(131)	–	–	(131)
Increase in minority interests	–	–	–	–	–	1	1
At 31 December 2008	413	1,005	351	77	328	2	2,176
At 1 January 2007	375	759	351	(216)	(22)	2	1,249
Exchange differences before recognition of net investment hedges	–	–	–	–	86	–	86
Net investment hedges recognised	–	–	–	–	(31)	–	(31)
Net investment hedges transferred to the income statement	–	–	–	–	(3)	–	(3)
Cash flow hedges recognised	–	–	–	–	(34)	–	(34)
Tax on cash flow hedges	–	–	–	–	13	–	13
Cash flow hedges transferred to inventory	–	–	–	–	(8)	–	(8)
Actuarial gains on retirement benefit obligations	–	–	–	217	–	–	217
Tax on actuarial gains on retirement benefit obligations	–	–	–	(65)	–	–	(65)
Net profit recognised directly in equity	–	–	–	152	23	–	175
Total profit for the financial year	–	–	–	240	–	–	240
Total recognised profit for the year	–	–	–	392	23	–	415
Placing of shares (net of £6m costs)	38	242	–	–	–	–	280
Share options value of services provided	–	–	–	4	–	–	4
Share options proceeds from shares issued	–	3	–	–	–	–	3
Purchase of Rexam PLC shares by Rexam Employee Share Trust	–	–	–	(2)	–	–	(2)
Transfer on disposal of subsidiaries	–	–	–	–	2	–	2
Dividends paid	–	–	–	(118)	–	–	(118)
At 31 December 2007	413	1,004	351	60	3	2	1,833

26 Equity continued
(ii) Fair value and other reserves

	Translation reserve £m	Available for sale financial assets reserve £m	Cash flow hedge reserve £m	Net investment hedge reserve £m	Total fair value and other reserves £m
At 1 January 2008	11	(3)	(6)	1	3
Exchange differences before recognition of net investment hedges	651	–	–	–	651
Net investment hedges recognised	–	–	–	(184)	(184)
Cash flow hedges recognised	–	–	(189)	–	(189)
Tax on cash flow hedges	–	–	35	–	35
Cash flow hedges transferred to inventory	–	–	9	–	9
Changes in market value of available for sale financial assets	–	3	–	–	3
At 31 December 2008	662	–	(151)	(183)	328
At 1 January 2007	(77)	(3)	23	35	(22)
Exchange differences before recognition of net investment hedges	86	–	–	–	86
Net investment hedges recognised	–	–	–	(31)	(31)
Net investment hedges transferred to the income statement	–	–	–	(3)	(3)
Cash flow hedges recognised	–	–	(34)	–	(34)
Tax on cash flow hedges	–	–	13	–	13
Cash flow hedges transferred to inventory	–	–	(8)	–	(8)
Transfer on disposal of subsidiaries	2	–	–	–	2
At 31 December 2007	11	(3)	(6)	1	3

The 2007 balance of £3m on the available for sale financial assets reserve represented an unrealised loss on investments used to satisfy certain US retirement benefit obligations.

(iii) Details of share capital

	Ordinary shares of 64 $\frac{1}{2}$ /p issued and fully paid Thousands	Ordinary shares of 64 $\frac{1}{2}$ /p authorised Thousands	Unclassified shares of 0.0001p authorised Billions
Number of shares			
At 1 January 2008	642,590	933,333	–
Shares issued on employee share option schemes	330	–	–
At 31 December 2008	642,920	933,333	–
At 1 January 2007	583,328	820,614	72,462
Shares issued on placing	58,355	–	–
Shares issued on employee share option schemes	907	–	–
Consolidation of unclassified shares into ordinary shares	–	112,719	(72,462)
At 31 December 2007	642,590	933,333	–

The rights and restrictions attaching to the ordinary shares and the provisions relating to the transfer of ordinary shares are as governed by law and in accordance with the Company's Articles of Association. Holders of ordinary shares are entitled to receive all shareholder documents, to attend, speak and exercise voting rights, either in person or by proxy, on resolutions proposed at general meetings and participate in any distribution of income or capital. The directors may refuse to register a transfer of ordinary shares where such transfer documents are not lodged by acceptable means or proof of title is required. Ordinary shares are held by the Rexam Employee Share Trust (Trust) for the satisfaction of options granted through the Long Term Incentive Schemes (LTIP), Deferred Bonus Incentive Scheme (DBIS) and in part, through the Executive Share Option Scheme (ESOS). The independent trustee of the Trust has the same rights as any other shareholder. The options granted under the Company's other share incentive schemes are satisfied from the issue of new ordinary shares. Participants do not hold any voting rights on the ordinary shares under option until the date of exercise. There are no restrictions on the voting rights of holders of ordinary shares nor any known agreements between holders of ordinary shares under which financial rights are held by any person other than the registered holder, or voting rights or the transfer of ordinary shares are restricted.

27 Share based payment

Rexam's equity settled share based payment schemes comprise the LTIP, DBIS, ESOS and the Savings Related Share Option Schemes (SAYE). Rexam's cash settled share based payment scheme is the Phantom Stock Plan (Phantoms).

LTIP

Annual grants of options over ordinary shares are made to executive directors and certain senior executives. The Total Shareholder Return (TSR) of Rexam is measured and compared to a comparator group of listed companies. The percentage of share options that actually vest is dependent upon Rexam's comparative TSR over a three year measurement period, commencing on 1 January of the year in which the option is granted. If performance targets are met, share options vest on 1 January, three years after the start of the measurement period and can be exercised at a nominal cost to the employee. The expiry date is six years and eleven months after the grant date.

DBIS

A grant of options was made during 2007 to an executive director. The number of shares that vested was measured over 2007 against a non market based condition relating to an OI Plastics operating profit target. The option may be exercised at nominal cost to the participant for a period of three months from 1 January 2010 and, subject to the director being an employee of the Group at the time, will expire on 31 March 2010.

ESOS

Annual grants of options over ordinary shares are made to certain senior management. For grants up to and including 2006, shares vest if a performance target (annual growth rate of pre determined economic profit) is met over the three year measurement period. No performance target was set for the 2008 and 2007 grants and the options will vest three years after the grant date, provided the participant is an employee of the Group at that time. Share options are exercisable three years after grant date and expire ten years after grant date. The exercise price is set at market value using the market price of a Rexam ordinary share at the grant date.

SAYE

All employee SAYE schemes are open to eligible employees resident in the UK and Ireland. Annual grants of options over ordinary shares are currently made at an exercise price of 80% of the market value of Rexam shares at the grant date. Share options vest three, five or seven years after the commencement of the savings contract, depending on the term selected by the employee at grant and expire six months after vesting.

Phantoms

This scheme operates in the same way as the ESOS with the same terms and conditions. Grants are made to senior management located outside the UK and Europe and are settled in cash.

The employee benefit expense recognised in relation to share based payment is set out below.

	2008 £m	2007 £m
<i>Continuing operations</i>		
Equity settled schemes	2	3
<i>Discontinued operations</i>	–	1
Total employee benefit expense	2	4

The fair values of the share options granted during the year were calculated using the models set out below.

	Valuation model
LTIP	Monte Carlo/Binomial
DBIS	Black-Scholes
ESOS	Binomial
SAYE	Black-Scholes
Phantoms	Binomial

27 Share based payment continued

The number of options and weighted average exercise prices of all share option schemes are set out below.

	2008 Number of options	2008 Weighted average exercise price Pence	2007 Number of options	2007 Weighted average exercise price Pence
Outstanding at 1 January	16,413,640	279.2	17,508,128	299.6
Granted	6,207,407	289.4	5,950,556	245.6
Lapsed	(5,021,675)	300.5	(5,521,649)	275.4
Exercised	(362,283)	298.6	(1,151,909)	356.5
Expired	(330,488)	481.2	(371,486)	519.7
Outstanding at 31 December	16,906,601	272.3	16,413,640	279.2
Exercisable at 31 December	1,178,596	351.7	1,459,131	340.9

The exercise prices and average remaining contractual lives of share options by scheme are set out below.

	2008 Options outstanding Number	2008 Range of exercise prices Pence	2008 Weighted average remaining contractual life Years	2007 Options outstanding Number	2007 Range of exercise prices Pence	2007 Weighted average remaining contractual life Years
LTIP	6,629,676	0.0 to 0.1	5.2	6,568,776	0.0 to 0.1	5.3
DBIS	51,477	–	1.2	91,760	–	2.2
ESOS	5,189,131	196.9 to 552.7	7.8	5,386,659	196.9 to 552.7	7.6
SAYE	1,356,081	280.3 to 435.0	3.4	1,054,782	184.7 to 435.0	3.0
Phantoms	3,680,236	303.7 to 552.7	8.1	3,311,663	239.8 to 552.7	8.1

The key assumptions used in valuing share options are set out below.

	2008	2007
Expected dividend growth (%)	4.5 to 5.8	3.6 to 4.6
Expected and historical volatility (%)	22.3 to 34.1	17.2 to 29.6
Risk free interest rate (%)	2.0 to 5.0	4.8 to 5.6
Expected life of LTIP options (years)	3	3
Expected life of ESOS options (years)	5	5
Expected life of SAYE options (3 year, 5 year and 7 year contracts) (years)	3.2, 5.2 and 7.2	3.2, 5.2 and 7.2
Expected life of DBIS options (years)	2.3	2.3
Expected life of phantoms options (years)	3 to 10	3 to 10
Weighted average share price (pence)	401	495
Weighted average fair value of options granted (pence)	92	76
Weighted average exercise price (pence)	287	244

The assumptions made to incorporate the effects of expected early exercise have been included by assuming an expected option life based on historical exercise patterns for each option scheme. Historical volatilities are arrived at using a period comparable with the expected life of the option. The correlation coefficient for the LTIP is calculated using the correlation matrix for the TSR simulation using three year daily historical stock price series for each company in the comparator group, including Rexam, from the beginning of the measurement period. A ten year life is initially assumed to calculate the fair value of phantoms. As the fair value is updated at each subsequent valuation the expected life is reduced for each year until exercise.

Rexam Employee Share Trust

The Group operates an employee share trust, the Rexam Employee Share Trust (Trust), that owns 463,910 ordinary shares of 64²/p in Rexam PLC at 31 December 2008 (2007: 463,910) acquired at an average cost of £5.15 (2007: £5.15) and included in the consolidated balance sheet within retained earnings at a cost of £2m (2007: £2m). The shares are used to satisfy LTIP, DBIS and certain ESOS share option exercises. The purchases are funded by a combination of cash contributions from participating companies and interest free loans from Rexam PLC.

Dividends receivable during the year have been waived. The administration expenses of the Trust are borne by the Trust. Shares are allocated by the Trust when relevant options under the schemes are exercised. The market value of the shares at 31 December 2008 was £2m (2007: £2m).

28 Acquisition of subsidiaries

On 31 January 2008, the Group acquired 100% of Rostar, a Russian beverage can maker. Details of consideration, net assets acquired and goodwill are set out below.

	£m
Cash consideration	130
Accrued costs	1
Total consideration	131
Fair value of net assets acquired	(89)
Goodwill	42

	Carrying values at acquisition £m	Fair value adjustments £m	Fair value of net assets acquired £m
Intangible assets	–	39	39
Property, plant and equipment	41	8	49
Net working capital	33	(1)	32
Cash and cash equivalents	10	–	10
Borrowings	(22)	–	(22)
Non current and deferred tax	–	(19)	(19)
Net assets	62	27	89

The goodwill is attributable to the value of synergies and the workforce. The fair value adjustments comprise intangible assets relating to customer contracts and relationships of £32m, technology and patents of £7m, the revaluation of property, plant and equipment of £8m, the write down of inventories of £1m and tax of £19m.

Underlying operating profit for Rostar included in the consolidated income statement for the period from acquisition to 31 December 2008 was £21m. Operating profit was £15m after deducting the amortisation of intangible assets of £6m. Pro forma sales, underlying operating profit and operating profit for Rostar, assuming it had been acquired on 1 January 2008, would have been £131m, £22m and £15m, respectively.

During 2008, further adjustments were made to finalise the consideration and fair values of net assets acquired in relation to the 2007 acquisition of OI Plastics, as set out below.

	£m
Adjustment to cash consideration	(8)
Additional fair value adjustments	12
Increase in goodwill	4

The adjustment to cash consideration comprises a net asset adjustment in relation to the completion accounts. The principal additional fair value adjustments comprise downward revaluations of property, plant and equipment of £12m.

Consideration for the acquisition of subsidiaries is reconciled to the consolidated cash flow statement as follows:

	£m
Cash consideration for Rostar	130
Cash and cash equivalents acquired with Rostar	(10)
Adjustment to cash consideration for OI Plastics	(8)
Net cash outflow in the consolidated cash flow statement	112

29 Reconciliation of profit before tax to cash generated from operations

	2008 £m	2007 £m
<i>Continuing operations</i>		
Profit before tax	240	260
Adjustments for:		
Net interest expense	134	97
Depreciation of property, plant and equipment	166	126
Amortisation of intangible assets	56	32
Impairment	19	1
Loss on disposal of property, plant and equipment	4	2
Movement in provisions	8	9
Movement in working capital	(155)	(11)
Movement in collateral deposits	(42)	-
Movement in retirement benefit obligations	(40)	(91)
Other adjustments	6	7
Cash generated from continuing operations	396	432
<i>Discontinued operations</i>		
Cash generated from discontinued operations	-	26
Cash generated from operations	396	458

30 Net borrowings

	2008 £m	2007 £m
Cash and cash equivalents	75	113
Bank overdrafts	(100)	(77)
Bank loans	(354)	(282)
US public bond	(371)	-
US private placement	(152)	-
Subordinated bond	(796)	(564)
Medium term notes	(1,080)	(907)
Finance leases	(6)	(13)
Collateral deposits	42	-
Financing derivatives	141	168
	(2,601)	(1,562)
At the beginning of the year	(1,562)	(1,172)
Exchange differences	(627)	(44)
Acquisition of subsidiaries	(22)	(1)
Disposal of subsidiaries	-	142
Change in cash and cash equivalents	(52)	30
Proceeds from borrowings	(477)	(660)
Repayment of borrowings	115	157
Movement in collateral deposits	42	-
Fair value and other changes	(18)	(14)
At the end of the year	(2,601)	(1,562)

31 Contingent liabilities

	2008 £m	2007 £m
Guarantees of borrowings	3	4

In an international group a variety of claims arise from time to time; some have little or no foundation in law or in fact and others cannot be quantified. The claims include litigation against Group companies, investigations by regulatory and fiscal authorities and obligations arising under environmental legislation. Provision has been made in these consolidated financial statements against those claims which the Board considers are likely to result in significant liabilities.

32 Commitments

(i) Operating lease commitments

The Group leases offices and warehouses under non cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights. The Group also leases plant and equipment under cancellable operating leases.

An analysis of the total future minimum lease payments under non cancellable operating leases is set out below.

	2008 Property £m	2008 Plant and equipment £m	2007 Property £m	2007 Plant and equipment £m
Less than 1 year	29	3	20	2
Between 1 and 5 years	64	4	48	3
Over 5 years	53	–	59	–
Total	146	7	127	5

Total future minimum sublease receipts under non cancellable operating leases are £10m (2007: £9m).

(ii) Capital commitments

	2008 £m	2007 £m
Contracts placed for future capital expenditure not provided in the consolidated financial statements		
Property, plant and equipment	25	88

33 Discontinued operations

In 2007, Rexam sold its Glass business to Ardagh Glass Group PLC. In accordance with IFRS5 'Non Current Assets Held For Sale and Discontinued Operations' the disposal was classified as a discontinued operation. A summary of results, cash flows and profit on disposal for 2007 is set out below.

(i) Summary of results

	£m
Sales	213
Operating expenses	(187)
Profit before tax	26
Tax	(8)
Profit after tax	18
Profit on disposal (net of tax of £10m)	48
Profit for the financial year from discontinued operations	66

(ii) Summary of cash flows

	£m
Net cash inflow from operating activities	25
Net cash outflow from investing activities	(17)
Net cash outflow from financing activities	(5)
Net cash flow	3

(iii) Summary of profit on disposal

	£m
Gross proceeds (net of costs of £8m)	271
Cash and cash equivalents disposed	(12)
Net cash inflow in the cash flow statement	259
Net assets disposed	(213)
Other movements	2
Profit on disposal	48

Five year financial summary

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m	
Consolidated income statement						
<i>Continuing operations</i>						
Sales	4,618	3,611	3,301	2,806	2,601	
Underlying operating expenses	(4,152)	(3,257)	(2,926)	(2,435)	(2,257)	
Underlying operating profit	466	354	375	371	344	
Underlying share of post tax profits of associates	1	–	1	3	1	
Retirement benefit obligations net finance cost	(7)	(14)	(22)	(28)	(32)	
Underlying net interest expense	(132)	(95)	(90)	(76)	(64)	
Underlying profit before tax	328	245	264	270	249	
Exceptional and other items ¹	(88)	15	4	49	(12)	
Profit before tax	240	260	268	319	237	
Tax	(69)	(86)	(73)	(95)	(67)	
Profit for the financial year	171	174	195	224	170	
<i>Discontinued operations</i>						
Profit/(loss) for the financial year	–	66	28	(1)	34	
Total profit for the financial year	171	240	223	223	204	
Consolidated balance sheet						
Goodwill and other intangible assets	2,949	2,216	1,532	1,510	1,292	
Property, plant and equipment	1,982	1,310	1,190	1,186	1,157	
Retirement benefit obligations (net of tax)	(170)	(128)	(365)	(548)	(538)	
Other net assets/(liabilities)	16	(3)	64	81	51	
Underlying net assets	4,777	3,395	2,421	2,229	1,962	
Shareholders' equity	2,174	1,831	1,247	1,009	894	
Minority interests	2	2	2	–	–	
Total equity	2,176	1,833	1,249	1,009	894	
Net borrowings	2,601	1,562	1,172	1,220	1,068	
Capital employed	4,777	3,395	2,421	2,229	1,962	
Statistics						
Underlying return on sales ²	%	10.1	9.8	11.4	13.2	13.2
Underlying earnings per share ²	Pence	35.3	28.0	35.6	34.8	31.8
Basic earnings per share ³	Pence	26.8	28.3	34.7	40.6	30.0
Dividends per ordinary share ⁴	Pence	21.0	20.0	19.0	18.12	17.25
Interest cover ^{3,5}	Times	4	4	4	5	5
Capital expenditure (gross)	£m	389	311	214	176	174
Gearing	%	120	85	94	121	119
Average number of employees ³	Number	24,100	22,300	20,600	17,800	17,800

1 Other items comprise the amortisation of certain acquired intangible assets and fair value changes on financing derivative financial instruments.

2 Based on continuing operations before exceptional and other items.

3 Based on continuing operations.

4 Includes proposed final dividends.

5 Based on underlying operating profit and underlying net interest expense.

Rexam PLC company financial statements 2008

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Statement of directors' responsibilities on the company financial statements

The directors are responsible for preparing the Annual Report, the Remuneration Report and the company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the company financial statements in accordance with applicable law and UK Accounting Standards (UK GAAP). The company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing the company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State that the company financial statements apply applicable UK Accounting Standards, subject to any material departures disclosed and explained in the financial statements.
- Prepare the company financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the company and to enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Directors and Officers section of the Annual Report confirm that, to the best of their knowledge, the company financial statements, which have been prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities and financial position of the company.

Independent auditors' report to the members of Rexam PLC

We have audited the parent company financial statements of Rexam PLC for the year ended 31 December 2008 which comprise the Rexam PLC balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the consolidated financial statements of Rexam PLC for the year ended 31 December 2008.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the unaudited part of the Remuneration Report, the Statement of directors' responsibilities on the company financial statements and the other items as referred to on the contents list. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

19 February 2009

Notes:

- (a) The maintenance and integrity of the Rexam PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Rexam PLC balance sheet

As at 31 December	Notes	2008 £m	2007 £m
Fixed assets			
Tangible assets	4	11	8
Investments in subsidiaries	5	5,700	4,640
Derivative financial instruments	9	337	172
		6,048	4,820
Current assets			
Debtors receivable within one year	6	51	14
Derivative financial instruments	9	29	6
Cash at bank and in hand		16	–
		96	20
Creditors: amounts falling due within one year			
Borrowings	8	(454)	(70)
Derivative financial instruments	9	(13)	(9)
Other creditors	7	(482)	(270)
		(949)	(349)
Net current liabilities		(853)	(329)
Total assets less current liabilities		5,195	4,491
Creditors: amounts falling due after more than one year			
Borrowings	8	(2,232)	(1,639)
Derivative financial instruments	9	(212)	(2)
Other creditors	7	(598)	(612)
		(3,042)	(2,253)
Net assets		2,153	2,238
Capital and reserves			
Ordinary share capital		413	413
Share premium account		1,005	1,004
Capital redemption reserve		351	351
Profit and loss reserve		229	315
Other reserves		155	155
Total capital and reserves	12	2,153	2,238

Approved by the Board on 19 February 2009

Leslie Van de Walle, Chief Executive Officer

David Robbie, Finance Director

Notes to the company financial statements

1 Principal accounting policies

The financial statements of Rexam PLC are prepared under UK GAAP using the historical cost convention as modified by the revaluation of certain financial instruments and in accordance with applicable accounting standards. As permitted by section 230 of the Companies Act 1985, the profit and loss account is not presented.

Foreign currencies

All exchange differences arising on foreign currencies are taken to the profit and loss account.

Interest

Interest on cash and cash equivalents and borrowings held at amortised cost is recognised in the profit and loss account using the effective interest method. Interest includes exchange differences arising on cash and cash equivalents and borrowings. Interest includes all fair value gains and losses on derivative financial instruments, and corresponding adjustments to hedged items under designated fair value hedging relationships, where they relate to financing activities and are recognised in the profit and loss account.

Retirement benefits

The pension rights of Rexam PLC employees are dealt with through a self administered scheme, the assets of which are held independently of the Group's finances. The scheme is a defined benefit scheme that is funded partly by contributions from members and partly by contributions from Rexam PLC and its subsidiaries at rates advised by independent professionally qualified actuaries. In accordance with FRS17, Rexam PLC accounts for its contributions as though it were a defined contribution scheme. This is because the underlying assets and liabilities of the scheme cover Rexam PLC and a number of its subsidiaries and it cannot be split between each subsidiary on a consistent and reasonable basis, as the scheme has a large number of members who were employed by companies which are no longer in existence or are no longer part of the Group. An actuarial valuation at a Group level on an FRS17 basis has not been performed, but a surplus at 31 December 2008 of £16m (2007: £68m) has been calculated in accordance with IAS19. Further details of the scheme and its accounting surplus can be found in note 24 to the consolidated financial statements.

Share based payment

Rexam PLC operates various share settled share option schemes. The services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date and recognised in the profit and loss account, together with a corresponding increase in shareholders' funds. Share settled share options granted directly to subsidiary company employees are treated as a capital contribution to the subsidiary. The capital contribution is measured by reference to the fair value of the share options and recognised as an increase in the cost of investment with a corresponding increase in shareholders' funds. The recognition of the fair value is based on a straight line basis over the vesting period, based on an estimate of the number of options that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value. FRS20 has been applied to share settled share options granted after 7 November 2002. The Rexam Employee Share Trust holds shares in Rexam PLC which are presented in the balance sheet as a deduction from shareholders' funds.

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less provision for depreciation. Depreciation is calculated to write off the cost, less estimated residual value, of tangible fixed assets over their expected lives by equal annual instalments. Depreciation is provided on all tangible fixed assets. Assumed lives vary according to the class of asset as follows:

Computer hardware and software	2 to 7 years
Fixtures and fittings	4 to 10 years

Investments in subsidiaries

Investments in subsidiaries are stated at cost less provisions for impairment where appropriate.

Dividends

Under FRS21, final ordinary dividends payable to the shareholders of Rexam PLC are recognised in the period that they are approved by the shareholders. Interim ordinary dividends payable are recognised in the period that they are paid. Dividends receivable are recognised when the Company's right to receive payment is established.

1 Principal accounting policies continued

Financial instruments

Derivative financial instruments are measured at fair value. Derivative financial instruments used by the Company include interest rate swaps, cross currency swaps, forward foreign exchange contracts and forward aluminium commodity contracts.

Certain derivative financial instruments are designated as hedges in line with the Company's risk management policies. Hedges are classified as follows:

- (i) Fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability.
- (ii) Cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

For fair value hedges, any gain or loss from re-measuring the hedging instrument at fair value is recognised in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and similarly recognised in the profit and loss account.

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in reserves, with any ineffective portion recognised in the profit and loss account. When hedged cash flows result in the recognition of a non financial asset or liability, the associated gains or losses previously recognised in reserves are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in reserves are transferred to the profit and loss account in the same period in which the hedged cash flows affect the profit and loss account.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised immediately in the profit and loss account.

Borrowings are measured at amortised cost except where they are hedged by an effective fair value hedge, in which case the carrying value is adjusted to reflect the fair value movements associated with the hedged risk.

Debtors are measured at amortised cost less any provision for impairment. Debtors are discounted when the time value of money is considered material.

2 Employee costs and numbers

	2008 £m	2007 £m
Employee costs including directors:		
Wages and salaries	15	18
Social security	2	3
Share based payment	2	2
Retirement benefits	10	10
	29	33

For details of directors' remuneration see the Remuneration Report.

	2008 Number	2007 Number
Average employee numbers	131	130

3 Equity dividends

For details of equity dividends see note 10 to the consolidated financial statements.

4 Tangible assets

	Computer hardware and software £m	Fixtures and fittings £m	Total £m
Cost			
At 1 January 2008	13	2	15
Additions	5	–	5
Disposals	(3)	–	(3)
At 31 December 2008	15	2	17
Accumulated depreciation			
At 1 January 2008	(6)	(1)	(7)
Disposals	3	–	3
Depreciation for the year	(2)	–	(2)
At 31 December 2008	(5)	(1)	(6)
Carrying value at 31 December 2008	10	1	11
Cost			
At 1 January 2007	13	2	15
Additions	4	–	4
Disposals	(4)	–	(4)
At 31 December 2007	13	2	15
Accumulated depreciation			
At 1 January 2007	(8)	(1)	(9)
Disposals	4	–	4
Depreciation for the year	(2)	–	(2)
At 31 December 2007	(6)	(1)	(7)
Carrying value at 31 December 2007	7	1	8

5 Investments in subsidiaries

	Shares £m	Loans £m	Total £m
At 1 January 2008	1,276	3,364	4,640
Exchange differences	–	687	687
Additions/advances	–	758	758
Disposals/repayments	–	(385)	(385)
At 31 December 2008	1,276	4,424	5,700
At 1 January 2007	1,002	2,677	3,679
Exchange differences	–	55	55
Additions/advances	282	949	1,231
Disposals/repayments	(8)	(317)	(325)
At 31 December 2007	1,276	3,364	4,640

For details of the main subsidiaries of Rexam PLC see note 14 to the consolidated financial statements.

6 Debtors receivable within one year

	2008 £m	2007 £m
Trade debtors	2	4
Due from subsidiaries	2	5
Prepayments	3	2
Collateral deposits	42	–
Other debtors	2	3
	51	14

Collateral deposits relate to funds placed with derivative counterparties in respect of certain commodity contracts where the market value of the contract has exceeded a predetermined threshold in favour of the derivative counterparties.

7 Other creditors

	2008 £m	2007 £m
<i>Amounts falling due within one year</i>		
Trade creditors	(2)	(2)
Due to subsidiaries	(469)	(256)
Other tax and social security	(3)	(3)
Accruals	(7)	(7)
Other creditors	(1)	(2)
	(482)	(270)
<i>Amounts falling due after more than one year</i>		
Due to subsidiaries	(597)	(611)
Other creditors	(1)	(1)
	(598)	(612)

8 Borrowings

	2008 £m	2007 £m
<i>Unsecured</i>		
Bank overdrafts	(10)	(9)
Bank loans	(277)	(229)
US public bond	(371)	–
US private placement	(152)	–
Subordinated bond	(796)	(564)
Medium term notes	(1,080)	(907)
	(2,686)	(1,709)
<i>Repayment analysis</i>		
Amounts falling due after more than one year:		
In more than one year but not more than two years	(222)	(365)
In more than two years but not more than five years	(1,239)	(220)
In more than five years	(771)	(1,054)
	(2,232)	(1,639)
Amounts falling due within one year	(454)	(70)
	(2,686)	(1,709)

In 2008 a fair value loss of £1.1m (2007: gain £6m) on medium term notes and a fair value loss of £52m (2007: £5m) on the subordinated bond under designated fair value hedge relationships were included in retained loss (2007: profit) for the year.

For details of the US public bond issued and the US private placement made in 2008, see note 22 to the consolidated financial statements.

9 Derivative financial instruments

For details of the financial risk management objectives and policies and principal financial risks see note 23 to the consolidated financial statements.

	2008 £m	2007 £m
<i>Fair value of derivative financial instruments at 31 December</i>		
Cross currency swaps	126	166
Interest rate swaps	12	2
Forward foreign exchange contracts	3	(1)
	141	167

Market values have been used to calculate the fair value of cross currency swaps. The fair value of interest rate swaps have been determined by discounting cash flows at prevailing interest rates. The fair value of forward foreign exchange contracts has been determined by marking those contracts to market against prevailing forward foreign exchange rates.

	2008 £m	2007 £m
<i>Fair value changes included in retained profit at 31 December</i>		
Cross currency swaps	(24)	53
Interest rate swaps	7	(3)
Forward foreign exchange contracts	(7)	12
	(24)	62

Cross currency swaps

At 31 December 2008, four cross currency swaps were outstanding. The first swapped £250m to US\$356m (2007: £250m to US\$356m) receiving fixed interest rates of 7.1% (2007: 7.1%) and paying floating interest rates. The second swapped £120m to US\$194m (2007: £120m to US\$194m) receiving and paying floating interest rates. Both of these swaps mature in 2009. The third swapped Euro 750m to £505m (2007: Euro 750m to £505m) receiving fixed interest rates of 6.75% and paying floating interest rates. The fourth swapped £505m to US\$1,007m (2007: £505m to US\$1,007m) receiving and paying floating interest rates. Both of these swaps mature in 2017.

Interest rate swaps

At 31 December 2008, four interest rate swaps were outstanding. The first has a principal of £120m (2007: £120m) receiving fixed interest rates at 7.1% (2007: 7.1%) and paying floating interest rates. The second has a principal of US\$356m (2007: US\$356m) receiving floating interest rates and paying fixed interest rates varying from 3.8% to 4.6% (2007: 3.8% to 4.6%). Both of these swaps mature in 2009. The other two interest rate swaps have a combined principal of Euro 200m (2007: Euro 200m) receiving a fixed interest rate of 4.4% (2007: 4.4%) and paying floating interest rates. Both of these swaps mature in 2013.

Forward foreign exchange contracts

At 31 December 2008, forward foreign exchange contracts had principal amounts equivalent to £366m (2007: £342m). The main currencies traded were US dollar and euro. These contracts mature in 2009 (2007: matured in 2008).

10 Operating lease commitments

Operating lease rentals payable in 2009 relating to contracts expiring after five years are £1m (2007: £1m payable in 2008 and expiring after five years).

11 Contingent liabilities

	2008 £m	2007 £m
Guarantees	277	254

12 Capital and reserves

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Other reserves £m	Total equity £m
At 1 January 2008	413	1,004	351	315	155	2,238
Retained loss for the year	–	–	–	(88)	–	(88)
Share options value of services provided	–	–	–	2	–	2
Share options proceeds from shares issued	–	1	–	–	–	1
At 31 December 2008	413	1,005	351	229	155	2,153
At 1 January 2007	375	759	351	153	155	1,793
Retained profit for the year	–	–	–	160	–	160
Placing of shares (net of £6m costs)	38	242	–	–	–	280
Share options value of services provided	–	–	–	2	–	2
Share options proceeds from shares issued	–	3	–	–	–	3
Share options cost of investment	–	–	–	2	–	2
Purchase of Rexam shares by Rexam Employee Share Trust	–	–	–	(2)	–	(2)
At 31 December 2007	413	1,004	351	315	155	2,238

The profit after tax for the financial year dealt with in the financial statements of Rexam PLC is £43m (2007: £278m). Other reserves reflect unrealised gains related to the transfer of investments between subsidiaries. The profit and loss reserve of £229m (2007: £315m) arose partly as a result of a provision of £214m against certain investments in subsidiaries in 2001 of which £156m was reversed in 2005. The directors consider the value of the remaining investments in subsidiaries is considerably more than their book value and, accordingly, the remaining provision of £58m does not impact the distributable reserves of Rexam PLC which were £283m at 31 December 2008 (2007: £369m).

For details of ordinary shares see note 26 to the consolidated financial statements.

13 Share based payment

Rexam PLC's equity settled share based payment schemes comprise the Long Term Incentive Schemes (LTIP), the Deferred Bonus Incentive Scheme (DBIS), the Executive Share Option Scheme (ESOS) and the Savings Related Share Option Schemes (SAYE). For further information on these schemes, including the valuation models and assumptions used, see note 27 to the consolidated financial statements.

The number of options and weighted average exercise prices of share option schemes relating to Rexam PLC are set out below.

	2008 Number of options	2008 Weighted average exercise price Pence	2007 Number of options	2007 Weighted average exercise price Pence
Outstanding at 1 January	6,608,634	155.2	5,918,365	182.0
Granted	2,116,564	180.3	2,770,225	95.8
Lapsed	(1,839,789)	184.9	(2,037,174)	159.7
Exercised	(170,525)	298.0	(103,719)	229.1
Expired	(131,254)	466.0	(13,713)	552.7
Transfers	(73,889)	521.0	74,650	525.1
Outstanding at 31 December	6,509,741	140.8	6,608,634	155.2
Exercisable at 31 December	361,059	350.8	540,502	340.4

The exercise prices and average remaining contractual lives of share options relating to Rexam PLC by scheme are set out below.

	2008 Options outstanding Number	2008 Range of exercise prices Pence	2008 Weighted average remaining contractual life Years	2007 Options outstanding Number	2007 Range of exercise prices Pence	2007 Weighted average remaining contractual life Years
LTIP	4,377,576	0.0 to 0.1	5.1	4,258,976	0.0 to 0.1	5.3
DBIS	51,477	–	1.2	91,760	–	2.2
ESOS	1,864,435	239.8 to 552.7	7.7	2,079,774	209.7 to 522.7	7.2
SAYE	216,253	315.0 to 435.0	3.1	178,124	280.3 to 435.0	2.9