

Notes to the Company financial statements

For the year ended 31 December 2005 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.

In these financial statements the following new standards have been adopted for the first time:

- (i) FRS 20 (Share-based Payments);
- (ii) FRS 21 (Events after the Balance Sheet Date);
- (iii) FRS 23 (The Effects of Changes in Foreign Exchange Rates);
- (iv) the presentation requirements of FRS 25 (Financial Instruments: Disclosure and Presentation);
- (v) FRS 26 (Financial Instruments: Measurement);
- (vi) FRS 28 (Corresponding Amounts).

The adoption of these new standards had no impact on the Company's profit or net assets with the exception of FRS 20 and FRS 21:

- (i) FRS 20 resulted in the recognition of a share-based payments charge to the profit and loss account of £6 million in 2005 (2004: £1 million).
- (ii) Under FRS 21, dividends declared after the balance sheet date are not accrued until such time as they are approved at the AGM. As a result, the dividends previously accrued for at 31 December 2004 in the prior year Company accounts has been adjusted to increase the net assets of the Company by £37 million in the 31 December 2004 comparatives.

The recognition and measurement requirements of FRS 17 (Retirement Benefits) have also been adopted, previously the transitional disclosures of that standard had been followed.

The accounting policies under these new standards are set out below. FRS 28 (Corresponding Amounts) has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies, other than those covered by the exceptions permitted by FRS 25 and FRS 26. FRS 25 and FRS 26 permits the corresponding amounts not to be restated and the Company has adopted this approach.

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 to 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).

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) Derivative financial instruments (for year ended 31 December 2005)

The Company has applied the accounting requirements of FRS 25 and FRS 26 prospectively with effect from 1 January 2005. Loans and receivables and long-term loans payable are held at amortised cost.

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.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, any exercise restrictions and behavioural considerations.

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.