

THE TAKEOVER PANEL
REPORT AND ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2006

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PANEL MEMBERS AND EXECUTIVE

AS AT 12 JULY 2006

CHAIRMAN AND DEPUTY CHAIRMEN

☆†ANTHONY R BEEVOR FORMER SENIOR ADVISER, INVESTMENT BANKING, SOCIETE GENERALE	DEPUTY CHAIRMAN Appointed by the Panel	☆PETER SCOTT QC CHAIRMAN Appointed by the Panel	JOHN L WALKER-HAWORTH MANAGING DIRECTOR, INTEGRATED FINANCE	DEPUTY CHAIRMAN Appointed by the Panel
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All members of the Panel are designated to act as a member of either the Hearings Committee or the Code Committee.

THE HEARINGS COMMITTEE

In addition to the Chairman and the Deputy Chairmen, the membership of the Hearings Committee is as follows:

ANTHONY P HICHENS CHAIRMAN, D S SMITH	Appointed by the Panel	MICHAEL J OLIVER COMPANY SECRETARY, BOOTS GROUP	Appointed by the Confederation of British Industry
☆SIR DAVID LEES CHAIRMAN, TATE & LYLE	Appointed by the Panel	J IAN MORRIS PARTNER, MORRIS & CO	Appointed by the Institute of Chartered Accountants in England and Wales
LORD MORRIS OF HANDSWORTH FORMER GENERAL SECRETARY, THE TRANSPORT AND GENERAL WORKERS UNION	Appointed by the Panel	SIMON DAVIES CHIEF EXECUTIVE, THREADNEEDLE ASSET MANAGEMENT	Appointed by the Investment Management Association
SIR IAN ROBINSON CHAIRMAN, LADBROKES	Appointed by the Panel	†DAVID J CHALLEN VICE CHAIRMAN, EUROPEAN INVESTMENT BANK, CITIGROUP	Appointed by the London Investment Banking Association
KEITH SATCHELL GROUP CHIEF EXECUTIVE, FRIENDS PROVIDENT	Appointed by the Association of British Insurers	CHARLES G WILKINSON MANAGING DIRECTOR, DEUTSCHE BANK	Appointed by the London Investment Banking Association representing its Corporate Finance Committee
HAMISH BUCHAN CHAIRMAN, JP MORGAN AMERICAN INVESTMENT TRUST	Appointed by the Association of Investment Trust Companies	☆ALAN C D YARROW VICE CHAIRMAN, DRESDNER KLEINWORT WASSERSTEIN	Appointed by the London Investment Banking Association representing its Securities Trading Committee
†G MARK POWELL CHAIRMAN, RATHBONE INVESTMENT MANAGEMENT	Appointed by the Association of Private Client Investment Managers and Stockbrokers	DAVID G MORGAN CHIEF EXECUTIVE, COAL PENSION TRUSTEES SERVICES	Appointed by the National Association of Pension Funds Investment Council
SIR PETER MIDDLETON FORMER CHAIRMAN, BARCLAYS GROUP	Appointed by the British Bankers' Association		

Sir Brian Stewart, Chairman of Scottish & Newcastle, and J Martin Taylor, Chairman of Syngenta, have been appointed by the Panel to serve as alternates for Antony Hichens, Sir David Lees and Sir Ian Robinson. Alternates for those members appointed by the major financial and business institutions are listed on the Panel's website.

THE CODE COMMITTEE

The membership of the Code Committee is as follows:

DONALD BRYDON DIRECTOR, AXA INVESTMENT MANAGERS	Chairman Appointed by the Panel	☆ALAN D PAUL PARTNER, ALLEN & OVERY	Appointed by the Panel
JAMES AGNEW MANAGING DIRECTOR, CHAIRMAN OF UK CORPORATE BROKING, DEUTSCHE BANK	Appointed by the Panel	THOMAS M ROSS DIRECTOR, ROYAL LONDON MUTUAL INSURANCE SOCIETY	Appointed by the Panel
CHRIS CHEETHAM GLOBAL CHIEF INVESTMENT OFFICER, HSBC HALBIS PARTNERS	Appointed by the Panel	CHRISTOPHER SMITH MANAGING DIRECTOR, CORPORATE FINANCE, JPMORGAN CAZENOVE	Appointed by the Panel
JOHN D COOMBE FORMER CHIEF FINANCIAL OFFICER, GLAXOSMITHKLINE	Appointed by the Panel	ANDREW JM SPOKES PARTNER, NOONDAY ASSET MANAGEMENT	Appointed by the Panel
HEYDAR KAHNAMOUYIPOUR FORMER MANAGING DIRECTOR, UBS INVESTMENT BANK	Appointed by the Panel	LINDSAY P TOMLINSON VICE CHAIRMAN, EUROPE, BARCLAYS GLOBAL INVESTORS	Appointed by the Panel

☆ Nomination Committee Member

† Remuneration Committee Member

THE PANEL EXECUTIVE

*MARK F WARHAM MORGAN STANLEY	DIRECTOR GENERAL
NOEL P HINTON	DEPUTY DIRECTOR GENERAL
ANTHONY G B PULLINGER	DEPUTY DIRECTOR GENERAL
CHARLES M CRAWSHAY	ASSISTANT DIRECTOR GENERAL
*DAVID G WATKINS SLAUGHTER AND MAY	SECRETARY
*DHIPIKA SHAH MERRILL LYNCH	ASSISTANT SECRETARY
*SUZANNE E CHAMBERS BDO STOY HAYWARD	ASSISTANT SECRETARY
*DAVID A JONES ASHURST	ASSISTANT SECRETARY
*DAVID W BAXTER KPMG	ASSISTANT SECRETARY
*CHRISTIAN J HUNT DEUTSCHE BANK	ASSISTANT SECRETARY
*NICK J IVEY HAMMONDS	ASSISTANT SECRETARY
*CHRISTOPHER P HOUGHTON PRICEWATERHOUSECOOPERS	ASSISTANT SECRETARY
JANE M TAYLOR	MANAGER, SUPPORT GROUP
LEE M MANN	MANAGER, MARKET SURVEILLANCE UNIT
CRAIG G ANDREWS	DEPUTY MANAGER, MARKET SURVEILLANCE UNIT
SUSAN POWELL	MANAGER, EXEMPT GROUPS UNIT
NADIR M DOCTOR	EXEMPT GROUPS UNIT
BARBARA A MUSTON	CODE REVISION
ANTONIA F STEWART	CODE REVISION
JOHN A DOVEY	CODE REVISION

*SECONDED

INTRODUCTION TO THE TAKEOVER PANEL

The Panel is an independent body whose main functions are to issue and administer the Takeover Code (the “Code”) and to supervise and regulate takeovers and other matters to which the Code applies in accordance with the rules set out in the Code.

The Code is designed principally to ensure that shareholders are treated fairly and are not denied an opportunity to decide on the merits of a takeover and that shareholders of the same class are afforded equivalent treatment by an offeror. The Code also provides an orderly framework within which takeovers are conducted. In addition, it is designed to promote, in conjunction with other regulatory regimes, the integrity of the financial markets.

The Code is not concerned with the financial or commercial advantages or disadvantages of a takeover. These are matters for the company and its shareholders. Nor is the Code concerned with those issues, such as competition policy, which are the responsibility of government and other bodies.

The Panel was set up as a non-statutory body in 1968, since when its composition and powers have evolved over the years as circumstances have changed. On 20 May 2006, the Panel was designated by the Secretary of State for Trade and Industry as the supervisory authority to carry out certain regulatory functions in relation to takeovers pursuant to the Directive on Takeover Bids (2004/25/EC). Its Directive functions are set out in and under The Takeovers Directive (Interim Implementation) Regulations 2006 (the “Regulations”). The Regulations have temporary effect pending the completion of the Parliamentary process and entry into force of the Company Law Reform Bill, which will set out the Panel’s full statutory functions.

The essential characteristics of the Panel system are flexibility, certainty and speed, enabling parties to know where they stand under the Code in a timely fashion. These characteristics are important in order to avoid over-rigid rules and the risk of takeovers becoming delayed by litigation of a tactical nature, which may frustrate the ability of shareholders to decide the outcome of an offer.

It is the Panel’s practice to focus on the specific consequences of rule breaches, rather than simply on disciplinary action, with the aim of providing appropriate redress. If the Panel finds there has been a breach, it may have recourse to private censure, to public censure, to suspension or withdrawal of any exemption, approval or other special status granted by the Panel (or to the imposition of conditions in relation to the grant), or to reporting the offender’s conduct to another regulatory authority (for example, the Department of Trade and Industry or the Financial Services Authority) or professional body, as it thinks fit. The Panel can also implement cold-shouldering procedures such that, in certain circumstances, persons authorised by the Financial Services Authority or certain other professional bodies will not be permitted to act for the individual in question in a transaction subject to the Code.

Under the Regulations, in the case of a transaction and rule subject to the requirements of the Directive, the Panel also has powers to require documents and information, to make compensation rulings in certain circumstances, and to seek enforcement of its rulings through the courts.

THE PANEL

The Chairman, the Deputy Chairmen and up to 20 independent members are appointed by the Panel. In addition, 11 members are nominated by major financial and business institutions thus ensuring a spread of expertise in takeovers, securities markets, industry and commerce.

Each member of the Panel is designated on appointment to act as a member of either the Panel's Hearings Committee or its Code Committee. Of the possible 20 independent members appointed by the Panel, up to eight may be designated as members of the Hearings Committee and up to 12 as members of the Code Committee. All of the members nominated by the major financial and business institutions are members of the Hearings Committee.

No person who is or has been a member of the Code Committee may be a member of the Hearings Committee.

THE HEARINGS COMMITTEE

The principal function of the Hearings Committee is to review rulings of the Executive. It also hears disputed disciplinary cases. The Hearings Committee can be convened at short notice, where appropriate.

THE CODE COMMITTEE

The Code Committee carries out the rule-making functions of the Panel and is solely responsible for keeping under review and, where appropriate, proposing, consulting upon and making and issuing amendments to the substantive provisions (in the Introduction, the General Principles and Rules) of the Code and the Rules of Procedure of the Hearings Committee.

THE EXECUTIVE

The Executive is headed by the Director General, usually an investment banker on secondment. Some of the Executive are permanent, providing an essential element of continuity. They are joined by lawyers, accountants, stockbrokers, investment bankers and others on two-year secondments.

The day-to-day work of takeover supervision and regulation is carried out by the Executive. In carrying out these functions, the Executive operates independently of the Panel. This includes, either on its own initiative or at the instigation of third parties, the conduct of investigations, the monitoring of relevant dealings in connection with the Code and the giving of rulings on the interpretation, application or effect of the Code. The Executive is available both for consultation and also the giving of rulings on the interpretation, application or effect of the Code before, during and, where appropriate, after takeovers or other relevant transactions. The Panel encourages, and in some cases requires, early consultation so that problems can be avoided; a major part of the Executive's role is to provide guidance.

Further information on the Panel is available on its website at www.thetakeoverpanel.org.uk.

CHAIRMAN'S STATEMENT

There has been a significant increase in activity this year such that the Executive has dealt with 151 takeover proposals compared with 114 in the previous 12 months. As yet, it is unclear whether this level will continue throughout the present year.

In every Annual Report issued while I have been Chairman, it has been necessary to comment on the Takeovers Directive. This year is no exception. The Panel has always been concerned that the legislation should aim at preserving the independence of the Panel as well as the strengths of the current system. The relevant clauses in the Company Law Reform Bill are intended to achieve both of these objectives and I thank the Department of Trade and Industry for the manner in which they have approached implementation of the Directive. However, the Bill has not yet completed its passage through Parliament and, accordingly, to comply with the timing requirements imposed by the European Commission for implementation, the Government introduced Interim Regulations under the European Communities Act 1972 on 20 May. The Panel remains an independent body but it now carries out certain regulatory functions pursuant to the Interim Regulations. Pending the Bill being enacted these functions apply only to transactions and rules covered by the Directive.

I would like to express the Panel's thanks to Richard Murley, whose term as Director General ended last November. Originally, Richard was to leave in April 2005 but, as the discussions on the implementation of the Directive were at a critical stage, he agreed to stay on for a further period. The Panel is grateful to Richard, not only for his outstanding efforts on the Directive, but also for his leadership of the Executive during a period when a number of other significant issues were also being debated.

I am delighted to welcome Mark Warham from Morgan Stanley as Richard's replacement. Mark has had considerable experience in the takeover arena and I am very pleased that both he and his employers felt he should take the opportunity to be appointed Director General of the Panel. Indeed, the Panel, throughout its existence, has been fortunate in the calibre of secondees who have come to spend, usually, two years with the Executive. Their contribution to the work and success of the Panel is vital. I am sure that the individuals and the seconding firms derive no small benefit from the experience and I am pleased that leading firms remain keen to send outstanding staff to work with the Executive.

Material amendments and additions have been made to the Code in recent months. For example, the Code Committee's conclusions on the complex questions relating to disclosure have extended the dealing disclosure requirements to cover derivatives and options and this has been well received. I shall leave Donald Brydon to comment more fully on the work of the Code Committee but I am indebted to him for the amount of hard work he and the Committee put into ensuring the Code responds to developments in the securities industry. At this point, I must regrettably add that Donald, who has been Chairman of the Code Committee since its establishment in 2001, has decided that the time

has come to stand down. He has been an outstanding Chairman who has steered the Committee through a considerable number of complex issues, with his trademark good humour and intellectual precision. We shall certainly miss him but are delighted to welcome Lindsay Tomlinson in his place.

It is also with regret that I report, first, that John Walker-Haworth, who was appointed Deputy Chairman in 1997, having been Director General from 1985 to 1987, has decided to relinquish the post shortly and, secondly, that Sir Andrew Leggatt, Chairman of the Appeal Committee since 2001 and of the Takeover Appeal Board since 20 May, has informed the Panel that he wishes to resign with effect from September. We are sad to see them go and thank them for their contribution to the success of the Panel. In their places we welcome as Deputy Chairman David Challen, who has represented LIBA on the Panel for a number of years, and as Chairman of the Takeover Appeal Board Lord Steyn.

Sadly, I must also report the death of Lord Alexander of Weedon QC who was Chairman of the Panel from 1987 to 1989. Bob's first experience of the Panel was when he acted for it in the important Datafin case and the Panel was so impressed that he was subsequently appointed as Chairman. He was a great advocate for the role of the Panel, emphasising the benefits of the self-regulatory approach which he felt combined speed and flexibility. More importantly he felt that the Panel was able to operate in a manner that was fair to all participants which, as a firm believer in justice, he believed was a fundamental principle.

Finally, I would like to thank the Executive for the manner in which it has approached the various issues which arose during an eventful year. In addition to the higher number of cases, the Executive has been dealing with a wide variety of non-case issues as mentioned above. It goes about these tasks extremely efficiently and thoroughly which is reflected in the way that the Panel is respected in the UK and abroad.



PETER SCOTT QC
12 July 2006

CODE COMMITTEE CHAIRMAN'S REPORT

In a particularly busy year, the Code Committee (the "Committee") has focussed largely on amendments driven by market developments and by legislation. It has met seven times and has published five new Public Consultation Papers ("PCPs") and six Response Statements ("RSs"). The Committee has also approved minor technical amendments to the Code. The Code has been amended accordingly, and a new edition of the Code was issued on 20 May.

It is the Committee's practice, once it has agreed that an issue should be pursued, to delegate preparation of a draft PCP to the Executive, which liaises as appropriate with parties who have a particular interest or relevant expertise in the subject matter. Once the Committee has approved the PCP, it is published and made available on the Panel's website. Consultation periods are normally between one and two months, but may be longer if the subject is particularly complex. The Committee will then reach conclusions taking account of all responses to the PCP and those conclusions are published, with the final Code amendments, in a Response Statement. Each RS is also available on the website. A full list of the PCPs and RSs published during the year can be found on page 27.

In April 2005, in completion of work carried out in the previous year, the Committee published RS 2004/4, which included amendments to the Code relating to the invocation of conditions and pre-conditions to an offer and, in particular, concluded that pre-conditions to an offer should normally be permitted only in very limited circumstances. The relevant amendments were incorporated into the Code at this time, along with amendments arising from RS 2004/3, dealing with a number of market-related issues.

Shortly afterwards, in May 2005, the Committee published PCP 2005/2, which represented the second stage of an extensive exercise to consider the application of the Code to dealings in derivatives and options by parties to an offer and their concert parties and by other market participants. Having already consulted on its general approach in PCP 2005/1, in this PCP the Committee included detailed proposals for amendments to the Code on issues concerning the disclosure of dealings in derivatives and options (the "disclosure issues"). The proposals were complex, covering: disclosure of dealings by market participants during an offer period; details to be included in offer announcements, announcements of acceptance levels and offer documentation; and amendments to Rule 16 (special deals with favourable conditions) and Rule 20.1 (equality of information).

Taking account of comments received and further discussions with some of the respondents, the amendments, including new definitions of "interests in securities" and "dealings", were published in RS 2005/2 in August 2005 but, in order to give market participants time to make the necessary adjustments to their dealing and reporting systems, implementation was delayed until November.

The Committee then moved on to consider the next set of issues relating to derivatives and options – the “Control issues”. These concerned the Code consequences of dealings in derivatives or options by parties to an offer or their concert parties or by persons with interests in the 30-50% band. Following the “broad approach” set out in PCP 2005/1, the Committee proposed in PCP 2005/3, published in November 2005, that interests in securities in the form of derivatives and options should be treated as equivalent to physical shareholdings for the purposes of, inter alia, the mandatory bid obligation in Rule 9 and the restrictions on acquisitions in Rule 5. In addition, the Committee proposed the introduction of a new “Recognised Intermediary” status for certain trading desks. The amendments, taking account of comments received, were published in RS 2005/3 in April 2006, to come into effect on 20 May.

Recognising that the Rule changes relating to the Disclosure Issues and the Control Issues might have significant implications for market participants, the Code Committee announced, when publishing both RS 2005/2 and RS 2005/3, that it would undertake a review of the operation of the new regime relating to derivatives and options in June 2007.

November 2005 saw the publication of PCP 2005/4, in which the Committee proposed the abolition of the SARs (apart from SAR 4 relating to tender offers) since it believed that it was no longer appropriate for the Panel to restrict either any person from acquiring shares or existing shareholders from selling their shares in circumstances where control of a company was not passing or being consolidated. While some respondents felt that the SARs should be retained, a majority agreed with the proposals and in RS 2005/4, published in April 2006, the Committee announced that the SARs would be abolished with effect from 20 May 2006. The tender offer rules have been retained in a new Appendix 5 to the Code.

In parallel to this market-related work, the Committee also addressed the changes that had to be made to the Code to implement the Takeovers Directive (Directive 2004/25/EC — the “Directive”). These amendments, which arose both from the Directive itself and from the implementing legislation (The Takeovers Directive (Interim Implementation) Regulations 2006), were published in PCP 2005/5 in November 2005. They included a new Introduction to the Code, new General Principles taken from the Directive, some new definitions and many detailed Rule changes. The majority of respondents were supportive of the changes proposed but a number of points of detail were raised and some further amendments were made in the light of those. All the amendments were published in April 2006, to come into effect on 20 May.

Pursuant to the legislation, the Code Committee is empowered to carry out the rule-making functions of the Panel, which includes making the Rules of Procedure of the Hearings Committee. These Rules of Procedure were duly adopted by the Committee in April, and came into effect on 20 May.

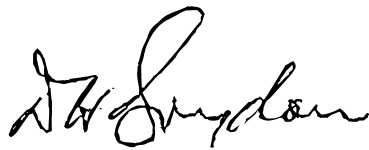
The amendments arising from these consultation exercises affected a large proportion of the Code Rules, and it was clear that a complete new edition of the Code would have to be issued. In the light of this, the Committee decided, early in 2006, that the opportunity should be taken to make a number of other miscellaneous amendments to the Code, to come into effect simultaneously with the others on 20 May. In February 2006, the Committee therefore issued PCP 2006/1, to deal with these miscellaneous amendments. Some of these were required to bring certain Rules into line with changes made to the FSA’s rules as a result of the implementation of the Prospectus Directive, while others provided clarification

or corrected omissions in the Rules. RS 2006/1, containing these changes and a number of minor amendments which did not require public consultation, was published in April 2006.

The Committee always appreciates the comments it receives from individuals and institutions; they provide a vital element of the debate and, while not all suggestions may be accepted, they are all given careful consideration by the Committee in reaching its conclusions.

The Committee has welcomed three new members to its ranks this year. The appointment by the Panel of Andrew Spokes, James Agnew and Lindsay Tomlinson has broadened the range of skills and experience in the Committee to its great advantage. All Committee members have given generously of their time and energy during the year and, as Chairman, once again I want to express my thanks to them for their dedication and commitment. I would also like to thank the team in the Executive whose high quality work is essential to the Committee's smooth functioning. I would like to mention in particular Richard Murley, with whom, as Director General, the Committee enjoyed an excellent relationship. The Committee wishes him well on his return to investment banking.

This will be the last of my annual reports, as I am now stepping down from the Code Committee. This was not an easy decision since I have enjoyed being involved in ensuring that the Code remains up-to-date in its approach. However, since I took on the role of Code Committee Chairman in 2001 I have believed it would be appropriate to pass on this particular baton after a few years. This I am now doing into the very safe hands of Lindsay Tomlinson. I wish him every success in his new role.



DONALD BRYDON
12 July 2006

DIRECTOR GENERAL'S REPORT

The number of takeover proposals which became unconditional, were withdrawn or lapsed during the year was 151. This was a significant increase on last year's figure of 114.

TAKEOVERS DIRECTIVE

Once again, the Executive has devoted a considerable amount of time during the year to working on the implementation of the Takeovers Directive. This has involved close liaison between the Executive and representatives from the Department of Trade and Industry ("DTI"). The Executive is grateful for the considerable assistance which the DTI has provided to it throughout this process and for the constructive approach which its officials have taken.

As explained in the Chairman's Statement, The Takeovers Directive (Interim Implementation) Regulations 2006 came into force on 20 May. Pending the completion of the passage of the Company Law Reform Bill through its Parliamentary process, these Regulations implemented the Directive on an interim basis and gave statutory effect to the Code in relation to transactions and rules subject to the requirements of the Directive. Once the relevant provisions in the Company Law Reform Bill come into force, the Panel's statutory powers will extend to all transactions to which the Code applies and the Regulations will cease to have effect.

Following the implementation of the Directive, the Executive continues to be responsible for dealing with day-to-day issues, including for giving rulings on the interpretation of the Code. In giving its rulings, the Executive continues to have the ability to interpret the Code flexibly to take account of the particular circumstances of the case and the Executive remains able to respond to such enquiries speedily. As before, parties to an offer and their advisers are encouraged to consult with the Executive at an early stage and, if they are dissatisfied with a ruling of the Executive, they are able to appeal the decision to the Hearings Committee of the Panel. In turn, there is a right of appeal against any decision of the Hearings Committee to the Takeover Appeal Board. The Executive remains of the belief that the implementation of the Directive will have little impact in practice on the Executive's day-to-day operations.

DISCLOSURE OF DEALINGS IN DERIVATIVES AND OPTIONS

For many years, Rule 8.3 of the Code has required persons with shareholdings of 1% or more of an offeree company or, in the case of a securities exchange offer, an offeror, to disclose publicly any dealings carried out by them during an offer period in the shares of the company concerned. Following the consultation exercises set out in PCPs 2005/1 and 2005/2, the Code was amended with effect from 7 November 2005 to require persons with an aggregate gross long interest of 1% or more, including interests held through derivatives

and options, similarly to disclose their dealings. This was a significant change to the Panel's dealing disclosure requirements and in the run up to their implementation the Executive spent a considerable amount of time explaining the changes to practitioners and market participants. In order to assist market participants in complying with the new rules, the Panel's Disclosure Table, which lists the companies in offer periods (and which is available on the Panel's website), was redesigned to include details of all relevant securities in respect of which dealing disclosures must be made, including the number of such securities in issue.

The Executive is pleased with the way in which the new regime is working in practice. Approximately 12% of disclosures made under Rule 8.3 in the period 7 November to 30 June were disclosures which would not have been required absent the rule changes on 7 November. The vast majority of these new disclosures were made by hedge funds with interests in securities in the form of long single stock contracts for differences. The Executive understands from a number of market participants that they consider such disclosures to have been helpful and informative.

RECOGNISED INTERMEDIARY STATUS

In the months prior to 7 November, the Executive also conducted a review of the principal trading activities of the securities houses active in London. One of the purposes of this review was to establish that the exemption from the disclosure requirements of Rule 8.3 set out in Rule 8.3(d) was available only to such securities houses' principal trading desks to the extent that the desks were acting in a client-serving capacity. This was in order to ensure that such desks were on an equal footing to other market participants. As a result of this review, the number of principal trading desks required to make dealing disclosures was increased with effect from 7 November.

This review also laid the foundations for the introduction of recognised intermediary ("RI") status. RI status was introduced following the consultation exercise in respect of PCP 2005/3 as the status for determining, inter alia, the applicability of the exemption from disclosure in Rule 8.3(d) and it formalised the Executive's practice in respect of that exemption. The criteria against which applications for RI status are considered were set out in RS 2005/3 and are similar to those which the Executive applied during the 2005 principal trader review in determining whether a trading desk's activities should be regarded as client-serving.

PRACTICE STATEMENTS

The Executive published six Practice Statements during the year. These Statements provide informal guidance as to how the Executive normally interprets and applies relevant provisions of the Code in certain circumstances. Accordingly, they do not form part of the Code and they are not binding on the Executive or the Panel. Importantly, reading them is not a substitute for consulting with the Executive to establish how the Code applies in a particular case.

The Statements published were:

Practice Statement 10 – Cash offers financed by the issue of offeror securities

Practice Statement 11 – Working capital requirements in cash and securities exchange offers

Practice Statement 12 – Rule 9 and the shareholdings of clients whose funds are managed on a discretionary basis

Practice Statement 13 – Timetable extensions – alterations to a predicted date

Practice Statement 14 – Schemes of arrangement

Practice Statement 15 – Inducement fees – arrangements between the offeror and the offeree company etc

The text of these Statements is available on the Panel's website at www.thetakeoverpanel.org.uk.

ACCOUNTS

A surplus of £3,239,868 was recorded this year, compared to a surplus of £499,167 in the previous year. Income rose to £12,970,562 from £11,294,168, principally on account of the increase in the number of offer documents posted during the year. Expenditure fell to £9,942,017, compared with £10,927,285, and this was largely attributable to the premises costs having stabilised following completion of the move to Paternoster Square.

Now that the Takeovers Directive has been implemented, it is hoped that the level of professional expenses will reduce.



MARK WARHAM
12 July 2006

THE TAKEOVER APPEAL BOARD

AS AT 12 JULY 2006

SIR ANDREW LEGGATT	CHAIRMAN
SIR MARTIN NOURSE	DEPUTY CHAIRMAN
ERIC ANSTEE	CHIEF EXECUTIVE, THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES
KENNETH AYERS	CONSULTANT, RUSSELL INVESTMENT GROUP
CHRISTOPHER FRENCH	CHAIRMAN EUROPEAN INVESTMENT BANKING EUROPE, MIDDLE EAST AND AFRICA GOLDMAN SACHS
SIMON ROBey	MANAGING DIRECTOR, CO-CHAIRMAN OF GLOBAL M&A AND HEAD OF MORGAN STANLEY UK
ROBERT TALBUT	CHIEF INVESTMENT OFFICER, ROYAL LONDON ASSET MANAGEMENT

The Takeover Appeal Board (the “Board”) is an independent body which hears appeals against rulings of the Hearings Committee. The Chairman and Deputy Chairman are appointed by the Master of the Rolls and will usually have held high judicial office. The other members are appointed by the Chairman or Deputy Chairman of the Board and will usually have relevant knowledge and experience of takeovers and the Takeover Code. No person who is or has been a member of the Code Committee of the Panel may simultaneously or subsequently be a member of the Board.

Any party to a hearing before the Hearings Committee (or any person denied permission to be a party to a hearing before the Hearings Committee) may appeal to the Board against any ruling of the Hearings Committee or of the chairman of the relevant hearing (including in respect of procedural directions).

The procedures of the Board are set out in its Rules which can be viewed on its website at www.thetakeoverappealboard.org.uk.

ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2006

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006

	NOTE	2006	2005
		£	£
INCOME			
PTM levy		4,778,603	4,750,493
Document fees		7,674,500	5,986,000
City Code sales		291,137	226,525
Exempt income		224,922	330,000
Other income		1,400	1,150
		<u>12,970,562</u>	<u>11,294,168</u>
EXPENDITURE			
Personnel costs		6,029,715	5,202,629
Accommodation costs		899,224	2,501,892
Other expenditure		3,013,078	3,222,764
		<u>9,942,017</u>	<u>10,927,285</u>
SURPLUS BEFORE INTEREST AND TAXATION			
		3,028,545	366,883
Interest receivable		264,153	165,355
Taxation	2	(52,830)	(33,071)
		<u>3,239,868</u>	<u>499,167</u>
SURPLUS FOR THE YEAR			
ACCUMULATED SURPLUS AT BEGINNING OF YEAR			
		<u>5,652,021</u>	<u>5,152,854</u>
ACCUMULATED SURPLUS AT END OF YEAR			
		<u><u>8,891,889</u></u>	<u><u>5,652,021</u></u>

All activities are regarded as being continuing.

The Takeover Panel has no recognised gains and losses other than the income and expenditure shown above and therefore no statement of total gains and losses has been presented.

BALANCE SHEET
AT 31 MARCH 2006

	NOTE	2006 £	2005 £
CURRENT ASSETS			
Debtors and prepayments	3	2,251,997	2,333,317
Bank and cash		8,523,544	4,167,701
		<u>10,775,541</u>	<u>6,501,018</u>
CURRENT LIABILITIES			
Creditors and accruals	4	1,830,822	814,244
Corporation tax		52,830	34,753
		<u>1,883,652</u>	<u>848,997</u>
Net Assets		<u>8,891,889</u>	<u>5,652,021</u>
Representing:			
ACCUMULATED SURPLUS		<u>8,891,889</u>	<u>5,652,021</u>

The accounts on pages 18 to 21 were approved by the Takeover Panel on 12 July 2006 and signed on behalf of the Members by:

PETER SCOTT QC
Chairman, The Takeover Panel

ANTONY BEEVOR
Chairman, Finance Committee

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	NOTE	2006	2005
		£	£
Net cash (outflow)/inflow from operating activities	5	4,126,443	(556,172)
Returns on investments and servicing of finance			
Interest received		264,153	165,355
Net cash inflow from returns on investments and servicing of finance		264,153	165,355
Taxation			
UK corporation tax paid		(34,753)	(19,597)
(Decrease)/increase in cash	6	4,355,843	(410,413)

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF ACCOUNTS AND ACCOUNTING POLICIES

- These accounts have been prepared under the historical cost basis of accounting.
- Income comprises the PTM levy, Document fees, City Code sales, Exempt income and other income and is accounted for on an accruals basis.
- Expenditure of a capital nature is written off in the year in which it is incurred. All other expenditure is accounted for on an accruals basis.
- Interest receivable arises wholly in the UK and relates to interest receivable on deposits held and is recognised on an accruals basis.

	2006	2005
	£	£
2. TAXATION		
UK corporation tax payable on interest income received:		
Current	52,830	33,071
	52,830	33,071

Corporation tax is payable at a rate of 20% (2005: 20%) for the first £300,000 of taxable profit and thereafter at an effective rate of 32.5% (2005: 32.5%).

NOTES TO THE ACCOUNTS *continued*

	2006	2005
3. DEBTORS AND PREPAYMENTS	£	£
PTM levy accrued income	940,064	1,529,137
Document fees	514,012	464,000
Exempt income	0	25,000
Other debtors and prepayments	797,921	315,180
	<u>2,251,997</u>	<u>2,333,317</u>
	<u><u>2,251,997</u></u>	<u><u>2,333,317</u></u>
4. CREDITORS AND ACCRUALS	£	£
Personnel costs	1,311,050	226,617
Legal and professional fees	179,812	112,000
First year rates on new premises	0	120,000
Provision for PTM levy repayable	318,000	318,000
Other creditors and accruals	21,960	37,627
	<u>1,830,822</u>	<u>814,244</u>
	<u><u>1,830,822</u></u>	<u><u>814,244</u></u>
5. NET CASHFLOW FROM OPERATING ACTIVITIES	£	£
Surplus before interest and taxation	3,028,545	366,883
Decrease/(Increase) in debtors and prepayments	81,320	(682,981)
Increase/(Decrease) in creditors	1,016,578	(240,074)
	<u>4,126,443</u>	<u>(556,172)</u>
	<u><u>4,126,443</u></u>	<u><u>(556,172)</u></u>
6. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS	£	£
Increase/(Decrease) in cash in period	4,355,843	(410,413)
	<u>4,355,843</u>	<u>(410,413)</u>
Change in net funds	4,355,843	(410,413)
Net funds at 1 April 2005	4,167,701	4,578,114
	<u>4,167,701</u>	<u>4,578,114</u>
Net funds at 31 March 2006	8,523,544	4,167,701
	<u><u>8,523,544</u></u>	<u><u>4,167,701</u></u>
7. PENSION SCHEMES		
<p>During the year, the Panel operated three defined contribution pension schemes. Contributions to these schemes are charged to the profit and loss account in the year in which they arise. The cost of these schemes for the year was £191,451 (2005: £153,981).</p>		

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE PANEL ON TAKEOVERS AND MERGERS

We have audited the non-statutory accounts of the Takeover Panel for the year ended 31 March 2006 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. These non-statutory accounts have been prepared in accordance with the accounting policies set out therein.

These non-statutory accounts were prepared solely for the purposes of management, have not been prepared under section 226 of the Companies Act 1985 and are not statutory accounts.

RESPECTIVE RESPONSIBILITIES OF PANEL MEMBERS AND AUDITORS

The Panel Members' responsibilities for preparing the non-statutory accounts in accordance with the basis of preparation and accounting policies in Note 1 to the non-statutory accounts are set out in the Statement of Panel Members' Responsibilities.

Our responsibility is to audit the non-statutory accounts in accordance with International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Panel Members' purposes in accordance with our engagement letter dated 30 June 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the non-statutory accounts are properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in Note 1 to the non-statutory accounts.

We read the other information contained in the 2005-2006 Report, and consider whether it is consistent with the audited non-statutory accounts. This other information comprises only Panel Members and Executive, Introduction to the Takeover Panel, Chairman's Statement, Code Committee Chairman's Report, Director General's Report, The Takeover Appeal Board, Statistics, Statements issued by the Panel and Statements issued by the Code Committee. The other information that is "read" is the content of the printed document containing the non-statutory accounts other than the non-statutory accounts themselves. The description of the information that has been read is tailored to reflect the terms used in the document containing the non-statutory accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the non-statutory accounts. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the non-statutory accounts. It also includes an assessment of the significant estimates and judgments made by the Panel Members in the preparation of the non-statutory accounts, and of whether the accounting policies are appropriate to the Panel's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the non-statutory accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the non-statutory accounts.

OPINION

In our opinion the non-statutory accounts for the year ended 31 March 2006 have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in Note 1 to the non-statutory accounts.

PRICEWATERHOUSECOOPERS LLP

Chartered Accountants, London

14 July 2006

STATEMENT OF PANEL MEMBERS' RESPONSIBILITIES

The Panel Members have determined that accounts should be prepared for each financial year that present fairly the state of affairs of the Panel as at the end of the financial year and of its surplus or deficit for that period.

The Panel Members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the accounts for the year ended 31 March 2006. The Panel Members also confirm that applicable accounting standards have been followed and that the accounts have been prepared on the going concern basis.

The Panel Members are responsible for keeping proper accounting records and for taking reasonable steps to safeguard the assets of the Panel and to prevent and to detect fraud and other irregularities.

STATISTICS

There were no meetings to hear appeals against rulings by the Executive.

There were 151 (year ended 31 March 2005 – 114) resolved takeover or merger proposals (i.e. proposals announced under Rule 2.5 which subsequently become wholly unconditional, lapsed, or were withdrawn) of which 147 (112) reached the stage where formal documents were sent to shareholders. These proposals were in respect of 143 (109) target companies.

17 (11) offers were not recommended at the time the offer document was posted. 11 (8) of these remained unrecommended at the end of the offer period, of which 6 (3) lapsed.

11 (5) offers were, at the time of their announcement under Rule 2.5, mandatory bids under Rule 9.

A further 17 (21) proposals announced under Rule 2.5 were still open at 31 March 2006 and are not included in these figures.

	2005-2006	2004-2005
O U T C O M E O F P R O P O S A L S		
Successful proposals involving control	123	99
Unsuccessful proposals involving control	14	9
Proposals involving control withdrawn before issue of documents	4	2
Proposals involving minorities, etc	10	4
	<u>151</u>	<u>114</u>

There were 56 (61) offeree companies in an offer period as at 31 March 2006 and 245 (173) offeree companies went into an offer period during the year.

90 (78) whitewashes (i.e. documents seeking waiver from existing shareholders of an obligation to make a mandatory offer under Rule 9 following an issue of new shares) were posted during the year.

32 (34) Code waivers (i.e. dispensations from the application of the Code to offers or proposals for companies with a very limited number of shareholders) were granted during the year.

STATEMENTS ISSUED BY THE PANEL
DURING THE YEAR
ENDED 31 MARCH 2006

2005	
25 April	2005/24 PANEL EXECUTIVE PRACTICE STATEMENTS <i>(Issue of Practice Statements No. 10 and No. 11)</i>
25 April	2005/25 QXL RICARDO PLC <i>(Criticism of Teather & Greenwood as a result of breaches of Rule 38)</i>
28 April	2005/26 MANCHESTER UNITED PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 17 May 2005)</i>
23 June	2005/28 URBIUM PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 21 July 2005)</i>
30 June	2005/29 WITHDRAWAL RIGHTS UNDER THE PROSPECTUS DIRECTIVE <i>(The effect of withdrawal rights under the Prospectus Directive on takeovers)</i>
11 July	2005/30 HARDY UNDERWRITING GROUP PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 1 August 2005)</i>
14 July	2005/31 2005 ANNUAL REPORT <i>(Publication of the Panel's 2005 Annual Report)</i>
15 July	2005/32 URBIUM PLC <i>(Potential offeror no longer required to make Rule 2.5 announcement or to announce no intention to bid by 21 July 2005)</i>
4 August	2005/33 PANEL EXECUTIVE PRACTICE STATEMENTS <i>(Issue of Practice Statements No. 12 and No. 13)</i>
16 August	2005/35 NEW DIRECTOR GENERAL FOR THE TAKEOVER PANEL <i>(Panel Executive appointment)</i>
14 September	2005/36 RENTOKIL INITIAL PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 17 October 2005)</i>
16 September	2005/37 SOMERFIELD PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 14 October 2005)</i>
5 October	2005/38 BPB PLC <i>(Offer timetable extended)</i>
14 October	2005/39 SOMERFIELD PLC <i>(Extension to the requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid until further notice)</i>
17 October	2005/40 EAST SURREY HOLDINGS PLC <i>(Ruling of the Panel Executive that Kellen Acquisitions Limited may not lapse its offer for East Surrey Holdings Plc)</i>
28 October	2005/41 AEGIS GROUP PLC <i>(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 25 November 2005)</i>
7 November	2005/43 CODE AMENDMENTS AND WEBSITE UPGRADE <i>(Implementation of Code amendments and upgrade of Panel website, including summary of the provisions of Rule 8)</i>

THE TAKEOVER PANEL
2005-2006 REPORT

2005

- 9 November 2005/44 PANEL EXECUTIVE PRACTICE STATEMENTS
(Issue of Practice Statements No. 14 and No. 15)
- 23 November 2005/46 LONDON STOCK EXCHANGE PLC
(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 15 December 2005)
- 25 November 2005/47 AEGIS GROUP PLC
(Clarification that Mr Bolloré not bound by Rule 2.8 restrictions)
- 16 December 2005/48 APPOINTMENT OF DAVID WATKINS AS SECRETARY
(Panel Executive appointment)

2006

- 23 January 2006/01 FIRST TECHNOLOGY PLC
(Clarification of a statement made by Honeywell International Inc)
- 3 February 2006/02 LOOKERS PLC
(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 10 March 2006)
- 9 February 2006/03 PARITY GROUP PLC
(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 3 March 2006)
- 22 March 2006/05 BAA PLC
(Requirement for potential offeror to make Rule 2.5 announcement or announce no intention to bid by 24 April 2006)

STATEMENTS ISSUED BY THE CODE
COMMITTEE DURING THE YEAR
ENDED 31 MARCH 2006

2005

25 April	2005/23	CODE COMMITTEE — RESPONSE STATEMENT 2004/4 <i>(Issue of Response Statement 2004/4)</i>
13 May	2005/27	CODE COMMITTEE — PUBLIC CONSULTATION PAPER <i>(Issue of Public Consultation Paper 2005/2)</i>
5 August	2005/34	CODE COMMITTEE — RESPONSE STATEMENT 2005/2 <i>(Issue of Response Statement 2005/2)</i>
2 November	2005/42	CODE COMMITTEE — PUBLIC CONSULTATION PAPERS <i>(Issue of Public Consultation Papers 2005/3 and 2005/4)</i>
18 November	2005/45	CODE COMMITTEE — PUBLIC CONSULTATION PAPER <i>(Issue of Public Consultation Paper 2005/5)</i>

2006

10 February	2006/04	CODE COMMITTEE — PUBLIC CONSULTATION PAPER <i>(Issue of Public Consultation Paper 2006/1)</i>
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