Operating and financial review

A strong and diverse business portfolio

Divisional highlights for the six months ended 30 June 2005

	Revenue £million	Operating profit* £million	Growth over first half of 2004 Revenue %	Operating profit* %
Wholesale – Northern Europe	1,424.5	45.0	–3.4	+5.9
– Southern Europe	2,996.4	34.9	+4.8	–7.9
Intra-segment	(20.1)	–	–	–
Wholesale	4,400.8	79.9	+2.0	–0.6
Retail	633.7	53.3	+9.4	+18.2
Corporate	–	(11.3)	–	–
Intra-group	(415.2)	–	–	–
Group	4,619.3	121.9	+3.1	+3.1
Share of associates' revenue and operating profit	927.8	30.6	+20.3	+68.1
Total	**5,547.1**	**152.5**	**+5.6**	**+11.8**

* Operating profit comprises profit from operations before profit on disposal of businesses and profit on disposal of/(amounts written off) investments

Markets

The wholesale markets in which our businesses operate grew, we estimate, by around 3% in value on a constant currency basis compared to the first half of last year, this growth being weighted on the basis of our wholesale revenue. This was just below the rate we forecast for the full year at the beginning of 2005, the only significant country variation being in Italy due to a combination of the extension of the "temporary" price cuts introduced mid-way through last year and lower levels of consumption. For the full year we currently forecast that our wholesale markets will grow in value at around the same rate as in the first half.

Generic prescribing continues to increase, reducing wholesale market growth in value terms as more expensive brands come off patent and are replaced by cheaper generic medicines which typically offer higher trading margins to us. In the first half of the year we estimate that generics comprised around 10% of our total wholesale market in volume terms, weighted on the basis of our wholesale volumes, this percentage typically being significantly higher in our markets in Northern Europe. We anticipate this percentage rising as more products come off patent and generic penetration increases in Southern Europe.

The overall level of parallel trade in Europe was lower than in the first half of last year, mainly due to manufacturers' quotas and other initiatives restricting product availability for export. Importing into the UK was further constrained by the impact of the Department of Health's Pharmaceutical Price Regulation Scheme (PPRS) price cuts in the UK at the beginning of January which reduced the price of branded pharmaceutical products by an average of 7%, resulting in fewer price differentials between the UK and certain other countries. Most manufacturers took the opportunity to modulate the PPRS price cuts on their products, reductions being larger on products where parallel importing was previously prevalent.

Retail markets, weighted on the basis of our retail revenue, grew, we estimate, by around 2% in value on a constant currency basis compared to the first half of last year.

This was below the rate we forecast for the full year at the beginning of 2005 due to lower growth rates in all retail markets. For the full year, we currently forecast that our retail markets will grow in value at around the same rate as in the first half.

Wholesale

Revenue in our wholesale division totalled £4,400.8 million, an increase of 2.0% on the first half of last year, operating profits reducing by 0.6% to £79.9 million. Adjusting for acquisitions and disposals, on a constant currency basis like for like sales increased by 1.3% and operating profits by 0.1%.

The results of Alloga, our specialist healthcare logistics and pre-wholesaling provider acquired in April, are included within the relevant countries' wholesale figures. Total Alloga revenue since acquisition was £5.6 million. Alloga made an operating loss during the period, mainly due to integration costs and operational issues in France. New bulk warehouse capacity is being brought on stream in France to expand the business.

Northern Europe

Operating profit in the Northern Europe geographical area of our wholesale division totalled £45.0 million, an increase of 5.9% on the first half of last year, on revenue down 3.4% to £1,424.5 million, four non-core businesses having been sold in the UK in the second half of last year. Adjusting for these disposals and the acquisition of Alloga, the underlying performance was good. On a constant currency basis like for like sales increased by 0.5%, operating margins increased by 21 basis points and operating profits increased by 7.7%.

UK

In the UK, total revenue decreased by 8.6% to £893.3 million, like for like sales decreasing by 0.5% on the first half of last year, which was in line with our estimate for the market. This decline was due to the implementation of the PPRS price cuts at the beginning of January (which reduced the price of branded pharmaceutical products by an average of 7%), further price reductions by certain manufacturers and a new lower drug tariff for generics from the beginning of April. In the early part of the year the PPRS price cuts resulted in temporary disruption in the marketplace, first through parallel traders discounting unsold stock and later by manufacturers being out of stock of the equivalent branded product which adversely impacted service levels to our customers and our own pharmacies. Careful margin management throughout this period enabled the business to increase both operating margins and profits on a like for like basis.

We currently forecast that the UK market will decline in value terms by around 1.0% in the full year, taking into account the price reductions during the first half and branded drug patent expiries expected in the second half. Next year we expect the market to return to growth.

The warehouse best practice programme continued during the period with work on the central distribution centre in South Normanton, which started towards the end of last year. The expertise gained from the programme now forms part of our normal working practices across the Group. The investment in best practice, along with other operating initiatives, is supporting the drive to improve both efficiency and customer service levels. A number of programmes are under way across the Group to deliver these benefits and build on the productivity enhancements achieved to date.

The programme established at the end of last year to drive greater synergies from the UK wholesale and retail businesses, with a particular focus on manufacturer services and operations, is progressing well, the wholesale and retail buying functions for "over the counter" products being successfully combined at the beginning of the period. This programme, which is still in its infancy, is already beginning to deliver significant benefits for the Group.

The continued growth of "Almus", the Group's exclusive range of generic drugs, is providing sourcing benefits aimed at offsetting the impact of patent expiries. The Almus range at 30 June 2005 comprised 140 products, sales volumes increasing rapidly during the first half of the year. Progress is being made towards launching Almus in a number of other European countries, starting with France early next year.

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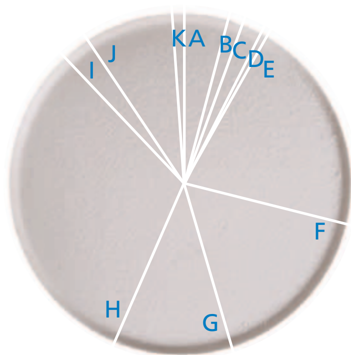
Wholesale

Wholesale depots at 30 June 2005*



A. UK	11
B. The Netherlands	4
C. Czech Republic	6
D. Norway	1
E. France	57
F. Italy (including associates)	45
G. Spain	30
H. Turkey**	85
I. Portugal**	7
J. Germany**	23
K. Switzerland**	3
Total	**272**

* Excludes pre-wholesale depots
** Associate interest

In France, we are realigning our commercial terms, developing our short line offering and working closely with a number of generic manufacturers to increase our market share.

The new pharmacy contract in England and Wales, which took effect from the beginning of April, has created significant changes for retail pharmacies in terms of the growing focus on the services they offer patients and the resulting change in funding. In response, our UK wholesale business developed step by step guidance for independent pharmacy customers to follow, as well as "your portfolio", a comprehensive package of retail, healthcare and business services for independent retail pharmacies.

The Netherlands

In The Netherlands, revenue increased by 3.3% to £323.4 million, sales increasing by 0.8% on a constant currency basis. This compares to a market which we estimate grew in value by around 3.5%, market share reducing after a number of years of significant share gains due to the loss of a multiple pharmacy account which we are in the process of replacing with new business. Operating margins and profits increased, mainly due to enhanced trading activities. We currently forecast that the market in The Netherlands will grow in value terms by around 3.5%, which is in line with our estimate of growth in the first half.

Czech Republic

In the Czech Republic, revenue increased by 16.6% to £105.4 million, sales increasing by 6.4% on a constant currency basis, compared to a market which we estimate grew by around 8.5%. We continue to place considerable focus on increasing sales to independent retail pharmacies, our market share reducing in the hospital sector due to our unwillingness to continue to supply certain hospitals currently experiencing financial constraints which impact their ability to adhere to our payment terms. Operating margins and profits increased compared to the first half of last year, gross margins increasing due to an improved product mix. We currently forecast that the market in the Czech Republic will grow in value terms by around 10.5% in the full year, the recent certification of certain ethical products expected to impact market growth favourably in the second half.

Norway

In Norway, revenue increased by 8.6% to £102.4 million, sales increasing by 2.8% on a like for like constant currency basis, compared to a market which we estimate grew in value by around 4%, the difference being due to lower sales to third party pharmacies. Increasing synergies from running the Norwegian retail and wholesale businesses more closely resulted in higher gross margins and lower costs. These factors led to increased operating margins and profits. In January, we acquired the 49% we did not previously own of Farmaka, the leading central dispensing unit in Norway for the pre-packaged daily dose multi-set medications. Since then, the unit has been relocated to larger premises and production capacity increased to meet rising demand for these specialist packs. We currently forecast that the market in Norway will grow in value terms by around 5% in the full year.

Southern Europe

Operating profit in the Southern Europe geographical area of our wholesale division totalled £34.9 million, a reduction of 7.9% on the first half of last year on revenue up 4.8% to £2,996.4 million. Adjusting for acquisitions, on a constant currency basis like for like sales increased by 1.7%, operating profit reduced by 8.2% and margins reduced by 13 basis points.

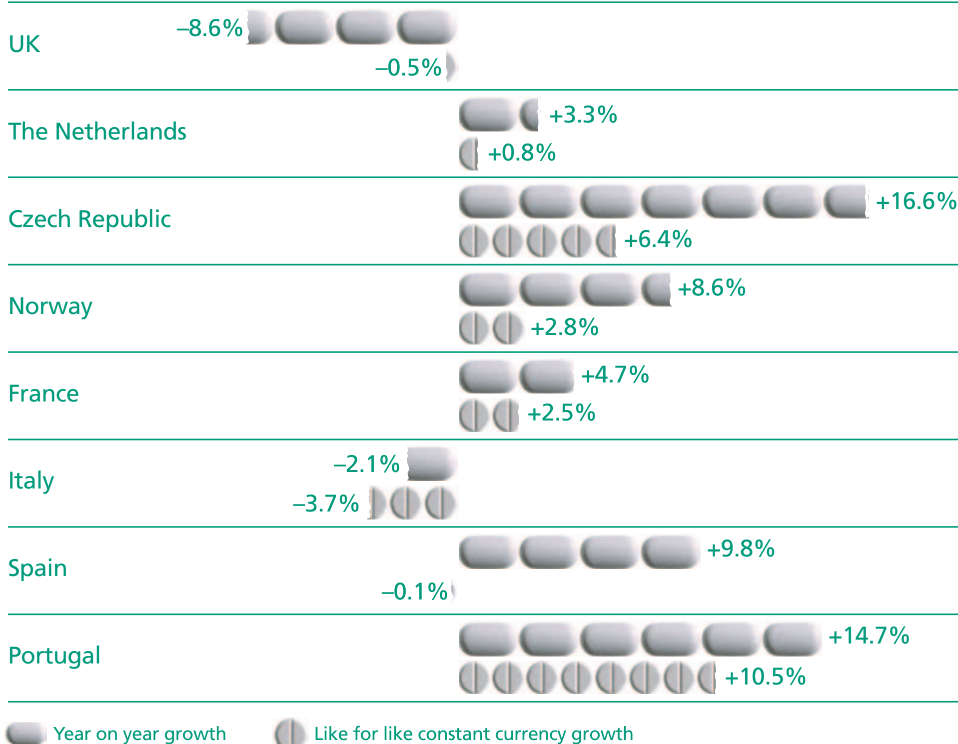
France

In France, revenue increased by 4.7% to £1,909.1 million. Sales growth was 2.5% on a like for like constant currency basis which was higher than our estimate of market growth of around 2% in the wholesaling sector. We estimate that the total market grew in value by around 5%, the proportion of products which manufacturers distribute direct to pharmacies continuing to increase. During the period, operating costs per unit increased due to inflationary pressures and the relatively low growth in sales volumes. This meant that our operating margins and profits were lower than in the first half of last year.

To counter the increase in direct deliveries we are realigning our commercial terms, developing our short line offering and working closely with a number of generic manufacturers to increase our market share in this category. Early next year we will launch "Almus", the Group's exclusive range of generic drugs, in France. We continue to promote participation of our pharmacy customers in collective buying arrangements and are also extending the range of services we offer manufacturers. These factors, together with our ongoing focus on our core customer service and productivity, will, we believe, enable us to improve profitability in France in the second half of the year.

We currently forecast that the total French market will grow in value terms by around 4% in the full year.

Just after the end of the half year we completed the disposal of Elvetec, a small loss-making French business supplying products to medical laboratories. This was in line with our strategy of selling businesses which we do not consider part of our core activities. Elvetec's revenue in the half year was £13.4 million.



Wholesale

In May, we expanded our Spanish wholesaling business, strengthening our market position through the acquisition of Farmacen, the sixth largest pharmaceutical wholesaler in Spain.

Italy

In Italy, revenue decreased by 2.1% to £464.2 million, sales decreasing by 3.7% on a like for like constant currency basis. This compares with a market which we estimate declined by around 4% in value, due to the extension of the "temporary" price cuts introduced in late June last year and lower levels of consumption. Operating margins and profits increased due to a strong contribution from trading activities. Good progress continues to be made in establishing our new virtual chain of pharmacies. By June 2005, 71 pharmacies had joined, with a further 36 signed up to join shortly. One warehouse was closed during the period. We currently forecast that the Italian market will decline in value terms by around 1% in the full year.

Spain

In Spain, total revenue increased by 9.8% to £433.9 million, down 0.1% on a like for like constant currency basis, like for like constant currency domestic sales growing by 4.2%. This compares with a domestic market which we estimate grew by around 7.5% in value, growth being lower in geographic regions where we have strong market positions. Export sales were significantly lower than in the first half of last year, mainly due to manufacturers' quotas restricting product availability. Manufacturers continue to explore ways to restrict product availability for export, including the introduction by one manufacturer of a dual net pricing system in June.

During the period, two small warehouses were closed in Spain as part of an ongoing programme to improve efficiency. Operating margins and profits decreased, mainly as a result of lower domestic gross margins resulting from increased competition and fewer trading opportunities. We currently forecast that the Spanish market will grow in value terms by around 7.5% in the full year, which is in line with the growth rate in the first half.

We are working closely with a number of major manufacturers to develop a range of specific services in Spain designed to meet our respective objectives. We are also developing plans to improve productivity, reduce our cost base and refine our commercial terms.

In May, we expanded our Spanish wholesaling business, strengthening our market position through the acquisition of Farmacen, the sixth largest pharmaceutical wholesaler in Spain and the largest independent wholesaler not under co-operative ownership. Farmacen has strong market positions in the Madrid and Seville regions, its sales totalling £190 million in 2004. It was acquired at a cost of £32.2 million, including debt assumed as part of the acquisition, of which around half is payable in instalments over the next four years. The integration of Farmacen with our existing business will deliver significant improvements in efficiency and enhanced customer service.

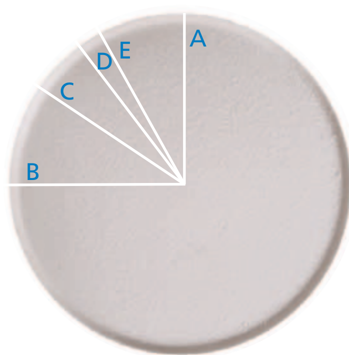
Portugal

Revenue in Portugal increased by 14.7% to £189.2 million, sales increasing by 10.5% on a like for like constant currency basis which was well ahead of the market which we estimate grew in value by around 4%. Operating margins increased, mainly due to improved gross margins which, together with higher sales, resulted in increased operating profits.

Just before the end of the half year, we were pleased to enter into a strategic partnership with Associação Nacional das Farmácias, Portugal's highly influential national association of pharmacies, to accelerate the development of our Portuguese wholesale business. Under the terms of the agreement, we sold 49% of our business to the association and 2% to an independent investment company with interests in the Portuguese healthcare industry, resulting in a net cash inflow of £91.5 million, including inter-Group loan repayments and the deconsolidation of local bank debt. Our remaining 49% interest in Portugal will be accounted for as an associate from the date of the transaction.

Retail

Retail pharmacies at 30 June 2005



A. UK	939
B. Norway	116
C. The Netherlands	65
D. Italy (including associates)	28
E. Switzerland*	103
Total	**1,251**

* Associate interest

In March, a new European retail pharmacy brand and visual identity was launched.

Revenues in our retail division totalled £633.7 million, an increase of 9.4% on the first half of last year, operating profits increasing by 18.2% to £53.3 million. Operating margins increased by 63 basis points to 8.41% as a result of operating margin improvements in the UK. Like for like sales overall were unchanged.

UK

In the UK, revenue increased by 7.2% to £445.0 million. Like for like sales declined by 0.3% in value, compared to a market which we estimate grew by around 1.0%, our pharmacies having a relatively high proportion of prescription sales so being more impacted by price cuts. In addition they were impacted by the PPRS related disruption to service levels in our UK wholesale business in the early part of the year. Sales growth was held back by the impact of the PPRS review and new lower drug tariff for generics. Total National Health Service prescription income increased by 8.1%. Operating margins were higher than in the first half of last year as a result of strong growth in income from patient and manufacturer services.

We currently forecast that the UK retail market will grow in value terms by around 1.5% in the full year, higher growth being expected in the second half as revenues from the new contract in England and Wales come through.

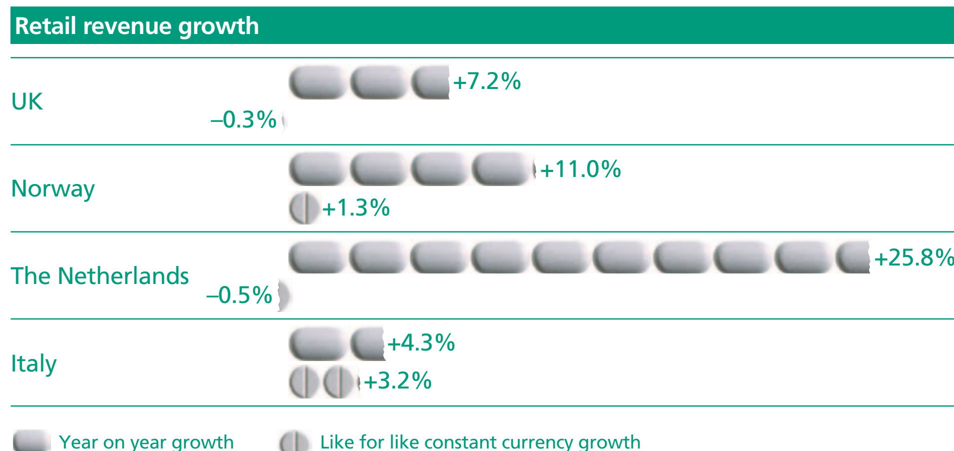
This contract, which started at the beginning of April, introduced a change in remuneration from purely dispensing based fees to include remuneration for essential and advanced services. Essential services include repeat dispensing, public health promotion, support for self care and signposting to other sources of care. Advanced services include Medicine Use Reviews to help patients use medicines more effectively and improve the clinical effectiveness and cost-efficiency of prescribed treatments. Payment for the provision of advanced services is contingent upon each pharmacy meeting strict quality standards, for both the premises and the pharmacist.

By the end of July, more than 400 of our pharmacists will be accredited to carry out advanced level Medicine Use Reviews. We expect our remaining pharmacists in England and Wales to be similarly accredited by the year end. The pace at which our pharmacists are gaining accreditation demonstrates our commitment to maximising the opportunities available to pharmacy under the new contract. The new services are in addition to those offered for some time, such as supervised methadone programmes in more than 40% of our pharmacies and blood pressure testing in more than a third.

We still await details of funding arrangements for enhanced services, the top tier service level in England and Wales, which will include services such as smoking cessation and weight loss clinics provided by Primary Care Trusts based on local priorities.

Also during the period, we successfully re-tendered, for the second time running, the Scottish Prison Service contract to provide pharmaceutical services to 15 prisons with around 6,000 prisoners. In March, a new European retail pharmacy brand and visual identity was launched, pharmacies in future being branded as "Alliance" followed by the local term for pharmacy. Since then, 93 pharmacies in the UK have been rebranded. New point of sale material has also been introduced with a stronger professional focus, to raise awareness of the new pharmacy contract and our related retail healthcare offering to patients and customers. Completion of the roll out of the new brand in the UK is scheduled for the end of 2006.

Retail



A substantial refit programme is well under way, the new pharmacy design incorporating private consultation areas that meet the requirements of the new contract and beyond. During the first half of the year, 40 branches were refitted and five relocated, three of which were to health centre developments with over 100 refits planned for the second half of the year. Private consultation areas were installed in a further 31 pharmacies. By the end of 2005 around 550 pharmacies will have private consultation areas compared to 200 at the start of the year.

In May, we entered the Northern Ireland market through the acquisition of Bairds Chemists, the region's largest pharmacy chain with 50 branches. Bairds, which had combined unaudited sales in 2004 of £51.6 million, was acquired for £81.2 million on a debt free/cash free basis. During the first half of the year, a further net 11 pharmacies were added in the UK. The total UK chain, as at 30 June 2005, comprised 939 pharmacies and 55 other healthcare related retail outlets.

In the first half of the year, the roll out of advanced EPOS systems to all pharmacies was completed, other than in the recently acquired pharmacies. The new EPOS system will be closely followed by the installation of new dispensing systems throughout the chain. These branch systems, together with new head office systems, will improve our ability to manage product ranges, enhance margins, control inventories, facilitate the delivery of new pharmacy services and enable pharmacists and staff to spend more time with their patients and customers.

Norway

In Norway, revenue increased by 11.0% to £118.1 million, up 5.0% on a constant currency basis. Like for like constant currency sales increased by 1.3%, compared to a market which we estimate grew in value by around 4.5%. We currently forecast market growth for the full year of around 5%. The total number of pharmacies in Norway continues to increase, new openings taking market share from existing outlets. Alliance Apotek opened two pharmacies during the period and relocated three, which brought our pharmacy chain to 116 at 30 June 2005. Further selective openings are planned by us in the second half. In addition, we continue to operate successfully two other healthcare related retail outlets.

In April, Alliance Apotek was voted the top pharmacy chain in Norway in a national customer satisfaction survey by the Norwegian School of Management. Operating margins and profits were lower than in the first half of last year as a result of certain non-recurring costs. Total wholesale and retail profitability nevertheless increased in Norway, reflecting increasing synergies from running our two businesses together.

The Netherlands

In The Netherlands, revenue increased by 25.8% to £58.5 million, an increase of 23.4% on a constant currency basis. Like for like constant currency sales reduced by 0.5%, compared to a market which we estimate grew in value by around 1.5%, the difference being mainly due to an increase in the total number of pharmacies in The Netherlands. We currently forecast market growth for the full year of around 2.5%. During the first half of the year two pharmacies were acquired, taking the chain size to 65. Operating margins reduced due to lower gross margins and higher operating expenses, operating profits nevertheless increasing due to the increased scale of the business.

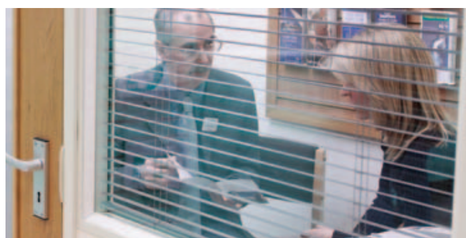
Italy

In Italy, revenue increased by 4.3% to £12.1 million, like for like sales increasing by 3.2% on a constant currency basis, compared to a market which we estimate grew in value by around 0.5%. No pharmacies were acquired during the period, leaving a total of 28 at 30 June 2005, including eight in associate businesses. Operating profit was at the same level as in the first half of last year, operating margins being slightly lower. We currently forecast market growth for the full year of 2%.

Through other associate retail businesses, the Group operated 103 pharmacies and eight other healthcare related retail outlets at 30 June 2005, a net four pharmacies being added during the period.

Corporate and associates

In May, we entered the Northern Ireland market through the acquisition of Bairds Chemists, the region's largest pharmacy chain with 50 branches.


By the end of 2005 around 550 pharmacies in the UK will have private consultation areas compared to 200 at the start of the year.

Corporate

Net corporate costs totalled £11.3 million, a £4.0 million increase on the first half of last year. This change was due to a number of factors, including the full financial impact of the strengthening of the corporate office management team to run pan-European business improvement programmes that took place during the first half of last year and higher corporate development costs incurred in evaluating potential new markets.

Associates

Our share of associates' post tax earnings was £18.9 million, a 58.8% increase on the first half of last year, our share of associates' operating profits increasing by 68.1% to £30.6 million. Adjusting for changes in associate interests, on a constant currency basis like for like earnings increased by 55.6% and operating profits by 72.8%. The underlying tax rate on associates' earnings was 33.3%, a decrease of 3.1 percentage points on the first half of last year, mainly due to a lower relative monetary loss adjustment in Hedef Alliance.

Hedef Alliance, Turkey's leading wholesaler, contributed £10.5 million to the Group's earnings, compared to £4.6 million in the first half of last year, an increase of 102.9% on a constant currency inflation adjusted basis. During the period, Hedef Alliance particularly benefited from liberalisation measures relating to the transfer of out-patient prescriptions from hospitals to community pharmacies and very low inflation by historic standards. The monetary loss adjustment within operating profit was lower because inflation at 3.3% was less than half the equivalent number in the first half of last year. The Turkish Lira strengthened by 11.5% against Sterling over the course of the 12 months to 30 June 2005, which favourably affected the reported results in Sterling, the half year end rate being used to translate Hedef Alliance's inflation adjusted earnings into Sterling. During the period 24 warehouses were opened, 22 of which were small satellite facilities.

Contributions to earnings from other associates increased by 15.1% in total to £8.4 million. Adjusting for changes in associate interests on a like for like constant currency basis contributions to earnings from other associates increased by 12.0%.

At the beginning of April, we completed the restructuring of our relationship with Galenica, our 25.5% owned Swiss associate, to create greater focus on our respective areas of operations and to simplify trading relationships. As a result, the Group increased its direct ownership in Alloga, one of Europe's leading specialist healthcare logistics and pre-wholesaling providers, from 20% to 100%, with the exception of the Swiss part of the business which was fully acquired by Galenica. In addition, we sold our 50% direct interest in the GaleniCare Swiss pharmacy chain to our partner, Galenica. The net cash inflow from these transactions was £15.7 million. As part of this restructuring, we also extended our associate agreement with Galenica for a further five years to 2014. As a result of this restructuring, the results of the various European subsidiaries which make up Alloga are included within the relevant country's wholesale results. The results of Alloga's own associates, the largest of which is UDG in the UK, are included in the associates category.

Profit on disposal of businesses

During the first half of the year, the Group made a net profit before tax on the disposal of businesses of £9.1 million. The principal transactions which made up this amount were the sale of 51% of Alliance UniChem Farmacêutica our Portuguese wholesale business, the sale of our 50% direct interest in the GaleniCare Swiss pharmacy chain and 20% direct interest in the Swiss part of the Alloga pre-wholesale and logistics business to our associate, Galenica, and the disposal of Elvetec in France. These transactions resulted in a net tax credit of £2.9 million.

Corporate and associates

Profit on disposal of investments

During the first half of the year, the Group also disposed of its small investment in the German wholesaler, Sanacorp Pharmahandel A.G., for a profit before tax of £2.1 million, as it no longer considered the investment to be of strategic importance following the increase in its investment in ANZAG in Germany last year. No tax was payable on this transaction.

Net finance costs

Net finance costs were £14.7 million, a 34.7% decrease on the first half of last year. Excluding IAS 39 timing differences from hedging interest rate and currency exposures (comprising £3.5 million of gains which were mainly due to the strengthening of the US Dollar versus the Euro, largely accounting for the increase in finance income), underlying net finance costs were £18.2 million, a 19.1% reduction on the comparable figure in the first half of last year when there were no IAS 39 timing differences (due to the Group electing to adopt IAS 39 from 1 January 2005 onwards). The underlying reduction was mainly due to lower interest rates and the benefits from the ongoing working capital efficiency programme. Interest cover, which we define as operating profit divided by underlying net finance costs, was 6.7 times, compared to 5.3 times in the first half of last year.

Tax

The Group's underlying rate of tax, defined as the underlying tax charge (i.e. excluding tax on items classified by us as exceptional in nature and IAS 39 timing differences from hedging interest rate and currency exposures), expressed as a percentage of operating profit net of underlying net finance costs, was 33.0%. This was 0.8 percentage points lower than in the first half of last year, mainly due to a more favourable mix of profits. We anticipate a further reduction in the underlying tax rate for the full year, mainly as a result of a reduction to our deferred tax provision when the French capital gain tax rate reduces at the end of the year.

Cash flow and balance sheet

The Group has continued its well established track record of generating free cash flow to fund investment in growth.

Net cash generated by operations in the first half of the year was £48.5 million. Working capital net outflow was £93.3 million, of which £48.1 million was the usual half year timing difference on UK prescription receipts, five monthly payments normally being received in the first half of the year. This outflow was £46.6 million more than in the comparable period due to lower levels of working capital at the beginning of the year compared to the start of 2004. Year on year, on a 30 June balance sheet basis, trade working capital efficiency improvements totalled approximately £15 million.

Cash inflow from lower inventories in the first half was £31.9 million, part of which was seasonal, inventory levels at 30 June increasing year on year by 0.5 days. Cash outflow from receivables was £54.2 million, trade receivables at 30 June reducing year on year by 2.6 days. Cash outflow from payables was £71.0 million, trade payables decreasing year on year by 1.9 days.

The net cash inflow on acquisitions and disposals of businesses, associates, and available-for-sale investments was £13.0 million. The principal cash outflows within this net number were £81.2 million for the acquisition of Bairds Chemists in Northern Ireland, £16.6 million for the purchase of other retail pharmacies, and £15.9 million for the Farmacen wholesale business in Spain. The principal cash inflows were £91.5 million for the disposal of 51% of Alliance UniChem Farmacêutica in Portugal, £15.7 million for the Galenica restructuring and £12.0 million of deferred consideration receipts from the sale of non-core UK businesses in 2004.

Net capital expenditure was £37.5 million, of which £26.7 million was for growth and efficiency projects. These included investment in the development of new retail and wholesale systems and in the upgrading and opening of facilities.

The Group's total retirement benefit obligations, gross of tax, at 30 June 2005 was £68.9 million compared to £53.0 million at 31 December 2004. The increase in the gross obligations is principally due to a reduction in long-term bond yields used to discount estimates of future pension obligations. The total pension charge against profit before tax (excluding associates) was £8.2 million, an increase of £0.7 million on the first half of last year.

At 30 June 2005, net borrowings (which we define as borrowings, net of cash and cash equivalents and derivative financial instruments) were £796.2 million compared to £805.8 million at the end of last year and £854.1 million at 30 June 2004. Shareholders' equity at the half year totalled £1,114.4 million compared to £1,040.4 million at the end of last year.