

1. Accounting policies (continued)

Employee benefits – Pension obligations

Group companies operate various pension plans. The Group has both defined benefit and defined contribution plans.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit retirement plans, the cost of providing benefits is determined periodically by independent actuaries and charged to the income statement in the period in which those benefits are earned by the employees. Actuarial gains and losses are recognised in full in the period in which they occur, and are recognised in the statement of recognised income and expense. Past service cost is recognised immediately to the extent the benefits are already vested, or otherwise is recognised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets.

Long-term service benefits – Equity and equity-related compensation benefits

The Group issues equity-settled and cash-settled share options to employees. In accordance with the requirements of IFRS 2 Share-based Payments (IFRS 2), the Group has applied IFRS 2 to all equity-settled share options granted after 7 November 2002 that were unvested as of 1 January 2005 and all cash-settled options outstanding at the balance sheet date.

As explained in note 26, equity-settled share options are measured at fair value at the date of grant using an option pricing model. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will actually vest.

Cash-settled share options are measured at fair value at the balance sheet date using an option pricing model. The Group recognises a liability at the balance sheet date based on these fair values, and taking into account the estimated number of the options that will actually vest and the relative completion of the vesting period. Changes in the value of this liability are recognised in the income statement for the year.

Preference share capital

During the year, the Group's 7.75p (net) cumulative redeemable preference shares of 25p each were converted into the Group's ordinary shares of 2.5p on the basis of 0.47904 ordinary shares for every preference share.

In accordance with IAS 32 Financial Instruments: Presentation, the preference shares were considered a compound financial instrument and, accordingly, split into an underlying debt instrument, classified within loans and overdrafts, and an equity conversion option, classified within equity.

The underlying debt instrument was presented on an amortised cost basis until extinguished on conversion.

The equity conversion option was presented at its historic fair value, based on the date of original issue of the preference shares. On conversion of the preference shares into ordinary shares, the equity component was reclassified to share capital and share premium.

Dividends thereon are recognised in the income statement as finance costs.

Dividends

Equity dividends on ordinary share capital are recognised as a liability in the period in which they are declared.

2. Changes in accounting policies

Standards, amendments and interpretations effective in 2007

With effect from 1 January 2007 the Group has adopted IFRS 7, Financial Instruments: Disclosures. This introduces new disclosures for financial instruments, but does not have any impact on the consolidated income statement or balance sheet.

The following amendments and interpretations to published standards are effective for accounting periods beginning on or after 1 January 2007:

- IFRIC 7, Applying the restatement approach under IAS 29;
- IFRIC 8, Scope of IFRS 2;
- IFRIC 9, Reassessment of embedded derivatives;
- IFRIC 10, Interim financial reporting and impairment; and
- Amendment to IAS 1, Presentation of financial statements – capital disclosures.

None of these have any significant impact on the Group's accounts.

New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following EU endorsed standards and interpretations to existing standards have been published and are mandatory for the Group's accounting period beginning on 1 January 2008 or later periods but have not been early adopted by the Group:

- IFRS 8, Operating Segments (effective for 2009). This requires that entities adopt the 'management approach' to reporting the financial performance of their operating segments. The standard is concerned with disclosure only and will therefore have no impact on the consolidated income statement or balance sheet. Following the changes to the Group's organisational structure from 1 January 2007, it is not expected to have a significant disclosure impact;
- IFRIC 11, IFRS 2, Group and Treasury Share Transactions is effective for 2008. It is not expected to have any significant impact on the Group's accounts; and
- IFRIC 14, IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction is effective for 2008. The interpretation aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plans and when additional liabilities might be required to be recognised. This is not expected to have any significant impact on the Group's accounts.