

Significant Accounting Policies

Applicable to the Parent Company Financial Statements for the year ended 31 December 2006

Basis of preparation

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

The Parent Company Financial Statements set out on pages 86 to 90 have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 1985. A summary of the principal accounting policies are set out below, which are consistent with those followed in the preparation of the Company's Financial Statements for the year ended 31 December 2005, except for the adoption of FRS 26 (amendment) – Financial Guarantee Contracts (effective from 1 January 2006).

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred; and (b) the expenditure required to settle the commitment at the balance sheet date. The Company has issued various financial guarantees to third parties in relation to borrowings and transactions undertaken by subsidiary companies in the normal course of business.

The comparative amounts in respect of fixed asset investments, other financial liabilities, and retained earnings have been restated accordingly. In the year ended 31 December 2005, these restatements did not increase or decrease the Company's retained profit for the year from £0.1 million as previously reported, but, in conjunction with an opening reserves adjustment at 1 January 2005 of £0.1 million, opening retained earnings at 1 January 2006 were reduced by £0.1 million.

Fixed asset investments

Fixed asset investments are shown at cost less provision for any impairment where the recoverable amount is less than cost. Fixed asset investments are initially stated at cost, being their purchase cost together with any incidental expenses of acquisitions. The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment of fixed asset investments is charged to the profit and loss account in the year in which it arises.

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; and
- 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

Final dividends to the Company's shareholders are recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

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.

Financial guarantees

Financial guarantees, other than those previously asserted by the entity to be insurance contracts, are initially recognised at their fair value and subsequently measured at the higher of:

- a) the unamortised balance of the related fees received and deferred; and
- b) the expenditure required to settle the commitment at the balance sheet date.