

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

HERMES PENSIONS MANAGEMENT LIMITED

31 DECEMBER 2004

Registered No: 1661776



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HERMES PENSIONS MANAGEMENT LIMITED

DIRECTORS' REPORT

Directors:	Sir Tim Chessells	
	A Watson	(Chief Executive)
	A H M White	(Deputy Chief Executive) (resigned 23 July 2004)
	M G Quirke	(Deputy Chief Executive) (appointed 3 August 2004)
	C M Metcalfe	(Deputy Chief Executive)
	N C W Mustoe	(Deputy Chief Executive)
	D J Pitt-Watson	(appointed 31 December 2004)
	P Bisping	(resigned 31 December 2004)
	S P Brown	(resigned 13 January 2004)
	P R Butler	(resigned 10 November 2004)
	M L Carter	(resigned 31 December 2004)
	R A Harrold	(resigned 13 January 2004)
	R J Clarke	(appointed 30 April 2004 and resigned 31 December 2004)
	C C Hartridge-Price	(resigned 31 December 2004)
	I A Kirby	(resigned 31 December 2004)
	A Orriss	(resigned 31 December 2004)
	R A Selkirk	(resigned 31 December 2004)
	J H C Walsh	(resigned 31 December 2004)
	A M Cook	(resigned 31 December 2004)

Secretary: M S Green

Registered Office: Lloyds Chambers, 1 Portsoken Street, London E1 8HZ.

The directors who served throughout the year, except as noted, are listed above. D W Davies was an alternate for Sir Tim Chessells and became a full director on 1 January 2005. On 1 January 2005, R Bernays was appointed as the new Chairman but Sir Tim Chessells remains on the Board as a non-executive director.

During the year the directors had no interests in the shares of the company or any other group company.

The directors submit their report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the company is that of a holding company. That of the group is to act as the principal investment manager of the BT Pension Scheme (BTPS) and the investment manager for other clients.

ELECTIVE RESOLUTIONS

The Board of Hermes Pensions Management Limited has used the written resolution procedures pursuant to S381A of the Companies Act 1985 to pass the following elective resolutions:

- a) that pursuant to S366A of the Companies Act 1985, the company hereby elects to dispense with the holding of Annual General Meetings (until the election is revoked);

HERMES PENSIONS MANAGEMENT LIMITED

DIRECTORS' REPORT (continued)

- b) that pursuant to S252 of the Companies Act 1985, the company hereby elects to dispense with the laying of accounts and reports before the company in general meeting; and
- c) That pursuant to S386 of the Companies Act 1985, the company hereby elects to dispense with the obligation to appoint auditors annually.

RESULTS

The results for the year are shown on the attached profit and loss account. The directors do not recommend the payment of a dividend (2003 - £nil).

The directors consider the results of the company to be satisfactory and that the company is well placed to take advantage of future opportunities.


EMPLOYEE INVOLVEMENT

During the year meetings are held to discuss the performance of the group. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees.

DISABLED POLICY

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible be identical with that of other employees.

Approved by order of the Board of Directors and signed on behalf of the Board



A Watson
Director

19 April 2005

HERMES PENSIONS MANAGEMENT LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom 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 the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which 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 the system of internal control, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF HERMES PENSIONS MANAGEMENT LIMITED

We have audited the financial statements of Hermes Pensions Management Limited for the year ended 31 December 2004 which comprise the consolidated profit and loss account, consolidated statement of total recognised gains and losses, the consolidated balance sheet, the balance sheet, the consolidated cash flow statement, the accounting policies and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's member, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to it in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
HERMES PENSIONS MANAGEMENT LIMITED**

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the group profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

20 April 2005

HERMES PENSIONS MANAGEMENT LIMITED
**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 £'000	2003 Restated £'000
TURNOVER	1	57,628	58,605
Administrative expenses		<u>(58,810)</u>	<u>(59,215)</u>
OPERATING LOSS		(1,182)	(610)
Share of net operating profit of associates	2	4,673	1,043
Dividends receivable		207	161
Profit/(loss) on investments		<u>36</u>	<u>(4,813)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		3,734	(4,219)
Interest receivable and similar income			
- group		1,523	1,107
- associates		354	53
Interest payable - group	3	(989)	(1,081)
- associates	3	<u>(3)</u>	<u>(2)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	4	4,619	(4,142)
Tax on profit/(loss) on ordinary activities	6	<u>(1,406)</u>	<u>17</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		3,213	(4,125)
Equity minority interests	24	<u>(8)</u>	<u>(9)</u>
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	15	<u>3,205</u>	<u>(4,134)</u>

All of the results are derived from continuing operations.

HERMES PENSIONS MANAGEMENT LIMITED
**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2004**


	Notes	2004 £'000	2003 Restated £'000
Retained profit/(loss) for the financial year		3,205	(4,134)
Unrealised surplus on revaluation of investments		82	44
Foreign exchange translation difference on foreign currency investment in associate		<u>(1)</u>	<u>(2)</u>
Total recognised gains and losses relating to the year	15	3,286	<u><u>(4,092)</u></u>
Prior year adjustment (as explained in note 26)		<u>(2,686)</u>	
Total gains and losses recognised since last annual report		<u>600</u>	

HERMES PENSIONS MANAGEMENT LIMITED**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004**

	Notes	2004 £'000	2003 Restated £'000
FIXED ASSETS			
Intangible assets – goodwill	8	6,097	6,891
Tangible assets	9	6,918	7,208
Investments	10	9,699	5,858
		<u>22,714</u>	<u>19,957</u>
CURRENT ASSETS			
Insurance assets attributable to unit-linked policyholders	11	8,506,484	6,481,105
Debtors	12	16,195	23,025
Cash at bank and in hand		53,408	47,642
		<u>8,576,087</u>	<u>6,551,772</u>
CREDITORS - amounts falling due within one year	13	(42,047)	(43,048)
Amounts due to unit-linked policyholders	11	<u>(8,506,484)</u>	<u>(6,481,105)</u>
NET CURRENT ASSETS		<u>27,556</u>	<u>27,619</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>50,270</u>	<u>47,576</u>
CREDITORS - amounts falling due after more than one year	13	(3,027)	(2,616)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(4,224)</u>	<u>(5,235)</u>
		43,019	39,725
Minority interest - equity	24	<u>(127)</u>	<u>(119)</u>
NET ASSETS		<u>42,892</u>	<u>39,606</u>
CAPITAL AND RESERVES			
Called up share capital	14	30,000	30,000
Revaluation reserves	15	126	44
Non-distributable capital reserves	15	98	98
Profit and loss account	15	<u>12,668</u>	<u>9,464</u>
EQUITY SHAREHOLDER'S FUNDS		<u>42,892</u>	<u>39,606</u>

These financial statements were approved by the Board of Directors on 19 April 2005

Signed on behalf of the Board of Directors


A Watson
Director

HERMES PENSIONS MANAGEMENT LIMITED**BALANCE SHEET AT 31 DECEMBER 2004**

	Notes	2004 £'000	2003 Restated £'000
FIXED ASSETS			
Tangible assets	9	6,918	7,208
Investments	10	25,126	25,126
		<u>32,044</u>	<u>32,334</u>
CURRENT ASSETS			
Debtors	12	22,892	14,961
Cash at bank and in hand		9,448	19,055
		<u>32,340</u>	<u>34,016</u>
CREDITORS - amounts falling due within one year	13	(35,616)	(36,027)
NET CURRENT LIABILITIES		<u>(3,276)</u>	<u>(2,011)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		28,768	30,323
CREDITORS – amounts falling due after more than one year	13	(2,772)	(2,616)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(4,224)	(4,599)
NET ASSETS		<u>21,772</u>	<u>23,108</u>
CAPITAL AND RESERVES			
Called up share capital	14	30,000	30,000
Profit and loss account	15	(8,228)	(6,892)
EQUITY SHAREHOLDER'S FUNDS		<u>21,772</u>	<u>23,108</u>

These financial statements were approved by the Board of Directors on 19 April 2005

Signed on behalf of the Board of Directors


A Watson
Director

HERMES PENSIONS MANAGEMENT LIMITED**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 £'000	2003 Restated £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	19	6,579	25,655
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,507	1,107
Interest paid		(989)	(1,081)
Dividends received from associates		207	161
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		725	187
TAXATION			
Corporation tax received/(paid)		1,117	(3,021)
TAX RECEIVED/(PAID)		1,117	(3,021)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets	9	(2,861)	(2,191)
Sale of tangible fixed assets		3	-
Purchase of investments		-	(9,591)
Sale of investments		66	11,943
NET CASH (OUTFLOW) / INFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(2,792)	161
ACQUISITIONS AND DISPOSALS			
Payments to acquire investments in subsidiaries		-	(4,833)
Net cash acquired with subsidiary		-	2,144
NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS		-	(2,689)
NET CASH INFLOW BEFORE FINANCING		5,629	20,293
FINANCING			
Repayment of loan from associate		137	-
NET CASH INFLOW FROM FINANCING		137	-
INCREASE IN CASH	20	5,766	20,293

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004

ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards, with the exception of certain departures from Companies Act requirements as disclosed in note 22. The particular accounting policies adopted by the directors are described below.

a) Accounting convention

The financial statements are prepared under the historical cost convention except for the following:

- i) Fixed asset investments, which are held at a directors' valuation.
- ii) Investments included in life insurance assets, which are revalued to mid-market value.

b) Turnover

Turnover is recognised on an accruals basis.

c) Basis of consolidation

Subsidiary companies of the group include general partners of limited partnerships where the substance of the arrangements is that the group provides investment management services in return for investment management fees. Certain of these limited partnerships fall within the definition of subsidiary undertakings that are required to be consolidated under the Companies Act 1985 by virtue of the fact they are controlled by the general partner. However, the group's beneficial interest in the limited partnerships is restricted to the fees it earns from managing the partnerships. Furthermore, the limited partnerships were set up for the beneficial interest of external parties who collectively own the entire equity of the partnerships. The directors have departed from the Companies Act 1985 requirements and accounted for the interests in such partnerships at cost on the basis that this reflects the substance of the arrangements and to consolidate would not give a true and fair view. The effect of this departure is quantified in note 22.

d) Goodwill

Goodwill arising in respect of acquisitions is capitalised in the year in which it arises within intangible fixed assets and amortised over its estimated useful life up to a maximum of 20 years with a full year's charge for amortisation in the year of acquisition. The directors regard the following as the estimated useful lives of goodwill arising in those acquisitions.

Hermes Focus Asset Management Ltd	- 20 years
Hermes Assured Ltd	- 5 years

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

ACCOUNTING POLICIES (continued)

e) Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The expected useful lives are as follows:

Fixtures, fittings and equipment	-	4 years
Leasehold improvements	-	Period of the lease

f) Fixed asset investments

Investments held as fixed assets are stated at directors' valuation. For quoted investments, this is taken to be mid-market value. For unquoted investments this is based upon the latest available information and reports.

g) Operating leases

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

h) Pension benefits

Pension benefits under the group's defined benefit scheme are funded over the employees' periods of service. The company's contributions are based on the most recent actuarial valuation of the fund on 31 December 2003. Pension benefits are accounted for in accordance with SSAP24 as disclosed in note 18. These financial statements also include additional disclosures in order to comply with the transitional arrangements set out in FRS17.

i) Investment income

Income from investments is accounted for on an accruals basis.

j) Bonus costs

Provision is made for bonuses attributable to performance prior to the balance sheet date.

k) Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****ACCOUNTING POLICIES (continued)****l) Long-term life insurance business**

Assets attributable to unit-linked policyholders are valued at mid-market value. Amounts due to unit-linked policyholders represent the value of in force units at the balance sheet date.

Expenses incurred in the operation and establishment of the Life business are deducted in arriving at operating profit.

1. TURNOVER

Turnover comprises the value of services provided in the UK by the group exclusive of VAT and is analysed as follows:

	2004	2003
	£'000	£'000
<i>Continuing operations:</i>		
Investment management services	51,560	54,279
Miscellaneous fees	905	429
Recharge to associate	1,608	1,348
Recharges to Focus Funds	750	478
Management fees from assurance activities	2,805	2,071
	<u>57,628</u>	<u>58,605</u>

Investment management services include performance fees based upon rolling three year performance periods and are recognised in the year the performance period ends.

2. SHARE OF NET OPERATING PROFIT OF ASSOCIATES

	2004	2003
	£'000	Restated £'000
49% share of HFAME operating profit	697	273
45.7% share of HFAME operating profit	651	-
35.9% share of Innisfree operating profit	3,050	584
25% share of Activa operating profit	277	188
Amortisation of goodwill	(2)	(2)
	<u>4,673</u>	<u>1,043</u>

On 1 July 2004 HFAM sold 33,000 of their 490,000 £1 ordinary shares in HFAME to W Rosingh in connection with a long term incentive plan.

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****3. INTEREST PAYABLE**

	2004	2003
	£'000	£'000
Interest payable or similar charges in respect of:		
Bank loans and overdrafts (excluding group loans)	1	7
Interest on loans from group companies	988	1,014
Other	3	62
	<u>992</u>	<u>1,083</u>

4. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004	2003
	£'000	Restated £'000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	3,151	3,804
Amortisation of goodwill	794	794
Rentals under operating leases:		
- Other	1,230	1,149
Auditors' remuneration:		
Audit fees - group	150	100
- company	36	36
Other services	<u>46</u>	<u>61</u>

HERMES PENSIONS MANAGEMENT LIMITED
NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)
5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Total emoluments of directors excluding pension contributions were:

Directors	Salary £	Annual bonus £	Benefits £	Long term incentive scheme £	Other £	Total 2004 £	Total 2003 £
A Watson	280,156	318,801	15,264	691,721	-	1,305,942	1,163,656
N C W Mustoe	198,750	153,400	9,379	490,800	-	852,329	852,088
C M Metcalfe	178,375	173,039	9,831	440,493	-	801,738	676,694
P R Butler	119,194	-	6,565	-	413,018	538,777	1,809,588
A H M White	88,282	50,000	5,226	389,059	-	532,567	593,159
R A Selkirk	173,188	250,000	9,831	85,557	-	518,576	443,410
S P Brown	92,266	-	8,682	-	336,982	437,930	1,802,015
P Bisping	117,675	252,017	10,019	58,134	-	437,845	414,274
M L Carter	131,188	207,892	9,381	64,812	-	413,273	419,309
R J Clarke	162,371	190,000	11,220	-	-	363,591	-
J H C Walsh	112,063	152,552	10,619	66,635	-	341,869	365,522
A M Cook	122,250	74,415	8,405	60,393	-	265,463	244,839
M G Quirke	73,958	175,000	4,228	-	-	253,186	-
C C Hartridge-Price	95,375	60,816	10,393	47,136	-	213,720	209,656
I A Kirby	81,225	58,850	10,619	40,105	-	190,799	186,558
A Orriss	87,175	25,875	10,572	22,015	-	145,637	208,427
R A Harrold	-	33,825	-	81,015	-	114,840	365,538
R A Padgett	-	-	-	-	-	-	67,088
TOTAL HPM	2,113,491	2,176,482	150,234	2,537,875	750,000	7,728,082	9,821,821

The other amounts in respect of P R Butler and S P Brown represent compensation for loss of employment.

In addition, during 2003, the following directors became entitled to amounts from the three Hermes UK Focus Funds under carried interest arrangements.

	Total 2004 £'000	Total 2003 £'000
P R Butler	-	542
S P Brown	-	542
	-	1,084

As at 31 December 2004 one director (2003 - 2) had investments of £574,731 (2003 - £1,279,186) in the three Hermes UK Focus Funds and one director (2003 - 2) had an investment of £137,061 (2003 - £335,098) in the UK Small Companies Focus Fund.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Also at 31 December 2004, one director (2003 – 1) had an investment in European Focus Fund I of £60,148 (2003 - £163,126), managed by associate company Hermes Focus Asset Management Europe Limited.

The annual bonus and long term incentive scheme rewards together comprise 71% (2003 – 76%) of total emoluments. These rewards are based on the results of the group, investment performance and the successful completion of individual management objectives.

Sir Tim Chessells and D W Davies did not receive any emoluments relating to their services to the group but received fees from the Hermes Group on behalf of the BT Pension Scheme in respect of Trustees' services to the BT Pension Scheme as described in Note 23.

The company's pension scheme is a defined benefit scheme and the accrued benefit as at 31 December 2004 for the highest paid director was £28,779 (2003 - £23,494). The total number of directors who accrue benefits under the scheme is 11 (2003 - 11).

	2004 No.	2003 No.
Average number of persons employed by the group and company in the year:		
Investment management	143	124
Administration	143	144
	<u>286</u>	<u>268</u>

	2004 £'000	2003 £'000
Staff costs during the year in respect of these directors and employees were:		
Wages and salaries	31,280	33,779
Social security costs	3,727	2,515
Pension cost related to group scheme (see Note 19)	2,515	2,315
Unfunded pension costs	78	49
	<u>37,600</u>	<u>38,658</u>

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

The unfunded pension cost relates to the increase in the year in the company's liability to pay a pension in excess of that provided by the Hermes Group Pension Scheme.

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
a) Profit and loss account		
UK corporation tax at 30%	21	(600)
Share of tax charge in associate	449	139
Adjustment in respect of prior periods	(10)	675
	<hr/> 460	<hr/> 214
Deferred tax:		
Share of deferred tax charge in associate	788	-
Time differences, origination and reversal	112	(231)
Adjustment in respect of prior periods	46	-
	<hr/> 1,406	<hr/> (17)

- b) The tax charged in the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003 - 30%)	1,386	(1,243)
Non-taxable income	(2,440)	(1,095)
Drawings not subject to tax	(777)	(712)
Capital allowances in excess of depreciation not provided for in deferred tax	905	973
Short term timing differences not provided for in deferred tax	365	477
Tax losses	1,031	1,139
Adjustment in respect of prior periods	(10)	675
	<hr/> 460	<hr/> 214

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (continued)**

	2004 Provided £'000	2004 Unprovided £'000	2003 Provided £'000	2003 Unprovided £'000
c) The Group				
Deferred tax asset				
Accelerated capital allowances	-	(3,016)	-	(2,087)
Tax losses	(226)	-	-	-
Accrued fees/drawings	-	-	713	-
Short term timing differences	163	(4,937)	(933)	(3,219)
	<u>(63)</u>	<u>(7,953)</u>	<u>(220)</u>	<u>(5,306)</u>
The Company				
Deferred tax asset				
Accelerated capital allowances	-	(3,012)	-	(2,083)
Short term timing differences	-	(2,779)	-	(3,223)
	<u>-</u>	<u>(5,791)</u>	<u>-</u>	<u>(5,306)</u>

Deferred tax assets totalling £7,952,509 (2003: £5,306,585) have not been recognised in respect of depreciation in excess of capital allowances and short term timing differences as the Group is not sufficiently certain that it will be able to recover those assets within a relatively short period of time.

7. LOSS OF THE PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the year amounted to £1,335,818 (2003-loss of £2,222,531).

8. INTANGIBLE FIXED ASSETS

	Goodwill £'000
The Group	
Cost	
At 1 January 2004 and 31 December 2004	<u>8,614</u>
Accumulated amortisation	
At 1 January 2004	1,723
Charge for the year	794
At 31 December 2004	<u>2,517</u>
Net book value	
At 31 December 2004	<u>6,097</u>
At 31 December 2003	6,891

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

9. TANGIBLE FIXED ASSETS

	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
The Group and the Company			
Cost			
At 1 January 2004	5,773	14,180	19,953
Additions	-	2,861	2,861
Disposals	-	(5,472)	(5,472)
At 31 December 2004	5,773	11,569	17,342
Accumulated depreciation			
At 1 January 2004	1,894	10,851	12,745
Charge for the year	259	2,892	3,151
Disposals	-	(5,472)	(5,472)
At 31 December 2004	2,153	8,271	10,424
Net book value			
At 31 December 2004	3,620	3,298	6,918
At 31 December 2003	3,879	3,329	7,208

10. INVESTMENTS HELD AS FIXED ASSETS

	Investment in associates £'000	Listed investments £'000	Unlisted investments £'000	Total £'000
The Group				
At 1 January 2004 restated	1,216	4,601	41	5,858
Share of retained profit for the year	3,786	-	-	3,786
Disposals	(33)	-	-	(33)
Revaluation	-	101	(20)	81
Share of associate reserves	9	-	-	9
Goodwill amortisation	(2)	-	-	(2)
At 31 December 2004	4,976	4,702	21	9,699

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****10. INVESTMENTS HELD AS FIXED ASSETS (continued)****Shares in subsidiary
undertakings
£'000****The Company**

At 1 January 2004 and

31 December 2004

25,126

The investment in associates is the share of net assets in Hermes Focus Asset Management Europe Limited (HFAME) of £1,354,024, Activa Capital of £394,690 and Innisfree Limited of £3,227,694. The investment in Activa Capital includes £24,909 of goodwill (2003 - £26,466). On 1 July 2004, the Group sold 3.3% of its holding in HFAME, resulting in a realised profit of £33,000.

The prior year adjustment relates to Innisfree Limited being accounted for as an associate in 2004 as the Group owns 35.9% of its share capital as detailed in note 26.

Listed investments are short dated gilts held at market value by subsidiary companies and their total market value at 31 December 2004 was £4,701,903 (2003 - £4,600,344). The gilts were revalued at the end of the year and a total unrealised gain of £101,559 was transferred to revaluation reserves.

Information on subsidiaries and associates is disclosed in note 21.

11. INSURANCE ASSETS ATTRIBUTABLE TO UNIT-LINKED POLICYHOLDERS

All insurance assets and liabilities relate to Hermes Assured Limited, a wholly owned subsidiary of the Company and are as follows:

- a) At 31 December 2004, the insurance assets attributable to unit-linked policyholders comprised:

	2004 £'000	2003 £'000
Equities and unit trusts	5,659,642	4,914,037
Overseas investments	2,457,548	1,275,010
Fixed interest stocks	335,962	269,909
Cash unit trusts	16,193	15,169
Cash	12,390	(13,331)
Derivatives	523	277
Dividends and accrued interest	24,226	20,034
	<u>8,506,484</u>	<u>6,481,105</u>
Amounts due to unit-linked policyholders	<u>8,506,484</u>	<u>6,481,105</u>

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

11. INSURANCE ASSETS ATTRIBUTABLE TO UNIT-LINKED POLICYHOLDERS (continued)

- b) At 31 December, the summarised income and expenditure account of the Life business comprised:

	2004 £'000	2003 £'000
Gross premiums written	1,265,185	3,375,753
Net claims incurred	(99,841)	(298,488)
Unrealised gains	635,555	1,173,123
Realised gains/(losses)	11,828	(14,933)
Investment income receivable	212,652	185,979
Other technical income	2,973	2,070
Change in technical provisions for linked liabilities	(2,025,379)	(4,421,434)
Net operating expenses	(2,866)	(2,494)
	<u>107</u>	<u>(424)</u>

12. DEBTORS

	2004		2003	
	Group £'000	Company £'000	Group £'000	Company £'000
Due within one year				
Owed by subsidiaries	-	12,602	-	10,533
Owed by associates	554	400	535	329
Owed by parent	2,100	60	3,132	58
Trade debtors	9,078	705	13,150	293
Taxation	2,043	1,343	3,329	1,091
Other debtors	465	940	1,099	1,098
Prepayments and accrued income	<u>1,891</u>	<u>1,841</u>	<u>1,553</u>	<u>1,553</u>
	16,131	17,891	22,798	14,955
Due after one year				
Subordinated loan - subsidiary	-	5,000	-	-
Deferred tax	63	-	221	-
Prepayments and accrued income	<u>1</u>	<u>1</u>	<u>6</u>	<u>6</u>
	<u>16,195</u>	<u>22,892</u>	<u>23,025</u>	<u>14,961</u>

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

13. CREDITORS

	2004		2003	
	Group £'000	Company £'000	Restated Group £'000	Restated Company £'000
Amounts falling due within one year				
Owed to parent	17,830	17,830	17,830	17,830
Other creditors	381	200	479	312
Unfunded pension liability	673	673	596	596
Accruals and prepaid income	23,163	16,913	24,143	17,289
	<u>42,047</u>	<u>35,616</u>	<u>43,048</u>	<u>36,027</u>
Amounts falling due after more than one year				
Other creditors	<u>3,027</u>	<u>2,772</u>	<u>2,616</u>	<u>2,616</u>

The amount owed to parent represents a loan from the BT Pension Scheme which is repayable on demand. The interest on the loan is calculated and paid quarterly at LIBOR + 1%.

14. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised:		
100,000 (2003: 100,000) ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Called up, allotted and fully paid:		
30,000 (2003: 30,000) ordinary shares of £1 each	<u>30,000</u>	<u>30,000</u>

15. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDER'S FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

The Group	2004 Called up share capital £'000	2004 Revaluation reserves £'000	2004 Non- distributable capital reserves £'000	2004 Profit and loss account £'000	2004 Total £'000	2003 Restated Total £'000
At 1 January 2004 restated	30,000	44	98	9,464	39,606	43,698
Profit/(loss) for the financial year	-	-	-	3,205	3,205	(4,134)
Foreign exchange translation	-	-	-	(1)	(1)	(2)
Revaluation of investments	-	82	-	-	82	44
At 31 December 2004	<u>30,000</u>	<u>126</u>	<u>98</u>	<u>12,668</u>	<u>42,892</u>	<u>39,606</u>

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

15. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDER'S FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES (continued)

The Company	2004 Issued share capital £'000	2004 Profit and loss account £'000	2004 Total £'000	2003 Restated Total £'000
At 1 January restated	30,000	(6,892)	23,108	25,330
Loss for the financial year	-	(1,336)	(1,336)	(2,222)
At 31 December	30,000	(8,228)	21,772	23,108

16. COMMITMENTS UNDER OPERATING LEASES

The Group and Company annual commitments for the year to 31 December 2005 under operating leases are as follows:

	2004 Land and buildings £'000	2004 Other £'000	2003 Restated Land and buildings £'000	2003 Other £'000
Operating Leases which expire within:				
1 year	-	19	-	93
2 - 5 years	-	93	-	85
Over 5 years	1,226	-	1,230	-
	1,226	112	1,230	178

All operating leases which are related to land and buildings are subject to five yearly upward only rent reviews.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Pension provision £'000	Bonus provision £'000	Total £'000
The Group			
At 1 January 2004	4,599	636	5,235
Credit to profit and loss account	(375)	(636)	(1,011)
At 31 December 2004	4,224	-	4,224

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****17. PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

	Pension provision £'000
The Company	
At 1 January 2004	4,599
Credit to profit and loss account	<u>(375)</u>
At 31 December 2004	<u><u>4,224</u></u>

The pension provision relates to the defined benefit scheme as described further in note 18.

18. PENSION COMMITMENTS

The group operates a defined benefit Scheme, Hermes Group Pension Scheme (the "Scheme"), funded by the payment of contributions to a separately administered trust fund.

These financial statements comply with the transitional arrangements set out in Paragraph 94 of FRS 17 – Retirement Benefits. Accordingly, the pension charge has been calculated in accordance with SSAP 24.

a) SSAP 24 Pension costs

The contributions to the Scheme are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the Projected Unit method. A valuation of the Scheme was undertaken as at 31 December 2003, this valuation used the following main assumptions:

	% per annum
Price inflation	2.75
Return on investments	6.96
Increase in earnings	2.75
Increase in pensions	2.75

The valuation showed that the market value of the Scheme's assets at that date amounted to £33,273,000 and the actuarial value was sufficient to cover 96% of the benefits that had accrued to members, after allowing for the effect of future increases in their earnings. The contributions of the company for the year were £2,515,226 being 18.5% of pensionable payroll, which is sufficient to eliminate the actuarial deficit in the five years of the schedule of contributions.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

18. PENSION COMMITMENTS (continued)

The regular cost for the year was £2,515,226 (2003 - £2,314,577). The total cost included in the accounts was £2,139,963 (2003 - £2,601,191) including interest of £320,115 (2003 - £284,640) on the opening balance sheet provision.

The balance sheet provision at 31 December 2004 was £4,224,085 (2003 - £4,599,347).

Group and Company	£'000
At 1 January 2004	4,599
Charged to profit & loss account	2,140
Contributions paid	(2,515)
At 31 December 2004	<u>4,224</u>

b) FRS 17 Retirement Benefits

The actuarial valuation described in a) above has been updated at 31 December 2003 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation were:

	2004 %	2003 %	2002 %
Rate of increase in salaries	2.8	2.8	4.25
Rate of increase in pensions in payment	2.8	2.8	2.25
Discount rate	5.3	5.4	5.50
Inflation assumption	2.8	2.8	2.25

The fair value of the assets in the Scheme, the present value of the liabilities in the Scheme and the expected rate of return at each balance sheet date were:

	2004 %	2004 £m	2003 %	2003 £m	2002 %	2002 £m
Equities	8.25	32.0	8.25	28.30	7.50	21.76
Bonds	4.70	3.9	4.80	1.60	3.70	0.45
Other	6.60	4.0	6.40	3.30	6.10	3.59
Total fair value of assets		39.9		33.20		25.80
Present value of Scheme Liabilities		(54.6)		(47.50)		(44.00)
Deficit in the Scheme		<u>(14.7)</u>		<u>(14.30)</u>		<u>(18.20)</u>

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****18. PENSION COMMITMENTS (continued)**

The next formal actuarial valuation of the Scheme is due as at 31 December 2006.

Analysis of the amount that would have been charged to operating profit under FRS17:

	2004 £m	2003 £m
Current service cost	3.0	2.8
Total operating charge	3.0	2.8

Analysis of the amount that would have been credited to net finance income under FRS17:

	2004 £m	2003 £m
Expected return on pension Scheme assets	(2.7)	(2.0)
Interest on pension Scheme liabilities	2.5	2.4
Net (deficit) / return	(0.2)	0.4

Analysis of the actuarial gain/(loss) that would have been recognised in the statement of total recognised gains and losses:

	2004 £m	2003 £m
Actual return less expected return on pension Scheme assets, i.e. gain	1.5	3.4
Experience gains and losses arising on the Scheme liabilities, i.e. gain	-	2.3
Changes in assumptions underlying the present value of the Scheme liabilities, i.e. loss	(1.6)	(0.9)
Actuarial (loss) / gain	(0.1)	4.8

	2004 £m	2003 £m
Movement in deficit during the year:		
Deficit in Scheme at 1 January	(14.3)	(18.2)
Current service cost	(3.0)	(2.8)
Contributions paid	2.5	2.3
Finance income / (charge)	0.2	(0.4)
Actuarial (loss) / gain	(0.1)	4.8
Deficit in Scheme at 31 December	(14.7)	(14.3)

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****18. PENSION COMMITMENTS (continued)**

	2004	2003	2002
	£m	£m	£m
History of experience gains and losses:			
Difference between the expected and actual return on Scheme assets:			
Amount	(1.5)	3.4	(7.8)
Percentage of Scheme assets	3.76%	10.24%	30.23%
Experience gains and losses on Scheme liabilities:			
Amount	0.0	2.3	(6.2)
Percentage of the present value of Scheme liabilities	0.0%	4.84%	14.09%
Total actuarial gain recognised in the statement of total recognised gains and losses:			
Amount	0.1	4.8	(14.5)
Percentage of the present value of Scheme liabilities	0.18%	10.11%	32.95%
	2004	2003	
	£m	£m	
The analysis of reserves that would have arisen if FRS 17 had been fully implemented is as follows:			
Profit and loss reserves	12.7	9.5	
SSAP 24 provision reversal	4.2	4.6	
FRS 17 provision	(14.7)	(14.3)	
Profit and loss reserves restated for FRS 17	2.2	(0.2)	

A deferred tax asset has not been recognised in respect of the pension provision calculated under SSAP 24 as the Group is not sufficiently certain that it will be able to recover this asset within a relatively short period of time. Equally, a deferred tax asset would not be recognised in respect of the deficit in the Scheme under FRS 17.

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****19. RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2004	2003
	£'000	Restated £'000
Operating loss	(1,182)	(610)
Depreciation charges	3,151	3,804
Amortisation charges	794	794
Increase in debtors	(2,019,962)	(6,472,243)
Increase in creditors	2,024,789	6,492,988
(Decrease)/increase in provisions	(1,011)	922
Net cash inflow from operating activities	<u>6,579</u>	<u>25,655</u>

20. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2004	2003
	£'000	£'000
Increase in cash in year	<u>5,766</u>	<u>20,293</u>
Movement in net funds in year	5,766	20,293
Net funds at beginning of year	<u>47,642</u>	<u>27,349</u>
Net funds at end of year	<u>53,408</u>	<u>47,642</u>

Net funds at 31 December 2004 comprised cash of £53,407,926 (2003 - £47,642,440).

21. ADDITIONAL INFORMATION ON SUBSIDIARIES AND ASSOCIATES**SUBSIDIARY UNDERTAKINGS****ACTIVITY**

Hermes Focus Asset Management Limited	Investment management company
Hermes Investment Management Limited	Investment management company
Hermes Property Asset Management Limited	Investment management company
Hermes Administration Services Limited	Administration company
Hermes Assured Limited	Life Assurance company
Hermes Pooled Pension Funds Trustee Limited	Corporate trustee – in liquidation
Hermes Focus Fund Co-Investment Trustee Limited	Limited partner for executive investment in European Focus Fund I

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****21. ADDITIONAL INFORMATION ON SUBSIDIARIES AND ASSOCIATES (continued)**

Hermes SLP Limited	Special limited partner to Hermes UK Focus Funds
Hermes UOB Capital Management Limited	Investment management company
Hermes Private Equity Limited	Investment management company
Hermes UOB GP Limited	General partner to limited partnership of Hermes UOB European Private Equity Fund
Hermes UOB SLP GP Limited	Special limited partner to special limited partnership of Hermes UOB European Private Equity Fund
Hermes Private Equity GP Ltd	General partner to Hermes Equity LP investor in Apax Europe V Private Equity Fund
Hermes Asset Management Limited	General Partner to Hermes Private Equity Partners I LP.
HPEP GP Limited	General Partner to Hermes Private Equity Partners I LP.
Hermes Secretariat Ltd	Dormant
Hermes Lens Asset Management Ltd	Dormant
Hermes Shelf Company No 1 Ltd	Dormant
Hermes Shelf Company No 2 Ltd	Dormant

ASSOCIATES AND JOINT VENTURES**ACTIVITY**

Hermes Focus Asset Management Europe Limited	Investment management company
Activa Capital	Investment management company
UOB Hermes Asia Management LLC	Investment management company
Innisfree Limited	Investment management company

Subsidiary undertakings are owned as to 100% of ordinary share capital, Hermes UOB Capital Management Limited, Hermes UOB GP Limited and Hermes UOB SLP GP Limited are owned as to 60% of ordinary share capital.

All subsidiaries have been consolidated in the accounts. All are incorporated in Great Britain and registered and operate in England and Wales apart from Hermes UOB GP Limited, Hermes UOB SLP GP Limited, Hermes Private Equity GP Ltd and Hermes Equity LP, which are all incorporated, registered and operate in Scotland.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

21. ADDITIONAL INFORMATION ON SUBSIDIARIES AND ASSOCIATES (continued)

Hermes Focus Asset Management Europe Limited is 45.7% owned and is incorporated in Great Britain and registered and operates in England and Wales. Activa Capital is 25% owned and is incorporated, registered and operates in France. Innisfree Limited is 35.9% owned and is incorporated in Great Britain and registered and operates in England and Wales. Investments in associates relate to ordinary share capital. UOB Hermes Asia Management LLC is owned as to 40% of ordinary share capital and is incorporated, registered and operates in Singapore.

All share holdings in subsidiaries and associates equate to voting rights.

22. LIMITED PARTNERSHIPS

As described in accounting policy c), the results of certain limited partnership are not consolidated. Had these been consolidated, the effect on the consolidated balance sheet would have been to increase fixed assets by £561.8 million, decrease net current assets by £2.3 million and increase associated minority interests by £559.5 million. In the consolidated profit and loss account, investment income would increase by £11 million, expenses by £563,000 and associated minority interests by £14 million. In the consolidated statement of total recognised gains and losses, the revaluation of investments would increase by £80 million along with an increase in associated minority interests of the same amount. Consequently, the effect on net assets, retained profit and total recognised gains and losses is nil.

23. RELATED PARTY TRANSACTIONS

During the year there were transactions with the following related parties:

The Trustees of the BT Pension Scheme

The following fees were paid by the Hermes group on behalf of the BT Pension Scheme in respect of the Trustees' services to the BT Pension Scheme.

	2004 £'000	2003 £'000
Sir Tim Chessells (Chairman)	75	75
S B Birkenhead	24	24
D W Davies	25	25
C N J Long	23	23
D M MacDonald	18	18
H Marchant	24	24
W McClory	21	21
Total fees	<u>210</u>	<u>210</u>

Hermes Group Pension Scheme

Certain activities of the Scheme are carried out by the Hermes group, all of the costs of which are borne by Hermes Pensions Management Limited. These costs have not been apportioned for accounting purposes between those attributable to the Scheme and those attributable to the Hermes group as functions maintained for both entities cannot be divided meaningfully between them.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

23. RELATED PARTY TRANSACTIONS (continued)

Parent Undertaking

The company is a wholly owned subsidiary and consolidated into the accounts of the BT Pension Scheme, which are available to the public. As such, the company has not disclosed related party transactions with the BT Pension Scheme, as it is taking advantage of the exemption in FRS8 available to wholly owned subsidiaries.

Subsidiaries

The company prepares group accounts into which all of its subsidiaries are consolidated, save as disclosed in note 21. The company has not disclosed related party transactions with subsidiaries as it is taking advantage of the exemption in FRS8.

Associated Undertakings

Hermès Focus Asset Management Europe Ltd

HFAME is an associate of Hermes Focus Asset Management Ltd which is a 100% subsidiary of Hermes Pensions Management Ltd. During the period HPML recharged £1,607,516 (2003 - £560,700) of expenditure to HFAME. At 31 December 2004 £399,776 (2003 - £132,300) of this amount was included in debtors.

Activa Capital

On 31 December 2003, Hermes Private Equity Ltd had an outstanding loan due from Activa Capital of £127,942. This was repaid in two tranches of £101,393 on 16 April 2004, and £36,002 on 11 June 2004. These repayments resulted in a foreign currency gain of £9,453.

Hermes UK Focus Funds

The Hermes UK Focus Funds are partnerships investing in UK equities. Hermes Focus Asset Management Limited (HFAM) is the General Partner. During the year there were the following transactions between the UK Focus Funds and HFAM:

- HFAM received £2,862,188 (2003 - £1,824,439) from the Hermes UK Focus Fund, £893,094 (2003 - £683,322) from the Second Hermes UK Focus Fund and £2,194,207 (2003 - £1,755,874) from the Third Hermes UK Focus Fund as profit share.
- HFAM recharged £80,443 (2003 - £60,077) of expenditure to the Hermes UK Focus Fund, £33,989 (2003 - £30,225) to the Second Hermes UK Focus Fund and £60,034 (2003 - £53,098) to the Third Hermes UK Focus Fund. This expenditure represented the direct costs of the partnership.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)

23. RELATED PARTY TRANSACTIONS (continued)

Hermes UK Small Companies Focus Fund

The Hermes UK Small Companies Focus Fund (UKSCFF) is a partnership investing in UK Small Company equities. HFAM is the general partner. During the year there were the following transactions between UKSCFF and HFAM:

- HFAM received £1,112,201 (2003 – £624,306) from UKSCFF as profit share.
- HFAM recharged £28,700 (2003 – £31,500) of expenditure to UKSCFF. This expenditure represented the direct costs of the partnership.

24. MINORITY INTEREST - EQUITY

The minority interest of £126,808 (2003 - £118,808) included within the consolidated balance sheet relates to the 40% shareholding of Hermes UOB Capital Management Limited (HUCM) owned by UOB Global Capital LLC.

25. ULTIMATE PARENT UNDERTAKING

The directors regard the BT Pension Scheme as the company's immediate and ultimate parent and controlling entity. It is also the parent of the largest and smallest group to prepare group accounts into which the results of the company are consolidated. The accounts of the BT Pension Scheme can be obtained at Lloyds Chambers, 1 Portsoken Street, London E1 8HZ.

26. PRIOR YEAR ADJUSTMENT

The Group's accounting policy for investments in associates is to consolidate on an equity accounting basis. The Group has a 35.9% shareholding in Innisfree Limited but has previously accounted for this as an unlisted investment. This has been changed during 2004 to bring it into line with the other Group associates. The directors consider this to provide a fairer presentation of the net assets and financial position of the company.

Also, a review of the rent accrual has been undertaken and found to be incorrectly accrued in previous years. Therefore, a prior year adjustment has been included correcting this.

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2004 (continued)****26. PRIOR YEAR ADJUSTMENT (continued)**

The effects of the above can be summarised as follows:-

	2004 £	2003 £
Profit and loss account		
Administration expenses	-	(678)
Interest received	296	52
Share of profit in associate	3,050	584
Interest payable	(2)	-
Taxation	(21)	-
Increase/(decrease) in profit for the financial year	<u>3,323</u>	<u>(42)</u>
 Balance Sheet		
Investments in associates	3,323	(2,008)
Accruals	-	(678)
Revaluation reserves	-	2,644
Increase/(decrease) in net assets	<u>3,323</u>	<u>(42)</u>