

Notes to the financial statements

for the year ended 31 December 2003

(1) ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles and applicable accounting standards. The principal accounting policies adopted within that convention are set out below. These are unchanged from the previous year with the exception of:

- (a) the adoption in full of Financial Reporting Standard 17 "Retirement Benefits", the effects of which are explained in note 21. A prior year adjustment of £19.6 million is the cumulative prior year effect of this change of accounting policy and has been charged against reserves;
- (b) in accordance with the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 and UITF Abstract 38 "Accounting for ESOP Trusts", both issued in the year, the Group's investment in its own shares via its Employee Share Ownership Plan Trust has been reclassified from fixed asset investments to shareholders' funds; and
- (c) changes to the Group's policy on the classification of items included within turnover following an amendment to FRS 5 "Reflecting the Substance of Transactions" in December 2003. Accordingly 2002 turnover, cost of sales and other operating income have been restated with no impact on total operating profit.

An unaudited memorandum disclosure has been made on the face of the primary financial statements to show the Euro equivalents, using the average exchange rate for the Group profit and loss account and Group cash flow statement, and the closing exchange rate for the Group balance sheet as disclosed in note 2. In addition, profit on ordinary activities before taxation and amortisation of intangible assets has been disclosed on the face of the Group profit and loss account to assist understanding.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company, its subsidiary undertakings and the Group's shares of the results and net assets of associated undertakings and joint ventures. The results of undertakings acquired or disposed of during the year are dealt with in the Group financial statements for the period that the Group has control. All material undertakings within the Group make up their accounts to 31 December.

Acquisitions

Businesses acquired are accounted for using the acquisition method. On the acquisition of a business, or an interest in an associate, fair values reflecting conditions at the date of acquisition are attributed to the net assets including retail pharmacy licences acquired. Adjustments are also made to bring accounting policies into line with those of the Group. Where statutory merger relief is applicable, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

Foreign exchange

The profit and loss accounts and cash flows of undertakings with a reporting currency other than sterling are translated into sterling at average rates of exchange, other than substantial exceptional items that are translated at the rate on the date of the transaction. The adjustment to closing rates is taken to the statement of total recognised gains and losses.

Balance sheets are translated at closing rates. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of undertakings with a reporting currency other than Sterling are taken to the statement of total recognised gains and losses, less exchange differences arising on related currency borrowings and financial instruments. Tax charges and credits arising on such items are also taken to reserves. Other currency translation differences are taken to the profit and loss account.

(1) ACCOUNTING POLICIES (CONTINUED)

The results, assets and liabilities of undertakings in hyper-inflationary economies are determined using an appropriate relatively stable currency as the functional currency. The currency translation differences arising from this process are taken to the profit and loss account.

Transactions in currencies other than the reporting currency of the undertaking are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related foreign currency contract.

Turnover

Turnover is the amount derived from the sale of goods and services in the normal course of business outside the Group, net of trade discounts, value added tax and other sales-related taxes. Turnover is recognised at the point at which title passes.

Retail pharmacy licences

Retail pharmacy licences, being the exclusive right to be reimbursed for the dispensing of prescription medicines from a specified location, are capitalised, where there is an asset that can be separated from the other identifiable assets that together form a retail pharmacy business. Where they have a finite economic life they are amortised over that economic life. Where they do not have a finite economic life they are not amortised and are subjected to an annual impairment test. The cost of retail pharmacy licences less any impairment in value and any amortisation are included in intangible fixed assets.

Goodwill

The excess of the purchase price over the fair value of net assets (including retail pharmacy licences) of businesses acquired in the year is capitalised and amortised over its useful economic life, up to a maximum of 20 years. Goodwill acquired prior to 1998 was written off against reserves, and will be charged through the profit and loss account in the event of subsequent disposal.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values on a straight-line basis over the period of their estimated useful economic lives:

Freehold buildings	– 50 years
Long and short leasehold properties	– the shorter of the period of the lease and 50 years
Furniture, fixtures and equipment	– between 3 and 10 years
Motor vehicles	– between 3 and 10 years

Freehold land is not depreciated.

Leased assets

Assets held under finance leases are capitalised and depreciated over the estimated useful life of the asset. The capital element of future lease obligations are recorded as liabilities, while the finance charges are allocated over the primary period of the lease in proportion to the capital element of the lease outstanding. Costs of operating leases are charged to the profit and loss account as they accrue.

Investments

Investments are stated at cost less provisions for impairment and, for the Company's investments prior to 1998, less an amount equal to the goodwill written off to reserves.

Stocks

Stocks consist of goods held for resale and are valued at the lower of cost and net realisable value.

Derivatives and other financial instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. If the underlying transaction to a hedge ceases to exist, the hedge is typically cancelled and the profit or loss recognised immediately.

Notes to the financial statements (continued)

for the year ended 31 December 2003

(1) ACCOUNTING POLICIES (CONTINUED)

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Foreign exchange contracts hedging balance sheet assets and liabilities are revalued at closing rates and exchange differences arising are taken to the statement of total recognised gains and losses. Gains and losses on contracts hedging forecast transactional cash flows, and on option instruments hedging the sterling value of foreign currency denominated income, are recognised in the hedged periods.

Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged. Finance costs associated with debt issuances are charged to the profit and loss account over the life of the issue.

Securitised receivables

Where the Group has sold trade receivables and received an initial cash payment on a non-recourse basis in return, the gross amount of the trade receivables sold is disclosed on the face of the balance sheet as securitised receivables and the amounts received as non-recourse receipts. The Group retains an interest in the receivables represented by the net of these two amounts.

Charges payable in respect of receivables so securitised that are fixed are included within administration expenses. Costs that vary according to a principal amount, an interest rate and a time period are treated as net interest payable and similar charges.

Pensions

The Group accounts for pension schemes in accordance with FRS 17 "Retirement Benefits". For defined contribution schemes, contributions are charged to the profit and loss account as payable in respect of the accounting period. For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately,

the costs are recognised over the period the vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Where defined benefit schemes are funded, the assets of the scheme are held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated on the balance sheet date. The resulting defined benefit asset or liability, net of the related deferred taxation, is presented separately after other net assets on the face of the balance sheet.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law, at the balance sheet date. Deferred tax is not provided on timing differences arising from either the revaluation of fixed assets or rolled over gains where there is no commitment to sell the asset. Deferred tax is only provided on unremitted earnings of subsidiaries and associates where there is a commitment to remit the earnings. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

Employee Share Ownership Plans (ESOPs)

Assets and liabilities held by ESOPs are included in the balance sheet where the Group has de facto control of the shares held by the ESOP Trust. Where the shares are conditionally gifted or under option to employees at below book value the difference is charged as an administration cost over the period to which the employee's performance relates.

(2) EXCHANGE RATES

The following exchange rates have been used in the preparation of the financial statements.

	Euro €/£	Czech Koruna CZK/£	Norwegian Kroner NOK/£	Swiss Franc CHF/£	US Dollar \$/£
As at 31 December 2003	1.419	45.970	11.910	2.214	1.790
As at 31 December 2002	1.534	48.420	11.150	2.226	1.610
Average for 2003	1.443	46.009	11.592	2.198	1.645
Average for 2002	1.593	49.060	11.990	2.335	1.505

(3) GROUP OPERATING PROFIT

	2003 £million	2002 restated £million
Turnover	8,799.3	7,771.6
Cost of sales	(7,965.2)	(7,039.3)
Gross profit	834.1	732.3
Administrative expenses	(618.4)	(536.8)
	215.7	195.5
Other operating income	2.0	1.5
Group operating profit	217.7	197.0

Distribution costs are considered to be a component of cost of sales, due to the nature of the Group's business, and as such are not separately disclosed.

Other operating income principally includes dividend income from other fixed asset investments.

All transactions are derived from continuing operations.

(4) SEGMENTAL ANALYSIS

	Total operating profit			Turnover 2002 restated £million	Total operating profit	
	before amortisation of intangible assets 2003 £million	after amortisation of intangible assets 2003 £million	before amortisation of intangible assets 2002 restated £million		after amortisation of intangible assets 2002 restated £million	
Wholesale Northern Europe	2,899.8	84.3	79.3	2,572.0	77.4	71.5
Wholesale Southern Europe	5,618.9	74.4	70.9	4,881.1	74.4	71.8
Retail – Europe	1,107.4	79.3	78.9	974.0	65.8	65.4
Corporate	–	(11.4)	(11.4)	–	(11.7)	(11.7)
Intra-Group	(826.8)	–	–	(655.5)	–	–
Group	8,799.3	226.6	217.7	7,771.6	205.9	197.0
Share of operating profit in associated undertakings	–	36.8	32.1	–	21.5	17.8
Total	8,799.3	263.4	249.8	7,771.6	227.4	214.8

The analysis of turnover by destination is not materially different from the analysis of turnover by origin.

Notes to the financial statements (continued)

for the year ended 31 December 2003

(4) SEGMENTAL ANALYSIS (CONTINUED)

	2003 £million	2002 restated £million
Analysis of net assets		
Wholesale Northern Europe	327.0	340.2
Wholesale Southern Europe	559.4	510.6
Retail – Europe	654.9	642.7
Corporate	11.0	26.2
Net operating assets	1,552.3	1,519.7
Associated undertakings	287.6	250.5
Proposed dividends	(38.1)	(34.8)
Net borrowings	(827.2)	(880.2)
Net pension liabilities	(34.3)	(23.8)
	940.3	831.4

(5) STAFF COSTS

The average number of persons employed by the Group, including Directors and part-time staff, was:

	2003	2002
Wholesale Northern Europe	5,039	4,965
Wholesale Southern Europe	7,274	7,169
Retail – Europe	9,785	9,103
Corporate	62	55
	22,160	21,292

Costs incurred in respect of these employees were:

	2003 £million	2002 restated £million
Wages and salaries	333.0	296.0
Social security costs	64.7	54.7
Other pension costs (see Note 21)		
– amounts within operating profit	13.0	11.5
– amounts included as other finance costs	1.0	–
– amounts recognised in statement of total recognised gains and losses	17.1	19.9
	428.8	382.1

Directors' emoluments for the financial year ended 31 December 2003 are provided in the Board report on remuneration.

(6) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £million	2002 restated £million
Interest payable		
Bank loans and overdrafts	34.0	32.9
Loan notes	21.5	20.9
Other loans	0.9	0.8
Finance charges payable on securitised receivables	2.9	2.2
Finance charges payable on finance leases	0.4	0.5
Associate interest payable	3.1	5.3
	62.8	62.6
Interest receivable		
Bank deposit interest receivable	(1.2)	(0.5)
Other finance income	(8.3)	(8.9)
Associate interest receivable	(1.7)	(6.5)
	(11.2)	(15.9)
Other finance costs		
Net return on defined benefit pension schemes (see Note 21)	1.0	–
Discount on deferred acquisition consideration	0.9	0.2
	1.9	0.2
	53.5	46.9

(7) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation has been arrived at after charging:

	2003 £million	2002 £million
Depreciation of owned assets	40.5	36.0
Depreciation of assets held under finance leases	0.7	1.1
Total depreciation of tangible fixed assets	41.2	37.1
Goodwill amortisation – subsidiary undertakings	8.6	8.5
– associated undertakings	4.7	3.7
Amortisation of retail pharmacy licences	0.3	0.4
Total amortisation of intangible assets	13.6	12.6
	2003	2002
	£million	£million
Administration costs of securitised receivables	5.1	6.2
Profit on disposal of fixed assets	(9.7)	(8.0)
Operating lease rentals – land and buildings	21.3	18.7
– furniture, fixtures and equipment	6.8	4.2
– motor vehicles	1.3	1.5
Audit fees – principal auditors	0.9	0.7
– other auditors	0.4	0.4

Notes to the financial statements (continued)

for the year ended 31 December 2003

(7) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

Audit fees include £0.1 million (2002 £0.1 million) for the audit of the Company by the principal auditors. In addition to audit fees, other fees paid to the auditors, including fees capitalised, were as follows:

	Principal auditors £million	Other auditors £million	2003 £million	2002 £million
Due diligence reviews	0.1	0.1	0.2	0.3
Taxation services	0.9	0.1	1.0	0.4
Other	0.1	–	0.1	0.2
	1.1	0.2	1.3	0.9

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £million	2002 restated £million
UK corporation tax		
Current tax on income for the year at 30% (2002 30%)	55.3	26.5
Adjustment in respect of prior years	–	(0.9)
	55.3	25.6
Double taxation relief	(35.7)	(5.8)
	19.6	19.8
Overseas tax		
Current tax on income for the year	30.1	27.6
Adjustment in respect of prior years	1.3	0.6
	31.4	28.2
Associated undertakings – current tax	8.4	7.9
Current tax charge	59.4	55.9
Deferred tax		
UK	0.2	(1.1)
Overseas	5.8	4.0
Adjustment in respect of prior years	0.8	(1.1)
	6.8	1.8
Deferred tax on defined benefit pension schemes	1.0	0.3
Deferred tax charge	7.8	2.1
	67.2	58.0

All charges for deferred tax in the current and prior years have arisen due to the origination and reversal of timing differences.

Alliance UniChem's principal operations are in Europe and the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit on ordinary activities before taxation and amortisation of intangible assets. The reconciliation of expected tax charge using this standard tax rate of 31.8% (2002 32.5%) to the actual current tax charge is as follows:

	2003 £million	2002 restated £million
Profit on ordinary activities before taxation	196.3	167.9
Amortisation of intangible assets	13.6	12.6
Profit on ordinary activities before taxation and amortisation	209.9	180.5

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	2003 £million	2002 restated £million
Expected tax charge at standard tax rate	66.7	58.7
Permanent timing differences	1.2	1.0
Roll-over relief on capital gains	–	(1.0)
Exempt capital gains	(1.9)	(0.2)
Timing differences in deferred tax	(7.0)	(3.3)
Tax losses brought forward and utilised in year	(1.2)	(0.1)
Unrelieved tax losses arising in year	0.3	1.1
Adjustment in respect of prior years	1.3	(0.3)
Current tax charge	59.4	55.9

(9) DIVIDENDS

	2003 £million	2002 £million
Interim paid, net 5.7 pence (2002 5.2 pence)	19.0	17.8
Final proposed, net 11.0 pence (2002 10.1 pence)	38.1	34.8
	57.1	52.6

Dividends in respect of shares held by the ESOP Trust have been waived.

(10) EARNINGS PER SHARE

	2003			2002		
	Profit for the financial year £million	Weighted average number of shares million	Earnings per share pence	Profit for the financial year restated £million	Weighted average number of shares million	Earnings per share restated pence
Basic	128.5	341.4	37.6	109.5	328.9	33.3
Share options	–	1.0	(0.1)	–	1.9	(0.2)
Deferred acquisition consideration	0.9	4.9	(0.2)	0.2	0.9	–
Diluted	129.4	347.3	37.3	109.7	331.7	33.1
Basic	128.5	341.4	37.6	109.5	328.9	33.3
Amortisation of intangible assets	13.6	–	4.0	12.6	–	3.8
Basic, before amortisation of intangible assets	142.1	341.4	41.6	122.1	328.9	37.1
Share options	–	1.0	(0.1)	–	1.9	(0.2)
Deferred acquisition consideration	0.9	4.9	(0.3)	0.2	0.9	–
Diluted, before amortisation of intangible assets	143.0	347.3	41.2	122.3	331.7	36.9

Earnings per share are also calculated before amortisation of intangible assets and exceptional items, if any, since the Directors consider that this gives a useful additional indication of underlying performance.

The diluted earnings per share calculations are prepared on the assumption that shares that may be potentially issued to meet the deferred consideration for the acquisition of Hedef Alliance were issued when the investment was made. The discount on this deferred acquisition consideration is therefore adjusted when computing the relevant profit for the financial year.

Notes to the financial statements (continued)

for the year ended 31 December 2003

(11) INTANGIBLE FIXED ASSETS

	Positive goodwill £million	Negative goodwill £million	Total goodwill £million	Retail pharmacy licences £million	Total £million
Cost					
At 1 January	185.1	(1.9)	183.2	562.7	745.9
Businesses acquired	6.9	–	6.9	48.4	55.3
Disposals	(0.2)	–	(0.2)	–	(0.2)
Currency translation differences	14.1	–	14.1	3.1	17.2
At 31 December	205.9	(1.9)	204.0	614.2	818.2
Amortisation					
At 1 January	21.6	(0.2)	21.4	1.4	22.8
Disposals	(0.1)	–	(0.1)	–	(0.1)
Charge/(credit) for the year	10.3	(1.7)	8.6	0.3	8.9
Currency translation differences	1.8	–	1.8	0.1	1.9
At 31 December	33.6	(1.9)	31.7	1.8	33.5
Net book value at 31 December 2003	172.3	–	172.3	612.4	784.7
Net book value at 31 December 2002	163.5	(1.7)	161.8	561.3	723.1

(12) TANGIBLE FIXED ASSETS

Group	Land and buildings			Furniture, fixtures and equipment £million	Motor vehicles £million	Total £million
	Freehold £million	Long leasehold £million	Short leasehold £million			
Cost						
At 1 January	166.3	21.6	5.0	286.6	24.5	504.0
Additions	4.3	0.9	0.7	42.8	5.1	53.8
Businesses acquired	0.7	–	0.1	1.6	–	2.4
Disposals	(4.2)	(0.1)	–	(8.4)	(7.8)	(20.5)
Currency translation differences	10.2	1.0	–	12.3	0.3	23.8
At 31 December	177.3	23.4	5.8	334.9	22.1	563.5
Depreciation						
At 1 January	32.5	4.0	2.2	167.4	13.5	219.6
Charge for the year	3.8	0.4	0.3	32.0	4.7	41.2
Businesses acquired	0.1	–	–	–	–	0.1
Disposals	(0.8)	(0.1)	–	(6.4)	(5.9)	(13.2)
Currency translation differences	2.2	0.1	–	8.3	0.3	10.9
At 31 December	37.8	4.4	2.5	201.3	12.6	258.6
Net book value at 31 December 2003	139.5	19.0	3.3	133.6	9.5	304.9
Net book value at 31 December 2002	133.8	17.6	2.8	119.2	11.0	284.4

Included within the Group cost of buildings and furniture, fixtures and equipment are assets in the course of construction of £19.4 million (2002 £5.5 million).

(12) TANGIBLE FIXED ASSETS (CONTINUED)

Company	Land and buildings			Furniture, fixtures and equipment £million	Motor vehicles £million	Total £million
	Freehold £million	Long leasehold £million	Short leasehold £million			
Cost						
At 1 January	–	–	0.6	0.7	0.8	2.1
Disposals	–	–	–	(0.7)	(0.8)	(1.5)
At 31 December	–	–	0.6	–	–	0.6
Depreciation						
At 1 January	–	–	0.1	0.3	0.4	0.8
Disposals	–	–	–	(0.3)	(0.4)	(0.7)
At 31 December	–	–	0.1	–	–	0.1
Net book value at 31 December 2003	–	–	0.5	–	–	0.5
Net book value at 31 December 2002	–	–	0.5	0.4	0.4	1.3

The Group cost of long leaseholds includes capitalised interest of £0.5 million (2002 £0.5 million).

Included within the Group tangible fixed assets are assets held under finance leases with the following net book values:

Group	2003 £million	2002 £million
Land and buildings	23.6	21.7
Furniture, fixtures and equipment	0.1	0.1
	23.7	21.8

(13) FIXED ASSET INVESTMENTS

Group	2003 £million	2002 restated £million
Associated undertakings	287.6	250.5
Other investments	60.3	55.5
	347.9	306.0

Group	Goodwill on associated undertakings £million	Share of net assets of associated undertakings £million	Loans to associated undertakings £million	Total £million
Associated undertakings				
At 1 January	84.6	126.6	39.3	250.5
Profit for the year	–	27.0	–	27.0
Amortisation of goodwill	(4.7)	–	–	(4.7)
Dividends	–	(3.3)	–	(3.3)
Additions	2.3	5.5	22.2	30.0
Disposals	0.9	(7.2)	(14.9)	(21.2)
Transfer to subsidiary undertakings	–	(0.7)	–	(0.7)
Currency translation differences	0.7	9.2	0.1	10.0
At 31 December	83.8	157.1	46.7	287.6

In September 2002, the Group increased its stake in Hedef Alliance from 25% to 50%, paying £20.8 million in cash on completion. A further amount will be payable, dependent upon performance, in cash or shares, or a combination thereof, at the Group's option, which the Directors anticipate will not exceed US\$45.4 million (£25.4 million). The estimated deferred consideration has been discounted and accounted for as shares to be issued of £25.1 million in accordance with FRS 4 "Capital Instruments". Following improvements in the operating results of Hedef Alliance, the deferred consideration was increased by £6.5 million at 31 December 2003. The additional £2.3 million of goodwill on associated undertakings reflects this amount, offset by fair value adjustments on this acquisition.

Loans to associated undertakings are provided at normal commercial rates.

Notes to the financial statements (continued)

for the year ended 31 December 2003

(13) FIXED ASSET INVESTMENTS (CONTINUED)

Group Other investments	Other listed investments £million	Other unlisted investments £million	Total £million
At 1 January, as restated	51.3	4.2	55.5
Additions	0.4	0.2	0.6
Businesses acquired	–	0.2	0.2
Impairment provision	–	(0.1)	(0.1)
Currency translation differences	4.1	–	4.1
At 31 December	55.8	4.5	60.3

Company	Shares in Group undertakings £million	Loans to Group undertakings £million	Shares in associated undertakings £million	Total £million
At 1 January, as restated	730.7	736.8	37.7	1,505.2
Additions	200.4	374.2	6.5	581.1
Disposals	(731.1)	–	–	(731.1)
Currency translation differences	–	39.6	–	39.6
At 31 December	200.0	1,150.6	44.2	1,394.8

The aggregate market value of the Group's other listed investments on 31 December 2003 was £57.6 million (2002 £52.1 million).

(14) STOCKS CONSIST

Stocks consist of goods held for resale. Their replacement cost does not differ significantly from the carrying value.

(15) SECURITISED RECEIVABLES

(a) French and Italian schemes

Receivables of £333.8 million (2002 £307.0 million) from French and Italian pharmacies have been securitised under five year programmes that mature in 2007. The Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements, being £299.5 million (2002 £277.1 million), nor does it intend to do so. The provider of these arrangements has agreed in writing that it will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

(b) UK scheme

In 2001, the Group entered into a five year agreement to sell UK receivables to Alliance No.1 PLC ("Alliance"). Alliance has issued £100 million secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £15.0 million, which is subordinated, representing the excess of the face value of the receivables sold over the £100 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £15.0 million of finance provided by the Group.

Under the agreements with the note holders, the Group is not obliged to support any losses in respect of the securitised receivables other than to the extent of the subordinated loans and does not intend to do so.

The controlling interest in Alliance is held by a discretionary trust established for charitable purposes. The Group receives interest on the subordinated loans and is paid administrative fees by Alliance.

(15) SECURITISED RECEIVABLES (CONTINUED)

Alliance is a quasi-subsiary of the Group and is not consolidated, as it meets the requirements of linked presentation under FRS 5 "Reporting the substance of transactions". The summary financial position of Alliance was:

	2003 £million	2002 £million
Profit and loss		
Interest receivable	6.2	6.4
Interest payable	(6.2)	(6.4)
Net interest receivable	–	–
Administrative expenses	–	–
Profit for the financial period	–	–
Balance sheet		
Current assets – investments	115.1	116.0
– cash at bank	0.8	4.1
Creditors due within one year	(0.5)	(0.8)
Creditors due in more than one year – debt securities	(115.4)	(119.3)
Net assets represented by equity shareholders' funds	–	–

At 31 December Group companies held £61.3 million (2002 £63.7 million) on behalf of Alliance, being amounts collected in respect of securitised receivables. These amounts were transferred to Alliance on 5 January 2004.

(16) OTHER DEBTORS

	Group		Company	
	2003 £million	2002 restated £million	2003 £million	2002 restated £million
Amounts falling due within one year				
Trade debtors	905.3	819.6	–	–
Amounts owed by associated undertakings	0.4	0.7	–	–
Loans to customers	50.7	39.1	–	–
Other debtors and accrued income	97.2	86.7	3.9	8.4
Other prepayments	27.8	26.4	–	1.2
Corporation tax recoverable	3.2	5.1	–	–
Deferred tax	3.0	3.3	–	1.2
Group relief receivable	–	–	6.6	5.8
	1,087.6	980.9	10.5	16.6
Amounts falling due after more than one year				
Trade debtors	0.8	1.8	–	–
Loans to customers	38.9	31.8	–	–
Other debtors	1.3	2.7	–	–
	41.0	36.3	–	–
Total	1,128.6	1,017.2	10.5	16.6

Notes to the financial statements (continued)

for the year ended 31 December 2003

(17) NET BORROWINGS

	Group		Company	
	2003 £million	2002 £million	2003 £million	2002 £million
Amounts falling due within one year				
Bank overdrafts	156.8	245.9	17.3	56.0
Bank loans	70.7	95.8	–	46.6
Loan notes	28.8	18.9	28.5	9.9
Obligations under finance leases	1.2	1.1	–	–
	257.5	361.7	45.8	112.5
Amounts falling due after more than one year				
Bank loans	140.2	121.9	24.3	94.1
2008 Senior notes 6.63% (US\$57 million)	35.4	32.8	35.4	32.8
2009 Senior notes 6.67% (US\$113 million)	70.3	65.0	70.3	65.0
2011 Senior notes 6.55% (US\$173 million)	136.8	126.5	136.8	126.5
2011 Senior notes 6.07% (€30 million)	21.1	19.6	21.1	19.6
2012 Senior notes 7.19% (US\$300 million)	223.9	216.1	223.9	216.1
2017 Senior notes 7.01% (£50 million)	51.9	50.7	51.9	50.7
Loan notes	–	27.5	–	27.5
Obligations under finance leases	7.3	8.1	–	–
	686.9	668.2	563.7	632.3
Total borrowings	944.4	1,029.9	609.5	744.8
Cash at bank and in hand	(117.2)	(149.7)	(28.9)	(11.8)
Net borrowings	827.2	880.2	580.6	733.0

Interest on bank loans at the year end was at floating rates of between 0.61% and 9.40%, dependent upon the currency borrowed.

Loan notes totalling £3.9 million falling due within one year can be redeemed by the holders giving one month's notice before an interest payment date. However, if no notice is given, these notes will fall due at their maturity dates, which for the most part will be 2012. At the year end these loan notes bore interest at floating rates of between 2.36% and 3.37% per annum.

Loan notes totalling £24.6 million and falling due within one year are repayable on 16 June 2004. At the year end they bore interest at a fixed rate of 3.50% per annum. The remaining loan notes are redeemable on demand.

The proceeds from the issue of Senior notes have been converted through cross-currency swaps into Euros, Swiss francs, Sterling and Norwegian kroner. At the same time, the underlying fixed interest rates have been swapped into floating rates of the relevant currency for the duration of the Senior notes. At year end, the Senior notes effectively bore interest at floating rates of between 2.63% and 8.75% per annum dependent upon currency. The amount reported against each Senior note represents the translation of the swapped currencies at year end exchange rates.

Within cash at bank and in hand, amounts totalling £61.3 million (2002 £63.7 million) were temporarily held by Group companies on behalf of Alliance No.1 PLC in relation to the UK securitised receivables programme. These amounts were transferred to Alliance No.1 PLC on 5 January 2004. Excluding these amounts, cash at bank and in hand totalled £55.9 million (2002 £86.0 million).

(18) FINANCIAL INSTRUMENTS

The Group's approach to managing financial risk is described in the Financial review. Short term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

(a) Book and fair value of financial instruments

A comparison of book values and fair values of the Group's financial assets and liabilities is set out below:

	2003		2002	
	Book value £million	Fair value £million	Book value £million	Fair value £million
Primary financial instruments held to finance the Group's operations:				
Cash at bank and in hand	117.2	117.2	149.7	149.7
Loans to associated undertakings	46.7	46.7	39.3	39.3
Other listed investments	55.8	57.6	51.3	52.1
Other unlisted investments	4.5	4.5	4.2	4.2
Debtors due after one year	41.0	41.0	36.3	36.3
Financial assets	265.2	267.0	280.8	281.6
Bank overdrafts	(156.8)	(156.8)	(245.9)	(245.9)
Bank loans	(196.9)	(196.9)	(212.2)	(212.2)
Loan notes	(460.4)	(483.1)	(515.4)	(557.7)
Obligations under finance leases	(8.5)	(8.5)	(9.2)	(9.2)
Total debt	(822.6)	(845.3)	(982.7)	(1,025.0)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate derivatives	–	(11.9)	–	(14.1)
Cross currency derivatives	(121.8)	(99.2)	(47.2)	(5.1)
Financial liabilities	(944.4)	(956.4)	(1,029.9)	(1,044.2)

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair value of all other financial instruments is approximately equal to book value due to either their short term nature or their being at variable interest rates.

(b) Interest rate profile

The interest rate profile of financial assets and liabilities, after taking into account interest rate and currency derivative contracts, was as follows:

	At floating interest rates £million	Non- interest bearing £million	Total £million
2003 Financial assets			
Sterling	59.1	0.7	59.8
Euro	79.2	59.0	138.2
Other	64.5	2.7	67.2
	202.8	62.4	265.2
2002 Financial assets			
Sterling	56.5	0.5	57.0
Euro	114.7	56.3	171.0
Other	49.6	3.2	52.8
	220.8	60.0	280.8

The Group has £nil of fixed rate financial assets at 31 December 2003 (2002 £nil).

Notes to the financial statements (continued)

for the year ended 31 December 2003

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate profile (continued)

Floating rate financial assets mainly comprise bank deposits and loans to associated undertakings which bear interest based on London interbank reference rates.

2003 Financial liabilities	Fixed rate financial liabilities				Total £million
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £million	At floating interest rates £million	
Sterling	4.9	1.6	44.6	79.1	123.7
Euro	4.3	1.5	421.2	226.2	647.4
Other	6.4	2.6	12.0	161.3	173.3
			477.8	466.6	944.4
2002 Financial liabilities					
Sterling	4.9	2.5	47.1	95.0	142.1
Euro	4.5	1.7	597.6	80.1	677.7
Other	5.9	1.7	32.8	177.3	210.1
			677.5	352.4	1,029.9

The Group has further Euro denominated derivative financial instruments to hedge securitisation costs that vary according to interest rates, totalling £112.5 million (2002 £131.8 million). These instruments have a weighted average interest rate of 4.3% which is fixed for a weighted average period of 1.5 years (2002 4.5% and 1.7 years).

Floating rate financial liabilities mainly comprise bank overdrafts, loans and loan notes predominantly bearing interest at margins over London interbank reference rates.

(c) Currency profile

There are no significant unmatched currency exposures on monetary assets and liabilities after taking into account the effects of currency swaps and forward exchange contracts.

(d) Maturity profile of financial liabilities

An analysis of financial liabilities, by due date of repayment, is as follows:

2003	Bank overdrafts £million	Bank loans £million	Loan notes £million	Obligations under finance leases £million	Total £million
	Within one year	156.8	70.7	28.8	
Between one and two years	–	12.4	–	1.4	13.8
Between two and five years	–	123.4	35.4	4.0	162.8
Over five years	–	4.4	504.0	1.9	510.3
	156.8	210.9	568.2	8.5	944.4
2002					
Within one year	245.9	95.8	18.9	1.1	361.7
Between one and two years	–	22.5	27.5	1.4	51.4
Between two and five years	–	90.4	–	4.0	94.4
Over five years	–	9.0	510.7	2.7	522.4
	245.9	217.7	557.1	9.2	1,029.9

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(e) Undrawn committed borrowing facilities

The maturity profile of the Group's undrawn committed facilities, where all conditions precedent had been met, at 31 December was:

	2003 £million	2002 £million
Within one year	0.8	3.0
Between two and five years	172.9	102.3
Total	173.7	105.3

(f) Hedging

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Unrecognised gains and losses on hedging instruments, and movements therein, were as follows:

Unrecognised gains and losses	Gains £million	Losses £million	Total £million
At 1 January 2003	47.7	(19.7)	28.0
Arising in previous years that were recognised in the year	(13.2)	13.3	0.1
Arising before 1 January that were not recognised in the year	34.5	(6.4)	28.1
Arising in the year that were not recognised in the year	(9.0)	(8.4)	(17.4)
At 31 December 2003	25.5	(14.8)	10.7
Of which expected to be recognised:			
In 2004	16.0	(6.8)	9.2
After 2004	9.5	(8.0)	1.5

(19) OTHER CREDITORS

	Group		Company	
	2003 £million	2002 £million	2003 £million	2002 £million
Amounts falling due within one year				
Trade creditors	1,164.1	967.6	–	–
Amounts owed to subsidiary undertakings	–	–	132.6	125.3
Capital creditors	5.9	–	–	–
Other creditors	143.9	119.4	6.1	10.3
Corporation tax	23.6	21.0	–	–
Other taxation and social security	91.0	86.5	–	3.6
Accruals and deferred income	57.2	49.5	5.4	8.9
Proposed dividend	38.1	34.8	38.1	34.8
	1,523.8	1,278.8	182.2	182.9

(20) PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred tax £million	Pensions £million	Total £million
At 1 January 2003, as previously stated	9.2	9.4	18.6
At 1 January 2003, in debtors, as previously stated	(3.3)	–	(3.3)
Prior year adjustment for FRS 17	2.5	(9.4)	(6.9)
At 1 January 2003, as restated	8.4	–	8.4
Charge for the year	6.8	–	6.8
Currency translation differences	0.4	–	0.4
	15.6	–	15.6
Asset recognised in debtors	3.0	–	3.0
At 31 December 2003	18.6	–	18.6

The deferred tax asset at 31 December 2003 of £3.0 million represents £0.6 million losses expected to be utilised against profits arising in 2004 and £2.4 million of other timing differences.

Notes to the financial statements (continued)

for the year ended 31 December 2003

(20) PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The sources of deferred tax and the amount for which no provision has been made are as follows:

Group	Provided		Not provided	
	2003 £million	2002 restated £million	2003 £million	2002 £million
Capital allowances	22.6	12.6	(0.6)	(0.1)
Other timing differences	1.7	(2.6)	(0.1)	–
Unrelieved tax losses	(8.7)	(1.6)	(7.7)	(5.6)
Chargeable gains deferred by roll-over relief	–	–	14.4	13.8
Property revaluation	–	–	5.1	4.6
Capital losses	–	–	–	(0.9)
	15.6	8.4	11.1	11.8

Company				
Short term timing differences, in other debtors	–	(1.2)	–	–

No deferred tax has been provided on gains covered by roll-over relief as such tax, estimated to be £14.4 million (2002 £13.8 million), would only become payable if the replacement property was sold without roll-over relief being obtained. No deferred tax has been provided on property revaluations as such tax, estimated to be £5.1 million (2002 £4.6 million), would only become payable if the property were sold without further roll-over relief being obtained.

(21) PENSIONS

Financial Reporting Standard 17, "Retirement Benefits" (FRS 17) has been adopted in full with effect from 1 January 2003. The adoption of FRS 17 has required a change to the accounting treatment of defined benefit pension arrangements, such that the Group includes the assets and liabilities of these arrangements in the Group's balance sheet. Current service costs, curtailment and settlement gains and losses, and net financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The Group operates several pension arrangements; the Group's total pension cost included within operating profit was £13.0 million (2002 £11.5 million, restated), being £7.2 million (2002 £6.4 million, restated) in respect of its defined benefit pension arrangements and £5.8 million (2002 £5.1 million) in respect of its defined contribution arrangements.

This total pension cost included within operating profit compares to £16.0 million (2002 £12.5 million), which would have been incurred under the previous accounting policy.

Restatement of comparatives

Prior year results have been restated as follows:

Group profit and loss account	Group operating profit £million	Net interest payable £million	Tax on profit on ordinary activities £million	Profit for the period £million
Year to 31 December 2002				
As previously stated	196.0	(46.9)	(57.7)	108.8
Adoption of FRS 17	1.0	–	(0.3)	0.7
As restated	197.0	(46.9)	(58.0)	109.5

Group balance sheet	Other debtors £million	Provision for liabilities and charges £million	Net pension liabilities £million	Profit and loss account £million
31 December 2002				
As previously stated	1,019.9	(18.6)	–	392.5
Adoption of FRS 17	(2.7)	6.9	(23.8)	(19.6)
As restated	1,017.2	(11.7)	(23.8)	372.9

(21) PENSIONS (CONTINUED)

UK scheme

The Group operates a principal UK pension scheme which has two plans: the UK Benefit Plan which is a funded defined benefit arrangement, and the UK Contribution Plan, which is a funded defined contribution arrangement. Both plans are administered by an independent company and their assets are held under trust separately from those of the Group.

The pension costs in respect of the UK Benefit Plan are assessed in accordance with the advice of Hewitt Bacon & Woodrow, an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2003. This has been updated by Hewitt Bacon & Woodrow to take account of the requirements of FRS 17, in order to assess the liabilities at 31 December 2003.

Following the valuation, it was agreed to adopt an employer contribution rate of 10.9% of pensionable pay, effective from 1 January 2004. In addition annual payments of £5.5 million have been agreed for 2003, 2004 and 2005 and further annual payments of £4.3 million for the subsequent 11 years. Previously, the rate payable had been 13.3% of pensionable pay since 1 January 2001.

Other schemes

The Group also sponsors a number of defined benefit plans outside of the UK, some of which are material. In The Netherlands there is a defined benefit pension plan, which is administered by a separate pension fund. In France there are insured arrangements providing retirement and termination benefits. In Norway many employees participate in an industry-wide multi-employer scheme which is accounted for as a defined contribution plan in accordance with FRS 17. In addition, in Norway there are two insured defined benefit schemes in place, which are accounted for as defined benefit schemes. The costs of material defined benefit plans have been recognised in the Group financial statements in accordance with the requirements of FRS 17.

The financial assumptions for the non-UK plans are weighted averages of the assumptions used for the overseas plans included.

The main financial assumptions used by the actuaries at 31 December were:

	2003		2002		2001	
	UK Benefit Plan % pa	Other European % pa	UK Benefit Plan % pa	Other European % pa	UK Benefit Plan % pa	Other European % pa
Discount rate	5.4	5.4	5.4	5.5	5.9	5.5
Inflation rate	2.8	2.0	2.3	2.5	2.5	2.0
Salary increases	3.8	2.4	3.3	2.5	3.5	2.7
Pension in payment increases for members who joined:						
up to 31 December 1996 (pre-July 2003 service)	5.0	1.6	5.0	2.0	5.0	2.5
up to 31 December 1996 (post-June 2003 service)	2.7	1.6	–	–	–	–
from 1 January 1997	2.7	1.6	2.3	2.0	2.5	2.5

The market value of the assets and expected rates of return for the defined benefit schemes at 31 December were:

	2003		2002		2001	
	Expected long-term return % pa	Value £million	Expected long-term return % pa	Value £million	Expected long-term return % pa	Value £million
UK Benefit Plan						
Equities	7.8	56.8	7.5	40.8	7.9	45.3
Bonds	4.8	20.2	4.4	15.2	5.0	14.0
Other	4.3	1.8	4.0	2.7	4.9	1.8
		78.8		58.7		61.1
Other European benefit plans						
Equities	8.0	4.3	8.0	3.2	8.0	4.1
Bonds	5.1	16.4	5.1	13.5	5.0	9.8
Other	5.0	5.5	5.0	4.9	5.0	4.2
		26.2		21.6		18.1
Total		105.0		80.3		79.2

Notes to the financial statements (continued)

for the year ended 31 December 2003

(21) PENSIONS (CONTINUED)

The value of the defined benefit pension scheme assets and liabilities can be summarised:

	2003			2002		
	UK Benefit Plan £million	Other European £million	Total £million	UK Benefit Plan £million	Other European £million	Total £million
Total market value of assets	78.8	26.2	105.0	58.7	21.6	80.3
Present value of scheme liabilities	(116.2)	(37.3)	(153.5)	(82.9)	(32.2)	(115.1)
Deficit in the schemes	(37.4)	(11.1)	(48.5)	(24.2)	(10.6)	(34.8)
Related deferred tax asset	11.2	3.8	15.0	7.3	3.7	11.0
Net pension liability	(26.2)	(7.3)	(33.5)	(16.9)	(6.9)	(23.8)

The net pension liability in respect of other pension schemes at 31 December 2003 was £0.8 million (2002 £nil).

The following amounts have been recognised in the financial statements:

Profit and loss account	2003		
	UK Benefit Plan £million	Other European £million	Total £million
Operating profit			
Current service cost	(4.9)	(2.4)	(7.3)
Past service cost	–	0.1	0.1
Charge to operating profit	(4.9)	(2.3)	(7.2)
Net interest payable and similar charges			
Expected return on pension scheme assets	4.2	1.4	5.6
Interest on pension scheme liabilities	(4.6)	(2.0)	(6.6)
Net return on defined benefit pension schemes	(0.4)	(0.6)	(1.0)
Net pension expense before taxation	(5.3)	(2.9)	(8.2)

Profit and loss account	2002		
	UK Benefit Plan £million	Other European £million	Total £million
Operating profit			
Current service cost	(4.1)	(2.3)	(6.4)
Expected return on pension scheme assets	4.6	1.1	5.7
Interest on pension scheme liabilities	(4.0)	(1.7)	(5.7)
Net return on defined benefit pension schemes	0.6	(0.6)	–
Net pension expense before taxation	(3.5)	(2.9)	(6.4)

Statement of total recognised gains and losses	2003		
	UK Benefit Plan £million	Other European £million	Total £million
Actual return on pension scheme assets less expected return on pension scheme assets	5.0	(0.3)	4.7
Experience gains and losses arising on the scheme liabilities	(7.8)	2.0	(5.8)
Changes in assumptions underlying the present value of the scheme liabilities	(15.9)	(0.1)	(16.0)
Actuarial (losses)/gains recognised	(18.7)	1.6	(17.1)

Statement of total recognised gains and losses	2002		
	UK Benefit Plan £million	Other European £million	Total £million
Actual return on pension scheme assets less expected return on pension scheme assets	(13.6)	(1.2)	(14.8)
Experience gains and losses arising on the scheme liabilities	–	(0.3)	(0.3)
Changes in assumptions underlying the present value of the scheme liabilities	(6.6)	1.8	(4.8)
Actuarial (losses)/gains recognised	(20.2)	0.3	(19.9)

(21) PENSIONS (CONTINUED)

	2003		2002	
	UK Benefit Plan £million	Other European £million	UK Benefit Plan £million	Other European £million
Movement in scheme deficits				
Deficit at 1 January	(24.2)	(10.6)	(6.2)	(8.7)
Current service costs	(4.9)	(2.4)	(4.1)	(2.3)
Past service costs	–	0.1	–	–
Contributions	10.8	1.7	5.7	1.2
Businesses acquired	–	–	–	0.1
Other finance income	(0.4)	(0.6)	0.6	(0.6)
Actuarial (losses)/gains	(18.7)	1.6	(20.2)	0.3
Currency translation differences	–	(0.9)	–	(0.6)
Deficits at 31 December	(37.4)	(11.1)	(24.2)	(10.6)

	2003		2002	
	UK Benefit Plan £million	Other European £million	UK Benefit Plan £million	Other European £million
Details of experience gains and losses				
Difference between expected and actual returns on scheme assets				
Amount	5.0	(0.3)	(13.6)	(1.2)
Percentage of scheme assets (%)	6.3	(1.1)	(23.2)	(5.6)
Experience gains and losses on scheme liabilities				
Amount	(7.8)	2.0	–	(0.3)
Percentage of present value of scheme liabilities (%)	(6.7)	5.4	–	(0.9)
Amount in Group statement of total recognised gains and losses				
Amount	(18.7)	1.6	(20.2)	0.3
Percentage of present value of scheme liabilities (%)	(16.1)	4.3	(24.4)	0.9

(22) SHARE CAPITAL

	Number million	Share capital 10p ordinary shares £million
Authorised share capital	432.9	43.3
Called up, issued and fully paid up		
At 1 January 2003	344.8	34.5
Shares issued during the year	5.9	0.6
At 31 December 2003	350.7	35.1

Details of shares allotted during the year were:

	Number million	Price paid per share £	Consideration £million
Share option exercises	0.7	1.92-5.00	2.0
Scrip elections in lieu of:			
2002 final dividend	3.6	4.21	15.1
2003 interim dividend	1.6	4.96	7.9
Share capital and share premium account movement	5.9		25.0
Of which:			
Share capital			0.6
Share premium account			24.4

Notes to the financial statements (continued)

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(22) SHARE CAPITAL (CONTINUED)

Details of outstanding options over ordinary shares at 31 December 2003 were:

Year of grant	Price (p)	Outstanding 2003	Outstanding 2002	Normally exercisable from
1990 Savings related scheme				
1995	216.00	–	3,429	01.12.2002 to 31.05.2003
1996	192.00	–	91,349	01.07.2003 to 31.12.2003
1997	214.00	–	10,312	01.07.2002 to 31.12.2002
1997	214.00	136,168	139,265	01.07.2004 to 31.12.2004
1998	324.00	13,299	241,849	01.08.2003 to 31.01.2004
1998	324.00	78,968	83,371	01.08.2005 to 31.01.2006
1999	384.00	–	14,856	01.07.2002 to 31.12.2002
1999	384.00	146,727	158,581	01.07.2004 to 31.12.2004
1999	384.00	45,095	46,242	01.07.2006 to 31.12.2006
2000	291.00	23,973	393,379	03.07.2003 to 02.01.2004
2000	291.00	264,739	278,406	03.07.2005 to 02.01.2006
2000	291.00	111,984	129,785	03.07.2007 to 02.01.2008
2001	463.00	246,769	327,660	01.07.2004 to 31.12.2004
2001	463.00	179,591	260,885	01.07.2006 to 31.12.2006
2001	463.00	35,454	61,637	01.07.2008 to 31.12.2008
2002	480.00	280,182	474,556	01.07.2005 to 31.12.2005
2002	480.00	208,805	339,784	01.07.2007 to 31.12.2007
2002	480.00	49,502	86,037	01.07.2009 to 31.12.2009
2003	337.00	836,823	–	01.07.2006 to 31.12.2006
2003	337.00	556,811	–	01.07.2008 to 31.12.2008
2003	337.00	82,354	–	01.07.2010 to 31.12.2010
		3,297,244	3,141,383	
1990 Executive scheme				
1993	253.99	–	55,000	01.11.1996 to 30.10.2003
1994	260.00	15,000	60,000	21.10.1997 to 20.10.2004
1995	269.00	372	372	18.10.1998 to 17.10.2005
		15,372	115,372	
1997 Discretionary scheme				
1997	268.50	36,872	66,872	13.06.2000 to 12.06.2004
1998	429.50	678,263	1,011,778	07.05.2001 to 06.05.2005
1999	442.00	544,500	664,500	14.05.2002 to 13.05.2006
1999	435.00	63,737	90,222	27.05.2002 to 26.05.2006
2000	379.00	843,199	1,343,084	23.03.2003 to 22.03.2007
2001	592.00	1,590,000	1,800,000	06.04.2004 to 05.04.2008
2002	609.00	1,850,000	1,990,000	09.04.2005 to 08.04.2009
2003	489.00	2,062,000	–	21.05.2006 to 20.05.2013
		7,668,571	6,966,456	
1998 Long term incentive plan				
2001	0.0001	–	31,812	06.04.2001 to 05.04.2011
2002	0.0001	9,852	40,023	19.03.2002 to 18.03.2012
2003	0.0001	106,352	–	17.04.2003 to 16.04.2013
		116,204	71,835	

(23) SHARES TO BE ISSUED

The shares to be issued represent the estimated value of the shares, including share premium, that will be potentially issued for deferred consideration for the acquisition of Hedef Alliance, discounted to reflect the future payment date. The Group can elect to satisfy the deferred consideration for Hedef Alliance in cash or shares, or a combination thereof. Following improvements in the operating results of Hedef Alliance, the deferred consideration was increased by £6.5 million at 31 December 2003. In addition, £0.9 million of discount on deferred consideration was charged through the profit and loss account in the year.

(24) OTHER RESERVES

Group	Share premium account £million	Capital reserve £million	Profit and loss account £million
At 1 January 2003, as previously stated	419.8	2.2	392.5
Prior year adjustment for FRS 17	–	–	(19.6)
At 1 January 2003, as restated	419.8	2.2	372.9
Shares issued	24.4	–	–
Retained profit for the year	–	–	71.4
Transfer	–	0.4	(0.4)
Loss on sale of own shares	–	–	(0.1)
Actuarial loss on defined benefit pension	–	–	(17.1)
Deferred tax associated with defined benefit pension	–	–	5.0
Currency translation differences	–	–	13.8
Tax on currency translation differences on foreign currency borrowings	–	–	0.4
At 31 December 2003	444.2	2.6	445.9
Company			
At 1 January 2003	419.8	–	163.0
Shares issued	24.4	–	–
Loss on sale of own shares	–	–	(0.1)
Retained loss for the year	–	–	(1.2)
At 31 December 2003	444.2	–	161.7

The capital reserve represents non-distributable reserves arising in some countries.

Group	2003 £million	2002 restated £million
Profit and loss account excluding net pension deficit	480.2	396.7
Pension reserve	(34.3)	(23.8)
Profit and loss account	445.9	372.9

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit for the financial year dealt with in the profit and loss account of the Company was £55.9 million (2002 £132.9 million).

(25) INVESTMENT IN OWN SHARES

Group and Company	2003 £million	2002 £million
Employee Share Trust		
At 1 January	26.1	13.9
Additions	–	17.1
Disposals	(3.0)	(4.9)
At 31 December	23.1	26.1

The Employee Share Trust (ESOP) had an investment at 31 December 2003 of £23.1 million (2002 £26.1million) in 5.3 million (2002 6.4 million) of the Company's shares. The market value of the holding at 31 December 2003 was £27.3 million (2002 £28.4 million). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options with administrative costs absorbed by the Company.

Notes to the financial statements (continued)

for the year ended 31 December 2003

(26) ACQUISITIONS

The Group has continued its development during the year through a number of business acquisitions, that have been accounted for by the acquisition accounting method, and are summarised for wholesale and retail acquisitions below.

Wholesale	Book value at acquisition £million	Accounting policy alignment £million	Provisional fair value £million
Assets acquired at book and fair value			
Fixed assets – tangible	0.4	0.4	0.8
– transfer from associate to subsidiary	(0.7)	–	(0.7)
Stocks	0.1	–	0.1
Creditors and provisions	(1.1)	–	(1.1)
Minority interests acquired	0.6	–	0.6
	(0.7)	0.4	(0.3)
Overdraft acquired	(0.1)	–	(0.1)
Borrowings acquired	–	(0.3)	(0.3)
Liabilities acquired	(0.8)	0.1	(0.7)
Consideration paid			£million
Cash			(7.7)
Deferred consideration movement			1.5
			(6.2)
Purchased goodwill			6.9

There were no fair value alignments in respect of wholesale acquisitions.

Retail

Assets acquired at book and fair value	Book and provisional fair value at acquisition £million
Fixed assets – intangible	48.4
– tangible	1.5
– investments	0.2
Stocks	4.7
Debtors	5.2
Creditors and provisions	(7.6)
Minority interests acquired	0.2
Assets acquired	52.6
Consideration paid	
	£million
Cash	(51.5)
Loan notes	(0.4)
Deferred consideration	(0.7)
	(52.6)
Purchased goodwill	–

Retail acquisitions comprised the acquisition of 61 pharmacies in the UK, Norway and The Netherlands. There were no accounting policy or fair value alignments required in respect of these acquisitions.

At 31 December 2003, cumulative goodwill written off to reserves for businesses acquired prior to 1998, net of that attributable to disposals, was £360.8 million (2002 £360.8 million).

(27) CASH FLOW STATEMENT

	2003 £million	2002 restated £million
(a) Reconciliation of Group operating profit to net cash inflow from operating activities		
Group operating profit	217.7	197.0
Depreciation	41.2	37.1
Amortisation of goodwill	8.6	8.5
Amortisation of pharmacy licences	0.3	0.4
Profit on disposal of fixed assets	(9.7)	(8.0)
(Increase)/decrease in stocks	(39.4)	50.1
Increase in debtors	(60.3)	(50.8)
Increase/(decrease) in creditors	168.3	(33.2)
Decrease in net pension liabilities	(4.4)	(0.5)
Net cash inflow from operating activities	322.3	200.6
(b) Returns on investments and servicing of finance		
Interest received	9.5	9.3
Interest paid	(59.4)	(57.0)
Dividends paid to minority shareholders	(0.4)	(0.4)
Interest element of finance lease payments	(0.4)	(0.5)
Net cash outflow from returns on investments and servicing of finance	(50.7)	(48.6)
(c) Capital expenditure and financial investment		
Purchase of fixed assets	(47.9)	(56.3)
Disposal of fixed assets	9.9	18.3
Loans to associated undertakings	(22.2)	(12.6)
Loans repaid by associated undertakings	14.9	0.8
Other investments (net)	2.5	(12.2)
Net cash outflow from capital expenditure and financial investment	(42.8)	(62.0)
(d) Acquisitions and disposals		
Purchase of businesses	(59.2)	(74.8)
Net overdrafts of businesses acquired	(0.1)	(8.5)
Purchase of shares in associated undertakings	(1.2)	(35.9)
Disposal of businesses	–	4.0
Net cash of businesses sold	0.3	–
Disposal of investment in associated undertakings	13.4	1.7
Net cash outflow from acquisitions and disposals	(46.8)	(113.5)

(28) NET CASH (OUTFLOW)/INFLOW FROM (DECREASE)/INCREASE IN DEBT AND LEASE FINANCING

	2003 £million	2002 £million
Debt due within one year:		
Net movement in money market borrowings maturing within one week	(35.4)	39.5
Decrease in short term borrowings	(65.1)	(67.3)
Borrowings due after one year:		
Increase in borrowings	32.4	267.0
Repayment of borrowings	(10.5)	(143.8)
Capital element of finance lease rental payments	(1.7)	(2.1)
Net cash (outflow)/inflow from (decrease)/increase in debt and lease financing	(80.3)	93.3

Notes to the financial statements (continued)

for the year ended 31 December 2003

(29) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash at bank and in hand £million	Borrowings due within one year £million	Borrowings due after more than one year £million	Net borrowings £million
At 1 January 2003	149.7	(361.7)	(668.2)	(880.2)
Increase in cash	(35.1)	65.1	–	30.0
Decrease/(increase) in debt	–	102.2	(21.9)	80.3
Businesses acquired	–	(0.1)	(0.2)	(0.3)
Reclassification	–	(46.5)	46.5	–
Other non cash movement	–	(0.4)	–	(0.4)
Currency translation differences	2.6	(16.1)	(43.1)	(56.6)
At 31 December 2003	117.2	(257.5)	(686.9)	(827.2)

(30) MAJOR NON-CASH TRANSACTIONS

Part of the purchase consideration for the acquisition of retail pharmacy businesses comprised loan notes. Further details are set out in note 26. Part of the purchase consideration for the increased stake in Hedef Alliance comprises shares to be issued. Further details are set out in note 23.

(31) OTHER FINANCIAL COMMITMENTS

At 31 December 2003 the Group had the following commitments payable within one year under operating leases expiring:

	Land and buildings £million	Other £million
Within one year	1.9	1.6
Between one and two years	1.4	3.1
Between two and five years	5.0	2.5
Over five years	13.8	–
	22.1	7.2

(32) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings all of which were indirectly held were:

Company	Interest in ordinary share capital	Country of operation	Country of incorporation	Main activity
Northern Europe Wholesale				
UniChem Limited	100%	UK	UK	pharmaceutical wholesaler
Interpharm B.V.	100%	The Netherlands	The Netherlands	pharmaceutical wholesaler
Alliance UniChem CZ Spo	97.1%	Czech Republic	Czech Republic	pharmaceutical wholesaler
Holtung A.S.	100%	Norway	Norway	pharmaceutical wholesaler
Southern Europe Wholesale				
Alliance Santé S.A.	99.7%	France	France	pharmaceutical wholesaler
Alleanza Salute Italia SpA	100%	Italy	Italy	pharmaceutical wholesaler and holding company
Safa Galenica S.A.	99.2%	Spain	Spain	pharmaceutical wholesaler
Alliance UniChem Farmaceutica S.A.	100%	Portugal	Portugal	pharmaceutical wholesaler
Retail				
E. Moss Limited	100%	UK	UK	retail pharmacy operator
Alliance UniChem Norge A.S.	100%	Norway	Norway	retail pharmacy operator
De Vier Vijzels B.V.	100%	The Netherlands	The Netherlands	retail pharmacy operator

As permitted by section 231(5) of the Companies Act 1985, only principal undertakings are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

(33) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings were:

Company	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Hedef Alliance Holding A.Ş.	50%	Turkey	Turkey	pharmaceutical wholesaler
Galenica A.G. ¹	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Alloga S.A. ²	20%	Europe	Luxembourg	holding company for a number of prewholesalers
Galenicare S.A. ²	50%	Switzerland	Switzerland	retail pharmacy operator
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software

¹ All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

² The remaining shares are owned by Galenica A.G. which is itself an associated undertaking.

(34) RELATED PARTY TRANSACTIONS

The Group has entered into a contract with Hedef Alliance to develop and supply warehouse management and financial software.

Trading transactions with associated undertakings were:

	2003		2002	
	Turnover in year £million	Balance at year end £million	Turnover in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	0.2	–	0.2	0.1
Hedef Alliance Holding A.Ş.	0.3	–	–	–
Alloga S.A. and subsidiaries	2.1	0.3	–	–
Pharmacy Initiative 1 Plc	1.4	0.1	1.2	0.1
Pharmacy Initiative 2 Plc	1.2	0.1	1.3	0.1
Pharmacy Initiative 3 Plc	0.1	0.1	–	–

	2003		2002	
	Purchases in year £million	Balance at year end £million	Purchases in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	0.6	0.2	5.1	0.6
Alloga S.A. and subsidiaries	92.3	3.9	52.7	7.5

(35) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £37.0 million (2002 £42.5 million) and other Group companies have guaranteed bank loans of £31.8 million (2002 £33.6 million) to third parties for the financing of pharmacy businesses.

(36) POST BALANCE SHEET EVENTS

On 28 January 2004, the Group completed the purchase of 19% of the equity of Andreae-Noris Zahn AG (“ANZAG”) at a cost before expenses of £41.7 million (€60.5 million), taking its shareholding to 29.99%. ANZAG is intended to be accounted for as an associate from this date.