Impact of International Financial Reporting Standards ("IFRS")

2 May 2007
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Introduction

- AIM listed companies are required to report under IFRS for accounting periods commencing on or after 1 January 2007 with early adoption permitted
- Numis will adopt early and report under IFRS from 1 October 2006
- Transition date will therefore be 1 October 2005
- First results under IFRS will be interim results for 2007
- Financial impact on Numis is not material as no goodwill, defined benefit pension scheme or employee share options granted post 7 November 2002
- Items not impacted by IFRS are cash balances and cash flows, underlying financial strength and business and economic risks
Highlights

- **Transition Date Balance Sheet**
  - Total Equity as at 1 October 2005 up by £0.6m (0.8%) from £73.3m to £73.9m

- **Financial Year Ended 30 September 2006**
  - PBT down by £1.5m (4.0%) from £37.2m to £35.7m
  - Basic EPS down 0.6p (2.3%) from 25.8p to 25.2p
  - Total Equity as at 30 September 2006 unchanged at £91.7m
Review of Key IFRS Changes

Financial Impact
- IFRS 1 First Time Adoption of International Financial Reporting Standards
- IAS 39 Financial Instruments
- IAS 17 Leases
- IFRS 2 Share-Based Payments
- IAS 19 Employee Benefits
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 12 Tax

Disclosure or Presentation Only
- IAS 14 Segmental Reporting
- IAS 38 Intangible Assets
- IAS 32 Financial Instruments: Presentation
- IAS 28 Investments in Associates

No Impact
- IFRS 3 Business Combinations
- IAS 10 Events after the Balance Sheet Date
- IAS 18 Revenue
Review of Key IFRS Changes (cont’d)

IFRS 1 First Time Adoption of International Financial Reporting Standards

▪ Exemptions which are available and that will be applied:
  – IFRS 2 Employee share options granted pre 7th November 2002 will not be fair valued
  – IAS 21 Cumulative translation differences relating to net investments in foreign operations will be set to zero at the date of transition

▪ Other requirements and choices:
  – Both parent company and subsidiary accounts will be prepared under IFRS
  – Cash Flow Statements will be prepared for all subsidiary accounts
  – Statement of Movement in Shareholders Funds will be prepared as a primary statement
  – Comparative movements will be shown for fixed asset note and reserve movement note
  – Balance Sheet presentation will strike BS total at net current assets and net assets
  – All assets and liabilities, including provisions, will be grouped into current and non-current
  – Fair value accounting for non-current assets and non-current liabilities ie cumulative LTIP amortisation – previously all shown as a provision, will be shown grouped into current and non current and the non current liability discounted appropriately (IAS 37)
Review of Key IFRS Changes (cont’d)

IAS 39 Financial Instruments

- Introduction of “Available-for-Sale” (“AFS”) asset class where any gain or loss is recognised through equity until realisation, when the gain or loss is reversed out of equity and taken to the income statement
- Derivative contracts to be recognised at fair value with any gain or loss taken to the income statement
- Fair value of large holdings is the product of the number of instruments in the holding and the fair value of an individual instrument, no adjustment should be made for any premium or discount that might result from selling the portfolio as a whole

Impact

- All current asset investments are held with a view to sale in the near term and hence will be deemed to be financial assets at fair value through profit and loss. Where there is a reliable market quote, any gain or loss will be recognised through the income statement. Where there is no reliable market quote, a supportable valuation technique will be used to determine the fair value
- Outstanding Forward FX contracts will be classified as derivatives and the fair value movement recognised in the income statement
- Equity warrants and options will be classified as derivatives and the fair value movement recognised in the income statement, fair value being measured using a Black Scholes model where appropriate
- Liquidity provisions previously held against large and slow moving positions will no longer be allowable
Review of Key IFRS Changes (cont’d)

IAS 17 Leases

- Removal of the 90% test for the definition of a finance lease and replacement with more detailed guidance
- Incentives for a new or renewed operating lease should be recognised by the lessee as an adjustment to the rental expense over the lease term

Impact

- No impact on previous accounting periods
- Paternoster Square lease incorporates a 2 year rent free period the benefit of which will be spread over the full term of the lease i.e. 15 years. This will result in a rental expense being recorded in the income statement from the outset of the lease (October 2006 onwards)
Review of Key IFRS Changes (cont’d)

IFRS 2 Share-Based Payments

- Requires all share-based payment transactions to be reflected in the income statement at the fair value of the goods or services received
- Equity settled – measurement based on the fair value of the instrument at grant date adjusted annually to reflect the number of shares expected to vest with entry to separate equity reserve
- Cash settled – measurement based on the fair value of the liability incurred re-valued at each reporting date with entry to relevant provision
- Applies to all cash awards and any equity awards granted after 7th November 2002

Impact

- All outstanding share options granted pre 7th November 2002 hence can take advantage of exemption not to restate or compute the fair value of these instruments
- All outstanding share awards were granted post 7th November 2002 and will require fair value accounting
- The terms of the share award schemes require them to be treated as a cash settled with the relevant accounting treatment followed as described above
Review of Key IFRS Changes (cont’d)

IAS 19 Employee Benefits

- Short term benefits are expensed in the period in which they occur
- No change to treatment of defined contribution schemes

Impact

- Holiday pay accruals (or prepayments) are required
Review of Key IFRS Changes (cont’d)

IAS 21 The Effects of Changes in Foreign Exchange Rates

- Exchange differences arising on monetary items that form part of the reporting entity’s net investment in a foreign operation are recognised, in the consolidated financial statements that include the foreign operation, as a separate component of equity
- On disposal of the net investment the gain or loss is reversed out of equity and taken to the income statement

Impact

- Previously such amounts were taken directly to the income statement
- The cumulative impact as at the transition date will be assumed to be nil, all subsequent movements to be recognised in equity in a separately identifiable reserve
Review of Key IFRS Changes (cont’d)

IAS 12 Tax

- No fundamental change to corporate or deferred tax accounting

Impact

- Deferred tax charges reflect IFRS adjustments
  - P&L - 30% of IFRS taxable pre-tax adjustments
  - Balance Sheet – 30% of IFRS equity adjustment recognised as deferred tax asset / liability
Review of Key IFRS Changes (cont’d)

IAS 14 Segmental Reporting

- Segmental information to cover revenue, operating profit, assets and liabilities

Impact

- No financial impact, disclosure only

- Numis operates a single integrated business and, although there are different revenue types (the contributions from which are separately disclosed), there is no meaningful segmentation of profits or net assets

- Operating income, PBT and Net Asset split between the results of our associate and our core business is already disclosed, additional disclosure is required showing assets and liabilities separately
Review of Key IFRS Changes (cont’d)

IAS 38 Intangible Assets

- Widening of the definition of an intangible asset
- Recognition of an asset when it can be sold separately from the business hence all externally acquired intangible assets are required to be capitalised
- Internally generated intangibles should be capitalised where it is probable that they will generate future economic benefits, it is technically feasible to make the intangible asset available for use or sale, the resources and intention exist to do so and the expenditure attributable to its development can be reliably measured

Impact

- Acquired software licenses which have previously been capitalised and classified as tangible assets will be reclassified as intangible assets however they will continue to be amortised over their useful economic life
- No financial impact on either PBT or net assets
Review of Key IFRS Changes (cont’d)

IAS 32 Financial Instruments: Presentation

- A financial asset and a financial liability should be offset and the net amount reported when, and only when, an enterprise has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impact

- Previously client, broker and other counterparty balances representing bought and sold securities transactions were shown net where a netting agreement was in place, however they will now be shown gross.

- Under IFRS, netting is only permitted when there is the ability and the intention to settle net. In practice, although the Group has rights to settle net, gross settlement will be made to facilitate operations and hence certain assets and liabilities on the Group’s balance sheet will be grossed up.

- However, in the event of counterparty default, Numis will assert and exert its rights to netting and set-off to the maximum extent permissible and economically beneficial.

- No financial impact on either PBT or net assets.
Review of Key IFRS Changes (cont’d)

IAS 28 Investment in Associates

- Applies to all investments in which the investor has significant influence but not control, with certain exceptions eg venture capital, mutual funds, unit trusts etc
- Equity method of accounting is unchanged but required to show the share of profit of associate post tax
- Consistency with accounting policies adopted within the investor’s financial statements is still required

Impact

- No material adjustments required to financials of associate prior to recognising our share of profits
- No financial impact on either PAT or Net Assets although reported PBT will be reduced by the tax charge on our share of associates profits
Review of Key IFRS Changes (cont’d)

IFRS 3 Business Combinations

- All business combinations treated as an acquisition of one party by another
- Goodwill no longer amortised but is subject to an impairment review annually or on indication of impairment
- Transition rules under IFRS 1 allow goodwill to be initially recorded at the carrying value under UK GAAP at the date of transition

Impact

- Historic goodwill fully written off against reserves at the transition date hence carrying value of nil
- No financial impact on either PBT or net assets
Review of Key IFRS Changes (cont’d)

IAS 10 Events after the Balance Sheet Date

- Dividends recognised in the period in which they are approved by the shareholders as they do not meet the criteria of an adjusting event after the balance sheet date
- Dividends taken directly to reserves

Impact

- Already applied in the 2006 Annual Report and Accounts and comparatives reported therein hence no further impact to published financials or results other than results for six months to 31 March 2006
Review of Key IFRS Changes (cont’d)

IAS 18 Revenue

- Revenue for services to be recognised over the period in which the service is rendered
- Where the service is provided through a series of actions over time, revenue is recognised on a straight line basis over the same period of time unless there is a more accurate and appropriate method
- Costs of providing a service expensed as revenue is recognised

Impact

- Current revenue recognition criteria is in accordance with IAS 18 requirements hence no financial impact
- Revenue is only recognised when there is contractual certainty of realisation; hence revenue associated with deals which are substantially complete will not be recognised until contractual entitlement is assured in accordance with the terms and conditions of the relevant engagement documentation
Summary of Impact

Total Equity 1 October 2005

£'000

Reported under UK GAAP 73,326

Employee benefits IAS 19 37

Financial instruments IAS 39 1,464

Provisions IAS 37 / IFRS 2 (920)

Reported under IFRS 73,907
## Summary of Impact (cont’d)

**Profit Before Tax for the year ended 30 September 2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>£'000</th>
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<tr>
<td>Reported under UK GAAP</td>
<td>37,206</td>
</tr>
<tr>
<td>Financial instruments IAS 39</td>
<td>(965)</td>
</tr>
<tr>
<td>Associates IAS 28</td>
<td>(665)</td>
</tr>
<tr>
<td>Employee benefits IAS 19</td>
<td>15</td>
</tr>
<tr>
<td>Provisions IAS 37 / IFRS 2</td>
<td>170</td>
</tr>
<tr>
<td>Foreign exchange IAS 21</td>
<td>(68)</td>
</tr>
<tr>
<td><strong>Reported under IFRS</strong></td>
<td><strong>35,693</strong></td>
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## Summary of Impact (cont’d)

**Total Equity year ended 30 September 2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported under UK GAAP</td>
<td>91,689</td>
</tr>
<tr>
<td>Opening equity adjustment</td>
<td>581</td>
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<tr>
<td>Employee benefits IAS 19</td>
<td>11</td>
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<tr>
<td>Provisions IAS 37 / IFRS 2</td>
<td>119</td>
</tr>
<tr>
<td>Financial instruments IAS 39</td>
<td>(675)</td>
</tr>
<tr>
<td>Reported under IFRS</td>
<td>91,725</td>
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</table>
Accounting Policies under IFRS

Accounting Policies

The principal accounting policies to be applied in the preparation of the annual report and financial statements of the Group are described below. These policies will be consistently applied to the years presented.

(a) Basis of preparation

The Group and the Company financial statements and consolidated financial information contained within these financial statements has been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. In publishing the Company financial statements together with those of the Group, the Company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes.

The Group and the Company have applied IFRS for the year ended 30 September 2007 with one year of comparative figures under IFRS as adopted by the EU. Figures presented are in thousands sterling. In preparing these consolidated financial statements, the Group and the Company have elected to take advantage of certain transitional provisions within IFRS 1 ‘First-time adoption of International Financial Reporting Standards’ ("IFRS 1") which offer exemptions from presenting comparative information in accordance with IFRS. The most significant optional exemptions available and taken advantage of by the Company and the Group are as follows:

- IFRS 2 ‘Share Based Payments’ ("IFRS 2"); In accordance with IFRS 1, the new standard has been applied only to share options and equity instruments granted after 7th November 2002 that have not vested by 1st October 2005.

- IAS 21 ‘The Effects of Changes in Foreign Exchange Rates’ ("IAS 21"); In accordance with IFRS 1, cumulative translation differences arising on the Group’s net investment in foreign operations are assumed to be zero at the date of transition.

The financial statements are prepared under the historical cost convention with the exception of financial instruments which are stated in accordance with IAS 39 Financial Instruments: Recognition and Measurement.
Accounting Policies under IFRS (cont’d)

Accounting Policies

- 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 of estimates.

(b) Basis of consolidation

- The Group’s financial statements consolidate the financial statements of the Company and all its subsidiary undertakings. The results of subsidiaries acquired are consolidated from the date on which control passed. Acquisitions are accounted for under the acquisition method. Goodwill represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. If the fair value of the consideration is less than the fair value of identifiable assets and liabilities acquired, the difference is recognised directly in the income statement; goodwill arising prior to 30 September 1998 remains eliminated against reserves. No goodwill has arisen on acquisitions since that date. As permitted by IFRS 1, the Group has chosen not to restate under IFRS, business combinations that took place prior to 1 October 2005, the date of transition to IFRS. All intra-group transactions are eliminated on consolidation.

(c) Revenue Recognition

- The Group follows the principles of IAS 18, ‘Revenue Recognition’, in determining appropriate revenue recognition policies. In principle, therefore, revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

- Revenue comprises institutional commission and net dealing profit or loss, corporate broking retainers, deal fees and placing commissions.

- Institutional commissions are recognised on trade dates. Net institutional trading profit or loss is the realised and unrealised profits and losses from trading investments and short positions on a trade date basis.

- Corporate retainers are recognised on an accruals basis.

- Deal fees and placing commissions are only recognised once there is an absolute contractual entitlement for Numis to receive them.
Accounting Policies under IFRS (cont’d)

Accounting Policies

- **(d) Segment Reporting**
  - Business segments are distinguishable components of the group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and rewards that are different to those of components operating in economic environments. Business segments are the primary reporting segments.

- **(e) Property, plant and equipment**
  - Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation is provided for on a straight line basis at the following rates:
    - Office and computer equipment: 3 years
    - Motor vehicles: 4 years
    - Furniture and fittings: 5 years
    - Leasehold improvements are depreciated on a straight line basis over the term of the lease or estimated useful economic life whichever is the shorter.

- **(f) Intangible assets**
  - Acquired computer software licences are capitalised where it is probable that future economic benefits that are attributable to the asset will flow to the Company or Group and the cost of the assets can be reliably measured. Software is stated at cost, including those costs incurred to bring to use the specific software, less amortisation and provisions for impairment, if any. Costs are amortised on a straight line basis over the estimated useful life of the software.
  - Costs associated with maintaining or developing the software are recognised as an expense when incurred.

- **(g) Impairment of assets**
  - The carrying value of property, plant and equipment and intangibles is reviewed for impairment when events or changes in circumstance indicate the carrying value may be impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss.
Accounting Policies under IFRS (cont’d)

Accounting Policies

- **(h) Investment in associates**

  Associates comprise those undertakings, not being subsidiary undertakings, which carry out related activities and where the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

  In the Group’s financial statements, investments in associated undertakings are accounted for using the equity method. The consolidated income statement includes the Group's share of these associated undertakings' profits less losses and the Group’s share of net assets is shown in the consolidated balance sheet. In the Company's financial statements the investments in associated undertakings are held at cost.

- **(i) Financial assets and liabilities**

  Trading investments and Financial liabilities represent proprietary trading, market making positions and other investments held for resale in the near term and are stated at fair value. Gains and losses arising from the changes in fair value are taken to the income statement.

  Investments in instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted instruments are measured at cost less impairment loss.

  For trading investments and financial liabilities which are quoted in active markets, fair values are determined by reference to the current quoted bid/offer price, with financial assets marked at the bid price and financial liabilities marked at the offer price. Where independent prices are not available, fair values may be determined using valuation techniques with reference to observable market data. These may include comparison to similar instruments where observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Where there is no active market and the range of reasonable fair values is significant and cannot be made reliably then such positions are held at cost less impairment loss.

  The Group makes an assessment at each balance sheet date as to whether there is any objective evidence of impairment, being any circumstance where an adverse impact on estimated future cash flows of the financial asset or group of assets can be reliably estimated.
Accounting Policies under IFRS (cont’d)

Accounting Policies

(j) Derivatives

The Group utilises forward exchange contracts to manage the exchange risk on actual transactions related to amounts receivable, denominated in a currency other than the functional currency of the business. The Group has not sought to apply the hedging requirements of IAS 39. The Group’s forward exchange contracts do not subject the Group to risk from exchange rate movements because the gains and losses on such contracts offset losses and gains, respectively, on the underlying foreign currency transactions to which they relate. The forward contracts and related amounts receivable are recorded at fair value at each period end. Fair value is estimated using the settlement rates prevailing at the period end. All gains and losses resulting from the settlement of the contracts are recorded within Finance Costs in the income statement. The Group does not enter into forward exchange contracts for the purpose of hedging anticipated transactions.

Equity options and warrants are initially accounted for and measured at fair value on the date the Company or Group becomes a party to the contractual provisions of the derivative contract and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement within net trading income. Fair values are obtained from quoted prices prevailing in active markets, including recent market transactions and valuation techniques including discounted cash flow models and option pricing models as appropriate. All derivatives are included in assets when their fair value is positive and liabilities when their fair value is negative.

(k) Deferred Tax

Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.
Accounting Policies under IFRS (cont’d)

Accounting Policies

- **(l)** *Pledged Assets*
  - The Group enters stock borrowing arrangements with certain institutions which are entered into on a collateralised basis with securities or cash advanced or received as collateral. Under such arrangements a security is purchased with a commitment to return it at a future date at an agreed price. The securities purchased are not recognised on the balance sheet and the transaction is treated as a secured loan made for the purchase price. Where cash has been used to effect the purchase, the purchase is recorded as a pledged asset on the balance sheet. Where assets have been pledged as security these remain within trading investments and the value of security pledged disclosed separately accept in the case of short-term highly liquid assets with an original maturity of 3 months or less which are reported within cash and cash equivalents the value of security pledged disclosed separately

- **(m)** *Trade and other receivables*
  - Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
  - Client, broker and other counterparty balances represent unsettled sold securities transactions and are recognised on a trade date basis. All such balances are shown gross.

- **(n)** *Trade and other payables*
  - Trade and other payables are stated at their nominal value. The Group accrues for all goods and services consumed but as yet unbilled at amounts representing management’s best estimate of fair value.
  - Client, broker and other counterparty balances represent unsettled purchased securities transactions and are recognised on a trade date basis. All balances are shown gross.

- **(o)** *Cash and cash equivalents*
  - Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with an original maturity of 3 months or less.
Accounting Policies under IFRS (cont’d)

Accounting Policies

- **(p) Provisions**
  - Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation and it can be reliably estimated. Provisions believed to relate to periods greater than twelve months are discounted to the net present value using an effective discount rate that reliably calculates the present value of the future obligation.

- Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the financial statements; however they are disclosed unless their likely occurrence is remote.

- **(q) Clients’ deposits**
  - All money held on behalf of clients has been excluded from the balances of cash at bank and in hand and amounts due to clients, brokers and other counterparties. Client money is not held directly, but is placed on deposit in segregated designated accounts with a bank.

- **(r) Pension costs**
  - The Group has a Group Personal Pension Plan and death in service benefits that are available to full-time employees of the Group over the age of 18 who have served the Group for at least 3 months. The plan is a defined contribution scheme; costs of the scheme are charged to the income statement in the year in which they arise.

- **(s) Operating leases**
  - Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term even if the payments are not made on such a basis. Lease incentive received are recognised in the income statement as an integral part of the total lease expense.
Accounting Policies under IFRS (cont’d)

Accounting Policies

- **(t) Foreign currencies**
  - In individual entities, transactions denominated in foreign currencies are translated into the functional currency 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 rates prevailing on the balance sheet date. Exchange differences are taken to the income statement, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are taken directly to reserves. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.
  - On consolidation, the results of overseas businesses are translated into the presentational currency of the group at the average exchange rates for the period where these approximate to the rate at the date of transaction. Assets and liabilities of overseas businesses are translated into the presentational currency of the Group at the exchange rate prevailing at the balance sheet date. Exchange differences arising are classified as a separate component within equity. Cumulative translation differences arising after the transition to IFRS are taken to the income statement on disposal of the net investment.
  - In the cash flow statement, cash flows denominated in foreign currencies are translated into the presentational currency of the Group at the average exchange rate for the year.

- **(u) Taxation**
  - Taxation on the profit for the year comprises both current and deferred tax as well as adjustments in respect of prior years. Taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also included within equity.
  - Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted, or substantially enacted by the balance sheet date.
Accounting Policies under IFRS (cont’d)

Accounting Policies

v) Employee share ownership plans

The Group has two Employee Share Ownership Plans (“ESOP”) providing an equity share incentive scheme for UK and US employees respectively. The UK ESOP encompasses a Long Term Incentive Plan (“LTIP”), and discretionary option awards. The US Restricted Share Plan (“USRSP”) mirrors the terms of the LTIP. An ESOP Trust established by the Company acquires ordinary shares in the Company to be held on trust for the benefit of, and ultimately distributed to, employees either on the exercise of share options or other remuneration arrangements.

In the case of equity settled awards, the cost of share awards made under employee share ownership plans, as measured by the fair value of awards at the date of granting, are taken to the income statement over the vesting period (if any), and disclosed under staff costs with a corresponding increase in equity. No expense is recognised in respect of option awards granted before 7th November 2002 or which have vested before 1st October 2005.

In the case of cash settled awards, the cost of share awards made under employee share ownership plans, as measured by the fair value of awards at the date of granting, are taken to the income statement over the vesting period with a corresponding increase in provisions representing the cash obligation. At each subsequent accounting date the fair value of the obligation is re-assessed with reference to the underlying share price and the provision adjusted accordingly.

The cost of shares acquired by the ESOP trust are deducted as an adjustment to equity. Gains and losses arising on ESOP related transactions are taken directly to equity.

(w) Dividends

Dividends payable are recognised when the dividend is paid or approved by shareholders.