

ITEM 7 – TAXATION

The taxation discussion set forth below is intended only as a summary of the principal US Federal income tax and UK tax consequences to beneficial owners of ADSs who are either resident in the United States or who hold Ordinary Shares or ADSs as assets effectively connected with a US trade or business (“US Holders”) and does not purport to be a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of Ordinary Shares or ADSs. Investors are advised to consult their tax advisers with respect to the tax consequences of their holdings, including the consequences under applicable state and local law. The statements of UK and US tax laws and practices set out below are based on the laws in force and as interpreted by the relevant taxation authorities as of the date of this Annual Report on Form 20-F. The statements are subject to any changes occurring after that date in UK or US law or practice, in the interpretation thereof by the relevant taxation authorities, or in any double taxation convention between the United States and the United Kingdom.

In particular, this discussion is based on current convention between the United States and the United Kingdom for the avoidance of double taxation with respect to taxes on income and capital gains (the “Treaty”) and the US Internal Revenue Code of 1986, as amended (the “Code”).

United States Tax Consequences of the Ownership of Ordinary Shares and ADSs

In general for US federal income tax purposes, US Holders of ADSs will be treated as the owners of the underlying Ordinary Shares that are represented by such ADSs. Deposits or withdrawals of Ordinary Shares by US Holders in exchange for ADSs will not be subject to US federal income tax.

Taxation of Distributions

To the extent paid out of current or accumulated earnings and profits of the company, as determined under US federal income tax principles (“EP”), a distribution made with respect to Ordinary Shares or ADSs (including the amount of any Treaty Payment, and any UK Withholding Tax (both as defined below)) will be includable for US federal income tax purposes in the income of a US Holder as ordinary dividend income on the day received by the US Holder, in the case of Ordinary Shares, or on the day received by the Depository, in the case of ADSs. To the extent that such distribution exceeds the EP of the company, it will be treated as a non-taxable return of capital to the extent of the US Holder’s adjusted tax basis in the Ordinary Shares or ADSs and thereafter as taxable capital gain. Dividends paid by the company will not be eligible for the dividends received deduction allowed to corporations under Section 243 of the Code. The amount of any dividend paid in pounds sterling will equal the US dollar value of the pounds sterling received calculated by reference to the exchange rate in effect on the date the dividend is received by the US Holder, in the case of Ordinary Shares, or by the Depository, in the case of ADSs, regardless of whether the pounds sterling are converted into US dollars. If the pounds sterling received as a dividend are not converted into US dollars on the date of receipt, a US Holder will have a basis in the pounds sterling equal to their US dollar value on the date of receipt. Any gain or loss realised on a subsequent conversion or other disposition of the pounds sterling will be treated as ordinary income or loss.

US Credit for UK Taxes Withheld

Subject to certain conditions and limitations set forth in the Code, US Holders generally may elect to claim a credit, against their US federal income tax liability, for UK Withholding Tax (as defined below) deducted from dividends received in respect of Ordinary Shares or ADSs. For purposes of calculating the foreign tax credit, dividends paid on the Ordinary Shares or ADS, will be treated as income from sources outside the United States and will generally constitute “passive income”. The rules relating to the determination of the foreign tax credit are complex and US Holders should consult their tax advisers to determine whether and to what extent a credit would be available. US Holders that do not elect to claim a foreign tax credit may instead claim a deduction for all foreign taxes paid in the taxable year.

Taxation of Capital Gains

Upon the sale or other disposition of Ordinary Shares or ADSs, a US Holder will recognise gain or loss for US federal income tax purposes in an amount equal to the difference between the amount realised in consideration for the disposition of the Ordinary Shares or ADSs and the US Holder’s adjusted tax basis in the Ordinary Shares or ADSs. Such gain or loss generally will be subject to US federal income tax and will be treated as long-term capital gain or loss if the Ordinary Shares or ADSs have been held for more than one year. For US federal income tax purposes, capital losses are subject to limitations on deductibility. Gain realised by a US Holder on the sale or other disposition of Ordinary Shares or ADSs generally will be treated as income from sources within the United

States for purposes of the foreign tax credit limitation, unless the gain is attributable to an office or fixed place of business maintained by the US Holder outside the United States and certain other conditions are met. It is currently unclear whether any loss realised by a US Holder will be treated as from sources within the US or without the US for purposes of the foreign tax credit limitation. Under proposed Treasury Regulations not currently in effect, the losses may be treated as from sources without the US.

US Information Reporting and Backup Withholding

Payments made in respect of Ordinary Shares or ADSs may be subject to information reporting and a 31% US backup withholding tax. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. Generally, a US Holder may provide such certification on Form W-9 (Request for Taxpayer Identification Number and Certification). Backup withholding is not an additional tax and may be claimed as a credit against the US federal income tax liability of a US stockholder or refunded, provided that the required information is furnished to the US Internal Revenue Service. Finalised Treasury Regulations have generally expanded the circumstances under which information reporting and backup withholding may apply for payments made after 31 December 1999. Holders of Ordinary Shares or ADSs should consult their tax advisers regarding the application of the information reporting and backup reporting rules, including the finalised Treasury Regulations.

United Kingdom Tax Consequences of the Ownership of Ordinary Shares and ADSs

Taxation of Distributions

The tax treatment of dividends paid in respect of the Ordinary Shares and ADSs will depend upon the UK law and practice in force at the time dividends are paid. The following summary is based upon current UK law and practice, including the Treaty and the United Kingdom-United States Estate and Gift Tax Convention (the “Estate Tax Treaty”), which may change. The summary of UK tax matters below does not address the tax consequences for US Holders that are resident (or, in the case of individuals ordinarily resident) in the UK for UK tax purposes or for the purposes of the Treaty or that are corporations which, alone or together with one or more associated companies, control directly or indirectly 10% or more of the voting stock or power of the company. For the purposes of the Treaty, US Holders of ADSs will be treated as owners of the Ordinary Shares underlying the ADSs.

The UK Finance Act 1994 contained provisions allowing companies to elect to pay a cash dividend as a foreign income dividend (“FID”) to which special rules apply and, in particular, which does not carry any tax credit. As the company has no present intention of electing to pay any dividends under the FID scheme, this summary does not address dividends paid under that scheme.

Under current laws, an Eligible US Holder (as defined below) who receives as beneficial owner a dividend from the company will generally be entitled under the Treaty to receive from the UK Inland Revenue, in respect of a cash dividend, a payment (a “Treaty Payment”) equal to the amount (currently 25% of the dividend) of the tax credit to which an individual resident in the UK for tax purposes would have been entitled had he received the dividend (the “Tax Credit Amount”), reduced by an amount (referred to herein as a “UK Withholding Tax”) equal to a percentage (currently 15%) of the sum of the dividend payment and the Tax Credit Amount. For example, at current rates, an Eligible US Holder that received a dividend payment of £80 from the company would be entitled to a Treaty Payment of £5 (i.e., the Tax Credit Amount of £20 reduced by 15% of the sum of the dividend and the Tax Credit Amount, i.e. £15) resulting in a total receipt (before applicable US taxes) of £85.

For the purposes of this Form 20-F, the term “Eligible US Holder” means a US person that is a beneficial owner of Ordinary Shares or ADSs and of the cash dividend paid with respect thereto and that (i) is an individual, a corporation, a partnership, a trust or an estate resident in the US for purposes of the Treaty (and, in the case of a corporation, is not also resident in the UK for UK tax purposes), (ii) is not a corporation which, alone or together with one or more associated corporations, controls, directly or indirectly, 10% or more of the voting stock of the company, (iii) holds the Ordinary Shares or ADSs in a manner which is not effectively connected with a permanent establishment in the UK through which such US person carries on business or with a fixed base in the UK from which such person performs independent personal services, and (iv) under certain circumstances is not an investment or holding company, 25% or more of the share capital of which is owned, directly or indirectly, by one or more persons that are not individuals resident in and are not nationals of the United States. Special rules apply if the Eligible US Holder is (i) exempt from tax in the United States on dividends paid by the company or (ii) is the owner of at least 10% of the class of shares of the company in respect of which the dividend is paid. A US person that is a partnership, trust or estate may be entitled under the Treaty to receive a Treaty Payment in

respect of a cash dividend paid by the company, but only to the extent that the dividend income derived by such US person is taxable in the United States as the income of a US resident in the hands of such US person or of its partners or beneficiaries, as the case may be, and, further, if a US trust or estate is also a resident of the UK for the purposes of the Treaty, the Treaty Payment may not be available under the Treaty.

The company has entered into certain arrangements (known as the “H” arrangements) with the UK Inland Revenue under which the Treaty Payment may (subject to certain exceptions) be paid by the company to an Eligible US Holder of ADSs together with and at the same time as the cash dividend in respect of the ADSs. These arrangements generally apply to Eligible US Holders of ADSs other than (i) an individual resident in the United States and also resident in the UK, (ii) estates or trusts any of the beneficiaries of which are not resident in the United States, (iii) persons exempt from US federal income tax with respect to cash dividends paid on the ADSs (other than certain pension funds), (iv) investment or holding companies, 25% or more of the capital of which is owned directly or indirectly by persons who are not individuals resident in, and are not nationals of, the United States and (v) any person beneficially owning 10% or more of the class of shares in respect of which the dividend is paid. The operation of these arrangements will depend upon whether an Eligible US Holder holds ADSs through a broker participating in The Depository Trust Company (“DTC”). Where an Eligible US Holder that is entitled to the benefits of these arrangements does not hold its ADSs through a broker participating in DTC, the registered holder will be required to complete a declaration on the back of the dividend cheque confirming the Eligible US Holder’s entitlement to the Treaty Payment and present the cheque for payment within three months of its date of issue. Where an Eligible US Holder that is entitled to the benefit of these arrangements holds its ADSs through DTC, a declaration as to the conditions entitling the Eligible US Holder to the Treaty Payment must be completed by the broker-dealer or bank-member of DTC which holds the ADSs on behalf of the Eligible US Holder. The “H” arrangements apply at the discretion of the UK Inland Revenue and can be amended or terminated at any time.

The company has also entered into other arrangements (known as “G” arrangements) with the UK Inland Revenue by virtue of which the Treaty Payment may (subject to certain exceptions) be paid by the company together with and at the same time as the associated dividend to an Eligible US Holder of Ordinary Shares provided that he has his Ordinary Shares registered in the name of a nominee approved by the UK Inland Revenue who is prepared to cooperate with the operation of the arrangements and file a general undertaking with the UK Inland Revenue. An Eligible US Holder must provide the name of his or her nominee in order to participate in this arrangement. The Eligible US Holder (if an individual) must: (a) be resident in the United States and not in the UK; (b) not retain the use of any accommodation in the UK; (c) not during the last four years have been in the UK for as much as three months a year on average; (d) not be in the UK for a period or periods amounting in all to six months in the UK income tax year for which the claim on his behalf relates; (e) not have been absent from the United States for a complete US tax year in any of the last four years; (f) not have a permanent establishment in the UK; (g) not perform professional or personal services from a fixed base in the UK; and (h) not own 10% or more of the class of shares in respect of which the dividend was paid. If the Eligible US Holder is a company it must: (a) be managed and controlled in the United States; (b) not have a permanent establishment in the UK; (c) be liable to federal income tax on the dividends; (d) have at least 75% of its capital owned directly or indirectly by persons who are US residents; and (e) not own 10% or more of the class of shares in respect of which the dividend is paid. These arrangements will be extended to trusts, estates in the course of administration, pension funds, foundations, charities, US Mutual Funds/Collective Funds/Pension Trusts and similar bodies only with the prior approval of the UK Inland Revenue and subject to certain additional conditions. These arrangements can be terminated without notice by the UK Inland Revenue.

An Eligible US Holder who does not come within these “H” or “G” arrangements entered into by the company should claim the Treaty Payment to which he is entitled directly from the UK Inland Revenue with respect to any dividends paid to him, in the manner and at the time described in I.R.S. Revenue Procedure 80-18, 1980-1 C.B. 623 and I.R.S. Revenue Procedure 81-58, 1981-2 C.B. 678, summarised below. Claims for payment must be made within six years of the end of the UK year of assessment (generally, the 12-month period ending April 5 in each year) in which the related dividend was paid. The first such claim by an Eligible US Holder for payment under these procedures is made by sending the appropriate UK forms in duplicate to the Director of the US Internal Revenue Service Center with which the Eligible US Holder’s last federal income tax return was filed. If the Eligible US Holder qualifies as a US resident, the Internal Revenue Service will certify the form to that effect and forward it to the UK Inland Revenue. Forms may be obtained by writing to the US Internal Revenue Service, Assistant Commissioner International, 950, L’Enfant Plaza South, S.W., Washington, D.C. 20024, Attention: Taxpayers Service Division. Because a refund claim is not considered made until the UK tax authorities receive the appropriate form from the Internal Revenue Service, forms should be sent to the Internal

Revenue Service well before the end of the applicable limitation period. Any claim under these procedures after the first claim should be filed directly with the UK Financial Intermediaries and Claims Office (International), Fitzroy House, P.O. Box 46, Castle Meadow Road, Nottingham NG2 1BD, England.

Under Section 812 of the Income and Corporation Taxes Act 1988, the HM Treasury has power in certain circumstances to deny a Treaty Payment to a US corporate shareholder of a UK company if it or an associated company has a qualifying presence in a country which operates a unitary system of corporate taxation. These provisions come into force only if the HM Treasury so determines by statutory instrument, and no such instrument has yet been made.

Legislation was introduced in the UK Finance Act 1997 which affects the tax treatment of, amongst other things, share buy-backs made and certain transactions in securities ("Special Dividends") paid after 7 October 1996. The effect of the legislation, broadly, is to deny any refundable tax credit in respect of share buybacks or Special Dividends. There would therefore be no Treaty Payment. The legislation will not apply to normal dividends paid by the company and did not apply to the special dividend paid by the company in September 1997. The UK Finance Act (No. 2) 1997 provides for this legislation to be repealed with respect to distributions made on or after 6 April 1999.

On 2 July 1997, HM Government announced tax changes which affect the tax credit system on UK dividends. The proposed changes described became law on 31 July 1997. Where a dividend is paid on or after 2 July 1997, pension providers and most UK corporate shareholders (including authorised unit trusts) are no longer entitled to repayments of tax credits attaching to the dividends.

From April 1999 changes to the tax credit regime will affect other shareholders and the rate of tax credits will be reduced to 10% (currently 20%) of the net dividend plus the tax credit. Shareholders with no tax liability will no longer be able to claim repayments of tax credits. Individuals who are UK basic or lower rate tax payers will be subject to 10% tax on dividend income from April 1999. The UK higher rate of tax on dividends will be reduced to 32.5% from April 1999. This will compensate higher rate tax payers for the reduction in the rate of tax credits.

The changes to the tax credit regime from April 1999 will also affect US Holders, since the Treaty provides that the Treaty Payment is available to US Eligible Holders only to the extent that a tax credit is available to UK individual shareholders. As a result of the relationship between the UK Withholding Tax and the Treaty Payment computation under the Treaty, it is expected that US Holders will not be entitled to receive any net Treaty Payment in respect of dividends paid after April 1999. On the other hand, the UK Withholding Tax payable is limited to the amount of the Treaty Payment as computed under the Treaty, so that the UK tax burden on an Eligible US Holder will be reduced along with the UK tax credit amount. The net result of these changes is expected to be a decline of approximately 6% in the net amount received by Eligible US Holders after UK taxes but before consideration of any US tax effect. The US tax situation of each US Eligible Holder will depend upon circumstances that are particular to each such shareholder, and persons are advised to consult their individual tax advisers in this regard.

Taxation of Capital Gains

A US person who is not resident or ordinarily resident for tax purposes in the UK will not normally be liable for UK tax on capital gains realised on the disposal of his Ordinary Shares ADSs unless at the time of the disposal, such US person carries on a trade (which for this purpose includes a profession or vocation) in the UK through a branch or agency and such Ordinary Shares or ADSs are or have been used, held or acquired for the purposes of such trade or branch or agency.

Inheritance and Gift Taxes

Ordinary Shares and ADSs are assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the holder is neither domiciled in the UK nor deemed to be domiciled there under special rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements holding Ordinary Shares or ADSs, bringing them within the charge to inheritance tax. An individual who is domiciled in the United States for the purposes of the Estate Tax Treaty and who is not a national of the UK for the purposes of the Estate Tax Treaty will generally not be subject to UK inheritance tax in respect of the Ordinary Shares or ADSs on the individual's death or on a gift of the Ordinary Shares or ADSs during the individual's lifetime, provided that any applicable US federal gift or estate tax liability is paid, unless

the Ordinary Shares or ADSs are part of the business property of a permanent establishment of an enterprise of the individual in the UK or pertain to a fixed base in the UK of the individual used for the performance of independent personal services. Where the Ordinary Shares or ADSs have been placed in trust by a settlor who, at the time of settlement, was a US Holder, the Ordinary Shares or ADSs will generally not be subject to UK inheritance tax if the settlor, at the time of settlement, was domiciled in the United States for the purposes of the Estate Tax Treaty and was not a UK national (provided that the Ordinary Shares or ADSs are not part of the business property of a permanent establishment in the UK and do not pertain to a fixed base in the UK, as more fully summarised above). In the exceptional case where the Ordinary Shares or ADSs are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Treaty generally provides for the tax paid in the UK to be credited against tax payable in the United States or for tax paid in the United States to be credited against tax payable in the UK based on priority rules set out in the Estate Tax Treaty.

UK Stamp Duty and Stamp Duty Reserve Tax

A transfer for value of the Ordinary Shares will generally be subject to UK ad valorem stamp duty or to UK stamp duty reserve tax (“SDRT”). Stamp duty and SDRT are normally a liability of the purchaser.

No UK stamp duty will be payable on the acquisition or transfer of ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer remains at all times outside the UK, and provided further that any instrument of transfer or written agreement to transfer is not executed in the UK and the transfer does not relate to any matter or thing done or to be done in the UK. An agreement for the transfer of ADSs or beneficial ownership of ADSs will not give rise to a liability to SDRT.

Any transfer for value of the underlying Ordinary Shares represented by ADSs, may give rise to a liability to UK stamp duty or SDRT. The amount of UK stamp duty or SDRT payable is generally calculated at the applicable rate on the consideration for the transfer of the Ordinary Shares at the rate of 50p per £100 (or part thereof) in the case of stamp duty, or in the case of SDRT, at the rate of 0.5%, in either case of the amount or value of the consideration. On a transfer of Ordinary Shares from the Custodian of the Depository to a holder of an ADS upon cancellation of the ADS, only a fixed UK stamp duty of 50p per instrument of transfer will be payable.