Note 52 – Financial instruments (continued)

(c) Financial risk management

The consolidated entity's activities expose it to a variety of financial risks, including market risk (interest rate risk, foreign currency risk and energy price risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of markets and seeks to manage the impact of these risks on the consolidated entity's financial performance. The consolidated entity uses a range of derivative financial instruments to hedge these risk exposures.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management policy and framework. The Board has established the Audit and Risk Management Committee, which is responsible for approving the consolidated entity's risk management policy and framework for identifying, assessing and managing risk. The Committee is also responsible for reviewing and updating the risk profile, monitoring the effectiveness of the risk management framework and reviewing at least annually the implementation of the risk management policy and framework. The Committee reports regularly to the Board of Directors on its activities.

Financial risk management is carried out by Corporate Treasury for interest rate risk, foreign currency risk and liquidity risk in accordance with the Board-approved Treasury Policy. Risk management activities in respect of energy price risk associated with the purchase and/or sale of electricity, gas and environmental products are undertaken by Merchant Energy in accordance with the Board-approved Wholesale Energy Risk Management Policy. Finance, Corporate Treasury and Merchant Energy identify, evaluate and hedge the financial risks in close cooperation with the consolidated entity's business units.

The consolidated entity has written policies covering specific areas, such as interest rate risk, foreign currency risk, energy price risk, credit risk, liquidity risk, and the use of derivative and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed on a continuous basis.

(d) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

(e) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts or other hedging instruments.

The consolidated entity regularly analyses its interest rate exposure, by taking into consideration forecast debt positions, refinancing, renewals of existing positions, alternative financing, hedging positions and the mix of fixed and floating interest rates.

At the end of the reporting period, the consolidated entity had the following financial assets and liabilities exposed to floating interest rate risk:

Floating rate instruments	2011 $m	2010 $m
Financial assets		
Cash and cash equivalents	**753.1**	480.4
	753.1	480.4
Financial liabilities		
Bank loans	**886.7**	886.7
USD senior notes (after effect of cross currency swaps)	**337.8**	–
Other loans	**–**	3.5
Interest rate swap contracts	**(510.0)**	(370.0)
	714.5	520.2

Interest rate swap contracts – cash flow hedges

Under interest rate swap contracts, the consolidated entity agrees with other parties to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate debt held.

The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the yield curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.