

# Principal accounting policies – group and company

## Accounting convention and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (“IFRS”), IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Directors have taken advantage of the exemption offered by Section 230 of the Companies Act not to present a separate income statement for the parent company.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of properties, available-for-sale investments, financial assets and liabilities held for trading. A summary of the more important group accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Where such judgements are made they are included within the accounting policies below.

IFRS7, ‘Financial instruments: Disclosures’, and the complementary amendment to IAS1, ‘Presentation of financial instruments – Capital disclosures’ were adopted during 2007. This introduces new disclosures relating to financial instruments. These do not have any impact on the classification and valuation of the group or company’s financial instruments, or the disclosures relating to taxation and trade and other payables. At the date of approval of these financial statements, it is not anticipated that any standards or interpretations in issue but not yet effective will have a material impact on the financial statements.

## Basis of consolidation

The consolidated financial information includes financial information in respect of the company and its subsidiary undertakings. Subsidiary undertakings are those entities in which the group has the ability to govern the financial and operating policies, whether through a majority of the voting rights or otherwise.

The group’s interest in jointly controlled entities are accounted for using proportional consolidation. The group’s share of the assets, liabilities, income and expenses are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

The separable assets and liabilities acquired in a business combination are measured at their estimated fair value at the date of acquisition. Any excess of the fair value consideration, including any costs directly attributable to the acquisition, over the fair value of the assets and liabilities acquired is recognised as goodwill.

## Goodwill

Goodwill arising on acquisition of group undertakings is carried as an intangible asset at cost less accumulated impairment losses.

## Investment properties

Investment properties are properties owned or leased by the group which are held for long-term rental income and for capital appreciation. The group has elected to use the fair value model. Investment property is initially recognised at cost including transaction costs and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers on the basis of market value. Market value is arrived at after deducting notional acquisition costs. In accordance with IAS 40 – “Investment Property”, property held under leases is stated gross of the recognised finance lease liability.

Gains or losses arising from changes in the fair value of investment property are recognised in the income statement of the period in which they arise. Depreciation is not provided in respect of investment properties including integral plant.

When the group redevelops an existing investment property for continued future use as an investment property, the property remains an investment property measured at fair value and is not reclassified. Interest is capitalised (before tax relief), on the basis of the average rate of interest paid on the relevant debt outstanding, until the date of practical completion.

When the use of a property changes from that of trading to investment, that property is transferred at fair value, with any resulting gain being recognised as property trading profit.

## Development property

The group has elected to use the fair value model as reliable estimates are available. Property under development and land are initially recognised at cost and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers. Cost includes interest and other directly attributable outgoings, except in the case of properties and land where no development is imminent, in which case no interest is included. In accordance with IAS 16 – “Property, Plant and Equipment”, gains and losses arising from changes in the fair value of development property are dealt with in reserves to the extent that fair value exceeds cost and are otherwise recognised in the income statement. Upon completion, development property to be held for long-term rental income and capital appreciation are transferred to investment property.

## Leases

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are normally classified as operating leases.

### – group as lessee:

In accordance with IAS 40, finance and operating leases of investment property are accounted for as finance leases and recognised as an asset and an obligation to pay future minimum lease payments. The investment property asset is included in the balance sheet at fair value,

gross of the recognised finance lease liability. Lease payments are allocated between the liability and finance charges so as to achieve a constant financing rate.

Other finance-leased assets are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments and depreciated over the shorter of the lease term and the useful life of the asset.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

### – group as lessor:

Assets leased out under finance leases are recognised as receivables at the amount of the group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment.

Assets leased out under operating leases are included in investment property, with rental income recognised on a straight-line basis over the lease term.

## Depreciation

Plant and equipment is depreciated to its residual value on a straight-line basis over its expected useful life of up to five years.

## Trading property

Property and land held for sale are included in the balance sheet at the lower of cost and net realisable value. Cost consists of direct cost excluding interest.

## Investments

Investments are classified as available-for-sale investments or trading investments dependent on the purpose for which they were acquired. For listed investments, fair value is the bid market listed value ruling at the balance sheet date.

Available-for-sale investments, being investments intended to be held for an indefinite period, are revalued to fair value at the balance sheet date. Gains or losses arising from changes in fair value of available-for-sale investments are included in the revaluation reserve except to the extent that losses are attributable to impairment, in which case they are recognised in the income statement. Upon disposal, accumulated fair value adjustments are included in the income statement.

Trading investments, acquired principally for the purpose of generating a profit from short-term fluctuations in price, are included in current assets and revalued to fair value. Realised and unrealised gains or losses arising from changes in fair value are included in the income statement of the period in which they arise.

## Interests in subsidiary undertakings

Interests in subsidiary undertakings are carried in the company’s balance sheet at cost.

## Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits with banks, other short-term, highly liquid investments with original maturities of three months or less.

# Principal accounting policies – group and company (continued)

## Revenue recognition

Property revenue consists of gross rental income calculated on an accruals basis, together with sales and services as principal in the ordinary course of business, excluding sales of investment properties. Rental income receivable in the period from lease commencement to the earlier of lease expiry and any tenant option to break is spread evenly over that period. Any incentive for lessees to enter into a lease agreement is spread over the same period.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example increases arising on rent reviews, are recorded as income in the periods in which they are earned. Rent reviews are recognised as income, based on estimates, when it is reasonable to assure they will be received.

Where revenue is obtained by the sale of properties, it is recognised when the significant risks and returns have been transferred to the buyer. This will normally take place on exchange of contracts unless there are conditions attached. For conditional exchanges sales are recognised when these conditions are satisfied.

Revenue in respect of investment and other income represents investment income, earned on an accruals basis and profits or losses recognised on investments held for the short term. Dividends are recognised when the shareholders' right to receive payment has been established. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

## Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance. Transactions which may give rise to exceptional items are principally gains or losses on disposal of investments, subsidiaries and early termination of debt instruments.

## Income taxes

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date. Tax payable upon realisation of revaluation gains recognised in prior periods is recorded as a current tax charge with a release of any associated deferred taxation.

Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit, with the exception of deferred tax on revaluation surpluses where the tax basis used is the accounts' historic cost.

Deferred tax is provided on all temporary differences, except in respect of unremitted earnings from investments in subsidiaries and joint ventures where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation assets and liabilities are offset only when they relate to taxes levied by the same authority, with a legal right to set off and when the group intends to settle them on a net basis.

## Pensions

The retirement benefit liability recognised in the balance sheet is the present value of the defined benefit obligations, less the fair value of plan assets, adjusted for past service costs. The defined benefit obligation and current service cost are calculated annually by independent actuaries using the projected unit credit method. Actuarial gains and losses are immediately recognised in the Statements of recognised income and expense.

The costs of defined contribution schemes and group personal plans are charged against profits in the year in which they are incurred.

## Share-based payments

The cost of granting share options and other share-based remuneration to employees and Directors is recognised through the income statement with reference to the fair value at the date of grant. In the case of options granted, fair value is measured using an option pricing model and charged over the vesting period of the options. Own shares held in connection with employee share plans and other share-based payment arrangements are treated as treasury shares and deducted from equity.

## Provisions

Provisions are recognised when the group has a current obligation arising from a past event and it is probable that the group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle that obligation at the balance sheet date.

## Foreign currencies

The assets and liabilities of foreign entities are translated into sterling at the rate of exchange ruling at the balance sheet date and their income statement and cash flows are translated at the average rate for the period. Exchange differences arising from the retranslation of the net investment in foreign entities are dealt with in reserves.

Transactions in currencies other than the group's functional currency are recorded at the exchange rate prevailing at the transaction dates. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when qualifying as hedges, in which case they are dealt with in reserves.

## Debt instruments

Debt instruments are recognised initially at their issue proceeds, net of transaction costs. Debt instruments are subsequently stated at amortised cost using the effective yield method, with the difference between net proceeds and redemption value recognised in the income statement over the period of the borrowings. On early termination of debt instruments, all unamortised transaction costs are recognised immediately in the income statement.

## Derivative financial instruments

The group enters into derivative transactions such as interest rate swaps and forward foreign exchange contracts in order to manage the risks arising from its activities. Derivatives are recorded at fair value based on market prices, estimated future cash flows and forward rates as appropriate.

The group applies hedge accounting to its forward foreign exchange contracts where they meet the relevant criteria for hedging a net investment in a foreign operation. Changes in the fair value of such derivatives that are designated and effective as hedges are recognised directly in reserves, to be transferred to the income statement in the period during which the exchange movement on the hedged item is recognised in the income statement. Any ineffective portion is recognised immediately in the income statement as a finance cost. When a hedging instrument expires, is sold or no longer qualifies as a hedge, the cumulative gain or loss remains in reserves until the hedged item is recognised in the income statement.

The group does not apply hedge accounting to its interest rate swaps. Any change in the fair value of such derivatives is recognised immediately in the income statement as a finance cost.

## Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs. When the group's own equity instruments are repurchased, consideration paid is deducted from equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

## Compound instruments

At the date of issue of compound instruments, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-compound debt. The difference between the proceeds of issue and the fair value of the liability, the embedded option to convert into equity, is included in equity. Issue costs are apportioned between the liability and equity components based on their relative initial carrying values. The liability element of compound instruments is subsequently measured using the expected interest rate method. The value of the equity component is not remeasured in subsequent periods.