32 NET DEBT

Analysis of changes in net debt

	1 January 2006 £m	Exchange differences £m	On acquisition of subsidiaries (excluding cash) £m	Other non-cash movements £m	Cash flow £m	31 December 2006 £m
Cash and cash equivalents	620	(26)	–	–	386	**980**
Assets held for trading	52	(3)	–	2	(9)	**42**
Total funds	672	(29)	–	2	377	**1,022**
Loans due within one year	(187)	5	(26)	(96)	73	**(231)**
Loans due after more than one year	(2,721)	224	(40)	84	(756)	**(3,209)**
Secured bonds	(445)	(2)	(234)	3	–	**(678)**
Preferred equity facility	(173)	21	–	–	–	**(152)**
Convertible bonds	(125)	16	–	24	(152)	**(237)**
Total debt	(3,651)	264	(300)	15	(835)	**(4,507)**
Net debt	(2,979)	235	(300)	17	(458)	**(3,485)**

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

33 FINANCIAL INSTRUMENTS

a) Energy trading risk, energy market risk and hedge accounting

The Group hedges exposures that arise from the ownership and operation of power plants and related sales of electricity and purchases of fuel and utilises derivatives to optimise the return achieved from these assets. The Group enters into derivative commodity financial instruments to convert floating or indexed electricity and fuel prices to fixed prices in order to lessen its vulnerability to reductions in electricity prices for the electricity it generates and to increases in fuel prices for the fuel it consumes in its power plants. Commodity derivative financial instruments also provide a way to meet customers' pricing requirements while achieving a price structure consistent with the Group's overall pricing strategy.

The Group accounts for certain energy sales and fuel purchases as cash flow hedges where the forecast transaction is highly probable and the hedge is assessed as effective.

b) Treasury policy

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

c) Risk identification and management

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