

Notes to the financial statements

for the year ended 31 December 2004

(1) ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with United Kingdom generally accepted accounting principles and applicable accounting standards. The principal accounting policies adopted within that convention are set out below. They have all been applied consistently throughout the year and the preceding year.

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, amortisation of intangible assets and exceptional items 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 consolidated 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.

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.

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.

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 three and ten years
Motor vehicles	– between three and ten years

Freehold land is not depreciated.

Investments

Investments are stated at cost less provisions for impairment.

Stocks

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

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.

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.

(1) ACCOUNTING POLICIES (CONTINUED)**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. The shares of the Company held by the ESOP Trust are deducted in arriving at shareholders' funds.

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.

Pensions

The Group accounts for pension schemes in accordance with FRS 17 "Retirement Benefits". For defined contribution schemes, contributions are charged to operating profit 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.

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.

The results, assets and liabilities of undertakings in hyper-inflationary economies are adjusted to reflect current price levels before translation, taking any gain or loss on the net monetary position through 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.

Leased assets

Assets held under finance leases are capitalised and depreciated over the estimated useful life of the asset. The capital elements 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 on a straight-line basis.

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.

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.

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(2) EXCHANGE RATES

The significant exchange rates relative to Sterling used in the preparation of the financial statements are as follows:

	Average		Year end	
	2004	2003	2004	2003
Euro	1.475	1.443	1.413	1.419
Czech Koruna	47.20	46.01	42.93	45.97
Norwegian Kroner	12.38	11.59	11.64	11.91
Swiss Franc	2.279	2.198	2.185	2.214
Turkish Lira ('000)			2,596	2,476

(3) GROUP OPERATING PROFIT

	2004 £million	2003 £million
Turnover	8,898.4	8,799.3
Cost of sales	(8,014.0)	(7,965.2)
Gross profit	884.4	834.1
Administrative expenses	(651.4)	(618.4)
	233.0	215.7
Other operating income	1.9	2.0
Group operating profit	234.9	217.7

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.

All transactions are derived from continuing operations.

(4) SEGMENTAL ANALYSIS

	Total operating profit			Total operating profit		
	Turnover 2004 £million	before amortisation of intangible assets 2004 £million	after amortisation of intangible assets 2004 £million	Turnover 2003 £million	before amortisation of intangible assets 2003 £million	after amortisation of intangible assets 2003 £million
Wholesale Northern Europe	2,897.6	90.2	83.8	2,899.8	84.3	79.3
Wholesale Southern Europe	5,684.6	77.0	73.5	5,618.9	74.4	70.9
Retail – Europe	1,222.6	96.1	95.6	1,107.4	79.3	78.9
Corporate	–	(18.0)	(18.0)	–	(11.4)	(11.4)
Intra-Group	(906.4)	–	–	(826.8)	–	–
Group	8,898.4	245.3	234.9	8,799.3	226.6	217.7
Share of operating profit in associated undertakings	–	46.1	41.0	–	36.8	32.1
Total	8,898.4	291.4	275.9	8,799.3	263.4	249.8

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

(4) SEGMENTAL ANALYSIS (CONTINUED)

	2004 £million	2003 £million
Analysis of net assets		
Wholesale Northern Europe	320.8	341.0
Wholesale Southern Europe	568.6	568.8
Retail – Europe	758.4	666.8
Corporate	5.3	11.7
Net operating assets	1,653.1	1,588.3
Associated undertakings	369.8	287.6
Proposed dividends	(43.5)	(38.1)
Taxation	(50.6)	(36.0)
Net borrowings	(811.0)	(827.2)
Net pension liabilities	(36.3)	(34.3)
	1,081.5	940.3

(5) STAFF COSTS

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

	2004	2003
Wholesale Northern Europe	4,927	5,039
Wholesale Southern Europe	7,306	7,274
Retail – Europe	10,371	9,785
Corporate	87	62
	22,691	22,160

Costs incurred in respect of these employees were:

	2004 £million	2003 £million
Wages and salaries	364.3	333.0
Social security costs	73.0	64.7
Other pension costs (see note 22)		
– amounts within operating profit	12.6	13.0
– amounts included as other finance costs	1.0	1.0
– amounts recognised in statement of total recognised gains and losses	7.9	17.1
	458.8	428.8

Directors' emoluments for the financial year ended 31 December 2004 are provided in the Board report on remuneration.

(6a) EXCEPTIONAL ITEMS – PROFIT ON DISPOSAL OF BUSINESSES

During the year a number of non-core businesses within the UK wholesale operations were disposed of. The assets disposed of included £17.6 million of goodwill of which £11.1 million was capitalised within intangible fixed assets and £6.5 million had been previously written off directly to reserves.

(6b) EXCEPTIONAL ITEMS – AMOUNTS WRITTEN OFF INVESTMENTS

The amounts written off investments relate to the Group's residual US investment in a central dispensing business.

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(7) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £million	2003 £million
Interest payable		
Bank loans and overdrafts	23.9	34.0
Loan notes	19.7	21.5
Other loans	1.0	0.9
Finance charges payable on securitised receivables	2.7	2.9
Finance charges payable on finance leases	0.6	0.4
Associate interest payable	4.6	3.1
	52.5	62.8
Interest receivable		
Bank deposit interest receivable	(1.2)	(1.2)
Other finance income	(6.7)	(8.3)
Associate interest receivable	(6.4)	(1.7)
	(14.3)	(11.2)
Other finance costs		
Net return on defined benefit pension schemes (see note 22)	1.0	1.0
Discount on deferred acquisition consideration	0.2	0.9
	1.2	1.9
	39.4	53.5

(8) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	2004 £million	2003 £million
Depreciation of owned assets	41.0	40.5
Depreciation of assets held under finance leases	0.8	0.7
Total depreciation of tangible fixed assets	41.8	41.2
Goodwill amortisation – subsidiary undertakings	10.0	8.6
Goodwill amortisation – associated undertakings	5.1	4.7
Amortisation of retail pharmacy licences	0.4	0.3
Total amortisation of intangible assets	15.5	13.6
Administration costs of securitised receivables	4.5	5.1
Loss/(profit) on disposal of fixed assets	0.4	(9.7)
Operating lease rentals – land and buildings	25.0	21.3
– furniture, fixtures and equipment	1.3	2.5
– motor vehicles	7.2	5.6
Audit fees – principal auditors	1.5	0.9
– other auditors	0.1	0.4

Audit fees include amounts paid in connection with IFRS information relating to 2004 and £0.1 million (2003 £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	2004 £million	2003 £million
Due diligence reviews	0.1	–	0.1	0.2
Taxation services	0.1	–	0.1	1.0
Other	0.1	–	0.1	0.1
	0.3	–	0.3	1.3

(9) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £million	2003 £million
UK corporation tax		
Current tax on income for the year at 30% (2003 30%)	57.4	55.3
Double taxation relief	(27.4)	(35.7)
	30.0	19.6
Overseas tax		
Current tax on income for the year	28.5	30.1
Adjustment in respect of prior years	2.5	1.3
	31.0	31.4
Associated undertakings – current tax	14.2	8.4
Current tax charge	75.2	59.4
Deferred tax		
UK	2.2	0.2
Overseas	4.6	5.8
Adjustment in respect of prior years	(2.8)	0.8
	4.0	6.8
Deferred tax on defined benefit pension schemes	1.8	1.0
Deferred tax charge	5.8	7.8
	81.0	67.2

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. The reconciliation of expected tax charge using this standard tax rate of 31.5% (2003 31.8%) to the actual current tax charge is as follows:

	2004 £million	2003 £million
Profit on ordinary activities before taxation, amortisation of intangible assets and exceptional items	252.0	209.9
Amortisation of intangible assets	(15.5)	(13.6)
Exceptional items	11.7	–
Profit on ordinary activities before taxation	248.2	196.3

	2004 £million	2003 £million
Expected tax charge at standard tax rate	78.2	62.4
Goodwill amortisation	4.9	4.3
Exceptional items	(3.6)	–
Permanent timing differences	4.8	1.2
Income taxed at lower rates	(2.3)	–
Exempt capital gains	–	(1.9)
Timing differences in deferred tax	(8.5)	(7.0)
Tax losses brought forward and utilised in year	(0.9)	(1.2)
Unrelieved tax losses arising in year	0.1	0.3
Adjustment in respect of prior years	2.5	1.3
Current tax charge	75.2	59.4

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(10) DIVIDENDS

	2004 £million	2003 £million
Interim paid, net 6.25 pence (2003 5.7 pence)	21.5	19.0
Final proposed, net 12.25 pence (2003 11.0 pence)	43.5	38.1
	65.0	57.1

Under the terms of the trust, the dividend receivable in respect of the shares held by the 1992 Employee Trust is 0.001 pence per share.

(11) EARNINGS PER SHARE

	2004			2003		
	Profit for the financial year £million	Weighted average number of shares million	Earnings per share pence	Profit for the financial year £million	Weighted average number of shares million	Earnings per share pence
Basic						
Basic	167.1	350.6	47.7	128.5	341.4	37.6
Potentially dilutive share options	–	3.0	(0.4)	–	1.0	(0.1)
Deferred acquisition consideration	0.2	1.5	(0.2)	0.9	4.9	(0.2)
Diluted						
Diluted	167.3	355.1	47.1	129.4	347.3	37.3
Basic, before amortisation of intangible assets and exceptional items						
Basic	167.1	350.6	47.7	128.5	341.4	37.6
Amortisation of intangible assets	15.5	–	4.4	13.6	–	4.0
Exceptional items	(11.7)	–	(3.4)	–	–	–
Basic, before amortisation of intangible assets and exceptional items						
Basic	170.9	350.6	48.7	142.1	341.4	41.6
Potentially dilutive share options	–	3.0	(0.4)	–	1.0	(0.1)
Deferred acquisition consideration	0.2	1.5	(0.1)	0.9	4.9	(0.3)
Diluted, before amortisation of intangible assets and exceptional items						
Diluted	171.1	355.1	48.2	143.0	347.3	41.2

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.

(12) INTANGIBLE FIXED ASSETS

	Goodwill £million	Retail pharmacy licences £million	Total £million
Cost			
At 1 January 2004	204.0	614.2	818.2
Businesses acquired	5.3	76.2	81.5
Businesses disposed	(14.7)	–	(14.7)
Currency translation differences	1.3	3.4	4.7
At 31 December 2004	195.9	693.8	889.7
Amortisation			
At 1 January 2004	31.7	1.8	33.5
Charge for the year	10.0	0.4	10.4
Businesses disposed	(3.6)	–	(3.6)
Currency translation differences	0.6	0.1	0.7
At 31 December 2004	38.7	2.3	41.0
Net book value at 31 December 2004	157.2	691.5	848.7
Net book value at 31 December 2003	172.3	612.4	784.7

(13) 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 2004	177.3	23.4	5.8	334.9	22.1	563.5
Additions	6.7	10.7	5.0	53.4	4.8	80.6
Businesses acquired	0.9	–	–	1.1	–	2.0
Disposals	(4.8)	–	(0.1)	(10.1)	(7.4)	(22.4)
Businesses disposed	(0.6)	(0.2)	(0.1)	(10.7)	(0.4)	(12.0)
Currency translation differences	1.1	–	–	2.2	–	3.3
At 31 December 2004	180.6	33.9	10.6	370.8	19.1	615.0
Depreciation						
At 1 January 2004	37.8	4.4	2.5	201.3	12.6	258.6
Charge for the year	3.5	0.3	0.4	33.7	3.9	41.8
Businesses acquired	0.3	–	–	0.2	–	0.5
Disposals	(2.1)	–	–	(6.4)	(5.8)	(14.3)
Businesses disposed	(0.3)	–	(0.1)	(7.1)	(0.2)	(7.7)
Currency translation differences	0.2	–	–	1.5	–	1.7
At 31 December 2004	39.4	4.7	2.8	223.2	10.5	280.6
Net book value at 31 December 2004	141.2	29.2	7.8	147.6	8.6	334.4
Net book value at 31 December 2003	139.5	19.0	3.3	133.6	9.5	304.9

Included within the Group cost of buildings and furniture, fixtures and equipment are assets in the course of construction of £24.4 million (2003 £19.4 million).

The tangible fixed assets of the Company, which are in relation to short leasehold land and buildings, are included above at a cost of £0.6 million (2003 £0.6 million) and cumulative depreciation of £0.2 million (2003 £0.1 million). There were no additions during the year and the depreciation charge was £0.1 million.

The Group cost of long leaseholds includes capitalised interest of £0.5 million (2003 £0.5 million).

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

Group	2004 £million	2003 £million
Land and buildings	31.6	23.6
Furniture, fixtures and equipment	–	0.1
	31.6	23.7

(14) FIXED ASSET INVESTMENTS

Group	2004 £million	2003 £million
Associated undertakings	369.8	287.6
Other investments	42.6	60.3
	412.4	347.9

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(14) FIXED ASSET INVESTMENTS (CONTINUED)

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 2004	83.8	157.1	46.7	287.6
Adjustment in respect of prior year investments	(1.0)	–	–	(1.0)
Profit for the year	–	34.0	–	34.0
Amortisation of goodwill	(5.1)	–	–	(5.1)
Dividends	–	(4.3)	–	(4.3)
Additions	5.7	36.4	–	42.1
Transfer from other investments	–	14.4	–	14.4
Disposals	–	(2.3)	(0.2)	(2.5)
Loans repaid	–	–	(4.3)	(4.3)
Currency translation differences	0.6	8.0	0.3	8.9
At 31 December 2004	84.0	243.3	42.5	369.8

On 28 January 2004, the Group completed the purchase of 19% of the equity of Andreae-Noris Zahn AG ("ANZAG") at a total cost including expenses of £42.1 million, taking the total shareholding to 29.99%. As a result of the increase in the shareholding, ANZAG was accounted for as an associate from this date and the carrying value of the fixed asset investment of £14.4 million was transferred from other investments to investment in associated undertakings.

Loans to associated undertakings are provided at normal commercial rates.

The share of net assets of associated undertakings comprised:

	2004 £million	2003 £million
Share of fixed assets	176.5	143.0
Share of current assets	524.3	361.1
Share of liabilities due within one year	(337.5)	(227.2)
Share of liabilities due after more than one year	(120.0)	(119.8)
	243.3	157.1

Group	Other listed investments £million	Other unlisted investments £million	Total £million
Other investments			
At 1 January 2004	55.8	4.5	60.3
Transfer to associated undertakings	(14.4)	–	(14.4)
Businesses acquired	–	0.5	0.5
Impairment provision	–	(2.2)	(2.2)
Disposals	–	(1.0)	(1.0)
Currency translation differences	(0.6)	–	(0.6)
At 31 December 2004	40.8	1.8	42.6

Company	Shares in Group undertakings £million	Loans to Group undertakings £million	Shares in associated undertakings £million	Total £million
At 1 January 2004	200.0	1,150.6	44.2	1,394.8
Adjustment in respect of prior year acquisitions	–	–	(1.0)	(1.0)
Loans repaid	–	(81.7)	–	(81.7)
Currency translation differences	–	2.0	–	2.0
At 31 December 2004	200.0	1,070.9	43.2	1,314.1

The aggregate market value of the Group's other listed investments on 31 December 2004 was £44.7 million (2003 £57.6 million).

Details of subsidiary and associated undertakings are shown in notes 32 and 33.

(15) STOCKS

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

(16) SECURITISED RECEIVABLES**(a) French and Italian schemes**

Receivables of £343.2 million (2003 £333.8 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 £300.8 million (2003 £299.5 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 £12.9 million (2003 £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 £12.9 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.

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:

	2004 £million	2003 £million
Profit and loss		
Interest receivable	6.1	6.2
Interest payable	(6.0)	(6.2)
Net interest receivable	0.1	–
Administrative expenses	–	–
Profit for the financial year	0.1	–
Balance sheet		
Current assets – investments	112.5	115.1
– debtors	0.5	–
– cash at bank	1.0	0.8
Creditors due within one year	(1.0)	(0.5)
Creditors due in more than one year – debt securities	(112.9)	(115.4)
Net assets represented by equity shareholders' funds	0.1	–

At 31 December 2004 Group companies held £32.5 million (2003 £61.3 million) on behalf of Alliance, being amounts collected in respect of securitised receivables. These amounts were transferred to Alliance on 5 January 2005.

(17) OTHER DEBTORS

	Group		Company	
	2004 £million	2003 £million	2004 £million	2003 £million
Amounts falling due within one year				
Trade debtors	844.7	905.3	–	–
Amounts owed by subsidiary undertakings	–	–	5.2	–
Amounts owed by associated undertakings	0.6	0.4	–	–
Loans to customers	48.6	50.7	–	–
Other debtors and accrued income	104.3	97.2	2.5	3.9
Prepayments	23.0	27.8	–	–
Corporation tax recoverable	6.4	3.2	–	–
Deferred tax (see note 21)	5.8	3.0	–	–
Group relief receivable	–	–	–	6.6
	1,033.4	1,087.6	7.7	10.5
Amounts falling due after more than one year				
Trade debtors	–	0.8	–	–
Loans to customers	39.4	38.9	–	–
Other debtors	0.8	1.3	–	–
	40.2	41.0	–	–
Total	1,073.6	1,128.6	7.7	10.5

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(18) NET BORROWINGS

	Group		Company	
	2004 £million	2003 £million	2004 £million	2003 £million
Amounts falling due within one year				
Bank overdrafts	82.1	156.8	15.1	17.3
Bank loans	85.1	70.7	–	–
Loan notes	3.1	28.8	2.9	28.5
Obligations under finance leases	5.5	1.2	–	–
	175.8	257.5	18.0	45.8
Amounts falling due after more than one year				
Bank loans	178.4	140.2	14.5	24.3
2008 Senior notes 6.63% (US\$57 million)	35.6	35.4	35.6	35.4
2009 Senior notes 6.67% (US\$113 million)	70.6	70.3	70.6	70.3
2011 Senior notes 6.55% (US\$173 million)	137.4	136.8	137.4	136.8
2011 Senior notes 6.07% (€30 million)	21.2	21.1	21.2	21.1
2012 Senior notes 7.19% (US\$300 million)	226.0	223.9	226.0	223.9
2017 Senior notes 7.01% (£50 million)	52.0	51.9	52.0	51.9
Obligations under finance leases	14.9	7.3	–	–
	736.1	686.9	557.3	563.7
Total borrowings	911.9	944.4	575.3	609.5
Cash at bank and in hand	(100.9)	(117.2)	(8.5)	(28.9)
Net borrowings	811.0	827.2	566.8	580.6

Interest on bank loans at the year end was at floating rates of between 1.06% and 9.40%, dependent upon the currency borrowed.

Loan notes totalling £2.9 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 are between 2006 and 2014. At the year end these loan notes bore interest at floating rates of between 3.60% and 3.99% per annum.

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 2.11% and 6.42% 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, cheques collected in relation to the UK securitised receivables programme totalling £32.5 million (2003 £61.3 million) were awaiting clearing before being transferred to Alliance No. 1 PLC. Under the terms of the securitisation programme, cleared collections transferred to Alliance No. 1 PLC are returned the same day to Group companies as payment for new receivables. These amounts were transferred to Alliance No. 1 PLC on 5 January 2005. Excluding these amounts, cash at bank and in hand totalled £68.4 million (2003 £55.9 million).

(19) 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:

	2004		2003	
	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	100.9	100.9	117.2	117.2
Loans to associated undertakings	42.5	42.5	46.7	46.7
Other listed investments	40.8	44.7	55.8	57.6
Other unlisted investments	1.8	1.8	4.5	4.5
Debtors due after one year	40.2	40.2	41.0	41.0
Financial assets	226.2	230.1	265.2	267.0
Bank overdrafts	(82.1)	(82.1)	(156.8)	(156.8)
Bank loans	(249.0)	(249.0)	(196.9)	(196.9)
Loan notes	(409.8)	(444.3)	(460.4)	(483.1)
Obligations under finance leases	(20.4)	(20.4)	(8.5)	(8.5)
Total debt	(761.3)	(795.8)	(822.6)	(845.3)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate derivatives	–	(7.1)	–	(11.9)
Cross currency derivatives	(150.6)	(136.9)	(121.8)	(99.2)
Financial liabilities	(911.9)	(939.8)	(944.4)	(956.4)

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair values of the Senior notes are calculated using discounted cash flow methodology, based on third party estimates of the Group's credit spread above the benchmark swap curve. 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 fixed interest rates £million	At floating interest rates £million	Non-interest bearing £million	Total £million
2004 financial assets				
Sterling	–	48.8	0.2	49.0
Euro	–	73.4	47.5	120.9
Other	2.3	52.5	1.5	56.3
	2.3	174.7	49.2	226.2
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

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

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(19) FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate profile (continued)

	Fixed rate financial liabilities					Impact of foreign currency swaps £million	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			
2004 financial liabilities							
Sterling	6.3	17.9	27.5	23.2	(150.0)	(99.3)	
Euro	3.9	1.8	366.6	319.2	164.5	850.3	
Other	6.6	2.1	9.7	151.2	–	160.9	
			403.8	493.6	14.5	911.9	
2003 financial liabilities							
Sterling	4.9	1.6	44.6	79.1	(100.0)	23.7	
Euro	4.3	1.5	421.2	212.2	114.0	747.4	
Other	6.4	2.6	12.0	161.3	–	173.3	
			477.8	452.6	14.0	944.4	

The Sterling fixed rate liabilities include a long-term property lease.

In addition to the amounts detailed in the above table, the Group has Sterling denominated floating financial liabilities of £100.0 million (2003 £100.0 million) and Euro denominated floating financial liabilities of £300.8 million (2003 £299.5 million) relating to non-recourse receipts.

At the outset of the UK securitisation programme, the Group swapped the Sterling non-recourse receipts to repay Euro denominated debt. These swaps and other short-term swaps used to convert Sterling cash to Euros to repay Euro denominated debt are shown in the table above. They are all on a floating rate basis.

The Group has further Euro denominated derivative financial instruments to hedge securitisation costs that vary according to interest rates, totalling £98.8 million (2003 £112.5 million). These instruments have a weighted average interest rate of 3.9% which is fixed for a weighted average period of 1.8 years (2003 4.3% and 1.5 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:

	Bank overdrafts	Bank loans	Loan notes	Obligations under finance leases	Total
	£million	£million	£million	£million	£million
2004					
Within one year	82.1	85.1	3.1	5.5	175.8
Between one and two years	–	63.3	–	1.3	64.6
Between two and five years	–	112.7	106.0	3.4	222.1
Over five years	–	2.4	436.8	10.2	449.4
	82.1	263.5	545.9	20.4	911.9
2003					
Within one year	156.8	70.7	28.8	1.2	257.5
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

(19) 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:

	2004 £million	2003 £million
Within one year	–	0.8
Between two and five years	126.6	172.9
Total	126.6	173.7

(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 2004	25.5	(14.8)	10.7
Arising in previous years that were recognised in the year	(16.0)	6.8	(9.2)
Arising before 1 January that were not recognised in the year	9.5	(8.0)	1.5
Arising in the year that were not recognised in the year	7.7	(2.6)	5.1
At 31 December 2004	17.2	(10.6)	6.6
Of which expected to be recognised:			
In 2005	7.3	(6.5)	0.8
After 2005	9.9	(4.1)	5.8

(20) OTHER CREDITORS

	Group		Company	
	2004 £million	2003 £million	2004 £million	2003 £million
Amounts falling due within one year				
Trade creditors	1,130.9	1,160.0	–	–
Amounts owed to subsidiary undertakings	–	–	15.4	132.6
Amounts owed to associated undertakings	0.5	4.1	–	–
Capital creditors	6.6	5.9	–	–
Corporation tax	37.5	23.6	1.4	–
Other taxation and social security	75.3	91.0	–	–
Other creditors	111.3	143.9	3.5	6.1
Accruals and deferred income	56.9	57.2	5.2	5.4
Proposed dividend	43.5	38.1	43.5	38.1
	1,462.5	1,523.8	69.0	182.2

(21) PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred tax £million
At 1 January 2004	18.6
At 1 January 2004, asset recognised in debtors	(3.0)
Charge for the year	4.0
Business acquired	(0.2)
Currency translation differences	0.1
	19.5
Asset recognised in debtors	5.8
At 31 December 2004	25.3

The deferred tax asset at 31 December 2004 of £5.8 million represents £4.1 million losses expected to be utilised against profits arising in 2005 and £1.7 million of other timing differences.

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for the year ended 31 December 2004

(21) 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	
	2004 £million	2003 £million	2004 £million	2003 £million
Capital allowances	26.1	22.6	–	(0.6)
Other timing differences	4.7	1.7	–	(0.1)
Unrelieved tax losses	(12.8)	(8.7)	(2.9)	(7.7)
Chargeable gains deferred by roll-over relief	1.5	–	13.4	14.4
Fixed asset revaluation	–	–	4.6	5.1
Capital losses	–	–	(0.5)	–
	19.5	15.6	14.6	11.1

No deferred tax has been provided on gains covered by roll-over relief as such tax, estimated to be £13.4 million (2003 £14.4 million), would only become payable if the replacement property was sold without roll-over relief being obtained. £4.6 million (2003 £5.1 million) of deferred tax has not been provided on fixed asset revaluations as such tax would only become payable if the fixed assets were sold without further roll-over relief being obtained.

(22) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost included within operating profit was £12.6 million (2003 £13.0 million), being £5.7 million (2003 £7.2 million) in respect of its defined benefit pension arrangements and £6.9 million (2003 £5.8 million) in respect of its defined contribution arrangements.

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 2004.

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 were 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 operated by a government agency. During 2004, for the first time the agency provided an allocation of the assets and liabilities of the scheme to the participating members. The allocation was based on the proportion of total member contributions to the scheme. The Group's notional share of the surplus at 31 December 2004 calculated using this method was £2.1 million. Over the next few years, the agency intends to identify the assets and liabilities of the scheme by individual participant based on their specific service, and allocate these to current members. The results of this work may give a different allocation of the assets and liabilities from the notional allocation. Until this work is completed the scheme will continue to be 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.

(22) PENSIONS (CONTINUED)

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

	2004		2003		2002	
	UK benefit plan % pa	Other European % pa	UK benefit plan % pa	Other European % pa	UK benefit plan % pa	Other European % pa
Discount rate	5.3	4.6	5.4	5.4	5.4	5.5
Inflation rate	2.9	2.0	2.8	2.0	2.3	2.5
Salary increases	3.9	2.4	3.8	2.4	3.3	2.5
Pension in payment increases for members who joined:						
up to 31 December 1996 (pre-July 2003 service)	5.0	1.1	5.0	1.6	5.0	2.0
up to 31 December 1996 (post-June 2003 service)	2.7	1.1	2.7	1.6	—	—
from 1 January 1997	2.7	1.1	2.7	1.6	2.3	2.0

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

	2004		2003		2002	
	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	7.5	67.1	7.8	56.8	7.5	40.8
Bonds	4.9	24.0	4.8	20.2	4.4	15.2
Other	6.1	4.6	4.3	1.8	4.0	2.7
		95.7		78.8		58.7
Other European benefit plans						
Equities	7.0	5.9	8.0	4.3	8.0	3.2
Bonds	4.1	17.9	5.1	16.4	5.1	13.5
Other	4.8	6.4	5.0	5.5	5.0	4.9
		30.2		26.2		21.6
Total		125.9		105.0		80.3

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

	2004		2003		2002	
	UK benefit plan £million	Other European £million	Total £million	Total £million	Total £million	Total £million
Total market value of assets	95.7	30.2	125.9	105.0	80.3	
Present value of scheme liabilities	(132.1)	(46.3)	(178.4)	(153.5)	(115.1)	
Deficit in the schemes	(36.4)	(16.1)	(52.5)	(48.5)	(34.8)	
Related deferred tax asset	10.7	5.5	16.2	15.0	11.0	
Net pension liability	(25.7)	(10.6)	(36.3)	(33.5)	(23.8)	

The net pension liability in respect of other pension schemes at 31 December 2004 was £nil (2003 £0.8 million).

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(22) PENSIONS (CONTINUED)

The following amounts have been recognised in the financial statements:

	2004		
	UK benefit plan £million	Other European £million	Total £million
Profit and loss account			
Operating profit			
Current service cost	(4.9)	(2.5)	(7.4)
Curtailements/settlements	0.2	–	0.2
Past service cost	–	1.5	1.5
Charge to operating profit	(4.7)	(1.0)	(5.7)
Net interest payable and similar charges			
Expected return on pension scheme assets	5.8	1.4	7.2
Interest on pension scheme liabilities	(6.3)	(1.9)	(8.2)
Net return on defined benefit pension schemes	(0.5)	(0.5)	(1.0)
Net pension expense before taxation	(5.2)	(1.5)	(6.7)

	2003		
	UK benefit plan £million	Other European £million	Total £million
Profit and loss account			
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)

	2004		
	UK benefit plan £million	Other European £million	Total £million
Statement of total recognised gains and losses			
Actual return on pension scheme assets less expected return on pension scheme assets	3.2	0.9	4.1
Experience gains and losses arising on the scheme liabilities	(2.3)	(0.9)	(3.2)
Changes in assumptions underlying the present value of the scheme liabilities	(4.2)	(4.6)	(8.8)
Actuarial losses recognised	(3.3)	(4.6)	(7.9)

	2003		
	UK benefit Plan £million	Other European £million	Total £million
Statement of total recognised gains and losses			
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)

(22) PENSIONS (CONTINUED)

	2004		2003	
	UK benefit plan £million	Other European £million	UK benefit plan £million	Other European £million
Movement in scheme deficits				
Deficit at 1 January	(37.4)	(11.1)	(24.2)	(10.6)
Current service costs	(4.9)	(2.5)	(4.9)	(2.4)
Curtailements/settlements	0.2	–	–	–
Past service costs	–	1.5	–	0.1
Contributions	9.5	1.3	10.8	1.7
Other finance expense	(0.5)	(0.5)	(0.4)	(0.6)
Actuarial (losses)/gains	(3.3)	(4.6)	(18.7)	1.6
Currency translation differences	–	(0.2)	–	(0.9)
Deficits at 31 December	(36.4)	(16.1)	(37.4)	(11.1)

	2004		2003		2002	
	UK benefit plan £million	Other European £million	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	3.2	0.9	5.0	(0.3)	(13.6)	(1.2)
Percentage of scheme assets (%)	3.3	3.0	6.3	(1.1)	(23.2)	(5.6)
Experience gains and losses on scheme liabilities						
Amount	(2.3)	(0.9)	(7.8)	2.0	–	(0.3)
Percentage of present value of scheme liabilities (%)	(1.7)	(1.9)	(6.7)	5.4	–	(0.9)
Amount in Group statement of total recognised gains and losses						
Amount	(3.3)	(4.6)	(18.7)	1.6	(20.2)	0.3
Percentage of present value of scheme liabilities (%)	(2.5)	(9.9)	(16.1)	4.3	(24.4)	0.9

(23) 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 2004	350.7	35.1
Shares issued during the year	7.5	0.7
At 31 December 2004	358.2	35.8

Details of shares allotted during the year were:

	Number million	Price paid per share £	Consideration £million
Share option exercises	0.5	2.14-4.80	1.9
Scrip elections in lieu of:			
2003 final dividend	3.2	5.43	17.6
2004 interim dividend	1.6	6.55	10.3
Share issued on acquisitions and accrued in prior year	5.3		29.8
Share capital and share premium account movement	2.2	5.72	12.4
	7.5		42.2
Of which:			
Share capital			0.7
Share premium account			41.5

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(23) SHARE CAPITAL (CONTINUED)

Details of outstanding options over ordinary shares at 31 December 2004 were:

Year of grant	Price pence	Outstanding 2004	Outstanding 2003	Normally exercisable from
1990 Savings related scheme				
1997	214.00	1,457	136,168	01.07.2004 to 31.12.2004
1998	324.00	–	13,299	01.08.2003 to 31.01.2004
1998	324.00	73,313	78,968	01.08.2005 to 31.01.2006
1999	384.00	527	146,727	01.07.2004 to 31.12.2004
1999	384.00	44,138	45,095	01.07.2006 to 31.12.2006
2000	291.00	–	23,973	03.07.2003 to 02.01.2004
2000	291.00	250,715	264,739	03.07.2005 to 02.01.2006
2000	291.00	108,197	111,984	03.07.2007 to 02.01.2008
2001	463.00	334	246,769	01.07.2004 to 31.12.2004
2001	463.00	167,947	179,591	01.07.2006 to 31.12.2006
2001	463.00	33,710	35,454	01.07.2008 to 31.12.2008
2002	480.00	238,582	280,182	01.07.2005 to 31.12.2005
2002	480.00	184,419	208,805	01.07.2007 to 31.12.2007
2002	480.00	45,388	49,502	01.07.2009 to 31.12.2009
2003	337.00	729,297	836,823	01.07.2006 to 31.12.2006
2003	337.00	484,319	556,811	01.07.2008 to 31.12.2008
2003	337.00	66,134	82,354	01.07.2010 to 31.12.2010
2004	440.00	478,349	–	01.07.2007 to 31.12.2007
2004	440.00	237,595	–	01.07.2009 to 31.12.2009
2004	440.00	76,912	–	01.07.2011 to 31.12.2011
		3,221,333	3,297,244	
1990 Executive scheme				
1994	260.00	–	15,000	21.10.1997 to 20.10.2004
1995	269.00	–	372	18.10.1998 to 17.10.2005
		–	15,372	
1997 Discretionary scheme				
1997	268.50	–	36,872	13.06.2000 to 12.06.2004
1998	429.50	66,000	678,263	07.05.2001 to 06.05.2005
1999	442.00	150,000	544,500	14.05.2002 to 13.05.2006
1999	435.00	–	63,737	27.05.2002 to 26.05.2006
2000	379.00	371,000	843,199	23.03.2003 to 22.03.2007
2001	592.00	707,000	1,590,000	06.04.2004 to 05.04.2008
2002	609.00	1,610,000	1,850,000	09.04.2005 to 08.04.2009
2003	489.00	1,907,000	2,062,000	21.05.2006 to 20.05.2013
2004	556.00	1,896,295	–	19.03.2007 to 18.03.2014
		6,707,295	7,668,571	
1998 Long-term incentive plan				
2002	0.0001	–	9,852	19.03.2002 to 18.03.2012
2003	0.0001	–	106,352	17.04.2003 to 16.04.2013
2004	0.0001	27,577	–	20.03.2004 to 19.03.2014
		27,577	116,204	
I.K. Meakins share incentive plan				
2004	0.0001	119,946	–	01.12.2005 to 01.12.2014
		119,946	–	

(24) OTHER RESERVES

Group	Share premium account £million	Capital reserve £million	Profit and loss account £million
At 1 January 2004	444.2	2.6	445.9
Shares issued	41.5	–	–
Retained profit for the year	–	–	102.1
Transfer	–	0.1	(0.1)
Profit on sale of own shares	–	–	0.3
Actuarial loss on defined benefit pension schemes	–	–	(7.9)
Deferred tax associated with defined benefit pension schemes	–	–	2.6
Goodwill recycled on business disposals	–	–	6.5
Utilisation of accrual for long-term incentive plan	–	–	2.5
Currency translation differences	–	–	8.4
Tax on currency translation differences on foreign currency borrowings	–	–	(0.3)
At 31 December 2004	485.7	2.7	560.0
Company			
At 1 January 2004	444.2	–	161.7
Shares issued	41.5	–	–
Profit on sale of own shares	–	–	0.3
Retained profit for the year	–	–	16.0
At 31 December 2004	485.7	–	178.0

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

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 £81.0 million (2003 £55.9 million).

(25) INVESTMENT IN OWN SHARES

Group and Company	2004 £million	2003 £million
Employee share trusts		
At 1 January	23.1	26.1
Disposals	(10.0)	(3.0)
At 31 December	13.1	23.1

The Company has two employee share trusts, the 1992 Employee Trust and the Alliance UniChem Employee Share Trust. These trusts had a combined investment at 31 December 2004 of £13.1 million (2003 £23.1 million) in 2.9 million (2003 5.3 million) of the Company's shares. The market value of the holdings at 31 December 2004 was £21.9 million (2003 £27.3 million). Under the terms of the trust, the dividend receivable in respect of the shares held by the 1992 Employee Trust, which held 2.8 million of the Company's shares at 31 December 2004, is 0.001 pence per share. The trusts have been set up primarily to transfer shares to option scheme holders on exercise of their options with administrative costs absorbed by the Company.

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for the year ended 31 December 2004

(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 and provisional fair value at acquisition £million
Assets acquired at book and fair value		
Fixed assets – tangible		0.3
Fixed assets – investments		0.5
Stocks		0.2
Debtors		0.2
Cash acquired		0.1
Creditors		(1.5)
Minority interests acquired		0.5
Assets acquired		0.3
Consideration paid		
Cash		(3.9)
Deferred consideration movement		0.5
		(3.4)
Purchased goodwill		3.1

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

Retail	Book value at acquisition £million	Fair value adjustments £million	Provisional fair value at acquisition £million
Assets acquired at book and fair value			
Fixed assets – intangible	12.1	64.1	76.2
Fixed assets – tangible	1.2	–	1.2
Stocks	5.6	–	5.6
Debtors	6.2	–	6.2
Cash acquired	1.9	–	1.9
Creditors and provisions	(7.8)	–	(7.8)
Assets acquired	19.2	64.1	83.3
Consideration paid			
Cash			(84.8)
Loan notes			(0.7)
			(85.5)
Purchased goodwill			2.2

Retail acquisitions comprised the acquisition of 80 pharmacies in the UK, Norway and The Netherlands.

At 31 December 2004, cumulative goodwill written off to reserves for businesses acquired prior to 1998, net of that attributable to disposals, was £354.3 million (2003 £360.8 million).

(27) CASH FLOW STATEMENT

	2004 £million	2003 £million
(a) Reconciliation of Group operating profit to net cash inflow from operating activities		
Group operating profit	234.9	217.7
Depreciation	41.8	41.2
Amortisation of goodwill	10.0	8.6
Amortisation of pharmacy licences	0.4	0.3
Loss/(profit) on disposal of fixed assets	0.4	(9.7)
Decrease/(increase) in stocks	33.3	(39.4)
Decrease/(increase) in debtors	67.6	(60.3)
(Decrease)/increase in creditors	(72.4)	168.3
Decrease in net pension liabilities	(5.9)	(4.4)
Net cash inflow from operating activities	310.1	322.3
(b) Returns on investments and servicing of finance		
Interest received	8.1	9.5
Interest paid	(52.1)	(59.4)
Dividends paid to minority shareholders	(0.1)	(0.4)
Interest element of finance lease payments	(0.6)	(0.4)
Net cash outflow from returns on investments and servicing of finance	(44.7)	(50.7)
(c) Capital expenditure and financial investment		
Purchase of fixed assets	(66.6)	(47.9)
Disposal of fixed assets	7.7	9.9
Loans to associated undertakings	–	(22.2)
Loans repaid by associated undertakings	4.3	14.9
Other investments (net)	10.8	2.5
Net cash outflow from capital expenditure and financial investment	(43.8)	(42.8)
(d) Acquisitions and disposals		
Purchase of businesses	(88.7)	(59.2)
Net cash/(overdrafts) of businesses acquired	2.0	(0.1)
Purchase of shares in associated undertakings	(54.0)	(1.2)
Disposal of businesses	31.0	–
Net overdrafts of businesses sold	0.8	0.3
Disposal of investment in associated undertakings	1.9	13.4
Net cash outflow from acquisitions and disposals	(107.0)	(46.8)

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

	2004 £million	2003 £million
Debt due within one year:		
Net movement in money market borrowings maturing within one week	(17.9)	(35.4)
Decrease in short-term borrowings	(9.9)	(65.1)
Borrowings due after one year:		
Increase in borrowings	40.7	32.4
Repayment of borrowings	(8.7)	(10.5)
Capital element of finance lease rental payments	(1.5)	(1.7)
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	2.7	(80.3)

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(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 2004	117.2	(257.5)	(686.9)	(827.2)
Increase in cash	(15.4)	58.2	–	42.8
Decrease/(increase) in debt	–	29.3	(32.0)	(2.7)
Finance leases entered into	–	(3.0)	(10.3)	(13.3)
Other non-cash movement	–	(0.7)	–	(0.7)
Currency translation differences	(0.9)	(2.1)	(6.9)	(9.9)
At 31 December 2004	100.9	(175.8)	(736.1)	(811.0)

(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 was satisfied during the year through the issue of 2.2 million ordinary shares of Alliance UniChem Plc.

(31) OTHER FINANCIAL COMMITMENTS

At 31 December 2004 the Group had the following commitments payable within one year under operating leases expiring:

	2004		2003	
	Land and buildings £million	Other £million	Land and buildings £million	Other £million
Within one year	1.9	0.8	1.9	1.6
Between one and two years	1.4	2.8	1.4	3.1
Between two and five years	4.6	4.7	5.0	2.5
Over five years	15.5	0.3	13.8	–
	23.4	8.6	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
Wholesale Northern Europe				
UniChem Limited	100%	UK	UK	pharmaceutical wholesaler
Interpharm B.V.	100%	The Netherlands	The Netherlands	pharmaceutical wholesaler
Alliance UniChem CZ Spo Holtung A.S.	97.1%	Czech Republic	Czech Republic	pharmaceutical wholesaler
	100%	Norway	Norway	pharmaceutical wholesaler
Wholesale Southern Europe				
Alliance Santé S.A.	99.8%	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.S. ⁽¹⁾	50%	Turkey	Turkey	pharmaceutical wholesaler
Galenica A.G. ⁽²⁾	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Alloga S.A. ⁽³⁾	20%	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A. ⁽³⁾	50%	Switzerland	Switzerland	retail pharmacy operator
Andreae-Noris Zahn AG	29.99%	Germany	Germany	pharmaceutical wholesaler
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software

(1) The interest in ordinary share capital and voting rights held directly by Alliance UniChem Plc is 25%.

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

(3) 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:

	2004		2003	
	Turnover in year £million	Balance at year end £million	Turnover in year £million	Balance at year end £million
Hedef Alliance Holding A.S.	–	–	0.3	–
Alloga S.A. and subsidiaries	2.0	0.1	2.1	0.3
Unifarma Distribuzione S.r.l.	–	–	0.2	–
Pharmacy Initiative 1 Plc	1.9	0.2	1.4	0.1
Pharmacy Initiative 2 Plc	1.4	0.2	1.2	0.1
Pharmacy Initiative 3 Plc	0.6	0.1	0.1	0.1

	2004		2003	
	Purchases in year £million	Balance at year end £million	Purchases in year £million	Balance at year end £million
Alloga S.A. and subsidiaries	97.1	0.5	92.3	3.9
Unifarma Distribuzione S.r.l.	–	–	0.6	0.2

(35) CONTINGENT LIABILITIES

The Group offers its UK wholesale customers access to long-term financing for their pharmacy businesses through financing arrangements developed by the Group with its banks. The Company supports these arrangements through the provision of guarantees, which at 31 December 2004 amounted to £18.6 million (2003 £37.0 million). Guarantees are also provided by another Group company that totalled £30.7 million at 31 December 2004 (2003 £31.8 million). Total loans outstanding through these financing arrangements at 31 December 2004 were £205.8 million (2003 £198.9 million).

In the last five years the Group has not suffered any loss in relation to these schemes.

(36) POST BALANCE SHEET EVENTS

On 2 February 2005 the Group announced that it is to restructure its relationship with Galenica A.G., in which it has a 25.5% interest in the ordinary share capital. Under the terms of the restructuring the Group will increase its direct ownership in Alloga S.A., one of Europe's leading specialist healthcare logistics and prewholesaling providers, from 20% to 100%, with the exception of the Swiss part of the business which will be fully acquired by Galenica A.G.. In addition, the Group will sell its 50% direct interest in the ordinary share capital of GaleniCare S.A., the Swiss retail pharmacy chain operator, to Galenica A.G.. The net cash inflow from these transactions will be around £20 million (€29 million). As part of this restructuring, the Group will extend its associate agreement with Galenica S.A. for a further five years to 2014. This transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April.

On 21 February 2005 the Group announced that it is to expand its Spanish wholesaling business through the acquisition of Farmacen, a regional wholesaler with strong market positions in the Madrid and Seville regions, its sales totalling around £184 million (€272 million). It is being acquired at a cost of around £33 million (€48 million), including debt assumed as part of the acquisition, of which around half is payable in instalments over the next four years. The transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April.