

# Notes to the parent company financial statements

## a) Significant accounting policies

### Basis of preparation

The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention except for the revaluation of certain financial instruments and in accordance with applicable United Kingdom Accounting Standards (UK GAAP).

### Exemptions

As permitted by section 230(3) of the Companies Act 1985, the company has not presented its own profit and loss account.

The company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 Cash flow statements. The cash flows of the company are included within its consolidated financial statements.

The company is also exempt under the terms of FRS 8 Related party disclosures from disclosing related party transactions with other members of the group.

The consolidated financial statements of the group contain financial instrument disclosures and comply with FRS 25 Financial instruments: disclosures and presentation. Consequently the company has taken advantage of certain exemptions in FRS 25 from the requirement to present separate financial instrument disclosures for the company.

### Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Tangible fixed assets are depreciated on a straight line basis over their expected economic life. Short leaseholds property (under 50 years) is depreciated over the life of the lease. Equipment and vehicles are depreciated over periods up to a maximum of ten years.

### Fixed asset investments

Fixed asset investments, which comprise investments in subsidiary undertakings, are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable.

### Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instruments.

#### > External debtors

Debtors do not carry interest and are stated at their fair value.

#### > Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are recognised at the value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement on an accrual basis using the effective interest method.

#### > External creditors

Creditors are not interest-bearing and are stated at their fair value.

#### > Amounts owed to/from subsidiary undertakings

Amounts owed to/from subsidiary undertakings bear interest at prevailing market rates.

#### > Equity instruments

Equity instruments issued by the group are recorded at the value of proceeds received, net of direct issue costs.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

### Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and a reliable estimate of the amount can be made.

## Notes to the parent company financial statements (continued)

### a) Significant accounting policies (continued)

#### Derivative financial instruments and hedge accounting

In accordance with its treasury policy, the company only holds or issues derivative financial instruments to manage the group's exposure to financial risk, not for trading purposes. Such financial risk includes the interest risk on the group's variable-rate borrowings and foreign exchange risk on transactions, on the translation of the group's results and on the translation of the group's net assets measured in foreign currencies, to the extent that these are not matched by foreign currency borrowings. The company manages these risks through a range of derivative financial instruments, including interest rate swaps, fixed rate agreements, forward foreign exchange contracts and currency swaps.

Derivative financial instruments are recognised in the balance sheet as financial assets or liabilities at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as described below:

#### > Fair value hedge

The change in the fair value of both the hedging instrument and the related portion of the hedged item is recognised immediately in the income statement.

#### > Cash flow hedge

The change in the fair value of the portion of the hedging instrument that is determined to be an effective hedge is recognised in equity and subsequently recycled to the income statement when the hedged cash flow impacts the income statement. The ineffective portion of the fair value of the hedging instrument is recognised immediately in the income statement.

#### Leases

Assets held under finance leases are included as tangible fixed assets at their capital value and depreciated over the shorter of the lease term and their useful economic life. The capital element of future rentals is included within creditors and finance charges are allocated to accounting periods over the period of the lease.

Annual rentals payable or receivable under operating leases are charged or credited to the profit and loss account as incurred.

#### Foreign currencies

The financial statements of the company are presented in sterling, its functional currency. Transactions in currencies other than sterling are translated at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities which are denominated in other currencies are retranslated at the rates prevailing on that date. Non-monetary assets and liabilities carried at fair value which are denominated in other currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items measured at historical cost denominated in other currencies are not retranslated. Gains and losses arising on retranslation are included in the profit and loss account.

#### Taxation

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

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

#### Pensions

The company participates in multi-employer pension schemes in the UK, which provide benefits based on final pensionable pay. The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. In accordance with FRS 17, the company treats the schemes as if they were defined contribution schemes and recognises charges as and when contributions are due to the scheme. Details of the schemes are included in note 32 to the consolidated financial statements.

## Notes to the parent company financial statements (continued)

### a) Significant accounting policies (continued)

#### Share-based payments

The company has applied the optional transitional exemptions in FRS 20 Share-based payment and implemented its requirements for grants of equity instruments made after 7 November 2002 which had not vested by 1 January 2005.

The company issues equity-settled share-based payments to certain employees. The fair value of share-based payments is determined at the date of grant and expensed, with a corresponding increase in equity on a straight-line basis over the vesting period, based on the company's estimate of the shares that will eventually vest. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions.

The fair value of share-based payments granted in the form of options is measured by the use of the Black-Scholes valuation technique, adjusted for future dividend receipts and for any market-related performance conditions.

The company grants share options over its own shares to the employees of subsidiary companies. The company does not receive goods or services in exchange for these options. These are accounted for as a written call option on the entity's own shares under FRS 25 and do not result in an accounting entry upon grant. When the share options are subsequently exercised the resulting entries are either to increase share capital and share premium for new shares issued or to record a reduction in the treasury shares owned by the employee benefit trust.

#### Dividends

Dividends are recognised as distributions to equity holders in the period in which they are declared. Dividends proposed but not declared are not recognised but are disclosed in the notes to the consolidated financial statements.

#### Financial guarantees

The company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the group. The company treats such contracts as a contingent liability unless and until such time as it becomes probable that the company will be required to make a payment under the guarantee.

#### Own shares held by employee benefit trusts

Transactions of the group-sponsored employee benefit trusts are included in the parent company financial statements. In particular, the trusts' purchases of shares in the company are debited directly to equity.

### b) Tangible fixed assets

	Land and buildings £m	Equipment and vehicles £m	Total £m
<b>Cost</b>			
At 1 January 2006	3.0	2.2	5.2
Additions at cost	–	0.5	0.5
Disposals	–	(0.3)	(0.3)
At 31 December 2006	3.0	2.4	5.4
<b>Depreciation</b>			
At 1 January 2006	(0.6)	(0.8)	(1.4)
Charge for the year	(0.2)	(0.2)	(0.4)
Disposals	–	0.3	0.3
At 31 December 2006	(0.8)	(0.7)	(1.5)
<b>Net book value</b>			
<b>At 31 December 2006</b>	<b>2.2</b>	<b>1.7</b>	<b>3.9</b>
At 31 December 2005	2.4	1.4	3.8

The net book value of land and buildings comprises short leasehold buildings (under 50 years).

## Notes to the parent company financial statements (continued)

**c) Fixed asset investments**

The following are included in the net book value of fixed asset investments:

Subsidiary undertakings	Total £m
<b>Shares at cost:</b>	
At 1 January 2006	437.5
Additions	150.0
<b>At 31 December 2006</b>	<b>587.5</b>

Full details of significant investments held by the parent company and the group are detailed in note 43 to the consolidated financial statements.

**d) Debtors**

	2006 £m	2005 £m
Amounts owed by group undertakings	1,150.7	1,472.2
Prepayments and accrued income	0.9	7.4
Derivative financial instruments at fair value	8.6	1.7
Other debtors	16.1	15.7
<b>Total debtors</b>	<b>1,176.3</b>	<b>1,497.0</b>

Included within derivative financial instruments at fair value is £1.4m due after more than one year (2005: £nil). See note g) for further details.

Included in other debtors is £6.5m (2005: £1.3m) with regard to deferred tax comprised as follows:

	2006 £m	2005 £m
Accelerated capital allowances	(0.3)	0.8
Other timing differences	6.8	0.5
<b>Total deferred tax</b>	<b>6.5</b>	<b>1.3</b>

The reconciliation of deferred tax balances is as follows:

	Total £m
At 1 January 2006	1.3
Credited to profit and loss	7.4
Charged to equity in relation to cash flow hedges	(2.2)
<b>At 31 December 2006</b>	<b>6.5</b>

**e) Unsecured borrowings**

The unsecured borrowings are at floating rates and in the following currencies:

	2006 £m	2005 £m
Sterling	89.9	–
Euro	291.3	314.7
US dollar	430.0	416.5
<b>Total unsecured borrowings</b>	<b>811.2</b>	<b>731.2</b>

The payment profile of the unsecured borrowings is as follows:

	2006 £m	2005 £m
Repayable within one year	25.0	–
Repayable within two to five years	786.2	731.2
<b>Total unsecured borrowings</b>	<b>811.2</b>	<b>731.2</b>

There were no fixed rate financial liabilities and no financial liabilities upon which no interest is paid.

## Notes to the parent company financial statements (continued)

**e) Unsecured borrowings (continued)**

Undrawn committed facilities mature as follows:

	2006 £m	2005 £m
Within one year	5.0	–
Within two to five years	212.5	268.8
Total undrawn committed facilities	217.5	268.8

The fair value of the company's bank borrowings equates to their book values. Fair values are determined by reference to market values, where available, or calculated by discounting cash flows at prevailing interest rates. Borrowing at floating rates exposes the company to cash flow interest rate risk. The management of this risk is detailed in note g).

**f) Creditors**

	2006 £m	2005 £m
<b>Amounts falling due within one year:</b>		
Trade creditors	0.5	1.1
Amounts owed to group undertakings	493.6	736.4
Other taxation and social security costs	1.2	0.5
Other creditors	4.2	2.9
Accruals and deferred income	4.0	8.7
Derivative financial instruments at fair value	1.0	7.6
Total creditors – amounts falling due within one year	504.5	757.2
<b>Amounts falling due after more than one year:</b>		
Derivative financial instruments at fair value	0.3	–

**g) Derivative financial instruments**

The carrying values of derivative financial instruments at the balance sheet date are presented below:

	Assets 2006 £m	Assets 2005 £m	Liabilities 2006 £m	Liabilities 2005 £m
Forward foreign exchange contracts	6.3	1.0	0.9	7.2
Interest rate swaps	2.3	0.7	0.4	0.4
	8.6	1.7	1.3	7.6
Less: Non-current portion	(1.4)	–	(0.3)	–
Current portion	7.2	1.7	1.0	7.6

Derivative financial instruments are stated at fair value, based upon market prices where available or otherwise on discounted cash flow valuations.

The interest rate swaps qualify as cash flow hedges and have the following maturities:

	Assets 2006 £m	Assets 2005 £m	Liabilities 2006 £m	Liabilities 2005 £m
Within one year	0.5	–	–	–
In the second year	0.3	–	–	0.1
In the third year	1.1	0.2	–	0.1
In the fourth year	0.2	0.1	–	0.2
In the fifth year	0.2	0.4	0.4	–
Total carrying value of cash flow hedges	2.3	0.7	0.4	0.4

## Notes to the parent company financial statements (continued)

**g) Derivative financial instruments (continued)****Currency risk and forward foreign exchange contracts**

The group conducts business in many currencies. The group presents its consolidated financial statements in sterling and it is in consequence subject to foreign exchange risk due to the translation of the results and net assets of its foreign subsidiaries. The company therefore hedges a substantial proportion of the group's exposure to fluctuations in the translation into sterling of its overseas net assets by holding loans in foreign currencies. Translation adjustments arising on the translation of foreign currency loans are recognised in the profit and loss account.

The company enters into forward foreign exchange contracts so as to hedge group translation risk not hedged by way of loans. Gains and losses on such forward foreign exchange contracts are recognised in the profit and loss account. The notional value of outstanding forward foreign exchange contracts at 31 December 2006 was £342.4m. All these contracts had matured by 28 February 2007, at which point they were replaced with new forward foreign exchange contracts.

**Interest rate risk and interest rate swaps**

Borrowing at floating rates as described in note e) exposes the company to cash flow interest rate risk, which the company manages within policy limits approved by the directors. Interest rate swaps and, to a limited extent, forward rate agreements are utilised to fix the interest rate on a proportion of borrowings on a reducing scale over forward periods up to a maximum period of five years. At 31 December 2006 the nominal value of such contracts was £196.7m (in respect of US dollar) and £141.5m (in respect of euro), their weighted average interest rate was 4.9% (US dollar) and 3.4% (euro), and their weighted average period to maturity was three years. All the interest rate hedging instruments are designated and fully effective as cash flow hedges and movements in their fair value have been deferred in equity.

**Counterparty credit risk**

The company's strategy for credit risk management is to set minimum credit ratings for counterparties and monitor these on a regular basis.

For treasury-related transactions, the policy limits the aggregate credit risk assigned to a counterparty. The utilisation of a credit limit is calculated by applying a weighting to the notional value of each transaction outstanding with each counterparty based on the type and duration of the transaction. For short-term transactions (under one year), the financial counterparty must be investment grade rated by either the Standard & Pools or Moody's rating agency. For long-term transactions, the financial counterparty must have a minimum rating of A+/A1 from Standard & Pools or Moody's.

**h) Provisions for liabilities and charges**

	Onerous contracts £m
At 1 January 2006	5.1
Additional provisions in the year	0.1
Utilisation of provisions	(1.4)
<b>At 31 December 2006</b>	<b>3.8</b>

The onerous contracts provision comprises a provision against future liabilities for all properties sub-let at a shortfall and for long-term idle properties. The provision is based on the value of future net cash outflows relating to rent, rates, service charges and costs of marketing the properties.

**i) Share premium and reserves**

	Share premium £m	Profit and loss account £m	Own shares £m	Employee Benefit Trust reserve £m	Total £m
At 1 January 2006	4.0	111.9	(6.3)	2.0	111.6
Retained loss	–	(6.4)	–	–	(6.4)
Changes in fair value of hedging derivatives	–	13.1	–	–	13.1
Shares issued	6.3	–	–	–	6.3
Dividends declared	–	(49.8)	–	–	(49.8)
Own shares purchased	–	–	(3.1)	–	(3.1)
Equity-settled transactions:					
– Performance share plans	–	–	–	2.3	2.3
– Deferred shares	–	–	–	1.3	1.3
– Share options	–	1.4	–	–	1.4
Tax on equity movements	–	(2.2)	–	–	(2.2)
<b>At 31 December 2006</b>	<b>10.3</b>	<b>68.0</b>	<b>(9.4)</b>	<b>5.6</b>	<b>74.5</b>

The (loss)/profit for the year to 31 December 2006 attributable to shareholders was £(6.4)m (31 December 2005: £151.4m).

## Notes to the parent company financial statements (continued)

**j) Reconciliation of movements in equity shareholders' funds for the year ended 31 December 2006**

	2006 £m	2005 £m
Retained (loss)/profit for the year	(6.4)	151.4
Changes in fair value of hedging derivatives	13.1	(5.8)
Shares issued	9.1	4.9
Dividends declared	(49.8)	(39.8)
Own shares purchased	(3.1)	(6.1)
Equity-settled transactions:		
– Performance share plans	2.3	1.2
– Deferred shares	1.3	–
– Share options	1.4	1.5
Tax on equity movements	(2.2)	–
Net (decrease)/increase in shareholders' funds	(34.3)	107.3
Opening equity shareholders' funds	428.8	321.5
Closing equity shareholders' funds	394.5	428.8

**k) Operating lease commitments**

At the balance sheet date, the company had annual commitments under non-cancellable operating leases, which expire as follows:

	2006 £m	2005 £m
Within one year	0.1	0.2
In the second to fifth years inclusive	0.7	0.2
After more than five years	0.8	1.2
Total operating lease commitments	1.6	1.6

**l) Auditor's remuneration**

Fees paid to KPMG Audit Plc and its associates for non-audit services to the company itself are not disclosed in its individual accounts because the company's consolidated financial statements are required to disclose such fees on a consolidated basis.

**m) Staff costs and employees**

	2006 Number	2005 Number
The average monthly number of employees of the company during the year was:	123	122

Total staff costs, including directors' emoluments, were as follows:

	2006 £m	2005 £m
Wages and salaries	22.0	20.6
Social security costs	1.9	1.6
Pension costs	1.3	0.9
Total staff costs	25.2	23.1

**n) Share-based payments**

The group has two types of equity-settled, share-based payment scheme in place: (1) share options previously held by employees over Securicor plc shares and rolled over to Group 4 Securicor plc shares with the acquisition of that business on 19 July 2004, and (2) conditional allocations of Group 4 Securicor plc shares. The majority of the shares under option are attributable to employees of the company, however the company bears the full cost of share-based payment charges applicable to subsidiary undertakings. Therefore all disclosures relevant to the company are presented within note 40 to the consolidated financial statements.

**o) Contingent liabilities**

To help secure cost effective finance facilities for its subsidiaries, the company issues guarantees to some of its finance providers. At 31 December 2006 guarantees totalling £315.4m were in place in support of such facilities.

The company is included in a group registration for UK VAT purposes and is therefore jointly and severally liable for all other UK group companies' unpaid debts in this connection. The liability of the UK group registration at 31 December 2006 totalled £18.8m.