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Committed to improving the quality of health in the communities we serve

Alliance UniChem Plc
Annual Report 2004

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Logo removed

Consistent growth since flotation with

£8,898.4m

£873.4m

1990 2004

Compound annual growth since flotation†

Turnover

+18.0%

£291.4m

£19.3m

1990 2004

Compound annual growth since flotation†

Total operating profit

before amortisation of intangible assets*

+21.4%

£252.0m

£16.4m

1990 2004

Compound annual growth since flotation†

Profit before tax

before amortisation of intangible assets and exceptional items*

+21.5%

48.2p

11.8p

1990 2004

Compound annual growth since flotation†

Diluted earnings per share

before amortisation of intangible assets and exceptional items*

+10.6%

47.1p

11.8p

1990 2004

Compound annual growth since flotation†

Diluted earnings per share

+10.4%

18.50p

4.80p

1990 2004

Compound annual growth since flotation†

Dividends per share

+10.9%

Bar graphs removed

Alliance UniChem is a leading European healthcare group focused on improving the quality of health in the communities we serve through the distribution of medicines to pharmacies and the provision of dispensing and advice to patients.

earnings growth accelerating in 2004

+1.1%
Year on year growth
£8,898.4m
Turnover

+10.6%
Year on year growth
£291.4m
Total operating profit
before amortisation of intangible assets*

+20.1%
Year on year growth
£252.0m
Profit before tax
before amortisation of intangible assets and exceptional items*

+17.0%
Year on year growth
48.2p
Diluted earnings per share
before amortisation of intangible assets and exceptional items*

+26.3%
Year on year growth
47.1p
Diluted earnings per share

+10.8%
Year on year growth
18.50p
Dividends per share

*Figures are calculated before amortisation of intangible assets and exceptional items (where applicable) of £15.5 million (2003 £13.6 million) and £11.7 million profit (2003 £nil) respectively, since the Directors consider that this gives a useful additional indication of underlying performance.

†Since flotation compound annual growth figures are based on the 1990 figures published in the five year record of the 1994 Annual Report, other than for dividends where the 1991 figure has been used, being the first full year since flotation.

The "since flotation" figures include the impact of the business combination of UniChem PLC and the Alliance Santé Group in 1997.

Chairman's statement

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We accelerated our rate as the year progressed

Overview and financial results
The Group performed strongly throughout 2004, accelerating our rate of earnings growth as the year progressed.
Profit before tax, amortisation of intangible assets and exceptional items increased year on year by 20.1% to £252.0 million (€371.7 million), extending our track record of delivering record results, year after year. Our key profit measure, diluted earnings per share before amortisation of intangible assets and exceptional items, increased by 17.0% to 48.2 pence (26.3% after amortisation of intangible assets and exceptional gains), the fastest annual rate of growth since the Company floated on the London Stock Exchange in 1990. Cash generation from operating activities was again strong, particularly in the second half of the year. Working capital efficiency gains totalled approximately £39 million over the course of the year.

This excellent financial performance has been largely achieved through organic growth, an ongoing focus on margin management, cost control, interest rate management and working capital efficiency, and the profitable reinvestment of free cash flow to expand the Group.

Our wholesale division performed well, both Northern and Southern European regions reporting higher operating margins and operating profits, despite regulatory changes in a number of markets. Trading performance in our retail division was excellent, with a significant increase in sales, operating margins and profits. The performance of our associates particularly benefited from the inclusion of Andreae-Noris Zahn AG ("ANZAG") in Germany, an associate since late January 2004.

Dividend
The Board is recommending a final dividend of 12.25 pence per share, making a total dividend for the year of 18.50 pence per share. The proposed final dividend is 11.4% higher than the 2003 final dividend, the total dividend for the year being up 10.8%. The proposed final dividend will be paid on 10 May 2005 to shareholders on the register at the close of business on 4 March 2005. The Board will, as in previous years, offer shareholders a share alternative.

Board and organisational changes
At the beginning of December, Ian Meakins joined the Group and Board as Chief Executive, having previously been President, European Major Markets and Global Supply for Diageo plc, the world's largest premium drinks business. Ian succeeded Stefano Pessina, who returned to his previous role as Executive Deputy Chairman with operational responsibility for strategic development, including acquisitions, a position he held prior to becoming Chief Executive.

I shall retire from the Board at the conclusion of the Annual General Meeting in April 2005, but will continue to oversee the Group's interests in ANZAG, our German associate. I am delighted that Paolo Scaroni, an independent non-executive Director since December 2002, has agreed to succeed me as Chairman and I wish him every success in his new role.

Geoff Cooper, Deputy Chief Executive, resigned from the Board in July, when the decision to appoint Ian Meakins was finalised and he left the Company at the end of the year. I would like to thank Geoff for his significant contribution to the development of the Group.

Jeff Harris
Chairman 24 February 2005

# of earnings growth

Our people
The key to our success is the skills and expertise of the people working throughout the Group. I continue to be impressed by their commitment, providing our customers with consistently high levels of service, while at the same time launching new commercial initiatives, increasing productivity and improving working capital efficiency. I take this opportunity to thank them all, on behalf of shareholders, for their work during 2004.

Strategy and corporate development
The overall strategy of the Group remains unchanged, the success of which is demonstrated by our long established track record of delivering strong earnings per share growth, which has accelerated during 2004.

In late January 2004, the Group purchased 19% of the equity of ANZAG, the third largest wholesaler in Germany, for a consideration of £41.7 million (€60.5 million), taking our shareholding to 29.99%. During the year, we disposed of a number of small businesses in the UK which were not part of our core wholesale activities for £43.6 million (€64.3 million).

In our retail division we added a net 90 pharmacies to our portfolio, of which six were in associates, bringing our retail portfolio to 1,182 pharmacies at the year end, including 107 operated by associates.

Since the year end, we have taken a number of significant steps to develop the Group.

In February 2005, we announced that we are to expand our Spanish wholesale business through the acquisition of Farmacen, a regional wholesaler with strong market positions in the Madrid and Seville regions. Farmacen had sales in 2003 of around £184 million (€272 million) and is being acquired at a cost of around £33 million (€48 million), including debt assumed as part of the acquisition. The transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April.

Also in February we announced that we are to restructure our relationship with Galenica, our 25.5% owned Swiss associate, to create greater focus on our respective areas of expertise. As a result, the Group will increase its direct ownership in Alloga, one of Europe's leading specialist healthcare logistics and prewholesaling providers, from 20% to 100%, with the exception of the Swiss part of the business which will be fully acquired by Galenica. Ownership of Alloga gives us an enhanced platform to accelerate the provision of services to healthcare manufacturers across Europe. In addition, we are to sell our 50% direct interest in the GaleniCare Swiss pharmacy chain to our partner, Galenica. This reflects our lessening involvement in GaleniCare's Swiss-based management, as the business has become fully established. This transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April and result in a net cash inflow of around £20 million (€29 million).

Outlook
Our 2004 results demonstrate that we have been able to step up our profit growth. The regulatory outlook for 2005 appears stable, although we forecast market growth overall to be slightly lower than in 2004 as a result of the UK price cuts announced in November. Current business performance, together with the steps that we continue to take to improve and develop the Group organically and by way of acquisition, make us confident about our commercial and financial prospects for 2005.

Group at a glance

A European group thriving in evolving markets

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Manufacturers	Wholesale

Our wholesale business model is to provide customers, manufacturers and payers with an efficient distribution service for the supply of medicines and other healthcare products to pharmacies, supported by value added services.

We aim to achieve this by having:

- Higher core service levels
- The most innovative value added services
- Competitive pricing
- Strong partnerships with manufacturers
- The most efficient logistics
- Excellent people

We aim to become indispensable to customers and manufacturers by adding more value to their businesses than our competitors. This will make us the wholesaler of choice in each of the markets we serve.

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Retail

Patients

Our pharmacy business model is to provide superior patient care through the operation of community pharmacies.

We aim to achieve this by having:

- Conveniently located pharmacies, typically close to doctors' surgeries
- A strong focus on healthcare and advice
- Services tailored to specific community requirements
- Strong partnerships with manufacturers
- Highly professional staff

We aim to make ourselves indispensable to patients, payers and manufacturers by adding more value to their activities than our competitors. This will enable us to maintain our position as a leader in our chosen markets.

We are rolling out efficiency programmes across Europe

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Management of product flow throughout the depot provides optimum use of technology to ensure the greatest efficiency.

For those products which must be manually picked, planned and careful product placement ensures that the most highly demanded items are the most accessible.

Hand-held scanning devices read bar codes for customer orders. The devices screen information on type and number of products required to fill orders and the location from which to source them.

Warehouse best practice

Initiated in 2001, our project to establish best practice for the operation of wholesale warehouses has evolved as it has been rolled out across Europe. Detailed analysis of the flow of products through each stage of the warehouse has enabled us to identify the most efficient layouts, improve operating procedures and update technology and equipment. Re-laid warehouses show substantial improvements in customer service, productivity and operational efficiency, realising significant cost savings and avoiding the need to move to larger premises. Given that most of our facilities stock between 10,000 and 25,000 product lines, even small improvements in the handling of products can reduce errors and stock turnaround days.

A key strength of the model is that, although it sets specific standards, its implementation is tailored to meet the demands and issues faced by each warehouse. In some, this may require complete re-laying with structural work or new equipment, while in others it may simply involve minor changes or updates to working practices and management reporting systems. Each implementation plan is designed with local management involvement to achieve optimum performance and minimise disruption during the implementation process.

Due to the constantly evolving nature of the project, operations are being "fine tuned" in those warehouses where best practice was first implemented to incorporate the latest thinking.

In 2004, the best practice model was implemented in six warehouses across our wholesale network: Preston, Livingston and Letchworth in the UK; Verona in Italy; and two warehouses serving the Barcelona market in Spain. Implementation is underway in South Normanton in the UK, with plans drawn up for implementation in an additional seven warehouses in the UK, France, Italy, The Netherlands and Spain during 2005.

Almus is already one of the UK's leading generic brands

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As its popularity grows, Almus is introducing such high volume medicines as Bendroflumethiazide and Warfarin.

Almus's unique design concept goes beyond the dispensing process with information sheets specially designed for ease of patient use.

Almus – designed to aid dispensing

Since its launch in April 2003, Almus, our exclusive range of generic drugs, has developed into a leading generic brand in the UK, and is already a core component of our service offering to both pharmacists and manufacturers. The initial range of 39 products grew to 129 by the end of *2004, with over 70 products expected to be* added during 2005. Almus is now one of the top five best selling generic brands in the UK, the rate of gross sales increasing to £6.3 million per month by December 2004.

The Almus range includes blockbuster formulations such as generic Warfarin, the world's leading anti-coagulant product, and Bendrofluazide, a widely prescribed treatment for water retention.

Almus has manufacturing arrangements in place with licensed manufacturers ranging from local generic producers to global generic and branded pharmaceutical companies, including Roche, Sanofi Aventis and Alpharma. Discussions are taking place to extend the number of manufacturers supplying existing and new Almus products.

The success of Almus in the UK has made it a favourite of pharmacist and patient alike, thanks to its unique award-winning colour-coded packaging, consistency of specification, ready availability and competitive pricing. This is set to be replicated in other markets. With the active *encouragement of our pharmaceutical* suppliers, the international rollout of Almus will begin with launches in a number of European countries during 2005, starting with France.

£76m
Approximate annualised gross sales
December 2004

£18m
Approximate annualised gross sales
January 2004

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Our suite of services add value across the entire supply chain

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Around 33% of telephone calls made by our skilled telesales teams result in sales orders from pharmacies, illustrating the success of the Pressuma concept.

Direct one-to-one contact between our telesales operators and the pharmacist gives the opportunity to provide more detailed and comprehensive information on the range of products and services available from manufacturers.

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Manufacturer services

At the heart of our business models is a recognition that the manufacturer is as much a customer for our services as the pharmacist or patient. The market is shifting from product to patient focus, and pharmacists require new tools to offer services to their customers. We are therefore well positioned to work closely with manufacturers on new ways to market their products and add value to their businesses.

In 2004, we established a Commercial Affairs Department, responsible for evolving our service offering to manufacturers on a pan European basis.

In keeping with this focus on innovation and development, a number of projects have been designed to aid the penetration of manufacturers' ethical, generic and over the counter products into the marketplace. One such example is our "Pressuma" concept, initially created and implemented in Spain and now adapted for the French market. "Pressuma" provides manufacturers with a suite of services focused around a contract sales force supported by highly skilled telesales teams dedicated to promoting complete packages of retail services to pharmacies, including sales services, promotions, product information, advice on how to carry out surveys and on how to target customers effectively.

A pilot is under way with GlaxoSmithKline Santé Grand Public involving 3,700 pharmacies targeted for a large promotional campaign for several leading products including cold sore treatment, Activir, smoking cessation aid, Niquitin, and the painkiller, Synthol.

Many manufacturers have expressed an interest in this innovative service and the pilot schemes already under way are enabling us to refine our commercial offering.

We continue to develop new ways to help independent pharmacists

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The "your portfolio" programme incorporates a variety of initiatives to improve dispensing effectiveness.

Picture removed

Appropriately equipped consultation areas together with suitable training available as part of the "your portfolio" programme, can help independent pharmacists meet the challenges of the new pharmacy contract.

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The scope within the "your portfolio" programme, which ranges from front of shop signage through to advanced training and dispensing protocols, allows independent pharmacists to reflect the needs of their local communities.

Through the programme, independent pharmacists can access detailed training and support to offer their patients a wider range of specialist services and advice.

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The "your portfolio" scheme provides assistance with store layout including professionally designed signage customised to each pharmacy.

Picture removed

Pharmacists are offered advice on the categorisation and grouping of products to enhance their display and maximise sales potential.

Picture removed

Product placing is supported by signage options ranging from window posters, promotional marketing materials to shelf signage.

Picture removed

Provision of healthcare advice and patient information forms a core element of the "your portfolio" concept.

"your portfolio"

In June 2004 our UK wholesale business, UniChem, made available to over 2,000 customers its "your portfolio" initiative, a unique combination of added value services to provide independent pharmacists with the tools they need to meet the challenges of the future and build a better business.

"your portfolio" covers three key areas:

- Dispensary – supporting customers to meet the challenges of the new pharmacy contract with a wide range of patient-focused healthcare services;
- Retail – supporting customers to improve their pharmacies' image, thereby maximising sales and profit through more effective merchandising and retail support; and
- Business – supporting customers to manage their business and staff more profitably.

Customers are rewarded for their loyalty. Each customer is allocated to one of four "value zones" depending on the product mix and size of their purchases. A zone corresponds to a monthly allowance that can be used to access "your portfolio" services from UniChem. By improving the mix of products they buy, customers can earn higher monthly rewards and discounts.

Independent pharmacist, Mr. Ososami, shown here in his pharmacy in Streatham Hill, has chosen to implement "your portfolio" services:

"The challenges we face as a professional service to our local community go far beyond the requirements of a general retailer. Maintaining professional standards through regular training both for myself and my team and adequately resourcing my pharmacy to provide an increasingly complex range of patient services is a daunting task. UniChem's "your portfolio" scheme has created within my pharmacy a more welcoming and efficient environment and has made a material difference to the level of service we are now able to offer. Both my customers and staff are impressed with the improvements and I, as a manager, feel very pleased with the changes. It is an excellent programme."

We are constantly finding innovative ways of interacting with patients

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Above Automated alerts tied into our pharmacy management systems provide our highly trained pharmacists with a back up prompt for situations where a prescription intervention may be appropriate as part of the clinical role they play in patient healthcare.

Picture removed

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Above Moss is actively installing consultation areas across its chain with a large number of pharmacies now offering clearly signposted in-store facilities where patients may be treated in comfort and privacy without being overheard by fellow customers.

Above Moss is trialling the use of specially designed "dispensing pods" to give every patient direct access to the dispenser.

Pharmacy of the future

The new pharmacy contracts about to take effect in the UK require pharmacists to take a more clinical and proactive role in patient healthcare. As a result, pharmacists are working to build closer relationships with their patients to understand their healthcare needs better. In order to achieve this, Moss Pharmacy has developed an enhanced store format, including a consultation room, designed to facilitate communication with patients and enable the provision of more advanced services.

The new pharmacy layout focuses on direct dispensing and aims to bring the patient closer to the dispensing process, creating an environment more akin to clinical evaluation than a mechanical check. The concept offers patients a face-to-face prescription service, making the dispensing process more open and allowing the patient to become more involved. Patients can see their prescriptions being made up and ask any questions they may have. The individual consultation with pharmacy staff ensures that patients get the advice they need on common illnesses and health matters, as well as information about the medicines they are taking.

Moss Pharmacy's new consultation rooms have been designed to allow a more private discussion between pharmacist and patient. The pharmacist can discuss healthcare issues without being overheard by other pharmacy visitors and can conduct advanced services, such as medicines use reviews, as specified under the new pharmacy contract. The pharmacist also has facilities in place to provide diagnostic testing services. This will become increasingly important as pharmacies are commissioned to provide even more enhanced services.

To date 200 pharmacies have been fitted out with private consultation areas, 25 of which are to Moss Pharmacy's latest design. Around a further 400 will be fitted out by the end of 2005, with all pharmacies operating consultation facilities by the end of 2006.

Our community pharmacies are increasingly focusing on patient services

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Left and below *Our pharmacies* have specialist training and resources necessary to provide enhanced services to patients such as this carbon monoxide monitor, used to motivate and inform patients during a typical four-week quit programme.

Picture removed

Picture removed

Above Patients are advised on their most appropriate cessation aid and given practical guidelines on its use.

Pharmacy services

Moss Pharmacy in the UK is working hard to ensure that patients have access to the healthcare services they need. In partnership with local Primary Care Trusts (PCTs), Moss plays an active role in assessing the healthcare needs of the local communities in which it operates and in developing new services to address these needs.

Moss's smoking cessation programmes are part of a wider campaign focused on reducing coronary heart disease in local communities. These programmes are aligned with local PCT requirements to meet "quit targets" set by the Department of Health and are therefore generally funded by the local PCT.

Targets stipulate that the average PCT must identify at least 900 smokers per year who have been treated by a smoking cessation service and who stopped smoking after four weeks of treatment.

At the Moss pharmacy in Whiston Health Centre near Prescot, Merseyside, our pharmacist, Sue Stone, runs a successful smoking cessation programme. Sue and two counsellors offer one-on-one consultations to patients during their "quit programme", providing information and support. Carbon monoxide monitoring during these sessions helps to motivate patients to persevere. During 2004, Sue and her team worked with over 50 patients, helping them to stop smoking. A number of the patients Sue counsels are referred to her directly by her local PCT, which runs a smoking cessation project called "Support" in the local community. Sue's programme is an integral part of that project.

Julie Tipton of St. Helen's PCT comments: "Smoking cessation is a key target for Primary Care Trusts to achieve in the next three years, and the programmes we implement need to be done effectively to reduce or prevent the occurrence of smoking related disease and ill health. Working with independent advisors like Sue Stone and her team at Whiston is key to helping us reach our targets. People unable to attend our sessions, because they can't make timings or because sessions are over full, can go to alternative programmes held at Moss Pharmacy. This ensures that people with a strong commitment to quit have the necessary support structure available to help them achieve their goals."

Picture removed

Prescriptions are usually dispensed while the customer waits. Any items that are not in stock are ordered in for later that day or on a next day basis.

Medicines left around the home can be dangerous, especially if discovered by children or taken when out of date. Moss is happy to collect unwanted medicines and dispose of them in the correct manner.

Moss can collect repeat prescriptions directly from patients' GP surgeries and dispense them, ready for collection at the pharmacy or delivery to the patient's home saving customers both time and effort.

Our pharmacists give advice on over-the-counter or prescription medicines,including effective medicines management and potential side effects. They can also offer practical advice on how to lead a healthy lifestyle.

Being thoroughly prepared is important when travelling abroad. Moss offers advice to customers based on their travel destinations including information on anti-malarials, vaccinations and strength of sun cream.

Help and support to prepare people for stopping smoking, including setting a quit date, preparing for the quit day, and dealing with cravings.

Operating review

We continue to deliver double digit profit growth

Divisional highlights for the year ended 31 December 2004

	Turnover *£million*	Operating profit* *£million*	Year on year growth Turnover %	Operating profit* %
Wholesale – Northern Europe	2,897.6	90.2	–0.1	+7.0
– Southern Europe	5,684.6	77.0	+1.2	+3.5
Retail – Europe	1,222.6	96.1	+10.4	+21.2
Corporate	–	(18.0)	–	–
Intra-group	(906.4)	–	–	–
Group	8,898.4	245.3	+1.1	+8.3
Share of operating profit of associates	–	46.1	–	+25.3
Total	**8,898.4**	**291.4**	**+1.1**	**+10.6**

*Before amortisation of intangible assets.

Alliance UniChem network

Map removed

Markets

The markets in which our wholesale businesses operate grew, we estimate, by 4.5% year on year on a constant currency basis, this growth being weighted on the basis of our wholesale turnover. This was ahead of our forecast at the beginning of 2004 and just below our forecast at the time of our interim results. The principal factors determining market growth rates in individual countries continue to be regulatory actions and demographics.

Generic prescribing continues to increase, reducing wholesale market growth, as more expensive brands come off patent and are replaced by cheaper generic medicines which typically offer higher trading margins to us.

Parallel trade continued to slow during the period as a result of manufacturers' quotas and government regulation in the German market.

Wholesale

Northern Europe

Operating profit before amortisation of intangible assets was £90.2 million (€133.0 million), an increase of 7.0% on the previous year, on Sterling turnover down 0.1% to £2,897.6 million (€4,274.0 million). Overall market growth was better than we had predicted at the start of the year, primarily as a result of higher growth in the UK. Sales in Northern Europe were up by 4.3% on a like for like constant currency basis, which was around 1.2% ahead of our market growth estimate. Operating margins increased by 20 basis points to 3.11%, improvements being achieved in every country, reflecting the continuing success of our Group-wide performance improvement programme. Operating profit before amortisation of intangible assets in the second half was £47.3 million, an increase of 5.8% on the second half of 2003.

UK

In the UK, turnover decreased by 3.0% to £1,873.1 million (€2,762.8 million), four non-core businesses being sold in the second half of the year. On a comparable basis, like for like wholesale sales increased by 1.6% in a competitive environment, the total market growing, we estimate, by just below 3% which was higher than we predicted at the start of the year due to a delay in the Department of Health's Pharmaceutical Price Regulation Scheme (PPRS) review.

Focus continues on increasing the proportion of higher margin product categories and on the more effective management of customer and supplier relationships. This, together with productivity gains achieved in implementing the Group's warehouse best practice programme, resulted in higher operating margins and good profit growth.

The continued growth of "Almus", the Group's exclusive range of generic drugs, is providing sourcing benefits aimed at offsetting the impact of patent expiries. The Almus range increased to 129 products during the year, the rate of gross sales increasing to £6.3 million per month by December. Almus also won a "Best Corporate Brand Identity" award at the annual awards of the Design Business Association in September for its distinctive packaging which helps both dispensers and patients. During 2005, Almus will be launched in a number of other European countries, starting with France.

In early November, the Department of Health announced the results of the delayed PPRS review. This introduced a 7% average price cut, modulated by pharmaceutical manufacturers, which took effect on 1 January 2005, although for pharmacists the cut applied to dispensed prescriptions from 1 February onwards. This dampened market growth in the last quarter of 2004, as pharmacists lowered stock levels, and will, in our view, result in a slight market contraction in 2005, which we currently forecast to be around –1%.

The new pharmacy contract in England, which takes effect from April 2005, creates significant changes for retail pharmacies, both in terms of their funding and the growing focus on the services they offer to patients. In response, we have developed step by step guidance for independent pharmacy customers to follow, as well as "your portfolio", a comprehensive package of retail, healthcare and business services for independent retail pharmacies which was made available during the year to over 2,000 customers.

The roll out of the warehouse best practice programme to other facilities across the UK continued throughout 2004. Three further warehouses (Preston, Livingston and Letchworth) were completed, bringing the total to five. A further best practice implementation at the central distribution centre in South Normanton started towards the end of the year. This investment, along with operating initiatives, supports the drive to improve service levels to customers further.

Four non-core businesses were sold in the second half of the year (Hospital Management & Supplies, Eldon Laboratories, Crest Medical and Enigma Health UK), for a total consideration of £43.6 million, of which £13.3 million was deferred, the majority being received after the year end.

A programme has recently been established to drive greater synergies from the UK wholesale and retail businesses, with a particular focus on manufacturer services and operations, the benefits of which should be seen from 2005 onwards.

129

39

Picture removed

129

The Almus range increased from 39 to 129 products during the year, the rate of gross sales increasing to £6.3 million per month by December.

Picture removed

2,000

"your portfolio", a comprehensive package of retail, healthcare and business services for independent retail pharmacies was made available during the year to over 2,000 customers.

Wholesale

The Netherlands
In The Netherlands, turnover increased by 5.3% to £643.1 million (€948.6 million), up 7.6% on a like for like constant currency basis. This compares to a market which we estimate grew by only around 0.5% as a result of price cuts of generics at the beginning of March. We continued to win market share by providing independent customers with excellent customer service and through expanding our own retail pharmacy chain. Operating efficiencies, including the closure of the Rotterdam warehouse in March, more than compensated for lower gross margins due to regulatory changes, resulting in higher operating margins and good profit growth. In 2005, we currently forecast that market growth will recover to around 4%.

Czech Republic
In the Czech Republic, turnover increased by 9.5% to £182.5 million (€269.2 million), an increase of 12.2% on a like for like constant currency basis, compared to a market which we estimate grew by around 10.5%. Considerable focus is being placed on increasing sales to independent retail pharmacies, the hospital sector being less attractive for the time being due to the financial constraints within which hospitals currently operate. As in The Netherlands, operational efficiencies in the Czech Republic more than compensated for increased customer discounts, resulting in higher operating margins and profits. During the year, the Prague warehouse was extended to meet increased demand for prewholesaling services and new processes introduced based on the best practice programme. Our current forecast for market growth in 2005 is around 10%.

Norway
In Norway, turnover increased by 4.0% to £198.9 million (€293.4 million), up 11.2% on a like for like constant currency basis, compared to a market which we estimate grew by just over 7%. Operational efficiencies through the implementation of warehouse best practice and increasing synergies from running the Norwegian retail and wholesale businesses more closely more than compensated for a reduction in gross margins as a result of the retail deregulation of what were previously pharmacy-only medicines. As a result, operating margins and profits increased. Our current market growth forecast for 2005 is around 7%.

Southern Europe

Operating profit before amortisation of intangible assets was £77.0 million (€113.6 million), an increase of 3.5% on the previous year on turnover up 1.2% to £5,684.6 million (€8,384.8 million). Like for like sales growth was 3.4% on a constant currency basis, operating margins increasing by three basis points to 1.35%. Second half operating profit before amortisation of intangible assets was £38.9 million compared to £40.5 million in the second half of 2003.

France
In France, turnover increased by 0.2% to £3,640.1 million (€5,369.1 million). Sales growth was 2.4% on a like for like constant currency basis, compared to estimated market growth of around 3% in the wholesaling sector. We estimate that the total market grew in value by just under 5.5% with the proportion of products which manufacturers distribute direct to pharmacies continuing to increase. This reflects in particular the growing importance of generic products. We continue to work closely with a number of generic manufacturers to increase our market share in this category.

At the start of the year, the French government introduced tough regulatory changes aimed at reducing its expenditure on medicines. In response to this, we implemented necessary actions, including the launch of further initiatives to improve efficiencies. We also benefited marginally from the introduction of a new, fairer methodology for determining ACOSS healthcare taxes. In common with our other businesses, in France we have seen an increase in participation by our pharmacy customers in collective buying arrangements, which we offer as a key component of our commercial strategy. We continue to enhance other aspects of our commercial offering in France, including the development of added value services for independent pharmacies which are members of Alphega, our virtual pharmacy network. During the year, the number of Alphega members increased to 220. These factors meant that, despite the government reducing its expenditure on drugs, we were able to increase operating profits, whilst maintaining operating margins. Our 2005 growth forecast for the total market is currently around 5%, of which part is due to a number of drugs previously only available through hospital pharmacies now being dispensed through retail pharmacies.

Wholesale depots at 31 December 2004

Graph removed

A. UK	11
B. The Netherlands	4
C. Czech Republic	6
D. Norway	1
E. France	57
F. Italy (including associates)	47
G. Spain	26
H. Portugal	7
I. Turkey*	61
J. Germany*	23
K. Switzerland*	3
Total	**246**

*Associate interest.

Picture removed

220

During the year, the number of Alphega members increased to 220.

Italy

In Italy, turnover increased by 1.2% to £909.2 million (€1,341.1 million), an increase of 3.5% on a like for like constant currency basis. This compares with a market which we estimate grew by around 3%, growth in the second half being held back following a "temporary" price cut. Operating margins and profits were maintained. Good progress was made in establishing our new virtual chain of pharmacies. By the end of the year, 50 pharmacies had joined, with a further 21 signed up to join shortly.

We continue to review operational strategy in Italy to determine how best to improve longer term business performance in what continues to be a particularly difficult market from a regulatory and commercial perspective. Our market growth forecast for 2005 is currently around 3%.

Spain

In Spain, turnover increased by 3.3% to £790.2 million (€1,165.5 million), up 5.6% on a like for like constant currency basis, with domestic sales growth of 6.7%. This compares with a domestic market which we estimate grew overall by around 7.5%. Export sales were at a similar level to 2003. Operating margins improved, primarily as a result of currency movements and lower healthcare taxes, resulting in increased operating profits. In the second half of the year, best practice projects were completed at two warehouses servicing the Barcelona market, one being expanded into an adjacent property.

Since the year end, we have announced that we are to expand our Spanish wholesaling business through the acquisition of Farmacen, a regional wholesaler with strong market positions in the Madrid and Seville regions, its sales totalling around £184 million (€272 million). It is being acquired at a cost of around £33 million (€48 million), including debt assumed as part of the acquisition, of which around half is payable in instalments over the next four years. The transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April. Our current market growth forecast for Spain in 2005 is around 7%.

Portugal

Turnover in Portugal increased by 7.3% to £345.1 million (€509.0 million), up 9.7% on a like for like constant currency basis. This compares with a market which we estimate grew by around 8.5%. Operating margins and profits increased year on year mainly due to productivity improvements, including those resulting from the closure of a warehouse in 2003. Our current market growth forecast for 2005 is around 5.5%.

Graph removed

Retail

Operating profit before amortisation of intangible assets was £96.1 million (€141.7 million), an increase of 21.2% on the previous year, on turnover up 10.4% to £1,222.6 million (€1,803.3 million). Like for like sales on a constant currency basis increased by 4.0%, which is in line with our market growth estimate of 4%. Overall retail operating margins at 7.86% were 70 basis points higher, as a result of operating margin improvements in the UK, Norway and Italy. Second half operating profit before amortisation of intangible assets was £50.6 million, an increase of 17.1% on the second half of 2003.

Retail pharmacies at 31 December 2004

Graph removed

A. UK	878
B. Norway	114
C. The Netherlands	63
D. Italy (including associates)	28
E. Switzerland*	99
Total	**1,182**

*Associate interest.

UK

In the UK, turnover increased by 10.6% to £868.3 million (€1,280.7 million), like for like sales growing by 4.7%, compared to a market which we estimate grew by around 4%. Our National Health Service prescription income increased by 11.8% in total. Operating margins were higher as a result of increased professional income and further efficiencies. During the year, 60 pharmacies were acquired, three were opened and one sold, the majority being added in the second half. The total UK chain, as at 31 December 2004, comprised 878 pharmacies and 53 other healthcare related retail outlets. During the year 46 branches were refitted and 15 relocated, seven of which were to health centre developments.

Moss Pharmacy continues to play a leading role in the development and implementation of pharmacy services in the UK. Our strategy is to develop services in close liaison with local healthcare authorities and pharmaceutical manufacturers. This ensures that our business develops in a way that is aligned with local healthcare objectives, enabling us to earn a return on our investment in training and facilities. Today, branches already offer a tailored range of services, which can include lifestyle assessments, supervised methadone treatments, blood pressure testing, nicotine replacement schemes and full cardiac risk assessments.

The frameworks for the new pharmacy contracts in England, Wales and Scotland, covering reimbursements for prescriptions and services and the control of entry regulations, have now all been agreed with clear implementation dates.

At their heart is a focus on service delivery that is consistent with our vision of community pharmacy, working closely with other primary healthcare providers to offer patients a greater range of services. In England for example, around £127 million of additional funding will be available from the Government for the provision of essential services. In addition, a further £39 million of new money will be available for advanced services. Work is well advanced to ensure that Moss pharmacies are able to deliver the new services included in these contracts, including the installation of fully equipped consultation areas in the majority of pharmacies. At the year end, 200 pharmacies had private consultation areas, with around a further 400 to be fitted by the end of 2005.

During 2004, advanced EPOS systems were installed in 185 Moss pharmacies with roll out scheduled for completion in mid-2005. This will be closely followed by the installation of new dispensing systems throughout the chain. These branch systems, together with new head office systems, will improve our ability to manage product ranges, enhance margins, and facilitate the delivery of new pharmacy services, as well as enabling pharmacists and staff to spend more time with customers.

In 2004, particular attention was given to driving improved operational effectiveness from field teams and pharmacies. This included more targeted use of field resource and the introduction of new key performance metrics to focus on improving the results of certain underperforming pharmacies. A programme of quarterly mystery shopper visits to all pharmacies was also introduced during the year.

Our current UK market growth forecast for 2005 is around 2.5%, which is lower than in 2004 due to the introduction of the delayed PPRS review.

Picture removed

+11.8%

Our National Health Service prescription income in the UK increased by 11.8% in total.

Graph removed

Picture removed

200

pharmacies in the UK have private consultation areas.

Picture removed

185

Advanced EPOS systems were installed in 185 Moss pharmacies with roll out scheduled for completion in mid-2005.

Retail

Picture removed

150,000

In Norway, membership of our customer loyalty programme has grown to over 150,000 members, representing around 10% of sales. In addition to the typical retail loyalty card benefits, our pharmacies guarantee a speedy prescription service, including SMS (text messaging) when prescriptions are ready.

63

46

Picture removed

+17

In the Netherlands 17 pharmacies were acquired, taking the chain size to 63.

Norway

In Norway, turnover increased by 8.8% to £233.5 million (€344.4 million), up 15.8% on a constant currency basis. Like for like constant currency sales increased by 4.0% compared to a market which we estimate grew by just under 6.5%, the total number of Norwegian pharmacies increasing year on year. Three pharmacies were acquired during the period and three opened. One small uneconomic pharmacy was converted into a shop selling healthcare products and operating a prescription collection service. This brought our pharmacy chain to 114 at 31 December 2004. Operating margins continue to grow as the business benefits from increased scale, both in terms of commercial and cost leverage.

In July, a retail outlet selling specialist surgical products was acquired in Stavanger, together with a home healthcare business to complement our pharmacy offering. A further methadone clinic was established in a pharmacy in Oslo during the year.

Membership of our customer loyalty programme has grown to over 150,000 members, representing around 10% of sales. In addition to the typical retail loyalty card benefits, our pharmacies guarantee a speedy prescription service, including SMS (text messaging) when prescriptions are ready. The management teams of our retail and wholesale businesses were combined in June, recognising that the Norwegian retail market is now highly concentrated into three major chains, each with its own wholesale operation. This change is leading to further operational synergies between the two businesses. Our current market growth forecast for 2005 is around 7%.

The Netherlands

In The Netherlands, turnover increased by 14.7% to £98.1 million (€144.7 million), an increase of 17.3% on a constant currency basis. Like for like constant currency sales reduced by 1.7% mainly due to generic price cuts, changes to the clawback system introduced in March 2004 and some operational difficulties now resolved. This compared to a market which we estimate reduced by just over 0.5%. Like for like prescription volumes increased year on year by over 2%. During the year, 17 pharmacies were acquired, taking the chain size to 63, the acquisition rate increasing following the resolution of regulatory uncertainties that delayed the programme in the second half of 2003. Operating profits and margins were lower for the reasons explained above. Our current market growth forecast for 2005 is around 4%.

Italy

In Italy, turnover increased by 0.9% to £22.7 million (€33.5 million), an increase of 3.4% on a like for like constant currency basis. No pharmacies were acquired during the year, leaving a total of 28 at 31 December 2004, including eight in associate businesses. Operating margins and profit increased year on year.

Through other associate retail businesses, the Group operated 99 pharmacies and six other retail outlets at 31 December 2004, four pharmacies being acquired during the period, four opened and two closed.

Corporate and associates

Picture removed

+25.3%

Total operating profit of associates before amortisation of intangible assets was £46.1 million, a 25.3% increase year on year.

100

20

Picture removed

100%

Ownership in Alloga, one of Europe's leading specialist healthcare logistics and prewholesaling providers, rose from 20% to 100%.

Corporate

Net corporate costs totalled £18.0 million (€26.6 million), a £6.6 million increase on 2003. This increase was primarily due to a strengthening of the corporate office management team to run pan-European business improvement programmes, the results of which are increasingly being shown through improved operational and financial performance. This included the establishment of a central commercial function to provide enhanced services to manufacturers on a pan-European basis and an increase in expenditure on areas such as management development, communications and information technology.

Associates

Associates contributed £46.1 million (€68.0 million) to total operating profit before amortisation of intangible assets, a 25.3% increase year on year.

Hedef Alliance in Turkey contributed £17.9 million (€26.4 million), compared to £20.4 million in 2003. Business operating profits before amortisation of intangible assets reduced by 7.8% on an inflation adjusted basis due to a higher inflation accounting monetary loss adjustment. Inflation at 13.8% was at a similar level to 2003, the monetary loss adjustment increasing due to a higher level of retained earnings in the business. The Turkish Lira depreciated by 4.8% against Sterling over the course of the year which also adversely affected the results in Sterling. Hedef Alliance intends to commence paying dividends in the first half of 2005. During the year 11 warehouses were opened, nine of which were satellite facilities, and two were closed.

Contributions from other associate businesses increased by 72.0% in total to £28.2 million (€41.6 million), the Group accounting for its 29.99% investment in ANZAG as an associate from the beginning of February. Excluding ANZAG and other changes, contributions from other associate investments increased by 20.9% on a constant currency basis.

At the beginning of February 2005, we announced that we are to restructure and extend our relationship with Galenica, our 25.5% owned Swiss associate, to create greater focus on our respective areas of expertise and to simplify trading relationships. As a result, the Group will increase its direct ownership in Alloga, one of Europe's leading specialist healthcare logistics and prewholesaling providers, from 20% to 100%, with the exception of the Swiss part of the business which will be fully acquired by Galenica. Ownership of Alloga will give us an enhanced platform to accelerate the provision of services to healthcare manufacturers across Europe, complementing those already offered by our wholesale business. In addition, we are to sell our 50% direct interest in the GaleniCare Swiss pharmacy chain to our partner, Galenica. This reflects our lessening involvement in GaleniCare's Swiss-based management, as the business has become fully established. The net cash inflow from these transactions will be around £20 million (€29 million). As part of this restructuring, we are to extend our associate agreement with Galenica for a further five years to 2014. This transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April.

Financial review

Accounting policies

The principal accounting policies adopted by the Group are unchanged.

Results for the year

Group turnover was £8,898.4 million (€13,125.1 million), a year on year increase of 1.1% (up 3.0% on a constant currency basis).

Group operating profit before amortisation of intangible assets increased by 8.3% to £245.3 million (€361.8 million), Group operating margins on the same basis increasing by 18 basis points to 2.76%. The share of operating profit in associated undertakings before amortisation of intangible assets grew by 25.3% to £46.1 million (€68.0 million), resulting in total operating profit before amortisation of intangible assets growing by 10.6% to £291.4 million (€429.8 million). Amortisation of intangible assets increased by 14.0% to £15.5 million (€22.9 million). Total operating profit increased by 10.4% to £275.9 million (€407.0 million).

Net exceptional gains totalled £11.7 million (€17.3 million) compared with £nil in 2003. These comprised a profit of £13.6 million (€20.1 million) on the disposal of non-core businesses, principally in UK wholesale, and a provision of £1.9 million (€2.8 million) against the Group's residual US investment in a central dispensing business. Assets disposed of included £17.6 million (€26.0 million) of goodwill, of which £11.1 million was capitalised in intangible fixed assets and of which £6.5 million had been previously written off directly to reserves.

Net interest payable was £39.4 million (€58.1 million), a 26.4% decrease year on year due to lower interest rates and the benefits from the ongoing working capital efficiency programme. Interest cover, calculated before the amortisation of intangible assets and exceptional items, was 7.4 times, compared to 4.9 times in 2003.

Profit on ordinary activities before taxation, amortisation of intangible assets and exceptional items increased by 20.1% to £252.0 million (€371.7 million), and profit on ordinary activities before taxation increased by 26.4% to £248.2 million (€366.1 million).

The Group's effective rate of tax, based on profit before taxation, amortisation of intangible assets and exceptional items was 32.1%, a year on year increase of 0.1 percentage points.

The Directors consider that the effective tax rate on profit before taxation, amortisation of intangible assets and exceptional items is a useful indication of the tax charge on the Group's underlying performance.

The effective tax rate, based on profit before taxation was 32.6%, a year on year decrease of 1.6 percentage points. The reduction primarily reflects the tax exempt profit on the disposal of businesses.

Shareholders' return and dividends

Diluted earnings per share before amortisation of intangible assets and exceptional items increased year on year by 17.0% to 48.2 pence. After amortisation of intangible assets and exceptional items, diluted earnings were 47.1 pence, a year on year increase of 26.3%. The Board is recommending a final dividend of 12.25 pence per share, making a total dividend for the year of 18.50 pence per share. The proposed final dividend is 11.4% higher than the final dividend in 2003, the total dividend for the year being 10.8% higher than the total dividend for 2003. The total dividend is covered 2.6 times by basic earnings per share before amortisation of intangible assets and exceptional items and 2.6 times after amortisation of intangible assets and exceptional items.

Graph removed

Cash flow
for the year ended 31 December 2004

	2004 £million	2003 £million
Operating cash flow	**310.1**	322.3
Interest and dividends	**(72.1)**	(78.2)
Tax	**(49.0)**	(46.2)
Maintenance capital expenditure	**(32.2)**	(24.1)
Free cash flow	**156.8**	173.8
Growth capital expenditure and financial investment	**(118.6)**	(65.5)
***Cash flow before* financing**	**38.2**	108.3
Financing	**(12.1)**	1.3
Translation differences	**(9.9)**	(56.6)
Decrease in net borrowings	**16.2**	53.0

Cash flow and investment

The Group has continued its well established track record of generating free cash flow to fund investment in retail pharmacies, wholesale acquisitions and associates.

Net cash inflow from operating activities at £310.1 million (€457.4 million) benefited from an estimated £39 million inflow from improved trade working capital ratios, building upon the efficiencies achieved in 2003. Working capital net inflow was £28.5 million (€42.0 million).

Cash inflow from lower stocks was £33.3 million (€49.1 million), stock levels reducing year on year by 1.2 days. Cash inflow from debtors was £67.6 million (€99.7 million), underlying trade debtors reducing year on year by 1.4 days. Cash outflow from creditors was £72.4 million (€106.8 million), trade creditors decreasing year on year by 1.1 days, due to variations in the timing of discounts.

Net capital expenditure on tangible fixed assets was £58.9 million (€86.9 million), including £32.2 million (€47.5 million) of gross expenditure on replacement fixed assets.

Total cash paid for the purchase of businesses was £88.7 million (€130.8 million). This expenditure was mainly on the acquisition of retail pharmacies. In addition, £54.0 million (€79.7 million) of cash was spent on associates, the major elements being the purchase of 19% of the equity of ANZAG for a consideration of £41.7 million (€60.5 million) and the cash element of the balance of the consideration for the second 25% shareholding in Hedef Alliance, half being satisfied by the issue of equity.

Shareholders' funds

Shareholders' funds at the year end were £1,071.1 million (€1,513.5 million), a year on year increase of £141.3 million, principally reflecting £102.1 million (€150.6 million) of retained profit and £17.1 million (€25.2 million) of shares issued.

Financial position

At 31 December 2004, net borrowings were £811.0 million (€1,145.9 million), which were £16.2 million lower than at the end of 2003, despite £9.9 million of currency translation losses on borrowings hedging continental European assets.

Treasury policies

The Group's treasury policies seek to ensure that appropriate financial resources are available for the development of the Group, whilst managing interest rate, currency and counterparty risks. The Group treasury department acts as a service centre operating within clearly defined parameters approved by the Board. The Group's policy is not to engage in speculative transactions. During the year the Group completed a major review of its treasury policies, introducing a number of refinements in order to improve the management of risk further.

The Group seeks to maintain levels of interest cover that are commensurate with an implied investment grade debt rating.

Liquidity and funding

The Board's policy is to diversify its sources of funding so as not to be reliant on any one financial market. Currently, the Group finances its borrowings from the bank and private placement markets and it uses the securitisation market to finance part of its trade receivables.

During the year, £140 million of committed borrowing facilities were renewed for a further year. These facilities mature on 27 October 2005, although at the Group's election the term may be extended for a further two years. In addition, the Group replaced £89 million of committed borrowing facilities that mature in 2007 with five year committed borrowing facilities that mature in October 2009 on more favourable terms.

In managing its liquidity requirements, the Group aims to balance certainty of funding with a cost-effective and flexible borrowing structure. In particular, the policy is to have at least 70% of its maximum anticipated net borrowings over a 12 month forward period covered by term loans or committed facilities. Furthermore, forecast undrawn committed borrowing facilities over a three month forward period are targeted to be not less than £100 million.

At the year end, 49% of total borrowings were repayable in more than five years compared to 54% at the end of 2003. Undrawn committed borrowing facilities at the year end totalled £126.6 million (€178.9 million) compared to £173.7 million at the end of 2003.

Interest rate risk management

The Board's policy is to limit the impact of interest rate volatility on earnings. During the year, a new policy was introduced that is designed to reduce risk further at a marginally lower cost over the long term. Previously the Group hedged up to 60% of average projected borrowings over a three-year horizon, with borrowings beyond that period on a floating rate basis. The new policy fixes the interest cost (either directly through fixed coupons or synthetically through the use of interest rate swaps) on that proportion of the Group's average projected net borrowings (plus non-recourse receipts) that will give a minimum 95% statistically significant confidence level that the Group's interest cover will not fall below 4 times projected earnings before interest, tax, depreciation, amortisation of intangible assets and exceptional items over a three year forward period. This is determined using Monte Carlo simulation techniques, taking into account the Group's three year business plans, forward interest rates and implicit volatility derived from options pricing. The simulation model determines the minimum amount of net borrowings (plus non-recourse receipts) that is to be hedged, but this can be increased to protect earnings.

At 31 December 2004, 41% of the Group's net borrowings (plus non-recourse receipts) were hedged, which compared to 48% at the end of the previous year. The lower percentage cover at the end of 2004 reflects the introduction of the new policy, the higher level of interest cover and a low prevailing interest rate environment in particular in relation to Euro to which the Group has most exposure.

Assuming no change to the Group's net borrowings and hedge cover, it is estimated that a rise of 1 percentage point in interest rates would have theoretically reduced 2004 earnings before amortisation of intangible assets and exceptional items by about 3%, before taking into account the impact of mitigating actions.

Financial review

Currency risk management
The Group owns significant businesses and investments in continental Europe, which it partly hedges with borrowings denominated in the same currency, either directly or through the use of cross currency swaps. At 31 December 2004, 87% of the Group's total borrowings (including the impact of currency swaps plus non-recourse receipts) were in Euros.

Approximately 43% of the Group's 2004 earnings before amortisation of intangible assets and exceptional items were in currencies other than Sterling, of which 49% was in Euros. Adjusting these earnings for interest and tax, the Euro proportion increases to 70%.

The Group has a policy of hedging foreign currency denominated transaction exposures, other than those offset by corresponding translation exposures, by entering into forward foreign exchange sale and purchase contracts where such exposures arise.

Counterparty risk
The Group monitors the distribution of its cash assets, borrowings and other financial instruments against predetermined limits so as to limit exposure to any institution.

Pensions
FRS 17 "Retirement Benefits" was adopted early in full in 2003. Under FRS 17, the net pension liability reflected in the year end balance sheet was £36.3 million (€51.3 million) compared to £34.3 million at 31 December 2003. The year end balance comprises deficits of £36.4 million for the UK defined benefit pension scheme and £16.1 million for other European defined benefit pension schemes, partially offset by £16.2 million of deferred tax assets.

The liability for the UK scheme has decreased slightly over the year with returns on pension scheme assets and contributions more than covering the increase in liabilities due to a decrease in the discount rate applied to the liabilities and changes in the actuarial assumptions. The net pension liability of the other European schemes has increased over the year principally due to actuarial losses arising because of decreases in discount rates.

In Norway, many employees participate in an industry-wide multi-employer scheme operated by a government agency. During 2004, for the first time, the agency provided an allocation of the assets and liabilities of the scheme to the participating members. The allocation was based on the proportion of total member contributions to the scheme. The Group's notional share of the surplus at 31 December 2004 calculated using this method was £2.1 million.

The total pension charge against profit before taxation was £13.6 million (€20.1 million) compared to £14.0 million in 2003.

Share price
The Company's share price ranged from a low of 488.0 pence to a high of 758.5 pence during the financial year. On 31 December 2004, the mid market price was 754.5 pence, giving a market capitalisation of approximately £2.7 billion.

Financial reporting and going concern
The Directors have acknowledged their responsibilities in relation to the financial statements in the Directors' responsibilities statement. The Directors are also responsible for the publication of unaudited interim reports of the Group that provide balanced and understandable assessments of the Group's financial position for the first six months of each accounting period.

After making appropriate enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

International Financial Reporting Standards
From 1 January 2005 the Group will report its financial statements in accordance with International Financial Reporting Standards (IFRS), and the Group's transition project to prepare itself for this has continued during 2004. Other than the additional disclosures and presentational differences, IFRS will have the most impact for the Group in the following areas:

Profit
- Share-based compensation
- Goodwill amortisation

Total equity
- Goodwill amortisation
- Deferred taxation
- Proposed final dividend

On pages 85 to 89 we have provided reconciliations from UK GAAP to IFRS of certain financial information for the year ended 31 December 2004. Accompanying the reconciliations are explanations of the principal differences, as well as a description of the exemptions taken by the Group on adoption of IFRS as set out in IFRS 1 "First-time adoption of International Accounting Standards". The financial information below has been prepared on the basis of IFRS expected to be applicable for 2005 reporting. These are subject to ongoing review and endorsement by the European Union (EU), possible amendment by interpretative guidance from the International Accounting Standards Board (IASB) or emerging industry practice and therefore subject to change. A summary of the reconciliations is provided on page 29.

Profit for the financial year ended 31 December 2004	Before amortisation of intangible assets and exceptional items £million	Amortisation of intangible assets £million	Exceptional items(6) £million	Total £million
Profit for the financial year under UK GAAP	**170.9**	**(15.5)**	**11.7**	**167.1**
Adjustments to conform to IFRS				
Share-based compensation(1)	(2.2)	–	–	(2.2)
Goodwill amortisation(2)	–	15.1	–	15.1
Exceptional items:				
– net assets disposed	–	–	(0.9)	(0.9)
– reversal of recycling of goodwill from reserves(3)	–	–	6.5	6.5
Deferred taxation				
– unremitted earnings of associated undertakings(4)	(2.6)	–	–	(2.6)
– other(5)	4.1	–	–	4.1
Other	0.2	–	–	0.2
Profit for the financial year under IFRS	**170.4**	**(0.4)**	**17.3**	**187.3**

Earnings per share	Before amortisation of intangible assets and exceptional items pence	Amortisation of intangible assets pence	Exceptional items(6) pence	Total pence
Earnings per share under UK GAAP				
Basic	**48.7**	**(4.4)**	**3.4**	**47.7**
Diluted	**48.2**	**(4.4)**	**3.3**	**47.1**
Earnings per share under IFRS				
Basic	**48.6**	**(0.1)**	**4.9**	**53.4**
Diluted	**48.0**	**(0.1)**	**4.9**	**52.8**

(1) A charge equivalent to the fair value of share-based compensation awards is recognised under IFRS.

(2) There is no goodwill amortisation under IFRS rather goodwill is tested for impairment annually.

(3) Goodwill previously written off directly to reserves is not recycled to the profit and loss account on subsequent disposal.

(4) Under IFRS deferred taxation on unremitted earnings of associated undertakings is provided where incremental tax would be due regardless of whether there is a commitment to remit the earnings.

(5) Predominantly relates to changes in tax rates and indexation on the deferred taxation adjustments described in the notes to the total equity reconciliation below.

(6) Under IFRS the Group will continue to identify separately items referred to as exceptional items under UK GAAP where such a presentation is relevant to an understanding of the Group's performance.

Total equity at 31 December 2004	£million
Total equity under UK GAAP	**1,081.5**
Adjustments to conform to IFRS	
Goodwill amortisation in 2004	15.1
2004 exceptional items – net assets disposed in 2004	(0.9)
Deferred taxation:	
– unremitted earnings of associated undertakings	(7.4)
– pharmacy licence acquisitions prior to 1 January 2004(1)	(64.7)
– rolled over capital gains(2)	(13.4)
– other	(3.2)
Proposed 2004 final dividend(3)	43.5
Other	0.3
Total equity under IFRS	**1,050.8**

(1) A deferred taxation liability arises on the acquisition of retail pharmacy licences when the acquisition is through the purchase of shares, since a temporary difference arises between the book value ascribed to the licence and the tax base cost. Under UK GAAP deferred taxation is provided on timing differences, and initial recognition of pharmacy licences as a fair value adjustment does not create a timing difference. A consequence of the Group's decision to take up the option not to restate prior business combinations before the IFRS opening balance sheet date (1 January 2004) is that this deferred taxation liability is adjusted through retained earnings rather than as an adjustment to capitalised goodwill. The taxation will not be payable as long as the licences are not sold. The reduction in total equity is a one off effect on IFRS transition and going forward the deferred taxation liability will be an adjustment to capitalised goodwill.

(2) Deferred taxation on rolled over capital gains must be provided in full under IFRS. Under UK GAAP provision is not necessary when there is no commitment to dispose of the asset.

(3) Under IFRS, dividends are not provided for until the dividend recommended by the Board is approved by shareholders, and so the proposed 2004 final dividend recorded under UK GAAP is reversed.

Board of Directors

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01 Jeff Harris
Chairman, 56
Was appointed to the Board in 1986, becoming Chairman in September 2001. Jeff retired as a full-time executive in April 2003, continuing as Chairman in a non-executive capacity. He was previously Chief Executive, Deputy Chief Executive, Finance Director and Chief Accountant, having joined the Group in 1985. Jeff is a Chartered Accountant and a non-executive Director of Andreae-Noris Zahn (ANZAG), an associate company, Associated British Foods and Bunzl. He will step down as Chairman and retire from the Board at the conclusion of the Annual General Meeting in April 2005.

02 Ian Meakins
Chief Executive, 48
Was appointed to the Board in December 2004. Previously, Ian was President, European Major Markets and Global Supply of Diageo, having held a number of senior marketing and operational positions with Diageo since joining United Distillers in 1991. Prior to joining Diageo, Ian was a founding partner of the strategic management consultancy, The Kalchas Group, having previously worked at Bain & Company and Procter and Gamble. He is also a non-executive Director of mmo2.

03 Stefano Pessina
Executive Deputy Chairman, 63
Was appointed to the Board in 1997, when the Alliance Santé group became part of the Group. Stefano returned to his current role in December 2004 with responsibility for strategic development, including acquisitions, having been Chief Executive since September 2001. The Alliance Santé group had pharmaceutical wholesaling interests in a number of European countries, having been established in Italy by Stefano in 1977. Before this, Stefano held a number of academic posts and worked as an independent business consultant. Stefano is an engineer by profession and a non-executive Director of Galenica, an associate company.

04 George Fairweather
Group Finance Director, 47
Was appointed to the Board upon joining the Group in April 2002. Before this, George held similar positions with Elementis and Dawson International, having previously worked for Dixons Group, Procter and Gamble and Thomson McLintock. George is a member of the Institute of Chartered Accountants of Scotland and a non-executive Director of Mitchells & Butlers.

05 Ornella Barra
Group Services Director, 51
Was appointed to the Board in 1997, when the Alliance Santé group became part of the Group. Ornella was appointed to her current role in September 2003, having been Director, Wholesale – Southern Europe. Ornella was previously the President of a pharmaceutical distribution company founded by her in 1984. She is a pharmacist.

06 Per Utnegaard
Wholesale Director, 45
Was appointed to the Board upon joining the Group in September 2003. Before this, Per was Director General of Swiss Federal Railways Cargo, having previously held various senior management roles within Danzas – Deutsche Post and the TNT Group. He is also a non-executive Director of the Davis Service Group.

07 Steve Duncan
Retail Director, 54
Was appointed to the Board in January 2003 having had overall responsibility for the retail division since September 2001. Steve was appointed Managing Director of Moss in 2000, having been a Director since 1991. Steve joined Moss in 1974 and is a pharmacist and a member of the Royal Pharmaceutical Society of Great Britain.

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08 The Right Hon. Ken Clarke
Deputy Chairman and independent senior non-executive Director, 64
Was appointed to the Board in 1997 as Chairman, a position he held until September 2001. Ken is a Queen's Counsel and Member of Parliament and has served in the UK Government as Chancellor of the Exchequer and Health Secretary. Ken is Chairman of Savoy Asset Management, Deputy Chairman of British American Tobacco and a non-executive Director of Foreign & Colonial Investment Trust and Independent News and Media (UK).

09 Neil Cross
Independent non-executive Director, 59
Was appointed to the Board in 1997. Neil is Chairman of Close Technology and General VCT, a non-executive Director of Dawson Holdings, Taylor Nelson Sofres, The Bayard Fund and British Maritime Technology and is Vice President of The Royal Society for the Encouragement of Arts, Manufactures and Commerce. Neil was previously an executive Director of 3i Group and is a Chartered Secretary.

10 Adrian Loader
Independent non-executive Director, 56
Was appointed to the Board in September 2003. Adrian is Director of Strategic Planning, Sustainable Development and External Affairs at Shell International, having previously held senior management positions with the Royal Dutch/Shell Group of Companies, in South America, Asia Pacific and in Central and Eastern Europe. Adrian is a Fellow of the Chartered Institute of Personnel and Development.

11 Patrick Ponsolle
Independent non-executive Director, 60
Was appointed to the Board in 1997. Patrick is Vice Chairman of Morgan Stanley International and Chairman of Morgan Stanley France. Before this, Patrick was executive Chairman of Eurotunnel.

12 Paolo Scaroni
Independent non-executive Director, 58
Was appointed to the Board in 2002. Paolo is Chief Executive of Enel and a member of the board of the Business School at Columbia University in New York and member of the supervisory board of ABN AMRO Bank N.V. Before this, Paolo was Chief Executive of Pilkington. Paolo has worked as a consultant and in industry since 1973. He will succeed Jeff Harris as Chairman at the conclusion of the Annual General Meeting in April 2005.

13 Manfred Stach
Independent non-executive Director, 62
Was appointed to the Board in December 2003. Manfred is President of Unilever Bestfoods Europe, having previously held a number of senior executive positions within Unilever in Europe, North America and Africa.

14 Etienne Jornod
Non-executive Director, 52
Was appointed to the Board in 2000. Etienne is Chairman and Chief Executive of Galenica, an associate company. Etienne is non-executive Chairman of BG Ingénieurs conseils.

Corporate and social responsibility

Alliance UniChem is committed to improving the wellbeing of the communities that we serve. In order to achieve this fully, the development, application and review of the Group's policies and initiatives with respect to corporate and social responsibility are core to our business activities.

Ornella Barra has direct responsibility for this area at Board level in her role as Group Services Director. Ornella has within her portfolio of management responsibilities, a number of functions that are directly accountable as a central part of our structured programme for corporate and social responsibility.

We appreciate that customer requirements, employee needs, the social and community conditions in which we operate, as well as the regulatory demands we face, vary greatly across Europe. It is for this reason that we have a commitment to all our stakeholders to match our activities with the needs of the local market, whilst directly observing and applying common principles. Our core ethical values of partnership, service, excellence and innovation underpin these principles and form the base from which we are able to deliver the high quality services that we offer our customers.

Ethical trading

We strive to ensure transparent and ethical trading in all activities. This not only reflects our moral responsibility, but is also essential for the future success of our Group.

We operate within rigid moral and ethical parameters in retail pharmacy as determined by the relevant professional and regulatory bodies. These parameters set out that we must provide the best level of patient care and ensure we always act in the patient's best interests. This is a core principle of our retail businesses.

The Group has a significant number of qualified pharmacists employed at every level of management who are bound by these professional standards. We are able to assess our business operations against them. We promote the reporting of dispensing errors in order to learn from these and enhance our systems accordingly. "Mystery shopper" surveys are regularly carried out in our pharmacies to monitor the quality of customer service and advice.

We strive to be transparent with customers within our wholesale businesses and this is the basis of our commercial relationships. We adhere to "Customer Charter" documents that set out the levels of service and professional standards that are expected of us in a number of markets.

Non-resale products and services are sourced under the coordination of our procurement function, which operates a strict ethical code using industry best practice to ensure fairness and transparency with our suppliers whilst achieving best commercial terms.

Product testing

The Group operates a policy under which we ourselves do not participate in product animal testing. No testing is undertaken on our behalf and none of our non-prescription own brand products are tested on animals. However, it is acknowledged that suppliers of our exclusive generic pharmaceutical products may have been compelled to undertake testing to obtain original product licences, and that many of the formulations will have been licensed by the initial developer using animal testing in pursuit of their application for a licence.

As far as possible, we extend our policy of not using products tested on animals to suppliers of raw materials that are used in the production of our own brand products. We are, however, unable to guarantee that all raw material suppliers do not use, or have not in the past used, animal testing. When selecting suppliers of own brand product, we review their policy on animal testing as a factor in the selection process and in doing so we are moving toward a position where we aim to be able to provide a commitment in future that none of the raw materials used in the preparation of own brand products have been tested on animals.

We therefore recognise, as a wholesaler of pharmaceutical products and operator of pharmacies, that many products we stock will have been tested on animals as part of their product licensing procedures. As a Group, we have an obligation on professional and legislative grounds to ensure the provision of licensed medicines to patients. We must therefore stock and supply all required licensed pharmaceutical products. If we have a choice of products to be used, we consider the methods of testing before deciding on which products to stock and acknowledge that we have an ethical and legal obligation to do so only as a secondary factor to patient wellbeing.

Our core ethical values

Partnership
Service
Excellence
Innovation

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We operate a policy under which we ourselves do not participate in product animal testing. No testing is undertaken on our behalf and none of our non-prescription own brand products are tested on animals.

Health and safety

The Group conducts its business with the highest concern for the health and safety of its employees, contractors, customers, neighbours and the general public.

In 2003, the Board approved a new policy aimed at promoting health and safety best practice across the Group. An internal team, led by Group Human Resources, began working with external advisors on a Group wide benchmarking exercise to improve the measurement of performance in this area. During 2004, the Group measured performance across our businesses against almost 20 different standards identified during the benchmarking review. All businesses are required to report on compliance with the new standards which cover a range of issues including fire and electrical safety and first aid. Furthermore, they must also report on a number of key health and safety performance indicators, most of which relate to accidents in the workplace.

The Group's accident frequency rate (number of reportable accidents per 100,000 hours worked) was 1.46 in 2004, compared to 1.42 in 2003. When looking specifically at three day lost time accidents, the accident frequency rate was 1.12, compared to 1.13 in 2003. In all cases, we work closely with relevant health and safety authorities to address any issues that are identified.

Environment

The Group regards the care of the environment as a natural part of running a responsible and successful business. It conducts its business activities in a way that reduces, as much as is reasonably possible, its direct and indirect impact on the environment, whilst at the same time promoting practices that protect the environment and support sustainable development.

During 2004, an internal team led by Group Human Resources undertook, with the help of external consultants, an environmental benchmarking review of our activities. Following this review, a new environmental policy for the Group was drafted. This policy was approved by the Board in February 2005 and is currently being applied across all businesses.

The Group's environmental policy identifies the following key priorities:

- Ensuring the appropriate use of resources and materials
- Minimising waste and encouraging reuse and recycling
- Ensuring the safe handling and disposal of pharmaceutical products
- Implementing environmental management systems
- Communicating our commitment to the environment across the Group

The Group's environmental policy requires that each business identifies the environmental issues most relevant to its business activity and sets objectives in terms of the standards it expects its employees to meet. Each business will monitor and measure its performance against these environmental objectives.

Corporate and social responsibility

Resources
A priority for the Group is to ensure the appropriate use of resources and materials. Limiting energy consumption is a key component of this. As we work towards improving the efficiency of our wholesale depots through our best practice programme, we are not only improving productivity and reducing costs, but we are also extracting environmental benefits.

Our efforts to optimise our transport operations, in the form of van route optimisation systems, are enabling us to lower fuel consumption. In the UK, our van fleets are run predominantly on diesel fuel and are routinely replaced by increasingly fuel-efficient models.

Waste management
Across the Group we operate programmes, where commercially viable, to ensure the responsible disposal of packaging, including the reuse and recycling of packaging materials. Where possible, we use licensed contractors for the safe disposal of non-recyclable waste packaging.

We operate programmes to collect and dispose of unwanted pharmaceuticals safely. It is essential to dispose safely of out of date products or partly used products where safety seals have been broken. We have processes in place that ensure controlled and licensed neutralisation and disposal of this kind of product, in line with government regulation. We also work, where possible, with regulators and the pharmaceutical industry to recycle suitable pharmaceutical products for charitable use.

"We also work, where possible, with regulators and the pharmaceutical industry to recycle suitable pharmaceutical products for charitable use."

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Our two UK businesses have been awarded the prestigious 'Investors in People' accreditation which demonstrates our commitment to providing training and development opportunities for our employees.

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During 2004, UniChem was commended for its recycling efforts by Severnside, the UK's largest recycling services provider. UniChem employee, Keith Burrows, was presented with the coveted Manager's Award for his work in broadening UniChem's recycling policy.

Environmental management systems
Increasing management focus on the environment is helping to ensure that environmental considerations are included in everyday decision making. Processes have been put in place, for example, to ensure that the environmental impact of any new facilities or installations is considered at the design stage.
By beginning to measure, manage and report on key aspects of environmental performance, we are establishing a framework by which we can implement our environmental policy across the Group. Each operating business must now report key performance indicators for environmental management, with a focus on waste reduction and energy usage.

Communication
We have dedicated resources across the Group committed to disseminating our new environmental policy and to overseeing the implementation of and compliance with new environmental objectives. Through their efforts, as well as through Group-wide and local newsletters, new policy manuals and the education of line managers, we are developing our focus on key environmental practices.

Employees
The Group operates a strict policy against discrimination on the grounds of sex, age, religion, nationality, marital status, disability or sexual preference and promotes diversity throughout our workforce.

We continuously strive to reflect the diversity of the markets and communities in which we operate. Our employees work on a European scale, and whether this results in a career within or beyond national borders, we implement programmes to support individual development in line with our requirements. We seek to recruit, develop and promote employees to enable them to achieve their full potential.

We value the experience of our employees and aim to provide training, development and secondment opportunities to help them meet or exceed individual objectives. Our commitment to training has led us to develop a continuing professional training programme for our pharmacists which exceeds the requirements of their professional bodies, and helps us achieve considerably above average recruitment and retention levels for qualified employees. During 2004, we instigated a management development programme for our 80 most senior managers at the INSEAD business school in France.

The Group was an early adopter of the European Directives on Works Councils and for some time has been successfully operating a European workers' council.

We aim to be recognised as a professional organisation which values employees highly and provides them with a work environment within which they can continuously enhance their skills and abilities and develop excellent long-term careers. We want to be an employer that people aspire to work for.

Community

Our business is the provision of community healthcare, either as a primary provider through our retail pharmacies or as a secondary provider working with independent pharmacist customers. The fostering of community wellbeing and the promotion of healthcare initiatives are both a commercial necessity and a core corporate responsibility. We work closely with local healthcare providers to advise and inform the communities we serve.

We operate initiatives to promote community wellbeing at a local and national level in each country in which we operate, often in partnership with local or national authorities, local healthcare teams or charitable organisations. We support local community charitable projects and aim to establish a more structured approach towards our centralised charitable activities. We therefore ensure that our charitable activities are focused in areas or with organisations where we can offer not only a source of funding, but also the benefit of our employees' skills and experience.

Community engagement

In keeping with our mission to further enhance ways to serve the communities in which we operate, the Group is piloting a Community Engagement scheme at Moss Pharmacy. Implemented in July 2003 and overseen by a specially appointed manager at Moss Pharmacy, the scheme aims to move away from traditional cheque book generosity to a more proactive and meaningful relationship with local charities and causes. The scheme is being evaluated at Group level and, should it prove successful, will be rolled-out across the Group.

During 2004, Moss Pharmacy moved away from its single "Charity of the Year" approach to enter into long-term relationships with ten health related charities, one of which will be awarded "Charity of the Year" status each year. The long-term nature of the relationships gives each partner time to learn how best they can work together beyond basic fundraising activities. Examples of the practical ways in which these charities have been supported include the donation of redundant PC equipment to disabled individuals through the Leonard Cheshire Workability Programme, so as to improve their independence and employment prospects, and the recycling of mobile telephones and printer toner for the Arthritis Research Campaign. In September 2004, Moss Pharmacy held its first mobile blood donor service, introducing many new or lapsed donors. Two further sessions are planned for 2005. Moss Pharmacy was also invited to support a Home Office initiative on domestic violence following the launch of a new domestic violence helpline. All Moss pharmacies have been supplied with booklets and a poster on the initiative promoting the helpline number.

Our people drive our policy

Our people are our assets and we are proud of the fact that not only do we strive as a Group to maximise our service to the community, but as individuals too. There are many occasions on which our staff have gone above and beyond what would be considered their normal terms of duty for the communities they serve.

Going the extra mile for the communities we serve

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The Chessington UniChem driver who delivered, within 40 minutes of receiving the request from the Royal Marsden Hospital, a life-saving supply of Triclofos for a child undergoing surgery and already in theatre.

Picture removed

The Newcastle pharmacist who instigated, outside of working hours, a needle replacement service for drug addicts in Newcastle, a project so successful, it is now receiving regular funding.

Picture removed

The Netherlands pharmacist who prepared IV medicines to be delivered and administered (by him and his team of pharmacists) to a terminally ill seven year old little girl over the Christmas period, enabling the child to spend her last Christmas at home with her family.

Report of the Directors

The Directors submit their Report and audited financial statements for the year ended 31 December 2004. For the purposes of this report, "Company" means Alliance UniChem Plc and "Group" means the Company and its subsidiary and associated undertakings.

Principal activity, business review and development
The Company is the holding company for the Group. The principal activity of the Group is to operate as wholesalers and retailers of pharmaceutical, medical and healthcare products within Europe.

The Chairman's statement, Operating review and Financial review contain details of the development of the business of the Group during the year, the position at the end of the year, events since the end of the year and likely future developments.

The Group carries out research and development to support existing activities and to ensure the adoption of best practice in business processes used throughout the Group.

Annual General Meeting
The fifteenth Annual General Meeting ("AGM") will be held in the Company's office at 2 The Heights, Brooklands, Weybridge, Surrey KT13 0NY on Friday 22 April 2005, starting at 2:00 pm.

The notice convening the meeting is given in a separate document accompanying this Annual Report and includes a commentary on the business of the AGM, notes to help shareholders exercise their rights at the meeting and details of the venue.

Results and dividend
The Group profit for the year attributable to shareholders amounted to £167.1 million (2003 £128.5 million). An interim dividend of 6.25 pence per share was paid on 11 October 2004 to shareholders registered at the close of business on 6 August 2004, and the Directors are recommending the payment of a final dividend of 12.25 pence per share, making a total dividend in respect of the financial year of 18.50 pence per share.

If approved by shareholders at the AGM, the final dividend will be paid on 10 May 2005 with an ex-dividend date of 2 March 2005 to shareholders on the register at the close of business on 4 March 2005. Shareholders will be able to elect to receive additional shares in lieu of the final dividend through the Company's scrip dividend offer. Further details of this offer are given in a separate document accompanying this Annual Report.

Directors
The Directors of the Company are Jeff Harris (Chairman), Ian Meakins (Chief Executive), Stefano Pessina (Executive Deputy Chairman), George Fairweather, Ornella Barra, Per Utnegaard, Steve Duncan, Ken Clarke (Deputy Chairman), Neil Cross, Adrian Loader, Patrick Ponsolle, Paolo Scaroni, Manfred Stach and Etienne Jornod. Biographical details of the Directors are shown on pages 30 and 31.

Claude Berretti retired as a Director on 22 April 2004 and Geoff Cooper resigned as a Director on 29 July 2004. Ian Meakins was appointed a Director on 1 December 2004. As Ian Meakins was appointed after the last AGM held in April 2004, he will seek election as a Director at the 2005 AGM. Stefano Pessina, Steve Duncan, Neil Cross and Paolo Scaroni will retire as Directors by rotation at the AGM and will seek re-election at the meeting. Neil Cross, who was appointed to the Board in February 1997 and will have completed nine years' service in February 2006, will seek re-election until the conclusion of the 2006 AGM. Jeff Harris will step down as Chairman of the Company and retire from the Board at the conclusion of the 2005 AGM. Paolo Scaroni, who was appointed as an independent non-executive Director of the Company on 10 December 2002, will replace him as Chairman.

Details of Directors' service contracts and a statement of their interests in the share capital of the Company are set out in the Board report on remuneration.

Auditors
A resolution to re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the Directors to fix their remuneration will be proposed at the AGM.

Charitable and political donations
Charitable donations of £248,000 were made during 2004, of which £186,000 were in the UK. The UK donations include £150,000 made to the Disaster Emergency Committee as a specific response to the Tsunami earthquake disaster. The Group has no affiliation to any political party or group in any country and makes no political donations.

Share capital
At 31 December 2004, there were 358,189,373 ordinary shares in issue held by 8,685 shareholders on the register.

Details of shares allotted during the year are given in note 23 to the financial statements.

Two trusts exist in connection with the discretionary 1997 Share Option Scheme, the long-term incentive plan and long-term incentive plan for Ian Meakins, to facilitate the holding of shares in the Company by employees and the executive Directors.

The 1992 Employee Trust did not acquire any shares in the Company during the year and held 2,788,366 shares in the Company on 31 December 2004 which it also held on 21 February 2005. Under the terms of this trust, the dividend receivable on shares held is 0.001 pence per share.

The Alliance UniChem Employee Share Trust was established on 1 December 2004. It acquired 119,946 shares in the Company from the 1992 Employee Trust on 17 December 2004, which it also held on 31 December 2004 and 21 February 2005. These shares relate to the grant of an option to Ian Meakins, details of which are given in the Board report on remuneration.

As at 21 February 2005 the Company has been notified of the following major interests in its issued ordinary share capital, disclosed to it in accordance with Sections 198 to 208 of the Companies Act 1985:

	Number of shares	Percentage of present issued ordinary share capital
Stefano Pessina	107,446,101	30.0%

107,350,000 shares of the interest of Stefano Pessina are held by Alliance Santé Participation S.A.. Stefano Pessina indirectly wholly owns Alliance Santé Participation S.A., registered in Luxembourg, and the directors include Stefano Pessina and Ornella Barra.

Directors' responsibilities statement
This statement, which should be read in conjunction with the independent auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by United Kingdom legislation to prepare financial statements for each financial year that 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 for the financial year then ended.

In preparing these 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 United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose, with reasonable accuracy, at any time, the financial position of the Company and which enables them to ensure that the financial statements comply with United Kingdom legislation.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are also responsible for:

- safeguarding the assets of the Company and the Group;
- taking reasonable steps for the prevention and detection of fraud and other irregularities; and
- ensuring the maintenance and integrity of the Company's corporate website.

Employment policies, communication and involvement
The Group's employment policies are designed to ensure that it can attract the highest calibre of employee and to provide equal opportunity in the selection and advancement of a diverse workforce of employees regardless of race, creed, colour, nationality, gender, age, marital status, sexual preference or disability.

Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the Group's business. If any employee becomes disabled, the objective is the continued provision of suitable employment either in the same or an alternative position with appropriate training if necessary.

Communication with employees takes place through regular staff briefings. A works council exists to brief and consult with elected employee representatives on pan-European issues. Subject to practical and commercial considerations, employees are consulted and involved in decisions that affect their employment or future prospects.

The Group operates a number of share option and bonus schemes to encourage employees to contribute effectively to the creation of long-term shareholder value for the Company's shareholders.

Creditors and supplier payment policy
The Group applies a policy of abiding by the payment terms negotiated with each of its suppliers, whenever it is satisfied that the invoiced goods or services have been ordered and have been supplied in accordance with agreed terms and conditions. The Company is a holding company and has no trade creditors.

Approved by and signed on behalf of the Board of Directors

Marco Pagni
Company Secretary
24 February 2005

Board report on corporate governance

The Board is committed to meeting the standards of good corporate governance set out in the Combined Code on corporate governance published by the Financial Reporting Council in July 2003 (the "Code"), which replaced the previous code for financial periods beginning on or after 1 November 2003. This report, together with the audit committee report on pages 42 and 43 and the Board report on remuneration on pages 44 to 54, describes how the Board applied the Code during the year under review.

The Board
The Board currently comprises the Chairman, six executive Directors and seven non-executive Directors. The names of the Directors together with their biographical details are set out on pages 30 and 31. As part of the Company's management succession programme, Ian Meakins was appointed Chief Executive of the Group in place of Stefano Pessina, who returned to his previous role as executive Deputy Chairman. Both changes were effective from 1 December 2004. Geoff Cooper, Deputy Chief Executive, resigned from the Board on 29 July 2004 when the decision to appoint Ian Meakins was finalised, and he left the Company at the end of the year. The roles of the Chairman, Chief Executive and Executive Deputy Chairman have been set out in writing and approved by the Board. The executive Directors' service contracts and the letters setting out the terms of appointment of the non-executive Directors are available for inspection by any person at the Company's registered office during normal business hours and at the AGM.

Chairman
Jeff Harris, who is responsible for the operation of the Board, was appointed Chairman in September 2001. In April 2003 he retired as a full time executive continuing as Chairman in a non-executive capacity. He was appointed to the Board in 1986 and held the position of Chief Executive from 1992 to 2001. The Directors are of the opinion that his extensive industry and business specific knowledge and experience, gained during 17 years as an executive director, have been extremely beneficial to the Board and that his Chairmanship provided valuable continuity to develop the business in the best interests of shareholders and customers. Jeff Harris will step down as Chairman of the Company and retire from the Board at the conclusion of the 2005 AGM. Paolo Scaroni, who was appointed to the Board as an independent non-executive Director on 10 December 2002, will replace him as Chairman of the Company with effect from the same date.

Chief Executive
Ian Meakins is responsible for leading the Group's businesses and managing the Group on a day-to-day basis within the authorities delegated by the Board.

Executive Deputy Chairman
Stefano Pessina, in addition to his role as executive Deputy Chairman, has operational responsibility for strategic development, including acquisitions.

Operation of the Board
The Board met eight times in 2004, including a meeting at the headquarters of the Group's Swiss associate, Galenica, in Berne and a meeting at Moss Pharmacy's headquarters in the UK. In addition, the Board held a strategy meeting in June. The Board is scheduled to meet eight times in 2005, with additional meetings held as required. The attendance record for Board and Committee meetings, including the AGM, is set out on page 41.

The Board has adopted principles of good boardroom practice. These principles ensure that the Directors can perform their role effectively and are given the means and information necessary for them to make informed decisions. The principles include details of:

- the legal responsibilities of Directors;
- the role and appointment of non-executive Directors;
- the procedure by which Directors are given and can obtain information, training and independent advice;
- the procedure for the provision of notices, agendas, papers and minutes for meetings of the Board and Board committees; and
- how meetings of the Board and Board committees are conducted.

The Board is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. There is a schedule of matters reserved for approval by the Board, which ensures that it takes all major strategy, policy and investment decisions affecting the Group. This schedule is reviewed annually and includes specific matters under the categories of legal, stock exchange, strategic management control, risk management, Board membership, Board committees, capital and revenue commitments, financing, advisers and employees. At each scheduled meeting, the Board receives a report on current trading and major business issues and annually approves a three year forward plan and a budget for the following financial year. The Board monitors the Group's overall system of internal controls, governance and compliance and has approved formal delegated powers giving the executive committee day-to-day management of the Group.

Director's and officers insurance
The Company maintains an appropriate level of Directors' and officers' insurance in respect of legal action against Directors.

Board balance and independence
The Board has reviewed the independence of all the non-executive Directors and determined that of the eight non-executive Directors, six are independent. Two are considered to be non independent:

- the Chairman, Jeff Harris, who will be stepping down as Chairman of the Company and retiring from the Board at the conclusion of the 2005 AGM, has previously been an executive Director of the Company; and
- Etienne Jornod is Chairman and Managing Director of Galenica, an associate company. Galenica is entitled, as long as the associate agreement exists between it and the Company, to designate one Director for appointment to the Board of the Company, subject to the approval of the Company's shareholders.

Throughout the year, the Company has not complied with the Code requirement that at least half of the Board, excluding the Chairman, should comprise non-executive Directors determined by the Board to be independent. However, there is a broad pool of independent non-executive Directors who can serve on committees, such that undue reliance is not placed on particular individuals. It is considered that the Board has the balance of skills and experience appropriate for the requirements of the business and that no individual or group of individuals dominates the Board's decision making.

The senior independent non-executive Director is Ken Clarke. The role's terms of reference provide that he is available to shareholders if they have a concern which would make contact through the normal channels of Chairman or Chief Executive inappropriate, or which have not been resolved by such contact. The senior independent non-executive Director periodically holds meetings with the other non-executive Directors without the executive Directors present.

A procedure is in place for Directors, if they wish, to receive independent professional advice in respect of their duties. They also have access to the advice and services of the Company Secretary who is charged with ensuring that Board procedures are followed and that good corporate governance and compliance is implemented throughout the Group. The Company Secretary attends all meetings of the Board and Board committees. The appointment and removal of the Company Secretary is a matter reserved for the Board. The Board and its committees are supplied with full and timely information which enables them to discharge their responsibilities. In addition to the papers circulated to the Board in advance of Board and Committee meetings, reports are sent to the Directors in months when the Board is not scheduled to meet. The Company Secretary ensures good information flows within the Board and its Committees and between the non-executive Directors and management. New Directors receive appropriate induction training on joining the Board, including site visits and meetings with senior management.

Performance evaluation

During the year, the Board formally evaluated its own performance and that of the Board Committees, which included a "follow up" of matters raised in the evaluation carried out by an independent firm of management consultants a year ago. This process was in the form of a questionnaire, supplemented by one to one meetings between the Chairman and each of the Directors, where individual performance was discussed. It is the intention of the Board to undertake further reviews by an independent firm at least every three years. The non-executive Directors met separately to discuss the performance of the Chairman. Issues arising from the self assessment evaluation were presented to the Board by the Chairman with an action plan to ensure continuous improvement in the operation of the Board and its committees. The evaluation of the personal performance of the executive Directors was based on a 360-degree appraisal process.

Re-election of Directors

All Directors are required to be elected by shareholders at the AGM following their appointment by the Board and then re-elected at least once every three years. In accordance with the Articles of Association of the Company, one third of the Directors (excluding new appointments) must stand for re-election at each AGM. Non-executive Directors are normally appointed for an initial term of three years which is then renewed and extended for not more than two further three year terms. Prior to recommending the re-election of non-executive Directors to the Board, the nomination committee reviews their effectiveness. The review process in 2004 concluded that all Directors continue to contribute effectively and with proper commitment, devoting adequate time to carry out their duties. The notice of this year's AGM confirms that the performance of the Directors being proposed for re-appointment continues to be effective.

The Code requires that the performance and the commitment of any Director being proposed for re-election for a term beyond six years should be subject to a particularly rigorous review. Such a review was conducted for Neil Cross who is being proposed for re-election at the AGM to be held on 22 April 2005.

There is a policy that non-executive Directors will not normally be invited to stand for re-election after serving nine years on the Board. Neil Cross who was appointed to the Board in 1997 will, subject to re-election at the 2005 AGM, retire from the Board at the conclusion of the 2006 AGM. The other Directors coming up for re-election at the 2005 AGM are Stefano Pessina, Steve Duncan and Paolo Scaroni. Ian Meakins, who was appointed to the Board since the last AGM, will retire from the Board at the 2005 AGM and, being eligible, will offer himself for election.

Board committees

The Board has established four committees, the nomination, remuneration, audit and executive committees. Each committee has terms of reference, agreed by both the committee and the Board, which were reviewed during the year, and are published on the corporate website at www.alliance-unichem.com. Regular reports of committee business and activities are given to the Board.

Nomination committee

The nomination committee consists of four independent non-executive Directors, Ken Clarke (Committee Chairman), Neil Cross, Patrick Ponsolle and Paolo Scaroni, and three other Directors, Jeff Harris, Ian Meakins and Stefano Pessina. Ian Meakins and Paolo Scaroni were appointed to the committee in December 2004. The majority of the members of the committee are independent non-executive Directors as required by the Code. The Committee met twice in 2004, the attendance record of members being shown in the table on page 41.

The duties of the nomination committee are to:

- regularly review the structure, size and composition of the Board;
- regularly review the skills, knowledge and experience of the Board and make recommendations to the Board with regard to any adjustments that are considered necessary;
- ensure succession plans are in existence for Directors; and
- keep under review the leadership needs of the Group.

Ian Meakins' appointment to the Board was made in accordance with the Code principles. A search was conducted by an executive search firm specialising in Board level appointments to identify external candidates on a national and international basis to be considered alongside internal candidates. A shortlist of candidates was interviewed by each member of the nomination committee as well as by other non-executive Directors, prior to the committee recommending the appointment of Ian Meakins as Chief Executive.

As part of the ongoing review of succession, the committee has instructed external consultants to identify candidates for a number of positions as independent non-executive Directors. This process will involve an evaluation of the skills and experience required, including the need for at least one new independent non-executive Director to have recent and relevant financial experience. The committee will also consider whether candidates have sufficient time to fulfil the roles.

The committee and the Board also recognise that the Code requires the Chairman of the Board to be an independent non-executive Director. As stated above, Jeff Harris will step down as Chairman of the Company and retire from the Board at the conclusion of the 2005 AGM. Paolo Scaroni, who was appointed to the Board as an independent non-executive Director on 10 December 2002, will replace him as Chairman of the Board with effect from the same date. Paolo Scaroni was seen as a potential candidate for the position of Chairman of the Company when he was first appointed to the Board.

Board report on corporate governance

Remuneration committee
The remuneration committee consists of four independent non-executive Directors, Ken Clarke (Committee Chairman), Neil Cross, Adrian Loader, and Patrick Ponsolle. The Chairman, the Chief Executive and the Executive Deputy Chairman are invited to attend meetings as appropriate but are not present when their own remuneration is discussed. The committee met four times in 2004, the attendance record of members being shown in the table on page 41. The role of the committee and details of how it applied the principles of the Code and the Directors Remuneration Report Regulations 2002 are set out in the Board report on remuneration on pages 44 to 54.

Audit committee
The audit committee consists of five independent non-executive Directors, Neil Cross (Committee Chairman), Adrian Loader, Patrick Ponsolle, Paolo Scaroni and Manfred Stach. The role of the Committee and details of how it carried out its duties are set out in the audit committee report on pages 42 and 43.

Executive committee
The executive committee consists of the executive Directors and is chaired by Ian Meakins. The executive committee met 12 times in 2004.

The duties of the executive committee are to:

- oversee the operation of the Group;
- implement decisions of the Board;
- attend to all matters not reserved for approval by the Board or delegated by the Board to other Board committees; and
- attend to all matters delegated to it.

Relations with shareholders
The Company organises a programme of formal and informal events, investor meetings, and presentations which take place throughout the year. This programme is led by the Chief Executive and the Finance Director and involves other members of the executive committee and the Director of Investor Relations. Meetings are held with institutional investors and analysts to discuss information made public by the Group and any questions that may arise. The Company ensures that no price-sensitive information is disclosed in these meetings. To ensure the Board is effectively informed of shareholders' views, the Company's brokers and the Director of Investor Relations monitor those views and provide regular feedback to the Board.

The non-executive Directors are offered the opportunity to attend meetings with major shareholders and shareholder events. They also make themselves available to investors upon request. In addition to the programme described above, the Company's website provides financial and other information about the Group. Preliminary and interim results, as well as all announcements to the London Stock Exchange are published on the Company's corporate website.

All shareholders have the opportunity to attend the Company's AGM and to question the Directors on any issue relating to the Company. The Chairmen of the nomination, remuneration and audit committees are also present at the meeting to answer questions.

In accordance with best practice:

- the notice of the AGM is circulated to all shareholders at least 20 working days before the AGM;
- the proxy votes for and against each resolution, as well as abstentions, are made available at the meeting after shareholders have voted on each resolution on a show of hands, with the exception of the resolution in connection with the waiver of the obligations of Rule 9 of the City Code on Takeovers and Mergers, which is voted on by a poll; and
- separate resolutions are proposed at the AGM on each substantially separate issue.

Internal controls
The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurances against material misstatement or loss. The Board considers risk assessment and control to be fundamental to the Company achieving its corporate objectives within an acceptable risk/reward profile and confirms that there is an ongoing process to identify, evaluate and manage significant risks in the Group's system of internal controls. The effectiveness of the internal control system is reviewed annually by the audit committee on behalf of the Board. Throughout 2004 and up until the date of this report the internal controls systems comply with the Turnbull guidance for directors as required by the Code.

Key elements of the Group's system of internal controls are as follows:

- regular Board meetings with a formal schedule of matters reserved by the Board for decision;
- Board approval of business strategies, three year forward plans and annual budgets;
- an annual risk review by the audit committee, based on a detailed self-assessment by management of business risks in terms of impact, likelihood and control strength;
- clearly defined organisational structures and appropriate delegated authorities for the Group's businesses;
- monthly review by the executive committee of key performance indicators to assess progress towards objectives, with action being taken as required;
- continuous monitoring of regulatory developments;
- procedures for planning, approving and monitoring business acquisitions, divestments and capital expenditure projects, supplemented by post-investment performance reviews;
- dispensing and professional pharmacy protocols;
- procedures for security and specialist handling of certain drug classes;
- a rolling programme of surveys by the Group's insurance brokers to advise on physical risks;
- centralised treasury operations operating within defined limits and subject to regular reporting requirements;
- an internal audit function providing independent scrutiny of internal control systems and risk management procedures;
- regular monitoring of risks and control systems throughout the year by operating businesses;
- a self-certification process, whereby operating businesses are required to confirm in writing that the system of internal control is operating effectively;
- the Director of Internal Audit has the right of direct access to the audit committee and the Chairman of the Company;
- continuous monitoring by the Group legal function of claims and litigation throughout the Group; and
- a requirement for specialist legal, financial, and other professional advice to be obtained as part of the Group's business activities.

Meeting attendance record

	AGM	Board	Executive committee	Audit committee	Remuneration committee	Nomination committee
Number of meetings in 2004	1	8	12	4	4	2
Director						
J. F. Harris	1	8	–	–	–	2
I. K. Meakins(1)	–	1	1	–	–	–
S. Pessina	1	8	12	–	–	2
G. R. Fairweather	1	8	12	–	–	–
O. Barra	1	8	12	–	–	–
P. Utnegaard	1	8	12	–	–	–
S. W. J. Duncan	1	8	12	–	–	–
G. I. Cooper(2)	1	4	7	–	–	–
K. H. Clarke	1	7	–	–	4	2
N. E. Cross	1	8	–	4	4	2
W. A. Loader	1	5	–	2	2	–
P. Ponsolle	1	6	–	2	4	1
P. Scaroni	1	7	–	4	–	–
M. Stach	1	4	–	0	–	–
E. Jornod	1	8	–	–	–	–
C. J. S. Berretti(3)	1	3	–	–	–	–

(1) appointed to the Board in December 2004; one Board meeting and one executive committee meeting were held after his appointment

(2) resigned from the Board in July 2004; four Board meetings and seven executive committee meetings were held before his resignation

(3) retired from the Board in April 2004; three Board meetings were held before his retirement

Compliance statement
The Company applied the principles of the Code throughout the year under review with the following exceptions:

- Code provision A.2.2 – Prior to his appointment as Chairman, Jeff Harris held the position of Chief Executive of the Company. He will step down as Chairman of the Company and retire from the Board at the conclusion of the 2005 AGM. Paolo Scaroni, who was appointed to the Board as an independent non-executive director on 10 December 2002, will replace him as Chairman of the Company with effect from the same date;
- Code provision A.3.2 – Six of the 14 Directors on the Board are considered to be independent. The Board recognises that the Code specifies that at least half of the members on the Board (excluding the Chairman) should be independent non-executive Directors. The Board is working towards achieving the necessary balance; and
- Code Provisions A.4.1/B.2.1/C.3.3 – The terms of reference of the nomination, remuneration and audit committees were updated during the year to comply with the requirements of the new Code. Although the terms of reference for each committee were available to the public on request, they were not put on the Company's website until February 2005.

Audit committee report

The audit committee consists of five independent non-executive Directors, Neil Cross (Committee Chairman), Adrian Loader, Paolo Scaroni, Patrick Ponsolle and Manfred Stach. The Group Finance Director, the Director of Internal Audit, the Group Financial Controller and representatives from the external auditors are normally invited to attend meetings as appropriate. The committee met four times during 2004, the attendance record of members being shown in the table on page 41. Manfred Stach, who was appointed to the Committee at the end of 2003, was unable to attend meetings during 2004 due to commitments agreed prior to his appointment. He received all meeting papers and information and was able to discuss issues arising with the Committee Chairman. He waived his audit committee fee for the period under review.

The Director of Internal Audit has the right of direct access to the committee and the Chairman of the Company. The committee has the right to seek and receive any information it requires to fulfil its duties and all Directors and employees are directed to co-operate with any request made by the committee and to attend on demand any meeting of the committee to answer questions.

At each meeting in 2004, the committee met the Director of Internal Audit and representatives from the external auditors without executive management present. Attendance of members at committee meetings is shown in the Board report on corporate governance. The Chairman of the committee attends the AGM to respond to any shareholder questions that might be raised on the committee's activities.

Neil Cross has a background in investment analysis and corporate finance, is a Chartered Secretary and chairs four PLC Audit Committees. The Board is satisfied, in line with the Code, that he has both current and relevant financial experience.

Terms of reference

The terms of reference of the committee, which are available on the Company's website, were updated during 2004 to reflect the requirements of the Code. The main responsibilities of the committee, which are set out in the terms of reference, are to:

- review the effectiveness of systems for internal financial control, financial reporting and risk management;
- monitor, review and challenge where necessary the integrity of financial statements and formal announcements relating to the financial performance of the Group;
- consider the appointment, re-appointment and/or removal of the external auditor;
- consider any change to the independence of, objectivity of and fees to the external auditors;
- consider the effectiveness of the external audit process taking into consideration relevant UK professional and regulatory requirements;
- maintain and monitor a policy on the engagement of the external auditor to supply non-audit services;
- agree with the external auditors the scope and nature of their audit, review their quality control procedures, ensure coordination of audits, review their management letter and management's response and discuss any issues arising from their audit;
- review the programme, resourcing, effectiveness and results of the internal audit function and approve any change to the Director of Internal Audit;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- review the consistency of accounting policies;
- monitor compliance with the Group's borrowing limits; and
- monitor compliance with the principles of good boardroom practice.

Operation of the audit committee

During the year, the business considered and discussed by the committee included:

- a review of the financial disclosures contained in the Interim and Annual Reports to shareholders, together with the associated interim and preliminary announcements;
- proposals from the external auditors about their independent review of the financial information contained within the Interim Report 2004 and their audit programme for the 2004 financial statements;
- proposals from the internal audit function about its audit programme for 2005;
- the amount of audit and non audit fees paid to external auditors in 2004 are set out in note 8 to the financial statements. The Company's policy on non-audit services provided by external auditors is set out on page 43;
- a review of the objectivity, independence and effectiveness of the external auditors. The committee, after considering a paper on the independence, objectivity and effectiveness of the external auditor, unanimously agreed to recommend the re-appointment of Deloitte & Touche LLP as the Company's external auditor at the 2005 AGM;
- an annual review of the effectiveness of the internal audit function. The committee, based on an internal assessment, considered that the internal audit function had been effective throughout 2004. The committee agreed that an external assessment of the internal audit function would be conducted in the second half of 2005. During the year, the committee considered the results of audits conducted by the internal audit function and management's response to issues raised;
- a review of the Company's compliance with the Code, including disclosures required to be included in the Annual Report 2004;
- a review of the arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, further details of which are set out on page 43;

- a review of the committee's effectiveness which concluded that it had discharged its responsibilities as set out in its terms of reference;
- a review of internal controls, accounting policies and practices and risk management procedures. The committee monitored and reviewed the effectiveness of the Group's internal control systems, accounting policies and practices and risk management procedures, as well as the Company's statement on internal controls. The Board retains overall responsibility for internal control and the identification and management of risks; and
- the transition to International Financial Reporting Standards (IFRS). The committee was updated during the year on the IFRS implementation project undertaken by management and reviewed the preparatory work carried out by the external auditors on the 2004 opening balance sheet. The first external report to be prepared under IFRS will be the Interim Report 2005.

Policy on non-audit services
As part of its remit, the committee keeps under review the nature and extent of audit and non-audit services provided to the Group by the external auditors. The committee has approved a policy for the approval of non-audit services provided by external auditors. Under this policy, external auditors cannot be engaged to perform any of the following services:

- bookkeeping for underlying accounting records or preparation of financial statements to be audited and used outside the Group;
- appraisals or other valuation services where the results may be incorporated in audited financial statements;
- actuarial services;
- management functions including human resources;
- investment advisory services including broking or investment banking;
- legal services;
- internal audit (on an outsourced basis);
- design and/or implementation of financial information systems; and
- any other services that a listed company's external auditors are prohibited from providing under UK or US regulations.

This list of prohibited non-audit services may only be varied by the audit committee.

Under this policy it has been agreed that, due to their significant understanding of the Group's business and therefore ensuring cost efficiency, the external auditors may be engaged for the following non-audit services:

- assistance in tax compliance activities including tax advisory services;
- due diligence activities associated with potential acquisitions or disposals of businesses;
- accountants reports for any Stock Exchange purposes and ad hoc reporting on historical financial information; and
- any other services which are not prohibited and are authorised by the audit committee.

The policy requires the fees for these permitted non-audit services to be approved in advance by the committee. Where such services are considered to be recurring in nature, such as for tax and due diligence, approval may be sought for the full financial year at the beginning of that year. Approval for other permitted non-audit services has to be sought on an ad hoc basis. Where no committee meeting is scheduled within an appropriate time frame, the approval is to be sought from the Chairman of the committee. The fee threshold for pre-approved services at 31 December 2004 was £0.6 million (€0.9 million) per annum for taxation services and £0.5 million (€0.8 million) per annum for due diligence and related services.

Whistleblowing
During 2004 the committee reviewed arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters in accordance with the requirements of the Code. In the UK a 24 hour helpline, managed by a third party, was introduced. This helpline provides reports to designated officers of the Company, including the Company Secretary, who in turn report cases to the committee. Throughout the rest of the Group, the Company's whistleblowing policy sets out arrangements whereby employees can report to the Company Secretary any concerns or suspicions about possible wrongdoing in financial reporting or other matters, which are reported to the committee.

Neil Cross
Chairman of the audit committee
24 February 2005

Board report on remuneration

The remuneration committee ("the Committee") determines the remuneration of the executive Directors and makes recommendations to the Board of any changes to the terms and conditions of employment of executive Directors. The Committee consists of four independent non-executive Directors: Ken Clarke (Committee Chairman), Neil Cross, Adrian Loader and Patrick Ponsolle. Jeff Harris, Ian Meakins and Stefano Pessina attend meetings by invitation in advisory capacities but are not present when their own remuneration is discussed.

Remuneration policy
The aim of the Group's remuneration policy is to maximise the position of the Group in the European healthcare sector by attracting, retaining and motivating the highest calibre of executive Directors and senior executives, aligning the rewards of those individuals with the interests of shareholders by linking part of their remuneration package to the performance of the Group and the creation of long-term shareholder value.

In implementing the remuneration policy, the Committee has considered the principles in the Code with regard to Directors' remuneration.

In accordance with the remuneration policy, the remuneration of executive Directors is made up of a combination of basic salary, non-cash benefits, annual performance bonus, long-term incentive plan benefits, share options and pension benefits, all of which are detailed below. The executive Directors' remuneration is reviewed at the end of each calendar year. No Director is permitted to vote in respect of their own remuneration.

Service contracts
Ian Meakins, George Fairweather, Per Utnegaard and Steve Duncan are employed under contracts that can be terminated by either party with notice of 12 months. Stefano Pessina and Ornella Barra have service contracts that can be terminated by the Group with notice of 12 months or by each of them with notice of six months. There are provisions in the service contracts for payment in lieu of current salary to cover the required notice period. Were the situation to arise, the Company intends to apply the principle of mitigation to any payment of compensation on termination as a result of unsatisfactory performance.

Geoff Cooper resigned from the Board and from the role of Deputy Chief Executive on 29 July 2004 when the decision to appoint Ian Meakins was finalised and he left the Company at the end of the year. His emoluments for the year as a Director and employee and his payment for loss of office are set out in the emoluments section of this report. The principle of mitigation was not applicable as his departure was not as a result of unsatisfactory performance.

The dates of the executive Directors' current service contracts are:

Director	Contract date
I. K. Meakins	16 September 2004
S. Pessina	10 December 2002
G. R. Fairweather	28 March 2002
O. Barra	10 December 2002
P. Utnegaard	11 February 2005
S. W. J. Duncan	29 December 1995

The Company recognises that its executive Directors may be invited to become non-executive Directors of other listed companies and that such duties can broaden experience and knowledge which benefit the Company. Executive Directors are therefore allowed to accept one external non-executive appointment with the Company's prior approval, as long as this is not in any way connected with the Company's business and would not lead to any conflict of interest. Fees received by the Director may be retained.

Ian Meakins is a non-executive Director of mmO_2 and retained fees for that appointment of £4,167 during the period he was Chief Executive. Stefano Pessina is a non-executive Director of Galenica, an associate company. He waived his entitlement to fees as part of the agreement with Galenica on reciprocal board representation. George Fairweather is a non-executive Director of Mitchells & Butlers and retained fees paid of £49,500 in 2004 for that appointment. Per Utnegaard was appointed a non-executive Director of the Davis Service Group in January 2005 and will retain fees payable. Geoff Cooper was appointed non-executive Director of Abbey National in January 2004 and served until 1 December 2004. He retained fees paid of £52,000 in 2004 for that appointment.

Jeff Harris is a Director of Andreae-Noris Zahn, an associate company, the fees payable being retained by the Company.

Salaries
The setting of basic salary reflects the committee's assessment of the market rate for relevant positions, taking into account the levels of responsibility, the individual Director's experience and their contribution to the Group. For determining basic salary in 2004 and 2005, the committee appointed and received advice from PricewaterhouseCoopers (PwC) – Monks Partnership. PwC provide remuneration and other consultancy services directly to the Company. The amount paid to each Director in 2004 is detailed in the emoluments section on page 47.

Following a report from PwC in December 2004, the remuneration committee reviewed salaries payable to the executive Directors based on market related base salary data from a comparator group of companies consisting of 20 companies from the 25 smallest FTSE 100 companies by market capitalisation (excluding financial companies) and 20 companies from the 25 largest FTSE 250 companies by market capitalisation (excluding financial companies). Salary increases, which are effective from 1 January 2005, were based on this data after taking account of the performance of each Director.

Executive Directors' basic salaries at 1 January 2005 are as follows:

Director	*£*
I. K. Meakins	625,000
S. Pessina	485,000
G. R. Fairweather	375,000
O. Barra	310,000
P. Utnegaard	315,000
S. W. J. Duncan	315,000

Benefits
Benefits available to executive Directors relate to the provision of company cars or a car allowance, private medical insurance, and, for Stefano Pessina and Ornella Barra, the cost of travel to and from work, accommodation and subsistence while working for the Group in the UK. The provision of these benefits reflects market practice and do not relate to performance. The value of these benefits for each Director in 2004, including expenses chargeable to UK income tax, are detailed in the emoluments section on page 47. Where a Director is entitled to a benefit but chooses not to take that benefit, a cash supplement is paid in lieu of that benefit.

Salary supplements
Salary supplements include cash payments and long-term financial provision.

Annual performance bonuses
The annual performance bonus scheme rewards executive Directors for the Group and individual divisions for which they are responsible for achieving their budgeted performance, after the cost of bonuses. Payments also take into account personal performance. The maximum bonus an executive Director could receive in 2004 was 50% of their basic salary. In 2004 the budgeted performance was based on the challenging but achievable 2004 budget for earnings, before amortisation of intangible assets and exceptional items, at constant exchange rates, agreed by the Board at the end of the previous year. Depending upon responsibilities, a bonus of between 5% and 15% was payable for performance of 100% of the Group or Group and divisional performance, rising to 40% for performance of 105% of the Group and divisional budgeted performance. Personal performance was based on a 360° appraisal process and determined by the remuneration committee. Depending on responsibilities, a bonus of up to 15% was payable based on this appraisal.

The Committee has agreed that the maximum bonus opportunity for 2005 will be increased from 50% of base salary to 100%. The Committee is satisfied that the new level is commensurate with that in companies of a similar size and complexity to Alliance UniChem. Depending on the responsibilities of an individual Director, 80% of the bonus will be based on Group and/or divisional financial results and 20% of the bonus will be based on personal performance. A target bonus of 40% of base salary will be paid for the achievement of a stretching target which exceeds budget. Bonuses will start to accrue on the achievement of 96% of the stretch target and the maximum bonus of 80% will be paid for achieving 104% of target.

Ian Meakins earned a bonus payment of £300,000 in 2004 to compensate him for the lost opportunity to earn a bonus from his previous employer in 2004. This bonus was based on Group performance targets.

The amounts earned by each Director are detailed in the emoluments section on page 47.

Board report on remuneration

Non-executive Directors

All non-executive Directors were entitled to a basic fee of £35,000 in 2004. Jeff Harris, as non-executive Chairman, earned a total fee of £250,000 per annum. Ken Clarke (Deputy Chairman and senior independent non-executive Director) earned a total fee of £125,000 per annum, which included £5,000 per annum for chairing the remuneration committee. Neil Cross received a total fee of £46,000, which included a fee of £1,000 for chairing and serving on the Board of Alliance UniChem Pension Trustee Limited for one month, (the fee is based on £10,000 per annum) and £10,000 per annum for chairing and serving on the audit committee. Other members of the audit committee were paid an additional fee of £5,000 per annum. Manfred Stach was unable to attend any audit committee meetings in 2004 due to other commitments entered into before his appointment to the Board, and, as a result, he waived his 2004 audit committee fee of £5,000. The fees paid reflect the time non-executive Directors are required to commit to their duties and amounts paid to non-executives in comparable companies.

The Board reviewed fees payable to non-executive Directors in January 2005, based on advice received by the executive Directors from PwC, which compared the level of fees paid by a comparator group of companies consisting of 20 companies from the 25 smallest FTSE 100 companies by market capitalisation (excluding financial companies) and 20 companies from the 25 largest FTSE 250 companies by market capitalisation (excluding financial companies). No changes were made to the fees payable to Jeff Harris and Ken Clarke. The basic fees payable to the other non-executive Directors were increased by £10,000 per annum with effect from 1 January 2005.

Non-executive Directors derive no other benefits from their office and are not eligible to participate in the Group's pension arrangements. Jeff Harris receives a pension in respect of his service whilst acting as an executive of the Company. It is Company policy not to grant share options to non-executive Directors or to require part of their fees to be paid in the form of shares. Jeff Harris is eligible to receive share options in connection with the 2002 allocation made under the long-term incentive plan when he was an executive Director. He will be entitled to 25% of the award and will have six months to exercise the award.

Non-executive Directors are appointed for fixed terms, normally of three years. Non-executive Directors who have served beyond six years are subject to a more rigorous review when they come up for re-election. This review takes account of the need for progressive refreshing of the Board. The initial appointment date and the date of last re-appointment at an AGM for the non-executive Directors are as follows:

Director	Initial appointment date as a non-executive Director	Date of last re-appointment at an AGM
J. F. Harris	8 April 2003	22 April 2004
K. H. Clarke	9 September 1997	22 April 2004
N. E. Cross	17 February 1997	22 May 2002
W. A. Loader	24 September 2003	22 April 2004
P. Ponsolle	30 December 1997	21 May 2003
P. Scaroni	10 December 2002	21 May 2003
M. Stach	8 December 2003	22 April 2004
E. Jornod	26 January 2000	21 May 2003

Emoluments

The emoluments of the Directors for the financial year ended 31 December 2004 were:

Director	Salaries and fees £'000	Benefits £'000	Salary supplement £'000	Bonus payments £'000	Termination payment £'000	Total emoluments excluding pensions 2004 £'000	Total emoluments excluding pensions 2003 £'000
Executive Directors							
I. K. Meakins(1)	55	50	20	300	–	**425**	–
S. Pessina	450	54	–	225	–	**729**	579
G. R. Fairweather	350	23	57	175	–	**605**	517
O. Barra(2)	290	19	–	145	–	**454**	383
P. Utnegaard(3)	310	53	–	109	–	**472**	123
S. W. J. Duncan(4)	280	20	–	140	–	**440**	372
	1,735	219	77	1,094	–	**3,125**	1,974
Former Director							
G.I. Cooper(5)	400	23	69	200	801	**1,493**	548
	2,135	242	146	1,294	801	**4,618**	2,522
Non-executive Directors							
J. F. Harris(6)	250	–	–	–	–	**250**	342
K. H. Clarke	125	–	–	–	–	**125**	125
N. E. Cross	46	–	–	–	–	**46**	45
W. A. Loader(7)	40	–	–	–	–	**40**	11
P. Ponsolle	40	–	–	–	–	**40**	40
P. Scaroni	40	–	–	–	–	**40**	40
M. Stach(8)	35	–	–	–	–	**35**	2
C. J. S. Berretti(9)	15	–	–	–	–	**15**	35
	591	–	–	–	–	**591**	640
Total	2,726	242	146	1,294	801	**5,209**	3,162

(1) Ian Meakins was appointed as Chief Executive on 1 December 2004. Details of his principal terms and conditions are as follows: Basic salary – £600,000 per annum, increased to £625,000 per annum with effect from 1 January 2005. Taxable benefits includes a car, a car allowance, medical insurance and professional fees in connection with his appointment. Annual performance bonus – up to a maximum of 50% of annual basic salary for 2004, increasing to a maximum of 100% of basic salary for 2005, subject to both Group and individual performance targets. Pension – none. Long-term financial provision – £240,000 per annum. Share Incentives – received a 2004 allocation of £400,000 (2/3 of annual basic salary) under the Company's long-term incentive plan which is subject to the performance conditions set out on page 49. He was granted an option to acquire 119,946 shares in the Company for £1 in total, details of which are set out on pages 52 and 53.

(2) highest paid Director in 2004 when gains on exercise of share options and awards under LTIP are taken into account.

(3) prior year emoluments include only four months as an executive Director.

(4) prior year emoluments include only 11 months as an executive Director.

(5) resigned from the Board in July 2004 and left the Company on 31 December 2004. Emoluments for the full year are disclosed. He received compensation for the termination of his employment and loss of office. This compensation covered his salary over his contractual notice period, a non-compete payment, a severance payment, an outplacement payment and legal fees.

(6) retired as an executive in April 2003. Prior year emoluments include three months as an executive Director and nine months as a non-executive Director.

(7) prior year emoluments include only four months as a non-executive Director.

(8) prior year emoluments include only one month as a non-executive Director – audit committee fees of £5,000 were waived.

(9) retired April 2004.

Etienne Jornod waived his entitlement to a Director's fee of £35,000 (2003 £35,000), as part of the agreement with Galenica on reciprocal board representation.

Fees and benefits totalling £66,000 (2003 £141,000) were paid to Barry Andrews, a former Director, of which £40,000 (2003 £40,000) was for acting as a non-executive Chairman of Moss Pharmacy. In addition he received £25,000 (2003 £100,000) for acting as Managing Director of GaleniCare, an associate business, until 31 March 2004, which was reimbursed by GaleniCare.

Board report on remuneration

Long-term incentive plan

The long-term incentive plan is a discretionary arrangement under which allocations are made to executive Directors with the aim of rewarding them for creating shareholder value. Each allocation takes the form of a non-binding statement of intent to make an award of a stated maximum amount following the end of a specified performance period. The allocation is determined as a percentage of basic salary in the year that the performance period starts. The Directors' allocations outstanding at 24 February 2005 are:

Director	2002 allocation maximum amount £	2003 allocation maximum amount £	2004 allocation maximum amount £	2005 allocation maximum amount £
J. F. Harris	308,666	–	–	–
I. K. Meakins(1)	–	–	400,000	625,000
S. Pessina	216,666	233,333	300,000	485,000
G. R. Fairweather	155,775	220,000	233,333	375,000
O. Barra	160,666	180,000	193,333	310,000
P. Utnegaard	–	–	206,666	315,000
S. W. J. Duncan	–	156,667	186,666	315,000

(1) Ian Meakins received a 2004 allocation of £400,000 on an exceptional basis to compensate him for the lost opportunity to receive financial benefit from his previous employer.

The performance periods for the allocations are:

	2002 allocation	2003 allocation	2004 allocation	2005 allocation
Period start	1 January 2002	1 January 2003	1 January 2004	1 January 2005
Period end	31 December 2004	31 December 2005	31 December 2006	31 December 2007

The amount of the award is dependent on the achievement of certain performance measures during the performance period that the Committee believe are the most appropriate measure of the underlying performance of the Group. Total shareholder return measures the total return to shareholders in terms of share price growth and dividends reinvested in the shares of the Company over the performance period. Inbucon Group provides the committee with a total shareholder return monitoring report and advises on performance under the long-term incentive plan based on earnings per share performance. Earnings per share are defined as diluted earnings per share before amortisation of intangible assets and exceptional items for a full accounting year. RPI-x is the index of retail prices for all items excluding mortgage payments as published by the UK Government. The performance against RPI-x is calculated on a per annum compound basis.

For the 2002 allocation, the total shareholder return measure is compared with the performance of companies in the FTSE 250.

Performance measure	Achievement	% awarded
Total shareholder return	below median	–
	at median (50th percentile)	12.5%
	for every 1 percentile above median	+1.5%
	up to upper quartile (75th percentile)	50.0%
Earnings per share	below RPI-x +3%	–
	at RPI-x +3%	5.0%
	for every 0.1% above RPI-x +3%	+4.5%
	up to RPI-x +4%	50.0%

For the 2003, 2004 and 2005 allocations, the total shareholder return measure is compared with the performance of companies in the FTSE 100. For the 2003 and 2004 allocations, the EPS targets are:

Performance measure	Achievement	% awarded
Earnings per share	below RPI-x +5%	–
	at RPI-x +5%	5.0%
	for every 0.1% above RPI-x +5%	+4.5%
	up to RPI-x +6%	50.0%

To bring the level of awards into line with market practice, the committee has raised the 2005 allocation to 100% of basic salary. The committee considers that the 2004 TSR targets for vesting remain challenging. The EPS targets were raised in 2003. The committee has agreed to leave the target at which awards begin to vest at RPI-x +5% p.a. but increase the target at which the full EPS element vests from RPI-x +6% to RPI-x +7% p.a. Given that EPS growth for the 2005 allocation will be measured in accordance with International Financial Reporting Standards which may affect EPS growth, the Committee considers that the EPS targets it has set are challenging for the 2005 allocations.

The award takes the form of a right to acquire ordinary shares in the Company for a nominal sum within a period of ten years from the date of the award. The number of shares will be determined by the market price of the Company's shares at the date of the award. The committee has the discretion to withhold or reduce awards to any extent it considers appropriate, having regard to the Group's underlying financial performance and irrespective of the level of attainment of the performance targets.

Board report on remuneration

During 2004, awards were made on allocations with the performance period 1 January 2001 to 31 December 2003. During the performance period, the Company was in the 63rd percentile of the comparator group on total shareholder return and the increase in earnings per share was in excess of RPI-x +4%. On this basis, awards equivalent to 82% of the allocations were made and converted into share options at 562 pence per share, with the exception of Jeff Harris who was only entitled to 41% of the allocation, reflecting his period as an executive Director.

Director	Allocation £	Award nominal value £	Award share options number
J. F. Harris	299,667	122,863	21,862
S. Pessina	196,167	160,857	28,622
O. Barra	153,333	125,733	22,372
G. I. Cooper	189,000	154,980	27,577

The awards are further detailed in the table of share options and long-term incentive awards.

Following the end of the performance period for the 2002 allocation detailed above, the committee has recommended to the trustees of the 1992 Employee Trust that awards equivalent to 86.8% of the allocation are made. Their basis for doing this is that during the performance period, the Company was in the 66.2 percentile of the comparator group on shareholder return and the increase in earnings per share was in excess of RPI-x +4%.

Performance

Total shareholder return for the Company and total shareholder return for FTSE 250 and FTSE 100 companies, being the comparator groups used for the long-term incentive plan, over the five years ending 31 December 2004 were:

Graph removed

The increase in earnings per share over the five years ending 31 December 2004 compared to RPI-x +3% and RPI-x +5% over the same period is:

Graph removed

Share option schemes
In addition to the long-term incentive plan, the Company operates two discretionary and one savings related share option scheme, which are open to executive Directors as well as certain other employees. Details of outstanding options under these schemes are shown in note 23 to the financial statements.

Options granted under the discretionary 1997 Share Option Scheme since May 2003 have no retesting of performance measures and have a fixed performance period being a defined three year period made up of three consecutive accounting periods. This period commences on 1 January of the year of the award. The performance target is that the earnings per share growth of the Company must be greater than the increase of RPI-x +4% compound over the performance period. Earnings per share are defined as the diluted earnings per share before amortisation of intangible assets and exceptional items over the defined accounting periods. RPI-x is defined as the index of retail prices for all items excluding mortgage payments as published by the UK Government.

For options granted prior to May 2003 there is retesting of the performance measures where the earnings per share growth of the Company must be greater than the increase of RPI-x +4% compound at any time during the exercise period. Earnings per share are defined as the diluted earnings per share before amortisation of intangible assets and exceptional items over the defined accounting periods. RPI-x is defined as the index of retail prices for all items excluding mortgage payments as published by the UK Government. The performance conditions for options granted up to and including 2001 have been satisfied.

There are now no outstanding options under the discretionary Executive Share Option Scheme 1990 and no further awards will be made under this Scheme.

Board report on remuneration

Share options and long-term incentive awards

The following movements in share options and long-term incentive scheme awards occurred during the year.

Director	Type	1 January 2004	Granted in the year	Exercised in the year	31 December 2004	Exercise price £	Market price on exercise £	Normally exercisable from
J. F. Harris	d	59,957	–	59,957	–	0.0001	5.410	17.04.2003 to 16.04.2004
	d	–	21,862	21,862	–	0.0001	6.587	20.03.2004 to 19.09.2004
		59,957	21,862	81,819	–			
I. K. Meakins	e	–	119,946	–	**119,946**	0.0001		01.12.2005 to 01.12.2014
		–	119,946	–	**119,946**			
S. Pessina	d	–	28,622	28,622	–	0.0001	7.202	20.03.2004 to 19.03.2014
		–	28,622	28,622	–			
G. R. Fairweather	a	2,804	–	–	**2,804**	3.3700		01.07.2006 to 31.12.2006
		2,804	–	–	**2,804**			
O. Barra	c	186,263	–	186,263	–	4.2950	6.812	07.05.2001 to 06.05.2005
	c	63,737	–	63,737	–	4.3500	6.812	27.05.2002 to 26.05.2006
	d	–	22,372	22,372	–	0.0001	7.202	20.03.2004 to 19.03.2014
		250,000	22,372	272,372	–			
S. W. J. Duncan	a	–	3,715	–	**3,715**	4.4000		01.07.2009 to 31.12.2009
	c	15,000	–	15,000	–	5.9200	7.470	06.04.2004 to 05.04.2008
	c	20,000	–	–	**20,000**	6.0900		09.04.2005 to 08.04.2009
		35,000	3,715	15,000	**23,715**			
G. I. Cooper	a	3,644	–	–	**3,644**	4.6300		01.01.2005 to 30.06.2005
	b	372	–	372	–	2.6900	5.410	18.10.1998 to 17.10.2005
	c	36,872	–	36,872	–	2.6850	5.410	13.06.2000 to 12.06.2004
	c	45,000	–	–	**45,000**	4.2950		07.05.2001 to 06.05.2005
	d	9,852	–	9,852	–	0.0001	5.410	19.03.2002 to 18.03.2012
	d	37,830	–	37,830	–	0.0001	5.410	17.04.2003 to 16.04.2013
	d	–	27,577	–	**27,577**	0.0001		20.03.2004 to 31.12.2005
		133,570	27,577	84,926	**76,221**			
Total		481,331	224,094	482,739	**222,686**			

a = Savings Related Share Option Scheme 1990

b = Discretionary Executive Share Option Scheme 1990

c = Discretionary 1997 Share Option Scheme

d = Long-term incentive plan 1998

e = Ian Meakins share incentive plan

The aggregate gains before tax made by Directors on the exercise of share options was £750,482 (2003 £294,964) and on the exercise of long-term incentive plan awards £1,093,585 (2003 £497,344)

There were no changes to the options of Directors between 1 January 2005 and 24 February 2005.

The mid-market price of shares of the Company ranged during 2004 between 758.5 pence on 30 December and 488.0 pence on 3 February and at 31 December was 754.5 pence.

Ian Meakins – share incentive plan

In order to recruit Ian Meakins, it was necessary to compensate him for the loss of potential long-term incentive benefits from his previous employer. In accordance with his service agreement, he was granted an option to acquire 119,946 shares in the Company (for £1 in total) on 17 December 2004 (the "Initial Award"). The shares comprising the Initial Award, which are held by the Alliance UniChem Employee Share Trust, are exercisable from 1 December 2005 to 1 December 2014. The Company will pay Ian Meakins annually the equivalent of the total gross dividend on these shares until they are exercised. If Ian Meakins resigns, or his contract is terminated by the Company for gross misconduct before 1 December 2005, the Initial Award will lapse and he will lose any right to the shares included in that award. If before 1 December 2005, he ceases to be employed by the Company for any other reason, including change of control, then the Initial Award will become exercisable on termination of his employment.

In accordance with his service agreement, Ian Meakins will also be granted a further option to acquire 153,571 shares in the Company (for £1 in total) at the end of March 2008 (the "Matching Award"), matching the 119,946 shares of the Initial Award plus a personal investment of 33,625 shares which he purchased on 17 December 2004. The entitlement to receive all or any percentage of the Matching Award is subject to the performance conditions set out below:

- not selling or disposing the shares comprised in the Initial Award at any time before the end of the Performance Period;
- maintaining the personal investment of 33,625 shares in the Company; and
- remaining employed by the Company during the entire Performance Period.

The percentage of the Matching Award that Ian Meakins will receive is also subject to the performance condition described in the table below.

Performance measure	Company TSR performance against FTSE 100	% of total possible matched grant
Total shareholder return(1)	at or below median (50th percentile)	0.0%
	for every 1 percentile above median up to 89th percentile	+2.0%
	at or above 90th percentile	100.0%

(1) Total shareholder return measures the total return to shareholders in terms of share price growth and dividends reinvested in the shares of the Company over the three year performance period to 31 December 2007.

In certain circumstances, relating principally to a change of control of the Company or the termination of his employment during the Performance Period for the Matched Grant, Ian Meakins will be entitled, subject always to the performance conditions being met, to a reduced percentage of the matching award.

Directors' shareholdings

The beneficial interests of the Directors in office at 31 December 2004 and their families in the share capital of the Company are shown below. The Company's register of Directors' interests, which is open to inspection, contains full details of Directors' interests in the Company's shares.

Director	**Ordinary shares 31 December 2004**	Ordinary shares 1 January 2004*
J. F. Harris	**141,307**	229,050
I. K. Meakins	**33,625**	–
S. Pessina	**107,446,101**	106,415,034
G. R. Fairweather	**2,000**	2,000
O. Barra	**325,102**	51,207
P. Utnegaard	**–**	–
S. W. J. Duncan	**10,122**	8,112
K. H. Clarke	**6,761**	6,566
N. E. Cross	**5,000**	5,000
W. A. Loader	**5,998**	–
P. Ponsolle	**500**	500
P. Scaroni	**–**	–
M. Stach	**–**	–
E. Jornod	**–**	–
Total	**107,976,516**	106,717,469

*or at date of appointment, if later.

There were no changes to Directors' shareholdings between 1 January 2005 and 21 February 2005.

107,350,000 shares of the interest of Stefano Pessina are held by Alliance Santé Participation S.A.. Stefano Pessina indirectly wholly owns Alliance Santé Participation S.A., which is registered in Luxembourg, and its directors include Stefano Pessina and Ornella Barra. The other interests of Ornella Barra in the fully paid shares of the Company are as detailed in this report.

Board report on remuneration

Other interests
Save for the interests mentioned in this report, no Director was materially interested in any contract during the financial year that is or was significant to the business of the Company or any subsidiary undertakings.

Pensions
Pension benefits earned by the Directors during 2004 were:

Director	Age at year end	Increase in accrued pension during the year (excluding inflation) £'000	Increase in accrued pension during the year £'000	Total accrued pension at year end £'000	Additional money purchase contributions 2004 £'000	Additional money purchase contributions 2003 £'000	Transfer value of defined benefits at 31 December 2004 £'000	Transfer value of defined benefits at 31 December 2003 £'000	Increase in transfer value during the year net of Director's contributions £'000
J. F. Harris	56	–	10	363	**–**	–	**7,580**	6,900	680
G. R. Fairweather	47	3	4	10	**82**	49	**86**	46	25
O. Barra	51	–	–	–	**81**	81	**–**	–	–
S. W. J. Duncan(1)	53	27	30	140	**–**	–	**1,869**	1,272	583
G. I. Cooper(2)	50	3	4	37	**99**	89	**410**	315	81

(1) existing member of pension scheme on appointment in January 2003

(2) resigned as a Director in July 2004

Jeff Harris receives an unreduced pension from age 55, based on arrangements entered into with the Company in 1992. The agreed pension arising was calculated on the basis of the annual rate of basic salary at the time of retirement plus the annual average of car/fuel benefit and bonus over the preceding three years. £20,000 per annum of this pension is unfunded and is paid directly by the Company.

Ian Meakins has no pension benefit, but receives a cash payment for long-term financial provision at the rate of £240,000 per annum. This payment is disclosed under salary supplements in the emoluments table. Stefano Pessina has no pension benefits. Although he remains eligible, Per Utnegaard's membership of the Company's pension scheme is still under discussion.

George Fairweather, Steve Duncan and Geoff Cooper are members of the defined benefit section of the Company's pension scheme. The benefits of the pension scheme, subject to statutory limits (including the earnings cap), are as follows:

- normal retirement age of 60;
- contributions are at the rate of 5% of basic salary;
- a lump sum of 4 x basic salary and a spouse's pension of 50% of prospective member's pension are payable on death in service;
- the statutory minimum pension and accumulated contributions are payable on death after leaving service but before retirement;
- all pensions in payment increase in line with the Scheme Rules; and
- no allowance is made for any discretionary increases within transfer values.

In addition, George Fairweather and Geoff Cooper are members of the Alliance UniChem 1993 Pension Scheme, which is a funded unapproved retirement benefit scheme. This is a money purchase arrangement which aims to provide limited targeted benefits on basic salary in excess of the earnings cap.

Ornella Barra is a member of the unapproved International Pension Scheme, which is a defined contribution arrangement.

The Company is to undertake a review of the funding of the two unapproved pension schemes during 2005.

Audit
The following sections of the above report form part of the financial statements on which the auditors have expressed their opinion on page 55 : "Emoluments", "Long-term incentive plan", "Share option schemes", "Ian Meakins' share incentive plan", "Directors' shareholdings" and "Pensions".

Approved by the Board of Directors and signed on their behalf:

Marco Pagni
Company Secretary
24 February 2005

Independent auditors' report

to the members of Alliance UniChem Plc

Introduction

We have audited the financial statements of Alliance UniChem Plc for the year ended 31 December 2004 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses, the reconciliation of movements in Group shareholders' funds, the note on historic cost profits and losses, and the related notes numbered 1 to 36. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Board report on remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, 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 members those matters we are required to state to them 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Directors' responsibilities statement, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of other information contained in the Annual Report including the Board report on remuneration. Our responsibility is to audit the financial statements and the part of the Board report on remuneration described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Board report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors 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 review whether the Board report on corporate governance reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Report of the Directors and other information contained in the Annual Report for the above year as described in the contents section, including the unaudited part of the Board report on remuneration and the unaudited pro forma information shown in the primary financial statements, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 and the part of the Board report on remuneration described as being audited. 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 and the part of the Board report on remuneration described as having been audited 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 and the part of the Board report on remuneration described as having been audited.

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 profit of the Group for the year then ended; and
- the financial statements and the part of the Board report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors, London
24 February 2005

Deloitte & Touche LLP

Group profit and loss account

for the year ended 31 December 2004

Unaudited pro forma 2004 €million		Note	2004 £million	2003 £million
15,643.7	Turnover: Group and share of associated undertakings – continuing activities		**10,605.9**	9,820.2
(2,518.6)	Less: share of associated undertakings		**(1,707.5)**	(1,020.9)
13,125.1	**Turnover** – continuing operations	3,4	**8,898.4**	8,799.3
346.5	**Group operating profit** – continuing operations	3	**234.9**	217.7
60.5	Share of operating profit in associated undertakings		**41.0**	32.1
407.0	**Total operating profit**	4	**275.9**	249.8
20.0	Exceptional items – profit on disposal of businesses	6a	**13.6**	–
(2.8)	Exceptional items – amounts written off investments	6b	**(1.9)**	–
(58.1)	Net interest payable and similar charges	7	**(39.4)**	(53.5)
371.7	Profit on ordinary activities before taxation, amortisation of intangible assets and exceptional items		**252.0**	209.9
366.1	**Profit on ordinary activities before taxation**	8	**248.2**	196.3
(119.5)	Tax on profit on ordinary activities	9	**(81.0)**	(67.2)
246.6	Profit on ordinary activities after taxation		**167.2**	129.1
(0.1)	Equity minority interests		**(0.1)**	(0.6)
246.5	**Profit for the financial year**		**167.1**	128.5
(95.9)	Dividends	10	**(65.0)**	(57.1)
150.6	Retained profit for the financial year		**102.1**	71.4

	Note	2004	2003
Earnings per share	11		
Basic		**47.7p**	37.6p
Diluted		**47.1p**	37.3p
Basic, before amortisation of intangible assets and exceptional items		**48.7p**	41.6p
Diluted, before amortisation of intangible assets and exceptional items		**48.2p**	41.2p

Balance sheets

as at 31 December 2004

Unaudited pro forma 2004 €million		Note	Group 2004 £million	Group 2003 £million	Company 2004 £million	Company 2003 £million
	Fixed assets					
1,199.2	Intangible assets	12	**848.7**	784.7	**–**	–
472.5	Tangible assets	13	**334.4**	304.9	**0.4**	0.5
582.7	Investments	14	**412.4**	347.9	**1,314.1**	1,394.8
2,254.4			**1,595.5**	1,437.5	**1,314.5**	1,395.3
	Current assets					
978.1	Stocks	15	**692.2**	728.8	**–**	–
644.4	Securitised receivables		**456.1**	448.8	**–**	–
(566.3)	Non-recourse receipts		**(400.8)**	(399.5)	**–**	–
78.1	Net securitised receivables	16	**55.3**	49.3	**–**	–
1,517.0	Other debtors	17	**1,073.6**	1,128.6	**7.7**	10.5
142.6	Cash at bank and in hand	18	**100.9**	117.2	**8.5**	28.9
2,715.8			**1,922.0**	2,023.9	**16.2**	39.4
	Creditors: amounts falling due within one year					
(248.4)	Borrowings	18	**(175.8)**	(257.5)	**(18.0)**	(45.8)
(2,066.5)	Other creditors	20	**(1,462.5)**	(1,523.8)	**(69.0)**	(182.2)
(2,314.9)			**(1,638.3)**	(1,781.3)	**(87.0)**	(228.0)
400.9	**Net current assets/(liabilities)**		**283.7**	242.6	**(70.8)**	(188.6)
2,655.3	**Total assets less current liabilities**		**1,879.2**	1,680.1	**1,243.7**	1,206.7
	Creditors: amounts falling due after more than one year					
(1,040.1)	Borrowings	18	**(736.1)**	(686.9)	**(557.3)**	(563.7)
(35.7)	**Provisions for liabilities and charges**	21	**(25.3)**	(18.6)	**–**	–
1,579.5	**Net assets excluding net pension liabilities**		**1,117.8**	974.6	**686.4**	643.0
(51.3)	Net pension liabilities	22	**(36.3)**	(34.3)	**–**	–
1,528.2	**Net assets including net pension liabilities**		**1,081.5**	940.3	**686.4**	643.0
	Capital and reserves					
50.6	Called up share capital	23	**35.8**	35.1	**35.8**	35.1
686.3	Share premium account	24	**485.7**	444.2	**485.7**	444.2
–	Shares to be issued		**–**	25.1	**–**	25.1
(18.5)	Investment in own shares	25	**(13.1)**	(23.1)	**(13.1)**	(23.1)
3.8	Capital reserve	24	**2.7**	2.6	**–**	–
791.3	Profit and loss account	24	**560.0**	445.9	**178.0**	161.7
1,513.5	**Equity shareholders' funds**		**1,071.1**	929.8	**686.4**	643.0
14.7	Minority interests		**10.4**	10.5	**–**	–
1,528.2	**Total capital employed**		**1,081.5**	940.3	**686.4**	643.0

The financial statements were approved by the Board on 24 February 2005 and are signed on its behalf by:

I. K. Meakins
G. R. Fairweather
Directors

I. K. Meakins

Group cash flow statement

for the year ended 31 December 2004

Unaudited pro forma 2004 €million		Note	2004 £million	2003 £million
457.4	**Net cash inflow from operating activities**	27a	**310.1**	322.3
6.3	Dividends received from associated undertakings		**4.3**	3.3
(65.9)	Returns on investments and servicing of finance	27b	**(44.7)**	(50.7)
(72.3)	Taxation		**(49.0)**	(46.2)
(64.6)	Capital expenditure and financial investment	27c	**(43.8)**	(42.8)
(157.8)	Acquisitions and disposals	27d	**(107.0)**	(46.8)
(46.8)	Equity dividends paid		**(31.7)**	(30.8)
56.3	**Cash inflow before financing**		**38.2**	108.3
	Financing			
2.8	Issue of ordinary share capital		**1.9**	2.0
4.0	Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	28	**2.7**	(80.3)
6.8	Net cash inflow/(outflow) from financing		**4.6**	(78.3)
63.1	**Increase in cash in the year**		**42.8**	30.0

	Note	2004 £million	2003 £million
Reconciliation of net cash flow to movement in net borrowings			
Increase in cash in the year		**42.8**	30.0
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	28	**(2.7)**	80.3
Decrease in net borrowings resulting from cash flows		**40.1**	110.3
Borrowings acquired with businesses		**–**	(0.3)
Finance leases entered into		**(13.3)**	–
Loan notes issued for non-cash consideration	26	**(0.7)**	(0.4)
Currency translation differences		**(9.9)**	(56.6)
Decrease in net borrowings for the year		**16.2**	53.0
Net borrowings at 1 January		**(827.2)**	(880.2)
Net borrowings at 31 December	29	**(811.0)**	(827.2)

Group statement of total recognised gains and losses

for the year ended 31 December 2004

	Note	2004 £million	2003 £million
Profit for the financial year		**167.1**	128.5
Actuarial loss on defined benefit pension schemes	22	**(7.9)**	(17.1)
Deferred tax associated with defined benefit pension schemes		**2.6**	5.0
Currency translation differences on foreign currency net investments		**8.4**	13.8
Tax on currency translation differences on foreign currency borrowings		**(0.3)**	0.4
Total recognised gains and losses relating to the year		**169.9**	130.6

Reconciliation of movements in Group shareholders' funds

for the year ended 31 December 2004

	Note	2004 £million	2003 £million
At 1 January		**929.8**	821.0
Total recognised gains and losses for the financial year		**169.9**	130.6
Dividends	10	**(65.0)**	(57.1)
Shares issued	23	**29.8**	25.0
Shares to be issued		**–**	7.4
Decrease in estimate of shares to be issued on acquisitions		**(12.7)**	–
Goodwill written back on disposals		**6.5**	–
Utilisation of accrual for long-term incentive plan		**2.5**	–
Consideration received on sale of own shares		**10.3**	2.9
At 31 December		**1,071.1**	929.8

Note of historical cost profits and losses

for the year ended 31 December 2004

There were no material differences between the reported profit on ordinary activities before taxation and the retained profit and their historical cost equivalents for the year. Similarly there were no such differences in 2003.

Notes to the financial statements

for the year ended 31 December 2004

(1) ACCOUNTING POLICIES

Basis of preparation

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

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

Basis of consolidation

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

Acquisitions

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

Goodwill

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

Retail pharmacy licences

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

Tangible fixed assets and depreciation

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

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

Freehold land is not depreciated.

Investments

Investments are stated at cost less provisions for impairment.

Stocks

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

Securitised receivables

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

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

Deferred taxation

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

(1) ACCOUNTING POLICIES (CONTINUED)

Employee Share Ownership Plans (ESOPs)

Assets and liabilities held by ESOPs are included in the balance sheet where the Group has de facto control of the shares held by the ESOP Trust. The shares of the Company held by the ESOP Trust are deducted in arriving at shareholders' funds.

Turnover

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

Pensions

The Group accounts for pension schemes in accordance with FRS 17 "Retirement Benefits". For defined contribution schemes, contributions are charged to operating profit as payable in respect of the accounting period. For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period the vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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

Foreign exchange

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

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

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

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

Leased assets

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

Derivatives and other financial instruments

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

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

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

Notes to the financial statements

for the year ended 31 December 2004

(2) EXCHANGE RATES

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

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

(3) GROUP OPERATING PROFIT

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

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

All transactions are derived from continuing operations.

(4) SEGMENTAL ANALYSIS

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

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

(4) SEGMENTAL ANALYSIS (CONTINUED)

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

(5) STAFF COSTS
The average number of persons employed by the Group, including Directors and part-time staff, was:

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

Costs incurred in respect of these employees were:

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

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

(6a) EXCEPTIONAL ITEMS – PROFIT ON DISPOSAL OF BUSINESSES
During the year a number of non-core businesses within the UK wholesale operations were disposed of. The assets disposed of included £17.6 million of goodwill of which £11.1 million was capitalised within intangible fixed assets and £6.5 million had been previously written off directly to reserves.

(6b) EXCEPTIONAL ITEMS – AMOUNTS WRITTEN OFF INVESTMENTS
The amounts written off investments relate to the Group's residual US investment in a central dispensing business.

Notes to the financial statements

for the year ended 31 December 2004

(7) NET INTEREST PAYABLE AND SIMILAR CHARGES

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

(8) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

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

Audit fees include amounts paid in connection with IFRS information relating to 2004 and £0.1 million (2003 £0.1 million) for the audit of the Company by the principal auditors. In addition to audit fees, other fees paid to the auditors, including fees capitalised, were as follows:

	Principal auditors £million	Other auditors £million	2004 £million	2003 £million
Due diligence reviews	0.1	–	**0.1**	0.2
Taxation services	0.1	–	**0.1**	1.0
Other	0.1	–	**0.1**	0.1
	0.3	–	**0.3**	1.3

(9) TAX ON PROFIT ON ORDINARY ACTIVITIES

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

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

Alliance UniChem's principal operations are in Europe and the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit on ordinary activities before taxation. The reconciliation of expected tax charge using this standard tax rate of 31.5% (2003 31.8%) to the actual current tax charge is as follows:

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

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

Notes to the financial statements

for the year ended 31 December 2004

(10) DIVIDENDS

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

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

(11) EARNINGS PER SHARE

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

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

(12) INTANGIBLE FIXED ASSETS

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

(13) TANGIBLE FIXED ASSETS

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

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

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

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

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

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

(14) FIXED ASSET INVESTMENTS

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

Notes to the financial statements

for the year ended 31 December 2004

(14) FIXED ASSET INVESTMENTS (CONTINUED)

Group Associated undertakings	Goodwill on associated undertakings £million	Share of net assets of associated undertakings £million	Loans to associated undertakings £million	Total £million
At 1 January 2004	83.8	157.1	46.7	**287.6**
Adjustment in respect of prior year investments	(1.0)	–	–	**(1.0)**
Profit for the year	–	34.0	–	**34.0**
Amortisation of goodwill	(5.1)	–	–	**(5.1)**
Dividends	–	(4.3)	–	**(4.3)**
Additions	5.7	36.4	–	**42.1**
Transfer from other investments	–	14.4	–	**14.4**
Disposals	–	(2.3)	(0.2)	**(2.5)**
Loans repaid	–	–	(4.3)	**(4.3)**
Currency translation differences	0.6	8.0	0.3	**8.9**
At 31 December 2004	**84.0**	**243.3**	**42.5**	**369.8**

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

Loans to associated undertakings are provided at normal commercial rates.

The share of net assets of associated undertakings comprised:

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

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

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

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

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

(15) STOCKS

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

(16) SECURITISED RECEIVABLES

(a) French and Italian schemes

Receivables of £343.2 million (2003 £333.8 million) from French and Italian pharmacies have been securitised under five year programmes that mature in 2007. The Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements, being £300.8 million (2003 £299.5 million), nor does it intend to do so. The provider of these arrangements has agreed in writing that it will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

(b) UK scheme

In 2001, the Group entered into a five year agreement to sell UK receivables to Alliance No. 1 PLC ("Alliance"). Alliance has issued £100 million secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £12.9 million (2003 £15.0 million), which is subordinated, representing the excess of the face value of the receivables sold over the £100 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £12.9 million of finance provided by the Group.

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

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

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

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

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

(17) OTHER DEBTORS

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

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(18) NET BORROWINGS

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

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

Loan notes totalling £2.9 million falling due within one year can be redeemed by the holders giving one month's notice before an interest payment date. However, if no notice is given, these notes will fall due at their maturity dates, which are between 2006 and 2014. At the year end these loan notes bore interest at floating rates of between 3.60% and 3.99% per annum.

The proceeds from the issue of Senior notes have been converted through cross-currency swaps into Euros, Swiss Francs, Sterling and Norwegian Kroner. At the same time, the underlying fixed interest rates have been swapped into floating rates of the relevant currency for the duration of the Senior notes. At year end, the Senior notes effectively bore interest at floating rates of between 2.11% and 6.42% per annum dependent upon currency. The amount reported against each Senior note represents the translation of the swapped currencies at year end exchange rates.

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

(19) FINANCIAL INSTRUMENTS

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

(a) Book and fair value of financial instruments

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

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

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair values of the Senior notes are calculated using discounted cash flow methodology, based on third party estimates of the Group's credit spread above the benchmark swap curve. The fair value of all other financial instruments is approximately equal to book value due to either their short-term nature or their being at variable interest rates.

(b) Interest rate profile

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

	At fixed interest rates £million	At floating interest rates £million	Non-interest bearing £million	Total £million
2004 financial assets				
Sterling	–	48.8	0.2	**49.0**
Euro	–	73.4	47.5	**120.9**
Other	2.3	52.5	1.5	**56.3**
	2.3	174.7	49.2	**226.2**
2003 financial assets				
Sterling	–	59.1	0.7	59.8
Euro	–	79.2	59.0	138.2
Other	–	64.5	2.7	67.2
	–	202.8	62.4	265.2

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

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(19) FINANCIAL INSTRUMENTS (CONTINUED)
(b) Interest rate profile (continued)

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

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

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

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

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

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

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

(d) Maturity profile of financial liabilities
An analysis of financial liabilities, by due date of repayment, is as follows:

	Bank overdrafts £million	Bank loans £million	Loan notes £million	Obligations under finance leases £million	Total £million
2004					
Within one year	**82.1**	**85.1**	**3.1**	**5.5**	**175.8**
Between one and two years	**–**	**63.3**	**–**	**1.3**	**64.6**
Between two and five years	**–**	**112.7**	**106.0**	**3.4**	**222.1**
Over five years	**–**	**2.4**	**436.8**	**10.2**	**449.4**
	82.1	**263.5**	**545.9**	**20.4**	**911.9**
2003					
Within one year	156.8	70.7	28.8	1.2	257.5
Between one and two years	–	12.4	–	1.4	13.8
Between two and five years	–	123.4	35.4	4.0	162.8
Over five years	–	4.4	504.0	1.9	510.3
	156.8	210.9	568.2	8.5	944.4

(19) FINANCIAL INSTRUMENTS (CONTINUED)
(e) Undrawn committed borrowing facilities
The maturity profile of the Group's undrawn committed facilities, where all conditions precedent had been met, at 31 December was:

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

(f) Hedging
Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on hedging instruments, and movements therein, were as follows:

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

(20) OTHER CREDITORS

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

(21) PROVISIONS FOR LIABILITIES AND CHARGES

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

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

Notes to the financial statements

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(21) PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

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

	Provided		Not provided	
Group	**2004 £million**	2003 £million	**2004 £million**	2003 £million
Capital allowances	**26.1**	22.6	**–**	(0.6)
Other timing differences	**4.7**	1.7	**–**	(0.1)
Unrelieved tax losses	**(12.8)**	(8.7)	**(2.9)**	(7.7)
Chargeable gains deferred by roll-over relief	**1.5**	–	**13.4**	14.4
Fixed asset revaluation	**–**	–	**4.6**	5.1
Capital losses	**–**	–	**(0.5)**	–
	19.5	15.6	**14.6**	11.1

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

(22) PENSIONS

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

UK scheme

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

The pension costs in respect of the UK benefit plan are assessed in accordance with the advice of Hewitt Bacon & Woodrow, an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2003. This has been updated by Hewitt Bacon & Woodrow to take account of the requirements of FRS 17, in order to assess the liabilities at 31 December 2004.

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

Other schemes

The Group also sponsors a number of defined benefit plans outside of the UK, some of which are material.

In The Netherlands there is a defined benefit pension plan, which is administered by a separate pension fund. In France there are insured arrangements providing retirement and termination benefits.

In Norway many employees participate in an industry-wide multi-employer scheme operated by a government agency. During 2004, for the first time the agency provided an allocation of the assets and liabilities of the scheme to the participating members. The allocation was based on the proportion of total member contributions to the scheme. The Group's notional share of the surplus at 31 December 2004 calculated using this method was £2.1 million. Over the next few years, the agency intends to identify the assets and liabilities of the scheme by individual participant based on their specific service, and allocate these to current members. The results of this work may give a different allocation of the assets and liabilities from the notional allocation. Until this work is completed the scheme will continue to be accounted for as a defined contribution plan in accordance with FRS 17. In addition, in Norway there are two insured defined benefit schemes in place, which are accounted for as defined benefit schemes.

The costs of material defined benefit plans have been recognised in the Group financial statements in accordance with the requirements of FRS 17.

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

(22) PENSIONS (CONTINUED)
The main financial assumptions used by the actuaries at 31 December were:

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

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

	2004		2003		2002	
	Expected long-term return % pa	**Value £million**	Expected long-term return % pa	Value £million	Expected long-term return % pa	Value £million
UK benefit plan						
Equities	**7.5**	**67.1**	7.8	56.8	7.5	40.8
Bonds	**4.9**	**24.0**	4.8	20.2	4.4	15.2
Other	**6.1**	**4.6**	4.3	1.8	4.0	2.7
		95.7		78.8		58.7
Other European benefit plans						
Equities	**7.0**	**5.9**	8.0	4.3	8.0	3.2
Bonds	**4.1**	**17.9**	5.1	16.4	5.1	13.5
Other	**4.8**	**6.4**	5.0	5.5	5.0	4.9
		30.2		26.2		21.6
Total		**125.9**		105.0		80.3

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

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

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

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(22) PENSIONS (CONTINUED)

The following amounts have been recognised in the financial statements:

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

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

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

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

(22) PENSIONS (CONTINUED)

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

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

(23) SHARE CAPITAL

	Number million	Share capital 10p ordinary shares £million
Authorised share capital	**432.9**	**43.3**
Called up, issued and fully paid up		
At 1 January 2004	350.7	35.1
Shares issued during the year	7.5	0.7
At 31 December 2004	**358.2**	**35.8**

Details of shares allotted during the year were:

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

Notes to the financial statements

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(23) SHARE CAPITAL (CONTINUED)

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

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

(24) OTHER RESERVES

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

Company			
At 1 January 2004	444.2	–	161.7
Shares issued	41.5	–	–
Profit on sale of own shares	–	–	0.3
Retained profit for the year	–	–	16.0
At 31 December 2004	**485.7**	–	**178.0**

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

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit for the financial year dealt with in the profit and loss account of the Company was £81.0 million (2003 £55.9 million).

(25) INVESTMENT IN OWN SHARES

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

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

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for the year ended 31 December 2004

(26) ACQUISITIONS

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

Wholesale **Assets acquired at book and fair value**	Book and provisional fair value at acquisition £million
Fixed assets – tangible	**0.3**
Fixed assets – investments	**0.5**
Stocks	**0.2**
Debtors	**0.2**
Cash acquired	**0.1**
Creditors	**(1.5)**
Minority interests acquired	**0.5**
Assets acquired	**0.3**

Consideration paid	£million
Cash	**(3.9)**
Deferred consideration movement	**0.5**
	(3.4)
Purchased goodwill	**3.1**

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

Retail **Assets acquired at book and fair value**	Book value at acquisition £million	Fair value adjustments £million	Provisional fair value at acquisition £million
Fixed assets – intangible	12.1	64.1	**76.2**
Fixed assets – tangible	1.2	–	**1.2**
Stocks	5.6	–	**5.6**
Debtors	6.2	–	**6.2**
Cash acquired	1.9	–	**1.9**
Creditors and provisions	(7.8)	–	**(7.8)**
Assets acquired	19.2	64.1	**83.3**

Consideration paid	£million
Cash	**(84.8)**
Loan notes	**(0.7)**
	(85.5)
Purchased goodwill	**2.2**

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

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

(27) CASH FLOW STATEMENT

(a) Reconciliation of Group operating profit to net cash inflow from operating activities	2004 £million	2003 £million
Group operating profit	**234.9**	217.7
Depreciation	**41.8**	41.2
Amortisation of goodwill	**10.0**	8.6
Amortisation of pharmacy licences	**0.4**	0.3
Loss/(profit) on disposal of fixed assets	**0.4**	(9.7)
Decrease/(increase) in stocks	**33.3**	(39.4)
Decrease/(increase) in debtors	**67.6**	(60.3)
(Decrease)/increase in creditors	**(72.4)**	168.3
Decrease in net pension liabilities	**(5.9)**	(4.4)
Net cash inflow from operating activities	**310.1**	322.3

(b) Returns on investments and servicing of finance		
Interest received	**8.1**	9.5
Interest paid	**(52.1)**	(59.4)
Dividends paid to minority shareholders	**(0.1)**	(0.4)
Interest element of finance lease payments	**(0.6)**	(0.4)
Net cash outflow from returns on investments and servicing of finance	**(44.7)**	(50.7)

(c) Capital expenditure and financial investment		
Purchase of fixed assets	**(66.6)**	(47.9)
Disposal of fixed assets	**7.7**	9.9
Loans to associated undertakings	**–**	(22.2)
Loans repaid by associated undertakings	**4.3**	14.9
Other investments (net)	**10.8**	2.5
Net cash outflow from capital expenditure and financial investment	**(43.8)**	(42.8)

(d) Acquisitions and disposals		
Purchase of businesses	**(88.7)**	(59.2)
Net cash/(overdrafts) of businesses acquired	**2.0**	(0.1)
Purchase of shares in associated undertakings	**(54.0)**	(1.2)
Disposal of businesses	**31.0**	–
Net overdrafts of businesses sold	**0.8**	0.3
Disposal of investment in associated undertakings	**1.9**	13.4
Net cash outflow from acquisitions and disposals	**(107.0)**	(46.8)

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

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

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for the year ended 31 December 2004

(29) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash at bank and in hand £million	Borrowings due within one year £million	Borrowings due after more than one year £million	Net borrowings £million
At 1 January 2004	117.2	(257.5)	(686.9)	**(827.2)**
Increase in cash	(15.4)	58.2	–	**42.8**
Decrease/(increase) in debt	–	29.3	(32.0)	**(2.7)**
Finance leases entered into	–	(3.0)	(10.3)	**(13.3)**
Other non-cash movement	–	(0.7)	–	**(0.7)**
Currency translation differences	(0.9)	(2.1)	(6.9)	**(9.9)**
At 31 December 2004	**100.9**	**(175.8)**	**(736.1)**	**(811.0)**

(30) MAJOR NON-CASH TRANSACTIONS

Part of the purchase consideration for the acquisition of retail pharmacy businesses comprised loan notes. Further details are set out in note 26.

Part of the purchase consideration for the increased stake in Hedef Alliance was satisfied during the year through the issue of 2.2 million ordinary shares of Alliance UniChem Plc.

(31) OTHER FINANCIAL COMMITMENTS

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

	2004		2003	
	Land and buildings £million	Other £million	Land and buildings £million	Other £million
Within one year	**1.9**	**0.8**	1.9	1.6
Between one and two years	**1.4**	**2.8**	1.4	3.1
Between two and five years	**4.6**	**4.7**	5.0	2.5
Over five years	**15.5**	**0.3**	13.8	–
	23.4	**8.6**	22.1	7.2

(32) PRINCIPAL SUBSIDIARY UNDERTAKINGS

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

Company	Interest in ordinary share capital	Country of operation	Country of incorporation	Main activity
Wholesale Northern Europe				
UniChem Limited	100%	UK	UK	pharmaceutical wholesaler
Interpharm B.V.	100%	The Netherlands	The Netherlands	pharmaceutical wholesaler
Alliance UniChem CZ Spo	97.1%	Czech Republic	Czech Republic	pharmaceutical wholesaler
Holtung A.S.	100%	Norway	Norway	pharmaceutical wholesaler
Wholesale Southern Europe				
Alliance Santé S.A.	99.8%	France	France	pharmaceutical wholesaler
Alleanza Salute Italia SpA	100%	Italy	Italy	pharmaceutical wholesaler and holding company
Safa Galenica S.A.	99.2%	Spain	Spain	pharmaceutical wholesaler
Alliance UniChem Farmaceutica S.A.	100%	Portugal	Portugal	pharmaceutical wholesaler
Retail				
E. Moss Limited	100%	UK	UK	retail pharmacy operator
Alliance UniChem Norge A.S.	100%	Norway	Norway	retail pharmacy operator
De Vier Vijzels B.V.	100%	The Netherlands	The Netherlands	retail pharmacy operator

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

(33) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings were:

Company	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Hedef Alliance Holding A.S.(1)	50%	Turkey	Turkey	pharmaceutical wholesaler
Galenica A.G.(2)	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Alloga S.A.(3)	20%	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A.(3)	50%	Switzerland	Switzerland	retail pharmacy operator
Andreae-Noris Zahn AG	29.99%	Germany	Germany	pharmaceutical wholesaler
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software

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

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

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

(34) RELATED PARTY TRANSACTIONS

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

Trading transactions with associated undertakings were:

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

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

(35) CONTINGENT LIABILITIES

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

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

(36) POST BALANCE SHEET EVENTS

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

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

Five year summary

Group profit and loss accounts – year ended 31 December	2000 £million	2001 £million	2002 £million	2003 £million	2004 £million
Turnover	5,999.9	7,089.4	7,771.6	8,799.3	**8,898.4**
Operating profit before amortisation of intangible assets	155.1	181.3	205.9	226.6	**245.3**
Amortisation of intangible assets	(2.5)	(8.5)	(8.9)	(8.9)	**(10.4)**
Group operating profit	152.6	172.8	197.0	217.7	**234.9**
Income from associated undertakings	6.9	14.6	17.8	32.1	**41.0**
Exceptional items	(9.7)	–	–	–	**11.7**
Net interest payable	(29.4)	(39.6)	(46.9)	(53.5)	**(39.4)**
Profit on ordinary activities before taxation	120.4	147.8	167.9	196.3	**248.2**
Tax on profit on ordinary activities	(40.7)	(52.3)	(58.0)	(67.2)	**(81.0)**
Profit on ordinary activities after taxation	79.7	95.5	109.9	129.1	**167.2**
Equity minority interests	(1.1)	(1.0)	(0.4)	(0.6)	**(0.1)**
Profit for the financial year	*78.6*	*94.5*	*109.5*	*128.5*	***167.1***
EPS diluted – before amortisation of intangible assets and exceptional items	31.1p	32.9p	36.9p	41.2p	**48.2p**
Dividends per share	12.8p	14.0p	15.3p	16.7p	**18.5p**

Segmental analysis – year ended 31 December	2000 £million	2001 £million	2002 £million	2003 £million	2004 £million
Turnover					
Wholesale Northern Europe	1,695.9	2,260.1	2,572.0	2,899.8	**2,897.6**
Wholesale Southern Europe	4,164.5	4,630.2	4,881.1	5,618.9	**5,684.6**
Retail – Europe	552.0	728.0	974.0	1,107.4	**1,222.6**
Intra-Group	(412.5)	(528.9)	(655.5)	(826.8)	**(906.4)**
	5,999.9	7,089.4	7,771.6	8,799.3	**8,898.4**
Total operating profit before amortisation of intangible assets					
Wholesale Northern Europe	50.7	71.0	77.4	84.3	**90.2**
Wholesale Southern Europe	67.3	70.2	74.4	74.4	**77.0**
Retail – Europe	42.6	56.4	65.8	79.3	**96.1**
Corporate	(5.5)	(16.3)	(11.7)	(11.4)	**(18.0)**
Associated undertakings	8.0	17.4	21.5	36.8	**46.1**
	163.1	198.7	227.4	263.4	**291.4**

Group balance sheets – 31 December	2000 £million	2001 £million	2002 £million	2003 £million	2004 £million
Fixed assets					
Intangible assets	459.1	630.6	723.1	784.7	**848.7**
Tangible assets	257.4	255.2	284.4	304.9	**334.4**
Investments	140.4	221.8	306.0	347.9	**412.4**
	856.9	1,107.6	1,313.5	1,437.5	**1,595.5**
Working capital					
Stocks	609.5	647.0	649.9	728.8	**692.2**
Securitised receivables	194.7	306.2	422.4	448.8	**456.1**
Non-recourse receipts	(172.5)	(267.8)	(377.1)	(399.5)	**(400.8)**
Debtors	901.2	900.0	1,017.2	1,128.6	**1,073.6**
Creditors and provisions	(1,134.5)	(1,228.6)	(1,290.5)	(1,542.4)	**(1,487.8)**
	398.4	356.8	421.9	364.3	**333.3**
Net pension liabilities	n/a	n/a	(23.8)	(34.3)	**(36.3)**
Net borrowings	(661.5)	(781.4)	(880.2)	(827.2)	**(811.0)**
Net assets	593.8	683.0	831.4	940.3	**1,081.5**

Only the comparatives for 2002 have been restated for the adoption of FRS 17 in 2003.

IFRS accounting

Introduction

The consolidated financial statements included in this Annual Report have been prepared in accordance with United Kingdom generally accepted accounting practice and applicable accounting standards (UK GAAP). From 1 January 2005 the Group will report its consolidated financial results in accordance with International Financial Reporting Standards (IFRS). The following pages present certain unaudited financial information for the year ended 31 December 2004 restated for IFRS expected to be applicable for 2005 reporting and explains the significant differences between UK GAAP and IFRS for the Group.

As noted above, the financial information below has been prepared on the basis of IFRS expected to be applicable for 2005 reporting. These are subject to ongoing review and endorsement by the European Union (EU), possible amendment by interpretative guidance from the International Accounting Standards Board (IASB) or emerging industry practice and therefore subject to change. Moreover, attention is drawn to the fact that, under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, statement of recognised income and expense, cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the Group's financial position, results of operations and cash flow.

Basis of preparation

The restatement has been prepared on the assumption that all IFRS, including interpretative guidance, issued by the IASB effective for 2005 reporting will be endorsed by the EU. The only standard affecting the IFRS restatement for 2004 for the Group which is assumed will be endorsed by the EU is the amendment to IAS 19 "Employee benefits", allowing actuarial gains or losses to be taken directly to reserves via the statement of recognised income and expense. If the EU does not endorse the amendment to IAS 19 in time for 2005 reporting, this could result in the need to change the basis of accounting or presentation of the financial information set out below.

The EU has endorsed a revised version of IAS 39 "Financial Instruments: Recognition and Measurement", referred to as the carve out version, rather than the full IASB standard. This does not affect the figures presented below as the Group has taken the exemption not to apply IAS 32 and IAS 39 in 2004, being the 2005 comparative year.

IFRS 1 Exemptions

IFRS 1 "First-time adoption of International Accounting Standards" sets out the procedures the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. The standard allows a number of exceptions to this general principle to assist companies as they transition to reporting under IFRS.

The Group will take the following significant exemptions:

- Business combinations: business combinations prior to the transition date (1 January 2004) have not been restated.
- Employee benefits: all actuarial gains and losses have been recognised in equity at the transition date. This is to maintain consistency with the treatment under FRS 17 and the policy going forward of taking actuarial gains or losses directly to reserves via the statement of recognised income and expense.
- Share-based payments: only equity instruments granted after 7 November 2002 and that had not vested prior to 1 January 2005 have been included in the charge to income.
- IAS 32 and IAS 39 "Financial Instruments": comparatives will not be restated for IAS 32 and IAS 39. As a result the information in the figures on page 86 and the comparative information in the 2005 financial statements will be presented on an existing UK GAAP basis.

IFRS accounting

Reconciliation of UK GAAP to IFRS

The following is a summary of the adjustments to consolidated profit for the year and consolidated total equity which would have been required if IFRS had been applied instead of UK GAAP.

Profit for the financial year ended 31 December 2004	Before amortisation of intangible assets and exceptional items £million	Amortisation of intangible assets £million	Exceptional items £million	Total £million
Profit for the financial year under UK GAAP	**170.9**	**(15.5)**	**11.7**	**167.1**
Adjustments to conform to IFRS				
Share-based compensation	(2.2)	–	–	(2.2)
Goodwill amortisation	–	15.1	–	15.1
Exceptional items:				
– net assets disposed	–	–	(0.9)	(0.9)
– reversal of recycling of goodwill from reserves	–	–	6.5	6.5
Deferred taxation:				
– unremitted earnings of associated undertakings	(2.6)	–	–	(2.6)
– pharmacy licences acquired prior to 1 January 2004	2.6	–	–	2.6
– rolled over capital gains	1.0	–	–	1.0
– share-based compensation	0.5	–	–	0.5
Other	0.2	–	–	0.2
Profit for the financial year under IFRS	**170.4**	**(0.4)**	**17.3**	**187.3**

Note:

While IAS 1 does not provide definitive guidance on the format of the income statement, it requires additional line items and headings to be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance. The Group believes that items referred to as exceptional items under UK GAAP should be separately identified under IFRS to assist in understanding the financial performance of the Group.

Earnings per share	Before amortisation of intangible assets and exceptional items pence	Amortisation of intangible assets pence	Exceptional items pence	Total pence
Earnings per share under UK GAAP				
Basic	**48.7**	**(4.4)**	**3.4**	**47.7**
Diluted	**48.2**	**(4.4)**	**3.3**	**47.1**
Earnings per share under IFRS				
Basic	**48.6**	**(0.1)**	**4.9**	**53.4**
Diluted	**48.0**	**(0.1)**	**4.9**	**52.8**

The weighted average number of shares under basic and diluted earnings per share does not differ between UK GAAP and IFRS.

Total equity at 31 December 2004	£million
Total equity under UK GAAP	**1,081.5**
Adjustments to conform to IFRS	
Goodwill amortisation in 2004	15.1
2004 exceptional items – net assets disposed in 2004	(0.9)
Deferred taxation:	
– unremitted earnings of associated undertakings	(7.4)
– pharmacy licences acquired prior to 1 January 2004	(64.7)
– rolled over capital gains	(13.4)
– fixed asset revaluations	(4.6)
– share-based compensation	1.2
– other	0.2
Proposed 2004 final dividend	43.5
Other	0.3
Total equity under IFRS	**1,050.8**

Explanation of adjustments to conform to IFRS

Share-based compensation

Principal difference
Under UK GAAP a charge to the profit and loss account is made in respect of share-based compensation schemes based on the intrinsic value of the awards. Under IFRS 2 "Share-based Payment", a charge to income representing the fair value of outstanding equity instruments granted to employees under share-based compensation schemes is recognised over the vesting period of the schemes.

Impact
The Group's principal share-based compensation schemes comprise savings related and discretionary share option schemes. Under UK GAAP, there is no charge for these share-based compensation schemes because they are either Inland Revenue approved (and therefore specifically excluded from the requirement to record a charge) or have an intrinsic value of nil as the option price is set at the market value at the date of grant. As noted on page 85, the Group will take up the option under IFRS 1 permitting companies to apply IFRS 2 only to equity instruments granted after 7 November 2002 and that had not vested prior to 1 January 2005. As a result, the share-based compensation charge for 2004 of £2.2 million shown in the table as an IFRS adjustment takes into account the fair value of only those options granted since 7 November 2002.

There is no significant difference in the accounting for the Group's long-term incentive plan under IFRS compared to UK GAAP.

Goodwill amortisation – business combinations

Principal difference
Under UK GAAP, goodwill is amortised over its expected useful economic life, up to a maximum of 20 years. Under IFRS 3, goodwill is not amortised, but held at its 1 January 2004 carrying value and tested annually for impairment.

IFRS does not allow the recycling of goodwill to the income statement which was previously written off against reserves.

Impact
Goodwill amortisation in 2004 of £15.1 million under UK GAAP is added back to the profit for the year under IFRS.

The exceptional item under UK GAAP in 2004 relating to the profit on disposal of businesses included £11.1 million of capitalised goodwill and £6.5 million of goodwill originally written off directly to reserves and recycled to the profit and loss account as part of the calculation of the profit on disposal.

Under IFRS, the profit on disposal is reduced by the 2004 amortisation charge of £0.9 million deducted from the capitalised goodwill disposed of, and increased by the reversal of the amount of goodwill recycled from reserves.

As noted on page 85, the Group will take up the option under IFRS 1 permitting companies not to restate past business combinations prior to the transition date (1 January 2004).

Deferred taxation

Principal difference
Under UK GAAP, deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law, at the balance sheet date. Deferred taxation is provided on unremitted earnings of associated undertakings only where there is a commitment to remit the earnings. Deferred taxation is not provided on timing differences arising from either rolled over gains or the revaluation of fixed assets where there is no commitment to sell the asset.

Under IFRS, specifically IAS 12 "Income taxes", deferred taxation is provided in full on all taxable temporary differences. Consequently for example, deferred taxation is provided on the revaluation of fixed assets and rolled over capital gains regardless of whether there is a commitment to sell the asset. Deferred taxation is also provided on unremitted earnings of associated undertakings where incremental tax would be due, regardless of whether there is a commitment to remit the earnings.

Impact
Unremitted earnings of associated undertakings:
A deferred taxation charge of £2.6 million arising on unremitted earnings of associated undertakings is recognised in the year to 31 December 2004 under IFRS. As at 31 December 2004 the cumulative deferred taxation liability on all such unremitted earnings is £7.4 million.

IFRS accounting

Deferred taxation (continued)

Pharmacy licences:
When retail pharmacies are acquired through the purchase of shares (as opposed to asset deals), the Group acquires an asset (the licence) with a tax base cost significantly lower than the book value and so a temporary difference arises. The deferred taxation on this difference is recognised under IFRS. Under UK GAAP deferred taxation is provided on timing differences, and initial recognition of pharmacy licences as a fair value adjustment does not create a timing difference.

As noted on page 85, the Group has chosen not to restate business combinations prior to the IFRS transition date (1 January 2004). A consequence of this, is that under the transitional requirements of IFRS 1, the deferred taxation liability on retail pharmacy licences required to be recognised under IFRS is adjusted through retained earnings rather than capitalised goodwill. For the Group, the effect of this requirement is to reduce total equity under IFRS at 1 January 2004 by £67.3 million, being the deferred taxation liability in relation to retail licences purchased under share deals up to 1 January 2004. The taxation will not be payable as long as the licences are not sold.

As a result of a reduction in the tax rate in The Netherlands during 2004 and indexation in the UK, the deferred taxation liability reduced and a deferred taxation credit of £2.6 million is recognised as an adjustment to the profit for the year under IFRS. After this credit, the effect at 31 December 2004 is to reduce total equity under IFRS by £64.7 million.

Going forward, the deferred taxation liability will be recognised on acquisitions with a corresponding increase in capitalised goodwill included within intangible assets. There will be no effect on total equity.

Rolled over capital gains:
A deferred taxation credit of £1.0 million is recognised in the year to 31 December 2004 as a result of a decrease in the French capital gains tax rate from 2005, applied to the rolled over capital gains relating to fixed asset investments held in France. This brings the total deferred taxation liability on rolled over gains at 31 December 2004 to £13.4 million.

Fixed asset revaluations:
The deferred taxation liability required to be recognised under IFRS on fixed asset revaluations at 31 December 2004 is £4.6 million.

Share-based compensation charge:
A deferred taxation asset is recognised under IFRS in respect of share-based compensation. The asset is calculated on the difference between the market price of the Company's shares at the balance sheet date and the option price for options granted to UK employees. An element of this is taken to the income statement under IFRS, and amounted to a £0.5 million deferred taxation credit in 2004, and the remainder is taken directly to reserves. As at 31 December 2004 the cumulative deferred taxation asset on all such options is £1.2 million.

Dividends

Principal difference
Under UK GAAP, dividends proposed are provided for in the year in respect of which they are recommended by the Board for approval by shareholders. Under IFRS, dividends are not provided for until the dividend recommended by the Board is approved by shareholders.

Impact
The accrual for the 2004 proposed final dividend is reversed, increasing total equity under IFRS by £43.5 million.

Securitised receivables

Principal difference
Linked presentation is currently used by the Group to record receivables sold and non-recourse receipts received in respect of securitisation programmes in the UK, France and in Italy. Under IFRS, linked presentation is no longer permitted and going forward the non-recourse receipts are to be reported separately under a new heading "Financial liabilities".

The securitised receivables are purchased by special purpose entities, which currently are not consolidated. However, IFRS states that special purpose entities shall be consolidated when the substance of the relationship with the reporting entity indicates that the special purpose entities are controlled by the reporting entity. The substance of the relationship with the special purpose entities in the UK and in Italy requires those entities to be consolidated. On the basis that the Group does not meet the control indicators set out in SIC 12 (Consolidation – Special Purpose Entities) there is no requirement to consolidate the French special purpose entity.

Impact
"Financial liabilities" will include amounts relating to non-recourse receipts received in respect of securitisation programmes. Based on the position at 31 December 2004 this will amount to £400.8 million.

The consolidation of the UK and Italian special purpose entities has the effect of eliminating from operating expenses fixed charges of approximately £0.8 million. These costs will be treated as finance charges and will be reported together with net interest payable.

There is no impact on reserves resulting from these changes, which are merely reclassifications within the financial statements.

Derivative instruments and hedging activities

Principal difference
Under IFRS, all derivative instruments are recognised in the balance sheet as financial assets or financial liabilities and are recorded at their fair value. The change in the fair value of a derivative instrument is taken immediately to the income statement where, provided fair value hedge accounting can be applied, it will be offset by a change in the fair value of a hedged item. If, however, the derivative is hedging the variability of future cash flows in a cash flow hedge, the change in the fair value of the derivative is taken directly to reserves and is subsequently recycled to the income statement when the hedged cash flow impacts profit and loss. The ineffective portions are taken immediately to the income statement.

The Group uses a mixture of debt and derivative financial instruments to hedge its investment in foreign operations. The effective portion of the change in fair value of the hedging instrument is taken to reserves and is subsequently recycled to the income statement when the Group's investment is disposed of. The ineffective portion is taken immediately to the income statement.

Impact
The effective date of adoption of IAS 32 and IAS 39 for the Group is 1 January 2005. The financial liabilities in the opening balance sheet in 2005 will increase by £22.3 million, offset by related deferred taxation of £6.7 million, giving a net reduction to total equity of £15.6 million.

Available-for-sale financial assets

Principal difference
Under UK GAAP, listed investments are recorded on the balance sheet at the lower of cost and realisable value. Under IAS 32 and IAS 39, the Group's listed investments will be categorised as available-for-sale and are recorded at fair value. Changes in fair value, together with any related deferred taxation, are taken directly to reserves and are recycled to the income statement when the investment is sold.

Impact
The effective date of adoption of IAS 32 and IAS 39 for the Group is 1 January 2005. The financial assets in the opening balance sheet in 2005 will increase by £3.9 million due to the recognition of listed investments at fair value, which together with the related deferred taxation liability of £0.4 million, will give a net increase to total equity of £3.5 million.

Shareholder information

2005 financial calendar

24 February	2004 preliminary results and dividend announced
2 March	2004 final dividend ex-dividend date
4 March	2004 final dividend record date
20 April	Deadline for receipt of elections to receive the 2004 final dividend in shares Deadline for receipt of proxies for the Annual General Meeting
22 April	Annual General Meeting
10 May	2004 final dividend paid
28 July*	2005 interim results and interim dividend announced
3 August*	2005 interim dividend ex-dividend date
5 August*	2005 interim dividend record date
19 September*	Deadline for receipt of elections to receive the 2005 interim dividend in shares (if offered)
10 October*	2005 interim dividend paid to shareholders

*Provisional date

Shareholding enquiries
Enquiries or information concerning existing shareholdings should be directed to the Company's registrars, Lloyds TSB Registrars either:

- in writing to The Causeway, Worthing, West Sussex BN99 6DA, UK;
- by telephone from within the UK on 0870 600 3970 (or 0870 600 3950 for those with hearing difficulties);
- by telephone from outside the UK on +44 (0) 121 415 7047; or
- through the website www.shareview.co.uk.

If you use the shareview website you will be required to enter your name, postcode and shareholder reference number which can be found on your share certificate(s) and on correspondence from Lloyds TSB Registrars.

Changes of address should be promptly notified to the registrars.

Amalgamation of shareholdings
If you have received more than one copy of this report, your shareholding may be registered under more than one shareholder reference number. To amalgamate your accounts please contact Lloyds TSB Registrars with the details of the accounts concerned.

Dividend mandate
Shareholders who have their dividends paid directly into a bank or building society avoid the risk of delay or loss of dividend cheques in the post and ensure that their account is credited on the dividend payment date. Dividend mandate forms are available from Lloyds TSB Registrars.

Corporate nominee
Shareholders can hold their shares electronically through a dedicated nominee service, which has many advantages over the traditional paper based procedures involving share certificates. Further information on this service is available from Lloyds TSB Registrars.

Electronic shareholder communication
Shareholders can now elect to receive shareholder documents, such as annual and interim reports and notices of general meetings, electronically from the Company's website rather than in hard copy through the mail. This has the advantage of improving the speed of communications and reducing administrative costs of printing and postage. Any shareholder wishing to take advantage of this free service may do so by registering their details on the Lloyds TSB Registrars shareview website at www.shareview.co.uk.

Website
Press releases, the share price and other information on the Group is available on the Company's website www.alliance-unichem.com.

Share listings
The Company's shares are listed on the London and Paris stock exchanges. They are listed under EPIC – AUN, SEDOL – 916572 and ISIN – GB0009165720.

Further information on these markets, their trading systems and current trading in Alliance UniChem Plc shares can be found on both *the London Stock Exchange website www.londonstockexchange.com and the EuroNext markets website www.euronext.com.*

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Analysis of shareholders as at 31 December 2004

	Shareholders		Shares	
Range of holdings	*Number*	%	*Number*	%
1 to 1,000	3,362	38.7	1,458,306	0.4
1,001 to 10,000	3,615	41.6	12,868,163	3.6
10,001 to 100,000	1,457	16.8	38,798,778	10.8
100,001 to 1,000,000	206	2.4	69,788,361	19.5
above 1,000,000	45	0.5	235,275,765	65.7
	8,685	**100.0**	**358,189,373**	**100.0**

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