

Company Accounting Policies

(a) Basis of preparation of Company financial statements

These Company financial statements have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 1985.

The Company financial statements have been prepared on a historical cost basis, except for the revaluation of financial instruments from 1 April 2005 onwards.

These Company financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The Company has adopted 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'. The Company has also adopted FRS 29 'Financial Instruments: Disclosures', which replaces the disclosure requirements of FRS 25. The impact of the adoption of these standards is shown in note 1.

(b) Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

(c) Deferred taxation

Deferred taxation is provided in full on all material timing differences, with certain exceptions. No provision for deferred taxation is made for any timing differences on non-monetary assets arising from fair value adjustments, except where there is a binding agreement to sell the assets concerned. However, no provision is made where it is more likely than not that any taxable gain will be rolled over into replacement assets.

Deferred tax assets are only recognised to the extent that they are considered recoverable.

Deferred tax balances have not been discounted.

(d) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Trade payables are not interest bearing and are stated at their nominal value.

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs plus accrued interest less any repayments. Prior to 1 April 2005, accrued interest is presented as part of current liabilities and not combined with the principal amounts payable.

Finance charges are recognised in the income statement in the period in which they are incurred.

Derivative financial instruments are recorded as described below.

(e) Hedge accounting and derivative financial instruments

The Company enters into derivative financial instruments ('derivatives') in order to manage its interest rate and foreign currency exposures. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts and interest rate swaptions.

All derivative transactions are undertaken, or maintained, with a view to providing a commercial hedge of the interest or currency risks associated with the Group's underlying business activities and the financing of those activities.

With effect from 1 April 2005, derivatives are carried in the balance sheet at their fair value.

Prior to 1 April 2005, derivatives used for hedging purposes were not recorded on the balance sheet as assets or liabilities. Monetary assets and liabilities in foreign currencies were retranslated at hedged rates instead of closing rates.

As permitted by the transition provisions of FRS 26, prior year adjustments have not been made to the balance sheet as at 31 March 2005 or the profit and loss account for the year then ended to reflect the adoption of FRS 26 'Financial Instruments: Measurement'.

From 1 April 2005, the accounting policy for hedge accounting is as described below. Disclosures on the impact of implementing FRS 26 at 1 April 2005 are set out in note 1.

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ('cash flow hedges') are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the income statement. An equal and opposite amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the income statement, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the income statement using the effective interest rate method.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement immediately.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

The notional amounts relating to financial instruments held to manage interest rate and currency profiles for interest rate swaps and forward rate agreements, foreign currency contracts and cross currency swaps at 31 March 2006 amounted to £2,926m and £3,454m respectively.

(f) Parent Company guarantees

The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain Group undertakings to third parties. As these are guarantees in the event of default or non-performance by the subsidiary, the Company accounts for these guarantees as insurance contracts in accordance with FRS 12.

(g) Share-based payments

The Group issues equity-settled share-based payments to certain employees, detailed in the Directors' Report, the Remuneration Report and in note 31 to the Group accounts.

Equity-settled share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on the Group's estimate of the number of shares that will eventually vest. Where payments are subsequently received from subsidiaries, these are accounted for as a disposal of investment.

(h) Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Company Balance Sheet

at 31 March

	Notes	2006 £m	2005 (restated) (i) £m
Fixed assets			
Investments	2	2,428	2,428
		2,428	2,428
Current assets			
Debtors (amounts falling due within one year)	3	7,109	10,697
Derivative financial instruments (amounts falling due within one year)		64	–
Derivative financial instruments (amounts falling due after more than one year)		79	–
Current asset investments		1,046	118
		8,298	10,815
Creditors (amounts falling due within one year)			
Derivative financial instruments		(21)	–
Borrowings		(109)	(781)
Other creditors		(1,876)	(1,764)
	4	(2,006)	(2,545)
Net current assets			
		6,292	8,270
Total assets less current liabilities			
		8,720	10,698
Creditors (amounts falling due after more than one year)			
Derivative financial instruments		(56)	–
Borrowings		(1,715)	(1,020)
Other creditors		–	(8)
	5	(1,771)	(1,028)
Provisions for liabilities and charges			
Deferred taxation	7	(5)	–
Net assets employed			
		6,944	9,670
Capital and reserves			
Called up share capital	8	310	309
Share premium account	9	1,316	1,289
Cash flow hedge reserve	9	7	–
Other reserves	9	74	68
Profit and loss account	9	5,237	8,004
Equity shareholders' funds			
		6,944	9,670

(i) During the year ended 31 March 2006, the Company adopted FRS 21 'Events after the Balance Sheet Date'. See note 1 to the Company accounts, 'Changes in accounting policies' on page 169.

Commitments and contingencies are shown in note 10 to the Company accounts on page 171.

The notes on pages 169 to 171 form part of the Company Financial Statements, which were approved by the Board of Directors on 17 May 2006 and were signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Group Finance Director

Notes to the Company Accounts

1. Changes in accounting policies

During the year, the Company has adopted 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', FRS 26 'Financial Instruments: Measurement', and FRS 29 'Financial Instruments: Disclosures'.

FRS 21 'Events after the Balance Sheet Date'

The adoption of FRS 21 has resulted in a change to the timing of recognition of the Company's proposed final dividend. Previously such dividends were recorded as a liability in the year in respect of which they were proposed by the Board of Directors for approval by the shareholders. In accordance with FRS 21, such dividends are not recorded until approved. The adoption of FRS 21 has been reflected in the accounts as a prior year adjustment in accordance with FRS 3. This has resulted in an increase in net assets as at 31 March 2005 of £469m and an increase in retained earnings for the year ended 31 March 2005 of £103m.

FRS 23 'The Effects of Changes in Foreign Exchange Rates'

FRS 25 'Financial Instruments: Disclosure and Presentation'

FRS 26 'Financial Instruments: Measurement'

FRS 29 'Financial Instruments: Disclosures'

The adoption of FRS 23, FRS 25, FRS 26 and FRS 29 has resulted in a change to the accounting for the Company's financial instruments. Derivative financial instruments and available-for-sale investments are recorded in the balance sheet at fair value, whilst deferred gains and losses relating to items qualifying for hedge accounting are derecognised and instead recorded in equity (for cash flow hedges and net investment hedges) or by adjusting the carrying value of the hedged financial instrument (for fair value hedges). As permitted by the transition provisions of FRS 26, prior year adjustments have not been made to the balance sheet at 31 March 2005 or to the profit and loss account for the year then ended.

The adoption of FRS 23, FRS 25, FRS 26 and FRS 29 reduced net assets at 1 April 2005 by £15m, as shown below:

	£m
Borrowings	(213)
Derivative financial instruments	179
Other assets and liabilities	19
Net assets	(15)

It is not practical to calculate the impact of the adoption of FRS 23, FRS 25, FRS 26 and FRS 29 on the results for the year ended 31 March 2006.

2. Fixed asset investments

	Group undertakings £m
At 1 April 2004	2,275
Additions	296
Disposals	(143)
At 31 March 2005	2,428
Additions	6
Disposals	(6)
At 31 March 2006	2,428

The names of the principal Group undertakings and joint ventures are included in note 36 to the Group accounts.

3. Debtors

	2006 £m	2005 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	7,105	10,695
Prepayments and accrued income	4	2
	7,109	10,697

4. Creditors (amounts falling due within one year)

	2006 £m	2005 (restated) (i) £m
Derivative financial instruments	21	–
Borrowings (note 6)	109	781
Amounts owed to Group undertakings	1,856	1,752
Other creditors	20	12
	2,006	2,545

(i) Restated for adoption of FRS 21 – see note 1 to the Company accounts on page 169.

5. Creditors (amounts falling due after more than one year)

	2006 £m	2005 £m
Derivative financial instruments	56	–
Borrowings (note 6)	1,715	1,020
Deferred income	–	8
	1,771	1,028

6. Borrowings

The following table analyses the Company's total borrowings:

	2006 £m	2005 £m
Amounts falling due within one year:		
Bank loans and overdrafts	27	89
Commercial paper	–	158
Other bonds	27	534
Other loans	55	–
	109	781
Amounts falling due after more than one year:		
Other bonds	1,715	1,020
	1,715	1,020
Total borrowings	1,824	1,801
	2006 £m	2005 £m
Total borrowings are repayable as follows:		
In one year or less	109	781
In more than two years, but not more than three years	348	–
In more than three years, but not more than four years	–	298
In more than four years, but not more than five years	37	–
In more than five years, other than by instalments	1,330	722
	1,824	1,801

The notional amount of borrowings outstanding as at 31 March 2006 was £1,835m.

7. Provisions for liabilities and charges

	Deferred taxation £m
At 31 March 2005	–
First time adoption of FRS 26	19
At 1 April 2005	19
Credited to equity	(14)
At 31 March 2006	5

8. Share capital

	Allotted and issued		Called up and fully paid	
	number	£	millions	£m
At 1 April 2004	3,087,603,756	308,760,376	3,088	309
Issued during the year	2,599,199	259,920	2	–
At 31 March 2005	3,090,202,955	309,020,296	3,090	309
Issued during the year	8,016,297	898,906	8	1
Effect of share consolidation (i)	(378,520,134)	–	(378)	–
At 31 March 2006	2,719,699,118	309,919,202	2,720	310

(i) On 29 July 2005, the ordinary share capital was consolidated, with 43 new ordinary shares of 11¹/₄ pence each issued for every 49 existing ordinary shares of 10 pence each cancelled.

For further details on share capital, see note 31 to the Group accounts.

9. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other reserves £m	Profit and loss account £m
At 31 March 2005 (as originally reported)	1,289	–	68	7,535
Adoption of FRS 21 (i)	–	–	–	469
At 31 March 2005 (restated)	1,289	–	68	8,004
Adoption of FRS 26	–	39	(7)	(47)
At 1 April 2005	1,289	39	61	7,957
Exchange adjustments	–	–	7	–
Net loss transferred from equity in respect of cash flow hedges (net of tax)	–	(32)	–	–
Ordinary shares issued during the year	27	–	–	–
Employee option scheme issues	–	–	6	–
Return of capital to shareholders through B share scheme	–	–	–	(2,009)
Retained loss for the year	–	–	–	(711)
At 31 March 2006	1,316	7	74	5,237

(i) Restated for the adoption of FRS 21 – see note 1.

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after taxation was £34m (2005: profit after tax £2,652m). Of the Company's profit and loss account reserve of £5,237m at 31 March 2006, £2,581m relating to gains on intra-group transactions was not distributable to shareholders.

10. Commitments and contingencies

The Company has guaranteed the repayment of principal sum, any associated premium and interest on specific loans due from certain Group undertakings to third parties. At 31 March 2006, the sterling equivalent amounted to £2,082m (2005: £2,019m). The guarantees are for varying terms between one month and 12 years.

The Company has also guaranteed the lease obligations of a former associate to a Group undertaking, amounting to £31m (2005: £37m).