Company accounting policies

A. Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006.

These individual financial statements of the Company have been prepared on an historical cost basis, except for the revaluation of financial instruments.

These individual financial statements are presented in pounds sterling, which 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 408 of the Companies Act 2006. The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

In accordance with exemptions under FRS 8 'Related party disclosures', the Company has not disclosed transactions with related parties, as the Company's financial statements are presented together with its consolidated financial statements. Further, in accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial 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.

B. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. 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. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

E. 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, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised using the effective interest rate method in the profit and loss account.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time, the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the profit and loss account as it accrues.

Borrowings, which include interest-bearing loans and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently, these are stated at amortised cost, using the effective interest rate method.

Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest rate method.

Derivative financial instruments ('derivatives') are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the profit and loss account in the period they arise.

Where derivatives are embedded in other financial instruments that are closely related to those instruments, no adjustment is made with respect to such derivative clauses. Otherwise the derivative is recorded separately at fair value on the balance sheet.

The fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for issued liabilities. When independent prices are not available, fair values are determined by using valuation techniques which are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

Company accounting policies continued

F. Hedge accounting

The Company enters into derivatives and non-derivative financial instruments in order to manage its interest rate and foreign currency exposures, with a view to managing these risks associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts and interest rate swaptions.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account. The Company uses two hedge accounting methods.

Firstly, 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 profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

Secondly, 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 profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, 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 profit and loss account 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 profit and loss account 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 profit and loss account 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 profit and loss account immediately.

G. Parent Company guarantees

The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, the Directors' Remuneration Report and in note 35 to the consolidated financial statements.

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 an estimate of the number of shares that will eventually vest. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries.

I. 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	2010 £m	2009 £m
Fixed assets			
Investments	2	**7,865**	7,840
Current assets			
Debtors (amounts falling due within one year)	3	**8,655**	11,157
Debtors (amounts falling due after more than one year)	3	**1,702**	1,799
Derivative financial instruments (amounts falling due within one year)	5	**218**	329
Derivative financial instruments (amounts falling due after more than one year)	5	**655**	558
Current asset investments	6	**377**	509
Cash at bank		**1**	1
		11,608	14,353
Creditors (amounts falling due within one year)			
Borrowings	7	**(1,183)**	(1,422)
Derivative financial instruments	5	**(174)**	(375)
Other creditors		**(6,731)**	(6,926)
	4	**(8,088)**	(8,723)
Net current assets		**3,520**	5,630
Total assets less current liabilities		**11,385**	13,470
Creditors (amounts falling due after more than one year)			
Borrowings	7	**(5,307)**	(6,471)
Derivative financial instruments	5	**(431)**	(511)
Amounts owed to subsidiary undertakings		**(537)**	(1,062)
		(6,275)	(8,044)
Net assets employed		**5,110**	5,426
Capital and reserves			
Called up share capital	8	**298**	294
Share premium account	9	**1,366**	1,371
Cash flow hedge reserve	9	**14**	12
Other equity reserves	9	**171**	146
Profit and loss account	9	**3,261**	3,603
Total shareholders' funds	10	**5,110**	5,426

Commitments and contingencies are shown in note 11 to the Company financial statements on page 185.

The notes on pages 182 to 185 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 19 May 2010 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Notes to the Company financial statements

1. Adoption of new accounting standards

New financial reporting standards (FRS) and abstracts adopted in 2009/10

During the year the Company has adopted the following amendments to FRS. None of these had a material impact on the Company's results or assets and liabilities.

Amendment to FRS 20 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company.
Improvements to FRS 2008	Contains amendments to various existing standards.
UITF 46 on hedges of a net investment in a foreign operation	Clarifies that a hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of.
Amendment to FRS 29 on improving financial instrument disclosures	Enhances disclosures about fair value and liquidity risk.
Amendment to FRS for Companies Act changes	Makes consequential amendments to FRS to reflect provisions of the Companies Act 2006.
Amendments to FRS 26 and UITF 42 on embedded derivatives	Requires reassessment of whether an embedded derivative should be separated out if a financial asset is reclassified out of the fair value through profit or loss category.

New FRS not yet adopted

The Company has yet to adopt the following FRS, however, they are not expected to have a material impact on the Company's results or assets and liabilities.

Amendments to FRS 25 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments, and instruments or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendments to FRS 25 have been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 26 Financial Instruments: Recognition and measurement on eligible hedged items	Prohibits designating inflation as a hedgeable component of an instrument, unless cash flows relating to the separate inflation component are contractual and also prohibits the designation of a purchased option in its entirety as the hedge of a one-sided risk in a forecast transaction. The amendment to FRS 26 has been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 8 on related party disclosures	Changes the definition of related party to be the same as that in law and provides an exemption only in respect of wholly-owned subsidiaries, rather than 90% subsidiaries as previously permitted. The amendment to FRS 8 has been adopted by the Company with effect from 1 April 2010.
FRS 30 on heritage assets	Sets out disclosure requirements in respect of assets that are held and maintained principally for their contribution to knowledge and culture. FRS 30 has been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 20 on group cash-settled share-based payments	Clarifies the scope and accounting for group cash-settled share-based payment transactions in separate or individual financial statements when there is no obligation to settle the share-based payment transaction. The amendment to FRS 20 has been adopted by the Company with effect from 1 April 2010.
Improvements to FRS 2009	Contains amendments to various existing standards. The amendments have been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 25 on classification of rights issues	Defines as an equity instrument a financial instrument that gives the holder the right to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency, if the financial instrument is offered pro rata to all existing owners of the same class of non-derivative equity instruments. The amendment to FRS 25 has been adopted by the Company with effect from 1 April 2010.

2. Fixed asset investments

	Shares in subsidiary undertakings £m
At 1 April 2008	4,276
Additions	7,103
Disposals	(3,539)
At 31 March 2009	7,840
Additions	25
At 31 March 2010	**7,865**

During the year there was a capital contribution which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 36 in the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

3. Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**8,649**	11,153
Prepayments and accrued income	**6**	4
	8,655	11,157
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**1,700**	1,796
Deferred taxation	**2**	3
	1,702	1,799

	Deferred taxation £m
At 1 April 2008	3
Credited to equity	1
Charged to the profit and loss account	(1)
At 31 March 2009	3
Charged to the profit and loss account	(1)
At 31 March 2010	**2**

4. Creditors (amounts falling due within one year)

	2010 £m	2009 £m
Borrowings (note 7)	**1,183**	1,422
Derivative financial instruments	**174**	375
Amounts owed to subsidiary undertakings	**6,701**	6,898
Other creditors	**30**	28
	8,088	8,723

Notes to the Company financial statements continued

5. Derivative financial instruments

The fair values of derivative financial instruments are:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	218	(174)	44	329	(375)	(46)
Amounts falling due after more than one year	655	(431)	224	558	(511)	47
	873	(605)	268	887	(886)	1

For each class of derivative the notional contract* amounts are as follows:

	2010 £m	2009 £m
Interest rate swaps	(7,337)	(6,343)
Cross-currency interest rate swaps	(6,463)	(7,612)
Foreign exchange forward contracts	(7,234)	(9,013)
Forward rate agreements	(7,784)	(5,063)
Total	(28,818)	(28,031)

*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date

6. Current asset investments

	2010 £m	2009 £m
Investments in short-term money funds	162	166
Short-term deposits	197	234
Restricted cash balances – collateral	18	109
	377	509

7. Borrowings

	2010 £m	2009 £m
Amounts falling due within one year:		
Bank loans	299	205
Commercial paper	121	737
Bonds	763	480
	1,183	1,422
Amounts falling due after more than one year:		
Bank loans	398	720
Bonds	4,909	5,751
	5,307	6,471
Total borrowings	6,490	7,893

	2010 £m	2009 £m
Total borrowings are repayable as follows:		
In one year or less	1,183	1,422
In more than one year, but not more than two years	1,081	976
In more than two years, but not more than three years	900	1,360
In more than three years, but not more than four years	435	933
In more than four years, but not more than five years	1,180	450
In more than five years, other than by instalments	1,711	2,752
	6,490	7,893

The notional amount of borrowings outstanding as at 31 March 2010 was £6,338m (2009: £7,776m). For further information on significant borrowings, refer to note 34 in the consolidated financial statements.

8. Called up share capital

	Called up and fully paid millions	Called up and fully paid £m
At 31 March 2008 and 31 March 2009	2,582	294
Issued during the year in lieu of dividends (i)	35	4
At 31 March 2010	**2,617**	**298**

(i) The issue of shares in lieu of cash dividends is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

9. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 1 April 2008	1,371	14	124	4,664
Transferred from equity in respect of cash flow hedges (net of tax)	–	(2)	–	–
Repurchase of share capital and purchase of treasury shares (i)	–	–	–	(602)
Issue of treasury shares	–	–	–	8
Share-based payment	–	–	22	–
Loss for the year	–	–	–	(467)
At 31 March 2009	1,371	12	146	3,603
Transferred from equity in respect of cash flow hedges (net of tax)	–	2	–	–
Shares issued in lieu of dividends (ii)	(5)	–	–	–
Purchase of treasury shares	–	–	–	(7)
Issue of treasury shares	–	–	–	18
Share-based payment	–	–	25	–
Loss for the year	–	–	–	(353)
At 31 March 2010	**1,366**	**14**	**171**	**3,261**

(i) From 1 April 2008 to 24 September 2008, the Company repurchased under its share repurchase programme 85 million ordinary shares for aggregate consideration of £597m including transaction costs. Further purchases of shares outside the official share repurchase programme were for an aggregate consideration of £5m.

(ii) In addition to the nominal value of shares issued in lieu of dividends of £4m there have also been various associated administrative costs of £1m charged to the share premium account.

There were no gains and losses, other than losses for the years stated above, therefore no separate statement of total recognised gains and losses has been presented. The Company's profit after taxation was £335m (2009: £371m). At 31 March 2010, £1,023m (2009: £1,323m) of the profit and loss account reserve relating to gains on intra-group transactions was not distributable to shareholders.

10. Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Profit for the year after taxation	**335**	371
Dividends (i)	**(688)**	(838)
Loss for the financial year	**(353)**	(467)
Expenses charged to share premium account	**(1)**	–
Proceeds of issue of treasury shares	**18**	8
Movement on cash flow hedge reserve (net of tax)	**2**	(2)
Share-based payment	**25**	22
Repurchase of share capital and purchase of treasury shares	**(7)**	(602)
Net decrease in shareholders' funds	**(316)**	(1,041)
Opening shareholders' funds	**5,426**	6,467
Closing shareholders' funds	**5,110**	5,426

(i) For further details of dividends paid and payable to shareholders, refer to note 8 in the consolidated financial statements.

11. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings primarily to third parties. At 31 March 2010, the sterling equivalent amounted to £2,141m (2009: £2,302m). The guarantees are for varying terms from 2 years to open-ended. The Company had also guaranteed the lease obligations of a former associate to a subsidiary undertaking, which expired during the year. The balance at 31 March 2009 was £4m.

12. Directors and employees

There are no employees of the Company (2009: nil). The Directors of the Company were paid by subsidiary undertakings in 2010 and 2009. Details of Directors' emoluments are contained in the Directors' Remuneration Report.