# Notes to the Company financial statements

FOR THE YEAR ENDED 31 DECEMBER 2006

## 1 ACCOUNTING POLICIES

### a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

As the results of the Company are being presented together with its consolidated financial statements (refer pages 79 to 131), the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

The following accounting standard was available for early application but has not been applied by the Company in these financial statements. The Group has not adopted the amendments to FRS 17 (Retirement Benefits) requiring additional disclosure of the scheme's assets and liabilities. This amendment applies to accounting periods beginning on or after 6 April 2007.

### b) Income recognition

Dividend income from subsidiary undertakings is recognised in the profit and loss account on receipt of the cash.

### c) Pension schemes

The Company operates a pension scheme (by participating in the International Power section of the Electricity Supply Pension Scheme) providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

For defined contribution arrangements, contributions are charged to the profit and loss account as they fall due.

### d) Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation and any provision for impairment in value.

Depreciation is calculated so as to write-down the cost of tangible fixed assets to their residual value evenly over their estimated useful lives.

The depreciation charge is based on the following estimates of useful lives:

| | Years |
|---|---|
| Fixtures, fittings, tools and equipment | 3-10 |
| Computer equipment and software | 3-5 |
| Leasehold improvements | Life of lease |

### e) Fixed asset investments

Investments in subsidiary undertakings are stated at cost less provision for impairment.

### f) Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment for accounts and taxation purposes of transactions and events recognised in the financial statements of the current year and previous years. Deferred taxation is calculated at the rates at which it is estimated that tax will arise. Deferred tax assets and liabilities are not discounted.

### g) Loans and bonds

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### h) Financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

### i) Share-based payments

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and where applicable, adjusted for the effect of non market-based vesting conditions.

For the Group's Executive Share Option Plans the fair values are measured using the Black-Scholes pricing model. The expected lives used in these models have been adjusted, based on management's best estimate, for the effects of non-transferability, any exercise restrictions and behavioural considerations.

For conditional awards made under the 2002 Performance Share Plan without a market-related performance condition, the fair values have been calculated as the face value of the award discounted for the non-entitlement to dividends during the vesting period.

Where conditional awards made under the 2002 Performance Share Plan contain a market-related performance condition, the fair values are measured using a Monte Carlo simulation method.

### j) Foreign currencies

Foreign currency monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Foreign currency non-monetary items measured in terms of historical cost are translated at the rate of exchange at the date of the transaction. Exchange differences on monetary items are dealt with in the profit and loss account. Exchange differences on non-monetary items are recognised in line with whether the gain or loss on the non-monetary item itself is recognised in the profit and loss account or in equity.