Significant Accounting Policies

Applicable to the Parent Company Financial Statements for the year ended 31 December 2005

Basis of preparation

The Company's functional currency is sterling, and the balance sheet and related notes are presented in sterling.

Basis of accounting and principal accounting policies

The Parent Company Financial Statements set out on pages 88 to 92 have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. A summary of the principal accounting policies is set out below.

In preparing the Parent Company Financial Statements, FRS 20, Share-Based Payments; FRS 21, Events After The Balance Sheet Date; FRS 23, The Effects of Changes in Foreign Exchange Rates; FRS 25, Financial Instruments: Disclosure and Presentation; and FRS 26, Financial Instruments: Measurement, have been adopted in 2005. As a result of the adoption of the above accounting standards, restatements have been made to the corresponding amounts as set out in the Notes to the Parent Company Financial Statements. As permitted, FRS 25 and FRS 26 have been adopted from 1 January 2005, with no restatement to the corresponding amounts.

Fixed asset investments

Fixed asset investments are shown at cost less provision for any impairment where the recoverable amount is less than cost.

Deferred taxation

Deferred tax is provided using the incremental liability approach and is measured on a non-discounted basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws substantively enacted at the balance sheet date. Deferred tax is recognised in respect of timing differences that have originated but not reversed by the balance sheet date except that:

a) Deferred tax is not recognised on the revaluation of non-monetary assets such as property unless a binding sale agreement exists at the balance sheet date. Where rollover relief is available on an asset then deferred tax is in any case not recognised.

b) Deferred tax is not recognised on unremitted earnings of overseas subsidiaries, associates or joint ventures unless dividends have been accrued as receivable or there is a binding agreement to distribute past earnings at the balance sheet date.

c) Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

d) Deferred tax is not recognised on permanent differences.

Foreign currency

Foreign currency assets and liabilities are translated at the rates of exchange ruling at the year end. Transactions during the year are recorded at rates of exchange in effect when the transaction occurs.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Parent Company Financial Statements in the period in which the dividends are approved by the Company's shareholders.

Share-based payments

Share-based payments are exclusively made in connection with employee stock option plans ("ESOPs").

FRS 20, Share-Based Payments, is not applied to shares, share options or other equity instruments that were granted before or on 7 November 2002 and which had not vested at 1 January 2005. Equity-settled ESOPs granted after that date are accounted for in accordance with FRS 20, such that the fair value of the employee service received in exchange for the grant of the option is recognised in the income statement over the related performance period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example profitability growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.