34 Explanation of transition to IFRS *continued*

incentives over longer periods than under UK GAAP and to accelerate the charge in respect of fixed contractual increments in lease payments.

h. Joint ventures – Following a review, the Group has concluded that its 50% holding in Maskew Miller Longman should be accounted for as a joint venture under IFRS rather than its classification as a subsidiary under UK GAAP.

i. Joint ventures and associates – The results of all joint ventures and associates have been adjusted to take into account IFRS adjustments within their own financial statements.

j. Income taxes – IAS 12 'Income Taxes', requires that deferred taxation also be provided on all temporary differences, not just timing differences as required under UK GAAP. Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements unless the initial recognition exemption applies. Deferred tax is not recognised for temporary differences arising on initial recognition of an asset or liability in a transaction other than a business combination if at the time of transaction neither accounting nor taxable profit is affected. Deferred taxation has been provided on the post-acquisition difference between the book and tax bases of intangible assets and goodwill if its amortisation is tax deductible. A deferred tax liability has also been recognised in respect of the undistributed earnings of subsidiaries other than where it is intended that those undistributed earnings will not be remitted in the foreseeable future.

Deferred taxation has been recognised on the IFRS adjustments at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled. 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.

k. Dividends – IAS 10 'Events after the Balance Sheet Date' requires that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date as they do not represent a present obligation at that date as defined by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

The final dividends relating to the years to 31 December 2002, 2003 and 2004 have been reversed and recognised as a liability in the years 2003, 2004 and 2005 respectively.

l. Discontinued operations – Consistent with the UK GAAP treatment, Recoletos has been treated as discontinued as at 31 December 2004 and met the criteria as 'held for sale' at that date. Accordingly the results are disclosed in one line in the income statement, 'Profit for the year from discontinued operations' for both 2003 and 2004 and, at 31 December 2004, it is disclosed in the balance sheet in two lines – 'Non-current assets classified as held for sale' and 'Liabilities associated with non-current assets classified as held for sale'.

When an asset's carrying value will be recovered principally through a sale transaction rather than through continuing use and certain criteria regarding probability and proximity of the sale are satisfied, it is classified as held for sale and stated at the lower of carrying value and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

COMPANY FINANCIAL STATEMENTS

Company statement of recognised income and expense
Year ended 31 December 2005

All figures in £ millions	2005	2004	2003
Net exchange adjustments offset in reserves net of tax	–	(20)	(23)
(Loss)/profit for the year	(362)	946	(10)
Total recognised income and expense for the year	(362)	926	(33)
Effect of transition adjustment on adoption of IAS 39 (see note 11)	(3)		

Company balance sheet
As at 31 December 2005

All figures in £ millions	Notes	2005	2004	2003
Assets				
Non-current assets				
Investments in subsidiaries	2	6,883	7,134	6,343
Amounts due from subsidiaries		289	288	944
Financial assets – Derivative financial instruments	5	79	–	–
Other financial assets		1	1	–
		7,252	7,423	7,287
Current assets				
Amounts due from subsidiaries		691	674	1,394
Current income tax assets		67	66	3
Cash and cash equivalents	3	598	332	378
Other assets		3	–	–
Total assets		8,611	8,495	9,062
Liabilities				
Non-current liabilities				
Financial liabilities – Borrowings	4	(1,261)	(1,132)	(1,123)
Financial liabilities – Derivative financial instruments	5	(22)	–	–
Amounts due to subsidiaries		(591)	(440)	(234)
Provisions for other liabilities and charges		–	(4)	(2)
		(1,874)	(1,576)	(1,359)
Current liabilities				
Other liabilities		(1)	(13)	(17)
Financial liabilities – Borrowings	4	(366)	(433)	(913)
Amounts due to subsidiaries		(2,274)	(1,816)	(2,860)
Total liabilities		(4,515)	(3,838)	(5,149)
Net assets		4,096	4,657	3,913
Equity				
Share capital	6	201	201	201
Share premium	6	2,477	2,473	2,469
Other reserves	7	1,418	1,983	1,243
Total equity attributable to equity holders of the Company		4,096	4,657	3,913

These financial statements have been approved for issue by the board of directors on 26 February 2006 and signed on its behalf by

Rona Fairhead, *Chief financial officer*

Company cash flow statement
Year ended 31 December 2005

All figures in £ millions	Notes	2005	2004	2003
Cash flows from operating activities				
Net (loss)/profit		(362)	946	(10)
Adjustments for:				
Tax		(54)	(69)	(16)
Net finance costs		241	161	50
Amounts due from subsidiaries		454	619	99
Provisions		95	–	–
Cash generated from operations		374	1,657	123
Interest paid		(159)	(145)	(92)
Tax received		57	4	21
Net cash generated from operating activities		272	1,516	52
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		(33)	–	(15)
Interest received		13	1	92
Purchase of other financial assets		(60)	(983)	(1)
Disposal of other financial assets		341	–	–
Net cash generated from/(used in) investing activities		261	(982)	76
Cash flows from financing activities				
Proceeds from issue of ordinary shares		4	4	5
Net Group contribution to purchase of treasury shares		5	9	6
Proceeds from borrowings		–	–	76
Repayments of borrowings		(59)	(258)	–
Dividends paid to Company's shareholders		(205)	(195)	(188)
Net cash used in financing activities		(255)	(440)	(101)
Effects of exchange rate changes on cash and cash equivalents		(3)	(4)	26
Net increase in cash and cash equivalents		275	90	53
Cash and cash equivalents at beginning of year		(3)	(93)	(146)
Cash and cash equivalents at end of year	3	272	(3)	(93)