# 2005
# Annual Report & Accounts

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UNIPART GROUP



29/6

# Contents




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M D Rimmer

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*This publication comprises the full Annual Report and Accounts of UGC Ltd for 2005, prepared in accordance with the Companies Act 1985 and United Kingdom Accounting Standards, and includes the Chairman's statement, the Chief Executive's review, the Financial review, the Directors' report, the Financial statements and the Independent Auditors' report for the year ended 31 December 2005.*

# Chairman's Statement

**Lord Sheppard KCVO KT**
**Chairman**

Unipart has continued to improve its performance in 2005. Highlights for the year include an improvement in profit (after interest, but before goodwill amortisation and exceptional items) to £25.4m up from £17.9m in 2004. After significant positive exceptional items, the retained profit for the financial year is £42.8m, up from £23.0m in 2004. Cash generation before financing of £51.1m is a strong performance compared to £16.5m in 2004. As a consequence, the Group has effectively eliminated its borrowings, which stood at £39.3m at 31 December 2004, and reports net cash of £11.1m at the end of the year.

As would be expected, 2005 has been no different to previous years in the amount of change that has taken place and the Group has demonstrated once again its ability to cope with this.

We have made significant progress in broadening and deepening our relationship with our key customers and at the same time extending the range of services and solutions which we can provide not only to them but to new clients. The Group took an important decision during the year to put the Unipart brand at the forefront of all its operations with the consequent re-branding of our operating units which are Unipart Automotive, Unipart Logistics, Unipart Rail, Unipart Marine and Unipart Leisure.

Further progress has been made in our Unipart Automotive business. The markets within the automotive aftermarket sector have continued to decline with some significant changes in the customer base as a consequence. In this challenging environment, Unipart Automotive undertook a significant restructuring programme to realign the business into one operation and shortened management lines. This gives Unipart Automotive the opportunity to combat the declining market in which it operates.

Unipart Logistics has seen an increasingly encouraging performance during the year as new contracts became fully operational and the existing relationships strengthened. Vodafone's decision to expand and extend its contract with us for a further 10 years demonstrates the Group's capability to build true partnerships.

During the year, Unipart Rail has seen some significant changes to the markets within which it operates. In particular, Network Rail concluded its restructuring of the maintenance sector directly impacting National Railway Supplies (NRS). NRS succeeded in continuing to provide high levels of service throughout the transition period and a satisfactory implementation of the new procurement contract.

In the year the decision was made to cease future accruals for the two main defined benefit pension schemes and a defined contribution scheme was offered for members in its place. This is not a decision that was made lightly but was necessary to reduce the future risk for our business. It is a credit to our people that the need for this change was accepted and the change process effectively managed.

The Unipart Way is becoming more embedded in the DNA of the Group and increasingly recognised by our customers as a way of creating competitive advantage for them.

We could not have built our brand, our deep customer focus and high level of service without the efforts of all our people, past and present. We are grateful to them for their achievements and the manner in which they have embraced the changes in the year. It is with confidence that we can look towards a challenging future in pursuit of our vision. With the Unipart spirit and The Unipart Way philosophy, I am confident that the challenge will be successfully met.

# Chief Executive's Review

**J M Neill CBE**
**Chief Executive & Deputy Chairman**

Unipart can now begin the next phase of development having passed many milestones in 2005. We have worked tirelessly over the last five years to deliver a platform for growth by focusing our efforts on reducing debt; broadening our customer base; continuously improving the services we provide our existing clients; and addressing our under-performing businesses.

Since 1999 when we took on significant debt to fund the acquisition of Partco Group plc, considerable effort has been placed on improving asset efficiency and managing working capital to reduce our borrowings. This focus continued during 2005 and we generated cashflow before financing of £51.1m which includes significant exceptional items including net cash received under a litigation settlement of £17.2m. The strong cashflow for the year has effectively eliminated borrowings and means we report net cash of £11.1m at the end of 2005 compared to net debt of £39.3m at the beginning of the year and net debt of £174.1m at 31 December 1999. The Group's main existing borrowing facilities are committed until 2008 and will provide the stability and additional headroom required to support the next phase of our development.

The Group has greatly expanded its customer base in recent years with logistics contracts being won across the Retail, Consumer Product, Information Technology and Defence sectors. The diverse portfolio of clients Unipart now serves, together with the logistics and supply-chain expertise we have developed represents a significant transformation from our position several years ago when we were dependent on one major automotive customer as our main contributor of revenue and profit. Although it was unfortunate to see this previous major customer fail and fall into administration during the year, it was a testament to our hard work in developing the Unipart business that little impact was felt within Unipart. Also, foresight and careful planning within our manufacturing joint venture businesses meant the impact to their operations was limited to a reduction in revenues and profitability as all balance sheet and redundancy exposure had been either eliminated or insured.

We recognise it is fundamental to the success of our business that we continue to deliver improvements to the services we provide to our existing clients as well as explore the business potential with every one of these customers. We were therefore delighted when Vodafone significantly extended our existing logistics contracts and awarded a new 10-year contract to provide repair services that will be fulfilled through a brand new purpose-built site. This is an exciting development in our relationship with Vodafone and reflects the true nature of the partnership that we are building with them as contracts of this length are almost unheard of in this sector of the market. It is also an opportunity for us to demonstrate Unipart's capability in being able to deliver a market leading, fully integrated and proven reverse logistics solution to other high technology customers.

Within the Rail business we have been impacted by Network Rail's decision to take back in house the management of maintenance work previously outsourced. One consequence of this was for Network Rail to review the way that product was supplied for this work which, during 2004/5, has resulted in existing service providers re-tendering for this work. NRS was successful in winning the procurement services for maintenance product for the whole country. Whilst there was no question about the level of service provided, NRS will no longer be providing inventory management and distribution of these products which has led to the sale of the relevant inventory to Network Rail. This will have an impact on the ongoing profitability of the business.

Unipart Automotive, the automotive component aftermarket distribution business, which includes the business acquired with Partco Group plc, has made significant progress in several key areas since its acquisition in 1999. However, during the year the United Kingdom business has continued to see considerable pressure on its revenue and margins as the market continues to be very competitive and requiring very high service levels. To ensure that the business is in good shape for the future a significant restructuring plan was implemented late in the year to integrate the business under one multi-disciplined management team.

Since the Unipart brand was first established, almost every aspect of our business has seen significant change. As we expanded into new areas, diversifying our client base from one company in one sector to a range of world-class clients in many sectors we have been building a wealth of logistics skills and expertise. The tools and techniques our people have been using in our operations have continued to develop as part of The Unipart Way.

We describe The Unipart Way as our philosophy of working underpinned by tools and techniques which form part of our knowledge management systems. We continuously improve, based on our experience, in order that we can improve faster than the best alternative available to our existing and potential customers. The continuing development of The Unipart Way and its successful deployment enables us to provide a growing range of services to clients with whom we have developed a strong partnership.

We have put the Unipart brand back at the forefront of all our operations as we have re-branded all our operating units to strongly emphasise that they will operate to Unipart's core values and strive to live up to our Corporate Goal and Vision.



UNIPART GROUP

## Operating Review

### Unipart Automotive

The Group's Unipart Automotive business operates predominantly within the United Kingdom and provides distribution and supply chain solutions to the independent motor trade, national fast fit, roadside assistance, bodyshop, garage forecourt retail and commercial vehicle markets. We remain the only business genuinely capable of providing a national proposition to all of these markets through our network of over 300 branches. In addition, we operate businesses in the USA, Middle East, Netherlands and Belgium.

During 2005, the UK operations were combined under one management team to form a single focused business under the Unipart Automotive brand whilst retaining the expertise, knowledge and specialisation of our four customer propositions; Workshop, Bodyshop, Retail and Commercial Vehicle. By focusing customer service on these four distinct propositions whilst utilising a single efficient end-to-end supply chain we are best placed to help grow our customers' business. Underpinning all of this are the Unipart Automotive specific brand values that deliver high quality products, innovation, understanding customer needs and value for money.

During the year Unipart Automotive focused on redesigning its supply chain to provide market leading customer service. As part of this process we have improved product availability and range for our customers. This has been achieved by putting more stock into new regional stocking points in order to respond more rapidly to local changes in demand and improve the consistency of our service. As part of the changes Unipart Automotive has restructured to a regional van network to increase the deliveries of product from the regional stocking points to our local branches resulting in improved availability.

A strategic decision was made to align the Burden and Unipart Automotive businesses with a view to exploit synergies and open up a wide range of mutually beneficial opportunities. As part of the integration of the Burden Group into Unipart Automotive, the business was re-branded as Unipart Leisure and Unipart Marine. The management team was strengthened and is undertaking a major business transformation project aimed at improving customer service levels. New opportunities from leveraging Unipart Automotive products and services have been identified which will be offered to its customer base.

The business continues to increase the use of the proven tools and techniques of The Unipart Way throughout every level of its business in pursuit of the best service levels in the industry.

### Unipart Logistics

Unipart Logistics is the Group's core logistics business with clients in the Automotive, Technology, Retail, Aerospace and Defence sectors. During 2005, difficult trading conditions were experienced in both the Automotive and Retail sectors, which resulted in the need for some restructuring of the business. By using The Unipart Way, appropriate cost reduction programmes were selected and implemented with no disruption to the business. In addition, other sectors were experiencing growth resulting in the business finishing this challenging year in a good position.

We have further increased our comprehensive range of automotive business service systems. Along with providing Jaguar with aftermarket service throughout the world, which now includes North America, Japan, Australia, Europe and the United Kingdom, we have also been awarded a new logistics contract to provide Jaguar and Land Rover merchandise to their respective dealer networks. During the course of the year we have also continued to provide London Taxi International (LTI) with a significant range of services.

Our partnerships within the technology sector have continued to strengthen throughout the course of the year. Most notably, this has been demonstrated in the mobile telecommunications sector with the awarding of significant long-term contract extensions. The contract with Vodafone continues to progress positively for both partners and as a result of this we have recently been awarded a new 10 year contract to provide repair services. This will initially employ another 360 people and will be located in a brand new showcase site in Nuneaton. We have also seen the extension of our contract with Hutchison 3G.

This year was the first full year of operation for both the BSkyB and Jessops contracts, which are performing well. By taking the innovative step of utilising the Unipart Automotive branch network, we have been able to efficiently and effectively serve the BSkyB engineers nationwide.

# Chief Executive's Review *(continued)*

### Unipart Logistics *(continued)*

A significant proportion of our business is now within the Retail sector. In this market the Christmas peak can be extremely demanding. It is pleasing to report that Halfords, Homebase, Boots and Jessops were comprehensively supported throughout the seasonal peak periods.

We have, during the course of the year, increased the business offerings to our customers in Aerospace and Defence. This has resulted in Unipart Logistics providing Airbus and BAE Systems with a wider range of business services than in previous years.

Our consultancy business has expanded during the course of the year. Our expertise and solutions include inventory management, supply chain development, continuous improvement, change management, supply chain analysis and training. During 2005 our consultants have worked with Royal Mail, Direct Wines, MFI, Shell, Shop Direct, Oxfordshire County Council and most recently with HM Revenue and Customs.

In summary, 2005 has been a year of both significantly increasing our customer and product offerings whilst continuing to improve efficiency and reduce waste in the business. The application of The Unipart Way to combine high levels of customer intimacy whilst growing our business offerings and identifying appropriate cost reduction opportunities is a business model that has significantly improved our performance. Unipart Logistics is now looking forward to extending this successful business model into 2006.

### Unipart Rail

Unipart Rail is the Group's specialist logistics business operating in the Rail industry.
Under the banner Unipart Rail, the business combines Railpart, the leading supplier of replacement components to the UK Traction and Rolling Stock aftermarket, with NRS, the UK's most comprehensive provider of railway infrastructure products and services.

We provide an innovative logistics and distribution service, ensuring that products are available to our customers when they require them. As well as providing our clients with traditional supply-chain solutions we offer additional support through our comprehensive reconditioning, repair and manufacturing operations.
Our capability in reconditioning and remanufacturing was expanded during 2005 with the commissioning of a new bogie overhaul facility in Doncaster, a strategically important development, which has been well received by the market.

Change in the industry continues with Network Rail's programme of taking direct responsibility for maintenance of the infrastructure concluding in 2005. This has led to a change in the relationship with Network Rail for this area of the business and resulted in NRS having won a new contract to provide a range of procurement services. This new contract has replaced the previous trading relationship. As part of the process, the relevant maintenance inventory was sold to Network Rail which enabled the Group to reduce borrowings although the new contract will lead to a reduction in overall profitability going forward.

Several train operator franchises were extended, renewed or saw new operators appointed. Business retention levels have remained high, new business has been won and some marginal business exited. Our important relationship with Siemens continues to develop well with additional business being added to the contract.

Product development has produced additional revenue from new products and will continue to play an important part in the years ahead.

Overseas activity was increased in 2005 and business was won with several new customers, which we have already targeted for growth.

The rail supply industry experienced a difficult year. Steel and oil prices put increased pressure on manufacturing costs and our purchase costs and margins. The year also saw an unprecedented number of suppliers leaving the industry for a variety of reasons, often at very short notice. Continuing to provide the levels of service the industry has come to expect against this backdrop represented a huge challenge and whilst service levels did decline for a short period the impact felt by our customers was substantially reduced through the actions taken by Unipart Rail.

The services we provide in the rail supply chain have been extended during the year and now include on-line learning services; Six Sigma training; visual management techniques; and Communication Cells. We have made this possible by investing in our people through training them in a variety of the tools and techniques of The Unipart Way and we now have a wide ranging and growing capability in this area.



UNIPART GROUP

## Our Manufacturing Joint Ventures

### Unipart Eberspächer Exhaust Systems Limited (UEES)

Our manufacturing joint venture with Eberspächer experienced a significant growth in new business in 2005, driven by new model launches for the Range Rover Sport (for which the business is the supplier of exhausts, catalysts and manifolds), and also for the model uplift of the V8 Range Rover. The Company also launched the production of steel fuel tanks for several new models, including the Aston Martin V8, the new Jaguar XK Sports Car and the Bentley Arnage.

In addition to the above core products, UEES also extended its product portfolio into filler necks. This work was secured against strong European competition and UEES is proud to be the sole supplier of steel filler necks for all Jaguar models as well as for the Range Rover Sport and Land Rover Discovery. UEES moved this opportunity from first discussions in April to start of production in late November, again demonstrating UEES' abilities not only in fabrication and assembly, but also in the key skills of project management and transferring and launching production facilities with uninterrupted supply to the customer.

It is worth noting that despite the closure of MG Rover early in 2005, the high level of new business delivered in 2005 enabled UEES not only to survive but also to grow. In 2005, MG Rover accounted for only 7% of total sales whilst two years previous this was 50% of the Company's revenues. The closure of MG Rover has, however, had an impact on the profitability in the year but this is expected to be offset in future years by the new business as it comes on stream.

### Kautex Unipart Limited (KUL)

Our partnership with Kautex was also dependent upon MG Rover for a significant amount of its revenue until recently, but several major contract wins in recent years meant that MG Rover revenues only accounted for 3% of total sales in the year. As with UEES, the profitability for the year has been reduced following the closure of MG Rover but it is expected to be more than offset by the growth in the new contracts.

The Company successfully launched the new Honda Civic product in September 2005, with all customer requirements met. Quality performance from launch has been particularly good with excellent scores achieved in customer quality audits.

Development of the new Land Rover Freelander product has progressed extremely well during the year along with the business securing BMW Mini fuel tank follow-on business, which is due for implementation in the final quarter of 2006. The Company has continued to focus on its cost base to reduce scrap, waste and material costs, with particular emphasis given to Six Sigma activities. Further development of the philosophies and principles of The Unipart Way took place and will be further expanded over the coming year.

### Pensions

We have worked hard in recent years to improve the funding position of our main pension schemes, including increasing both the Group's and members' contributions as well as the innovative one-off pension contribution in 2004 used to acquire UGC shares. However, the cost and volatility of continuing with the defined benefit schemes presented an unacceptable future risk for the Group. During the year we have completed a complex and challenging plan to move members away from a defined benefit scheme to a defined contribution scheme, which will become effective at the beginning of 2006. The Group has also agreed with the trustees to make extra cash contributions of £80m by 2014 to reduce the funding deficit.

### Dividends

Despite having eliminated our core borrowings we will still require external funding to support our working capital requirements as we continue to grow. We will also continue to make contributions to the pension fund, as mentioned above, to eliminate the deficit. Therefore the Board are not proposing a dividend for the year.

### Our people and our future

During 2005, we have continued to develop and train our people in the full suite of the tools and techniques of The Unipart Way. A full and varied training programme has been developed, by our people for our people, ranging from in-depth courses in complex techniques, like Six Sigma, to concise, learn in the morning, do in the afternoon techniques and bite-sized learning modules to be digested over a lunch meeting.

Alongside this commitment to improving and learning we continue to recognise and reward those who have provided outstanding customer service through our Mark In Action award scheme. The Mark In Action award is only presented after a thorough nomination and review process to ensure we recognise individuals and teams who deliver outstanding personal customer service and demonstrate the behaviour that delights our customers and inspires their confidence in our ability to meet their needs. In 2005 nearly 100 awards were granted with 11 team awards and 11 individual awards, bringing the total number of awards presented since the programme began to 2,150 at 31 December 2005.

We have continued to invest heavily in developing The Unipart Way through our University and Faculties on the Floor. We recognise that the challenging spirit of our people and their deep knowledge and expertise focused on delivering our customers ever improving service is what has differentiated us in the past and will continue to do so in the future.

This year has once again made enormous demands on our people at every level in the Group. I want to take this opportunity to thank them all.

# Financial Review

A J Mourgue
Group Finance Director

**Financial highlights**

- Turnover, including our share of joint ventures, increased by 3.7% to £1,157.7m (2004 - £1,116.6m)
- Operating profit before goodwill amortisation and exceptional items of £27.7m, an increase of 17.9% (2004 - £23.5m)
- Profit before interest and taxation was £53.5m (2004 - £25.7m)
- Profit for the financial year was £42.8m compared to £23.0m in the previous year
- Total shareholders' funds at the year end of £46.2m (2004 - £(17.1)m restated for prior year adjustment)
- Cashflow before financing £51.1m (2004 - £16.5m)
- Net cash at the end of the year of £11.1m compared to net debt at the end of 2004 of £39.3m
- Net pension liabilities reduced by £32.6m to £85.8m (2004 - net liabilities of £118.4m)

### Turnover

Turnover, including our share of joint ventures, has increased by 3.7% to £1,157.7m (2004 - £1,116.6m). This has been achieved in the tough environment in the sectors that the Group now operates, particularly within Automotive, Retail and Rail.

### Profit for the year

Total operating profit increased by £29.2m to £54.0m (2004 - £24.8m). Within this, Group operating profit before goodwill amortisation and exceptional items grew to £27.7m from £23.5m in the previous year, goodwill amortisation at £2.0m was in line with the previous year, operating exceptional items were £27.3m compared to £0.6m in the previous year and the share of operating profit in the joint ventures fell from £2.7m to £1.0m.

The increase in operating profit before goodwill amortisation and exceptional items essentially reflects the improvement in profitability that has been seen during the year on the logistics contracts that have recently come on stream.

### Exceptional items

The £27.3m aggregate exceptional profit credited in arriving at operating profit represents the following items:

- A net litigation settlement of £17.2m was received during the year as the Group agreed the full and final settlement of legal proceedings, which are not considered to be in the normal course of business.
- A credit of £16.2m arose during the year as a result of the decision to cease the future accrual of benefits for active members of the two main defined benefit schemes. The exceptional profit of £15.7m is stated after charging the costs incurred by the Group in relation to the cessation.
- Reorganisation costs of £5.6m. As discussed in the Chief Executive's review the Group has incurred costs in the year in restructuring both Unipart Automotive and Unipart Logistics.

Exceptional items charged after operating profit of £0.5m represent additional losses incurred during the year in respect of businesses sold in prior periods.

### Share of joint ventures' operating profit

The Group's share of operating profit in joint ventures of £1.0m has fallen as a result of the transition that has taken place in the businesses as discussed in the Chief Executive's review.

### Interest and other financial income and charges

Net interest payable for the year was £4.2m compared to £7.1m in the previous year. This reflects a combination of the reduction in borrowings that have been seen in 2005 and the fact that the interest charge for the previous year included £1.9m of amortisation of issue costs on the bank facilities compared to £0.6m in 2005.

Net other finance income of £0.9m arose in the year compared to a £1.2m charge in 2004. This reflects the net financing income of £1.2m (2004 - £0.9m charge) that arises from the expected out-performance of the pension schemes assets over liabilities as prescribed by FRS17. This has been partially offset by the unwinding of discounting on provisions of £0.3m (2004 - £0.3m).

### Taxation

The overall tax charge for the year is £7.2m which is entirely due to movements in deferred taxation. Of this, £5.3m is the deferred tax charge on the pensions related profit and loss items, which includes the curtailment credit discussed above.

### Shareholders' funds

Total shareholders' funds at the year end of £46.2m have improved by £79.6m since the last annual report, and £63.3m after restating for the prior year adjustment.

## Cash generation and borrowings

The Group reports a cash inflow before financing of £51.1m (2004 - £16.5m) and, as a consequence, net cash at the end of the year of £11.1m compared to net debt at the end of 2004 of £39.3m. This has been generated by the profits in the year, which include the litigation settlement, together with the reduction in working capital. The most significant part of the working capital reduction is the reduction in inventory, which has fallen from £159.6m in 2004 to £138.9m in 2005. This includes the sale of maintenance related inventory to Network Rail.

### *Pensions*

The Group has seen a reduction in its net pension liabilities of £32.6m to £85.8m (2004 - net liabilities of £118.4m). As has been outlined in the Chief Executive's review, the Group has taken the difficult decision to cease future accruals to its two main defined benefit pension schemes to reduce the future risk on these schemes which hold substantial assets and liabilities. This, coupled with the improved performance of the pension assets over liabilities, has been the main driver in reducing the deficit.

The Group has also agreed with the trustees a schedule of additional contributions to the defined benefit scheme of £80m by 2014.

## Property revaluations – prior year adjustments

The Group has adopted a policy of revaluation in respect of its freehold land and buildings in order to reflect a more appropriate view of the Group's assets. This change in accounting policy is explained in detail in note 10 to the financial statements and has resulted in a prior year adjustment to the value of these assets of £16.9m as at 1 January 2004.

## Treasury policies

The Group's financial risks are managed centrally by the Group's treasury department with policies that are approved by the Board.

### (a) Interest rate risk

Interest rate risk in respect of debt is reviewed on a regular basis. In order to protect against the volatility of interest charges, interest rate swaps and interest 'Caps' and 'Collars' are used for appropriate proportions of the debt.

### (b) Foreign currency risk

The Group's foreign currency transaction risks mainly arise because receipts in currencies other than Sterling are greater than its payables in those currencies, principally for the US Dollar. Hedging of net currency exposures is implemented in order to 'protect' forecast gross profits and cover short term currency exposure. The hedges are enacted through forward and spot currency contracts and options entered into by Group Treasury on the basis of trading projections and information provided by the business units.

### (c) Liquidity risk

The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group.

### (d) Counterparty risk

The investment management of liquid funds aims to maximise the return on net funds subject to the security of the principal and the liquidity of the Group. The Group has identified counterparts of suitable credit worthiness.

| Summary profit and loss account<br>Year ended 31 December | 2005<br>£m | Restated<br>2004<br>£m |
|---|---|---|
| Turnover | 1,157.7 | 1,116.6 |
| Less: share of joint ventures' turnover | (52.1) | (51.9) |
| **Group turnover** | **1,105.6** | 1,064.7 |
| Total operating profit (including joint ventures) before exceptional items and goodwill amortisation | **28.7** | 26.2 |
| Interest including FRS17 | **(3.3)** | (8.3) |
| Profit on ordinary activities before exceptional items, goodwill amortisation and taxation | **25.4** | 17.9 |
| Exceptional items | **26.8** | 1.5 |
| Goodwill amortisation | **(2.0)** | (2.0) |
| Taxation | **(7.2)** | 5.9 |
| Minority interests | **(0.2)** | (0.3) |
| **Profit for the financial year** | **42.8** | 23.0 |

| Summary balance sheet<br>At 31 December | 2005<br>£m | Restated<br>2004<br>£m |
|---|---|---|
| Fixed assets | **68.6** | 71.7 |
| Other net current assets | **110.7** | 126.3 |
| Net cash/(debt) | **11.1** | (39.3) |
| Corporation tax, deferred tax, other taxes and social security costs | **(2.6)** | (2.4) |
| Other creditors and provisions for liabilities and charges | **(55.8)** | (55.0) |
| Net pension liabilities | **(85.8)** | (118.4) |
| **Total net assets/(liabilities)** | **46.2** | (17.1) |

| Summary cash flow | 2005<br>£m | Restated<br>2004<br>£m |
|---|---|---|
| Operating profit before interest, tax, depreciation and amortisation | **60.2** | 29.6 |
| Working capital | **9.6** | 2.5 |
| Dividends received from joint ventures | - | 0.7 |
| Interest/tax paid | **(3.6)** | (6.3) |
| Exceptional costs/other | **(12.9)** | (8.2) |
| Fixed asset receipts | **1.9** | 3.5 |
| Capital expenditure | **(5.2)** | (6.4) |
| Free cashflow | **50.0** | 15.4 |
| *Acquisitions and disposals* | *1.1* | *1.1* |
| **Net cashflow before use of liquid resources and financing** | **51.1** | 16.5 |

# Board of Directors

**Lord Sheppard KCVO KT**
**Non-executive Chairman**

Lord Sheppard was appointed non-executive Chairman of Unipart Group in 1996 following 21 years as a director of Grand Metropolitan, which included positions as Group Chief Executive (1986-93) and Chairman (1987-96). Knighted in 1990, Allen Sheppard had previously spent 18 years in the motor industry in finance, sales, marketing and line management with Ford, Rootes and British Leyland.

He is also Chairman of Namibian Resources plc, One-Click HR plc and McBride plc, Chancellor of Middlesex University and a Governor of the London School of Economics (where he graduated in Business Administration and which in 2000 made him an honorary fellow). Lord Sheppard has been a key figure in the running of the Prince's Trust, and is President of London First, which strives to improve and promote London.

**J M Neill CBE**
**Chief Executive & Deputy Chairman**

John Neill was appointed Chief Executive of the Group in 1987, having led the management buyout from British Leyland. John joined Unipart in 1974, becoming Managing Director in 1977. Together with the Board members and members of the Group Executive Committee he is responsible for the day-to-day management and overall performance of the Group.

He holds a number of key positions within the motor industry including Vice President of the Society of Motor Manufacturers and Traders (SMMT), as well as being a Board member of the SMMT Industry Forum. His other offices include being a non-executive director of Charter plc and of Royal Mail Holdings plc. He is also a former member of the Court of the Bank of England and has been awarded honorary Doctorates in Business Administration from several universities including Oxford Brookes, De Montfort and Middlesex.

**A J Mourgue**
**Group Finance Director**

Tony Mourgue was appointed Group Finance Director in 1986 having joined Unipart in 1983. Prior to that Tony worked with Black & Decker in the UK with responsibilities in Europe, the Middle East and Africa, having qualified as a Chartered Accountant with Ernst & Young in London and Paris.

As well as managing the internal financial control of the Group, he has been responsible for executing the numerous acquisitions and disposals the Group has undertaken and has been closely involved with relationships with investors, including the original buy-out, a share buy back and share transactions between institutional shareholders. He is also responsible for banking relationships and having led the process to reduce group debt, has put into place long term banking facilities for the Group.

**J D Clayton**
**Managing Director - Unipart Rail**

John Clayton is responsible for the Group's rail business, which includes Railpart, National Railway Supplies (NRS) and Dorman Traffic Products. Since joining Unipart in 1983 he has held senior financial and operational roles in several of the Group's major operating units and when Unipart took an equity stake in Railpart on that company's privatisation in March 1997 he was appointed Managing Director.

In his earlier career he qualified as a Chartered Accountant with Ernst & Young before joining Black & Decker from where he moved to Unipart.

**K Jones**
**Managing Director - Unipart Logistics**

Keith Jones, Managing Director of the Group's Logistics business, Unipart Logistics, joined the Group in 1984 after a number of years with the Ford Motor Company where he worked in Germany, France and Italy as well as the UK.

Since joining Unipart he has held a variety of senior positions in the Group. He has been actively involved in the development of the Group's automotive business in the UK, Europe and the Rest of the World. He also developed and expanded the Group's Logistics business in the technology, retail and aerospace sectors of the market.

**C Etherington**
**Managing Director - Unipart Automotive**

Managing Director of the Unipart Automotive business, Chris Etherington joined the Unipart Group in April 2003 from the Board of Alliance Unichem plc, the FTSE 100 pan-European pharmaceutical distributor.

Over a period of 12 years at Alliance Unichem he held a number of senior positions including, latterly, UK Managing Director and Executive Director of Northern Europe. His early career was spent in operational roles with Smiths Food Group, Asda plc and in contract distribution within the grocery retail sector.

**A M Vinton**
**Non-executive director & Deputy Chairman**

Fred Vinton was appointed a director in 1998 and non-executive Deputy Chairman in 2004. He is the Chairman of the international fund management company Electra Partners, specialising in private equity, and Chairman of Lambert Howarth Group plc. He is also a director of a private family fund management company. He previously served as Chief Operating Officer at N.M. Rothschild & Sons and as Chief Executive responsible for financial assets of the Bemberg Family Group.

Born in Argentina, he graduated from Harvard in Economics and spent 25 years with J.P. Morgan in the US, South America and, latterly, London where he was Senior Vice President responsible for banking operations and UK business from 1980-86.

**R C Tomkinson**
**Non-executive director**

Robert Tomkinson joined Unipart Group in 1998. At the time of his appointment he had just retired as Group Finance Director of Europe's leading electronics and electrical distribution group, Electrocomponents plc.

Previously he held a similar position with Automotive Products, and his early career was spent in energy and merchant banking. He is a non-executive director of Barloworld Ltd of South Africa, Chairman of KIG Holdings Ltd and has been awarded an honorary degree from the University of Buckingham where he was formerly Chairman.

# Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 December 2005.

**Principal activities and business review**

Unipart develops, implements and operates supply chain solutions in partnership with its customers in a wide range of transport, information technology, retail and consumer industries. Unipart's expertise and solutions cover the entire supply chain, ranging from warehousing and distribution to consultancy and training as well as IT and management systems and reverse logistics support. These activities and an indication of likely future developments are described in the Chairman's statement on page 1 and in the Chief Executive's Review on pages 2 to 5. Principal subsidiaries and joint ventures are listed in note 26.

**Profit and dividends**

The Group profit for the financial year after taxation was £43.0m (2004 - £23.3m). The Company has not paid nor is it proposing to pay any dividends in respect of the financial year ended 31 December 2005 (2004 - £nil).

**Directors and directors' interests**

The current directors served throughout the year and their biographical details are listed on pages 8 and 9. The beneficial interests of the directors and their families in the share capital of the Company are shown below.

| | 'A' Ordinary Shares of ½p each | | 'D' Ordinary Shares of ½p each | | 'E' Ordinary Shares of ½p each | |
|---|---|---|---|---|---|---|
| | 31 December 2005 Number | 1 January 2005 Number | 31 December 2005 Number | 1 January 2005 Number | 31 December 2005 Number | 1 January 2005 Number |
| **Beneficial Holdings** | | | | | | |
| Lord Sheppard | 100,000 | 100,000 | - | - | - | - |
| JM Neill | 1,627,222 | 1,627,222 | 5,638,860 | 5,638,860 | - | - |
| AJ Mourgue | 34,824 | 34,824 | 1,362,500 | 1,362,500 | - | - |
| AM Vinton | 200,000 | 200,000 | - | - | - | - |
| RC Tomkinson | 20,000 | 20,000 | - | - | - | - |
| JD Clayton | 91,500 | 91,500 | - | - | 191,083 | 191,083 |
| K Jones | 96,880 | 96,880 | - | - | 337,500 | 337,500 |
| C Etherington | 10,000 | 10,000 | - | - | - | - |
| **Non-Beneficial Holdings** | | | | | | |
| JM Neill | 898,020 | 898,020 | - | - | - | - |

| **Ordinary 'A' shares under option in the company** | 1 January 2005 Number | Granted in year Number | 31 December 2005 Number |
|---|---|---|---|
| JM Neill | 1,918,367 | - | 1,918,367 |
| AJ Mourgue | 1,122,449 | - | 1,122,449 |
| K Jones | 200,000 | - | 200,000 |
| JD Clayton | 200,000 | - | 200,000 |
| C Etherington | - | 500,000 | 500,000 |

No options were exercised or lapsed during the financial year.

Those directors who are employees or former employees of the Group are deemed by Section 324 of the Companies Act 1985 to be interested in the shares held by the Group Share Trust for the benefit of Group employees. The interest of the Group Share Trust in the shares of UGC Limited was as follows:

| | 31 December 2005 Number | 1 January 2005 Number |
|---|---|---|
| 'A' Ordinary shares of ½p each | 15,191,387 | 15,190,202 |

None of the directors had any beneficial interest at any time during the year in the share capital of the Company's subsidiaries, or in any of the loan stock of the Company or its subsidiaries. There was no contract with the Company or its subsidiaries subsisting during or at the end of the year in which any director of the Company had a material interest, with the exception of an indemnity which was made available to the directors against liabilities incurred by them in defending proceedings against them in relation to the affairs of the Company. The indemnity is subject to the provisions of the Companies Act and is set out in the Articles of Association.

## Donations

During the year the Group supported charities with donations of £11,300 (2004 - £7,300) of which £3,700 (2004 - £2,200) was for health and well-being purposes, £4,000 (2004 - £2,300) in respect of child welfare and youth development and £3,600 (2004 - £2,800) to other charitable purposes in support of employees in their fund-raising activities. The Group made no political donations during the year (2004 - £nil).

## Supplier payment policy

It is the Group's policy for each of its subsidiaries to establish its own policy with regard to the payment of suppliers. Provided there are no disputes concerning the supply of goods or services, it is the Group's normal practice to pay its suppliers within an acceptable period of time. The average number of days purchases in trade creditors at 31 December 2005 was 46 days (2004 - 48 days).

## Overseas branches

Details are set out in note 26 to the financial statements.

## Employees

The Group continues to involve employees in the decision-making process and communicates with all employees on various areas, including the economic and financial factors affecting the Group via regular briefings, on-site training, employee forums and through our in-house video programme, "Grapevine". Employee involvement in the Group's performance is encouraged through employee bonus and share schemes and this involvement extends to the board of trustees of the main pension scheme on which there are employee representatives.

The Group's aim for all existing employees and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity regardless of sex, religion or ethnic origin. The Group does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

## Group Share Trust

In order to enable employees to buy shares and have an interest in the Group, a Group Share Trust was set up at the time of the original buy-out in January 1987. It has independent trustees and during dealing periods, it can offer to buy and sell shares. Periodically it may also participate in schemes that enable employees to acquire shares and share options. It is not considered appropriate to consolidate the Group Share Trust in the Group's financial statements due to the terms of the trust deeds governing the Group Share Trust, which prevent the Group from having de facto control over the Trust.

## Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and Group will be proposed at the annual general meeting.

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss and the total recognised gains and losses of the Group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for taking such steps as would be expected to avail themselves of any relevant audit information and to establish that the auditors of the Company and the Group are aware of that information.

The directors confirm that these financial statements comply with the aforementioned requirements and that, as far as they are aware, there is no relevant audit information of which the auditors are unaware.

By order of the Board

M D Rimmer, Secretary
6 March 2006

# Independent Auditors' Report

to the members of UGC Limited

We have audited the Group and parent Company financial statements (the "financial statements") of UGC Limited for the year ended 31 December 2005 which comprise the Group profit and loss account, the Group and Company balance sheet, the Group cash flow statement, the Group statement of total recognised gains and losses, the note of Group historical cost profits and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report, the Chairman's statement, the Chief Executive's review and the Financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
**Birmingham, 6 March 2006**



UNIPART GROUP

# Group Profit and Loss Account

For the year ended 31 December 2005

| | Notes | 2005 £m | Restated 2004 £m |
|---|---|---|---|
| **Turnover** | | | |
| Total turnover | | 1,157.7 | 1,116.6 |
| Less: share of joint ventures' and associate's turnover | | (52.1) | (51.9) |
| **Group turnover** | 1 | 1,105.6 | 1,064.7 |
| **Operating profit from continuing operations** | | | |
| Group operating profit before goodwill amortisation and exceptional items | | 27.7 | 23.5 |
| Goodwill and other intangibles amortisation | 9 | (2.0) | (2.0) |
| Exceptional items | 3(a) | 27.3 | 0.6 |
| Group operating profit | 2 | 53.0 | 22.1 |
| Share of operating profit in joint ventures and associates | | 1.0 | 2.7 |
| **Total operating profit** | | 54.0 | 24.8 |
| (Loss)/profit on disposal of businesses | 3(b) | (0.5) | 0.9 |
| **Profit on ordinary activities before interest and taxation** | | 53.5 | 25.7 |
| Net interest payable | 4 | | |
| - Group | | (4.1) | (6.9) |
| - Share of joint ventures and associates | | (0.1) | (0.2) |
| Total net interest payable | | (4.2) | (7.1) |
| Net other finance income/(charge) | 5 | 0.9 | (1.2) |
| **Profit on ordinary activities before taxation** | | 50.2 | 17.4 |
| Tax on profit on ordinary activities | 6 | (7.2) | 5.9 |
| **Profit on ordinary activities after taxation** | | 43.0 | 23.3 |
| Equity minority interests | 20 | (0.2) | (0.3) |
| **Profit for the financial year** | 20 | 42.8 | 23.0 |

All operations in both years were continuing.

## Group statement of total recognised gains and losses

For the year ended 31 December 2005

| | Notes | 2005 £m | Restated 2004 £m |
|---|---|---|---|
| ***Profit for the financial year*** | | | |
| Group | | 42.2 | 21.2 |
| Share of joint ventures and associates | | 0.6 | 1.8 |
| | 20 | 42.8 | 23.0 |
| Actuarial gain/(loss) recognised on the pension schemes | 23 | 28.8 | (17.7) |
| Current tax relating to actuarial gain/(loss) on the pension schemes | | - | 0.2 |
| Deferred tax relating to actuarial gain/(loss) on the pension schemes | 13 | (8.6) | 5.1 |
| Actuarial loss recognised on the pension schemes - joint ventures | 11(a) | (0.4) | - |
| Deferred tax relating to actuarial loss on the pension scheme - joint ventures | 11(a) | 0.1 | - |
| Decrease in goodwill previously written off to reserves | | - | 0.1 |
| Currency translation differences | 20 | 0.5 | (0.4) |
| Total gains and losses recognised relating to the year | | 63.2 | 10.3 |
| Prior year adjustment - revaluation of freehold land and buildings | 10 | 16.3 | |
| Total gains and losses recognised since last report | | 79.5 | |

## Note of Group historical cost profits and losses

For the year ended 31 December 2005

| | Notes | 2005 £m | Restated 2004 £m |
|---|---|---|---|
| Reported profit on ordinary activities before taxation | | 50.2 | 17.4 |
| Realisation of property revaluation gains of previous years | 20 | 0.3 | 0.5 |
| Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount | 20 | 0.1 | 0.1 |
| Historical cost profit on ordinary activities before taxation | | 50.6 | 18.0 |
| Historical cost profit for the year retained after taxation and equity minority interests | | 43.2 | 23.6 |

# Balance Sheets

as at 31 December 2005

| | Notes | Group 2005 £m | Restated Group 2004 £m | Company 2005 £m | Company 2004 £m |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 9 | **10.6** | 12.0 | **-** | - |
| Tangible assets | 10 | **48.9** | 50.9 | **-** | - |
| Investments in subsidiaries | 11(c) | **-** | - | **66.5** | 67.7 |
| Investments in joint ventures | | | | | |
| Share of gross assets | | **24.0** | 22.0 | | |
| Share of gross liabilities | | **(19.3)** | (17.6) | | |
| | 11(a) (c) | **4.7** | 4.4 | **5.8** | 5.8 |
| Loans | 11(a) (c) | **4.3** | 4.3 | **4.3** | 4.3 |
| Other investments | 11(b) | **0.1** | 0.1 | **-** | - |
| | | **68.6** | 71.7 | **76.6** | 77.8 |
| **Current assets** | | | | | |
| Stocks | 12 | **138.9** | 159.6 | **-** | - |
| Debtors - amounts falling due within one year | 13(a) | **165.0** | 167.7 | **214.6** | 220.8 |
| Debtors - amounts falling due after more than one year | 13(b) | **20.8** | 22.6 | **0.6** | 0.3 |
| Cash at bank and in hand | | **25.3** | 24.5 | **0.2** | 0.2 |
| | | **350.0** | 374.4 | **215.4** | 221.3 |
| **Creditors - amounts falling due within one year** | 14 | **(252.3)** | (267.9) | **(230.1)** | (252.3) |
| **Net current assets/(liabilities)** | | **97.7** | 106.5 | **(14.7)** | (31.0) |
| ***Total assets less current liabilities*** | | **166.3** | 178.2 | **61.9** | 46.8 |
| **Creditors - amounts falling due after more than one year** | 15 | **(14.0)** | (56.4) | **-** | - |
| **Provisions for liabilities and charges** | 17 | **(20.3)** | (20.5) | **-** | - |
| **Total net assets (excluding net pension liabilities)** | | **132.0** | 101.3 | **61.9** | 46.8 |
| Net pension liabilities | 23 | **(85.8)** | (118.4) | **-** | - |
| **Total net assets/(liabilities) (including net pension liabilities)** | | **46.2** | (17.1) | **61.9** | 46.8 |
| **Capital and reserves** | | | | | |
| Called up share capital | 18 | **0.4** | 0.4 | **0.4** | 0.4 |
| Share premium account | 20 | **4.4** | 4.4 | **4.4** | 4.4 |
| Capital redemption reserve | 20 | **11.5** | 11.5 | **11.5** | 11.5 |
| Revaluation reserve | 20 | **17.4** | 17.8 | **-** | - |
| Profit and loss reserve | 20 | **12.0** | (51.6) | **45.6** | 30.5 |
| **Equity shareholders' funds/(deficit)** | 21 | **45.7** | (17.5) | **61.9** | 46.8 |
| Equity minority interests | 20 | **0.5** | 0.4 | **-** | - |
| **Total shareholders' funds/(deficit)** | | **46.2** | (17.1) | **61.9** | 46.8 |

Approved by the Board on 6 March 2006 and signed on its behalf by

J M Neill
**Group Chief Executive**

A J Mourgue
**Group Finance Director**



UNIPART GROUP

# Group Cash Flow Statement

For the year ended 31 December 2005

| | Notes | 2005 £m | 2005 £m | 2004 £m | 2004 £m |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 22(a) | | 57.0 | | 23.9 |
| **Dividends received from joint ventures** | | | - | | 0.7 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | 0.6 | | 0.6 | |
| Interest paid | | (4.2) | | (6.2) | |
| Issue costs of new bank loan | | - | | (0.6) | |
| Dividends paid to minority shareholders | | (0.2) | | (0.3) | |
| Net cash outflow from returns on investments and servicing of finance | | | (3.8) | | (6.5) |
| **Taxation** | | | 0.2 | | 0.2 |
| **Capital expenditure and financial investment** | | | | | |
| Purchase of intangible fixed assets | | (0.2) | | - | |
| Purchase of tangible fixed assets | | (5.1) | | (6.4) | |
| Sale of tangible fixed assets | | 1.9 | | 3.5 | |
| Net cash outflow from capital expenditure and financial investment | | | (3.4) | | (2.9) |
| **Acquisitions and disposals** | | | | | |
| Disposal of business and associates | | | 1.1 | | 1.1 |
| **Cash inflow before financing** | | | 51.1 | | 16.5 |
| **Financing** | | | | | |
| (Decrease)/increase in debt due within a year | | (7.0) | | 1.5 | |
| Decrease in debt due after more than one year | | (43.1) | | (23.9) | |
| Issue of new Company shares during the year | | - | | 2.5 | |
| Net cash outflow from financing | | | (50.1) | | (19.9) |
| **Increase/(decrease) in cash** | 22(b) | | 1.0 | | (3.4) |

| **Reconciliation of net cash flow to movement in net cash/(debt)** | Notes | 2005 £m | 2004 £m |
|---|---|---|---|
| **Increase/(decrease) in cash** | 22(b) | 1.0 | (3.4) |
| Net cash outflow from decrease in debt financing | 22(b) | 50.1 | 22.4 |
| Change in net cash/(debt) resulting from cash flows | | 51.1 | 19.0 |
| **Non-cash movements** | | | |
| Currency translation differences | 22(b) | (0.1) | 0.1 |
| Amortisation of capitalised bank fees | 22(b) | (0.6) | (1.3) |
| Movement in net cash/(debt) | | 50.4 | 17.8 |
| Net debt at 1 January | 22(b) | (39.3) | (57.1) |
| **Net cash/(debt) at 31 December** | 22(b) | 11.1 | (39.3) |

# Accounting Policies

A summary of the more important accounting policies adopted by the Company and the Group is given in the following paragraphs. The policies have been consistently applied from the previous year, except for the adoption of a policy of revaluation in respect of freehold land and buildings in accordance with FRS 15, 'Tangible fixed assets'. The formal valuation was carried out as at 31 December 2005 and the prior year comparatives have been restated accordingly. Further details of the revaluation and resulting prior year adjustment can be found in note 10.

During the year FRS 25, 'Financial instruments: Disclosure and presentation' became effective, the adoption of the new accounting standard has not resulted in any change to the financial statements for the year ended 31 December 2005 and the Group has not needed to take advantage of the exemption not to restate prior year comparatives as no material adjustments would be required.

### Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. The financial statements are prepared on the historical cost basis of accounting, modified to include the valuation of freehold land and buildings.

### Basis of consolidation

The Group financial statements comprise a consolidation of the accounts of the Company and all of its subsidiary undertakings and incorporate its share of the results of all joint ventures. The results and fair value of the assets and liabilities of undertakings acquired are consolidated from the date the Group gains control. Where, in the view of the directors, the Group does not have de facto control over the related entities, these entities are excluded from the consolidation in the Group's financial statements. No profit and loss account is presented for the Company as permitted by Section 230 (3) of the Companies Act 1985.

### Turnover

Income is recognised on the invoiced value of goods and services supplied during the year, including amounts received and receivable on management fee contracts. Turnover is reported net of conditional discounts, VAT and other sales taxes.

### Pension costs

The Group accounts for pension and other post retirement benefits schemes in accordance with FRS 17, 'Retirement benefits'. For defined contribution schemes, contributions are charged to the profit and loss account as payable in respect of the accounting period.

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included within staff costs and charged to the statutory profit and loss account headings to which they relate. 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 until 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 at each 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.

Where it is not possible to split the scheme assets and liabilities between individual subsidiary companies, the relevant subsidiary companies account for pensions on a contributions basis.

### Goodwill

Goodwill, being the excess of the fair value of purchase consideration of businesses acquired over the Group's share of the fair value of assets and liabilities acquired, is written off to the profit and loss account on a straight line basis over periods which represent the useful economic lives of those assets, up to a maximum of twenty years. All goodwill arising prior to the adoption of FRS 10, 'Goodwill and intangible assets' remains written off to reserves and will be charged to the profit and loss account on subsequent disposal or termination of the business to which it relates.

### Intangible assets

Expenditure incurred to acquire licences to manufacture certain products are capitalised and amortised on a straight-line basis over the shorter of the estimated economic life of the manufacturing activity, the life of the licence or twenty years.

### Tangible fixed assets

All tangible fixed assets, with the exception of freehold properties, are carried at cost less depreciation and provision for impairment. The cost of purchased assets is the value of consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use.

Freehold land and buildings are carried at valuation (open market value for existing use), following the adoption of a policy of revaluation for that class of assets during the year. As the Group's portfolio of freehold land and buildings consists of a number of broadly similar properties, whose characteristics are such that their values are likely to be affected by the same market factors, a full valuation will be performed on a rolling basis to cover all the properties over a five-year cycle, together with an interim valuation on the remaining four-fifths of the portfolio where it is likely that there has been a material change in value.

With the exception of freehold land, which is not depreciated, depreciation on the cost or valuation of tangible fixed assets is charged evenly to write off the assets to their residual value over their estimated useful lives as follow:

Freehold and long leasehold buildings - 35 to 50 years
Short leasehold buildings - the term of each lease
Plant and equipment - 1 to 10 years

The Group's policy is to capitalise as tangible fixed assets computer software expenditure only in respect of major systems changes.

### Impairment of fixed assets and goodwill

Impairment provisions are calculated by comparing the net book value of fixed assets or goodwill with the higher of the post-tax net realisable value and the value in use of those assets. The value in use is calculated using forecast discounted cash flows over the economic life of the related fixed asset or goodwill.

### Operating leases

Operating lease rentals are charged against operating profit as incurred.

### Investments

The Group's investment in joint ventures is its interest in their net assets and goodwill plus loans. Other investments are stated at cost less provision for impairment.

### Stocks

Stocks are stated at the lower of cost and net realisable value. Cost of finished products and work in progress includes, where appropriate, direct labour and materials and a proportion of factory overheads. Net realisable value is calculated, after taking into account provisions for obsolescence, as the actual selling price, net of trade discounts, less costs to completion and all related marketing, selling and distribution costs.

### Warranties

Provision is made for the best estimate of the costs of making good under warranty products sold before the balance sheet date, and discounted where material.

### Onerous contracts

When a contract becomes onerous, provision is made for the best estimate of the unavoidable losses that are expected to be incurred under the remainder of the contract term.

### Property provisions

Provision is made for the best estimate of unavoidable future lease payments, on a discounted basis where material, when the lease becomes onerous, net of amounts that can be reasonably expected to be recovered from sub-tenants to which the respective property is expected to be sub-let.

Provision is made for the best estimate of dilapidation costs, on a discounted basis, at the date the obligation arises. The unwinding of the discount is included within interest expense. The provision is net of amounts recoverable in respect of dilapidation costs for properties that have been sub-let to unrelated third parties.

### Deferred taxation

Deferred taxation is accounted for to recognise timing differences between the recognition of gains and losses in the financial statements and their recognition for taxation purposes. A deferred tax liability is recognised if transactions or events result in the Group having an obligation to pay more tax in future periods. A deferred tax asset is only recognised where transactions or events that have occurred before the balance sheet date give the Group the right to pay less tax in future, and it is considered reasonable to forecast that there will be future profits against which the deferred tax assets can be recovered. Deferred tax balances are not discounted.

### Finance costs

Costs incurred in respect of obtaining new debt instruments are capitalised and reported against the respective debt within liabilities, and amortised to the profit and loss account over the term of the facility.

### Foreign currency

The profit and loss accounts of overseas activities are translated into Sterling at average rates of exchange. Balance sheets are translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising on the retranslation at closing rates of the opening balance sheets of overseas activities, together with the year end adjustment to closing rates of profit and loss accounts translated at average rates, are taken to reserves.

Exchange differences arising in the normal course of trading and on the translation of monetary assets and liabilities are taken through the profit and loss account. Differences arising on the translation of foreign currency borrowings are taken directly to reserves where there is a corresponding exchange difference on the translation of the related net investment.

### Significant estimation techniques

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure in the reporting period. Actual results could differ from those estimates. Estimates are principally used when accounting for pension costs, the valuation of freehold land and buildings, the useful economic lives of fixed and intangible assets, provisions and, in certain instances, in revenue recognition.

### Financial Instruments

The Group uses various derivative financial instruments to reduce exposure of foreign exchange risks. Authorised instruments include forward currency contracts and currency options. The Group also uses interest rate swaps and options to manage its interest rate exposure.

Forward currency contracts used to hedge transaction exposures are not revalued. Transactions to hedge translation exposures are revalued and the net unrealised difference taken to trading profit. All realised gains and losses are taken to operating profit.

Currency option premia are recognised at their historical cost in the Group balance sheet as other receivables. At maturity, the option premia together with any realised foreign exchange differences on exercise, are taken to operating profit.

Interest rate option premia paid are recognised at their historical cost in the Group balance sheet as other receivables. Option premia are taken to net interest payable spread over the interest period covered by the relevant options.

Amounts payable or receivable in respect of interest rate swap agreements used to manage interest rate exposure are recognised as adjustments to periodic interest expense over the duration of the contracts.

# Notes to the Financial Statements

## 1 Segmental reporting

The Group operates principally in one business segment, that of distribution and logistics management. Other businesses are not considered sufficiently material to warrant separate disclosure as different business segments.

The Group operates principally in the United Kingdom, where all significant operations are controlled and thus where turnover is considered to originate and from which profit arises. An analysis of turnover by location of external customer is as follows:

| | 2005 £m | 2004 £m |
|---|---|---|
| United Kingdom | **823.0** | 787.9 |
| Other Europe | **109.0** | 107.0 |
| North America | **130.0** | 134.1 |
| Rest of the world | **43.6** | 35.7 |
| Group turnover | **1,105.6** | 1,064.7 |
| Share of joint ventures' and associate's turnover (UK) | **52.1** | 51.9 |
| Total turnover including share of joint ventures and associate | **1,157.7** | 1,116.6 |

*The Group exports, and holds assets overseas supporting its sales operations to numerous parts of the world.* The geographical analysis of net assets by location is as follows:

| | 2005 £m | Restated 2004 £m |
|---|---|---|
| United Kingdom | **70.8** | 80.6 |
| Other Europe | **16.7** | 25.7 |
| North America | **23.4** | 30.9 |
| Rest of the world | **10.0** | 3.4 |
| | **120.9** | 140.6 |
| Central net liabilities | **(74.7)** | (157.7) |
| Consolidated net assets/(liabilities) | **46.2** | (17.1) |

Central net liabilities represent the net pension liability, together with net cash (2004 - net debt), both of which cannot practicably be divided between the geographical locations.

## 2 Analysis of operating costs

| | 2005 £m | Restated 2004 £m |
|---|---|---|
| Group turnover | **1,105.6** | 1,064.7 |
| Cost of sales | **(807.1)** | (638.3) |
| Gross profit | **298.5** | 426.4 |
| Distribution costs | **(168.3)** | (309.1) |
| Administrative expenses | **(104.5)** | (95.8) |
| Exceptional items (note 3(a)) | **27.3** | 0.6 |
| Total administrative expenses | **(77.2)** | (95.2) |
| Group operating profit | **53.0** | 22.1 |

Group operating profit is stated after charging/(crediting):

| | 2005 £m | Restated 2004 £m |
|---|---|---|
| Depreciation of owned tangible fixed assets (including impairment release of £0.3m (2004 - £0.5m)) | **5.8** | 6.5 |
| Amortisation of goodwill and other intangibles | **2.0** | 2.0 |
| Loss on the disposal of land and buildings | **0.1** | - |
| Profit on the disposal of other tangible fixed assets | **(0.7)** | (1.0) |
| Operating leases - land and buildings (net of sub-let income) | **22.1** | 16.6 |
| - plant and machinery | **9.5** | 8.7 |
| Auditors' remuneration for audit work - Group (Company - £8,000; 2004 - £8,000) | **0.5** | 0.5 |
| Auditors' remuneration for non-audit work - Group (Company - £nil; 2004 - £90,000) | **0.7** | 0.8 |

*Details of the exceptional items recognised in arriving at operating profit can be found in note 3(a) to the financial statements.*

### 3 Exceptional items

| | 2005 £m | 2004 £m |
|---|---|---|
| a) Exceptional items - recognised in arriving at operating profit | | |
| Litigation settlement/(costs) (i) | 17.2 | (2.9) |
| Pension costs - Curtailment (ii) | 15.7 | - |
| Re-organisation costs (iii) | (5.6) | 1.8 |
| Refinancing costs (iv) | - | 1.7 |
| | 27.3 | 0.6 |
| b) Exceptional items - recognised after arriving at operating profit | | |
| (Loss)/profit in respect of businesses sold in prior years (v) | (0.5) | 0.9 |

(i) During the year the Group agreed the full and final settlement of legal proceedings, which are not considered to be in the normal course of business. The exceptional profit of £17.2m represents the cash received under the settlement after deducting associated costs (2004 - cost of £2.9m). No tax is expected to arise on the exceptional profit as the Group has sufficient capital losses carried forward to offset any capital gain arising from the litigation receipt.

(ii) As discussed in the Financial review a credit of £16.2m arose during the year as a result of the decision to cease the future accrual of benefits for active members of the two main defined benefit schemes. The exceptional profit of £15.7m is stated after charging the costs incurred by the Group in relation to the cessation. A deferred tax charge of £4.9m arises on the credit which is charged to the profit and loss account.

(iii) The Group incurred costs of £5.6m during the year in respect of the restructuring of operations and the majority of the costs are expected to be allowable for taxation purposes. In the prior year, a profit of £1.8m arose on the release of an onerous lease provision which was no longer required; no tax arose on this exceptional profit.

(iv) In the prior year a profit of £1.7m arose on the release of a provision held for deferred financing fees which did not become payable; no tax arose on this exceptional profit.

(v) A loss of £0.5m (2004 - profit of £0.9m) has arisen during the year on recoveries in respect of businesses sold in prior periods. The net loss is expected to crystalise a capital loss which will either be relieved against UK capital gains of the year, such as the litigation settlement above, or carried forward for future relief. As it is the Group's policy not to recognise a deferred tax asset in respect of capital losses there is no tax impact recorded in the financial statements and there was no tax arising on the profit in the prior year.

### 4 Net interest payable

| | 2005 £m | 2004 £m |
|---|---|---|
| **Interest payable** | | |
| Bank loans and overdrafts | (4.3) | (5.6) |
| Share of joint ventures' interest | (0.1) | (0.2) |
| Amortisation of issue costs on bank facilities | (0.6) | (1.9) |
| | (5.0) | (7.7) |
| Interest receivable | 0.8 | 0.6 |
| Net interest payable | (4.2) | (7.1) |

### 5 Net other finance income/(charge)

| | 2005 £m | 2004 £m |
|---|---|---|
| **Net finance credit/(charge) on pension schemes (note 23)** | | |
| Expected return on pension scheme assets | 33.9 | 28.7 |
| Interest on pension scheme liabilities | (32.7) | (29.6) |
| | 1.2 | (0.9) |
| Unwinding of discounting of provisions | (0.3) | (0.3) |
| Net other finance income/(charge) | 0.9 | (1.2) |

## 6 Taxation on profit on ordinary activities

| a) Analysis of tax charge for the year | 2005 £m | Restated 2004 £m |
|---|---|---|
| **Current tax** | | |
| UK tax | | |
| UK Corporation tax on profits for the year | (0.6) | (0.1) |
| Double tax relief | 0.8 | - |
| Share of joint ventures' tax | (0.2) | (0.4) |
| Adjustments in respect of prior periods | 1.1 | 0.5 |
| Foreign tax | | |
| Corporation taxes | (1.1) | (0.8) |
| Adjustments in respect of prior periods | - | 0.1 |
| Total current tax | - | (0.7) |
| **Deferred tax** | | |
| Origination and reversal of timing differences | (9.9) | 1.0 |
| Adjustments in respect of prior periods | 2.7 | 5.6 |
| Representing: | | |
| United Kingdom | (7.0) | 7.2 |
| Foreign tax | (0.1) | (0.2) |
| Share of joint ventures | (0.1) | (0.4) |
| Total deferred tax | (7.2) | 6.6 |
| Taxation on profit on ordinary activities | (7.2) | 5.9 |

**b) Factors affecting the current tax charge for the year**

The tax assessed for the year is different to the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | 2005 £m | Restated 2004 £m |
|---|---|---|
| Profit on ordinary activities before tax | 50.2 | 17.4 |
| Profit on ordinary activities multiplied by standard rate in the UK 30% (2004 - 30%) | (15.1) | (5.2) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 3.1 | (0.7) |
| Accelerated capital allowances and other timing differences | 4.8 | 4.3 |
| Other timing differences | (0.4) | - |
| Utilisation of tax losses | 0.2 | 0.3 |
| Deferred taxation on pension related profit and loss items | 5.3 | - |
| Overseas tax suffered in respect of foreign dividends received in the year | 0.8 | - |
| Adjustments in respect of overseas tax rates | 0.2 | - |
| Adjustments to tax charge in respect of previous periods | 1.1 | 0.6 |
| Total current tax charge for the year | - | (0.7) |

**c) Factors that may affect future tax charges**

Based on current capital investment plans and the level of fixed asset timing differences included within the deferred tax asset (note 13) the Group expects to continue to be able to continue to claim capital allowances in excess of depreciation at a similar level to the current year for the next three to five years.

The Group has generated significant UK capital losses from disposals in previous years. Such losses will only be available to offset UK capital profits arising in future periods, such as gains arising on the future sale of freehold properties, and it is expected to be some time before these losses are relieved. Accordingly, the Group has not recognised a deferred tax asset in respect of these losses. As a consequence of not recognising a deferred tax asset in respect of such capital losses, the Group does not expect to incur any significant tax charges in respect of capital gains within the foreseeable future.

### 7 Employees

| | Group 2005 £m | Group 2004 £m | Company 2005 £m | Company 2004 £m |
|---|---|---|---|---|
| **Employee costs** | | | | |
| Wages and salaries | **176.8** | 161.5 | **1.3** | 1.2 |
| Social security costs | **15.5** | 14.5 | **0.1** | 0.1 |
| Pension costs (note 23) | **(4.7)** | 11.7 | **0.4** | 0.4 |
| | **187.6** | 187.7 | **1.8** | 1.7 |

Included within the Group pension costs is a curtailment credit of £16.2m as disclosed in note 3(a)(ii).

| | Number | Number |
|---|---|---|
| **Average number of employees** | | |
| Direct production | **590** | 565 |
| Indirect production and warehousing | **2,617** | 2,020 |
| Sales, marketing and administration | **5,579** | 5,697 |
| | **8,786** | 8,282 |

The Company has six employees (2004 - two).

### 8 Directors' emoluments

The aggregate emoluments of the directors during the year totalled £2,336,000 (2004 - £2,345,000) and retirement benefits accrued to four (2004 - four) directors under a defined benefit scheme, and one director under a money purchase scheme (2004 - one). The contributions paid into money purchase schemes during the year totalled £42,622 (2004 - £42,622). The highest paid director received emoluments during the year totalling £757,000 (2004 - £723,000) and has an accrued pension of £392,000 as at the end of the financial year (2004 - £370,000). During the year no options over shares in UGC Limited were exercised by the directors.

The Chairman received fees under a contract for services of £50,000 in the year (2004 - £46,800) plus expenses. Fees of £72,000 (2004 - £70,000) were paid in the year in respect of the other non-executive directors.

### 9 Intangible assets

| | Goodwill £m | Licences £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2005 | 181.3 | 0.2 | 181.5 |
| Additions | - | 0.6 | 0.6 |
| **At 31 December 2005** | **181.3** | **0.8** | **182.1** |
| **Amortisation** | | | |
| At 1 January 2005 | 169.3 | 0.2 | 169.5 |
| Charge for the year | 1.9 | 0.1 | 2.0 |
| **At 31 December 2005** | **171.2** | **0.3** | **171.5** |
| **Net book amount** | | | |
| **At 31 December 2005** | **10.1** | **0.5** | **10.6** |
| At 31 December 2004 | 12.0 | - | 12.0 |

10 Tangible fixed assets

| | Land & buildings | | | | |
|---|---|---|---|---|---|
| | Freehold £m | Long leasehold £m | Short leasehold £m | Plant and equipment £m | Total £m |
| **Cost or valuation** | | | | | |
| At 1 January 2005 as previously stated | 15.8 | 3.2 | 5.1 | 81.6 | 105.7 |
| Prior year adjustment - revaluation | 16.2 | - | - | - | 16.2 |
| At 1 January 2005 as restated | 32.0 | 3.2 | 5.1 | 81.6 | 121.9 |
| Additions | 0.3 | - | 0.6 | 4.2 | 5.1 |
| Disposals | (0.4) | - | (0.5) | (17.5) | (18.4) |
| Transfers | 1.8 | 1.0 | 4.5 | - | 7.3 |
| Exchange adjustment | (0.2) | - | - | 0.1 | (0.1) |
| **At 31 December 2005** | **33.5** | **4.2** | **9.7** | **68.4** | **115.8** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2005 as previously stated | 3.3 | 0.4 | 2.1 | 65.3 | 71.1 |
| Prior year adjustment - revaluation | (1.6) | - | - | - | (1.6) |
| Prior year adjustment - impairment | 1.5 | - | - | - | 1.5 |
| At 1 January 2005 as restated | 3.2 | 0.4 | 2.1 | 65.3 | 71.0 |
| Charge for year | 0.4 | 0.1 | 0.3 | 5.0 | 5.8 |
| Disposals | - | - | (0.4) | (16.7) | (17.1) |
| Transfers | 2.0 | 1.0 | 4.3 | - | 7.3 |
| Exchange adjustment | (0.1) | - | - | - | (0.1) |
| **At 31 December 2005** | **5.5** | **1.5** | **6.3** | **53.6** | **66.9** |
| **Net book amount** | | | | | |
| **At 31 December 2005** | **28.0** | **2.7** | **3.4** | **14.8** | **48.9** |
| At 31 December 2004 as restated | 28.8 | 2.8 | 3.0 | 16.3 | 50.9 |

Included within the balance of accumulated depreciation at 1 January 2005 is an amount of £2.8m relating to impairments of prior periods. The impairment charges include £1.3m which have been made to reduce the assets of certain operations within the Group to their calculated value in use and £1.5m relating to freehold properties. The depreciation charge for the year is stated after a net impairment release of £0.3m (2004 - £0.5m) made in respect of certain of these assets used in operations that have turned to profit in the year and a revised value in use has meant the previous impairment should be released. In addition, included within the accumulated depreciation on disposals is an amount of £0.2m relating to previous impairments. As a result, an amount of £2.3m relating to impairments is included within the balance of accumulated depreciation at 31 December 2005.

**Prior year adjustment in respect of the revaluation of freehold land and buildings**

The Group has adopted a policy of revaluation in respect of its freehold land and buildings in order to reflect a more appropriate view of the Group's assets. This change in accounting policy has led to a restatement of the Group's prior year profit and loss account, Group statement of total recognised gains and losses, note of Group historical cost profits and losses, Group balance sheet, Group reconciliation of movements in equity shareholders' funds, along with the creation of a revaluation reserve.

| The effect of the adjustment to the Group's total equity shareholders' funds is: | Profit and loss reserve £m | Revaluation reserve £m | Total £m |
|---|---|---|---|
| Net (decrease)/increase in equity shareholders' funds as at 1 January 2004 | (1.5) | 18.4 | 16.9 |
| Net impact of profit and loss adjustments on profit for the year ended 31 December 2004 (set out below) | (0.6) | - | (0.6) |
| Transfer of historical differences between reserves | 0.6 | (0.6) | - |
| Net (decrease)/increase in equity shareholders' funds as at 31 December 2004 | (1.5) | 17.8 | 16.3 |

| The restatement of the profit and loss account involved the following adjustments: | **2005 £m** | 2004 £m |
|---|---|---|
| Adjustment to depreciation charged on freehold buildings | **(0.1)** | (0.1) |
| Adjustment to profits recognised on the disposal of freehold land and buildings | **(0.3)** | (0.5) |
| Net adjustment to operating profit | **(0.4)** | (0.6) |

If the Group's freehold land and buildings had not been revalued, their net book value would have been:

| | **2005 £m** | 2004 £m |
|---|---|---|
| Cost | **17.7** | 15.8 |
| Accumulated depreciation | **(7.1)** | (4.8) |
| Closing net book amount | **10.6** | 11.0 |

The freehold land and buildings were valued as at 31 December 2005 on the basis of existing use at an aggregate value of £28.0m and the prior year comparatives have been restated accordingly.

Certain of the freehold properties, including those overseas properties, were valued by external valuers, Edwards Symmons & Partners, Harris Lamb, Graves Son & Pilcher, Thomas Merrifield, DTZ Zadelhoff and De Noyette Norbert all being qualified valuers and members of the Royal Institution of Chartered Surveyors (RICS) or equivalent professional bodies in the case of the overseas valuers. The remaining properties which consist of broadly similar properties were valued by qualified Chartered Surveyors, being members of RICS, who are employees of the Unipart Group Property Department. The aggregate value of the valuation performed by the internal surveyors was £8.2m resulting in a revaluation reserve of £2.7m.

All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards, the internal valuations were subject to review by Edward Symmons & Partners, the review procedures involving the valuation of a sample of the entity's properties by the external valuers and comparison with the internal valuations to ensure their overall accuracy.

## 11 Investments

### (a) Investments in joint ventures - Group

| | Share of net assets £m | Loans £m | Total £m |
|---|---|---|---|
| At 1 January 2005 | 4.4 | 4.3 | 8.7 |
| Profit for the financial year | 0.6 | - | 0.6 |
| Other recognised gains and losses relating to the year (net) | (0.3) | - | (0.3) |
| **At 31 December 2005** | **4.7** | **4.3** | **9.0** |

The Group's interests in its principal joint ventures are 50% of the ordinary shares of each of Kautex Unipart Ltd and Unipart Eberspächer Exhaust Systems Ltd. The loan is from UGC Ltd to Kautex Unipart Ltd and interest is charged at 5% per annum. The Group provides certain administrative services to its joint ventures, the transactions are disclosed in note 25.

### (b) Other investments - Group

| | £m |
|---|---|
| **Cost** | |
| At 1 January 2005 | 0.2 |
| Additions | 0.2 |
| **At 31 December 2005** | **0.4** |
| **Provisions** | |
| At 1 January 2005 | 0.1 |
| Impairment in the year | 0.2 |
| **At 31 December 2005** | **0.3** |
| **Net book amount** | |
| **At 31 December 2005** | **0.1** |
| At 31 December 2004 | 0.1 |

Other investments are listed investments representing equity investments in Real Affinity plc, an AIM listed company, which the Group has received as part of the consideration received for the sale of its interest in an associate. The additions in the year of £0.2 million form part of the deferred consideration which was received by the Group under the sale agreement. An amount has been provided to write down the investment to its market value as quoted on AIM at 31 December 2005.

### (c) Investments in subsidiaries and joint ventures - Company

| | Subsidiaries | Joint ventures | | Total |
|---|---|---|---|---|
| | Shares £m | Shares £m | Loans £m | £m |
| **Cost** | | | | |
| At 1 January and 31 December 2005 | **67.7** | **5.8** | **4.3** | **77.8** |
| **Provisions** | | | | |
| At 1 January 2005 | - | - | - | - |
| Impairment in the year | 1.2 | - | - | 1.2 |
| **At 31 December 2005** | 1.2 | - | - | 1.2 |
| **Net book amount** | | | | |
| **At 31 December 2005** | **66.5** | **5.8** | **4.3** | **76.6** |
| At 31 December 2004 | 67.7 | 5.8 | 4.3 | 77.8 |

During the year an impairment of £1.2m has been charged to reduce the carrying value of a subsidiary company to its net asset value as it became dormant in the year when its trade was transferred to another Group company. Details of the principal undertakings in the Group and the investments of the Company are shown in note 26.

## 12 Stocks

| | **2005 £m** | 2004 £m |
|---|---|---|
| Raw materials and consumables | **4.8** | 4.2 |
| Work in progress | **1.7** | 2.9 |
| Finished goods and goods for resale | **132.4** | 152.5 |
| | **138.9** | 159.6 |

## 13 Debtors

| | Group 2005 £m | Group 2004 £m | Company 2005 £m | Company 2004 £m |
|---|---|---|---|---|
| **(a) Amounts falling due within one year** | | | | |
| Trade debtors and bills receivable | **122.0** | 127.7 | **-** | - |
| Amounts owed by Group undertakings | **-** | - | **206.9** | 213.6 |
| Amounts owed by joint ventures | **0.8** | 0.9 | **-** | - |
| Other debtors | **18.0** | 14.7 | **6.7** | 6.7 |
| Corporation tax | **-** | - | **1.0** | 0.5 |
| Prepayments and accrued income | **24.2** | 24.4 | **-** | - |
| | **165.0** | 167.7 | **214.6** | 220.8 |
| **(b) Amounts falling due after more than one year** | | | | |
| Other debtors | **0.9** | 1.1 | **-** | - |
| Deferred taxation (see below) | **15.1** | 16.8 | **0.6** | 0.3 |
| Prepayments and accrued income | **4.8** | 4.7 | **-** | - |
| | **20.8** | 22.6 | **0.6** | 0.3 |

| **Deferred taxation** | Group 2005 £m | Group 2004 £m | Company 2005 £m | Company 2004 £m |
|---|---|---|---|---|
| Accelerated capital allowances | **12.0** | 9.2 | **-** | - |
| Trading losses and timing differences | **3.1** | 7.6 | **0.6** | 0.3 |
| Deferred tax asset included within debtors | **15.1** | 16.8 | **0.6** | 0.3 |
| Related deferred tax asset included within the net pension liability | **36.8** | 50.8 | **-** | - |
| | **51.9** | 67.6 | **0.6** | 0.3 |

The Group and the Company does not recognise an asset in respect of UK capital losses generated from disposals in previous years as such losses will only be available to offset UK capital profits arising in future periods and it is expected to be some time before these losses can be relieved. In addition, the Group has not recognised an asset of £0.5m (2004 - £0.5m) in respect of trading losses of a subsidiary which no longer trades but acts as an intermediate holding company and therefore it is unlikely that these losses would be utilised in the foreseeable future.

| | Group 2005 £m | Group 2004 £m | Company 2005 £m | Company 2004 £m |
|---|---|---|---|---|
| At 1 January | **67.6** | 55.5 | **0.3** | - |
| Amounts (charged)/credited to the profit and loss account (note 6) | **(7.1)** | 7.0 | **0.3** | 0.3 |
| Amounts (charged)/credited to the statement of total recognised gains and losses | **(8.6)** | 5.1 | **-** | - |
| At 31 December | **51.9** | 67.6 | **0.6** | 0.3 |
| Representing: | | | | |
| Deferred tax asset included within debtors | **15.1** | 16.8 | **0.6** | 0.3 |
| Related deferred tax asset included within the net pension liability | **36.8** | 50.8 | **-** | - |
| | **51.9** | 67.6 | **0.6** | 0.3 |

## 14 Creditors: amounts falling due within one year

| | Group 2005 £m | Group 2004 £m | Company 2005 £m | Company 2004 £m |
|---|---|---|---|---|
| Bank loans and overdrafts (note 16) | **0.6** | 7.5 | **-** | - |
| Trade creditors | **128.3** | 131.4 | **-** | - |
| Amounts owing to other Group undertakings | **-** | - | **229.5** | 250.7 |
| Corporation tax | **1.2** | 2.1 | **-** | - |
| Other taxes and social security costs | **16.5** | 17.1 | **-** | - |
| Other creditors | **35.3** | 34.5 | **-** | - |
| Accruals and deferred income | **70.4** | 75.3 | **0.6** | 1.6 |
| | **252.3** | 267.9 | **230.1** | 252.3 |

**15 Creditors: amounts falling due after more than one year**

| | Group 2005 £m | Group 2004 £m | Company 2005 £m | Company 2004 £m |
|---|---|---|---|---|
| Bank loans (note 16) | 13.6 | 56.3 | - | - |
| Other creditors | 0.2 | - | - | - |
| Accruals and deferred income | 0.2 | 0.1 | - | - |
| | 14.0 | 56.4 | - | - |

**16 Borrowings**

| | Group 2005 £m | Group 2004 £m |
|---|---|---|
| **Amounts due within one year** | | |
| **Bank loans and overdrafts** | | |
| Term loan | 0.5 | 7.3 |
| Bank overdrafts | 0.1 | 0.2 |
| | 0.6 | 7.5 |
| **Amounts due after more than one year** | | |
| **Bank loans** | | |
| Term loan repayable during 2006 | - | 9.8 |
| Term loan repayable during 2007 | 9.8 | 9.8 |
| Revolving credit facility committed until 31 December 2007 | - | 11.5 |
| Working capital facility committed until 31 December 2008 | 3.8 | 25.2 |
| | 13.6 | 56.3 |

The bank loans and overdrafts bear interest based on LIBOR and are secured by fixed and floating charges over certain of the Group's assets. The term loans are stated net of unamortised issue costs of £0.4m in total (2004 - £0.6m). The working capital facility is stated net of unamortised issue costs of £1.1m in total (2004 - £1.5m). These costs are allocated to the profit and loss account over the terms of the respective facilities at a constant rate.

The Group has various borrowings facilities available, the principal facility being a working capital facility of up to £120.0m which is committed until 31 December 2008. In addition, a revolving facility of up to £22.5m is committed until 31 December 2007.

## 17 Provisions for liabilities and charges

| | Litigation and indemnities £m | Warranties £m | Property £m | Group Total £m |
|---|---|---|---|---|
| At 1 January 2005 | 3.5 | 1.2 | 15.8 | 20.5 |
| Charged in the year | - | - | 6.1 | 6.1 |
| Utilised in the year | - | (0.6) | (3.2) | (3.8) |
| Released in the year | (2.5) | - | - | (2.5) |
| **At 31 December 2005** | **1.0** | **0.6** | **18.7** | **20.3** |

### Litigation and indemnities

The Group is negotiating a series of legal and contractual claims. The Group has taken legal advice on the outcome of these claims and as a result of this advice it is considered reasonable to release an amount that had been provided for a potential claim. A provision has been retained for an expected liability with the expectation that the provided amount will be utilised within the next financial year. It is considered that further disclosure of details of these claims would seriously prejudice the Company's negotiating position and, accordingly, further information on the nature of the obligations has not been provided.

### Warranties

The Group supplies product to customers on which it offers a warranty, for a period of up to three years. The cost of warranties on sales made prior to the year end has been estimated based on past experience of warranty settlements. It is anticipated that the existing provision will be utilised within the next two to three years.

### Property

The property provision is in respect of contractual obligations primarily in relation to onerous leases on vacant properties and in relation to dilapidations. Included within the £6.1m charged in the year is an amount of £0.3m relating to the unwinding of the discount, the charge in respect of which is included in net other finance income/(charge) (note 5). These provisions are expected to be utilised at the end of the respective leases, which vary between 1 and 25 years.

## 18 Share capital

The share capital comprises 'A', 'D' and 'E' Ordinary shares of ½p each and each share, irrespective of class, has the same dividend entitlement and has one vote at a general meeting. On a return of capital on liquidation or otherwise the assets of the Company available for distribution amongst shareholders shall be applied in paying pro-rata to the holders of the 'A' Ordinary shares the sum of ½p per share and to the holders of the 'D' Ordinary Shares and the 'E' Ordinary shares the sum of 1p per share and thereafter pro-rata to the nominal value of shares held by them.

| | | 'A' Ordinary shares | 'D' Ordinary shares | 'E' Ordinary shares | **Total Ordinary shares** |
|---|---|---|---|---|---|
| **Authorised share capital (number of shares)** | | | | | |
| At 1 January and 31 December 2005 | million | 190.3 | 7.0 | 2.7 | **200.0** |
| **Allotted, called up and fully paid share capital (number of shares)** | | | | | |
| At 1 January and 31 December 2005 | million | 71.9 | 7.0 | 2.7 | **81.6** |
| **Allotted, called up and fully paid share capital** | | | | | |
| At 1 January and 31 December 2005 | £m | 0.4 | - | - | **0.4** |

The shareholders with over 5% of the issued share capital at 31 December 2005 are Mr J M Neill, UGC Share Trustees Limited, Electra Investment Trust plc, 3i plc, Standard Life and UGC Pension Shareholdings Limited ("UGCPSL"). No individual shareholder owns greater than 20% of the issued share capital and as a result there is no ultimate controlling party.

The UGCPSL shareholding is held on behalf of the UGC Pension Scheme and the UGC Retirement Benefits Scheme. The schemes retain the economic interest in the shares (so they will benefit directly from any increase in their value and will receive any dividends paid by the Company on those shares), however they do not actually hold the shares in their own names and they are not able to exercise any of the voting rights on them prior to any liquidity opportunity (as defined in an agreement between UGCPSL and the schemes).

UGCPSL is subject to contractual controls including as to how and when it exercises the voting rights attached to the shares it holds, under which it must act as required by the Board of UGC Limited, and only with the approval of the Company's 'D' shareholders and the majority of the Company's institutional investors. As these arrangements, prevent the Group from having de facto control over UGCPSL it is not considered appropriate to consolidate UGCPSL in the Group's financial statements.

**19 Share option schemes**

The Group Share Trust has granted options to employees over a number of shares which have already been issued and are owned by the Group Share Trust. It is not considered appropriate to consolidate the Group Share Trust in the Group's financial statements due to the terms of the Trust deeds governing the Group Share Trust, which prevent the Group from having de facto control over the Trust.

The number of shares held by the Trust are disclosed within the Directors' report on page 10.

**20 Reserves**

| Group | Profit and loss reserve £m | Share premium account £m | Capital redemption reserve £m | Revaluation reserve £m | Minority interests £m |
|---|---|---|---|---|---|
| At 1 January 2005 - as previously reported | (50.1) | 4.4 | 11.5 | - | 0.4 |
| Prior year adjustment - revaluation of freehold properties | (1.5) | - | - | 17.8 | - |
| At 1 January 2005 - as restated | (51.6) | 4.4 | 11.5 | 17.8 | 0.4 |
| Profit for the financial year | 42.8 | - | - | - | 0.2 |
| Transfer from revaluation reserve to profit and loss reserve | 0.4 | - | - | (0.4) | - |
| Actuarial gain recognised on the pension schemes | 28.8 | - | - | - | - |
| Deferred tax relating to actuarial loss on the pension schemes | (8.6) | - | - | - | - |
| Actuarial loss recognised on the pension schemes - joint ventures | (0.4) | - | - | - | - |
| Deferred tax relating to actuarial loss on the pension schemes - joint ventures | 0.1 | - | - | - | - |
| Foreign exchange movements | 0.5 | - | - | - | - |
| Dividend paid to minorities | - | - | - | - | (0.1) |
| **At 31 December 2005** | **12.0** | **4.4** | **11.5** | **17.4** | **0.5** |
| Net pension liabilities | 85.8 | | | | |
| **Profit and loss reserve excluding pension liability** | **97.8** | | | | |

The cumulative amount of goodwill written off directly to reserves prior to the implementation of FRS 10, 'Goodwill and intangible assets', is £17.6m (2004 - £17.6m) in respect of the acquisition of continuing businesses.

| Company | Profit and loss reserve £m | Share premium account £m | Capital redemption reserve £m |
|---|---|---|---|
| At 1 January 2005 | 30.5 | 4.4 | 11.5 |
| Profit for the year | 15.1 | - | - |
| **At 31 December 2005** | **45.6** | **4.4** | **11.5** |

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The Company's profit for the year was £15.1m (2004 - £3.1 million loss).

**21 Reconciliation of movements in equity shareholders' funds**

| | **Group 2005 £m** | Group 2004 £m | **Company 2005 £m** | Company 2004 £m |
|---|---|---|---|---|
| Profit/(loss) for the financial year | **42.8** | 23.0 | **15.1** | (3.1) |
| Other recognised gains and losses relating to the year (net) | **20.4** | (12.7) | - | - |
| Net proceeds of issue of ordinary share capital | - | 2.5 | - | 2.5 |
| Movements in equity shareholders' funds | **63.2** | 12.8 | **15.1** | (0.6) |
| At 1 January - as previously reported | **(33.8)** | (47.2) | **46.8** | 47.4 |
| Prior year adjustment - Revaluation of freehold properties | **16.3** | 16.9 | - | - |
| At 1 January - as restated | **(17.5)** | (30.3) | **46.8** | 47.4 |
| **At 31 December** | **45.7** | (17.5) | **61.9** | 46.8 |



UNIPART GROUP

## 22 Notes to the cash flow statement

| (a) Reconciliation of operating profit to net cash flow from operating activities | 2005 £m | 2004 as restated £m |
|---|---|---|
| Operating profit | **53.0** | 22.1 |
| Non-cash movement in exceptional items | **(12.5)** | (3.5) |
| Depreciation of tangible fixed assets | **5.8** | 6.5 |
| Amortisation of goodwill and other intangibles | **2.0** | 2.0 |
| Difference between pension service charge and cash contributions | **(0.4)** | (4.7) |
| Profit on the disposal of fixed assets | **(0.6)** | (1.0) |
| Decrease in stocks | **20.7** | 1.1 |
| Decrease/(increase) in debtors | **1.2** | (2.8) |
| (Decrease)/increase in creditors | **(7.0)** | 9.0 |
| Decrease in provisions | **(5.2)** | (4.8) |
| Net cash inflow from operating activities | **57.0** | 23.9 |

Operating profit includes a net cash inflow of £14.8m relating to exceptional items, which represents the cash received under the litigation settlement being partly offset by costs incurred in relation to the settlement and the costs incurred in respect of the other exceptional items, including restructuring costs and costs of the cessation of the future accruals in the two main pension schemes.

| (b) Analysis of net debt | 2004 £m | Cashflow £m | Non-cash movements £m | 2005 £m |
|---|---|---|---|---|
| Cash | 24.5 | 0.9 | (0.1) | **25.3** |
| Overdrafts | (0.2) | 0.1 | - | **(0.1)** |
| | 24.3 | 1.0 | (0.1) | **25.2** |
| Debt due within a year | (7.3) | 7.0 | (0.2) | **(0.5)** |
| Debt due after one year | (56.3) | 43.1 | (0.4) | **(13.6)** |
| | (63.6) | 50.1 | (0.6) | **(14.1)** |
| Total | (39.3) | 51.1 | (0.7) | **11.1** |

Non-cash movements relate to amortisation of issue costs and foreign exchange movements. There were no other material non-cash movements in the year (2004 - £nil).

**23 Pension commitments**

The Group operates several pension schemes in the United Kingdom, the largest being the UGC Pension Scheme and the UGC Retirement Benefits Scheme. The assets of these pension schemes are held separately from those of the Group in trustee administered funds. The schemes are principally funded defined benefit schemes for which contributions are assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

As explained in the Financial review, the defined benefit sections of the two main schemes (the UGC Pension Scheme and UGC Retirement Benefits Scheme) were closed for the future accrual of benefits for active members with effect from 31 December 2005. The impact of the closure to future accruals will be to lessen the exposure to future shortfalls and provide the Group with more predictable costs of future pension provision and has resulted in a curtailment credit of £16.2m in the year. The closure will have no impact on the schemes' deferred pensioners and pensions in payment. The Group has set up a new defined contribution section in which existing active members of the two schemes' defined benefit sections have been offered membership, so that they can continue to make provision for retirement. In addition, the Group has agreed with the trustees of the two schemes to make aggregate contributions of £80m by 2014 with the aim of eliminating the deficit over that period.

The latest actuarial valuation of the schemes was made as at 5 April 2004 by Hewitt Bacon & Woodrow Ltd. The value of the schemes' liabilities at 5 April 2004 have been updated by Hewitt Bacon & Woodrow Ltd to assess the liabilities of the schemes at 31 December 2005 for the purposes of FRS 17. Scheme assets are stated at their market value at 31 December 2005.

The disclosures for all of the Group's defined benefit arrangements are aggregated below. Overseas assets and liabilities are included, but are not material to the totals. No separate pension disclosures have been made in respect of the Company because it is not possible to separately identify its share of the underlying assets and liabilities of the Group's pension schemes.

| The financial assumptions used to calculate scheme liabilities under FRS 17 are: | **2005** | 2004 | 2003 |
|---|---|---|---|
| Rate of general increase in salaries | **3.66%** | 3.90% | 4.30% |
| Rate of increase in pensions in payment | **2.60%** | 2.70% | 2.80% |
| Discount rate | **4.92%** | 5.40% | 5.40% |
| Inflation assumption | **2.66%** | 2.90% | 2.80% |

The assets in the schemes and the expected rates of return were:

| | **Long-term rate of expected return** | **2005 £m** | Long-term rate of expected return | 2004 £m | Long-term rate of expected return | 2003 £m |
|---|---|---|---|---|---|---|
| Equities | **8.1%** | **432.0** | 8.5% | 355.6 | 7.8% | 320.3 |
| Government bonds | **4.1%** | **7.6** | 4.5% | 4.2 | 4.8% | 3.9 |
| Corporate bonds | **4.6%** | **85.5** | 5.0% | 78.9 | 5.3% | 71.6 |
| Property | **7.1%** | **22.0** | 7.5% | 17.5 | 6.8% | 14.4 |
| Other | **4.6%** | **3.8** | 3.5% | 6.2 | 3.8% | 3.8 |
| Total market value of assets | | **550.9** | | 462.4 | | 414.0 |
| Present value of funded pension plans' liabilities | | **(673.4)** | | (630.1) | | (567.8) |
| Deficit in funded plans | | **(122.5)** | | (167.7) | | (153.8) |
| Liability for unfunded pension plans | | **(0.1)** | | (0.2) | | (0.2) |
| Liability for post-retirement healthcare plans | | **-** | | (1.3) | | (1.3) |
| Total deficit in plans | | **(122.6)** | | (169.2) | | (155.3) |
| Related deferred tax asset | | **36.8** | | 50.8 | | 46.6 |
| Net pension liabilities | | **(85.8)** | | (118.4) | | (108.7) |

| The movements in the total deficit in plans during the year were: | 2005 £m | 2004 £m |
|---|---|---|
| Deficit in scheme at beginning of year | **(169.2)** | (155.3) |
| Current service cost | **(12.1)** | (11.7) |
| Settlements and curtailments | **17.0** | - |
| Contributions | **11.7** | 16.4 |
| Other finance income/(charge) | **1.2** | (0.9) |
| Actuarial gain/(loss) | **28.8** | (17.7) |
| **At 31 December** | **(122.6)** | (169.2) |

| The performance statements include the following amounts: | 2005 £m | 2004 £m |
|---|---|---|
| **Amounts charged to operating profit** | | |
| Current service cost | **12.1** | 11.7 |
| Settlements and curtailments | **(17.0)** | - |
| | **(4.9)** | 11.7 |
| *Defined contribution schemes* | ***0.2*** | - |
| Total operating (credit)/charge | **(4.7)** | 11.7 |
| **Analysis of amount credited/(charged) to other finance income/(charge)** | | |
| Expected return on pension scheme assets | **33.9** | 28.7 |
| Interest on pension scheme liabilities | **(32.7)** | (29.6) |
| Net return/(charge) | **1.2** | (0.9) |
| **Amounts included within the statement of total recognised gains and losses** | | |
| Actual return less expected return on pension scheme assets | **51.7** | 12.5 |
| Experience gains and losses arising on the scheme liabilities | **(7.5)** | (15.0) |
| Changes in assumptions underlying the present value of the scheme liabilities | **(15.4)** | (15.2) |
| Actuarial gain/(loss) recognised in the Group statement of total recognised gains and losses | **28.8** | (17.7) |

| **History of experience gains and losses** | | **Year ended 31 December 2005** | Year ended 31 December 2004 | Period ended 31 December 2003 | Year ended 30 June 2003 | Period ended 30 June 2002 |
|---|---|---|---|---|---|---|
| Actual return less expected return on pension scheme assets | £m | **51.7** | 12.5 | 20.9 | (48.4) | (126.2) |
| *Expressed as a percentage of scheme assets* | | ***9%*** | *3%* | *5%* | *(13%)* | *(32%)* |
| Experience gains and losses on scheme liabilities | £m | **(7.5)** | (15.0) | 0.6 | 13.0 | 3.3 |
| *Expressed as a percentage of scheme liabilities* | | ***(1%)*** | *(2%)* | *0%* | *2%* | *1%* |
| Actuarial gain/(loss) recognised in the statement of total recognised gains and losses | £m | **28.8** | (17.7) | 31.2 | (114.3) | (140.5) |
| *Expressed as a percentage of scheme liabilities* | | ***4%*** | *(3%)* | *6%* | *(21%)* | *(30%)* |

**24 Commitments**

| (a) Capital commitments | **2005 £m** | 2004 £m |
|---|---|---|
| Contracted as at the year end but not provided for in the financial statements | **0.9** | 0.6 |

The Company had no capital commitments at 31 December 2005 (2004 - £nil).

| (b) Contingent liabilities and financial commitments | **Group 2005 £m** | Group 2004 £m | **Company 2005 £m** | Company 2004 £m |
|---|---|---|---|---|
| Guarantees for export trading and loan facilities | **3.6** | 5.8 | **1.5** | 3.5 |

Under the Group bank arrangements the Company, together with certain of it's subsidiary undertakings, has given security, by way of fixed and floating charges over certain assets, to guarantee bank loans provided to the Group. The amount guaranteed by the Company outstanding at 31 December 2005 was £5.0m (2004 - £26.7m).

| (c) Operating lease commitments | **Land and buildings 2005 £m** | Land and buildings 2004 £m | **Other 2005 £m** | Other 2004 £m |
|---|---|---|---|---|
| Annual amounts payable on agreements expiring: | | | | |
| - within one year | **1.9** | 2.3 | **7.1** | 8.1 |
| - after one year but within five years | **6.0** | 5.9 | **3.6** | 3.9 |
| - after five years | **18.1** | 15.8 | **-** | - |
| | **26.0** | 24.0 | **10.7** | 12.0 |

The Company had no operating lease commitments at 31 December 2005 (2004 - £nil).

**25 Related party transactions**

The Group has taken the exemption available under FRS 8 from disclosing related party transactions between entities within the Group. The Group provides certain administrative services on behalf of its joint ventures which involves making payments on their behalf. During the year, the total payments made on behalf of Kautex Unipart Limited amounted to £4.6m (2004 - £4.4m) none of which was outstanding at the year end, in addition an amount of £4.3m was owed to the Group at 31 December 2005 under a formal loan agreement bearing interest of 5% per annum as reported in note 11(a) (2004 - £4.3m). During the year, the total payments made on behalf of Unipart Eberspächer Exhaust Systems Limited amounted to £1.2m (2004 - £1.1m) and amounts owed to the Group at 31 December 2005 were £0.8m (2004 - £0.9m) as reported in note 13(a).

## 26 Principal Group undertakings

| | Country of incorporation and operation |
|---|---|
| **Subsidiary undertakings** | |
| The Group's principal subsidiary undertakings are set out below, those directly held by the Company are indicated by (i). Unless otherwise stated, the holdings are 100% of the voting rights and shares. | |
| **Distribution and logistics management** | |
| **Europe, Middle East and Africa** | |
| Serck Services (Bahrain) EC | Bahrain |
| Van Wezel Autoparts NV | Belgium |
| Dorman Traffic Products Limited | England |
| E W (Holdings) Limited | England |
| H. Burden Limited (i) | England |
| National Railway Supplies Limited | England |
| Unipart Automotive Limited | England |
| Railpart (UK) Limited | England |
| Unipart Exports Limited | England |
| Unipart Group Limited (i) | England |
| Unipart Logistics Limited (i) | England |
| Unipart North America Limited | England |
| Unipart Rail Logistics Limited | England |
| Unipart DCM Service GmbH | Germany |
| Intertruck Benelux BV | Netherlands |
| TECE Unipart BV | Netherlands |
| Unipart Services BV | Netherlands |
| Serck Services (Oman) LLC (49%) (ii) | Oman |
| Unipart Services Spain, S.L. | Spain |
| Serck Services (Gulf) Limited (49%) (ii) | UAE |
| Serck Services Company LLC (49%) (ii) | UAE |
| **Americas and Asia Pacific** | |
| Unipart Services Canada Inc | Canada |
| Unipart Kabushiki Kaisha | Japan |
| Unipart Services America Inc | USA |
| Serck Services Inc | USA |
| **Group vehicle and property holding companies** | |
| Unipart Fleet Services Limited | England |
| UGC Properties Limited (i) | England |
| **Intermediate holding companies** | |
| Unipart Rail Holdings Limited (i) | England |
| Unipart Automotive Holdings Limited (i) | England |
| UGC Europe Limited | England |
| UGC Holdings BV | Netherlands |
| **Joint ventures** | |
| The Group's principal interests in joint ventures are set out below, both of which are held directly by the Company with holdings of 50% of the voting rights and shares. Both companies' principal activity is the manufacture of automotive components. | |
| Kautex Unipart Limited | England |
| Unipart Eberspächer Exhaust Systems Limited | England |

(ii) These companies have been treated as subsidiaries under section 258(4) of the Companies Act 1985. The investments are held for the long term and the Group's management takes an active role in the operational and strategic management of these companies. These operations are effectively controlled by the Group with a dominant influence being exercised over their activities.

As well as those undertakings listed above, within the European Union the Group also has branches in Belgium, France, Italy, Republic of Ireland and Spain.

## 1 Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The policies are consistent with the previous year except for the mandatory adoption in the year of FRS 21, 'Events after the balance sheet date', the presentation requirements of FRS 25, 'Financial instruments: Disclosure and presentation' and FRS 28, 'Corresponding amounts'. The adoption of these standards has not impacted the comparative figures and therefore there is no prior period adjustment. As a result, it has not been necessary for the Company to take advantage of the exemption afforded by FRS 25 not to restate the prior period comparatives. A summary of the principal accounting policies is given in the following paragraphs.

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**Comparative figures**

The comparative figures represent the results for the 75 weeks ended 31 December 2004, being the previous accounting period.

**Cash flow statement**

The Company is a wholly owned subsidiary of a group whose ultimate parent company is UGC Limited. The financial statements of UGC Limited, which are publicly available, include a consolidated cash flow statement. Accordingly, the Company has taken advantage of the exemption from preparing a cashflow statement under the terms of FRS1 (revised 1996), 'Cash flow statements'.

**Tangible fixed assets**

With the exception of freehold land, which is not depreciated, depreciation on the cost or valuation of tangible fixed assets is provided over the following periods on a straight-line basis, to write off the assets over their estimated useful lives from the date they are brought into use.

| Asset | Estimated Useful Life |
|---|---|
| Freehold buildings | 40 - 50 years |
| Leasehold land and buildings | The period of the lease up to a maximum of 50 years |

**Operating leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

**Deferred taxation**

Deferred taxation is accounted for to recognise timing differences between the recognition of gains and losses in the financial statements and their recognition for taxation purposes, in accordance with FRS 19, 'Deferred tax'. A deferred tax liability is recognised if transactions or events result in the Company having an obligation to pay more tax in future periods. A deferred tax asset is only recognised where transactions or events that have occurred before the balance sheet date give the Company the right to pay less tax in future, and it is considered to be more likely than not that the asset will be recovered. Deferred tax balances are not discounted.

**Dilapidation provisions**

Provision is made for the best estimate of dilapidation costs, on a discounted basis, at the date the obligation arises. The unwinding of the discount is included within interest expense. The provision is net of amounts recoverable in respect of dilapidation costs for properties that have been sub-let to unrelated third parties.

**Related party transactions**

The Company is controlled by UGC Limited. The Company has taken advantage of the exemption afforded by FRS 8, 'Related party disclosures', paragraph 3, and as such, the financial statements do not disclose transactions with other Group companies.

## 1 Accounting policies (continued)

### Significant estimation techniques

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure in the reporting period. Actual results could differ from those estimates. Estimates are principally used when accounting the useful economic lives of fixed assets.

### Turnover

Turnover is based on the invoiced value of rents and services charged and received, net of VAT and other sales taxes. In the opinion of the directors, the Company operates in a single business segment where all significant operations are controlled and thus where turnover originates. Rental income from leases is recognised on a straight-line basis over the period of the lease. Turnover excludes VAT and other sales taxes.

## 2 Operating profit

| | Year ended 31 Dec 2005 £000 | 75 week period ended 31 Dec 2004 £000 |
|---|---|---|
| Turnover | 2,070 | 2,171 |
| Cost of sales | (388) | (536) |
| Gross profit | 1,682 | 1,635 |
| Operating profit | 1,682 | 1,635 |

All administrative expenses, including auditors remuneration, are borne by Unipart Group Limited, a fellow subsidiary of UGC Limited.

| Operating profit is stated after charging: | Year ended 31 Dec 2005 £000 | 75 week period ended 31 Dec 2004 £000 |
|---|---|---|
| Depreciation of owned tangible fixed assets | 274 | 262 |
| Lease of land and buildings | 97 | 113 |

## 3 Staff numbers and costs

The Company does not have any employees in its own right. Employees are all employed and paid through Unipart Group Limited, a fellow subsidiary undertaking and all applicable disclosures are made in those financial statements.

## 4 Directors' emoluments

The directors received their remuneration in respect of services to the Unipart Group of Companies as a whole and received no remuneration in respect of their services to the Company.

## 5 Net interest payable

| | Year ended 31 Dec 2005 £000 | 75 week period ended 31 Dec 2004 £000 |
|---|---|---|
| *Payable in respect of :* | | |
| Unwinding of discounting of provisions | (12) | (16) |

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Companies House
— for the record —

Company number: 1994997

# NOTICE OF TRANSFER OF DOCUMENTS FROM COMPANY RECORD

**Company Name: UGC Limited**

**Document Transferred: 31 December 2005 accounts**

**Reason For Transfer: On wrong company record**

**Signed:**..................

**For and on behalf of the Registrar**

**Dated**......11/7/06......

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