Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values. These liabilities are subsequently measured at the higher of the amount determined under IAS 37 and the amount initially recognised (fair value) less where appropriate, cumulative amortisation of the initial amount recognised.

Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The critical accounting policies, which the directors consider are of greater complexity and/or particularly subject to the exercise of estimates and judgements, are the same as those disclosed in note 1 to the consolidated financial statements in respect of taxation, post employment benefits, contingent liabilities and legal proceedings.

A critical accounting estimate, specific to the company is the assessment of the recoverable amount of the investments in subsidiaries. Impairment reviews are carried out to ensure that the value of the investments in subsidiaries are not carried at above their recoverable amounts. The tests are dependent on management's estimates in respect of the forecasting of future cash flows, the discount rates applicable to the future cash flows and expected growth rates. Such estimates and judgements are subject to change as a result of changing economic conditions and actual cash flows may differ from forecasts.

Additional estimates have been applied by management regarding the potential financial impacts of increasing inflationary pressures. Details are set out in note 9 to the consolidated financial statements.

2. Income statement

Note 3 to the consolidated financial statements provides details of the remuneration of the company's auditor for the group.

Information on Directors' emoluments, share and other interests, transactions and pension entitlements is included in the Directors' remuneration report in this Annual Report.

3. Investments in subsidiary undertakings

Cost	£ million
At 30 June 2022	**72,701**
Additions	3
At 30 June 2023	**72,704**
Provision	
At 30 June 2022	**(11,140)**
Increase in the year	–
At 30 June 2023	**(11,140)**
Carrying amount	
At 30 June 2023	**61,564**
At 30 June 2022	61,561

Investments in subsidiary undertakings are stated at historical cost of £72,704 million (2022 – £72,701 million) less impairment provisions of £11,140 million (2022 – £11,140 million).

Investments in subsidiary undertakings include £140 million (2022 – £137 million) of costs in respect of share-based payments, granted to subsidiary undertakings which were not recharged to the subsidiaries. The additions comprise £3 million not recharged and capitalised as a cost of investment during the year ended 30 June 2023.

A list of group companies as at 30 June 2023 is provided in note 10.

4. Financial assets and liabilities

Other financial assets and liabilities are recorded at fair value through income statement and comprise the fair value of interest rate swaps and cross currency interest rate swaps with subsidiary undertakings, where the company acts as an intermediary between group companies, therefore it is not expected that there will be any net impact on future cash flows.

Amounts owed by and to group undertakings, trade and other receivables and trade and other payables are measured at amortised cost.

Amounts owed by and to group undertakings are interest bearing and unsecured. For a majority of the loans owed to other group companies, the company has a contractual right to defer payment by one year and one day and they are therefore classified as non-current liabilities. Other amounts owed by and to group undertakings are repayable on demand.

5. Deferred tax assets and liabilities

	Post employment plans £ million	Other temporary differences £ million	Total £ million
At 30 June 2021	(190)	46	(144)
Changes in tax rates	(23)	(1)	(24)
Recognised in income statement	(4)	(2)	(6)
Recognised in other comprehensive income and equity	(69)	–	(69)
At 30 June 2022	**(286)**	**43**	**(243)**
Changes in tax rates	**27**	**–**	**27**
Recognised in income statement	**(13)**	**(1)**	**(14)**
Recognised in other comprehensive income and equity	**138**	**–**	**138**
At 30 June 2023	**(134)**	**42**	**(92)**

Deferred tax on other temporary differences includes assets in respect of the UK Thalidomide Trust liability of £40 million (2022 – £42 million) and share-based payment liabilities of £2 million (2022 – £1 million).

6. Post employment benefits

The movement in the net surplus for the two years ended 30 June 2023, for all UK post employment plans for which the company is the sponsor, is as follows:

	Plan assets £ million	Plan liabilities £ million	Net surplus £ million
At 30 June 2021	7,341	(6,582)	759
Income/(charge) before taxation	134	(161)	(27)
Other comprehensive (loss)/income	(1,191)	1,557	366
Contributions by group companies	46	–	46
Employee contributions	1	(1)	–
Benefits paid	(290)	290	–
At 30 June 2022	**6,041**	**(4,897)**	**1,144**
Income/(charge) before taxation	**218**	**(203)**	**15**
Other comprehensive (loss)/income	**(1,396)**	**725**	**(671)**
Contributions by group companies	**49**	**–**	**49**
Benefits paid	**(334)**	**334**	**–**
At 30 June 2023	**4,578**	**(4,041)**	**537**

The net surplus for the UK post employment plans of £537 million (2022 – £1,144 million) for which the company is a sponsor comprises funded plans of £591 million (2022 – £1,210 million) disclosed as part of non-current assets and unfunded liabilities of £54 million (2022 – £66 million) disclosed as part of non-current liabilities.

The disclosures have been prepared in accordance with IFRIC 14. In particular, where the calculation for a plan results in a surplus, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan, and any additional liabilities are recognised as required.

Additional information on the UK post employment plans and the principal risks and assumptions applicable is disclosed in note 14 to the consolidated financial statements.

7. Provisions

	Thalidomide £ million
At 30 June 2022	**169**
Provisions utilised during the year	**(12)**
Unwinding of discounts	**4**
At 30 June 2023	**161**

The company's commitment to the UK Thalidomide Trust is discounted and will be utilised over the period of the commitment up to 2037.

At 30 June 2023, £12 million (2022 – £11 million) of provision is current and £149 million (2022 – £158 million) is non-current.

8. Financial guarantees and letters of comfort

The company has guaranteed certain external borrowings of subsidiaries which at 30 June 2023 amounted to £16,508 million (2022 – £15,933 million).

The company has also provided irrevocable guarantees relating to the liabilities of certain of its Dutch subsidiaries. The company has assessed that the likelihood of these guarantees being called is remote. The Directors do not expect the company to be liable for any legal obligation in respect of these financial guarantee agreements, and they have been recognised at nil fair value.

The company issues letter of comfort to provide sufficient funds to directly owned subsidiary undertakings as and when required.

9. Shareholders' funds

(a) Merger reserve

On the acquisition of a business, or of an interest in an associate, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets acquired. Where merger relief is applicable under the UK Companies Acts, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

(b) Own shares

At 30 June 2023, own shares comprised 3 million ordinary shares held by employee share trusts (2022 – 2 million; 2021 – 2 million) and 213 million ordinary shares repurchased and held as treasury shares (2022 – 217 million; 2021 –221 million).

During the year ended 30 June 2023, the group purchased 38 million ordinary shares (2022 – 61 million; 2021 – 3 million), representing approximately 1.5% of the issued ordinary share capital (2022 – 2.4%; 2021 – 0.1%) at an average price of 3616 pence per share, and an aggregate cost of £1,381 million (including £13 million of transaction costs) (2022 – 3709 pence per share, and an aggregate cost of £2,284 million, including £16 million of transaction costs; 2021 – 3407 pence per share, and an aggregate cost of £109 million, including £1 million of transaction costs) under the share buyback programme. The shares purchased under the share buyback programmes were cancelled.

Information on movements in own shares is provided in note 18(c) to the consolidated financial statements.

(c) Retained earnings

£7,236 million (2022 – £7,672 million) of retained earnings is available for the payment of dividends or purchases of own shares. Determining the company's reserves available for distribution is complex and requires, in some instances, the application of judgement. The company has determined what is realised and unrealised profits in accordance with the Companies Act 2006 and the guidance included in ICAEW Technical Release TECH 02/17BL 'Guidance on realised and distributable profits under the Companies Act 2006'. The company's reserves available for distribution include adjustments to retained earnings in respect of the unrealised portion of the dividend in specie received by the company, post employment benefit surpluses and share-based payment charges capitalised to investments.