

Notes to the Company financial statements

1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable UK Accounting Standards on the historical cost basis.

As permitted by section 230(4) of the Companies Act 1985, a separate profit and loss account for the Company has not been included in these financial statements. As permitted by section 262(1) of the Companies Act 1985 disclosure of non-audit fees information is not included in respect of the Company. As permitted by FRS 1 *Cash flow statements*, no cash flow statement for the Company has been included. As permitted by FRS 8 *Related party disclosures*, no related party disclosures for the Company have been included.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are reported at cost less amounts written off.

Share-based payments

As described in the Directors' remuneration report on pages 55 to 64, the Company grants awards of its own shares to employees of its subsidiary undertakings, (see note 21 of the consolidated financial statements). The costs of share-based payments in respect of these awards are accounted for, by the Company, as an additional investment in its subsidiary undertakings. The costs are determined in accordance with FRS 20 *Share-based payment*. Any payments made by the subsidiary undertakings in respect of these arrangements are treated as a return of this investment.

Own shares for settlement of share-based payment plans

Where the Company acquires its own shares for the purpose of satisfying share-based payment plans, the cost in excess of any exercise price payable by the plan participants is written off to the profit and loss reserve.

Current assets

Amounts are shown at their recoverable amount.

Financial instruments

In accordance with FRS 25 *Financial instruments: Presentation*, the Company's B Shares are classified as financial liabilities and held at amortised cost from the date of issue until redeemed or converted.

Taxation

Provision for taxation is made at the current rate and for deferred taxation at the projected rate on all timing differences which have originated, but not reversed at the balance sheet date.

2 Restatement to reflect UITF 41 and UITF 44

Following the introduction of UITF 41 *Scope of FRS 20* and UITF 44 *Group and Treasury Share Transactions*, 2006 has been restated to reflect share-based payments occurring in 2006 and earlier years. The revised amounts at December 31, 2006, together with those previously reported are: Investments in shares in subsidiary undertakings £2,193m (£2,153m), Amounts owed by subsidiary undertakings due within one year £577m (£554m), Accruals and deferred income £3m (£nil), Other reserve £40m (£nil) and Profit and loss account £1,342m (£1,322m).

3 Investments – subsidiary undertakings

	£m
Cost:	
At December 31, 2006, as previously reported	2,153
Prior year adjustment ¹	40
At December 31, 2006, as restated	2,193
Cost of share-based payments in respect of employees of subsidiary undertakings less receipts from subsidiaries in respect of those payments	19
At December 31, 2007	2,212

¹ See note 2.

Notes to the Company financial statements continued

4 Financial liabilities

B Shares

Movements in the B Shares during the year were as follows:

	B Shares of 0.1p Millions	Nominal value £m
Authorised		
At January 1, and December 31, 2007	1,000,000	1,000
Issued and fully paid		
At January 1, 2007	12,616	13
Shares issued	172,006	172
Shares converted into ordinary shares	(71,819)	(72)
Shares redeemed	(96,944)	(97)
At December 31, 2007	15,859	16

Rights attaching to B Shares are described in note 16 of the Company's consolidated accounts.

5 Share capital

	Non-equity			Equity	
	Special Share of £1	Preference shares of £1 each	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Authorised					
At January 1, 2006 and December 31, 2007	1	50,000	—	2,500	500
Issued and fully paid					
At January 1, 2006	1	—	—	1,758	352
Exercise of share options	—	—	—	8	1
B Share conversion into ordinary shares	—	—	—	15	3
At January 1, 2007	1	—	—	1,781	356
Exercise of share options	—	—	—	24	5
B Share conversion into ordinary shares	—	—	—	15	3
At December 31, 2007	1	—	—	1,820	364

Certain rights, set out in the Company's Articles of Association, attach to the special rights redeemable preference share (Special Share) issued to HM Government. Subject to the provisions of the Companies Act 1985, the Special Share may be redeemed by the Treasury Solicitor at par at any time. The Special Share confers no rights to dividends or to vote at general meetings but in the event of a winding-up it shall be repaid at its nominal value in priority to any other shares.

In accordance with FRS 25 *Financial instruments: Presentation*, the Company's non-cumulative redeemable convertible preference shares (B Shares) are classified as financial liabilities. Accordingly, movements in B Shares are included in note 4.

6 Movements in capital and reserves

	Non-distributable reserves					Profit and loss account £m	Total £m
	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserves £m	Other reserve ¹ £m		
At December 31, 2006, as previously reported	356	43	623	351	—	1,322	2,695
Prior year adjustment ¹	—	—	—	—	40	20	60
At December 31, 2006, as restated	356	43	623	351	40	1,342	2,755
Loss for the year	—	—	—	—	—	(1)	(1)
Arising on issue of ordinary shares	5	24	—	—	—	—	29
Issue of B Shares	—	—	(172)	—	—	—	(172)
Redemption of B Shares	—	—	—	97	—	(97)	—
Conversion of B Shares into ordinary shares	3	—	—	69	—	—	72
Share-based payment adjustments	—	—	—	—	19	(95)	(76)
At December 31, 2007	364	67	451	517	59	1,149	2,607

¹ Following the adoption of UITF 41 *Scope of FRS 20* and UITF 44 *Group and Treasury Share Transactions*, (note 2), the 'Other reserve' represents the value of share-based payments in respect of employees of subsidiary undertakings for which payment has not been received. Consequential adjustments have also been made to the profit and loss account.

7 Contingent liabilities

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.

At December 31, 2007 these guarantees amounted to **£1,035m** (2006 £1,327m).

8 Other information

Emoluments of directors

The remuneration of the directors of the Company is shown in the Directors' remuneration report on pages 55 to 64.

Employees

The Company had no employees in 2007 and 2006.

Share-based payments

Shares in the Company have been granted to employees of the Group as part of share-based payment plans, and are charged in the employing company.