take a closer look

Alliance UniChem Plc Annual Report 2005

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We're an integral part of the community

Alliance UniChem knows that no two communities are the same and that to understand the needs of the local population you must be truly part of that community.

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Our distribution networks are among the best in our industry

Alliance UniChem seeks to improve its service levels and efficiency through sector-leading process management and innovation and employs the latest technology to ensure that once products leave our warehouses, they get to our pharmacy customers in the most efficient, secure and reliable manner.

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We believe in sharing our knowledge

Alliance UniChem demonstrates its long-standing commitment to community pharmacy through its continual support of independent pharmacists. Across Europe independent pharmacists represent the single largest group offering dispensing services to the community. Alliance UniChem never forgets the importance and value of this group of customers.

About us

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

Operating highlights

- A strong set of financial results.
- Wholesale division performed well in relatively difficult market conditions.
- Strong contribution from retail pharmacy.
- Performance from associates well ahead of expectations.
- Continued development of portfolio including five businesses acquired in wholesale division and a net 106 pharmacies added (including 16 in associates).
- Proposed merger with Boots Group PLC presents a unique opportunity to create an international pharmacy-led healthcare group.

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Our contract logistics and pre-wholesale business services the healthcare industry

Alliance UniChem recognises the importance of pharmaceutical and healthcare companies to the wellbeing of the communities we serve. We see them as core partners for us as we provide high quality services to these communities.

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Our own brands go from strength to strength

Alliance UniChem has a proven track record in using its understanding and knowledge of its markets to develop innovative approaches to lead the industry forward. Recent research has established that Almus generics' proposition of 'clarity of design – helping pharmacists to identify product quickly and simply, and without confusion' – is just as applicable to non-prescription medicines.

Financial highlights

+3.1%
Revenue
£9,171.2m

+5.0%
Revenue including share of associates' revenue
£11,136.5m

+7.1%
Operating profit*
£261.0m

+14.5%
Operating profit*
including share of associates' operating profit
£331.8m

+16.1%
Adjusted profit for the year attributable to equity shareholders**
£197.3m

+14.0%
Adjusted diluted earnings per share**
54.6p

+10.4%
Diluted earnings per share
58.3p

+10.8%
Dividends per share
20.5p

*Operating profit comprises profit from operations before share of associates' post tax earnings and exceptional items as classified by Alliance UniChem (comprising costs in relation to the proposed merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments)

**Excludes exceptional items and IAS 39 timing differences net of tax

A glossary of key terms is provided on page 125 of this report

Contents

Chairman's introduction

"The Group is driven with an entrepreneurial spirit and zest for growth."

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Paolo Scaroni
Chairman 28 February 2006

I am pleased to report that throughout 2005 the Group has continued to perform strongly, extending our long established track record of delivering excellent financial results year after year. This has been achieved largely through the continuation of organic sales growth and an ongoing focus on margin management, cost control and working capital efficiency. The balance of our activities and geographical spread has again provided resilience to short-term fluctuations in individual markets.

Financial results

Operating profit (which comprises profit from operations before share of associates' post tax earnings and exceptional items as classified by Alliance UniChem) increased year on year by 7.1% to £261.0 million, an increase of 14.5% when we include our share of operating profit from associates. Adjusted profit for the year attributable to equity shareholders (which is after tax and excludes exceptional items and IAS 39 timing differences) increased by 16.1% to £197.3 million. Our key measure, adjusted diluted earnings per share, increased by 14.0% to 54.6 pence per share. Unadjusted diluted earnings per share grew by 10.4% to 58.3 pence per share, the total gain from exceptional items and IAS 39 timing differences being lower in 2005 than the exceptional gains in 2004.

Dividend

The Board is recommending a final dividend of 13.6 pence per share, making a total dividend for the year of 20.5 pence per share. The proposed final dividend is 11.0% higher than the 2004 final dividend, the total dividend for the year being up 10.8%. The proposed final dividend will be paid on 10 May 2006 to shareholders on the register at the close of business on 10 March 2006. The Board will, as with the interim dividend, offer shareholders the opportunity to reinvest their final cash dividend in buying existing issued shares in the Company through a dividend reinvestment plan.

Performance overview

The Group's wholesale division performed well in relatively difficult market conditions which led to slower market growth, our underlying performance improving as the year progressed. Throughout 2005 our retail division continued to perform strongly, despite slow market growth, resulting in a healthy increase in operating margins and like for like operating profits. Performance from our associate businesses was well ahead of our expectations, driven by Hedef Alliance in Turkey which performed particularly well.

Proposed merger with Boots Group PLC

On 3 October 2005 the Boards of Alliance UniChem and Boots Group PLC ("Boots") announced that they had agreed the terms of a recommended merger to create Alliance Boots, an international pharmacy-led healthcare group. The proposed merger is subject to a number of pre-conditions and conditions, as set out in the detailed announcement released to the regulatory news service on 3 October 2005, a copy of which was sent to Alliance UniChem shareholders with the exception of those shareholders not permitted to receive it for regulatory reasons.

On 1 December 2005 the European Commission referred the proposed merger in its entirety to the Office of Fair Trading ("OFT") having concluded that it posed no competition concerns outside the UK under applicable EU competition laws. On 7 February 2006 the OFT announced its decision not to refer the proposed merger to the UK Competition Commission provided that satisfactory undertakings to address competition concerns arising from the supply of retail pharmacy

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services in around 100 local areas in the UK were given. Alliance UniChem and Boots are working closely with the OFT to agree appropriate undertakings. Further announcements on this work will be made in due course.

The merger documentation will not be issued to Alliance UniChem or Boots shareholders until all the merger pre-conditions have been satisfied or waived. The merger will be implemented by way of an offer made on behalf of Boots for Alliance UniChem, unless the parties agree to effect the merger through a scheme of arrangement. In that event, the scheme of arrangement will be implemented on the same terms, as far as applicable, as the merger offer.

Other corporate developments

During 2005 we strengthened further our portfolio of businesses by increasing our direct ownership of Alloga, one of Europe's leading specialist healthcare logistics and pre-wholesaling providers, and by acquiring two well-positioned regional wholesaling businesses in Spain. In June we entered into a strategic partnership with the Portuguese national association of pharmacies and an independent investment company with interests in the Portuguese healthcare industry, selling 49% of our wholesale business in Portugal to the association and 2% to the independent investment company.

Growth in our retail network has continued to be robust. In 2005 we added a net 106 pharmacies to our portfolio (of which 16 were in associates), including 50 when we entered the Northern Ireland market through the acquisition of Bairds Chemists, the region's largest pharmacy chain. This brought our retail portfolio to 1,288 pharmacies at 31 December 2005, including 123 operated by associates.

Since the year end we have announced that we are to enter the Russian market through the acquisition of a 96% controlling stake in the parent company of Apteka Holding ZAO, the fifth largest pharmaceutical wholesaler in Russia. Apteka reported sales of approximately £115 million in the year ended 31 March 2005 and operates a network of 20 depots across the country. The consideration for the stake will be approximately £18 million and in addition we will assume approximately £10 million of net debt. The Russian pharmaceutical wholesale market, which we estimate to be currently worth over £3 billion, is anticipated to grow at low double digit growth rates for the foreseeable future. Apteka is well positioned to benefit from ongoing growth opportunities.

Board changes

I was honoured to be appointed as non-executive Chairman of your Company in April 2005, succeeding Jeff Harris who retired from the Board after nearly 19 years as a Director. Per Utnegaard, our former Wholesale Director, resigned from the Board in March 2005 following the decision that Ian Meakins should have direct responsibility for the Group's major wholesale businesses.

Neil Cross, the Chairman of our audit committee, was scheduled to retire at the forthcoming Annual General Meeting in April after nine years' service as a non-executive Director. He has agreed to put himself forward for re-election to the Board for another year in order to maintain continuity during the period prior to the proposed merger with Boots.

Outlook

The strength and diversity of the Group has enabled us to deliver in 2005 another year of strong financial performance. Anticipated growth in the UK market in 2006 combined with appropriate action by our local management teams should continue to counter the effects on the Group of regulatory reviews, particularly in France, as governments continually strive to contain costs at manageable levels.

We continue to focus on improving the performance of all our businesses through our commitment to consistently delivering superior customer service, our expertise in margin management and our drive for further productivity savings and synergies. This is combined with our strong emphasis on working capital efficiency and cash generation to fund profitable expansion.

This focus, together with the strength and diversity of the Group, our opportunities for geographic expansion and the commercial initiatives that we are taking to drive growth, make us confident about our businesses' commercial and financial prospects.

The proposed merger with Boots presents us with a very exciting future. The combination of the two groups will provide a unique opportunity to combine complementary strengths to create an international force in pharmacy retailing whilst reinforcing our commitment to the independent pharmacist through enhanced wholesale distribution and related services.

Group at a glance

A truly pan-European

pharmacy fo

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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 related value added services.

We aim to achieve this by having:

- High core service levels to dispensing pharmacists
- Innovative value-added services
- Competitive pricing
- Strong partnerships with manufacturers
- 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

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

Customers

We aim to achieve this by having:

- Community pharmacies typically located close to doctors' surgeries
- A pharmacist-led focus on prescription medicines, other healthcare products and related services
- Product ranges and services tailored to local patient needs
- 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.

"From Calpol to school uniforms, David at our local pharmacy has it all."
Catherine and Eve, Alliance Pharmacy customers, Stockingford

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"The team at Alliance Pharmacy is reliable, friendly and approachable. They deliver all our 33 residents' monthly prescriptions as a single package and advise us on how we can best administer each resident's daily dosages in a safe and efficient way. If we ever have queries, they're our first port of call. It's a wonderful two-way interaction and they're always available to help."
Anne Turner, Manager, Old Raven House Care Hotel, Hook, Hampshire

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"We have an excellent working relationship with Urmay and her team and feel very fortunate to be working with them in our community. They are more than just medicine providers; they are a truly valuable source of information. The entire team is warm and friendly, and makes it a point of always being on the end of the phone within two to three rings. It's a very pleasant way for us to work."
Dr. David Love, Hook Surgery, Hook, Hampshire

"Myself and my team can test and develop our knowledge and hone our customer advisory skills through Alliance Pharmacy's 'Advice Matters' initiative."
Urmay Raman, Alliance Pharmacy Pharmacist, Hook, Hampshire

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We're an integral part of the

The value of community pharmacy
Alliance UniChem knows that no two communities are the same and that to understand the needs of the local population you must be truly part of that community.

Our pharmacy teams believe there is more to a personalised service than simply knowing customers' names or being familiar with their repeat prescriptions and they are often members of the same local community as their customers. This peer-to-peer contact ensures an easy and reassuring interaction. In addition, our teams undertake visits to local doctors' practices and form positive working relationships with health visitors and community nurses, doctors, surgery practice managers and other surgery support staff.

Through their carefully nurtured relationships with customers, our pharmacy teams are well placed to give informed and valuable healthcare advice and we are actively developing the capability of our teams to do this. Through our "Advice Matters" training initiative in the UK, we present our pharmacy teams with fictitious scenarios which challenge their healthcare knowledge. For example, could they identify the symptoms of a stroke victim, or suggest what a patient could do to combat a recurring dry cough? After a period of deliberation, a suggested course of action is given.

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"Urmay and her team are wonderful. They source products for our patients as quickly as they can, they look things up for us and guide us through tricky medicines and protocols. We're a very busy practice and they're always on the go but they never get stressed or irate. I don't know how we'd survive without them."
Staff Nurse Helen Kent, Hook Surgery, Hook, Hampshire

"I really appreciate the personalised service that Alliance Pharmacy offers me. The new dispensary layout allows me to discuss with my pharmacist any concerns I have with my, or my family's, medication without being overheard or feeling I am interrupting his work. It also allows me the opportunity to discuss other healthcare concerns that come to mind while I am waiting for my prescriptions to be dispensed."
Christina, Alliance Pharmacy customer, Lower Earley, Reading

community

Alliance Pharmacy, the Group's UK pharmacy chain, rewards its pharmacy teams that go the extra mile in customer care by showcasing on a weekly basis their achievements through an on-line newsletter, "Heartfelt News". Team members are therefore recognised and celebrated across the country for going above and beyond their normal duty of care.

Our approach of a highly personalised service built upon strong customer relationships is mirrored in the selection of product ranges specifically tailored to meet local patient needs.

Whilst healthcare is our primary focus, we are fully cognizant that we need to stock a retail product offer that we know our customers need and will want to purchase again and again. We are not afraid to take this to an extreme to meet specific requirements. In our Stockingford pharmacy, where we have introduced a state of the art advice and dispensary format focused heavily on healthcare, it became clear to the Stockingford team that we had missed one unique local demand that we had traditionally met, with the result that space was found within days to re-introduce a line of uniforms for the local primary schools!

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Right: 960 new routes were implemented in the UK this year resulting in quicker delivery times, multiple daily drops and significant cost savings.

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Above: Use of ePOD systems can improve service levels and provide users with intelligence to proactively aid efficiency improvements. Plans are underway to trial the newly launched MC70 ePOD terminal at UniChem in Chessington during 2006.

Above and right: Our team of in-house analysts use our telematics systems to monitor vehicle productivity and performance, enabling us to manage our fleet more effectively and optimise performance.

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Our distribution networks are among the best in

Taking Best Practice out onto the road
Alliance UniChem seeks to improve its service levels and efficiency through sector-leading process management and innovation.

Alongside the work we have been doing to develop and roll-out our Best Practice model for the optimisation of our wholesale depots, we are employing the latest technology to ensure that once products leave our warehouses, they get to our pharmacy customers in the most efficient, secure and reliable manner.

On board telematics systems installed across our UK fleet enable us to benchmark driver and vehicle productivity and performance. By monitoring factors like harsh braking, speeding, engine temperature and fuel consumption, we can manage our fleet more effectively and can also optimise the performance of our vehicles through lower fuel and maintenance costs and avert risk, manage liability and drive financial economies.

We are taking this process one step further through the roll-out of "Project Andretti" (the introduction of the "TruckStops" system). TruckStops is an automated routing and scheduling system designed to improve service levels, reduce costs and increase efficiency across our fleet. Our team of in-house analysts working on Project Andretti examine in minute detail existing delivery routes to identify where improvements can be made. Then, working with depot managers, new routes are gradually phased in depot by depot. With some depots

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Above: Our team of analysts examine in minute detail existing delivery routes to identify where improvements can be made.

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Above: Our new Scania R420 trucks represent the very best in both operational cost-efficiency and driver comfort. Their 420 horse power 12-litre engines offer long-term dependability and, together with improved aerodynamics, give smarter control of engine auxiliaries and weight reduction. Designed to have the lowest possible impact on the environment throughout their operational life, this new generation of double-deck trailers have cavernous internal proportions and world-class volume to weight ratio.

our industry

adopting six new routes per week, a total of 960 new routes were implemented in the UK this year resulting in quicker delivery times, multiple daily drops and significant cost savings.

During 2006 we plan to trial in the UK an electronic proof of delivery ("ePOD") system which will allow us to collect signatures at point of delivery or collection, trigger invoicing, advise customers and eliminate the complexity and handling costs relating to paper proof of delivery. We believe that the system will improve service levels and capture real-time event information which will provide us with intelligence to proactively aid future efficiency improvements.

We are also exploring the option of trialling hybrid vehicles and electric vans to determine whether they might prove a valuable future addition to our fleet. With an average speed in London of just 9.9 mph and an increasing focus on reducing fuel emissions and rising fuel bills, vehicles powered by electricity may prove to be a future cost effective and environmentally responsible option.

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Left: UniChem, the Group's UK wholesale business, has developed the "Solutions" series of handbooks to help its independent customers prepare for the first stage of the new community pharmacy contract. It aims to provide an understanding of the key elements of the Essential level of the new contract, give practical advice on implementing and meeting the required criteria and provide customers with a means to enable compliance with the mandatory requirements for continued pharmacy practice.

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Above and Right: "UniChem's consulting room is a perfect combination of good design and practical space and has plenty of capacity for the new pharmacy contract now and in the future. In our specialised location it enabled us to adapt and extend the life of existing fittings but still create a 'wow' factor. Congratulations to UniChem – we love it."
David Badham, Badham Pharmacy, Worcs

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Left: A blood test being undertaken by a pharmacist in a private consultation area.

We believe in sharing our

The importance of the independent pharmacist Alliance UniChem demonstrates its long-standing commitment to community pharmacy through its continual support of independent pharmacists.

Across Europe independent pharmacists represent the single largest group offering dispensing services to the community. Alliance UniChem never forgets the importance and value of this group of customers.

On 1 April 2005 the new pharmacy contract was introduced in England and Wales. This is designed to modernise the existing national contractual framework for community pharmacy, establish minimum standards and promote and reward high quality services not just prescription volumes. For pharmacists to operate within the new framework, they need to fully understand the new contract requirements in order to be able to offer the required level of Essential services. Moreover, they must make the necessary practical changes to their pharmacies in order to offer Advanced and Enhanced services.

Striving to move beyond its traditional role as distributor of medicines and products, UniChem, the Group's UK wholesale business, is helping independent pharmacists equip themselves to reap the operational, financial and reputational rewards afforded by the new contract.

In addition to producing the highly acclaimed "Solutions" handbooks, UniChem is offering its customers further guidance through a series of 'Contract Roadshows' across the country.

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Left: We have held 15 Medicine Use Reviews (MURs) accreditation workshops during 2005 through which almost 240 of our independent pharmacist customers have successfully gained accreditation and skills to deliver MURs in their pharmacies. These one-day workshops have been very well received by attendees who believe that not only have they gained accreditation, but a confidence and clarity in what is practically involved when conducting MURs with their patients.

Above: We're helping pharmacists to help themselves. "I have worked with Davinder for many years now. We have built a strong business partnership between our two organisations with UniChem offering him expertise and knowledge in critical business areas. This, combined with Davinder's entrepreneurial spirit, has formed the framework that has seen his business grow strongly in recent years." **Anthony Mayhead (left), Commercial General Manager, UniChem with long-term UniChem customer and independent pharmacist Davinder Verdee**

knowledge

Pharmacists are taken through a step-by-step programme of what they need to do to plan for and implement the new contract. Participants are able to discuss factors affecting implementation, raise areas of concern and learn about the other practical solutions UniChem can offer to facilitate the process.

A pre-requisite of being able to offer Advanced services is the installation of an in-pharmacy consulting area. UniChem's retail services team offers bespoke consultation area packages through which a fully up and running consultation area can be designed, manufactured and installed in less than three months. This may also be a requirement for future Enhanced services.

A further pre-requisite is that the pharmacist receive accreditation. Appreciating that this may prove an intimidating and potentially time-consuming process, UniChem, in conjunction with the Medway School of Pharmacy in Kent, has organised a series of one-day workshops during which independent pharmacist customers undergo a workshop-style assessment culminating in their receiving full accreditation within two weeks of attending the workshop.

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Above: Due to the nature of the products dispatched, the picking line is reliant on highly trained staff and the most up-to-date technology to ensure the highest levels of quality and accuracy.

Left: Sophisticated technology is used to manage and monitor the intelligent conveyor on our picking lines.

Above top: Access to secure areas is carefully controlled to ensure security is maintained to the highest levels.

Above bottom: Products are carefully checked and packed to ensure reliable ongoing transportation from our warehouse to the end user.

Right: Temperature control in the warehouse is crucial to many of the products that are stored. This control extends to their ongoing transportation.

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Our contract logistics and pre-wholesale business

the health

Delivering innovative services to the healthcare industry Alliance UniChem recognises the importance of pharmaceutical and healthcare companies to the wellbeing of the communities we serve.

We see pharmaceutical and healthcare companies as core partners for us as we provide high quality services to these communities. In evolving and developing our distribution skills, Alliance UniChem has created a diverse range of services to support these companies across Europe. These services include warehousing and distribution, Pan-European contract management, secondary packaging and labelling, distribution of promotional material and clinical trial logistics.

As an illustration of this, Alliance UniChem provides highly specialised distribution services for biotechnology companies looking for expert handling and transportation of their expensive and fragile products. Our expertise means that we have the specialist personnel, facilities and know-how to preserve the integrity of these products through the delivery network.

Our highly trained staff ensure products are properly handled upon arrival for storage at our depots. Sometimes valued in excess of £5,000 per pack, they often need to be kept at carefully controlled temperatures as their efficacy can be diminished, if not entirely destroyed, by being over heated or excessively cooled. Temperature control is also critical during ongoing transportation. Working typically within a 24-hour delivery window, their progress must be monitored closely to ensure time frame and storage conditions are respected.

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Above: Due to the nature of many of the products we handle for our customers, they require the strictest temperature controls to ensure their efficacy is not diminished.

Above: In April 2005 we acquired Alloga, one of Europe's leading specialist healthcare logistics and pre-wholesaling providers.

services

care industry

Unlike many of our other depots where prescription drugs are automatically picked and dispatched under considerably less stringent conditions, this is not the case for these items. All product orders received from doctors, nurses, clinics, hospitals or pharmacies are prepared for dispatch under pharmacist supervision and are labelled and packaged in such a way that they are maintained during transit in a secure and controlled environment. Some orders are distributed straight to the end user, and in some specific circumstances direct to the patient at home.

During 2005 we expanded our services to manufacturers through the acquisition in April of Alloga, one of Europe's leading specialist healthcare logistics and pre-wholesaling providers. Alloga gives us an enhanced platform from which to accelerate the provision of services across Europe and complements those already offered by our existing wholesale businesses. Our services to manufacturers were strengthened further in July through the acquisition of 75% of French company Pharma Dep which specialises in the promotion and distribution of healthcare products to pharmacists on behalf of pharmaceutical manufacturers and the acquisition of 60% of a similar company in Italy.

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Left and below: Our research shows that consumers are keen to see non-prescription products in simple, colourfully designed packaging that enables them to identify what the product is and what it does quickly and easily.

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Left: Our Almus packaging is now the first in the UK to present a life-size, true-colour illustration of the tablet or capsule contained within the pack.

Our own brands go from strength

Developing a winning concept Alliance UniChem has a proven track record in using its understanding and knowledge of its markets to develop innovative approaches to lead the industry forward.

In April 2003 Alliance UniChem launched Almus, our exclusive range of generic drugs, which has rapidly developed into one of the UK's leading generic brands. Its unique award-winning packaging, consistency of specification, ready availability and competitive pricing has made it a favourite of pharmacist and patient alike. Preparations are well underway to launch Almus in two other markets – France in the second quarter of 2006 and Italy thereafter.

Almus' innovative approach to packaging design has received continued industry recognition since launch and during 2005 it won its third award in three years. The Rt. Hon. Jane Kennedy MP, Minister of State for Quality and Patient Safety at the Department of Health, presented Almus with the award for "Innovation in Pharmacy" at the 5th Annual Pharmacy Business Awards in London on 24 October.

Further innovation of its user-focused packaging design continued throughout the year. The Almus packaging is now the first in the UK to present tablet identification (a life-size, true-colour illustration of the tablet or capsule contained within the pack) on prescription medicines. The innovative design enhances patient safety, ensuring that the contents of the pack are clearly identifiable and distinguishable from other medications.

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Above: Following on from our success with Almus is Alvita, our range of commodity products (such as bandages and cotton wool) which was launched in France during 2005. Plans are underway to launch Alvita in the UK and Italy by the fourth quarter of 2006.

to strength

Following research with consumers and pharmacists, it was established during 2005 that Almus generics' proposition of 'clarity of design – helping pharmacists to identify product quickly and simply, and without confusion' – was just as applicable to non-prescription medicines.

The findings demonstrated that consumers are keen to see non-prescription products in simple, colourfully designed packaging that enables them to identify what the product is and what it does, quickly and easily.

To be launched in the UK in the third quarter of 2006, the Almus range of non-prescription medicines will consist initially of products mainly within the pain relief and stomach remedies categories. In line with the Almus generics range of medicines, this new range will be differentiated through its clear and colourful packaging. We plan to expand the range to cover a full range of hayfever and allergy relief products in 2007.

In addition Alvita, a range of commodity products (such as bandages and cotton wool) launched by Alliance UniChem in France during 2005, will be launched in the UK and Italy by the fourth quarter of 2006.

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Our wholesale division performed well in 2005 in relatively difficult market conditions

which led to slower market growth, our underlying performance improving as the year progressed.

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Throughout 2005 our retail division continued to perform strongly

despite slow market growth, resulting in a healthy increase in operating margins and like for like operating profits.

Operating and financial review

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The Group has continued its well established track record

of generating cash flow to fund investment in growth. Net cash generated by operations was

£275.1m

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As a leading European healthcare group we must be trusted and responsible.

Historically corporate responsibility issues have been managed at a local level by each of our businesses. In 2005 we started to take a more coordinated approach – establishing new management structures, gathering data and setting targets in a number of key areas.

Contents

Markets and divisional highlights

Alliance UniChem's strategy is to consistently grow shareholder value over an extended period of time by focusing on its key areas of expertise within the healthcare market, namely pharmaceutical wholesaling and retail pharmacies. In countries where regulations permit and it makes economic sense to do so, Alliance UniChem seeks to operate wholesale and retail pharmacy businesses alongside one another.

Alliance UniChem aims to grow its businesses organically through consistently delivering superior customer service, utilising its expertise in margin management and by obtaining productivity savings and synergies from managing its businesses closely together. This is combined with a strong emphasis on working capital efficiency and cash generation to fund profitable expansion.

In addition to organic growth, Alliance UniChem's strategy is to grow through the acquisition of businesses and associate interests, both in existing and new geographical markets, applying strict financial criteria for all investments.

Market environment and regulatory framework The European healthcare markets in which the Alliance UniChem Group operates are forecast to continue to exhibit long-term relatively stable and manageable growth. This reflects socio-demographic trends across Europe which show an ageing population and rising quality of life expectations in old age.

These trends are placing increasing and operational demands on healthcare systems, resulting in continuing growth in prescription medicine volumes. Prescription medicines across Europe are primarily paid for by national governments, either directly to the retail pharmacy or via an intermediate body, patients sometimes having to make a co-payment, depending in some instances upon either their income or the product being prescribed.

Governments across Europe are continually seeking ways to curtail the annual growth in healthcare expenditure, including expenditure on prescriptions. They do however realise that high quality healthcare in the community, including the treatment of ailments using medicines, is typically more cost-effective than hospitalisation and surgery.

In recent years governments have sought to curtail the growth in their expenditure on prescription medicines by using a variety of tools such as:

- cutting the reimbursement price of branded ethical drugs;
- promoting the substitution of branded ethical drugs with their lower priced generic equivalent (typically reimbursing at the generic price and giving the dispensing pharmacist the right of substitution);
- delisting from reimbursement lists products deemed to have limited medical benefits;
- introducing more patient co-payments for prescription medicines;
- requiring manufacturers to be more thorough in demonstrating the medicinal benefits of their products prior to their being listed for reimbursement.

Markets

The wholesale markets in which our businesses operate grew year on year, we estimate, by around 2.5% in value on a constant currency basis, this growth being weighted on the basis of our wholesale revenue. This compares with estimated market growth of 4.5% in 2004. In almost all our markets growth rates were below those forecast at the beginning of 2005. In 2006 we forecast that our wholesale markets will grow in value by around 2.5%, the same as in 2005, reflecting regulatory measures recently announced in France and Spain which we expect will offset better forecast growth in the UK once we are beyond the anniversaries of the Department of Health's Pharmaceutical Price Regulation Scheme (PPRS) price cuts and lower drug tariff for generics which took place in the first half of 2005.

The long-term trends have continued in 2005. The value growth in the market driven by the introduction of higher priced new pharmaceuticals is being offset by the growth in generics.

In 2005 we estimate that generics comprised around 20% of our total wholesale market in volume terms, weighted on the basis of our wholesale volumes, this percentage typically being significantly higher in our markets in Northern Europe. During the year, penetration of generics grew in all our markets, the rate of growth being particularly strong in Italy, Norway and Spain. We anticipate this percentage continuing to rise as more products come off patent and generic penetration increases in Southern Europe.

Alliance UniChem network

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The overall level of parallel trade in Europe was lower than in 2004, mainly due to manufacturers' quotas and other initiatives restricting product availability for export. Importing into the UK was further constrained by the impact of the PPRS price cuts at the beginning of January 2005 which reduced the price of branded pharmaceutical products by an average of 7%, resulting in fewer price differentials between the UK and certain other countries. Most manufacturers took the opportunity to modulate the PPRS price cuts on their products, reductions being larger on products where parallel importing was previously prevalent.

Retail markets, weighted on the basis of our retail revenue, grew year on year, we estimate, by around 1.5% in value on a constant currency basis. This was below the estimated market growth rate of 4% in 2004 and lower than our forecast at the beginning of 2005 due to lower growth rates in all retail markets. In 2006 we forecast that our retail markets will grow in value by around 4% as we expect the UK retail market to grow in 2006 once we are beyond the anniversaries of the PPRS price cuts and lower drug tariff for generics.

Divisional highlights for the year ended 31 December 2005

			Year on year growth	
	Revenue £million	Operating profit* £million	Revenue %	Operating profit* %
Wholesale				
– Northern Europe	2,913.1	92.2	+0.5	+3.1
– Southern Europe	5,821.0	77.4	+2.4	+0.4
Intra-segment	(46.8)	–	n/a	–
Wholesale	8,687.3	169.6	+1.8	+1.9
Retail	1,337.3	112.9	+9.4	+18.5
Corporate	–	(21.5)	–	n/a
Intra-group	(853.4)	–	n/a	–
Group	9,171.2	261.0	+3.1	+7.1
Share of associates' revenue and operating profit	1,965.3	70.8	+15.1	+53.6
Total	**11,136.5**	**331.8**	**+5.0**	**+14.5**

*Operating profit comprises profit from operations before share of associates' post tax earnings and exceptional items as classified by Alliance UniChem (comprising costs in relation to the proposed merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments)

Wholesale

Our wholesale division performed well in 2005 in relatively difficult market conditions which led to slower market growth, our underlying performance improving as the year progressed.

picture removed

We acquired two well-positioned regional wholesalers in Spain.

picture removed

Generics now account for over 40% of the UK volume of prescription medicines.

picture removed

Our warehouse best practice programme continued during the year, the central distribution centre in South Normanton being completed at the end of the year.

picture removed

Total Alloga revenue in 2005 since acquisition was £16.1 million.

Revenue totalled £8,687.3 million, an increase of 1.8% on the previous year, operating profits increasing by 1.9% to £169.6 million. Overall operating margins were unchanged year on year at 1.95%. Adjusting for acquisitions and disposals (including Portugal which has been accounted for as an associate in the second half of the year), on a constant currency basis, like for like sales increased by 1.6%, like for like operating profits increased by 4.6% and like for like operating margins increased by six basis points.

Second half operating profits were £89.7 million, an increase of 4.2% on the second half of 2004, on revenue up 1.5% to £4,286.5 million. On a constant currency basis, like for like second half operating profits increased by 9.0% on the second half of 2004 and second half like for like sales by 2.0%.

During 2005 we further strengthened our portfolio of wholesale businesses in line with our well established strategy. This included increasing our direct ownership of Alloga in April 2005, one of Europe's leading specialist healthcare logistics and pre-wholesaling providers and acquiring two well-positioned regional wholesalers in Spain, substantially increasing our market position. We also acquired businesses in France and Italy providing contract sales forces and other services to pharmaceutical manufacturers.

Alloga's financial performance is included within the respective countries' wholesale figures from the date it was acquired. Total Alloga revenue in 2005 since acquisition was £16.1 million. Alloga made an operating loss during this period partly due to integration costs and operational issues in France.

New bulk warehouse capacity was brought on stream in France in the fourth quarter of the year to expand the business and replace three smaller facilities. Progress is being made to further develop the business within our wholesale division.

Northern Europe

Operating profit in the Northern Europe geographical area of our wholesale division totalled £92.2 million, an increase of 3.1% on the previous year, on revenue up 0.5% to £2,913.1 million, four non-core businesses having been sold in the UK in the second half of 2004. Operating margins increased by eight basis points to 3.17%. Adjusting for disposals and the acquisition of Alloga, on a constant currency basis, like for like sales increased by 0.9%, like for like operating profits increased by 3.8% and like for like operating margins increased by nine basis points. Second half operating profits in Northern Europe were £47.2 million, an increase of 0.6% on the second half of 2004 on revenue up 4.6% to £1,488.6 million.

UK

In the UK total revenue decreased by 2.7% to £1,821.9 million, like for like sales decreasing by 0.2% compared to a market which we estimate declined in value by around 1.5%. The decline in the market was due to the implementation of the PPRS price cuts at the beginning of January 2005 (which reduced the price of branded pharmaceutical products by an average of 7%), further price reductions by certain manufacturers and a new lower drug tariff for generics from the beginning of April (which we estimate reduced the price of generic pharmaceutical products by an average of 16%) and branded drug patent expiries in the second half of the year. In volume terms we estimate that the market grew by around 4% which was stronger than we have seen in other countries in 2005, generics now accounting for over 40% of the UK volume of prescription medicines. In the early part of the year the PPRS price cuts resulted in temporary disruption in the market place, first through parallel traders discounting unsold stock and later by some manufacturers being out of stock of the equivalent branded product which adversely impacted service levels to our customers and our own pharmacies. Overall, these changes and related disruption made 2005 a relatively difficult year for our UK wholesale business, resulting in lower like for like operating margins and profits.

The warehouse best practice programme continued during the year, the central distribution centre in South Normanton being completed at the end of the year. The expertise gained from the programme now forms part of our normal working practices across the Group. The investment in best practice, together with our work with manufacturers and other operating initiatives, is supporting the drive to improve both customer service and efficiency levels.

The programme established at the end of 2004 to drive greater synergies from the UK wholesale and retail businesses, with a particular focus on manufacturer services and operations, and the process of realigning our commercial terms, has progressed well. This programme is already beginning to deliver benefits for our UK businesses and will continue in 2006. The wholesale and retail buying functions for non prescription medicines were successfully combined at the beginning of the year. Since the year end, a minor restructuring has been carried out, principally in the UK wholesale head office at Chessington where headcount has been reduced by 14%. This is expected to lead to greater efficiencies, functional best practice and an even greater focus on our core activities.

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. Sales volumes almost doubled year on year, the Almus range in the UK comprising 146 products at 31 December 2005. Progress continues to be made towards graph removed

Wholesale depots at 31 December 2005

picture removed

A. UK	11
B. The Netherlands	4
C. Czech Republic	6
D. Norway	1
E. France	57
F. Italy (including associates)	45
G. Spain	33
H. Portugal*	7
I. Turkey*	99
J. Germany*	24
K. Switzerland*	3
L. Pre-wholesale (including associates)	10
Total	**300**

*Associate interest.

extending the range in the UK and launching Almus in a number of other European countries, starting with a phased launch in France in the second quarter of 2006 and Italy in the final quarter of 2006.

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

Our current forecast for market growth in the UK in value terms in 2006 is around 1%. This reflects a combination of lower generic prices from April 2005, patent expiries due in 2006 and our estimate of the impact of the surgical product pricing review scheduled for implementation in the second half of 2006. In January 2006 the UK Government published its "Our health" White Paper exploring options for increasing the provision of primary care in local community settings. This White Paper is currently in its consultation stage; we welcome the continuing drive towards community based provision of healthcare.

The Netherlands
In The Netherlands revenue increased by 2.6% to £659.9 million, sales increasing by 0.9% on a like for like constant currency basis. This compares to a market which we estimate grew in value by around 3.5%, market share reducing after a number of years of significant share gains mainly due to the loss of a multiple pharmacy account, part of which was replaced with new business, and an increase in deliveries direct to patients in their homes of specialist high value products. Operating margins and profits increased year on year, due to enhanced trading activities.

During the year Kring, our virtual chain of pharmacies in The Netherlands, entered into agreements with the two largest Dutch health insurers to provide health check programmes for their patients.

Our current forecast for market growth in The Netherlands in value terms in 2006 is around 6% which assumes continuing growth in deliveries direct to patients in their homes and the introduction, from the beginning of 2006, of the Covenant III schedule. Covenant III continues the Covenant II pricing regime introduced by The Netherlands Government in 2005, and introduces additional price reductions with the aim of cutting the national pharmaceutical spend by around a further £55 million in 2006.

Czech Republic
In the Czech Republic revenue increased by 16.4% to £212.4 million, sales increasing by 7.7% on a constant currency basis compared to a market which we estimate grew by around 7%. Market growth was lower than we had previously expected due to action by the Ministry of Health to curtail healthcare expenditure which largely offset anticipated gains from the certification of certain ethical products.

We continue to place considerable focus on growing our sales and market share in the independent retail pharmacy sector in the Czech Republic, our market share in the hospital sector reducing due to our unwillingness to supply certain hospitals experiencing financial constraints which impact their ability to adhere to payment terms. Operating margins and profits increased year on year, gross margins increasing due to an improved product mix and an increase in pre-wholesaling. Our current forecast for market growth in the Czech Republic in value terms in 2006 is around 5%.

Norway
In Norway revenue increased by 10.1% to £218.9 million, sales increasing by 4.3% on a constant currency basis compared to a market which we estimate grew in value by around 2.5%. Increasing synergies from running the Norwegian retail and wholesale businesses more closely resulted in higher gross margins and lower costs. These factors led to increased operating margins and profits. In January 2005, we acquired the 49% we did not previously own of Farmaka, the leading central dispensing facility in Norway for unit dose dispensing packs. Since then, the facility has been relocated to larger premises and production capacity increased to meet rising demand for these specialist packs. Our current forecast for market growth in Norway in value terms in 2006 is around 4%.

75%

In July we accelerated development of services we offer manufacturers through the acquisition of a 75% interest in Développement et Promotion Pharmaceutique in France.

picture removed

In the second quarter of 2006 we plan to launch 'Almus', the Group's exclusive range of generic drugs, in France.

picture removed

Good progress continues to be made in establishing our virtual chain of pharmacies in Italy, bringing the total to 107 at the year end with a further 53 signed up to join shortly.

Southern Europe

Operating profit in the Southern Europe geographical area of our wholesale division totalled £77.4 million, an increase of 0.4% on the previous year on revenue up 2.4% to £5,821.0 million. Operating margins reduced by three basis points to 1.33%. Adjusting for acquisitions and the disposal of Portugal (which has been accounted for as an associate in the second half of the year), on a constant currency basis, like for like sales increased by 2.0%, like for like operating profit increased by 5.6% and like for like margins increased by five basis points. Second half operating profits in Southern Europe were £42.5 million, an increase of 8.4% on the second half of 2004 on revenue down 0.1% to £2,824.6 million, due to the disposal of our Portuguese business.

France

In France revenue increased by 4.1% to £3,790.7 million. Sales growth was 3.0% on a like for like constant currency basis which was in line with our estimate of market growth in the wholesaling sector. We estimate that the total market grew in value by around 5%, the proportion of products which manufacturers sell and distribute direct to pharmacies continuing to increase as in previous years. We estimate that direct sales now account for close to 20% of the French market in value terms.

To counter the increase in direct sales in France we are realigning our commercial terms which we will implement progressively in the first half of 2006, and we are continuing to develop our offering and work closely with a number of generic manufacturers to increase our market share in this category. As a result we increased our generic sales by over 35%, which was double our estimate of total market growth for this category. Commencing in the second quarter of 2006 we plan a phased launch of 'Almus', the Group's exclusive range of generic drugs. We continue to promote participation of our pharmacy customers in collective buying arrangements with tailored service offerings for these groups. We are also extending the range of services offered to manufacturers, such as pre-wholesale and contract logistics, transfer orders, contract sales forces, and direct to patient delivery. Overall like for like operating margin was slightly up year on year as a result of a strong margin performance in the second half of the year. Operating profit increased year on year as a result of the sales and margin improvement.

In July we accelerated development of services we offer manufacturers through the acquisition of a 75% shareholding in Développement et Promotion Pharmaceutique ("Pharma Dep"), a French company specialising in the promotion and distribution of healthcare products to pharmacists on behalf of pharmaceutical manufacturers. The total consideration was around £8 million, including debt acquired. This acquisition complements our existing service offering including that of Alloga.

By the year end Pharma Dep had agreements in place with 12 regional and national pharmacy buying groups and provided commercial services for around 30 pharmaceutical manufacturers, utilising its sales force of 95 representatives.

In July we completed the disposal of Elvetec, a small loss-making French business supplying products to medical laboratories. This was in line with our strategy of selling businesses which we do not consider part of our core activities. Elvetec's revenue in the period up until its sale was £13.4 million.

Since the year end the French parliament has approved a target reduction in overall healthcare expenditure of approximately £3.7 billion over a three year forward period on a cumulative basis. Measures announced which will impact the pharmaceutical wholesaling market are: a 15 - 18% reduction in the price of all generics and branded pharmaceuticals for which a generic exists, the delisting of products, lower reimbursement rates for certain products and larger pack sizes with lower percentage margins. These measures are in the process of being implemented. As a result we are currently forecasting that the French market will grow in value terms in 2006 by around 2%.

In addition, in January 2006 the French government has implemented a new law which limits the amount of discounts that any business can give to its customers. The effect of this general law on the pharmaceutical industry will be to cap unofficial discounts manufacturers give to pharmacies on direct sales at a maximum of 20% of the invoice net price. As the impact of these regulatory changes becomes clearer, we will review the services we offer to ensure that we appropriately meet the changing requirements of this market.

Italy

In Italy revenue increased by 1.4% to £921.6 million, sales decreasing by 0.7% on a like for like constant currency basis. This compares with a market which we estimate declined by around 1.5% in value due to temporary price cuts made by the government in June 2004 (which were in operation until the end of October 2005) and lower levels of consumption. Despite this decrease our operating margins and profits increased year on year due to a strong contribution from trading activities.

Good progress continues to be made in establishing our virtual chain of pharmacies in Italy. By the year end 107 pharmacies had joined, with a further 53 signed up to join shortly. During 2005, one depot was closed, the business being successfully transferred to two existing depots in the same region, and one depot was relocated to larger premises

picture removed

In July we acquired 60% of a small business selling and distributing pharmaceutical and cosmetic products in Italy.

picture removed

In May we expanded our Spanish wholesaling business, strengthening our market position through the acquisition of Farmaceutica Central, S.A. ("Farmacen"), the sixth largest pharmaceutical wholesaler in Spain.

picture removed

The integration of Farmacen and CERFC with our existing business is well underway and will deliver significant improvements in efficiency and enhanced customer service.

enabling it to stock an extended product range. These changes are part of an ongoing programme to improve efficiency which will continue in 2006. In July we acquired 60% of a small business selling and distributing pharmaceutical and cosmetic products to pharmacies and wholesalers on behalf of manufacturers on an exclusive agency basis using a contract sales force.

Our current forecast for market growth in Italy in value terms in 2006 is around 2.5%. This forecast takes into account a price reduction of 4.4% on branded ethical pharmaceutical products introduced in mid January 2006, which largely reversed the price increase at the end of October 2005 when the temporary price cuts came to an end.

Spain
In Spain total revenue increased by 16.1% to £917.7 million, a decrease of 1.9% on a like for like constant currency basis, like for like constant currency domestic sales growing by 0.5%. This compares with a domestic market which we estimate grew by around 5.5% in value, our growth being lower due to increased domestic competition resulting from a much tougher export market, an increasing proportion of direct sales and also lower growth in geographic regions where we have strong market positions. Our export sales were significantly lower than in 2004, mainly due to manufacturers' quotas restricting product availability. Overall, our operating margins and profits decreased year on year on a like for like basis, mainly as a result of lower domestic gross margins and fewer trading opportunities.

In May we expanded our Spanish wholesaling business, strengthening our market position through the acquisition of Farmaceutica Central, S.A. ("Farmacen"), the sixth largest pharmaceutical wholesaler in Spain and the largest independent wholesaler not under co-operative ownership. Farmacen has strong market positions in the Madrid and Seville regions, its sales totalling around £190 million in 2004. It was acquired at a cost of £32.2 million, including debt assumed as part of the acquisition, of which around half is payable in instalments over the next four years.

In November we also acquired a 99.8% controlling stake in Centro Europeo de Reparto Farmaceutico de Cataluna, S.A. ("CERFC") the 20th largest pharmaceutical wholesaler in Spain, along with a 21.4% investment in Centro Farmaceutico, S.A., a wholesaler in Valencia. CERFC has strong market positions in the Barcelona area and in the Balearic Islands, its sales totalling around £81 million in 2004. The total consideration was £12.4 million, including debt assumed.

The integration of Farmacen and CERFC with our existing business is well underway and will deliver significant improvements in efficiency and enhanced customer service. During 2005, we closed three small depots in Spain as part of our ongoing efficiency programme, one depot in Seville being no longer required following the acquisition of Farmacen.

Manufacturers continue to explore ways to restrict product availability for export, including the introduction by one manufacturer of a dual net pricing system in June. We continue to work closely with a number of major manufacturers to develop a range of specific services in Spain designed to meet our respective objectives.

Our current forecast for market growth in Spain in value terms in 2006 is around 2.5%. This is lower than in 2005 due to an expected price reduction in ethical products and the introduction of a new "Medicine Act" which is currently going through the Spanish parliament. This comprehensive act contains many measures relating to the distribution and pricing of medicines, including a requirement that medicines can only be supplied to pharmacies direct by manufacturers or through licensed wholesalers who meet stringent quality, service and reporting requirements. The act also prohibits product discounting and contains measures to promote the use of generics and reduce the pricing of branded pharmaceutical products automatically by 20% after they have been sold for over ten years.

Portugal
Just before the end of the half year we entered into a strategic partnership with Associação Nacional das Farmácias, Portugal's national association of pharmacies, and an independent investment company with interests in the Portuguese healthcare industry. This was done to accelerate the development of our Portuguese wholesale business. Under the terms of the agreement we sold 49% of our business to the association and 2% to the investment company, resulting in a net cash inflow of £91.5 million, including inter-group loan repayments and the deconsolidation of local bank debt.

For the six months of the year leading up to the transaction total revenue in Portugal was £189.2 million, sales increasing by 10.5% on a like for like constant currency basis which was well ahead of the market which we estimate grew in value by around 4%. Operating margins increased, mainly due to improved gross margins which, together with higher sales, resulted in increased operating profits. Our remaining 49% interest in Portugal has been accounted for as an associate from the date of the transaction. Since then the business has continued to increase its sales at a rate well ahead of the market while substantially reducing its trade debtor days, resulting in increased profitability.

Wholesale revenue of £1.8 million in Portugal in the second half of the year was from the Group's wholly owned Portuguese Alloga business.

Retail

Throughout 2005 our retail division continued to perform strongly despite slow market growth, resulting in a healthy increase in operating margins and like for like operating profits.

3x

Alliance Pharmacy has carried out over 9,000 Medicine Use Reviews in 2005 since they were introduced in April 2005. This is nearly three times the industry average.

picture removed

In October Alliance Pharmacy launched a free "healthy heart assessment" programme in 86 pharmacies.

450

More than 450 of our pharmacists in England and Wales have been accredited to carry out Medicine Use Reviews.

picture removed

Alliance Pharmacy opened six central dispensing units during 2005 bringing its total to eight at the year end.

Revenues totalled £1,337.3 million, an increase of 9.4% on the previous year, operating profits increasing by 18.5% to £112.9 million. Operating margins increased by 65 basis points to 8.44% as a result of improvements in the UK, The Netherlands and Norway. On a constant currency basis, revenue increased by 8.1% and operating profits by 17.8%, like for like sales increasing by 0.1%.

Second half operating profits were £59.6 million, an increase of 18.7% on the second half of 2004 on revenue up 9.4% to £703.6 million.

UK

In the UK revenue increased by 8.2% to £939.2 million, sales growth being held back by the impact of the PPRS price cuts and the new lower drug tariff for generic medicines. Like for like sales declined by 0.2% in value. This compares with a market which we estimate grew by around 1.5%, our pharmacies having a relatively high proportion of sales of prescription medicines, so being more impacted by price cuts. Adjusting for the impact of the PPRS review, our underlying like for like sales growth was 3.5%. Despite the price cuts, our total National Health Service income increased by 8.3%, our total dispensing volume increasing by 10.3%. This compares with a prescription market which we estimate grew in volume terms by around 4.5%. Our operating margins increased year on year as a result of strong growth in income from patient and manufacturer services and synergies arising from running our retail and wholesale businesses more closely together.

The new pharmacy contract in England and Wales, which started at the beginning of April, introduced a change in remuneration from purely dispensing based fees to include remuneration for Essential and Advanced services. Essential services comprise acute dispensing, repeat dispensing, disposal of unwanted medicines, promotion of healthy lifestyles, signposting to other courses of care and support for self care and people with disabilities. The principal Advanced service currently is Medicine Use Reviews designed to help patients use medicines more effectively and improve the clinical and cost effectiveness of prescribed medicines. Payment for the provision of Advanced services is contingent upon each pharmacy meeting strict quality standards for both the premises and the pharmacist.

By the year end more than 450 of our pharmacists in England and Wales had been accredited to carry out Medicine Use Reviews. In order to achieve this, each pharmacist had to undertake a competency assessment carried out by a Higher Education Institute. Data to the end of November showed that our pharmacies had on average carried out over three times the industry average number of Medicine Use Reviews per pharmacy. Alliance Pharmacy has carried out over 9,000 Medicine Use Reviews in 2005 since they were introduced in April 2005. The Department of Health raised the upper limit for the provision of this service from the beginning of January 2006 from 200 to 250 reviews per pharmacy per annum. This new service is in addition to those offered for some time, such as supervised methadone programmes in more than 40% of our pharmacies and blood pressure testing in more than a third. In October we launched a "healthy heart assessment" programme in 86 pharmacies. In addition to having their blood pressure and body mass index measured, patients worried about whether they are at risk of developing heart disease can have a blood sample taken to determine their cholesterol level, enabling a better overall assessment of whether they are at risk.

graph removed

Retail pharmacies at 31 December 2005

picture removed

A. UK	954
B. Norway	120
C. The Netherlands	71
D. Italy (including associates)	28
E. Switzerland*	115
Total	**1,288**

*Associate interest.

Specifications for the first Enhanced services, the top tier service level under the new contract in England and Wales, were published in September 2005. Since then, we have begun to see the benefit of this in terms of our professional services income. These services include smoking cessation and weight loss clinics commissioned by Primary Care Trusts based on local priorities. The new contract for Scotland is expected to be introduced in phases from April 2006. No date for implementation of a new contract in Northern Ireland has yet been announced.

We opened six central dispensaries during 2005 bringing our total to eight at the year end. These dispense high volumes of acute and repeat prescriptions in a highly efficient way and are typically located within wholesale depots or above retail pharmacies. Central dispensaries primarily supply care homes and prisons, many of which are made up in unit dose dispensing packs. One of the new dispensaries is dedicated to supplying repeat prescriptions in an efficient way to local pharmacies.

The current changes planned by the Department of Health, including the introduction of electronic prescriptions, mean that we see an increasing role for such central dispensaries over the coming years, thereby freeing up our community-based pharmacists to spend an increasing proportion of time providing services and advice to their patients, in addition to dispensing acute prescriptions.

Prescription collection services, where we collect repeat prescriptions from doctors' surgeries on behalf of patients, are available from over 90% of our pharmacies in the UK, the balance being in communities where surgeries do not permit pharmacies to collect prescriptions on behalf of patients. Over 35% of our pharmacies additionally provide a home delivery service to patients less able to visit their community pharmacy, serviced by a fleet of more than 180 home delivery vans. We also strive to continue to improve the level of customer service within our pharmacies. This is monitored using an external mystery shopper programme, which is used to target increased standards.

During the year we won contracts to supply two prisons for the first time and successfully re-tendered for a contract to provide pharmaceutical services to 15 prisons. We also set up a new customer focused account management service for care homes, our market share of this sector increasing as the year progressed with over 1,200 care homes now being serviced by us. A new training programme on medicine handling for care home staff has been recently established following a successful pilot.

In March we launched our new retail brand and visual identity, "Alliance Pharmacy". Since then, 349 pharmacies in the UK have been rebranded. Pending the proposed merger with Boots we have put the rebranding project on hold but have continued with our substantial refit programme, other than where our pharmacies are in relatively close proximity to Boots stores. Our new pharmacy design incorporates private consultation areas which meet the requirements of the new contract and beyond. During the year 83 branches were refitted and seven relocated, five of which were to health centre developments. Private consultation areas were installed in a further 207 pharmacies on a standalone basis in 2005, the number of our pharmacies with private consultation areas totalling 501 at the year end. This compares with 200 at the beginning of 2005, of which 98 have had their consultation areas upgraded during the year. New point of sale material has also been introduced with a stronger professional focus, to raise awareness of the new pharmacy contract and our related retail healthcare offering to patients and customers.

In May we entered the Northern Ireland market through the acquisition of Bairds Chemists, the region's largest pharmacy chain with 50 branches. Bairds, which had combined unaudited sales in 2004 of £51.6 million, was acquired for £81.2 million on a debt free/cash free basis. Since acquisition Bairds' sales have been in line with our initial forecasts, profits being marginally ahead, and the programme to integrate the business within Alliance Pharmacy is on schedule for completion later in 2006. During 2005 a further net 26 pharmacies were added in the UK of which four were new openings. The total UK chain, as at 31 December 2005, comprised 954 pharmacies and 52 other healthcare related retail outlets.

In the first half of the year the roll out of advanced EPOS systems was completed other than in recently acquired pharmacies. The new EPOS system has been closely followed by the installation of new dispensing systems, 43 pharmacies having the new software at the year end with roll out scheduled for completion in 2006. These branch systems, together with new head office systems which we are introducing, are improving our ability to manage product ranges, enhance margins, control inventories, facilitate the delivery of new pharmacy services and enabling pharmacists and staff to spend more time with their patients and customers.

picture removed

In April Alliance Apotek was voted the top pharmacy chain in Norway in a national customer satisfaction survey by the Norwegian School of Management.

picture removed

Our European chain now comprises of 1,288 pharmacies.

picture removed

In March we launched our new retail brand and visual identity, "Alliance Pharmacy". Since then, 349 pharmacies in the UK have been rebranded.

picture removed

Over 35% of our pharmacies in the UK additionally provide a home delivery service to patients less able to visit their community pharmacy, serviced by a fleet of more than 180 home delivery vans.

Our current forecast for retail pharmacy market growth in value terms in the UK in 2006 is around 4%. This is significantly higher than we are forecasting for the wholesale market in the UK as the retail pharmacy market will not be impacted by the surgical product pricing review (these products typically being supplied direct to patients' homes) and is not exposed to the hospital pharmaceutical market, with its comparatively low growth rate.

Norway
In Norway revenue increased by 9.0% to £254.5 million, an increase of 3.3% on a constant currency basis. Like for like constant currency sales increased by 0.2%. This compares with a market which we estimate grew in value by around 3%, the market growth being much lower than in 2004 due to lower growth in prescription volumes. The total number of pharmacies in Norway continues to increase, newer openings taking market share from existing outlets. During the year Alliance Apotek acquired one pharmacy, opened five and relocated five, which brought our pharmacy chain to 120 at 31 December 2005. In addition, we refitted 14 pharmacies and acquired a further three retail outlets selling specialist surgical products, bringing the total number of our other healthcare related retail outlets to five.

In April Alliance Apotek was voted the top pharmacy chain in Norway in a national customer satisfaction survey by the Norwegian School of Management. Operating margins and profits increased year on year as a result of a further strengthening of our commercial activities and increasing synergies from running our retail and wholesale businesses together. Our current forecast for retail pharmacy market growth in Norway in value terms in 2006 is around 4%.

The Netherlands
In The Netherlands revenue increased by 22.2% to £119.9 million, an increase of 21.0% on a constant currency basis. Like for like constant currency sales increased by 1.9%. This compares with a market which we estimate grew in value by around 2%, the total number of pharmacies in The Netherlands increasing in 2005. During the year we acquired eight pharmacies, taking our chain size to 71 at 31 December 2005 and refitted three pharmacies. Operating margins increased year on year, mainly as a result of improved gross margins, operating profits also increasing due to the increased scale of the business. Our current forecast for retail pharmacy market growth in The Netherlands in value terms in 2006 is around 4%. This is lower than our estimate of wholesale market growth as the retail growth does not include direct deliveries of medicines to patients' homes.

Italy
In Italy revenue increased by 4.4% to £23.7 million, actual like for like sales increasing by 3.3% on a constant currency basis. This compares with a market which we estimate declined in value by around 1.5%. No pharmacies were acquired during the year, leaving a total of 28 at 31 December 2005, including eight in associate businesses. During the year three pharmacies were refitted, one of which was in an associate business. Operating profit was at the same level as in 2004, operating margins being slightly lower, despite higher gross margins, due to redundancy costs following the decision to utilise the wholesale management to run the business, given its small size. Our current forecast for retail pharmacy market growth in Italy in value terms in 2006 is around 2.5%.

Through other associate retail businesses, the Group operated 123 pharmacies and five other healthcare related retail outlets at 31 December 2005, a net 16 pharmacies being added during the year.

Corporate and associates

picture removed

Hedef Alliance, Turkey's leading wholesaler, contributed £27.7 million to the Group's earnings.

picture removed

At the beginning of April we completed the restructuring of our relationship with Galenica, our 25.5% owned Swiss associate, to create greater focus on our respective areas of operations and to simplify trading relationships.

Corporate

Corporate costs totalled £21.5 million, a £3.3 million increase on the previous year. This change was due to a number of factors, including the full year impact of the strengthening of the corporate office management team to run business improvement programmes which took place during the first half of 2004.

Associates

Performance from our associate businesses was well ahead of our expectations at the beginning of the year, driven by Hedef Alliance in Turkey which performed particularly well.

Our share of associates' post tax earnings was £45.3 million, a 33.2% increase on the previous year, our share of profits from operations increasing by 53.6% to £70.8 million and our share of revenue by 15.1% to £1,965.3 million. Adjusting for changes in associate interests, including the inclusion of Alliance UniChem Farmacêutica in Portugal as an associate from the end of June 2005, on a constant currency basis, like for like earnings increased by 24.5%, like for like operating profits by 44.4% and like for like revenues by 26.8%. The underlying tax rate on associates' earnings was 30.5%, an increase of 0.9 percentage points on the previous year, mainly due to the non-deductibility of Hedef Alliance's monetary loss adjustment in 2005 as inflation in Turkey was below 10%. This was partially offset by a reduction in the Turkish corporate tax rate.

Hedef Alliance, Turkey's leading wholesaler, contributed £27.7 million to the Group's earnings compared to £17.1 million in the previous year, an increase of 45.0% on a constant currency inflation adjusted basis. During the year, Hedef Alliance particularly benefited from liberalisation measures relating to the transfer of out-patient prescriptions from hospitals to community pharmacies, the market growing we estimate by around 4% in volume terms, and very low inflation by historic standards. The inflation accounting monetary loss adjustment within operating profit was lower because the wholesale price index inflation rate at 4.5% was around a third of the inflation rate in 2004. The Turkish Lira strengthened by 10.6% against Sterling over the course of the year which favourably affected the reported results in Sterling, a year end rate of 2.32 Turkish Lira being used to translate Hedef Alliance's inflation adjusted earnings into Sterling. During the year a net 38 depots were opened in Turkey, of which 37 were small satellite facilities, bringing the total number of depots at the year end to 99, of which 68 are satellites.

UCP, Hedef Alliance's associate in Egypt, continues to perform well. Hedef Alliance intends shortly to exercise its option to acquire control and majority ownership of UCP.

From the beginning of 2006 we will no longer account for Hedef on an inflation adjusted basis. As a result, we will not have to reduce Hedef's operating profits by a monetary loss adjustment and will change from translating earnings into Sterling at a year end rate to an average rate, as with other associates and owned businesses. Had we not had to account for Hedef on an inflation adjusted basis throughout 2005, its reported earnings in Sterling would have been around £2.5 million higher.

Our share of earnings from associates other than Hedef increased by 4.1% in total to £17.6 million. These include our share of earnings from Galenica in Switzerland and ANZAG in Germany, both of which are quoted companies, and our wholesale associate in Portugal. Adjusting for changes in associate interests, on a constant currency basis like for like earnings from these other associates increased by 0.8% year on year, earnings growth being held back partly by restructuring costs taken by Galenica which is to close two wholesale depots in Switzerland and relocate into one new facility.

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

Financial review

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Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. Previously the financial statements were prepared under United Kingdom generally accepted accounting principles (UK GAAP). The disclosures required by IFRS in relation to the transition from UK GAAP to IFRS are provided in note 50 to the financial statements on pages 109 to 114. These disclosures provide reconciliations from UK GAAP to IFRS of the equity at the transition date of 1 January 2004 and 31 December 2004 and of the profit for the year ended 31 December 2004.

The principal accounting policies adopted by the Group under IFRS are set out in note 2 to the financial statements on pages 69 to 73.

Results for the year

Group turnover was £9,171.2 million, a year on year increase of 3.1% (up 2.0% on a constant currency basis).

Operating profit increased by 7.1% to £261.0 million, with operating margins increasing by 11 basis points to 2.85%. Including our share of operating profit from associated undertakings (which grew by 53.6% to £70.8 million) operating profit increased by 14.5% to £331.8 million.

Shareholders' return and dividends

Diluted earnings per share before exceptional items and IAS 39 timing differences increased year on year by 14.0% to 54.6 pence. After exceptional items and IAS 39 timing differences, diluted earnings were 58.3 pence, a year on year increase of 10.4%. The Board is recommending a final dividend of 13.6 pence per share, making a total dividend for the year of 20.5 pence per share. The proposed final dividend is 11.0% higher than the final dividend in 2004, the total dividend for the year being 10.8% higher than the total dividend for 2004. The total dividend is covered 2.7 times by basic earnings per share before exceptional items and IAS 39 timing differences and 2.9 times after exceptional items and IAS 39 timing differences.

Exceptional items

Exceptional items, which are items classified by Alliance UniChem as exceptional in nature, totalled £9.1 million of after tax gains in 2005, compared to £17.3 million of after tax gains in 2004. The composition of the net gains in 2005 was as follows:

£3.8 million of costs before tax were incurred in the second half of the year in relation to the Group's proposed merger with Boots.

A net profit before tax was made on the disposal of businesses totalling £7.8 million. The principal transactions which made up this amount were the sale of 51% of Alliance UniChem Farmacêutica, our Portuguese wholesale business, the disposal of our 50% direct interest in the GaleniCare Swiss pharmacy chain and our 20% direct interest in the Swiss part of the Alloga pre-wholesale and contract logistics business both to our associate, Galenica, and the disposal of Elvetec in France.

The Group also disposed of its small investment in the German wholesaler, Sanacorp Pharmahandel A.G., for a profit before tax of £2.1 million, as it no longer considered the investment to be of strategic importance following the increase in its investment in ANZAG in Germany in 2004.

These transactions resulted in a net tax credit of £3.0 million.

Net finance costs

Net finance costs were £33.5 million. Excluding IAS 39 timing differences from hedging interest rate and currency exposures (comprising £5.2 million of gains which were mainly due to the strengthening of the US Dollar versus the Euro), underlying net finance costs were £38.7 million, a 7.6% reduction on the comparable figure in the previous year when there were no IAS 39 timing differences (due to the Group electing to adopt IAS 39 from 1 January 2005). The underlying reduction was mainly due to a lower level of fixed interest rate cover and the benefits from the ongoing working capital efficiency programme. Interest cover, which we define as operating profit before exceptional items divided by underlying net finance costs, was 6.7 times, compared to 5.8 times in 2004.

Tax

The Group's underlying rate of tax, defined as the underlying tax charge (i.e. excluding tax on exceptional items and IAS 39 timing differences), expressed as a percentage of operating profit net of underlying net finance costs, was 31.4%. This was 1.0 percentage points lower than in 2004, due to the settlement of a number of disputed items with tax authorities in respect of prior years which resulted in a 1.4 percentage points reduction in the underlying rate of tax, partially offset by an increase in tax on our share of earnings remittable by associates.

We expect the underlying tax rate for 2006 to reduce further by approximately one percentage point. This is partly due to corporate tax rate reductions in The Netherlands and France and is subject to change as it is based on our budgeted mix of profits by country and assumes no further changes in tax rates in individual countries.

Cash flow

for the year ended 31 December 2005

	2005 £million	2004 £million
Cash generated by operations	**275.1**	311.1
Tax and interest	**(98.3)**	(94.4)
Dividends (net)	**(30.6)**	(27.5)
Acquisitions and disposals	**(34.1)**	(103.4)
Net capital expenditure	**(75.8)**	(58.9)
Other investments (net)	**(29.6)**	10.8
Other	**4.9**	(7.2)
Total cash inflow	**11.6**	30.5
Currency and fair value adjustments on financial instruments	**36.9**	(9.9)
Decrease in net borrowings*	**48.5**	20.6

*2005 decrease with reference to IAS 39 adjusted opening borrowings.

Cash flow

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

Net cash generated by operations was £275.1 million compared to £311.1 million in 2004. Working capital net outflow was £24.5 million, which was £53.5 million more than in 2004 due to lower levels of working capital at the beginning of the year compared to the start of 2004. Year on year, trade working capital efficiency improvements totalled approximately £25 million.

Cash inflow from lower inventories was £17.3 million, inventories reducing year on year by 0.6 days. Cash outflow from higher receivables was £11.6 million, trade receivables reducing year on year by 0.4 days. Cash outflow from lower payables was £30.2 million, trade payable days remaining the same year on year.

The net cash outflow on acquisitions and disposals of businesses, associates, and available-for-sale investments was £34.1 million, including £38.8 million of borrowings acquired with businesses. The principal cash outflows within this net number were £81.2 million for the acquisition of Bairds Chemists in Northern Ireland, £41.1 million for the purchase of other retail pharmacies, and £28.3 million for the Farmacen and CERFC wholesale businesses in Spain. The principal cash inflows were £91.5 million arising on the disposal of 51% of Alliance UniChem Farmacêutica in Portugal, £15.7 million for the Galenica restructuring and £12.0 million of deferred consideration receipts from the sale of non-core UK businesses in 2004.

Net capital expenditure was £75.8 million of which £56.9 million was for growth and efficiency projects. These included investment in the opening, relocating, re-fitting and upgrading of retail pharmacies, investment in new wholesale and retail systems, and new bulk warehouse capacity for Alloga in France.

Other investments (net) of £29.6 million mainly comprised £30.6 million of net expenditure on acquiring shares in Alliance UniChem Plc for the 1992 Employee Trust.

Shareholders' equity

Shareholders' equity at 31 December 2005 totalled £1,173.8 million, a year on year increase of £145.5 million after adjusting for the adoption of IAS 39 on 1 January 2005 which reduced shareholders' equity by £12.1 million.

Financial position

At 31 December 2005 net borrowings (which we define as borrowings, net of cash and cash equivalents and derivative financial instruments) were £779.6 million, which was £48.5 million lower than at the beginning of the year after adjusting for the adoption of IAS 39 on 1 January 2005 which increased borrowings by £22.3 million. Currency translation differences and fair value adjustments on financial instruments reduced borrowings year on year by £36.9 million.

Treasury policies

The Group's treasury policies which have been approved by the Board, 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 utilises derivative financial instruments to hedge interest rate and currency risk. The Group's policy is not to engage in speculative transactions.

Where possible, the Group seeks to apply hedge accounting to financial instruments transacted for the purpose of hedging underlying exposures. However, the practical application of IAS 39 means that, in some circumstances, timing differences in the recognition of financial instruments are recorded in the Group income statement. These unwind over the life of the instruments.

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.

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.

During the year £140 million of committed borrowing facilities matured and £89 million of committed borrowing facilities that were due to mature in October 2009 were cancelled. These were replaced by committed facilities totalling around £570 million which mature on 26 October 2006, although at the Group's election the term may be extended for a further year. These new facilities were put in place to ensure that the Group can meet its liquidity requirements over the next 12 months, recognising that it would be inappropriate for the Group to seek to renew its £100 million UK securitisation programme when the current programme ends in June 2006 or to seek long term funding in advance of its proposed merger with Boots.

Cash management is an important part of managing liquidity. The Group operates a pan-European cash pool as well as local cash pooling in each business. The policy on the investment of cash is to restrict it to money market instruments with a maturity of three months or less.

At the year end 45% of borrowings were repayable in more than five years compared to 49% at the end of 2004. Undrawn committed borrowing facilities at the year end totalled £489.6 million compared to £126.6 million at the end of 2004.

Interest rate risk management

The Board's policy is to limit the impact of interest rate volatility on profits. The policy fixes the interest cost (either directly through fixed coupons or synthetically through the use of interest rate swaps) on that proportion of the total of the Group's average projected net borrowings and financing linked to securitisation that will give a minimum 95% statistically significant confidence level that the Group's interest cover will not fall below four times projected total operating profit (including share of associates) before 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 the total of net borrowings and financing linked to securitisation that is to be hedged, but this can be increased to protect profits.

At 31 December 2005, after taking account of cross-currency and interest rate swaps, 29% of the total of the Group's net borrowings and financing linked to securitisation was fixed, which compared to 41% at the end of the previous year when financing linked to securitisation was classified as non-recourse receipts. The lower percentage cover at the end of 2005 reflects the introduction of a new interest rate policy in 2004, a 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 one percentage point in interest rates would have theoretically reduced 2005 adjusted profit for the year by about 4% before taking into account the impact of mitigating actions.

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 2005, 87% of the total of the Group's borrowings, related currency swaps and financing linked to securitisation was in Euros, which is the same percentage as at the end of 2004.

Approximately 63% of the Group's 2005 adjusted profit for the year attributable to equity shareholders was earned in Sterling (compared to 57% in 2004) and 21% was in Euros (which was the same percentage as in 2004).

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

The Group's total retirement benefit obligations, before tax adjustments, at 31 December 2005 were £69.1 million compared to £53.0 million at 31 December 2004. The increase in the gross obligations is principally due to a reduction in the long term bond yields used to discount estimates of future pension obligations and an allowance for future improvements to longevity, both of which have been partially offset by contributions to the schemes and the returns on the pension schemes' assets. The total pension charge against profit before tax (excluding associates) was £15.8 million, a year on year increase of £3.2 million.

Share price

The mid-market price of the Company's shares ranged during 2005 from a low of 689 pence on 25 February to a high of 910 pence on 3 October. On 31 December 2005 the mid market price was 800.5 pence giving a market capitalisation of approximately £2.9 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.

Operational risk management

Alliance UniChem applies effective risk management in identifying opportunities and preparing strategies for the efficient operation and continued development of the Group against a background of complex, regulated and competitive markets.

Our risk management strategy aims to provide sound assurance for management on the effectiveness of our control framework. The Group's approach to this comes from the active management, rather than elimination, of risk. Our aim is to ensure that we understand risks before taking decisions to enable balanced choices and to allow opportunities to be pursued and objectives met with confidence.

Business risk factors
In the day to day operation of our businesses and the development of the Group, both in existing and new markets, we face risks and uncertainties, a number of which are unique to the business sectors in which we operate. The risk factors addressed below are those which we believe could adversely affect us, potentially impacting the operations, revenue, profits, cash flow or assets of the Group. Additional risks and uncertainties currently unknown to us, or which we currently deem to be immaterial, may also have an adverse effect on the Group. We use our risk management process to identify, monitor, evaluate and escalate such issues as they emerge, enabling the Board to take appropriate action wherever possible in order to control them.

The factors listed below should be considered in connection with any forward looking statements in this report.

The Group operates in regulated environments and therefore may be adversely impacted by regulatory reviews aimed at reducing government's costs
As a pharmaceutical wholesaler and operator of retail pharmacies, we are subject to legislation in our markets covering: certain minimum service levels and product ranges; the conditions under which these products must be stored, distributed and dispensed; the safeguards we must operate to ensure integrity of the supply chain and to protect patients receiving prescriptions; and the reimbursement permissible or provided for our wholesale and retail businesses. Changes to existing legislation or other regulations and the introduction of new legislation or other regulations may affect our operations. Regulatory changes driven by political or economic pressures, particularly those relating to the sourcing of medicines or pricing, have the potential to impact our performance through pressures on revenue, gross margins or costs. Any changes in current approaches to licensing either through enhanced restrictions on wholesalers or a reduction in service levels required within the industry which may lead to enhanced competition, may affect our operations. In addition, changes to the licensing regimes for pharmacies, or restrictions on reimbursement controls for state funded pharmacies, may affect the operations and profitability of our pharmacies and, through their impact on the wider community of pharmacies, have a consequent impact on our wholesale businesses.

As a leading industry player in many of the countries in which we operate, we are able to contribute constructively and effectively to consultation on the development of regulation in those markets. We are fully cognizant that regulation is a constant feature of the markets within which we operate. When regulatory changes take place we react swiftly. This can mean varying our market propositions (such as adjusting prices and discounts) where necessary in order to mitigate the adverse effects of any such changes. We also seek to take advantage of any opportunities that regulatory changes may afford.

The markets within which the Group operates are highly competitive and are subject to change
The Group operates in highly competitive markets which, not withstanding their regulated nature, are subject to competition from direct competition and alternative supply sources, including importers (parallel trade), domestic opportunistic traders and manufacturers who supply product direct to pharmacies or patients. These can result in adverse pressure on pricing or discounts to customers and, within a regulated commercial environment, can sometimes produce unexpected consequences and subject us to changes in market structure, such as the potential risk of disintermediation. It is possible that suppliers, customers and payors could change their operational models in a way that could adversely affect the Group's operations. The Group monitors service offerings and counters these risks by ensuring that its offering to its customers is competitive and backed by excellent customer service. The broad portfolio of businesses with their geographic and commercial diversity, coupled with high service and efficiency levels across the Group, provide both a defence from new market entrants and a sound platform from which to benefit from any opportunities that developments in our markets may offer.

Acquisitions in existing and new geographical markets and related business areas have inherent risk
The Group's strategy for continued growth includes acquiring businesses and associate interests to complement our existing business portfolio. Failure to identify, conduct appropriate due diligence and appropriately integrate acquisitions, particularly in new geographical markets, could have an adverse impact on the Group's competitive position, growth prospects and business operational financial performance. Exploitation of our particular in-house corporate development expertise in this area enables the Group to make acquisitions which consistently create shareholder value while avoiding unsuitable markets and businesses.

The Group has a potential exposure to the consequences of the supply of defective products or negligence and breach of contract claims arising from failure to provide services properly
Whilst the Group does not undertake any product manufacturing (all its own brand products being manufactured by third party manufacturers), potential financial or reputational consequences could result from risks regarding the infiltration of counterfeit products into the supply chain, the re-labelling of certain products or by contamination or mishandling issues. The Group maintains a robust framework of operational and professional pharmacy controls to prevent such product-related incidents. In addition, pharmacy product risk exposure is limited as the Group only maintains relationships with licensed manufacturers of medicines who would legally carry primary responsibility for any product defect.

The Group is also exposed to risks arising through professional or process error in its pharmacies and in the professional services it provides. Robust operational and pharmaceutical controls are managed by a team of senior pharmacists and supported by ongoing training for every pharmacist or dispensor. These processes are subject to proactive review and assurance activity and are designed to mitigate the likelihood of material damage to the Group from product and service risks.

The occurrence of major operational problems could have an adverse effect on the performance of the Group
In common with other businesses, Alliance UniChem depends on its process and control framework to mitigate the possibility of a major failure in operations, information technology, finance, human resources or other key business processes capable of having an impact on its performance. These failures may be caused by internal factors, such as a major information technology systems failure, a stock handling procedure breakdown or failure to retain key personnel. They could also be driven by external events, such as the failure of third party suppliers, terrorism or natural disasters such as epidemics, pandemics and other major events which impact us as well as the communities we serve. The Group continues to develop and strengthen its coordinated risk management and assurance mechanisms to manage these risks in a manner which it believes ensures an appropriate and effective control framework for its businesses at a local, national and corporate level.

A major health, safety or environmental incident could harm our employees or people in the communities we serve and expose the Group to reputational damage, litigation and adversely impact our operational and financial performance
The Group takes its corporate responsibilities in the field of health, safety and the environment very seriously and fully recognises the potential human, reputational and financial consequences of these risks. In managing risks relating to the health and safety of its employees, protection of the public and the environment and the storage and handling of hazardous substances and waste products, the Group relies for control on group-wide environmental, health and safety standards, which meet or exceed the regulatory requirements in all the countries in which we operate. Compliance with these standards and with changes to the regulatory environment are monitored and reviewed to give assurance that our controls continue to protect our people and the communities that we serve and to ensure that the Group can demonstrate to appropriate authorities responsible management and compliance with regulation in these areas.

Other risk factors
The Board considers that Alliance UniChem is also subject to other conventional commercial and financial risks which are common to most international groups. These include the management of customer credit and trade receivables and those risks specified in the Financial Review section of the Operational and Financial Review, including interest rate and currency risk management. These risks are reviewed and managed through the Group's business performance and risk management processes.

Corporate social responsibility – our business and the community

As a leading European healthcare group we must be trusted and responsible. Historically corporate responsibility issues have been managed at a local level by each of our businesses. In 2005 we started to take a more coordinated approach – establishing new management structures, gathering data and setting targets in a number of key areas.

We are committed to reporting annually on our progress and this is our first corporate responsibility report in which we provide baseline data and targets on key issues.

How we manage corporate responsibility
At Board level overall accountability for corporate responsibility rests with Ornella Barra, Executive Director. In 2005 we set up a new Group Corporate Responsibility Committee to coordinate the way we manage and report on environmental and social issues. This is made up of representatives from key corporate departments.

Whilst the Managing Directors of each of our businesses are responsible for the implementation of Group policies, each business has nominated an individual to oversee corporate responsibility and these representatives work with the Group Corporate Responsibility Committee to drive forward improvements.

In 2005 we introduced Standards of Business Conduct to ensure adoption of a consistent approach across the Group on ethical and other corporate responsibility issues. We also introduced a new Community Policy as well as Environment, Health and Safety Standards which sit alongside our Environment Policy and Health and Safety Policy.

Scope of our report

Our corporate responsibility report covers 2005. We have reported consolidated data for the Group, excluding businesses acquired or disposed of during the year and all associates.

Our core values are:

Partnership

Service

Excellence

Innovation

FTSE4Good

Alliance UniChem is included in the FTSE4Good, an index of companies that meet specified corporate responsibility standards.

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Serving the community
Improving the quality of life in the communities we serve is our business. Throughout the year we have worked closely with health authorities, charities and other organisations in order to meet the needs of local communities. Our UK retail pharmacy business, for example, has partnered with Primary Care Trusts (PCTs) and other organisations to introduce a range of new services such as pharmacy blood pressure testing and heart assessments. It also works with healthcare charities to provide information and advice to customers on a range of issues including distributing leaflets produced by Macmillan Cancer Relief during Lung Cancer Awareness Week.

We seek to make a difference in our local communities through our charitable contributions and in 2005 we introduced a new Charity Policy. This sets out our commitment to support healthcare and local community organisations and to develop long-term strategic partnerships with a select number of charities.

A Charity Committee has been set up to manage our charity partnerships. The committee includes representatives from our corporate office, UK retail and wholesale businesses. We have selected two partner charities – Macmillan Cancer Relief and the disability charity Leonard Cheshire. The Group has given an initial £50,000 to each of these charities and has worked closely with them to determine how the money is spent.

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Top: Leonard Cheshire communications project.

Middle: UK pharmacy graduates volunteering.

Bottom: Mensen in Nood vaccination programme in the Congo.

Community giving by type (2005)

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A. Cash donations	£220,000
B. Commercial initiatives in the community	£75,000
C. Employee volunteering	£9,000
D. Gifts in kind	£37,000
Total	**£341,000**

Cash given by cause (2005)

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A. Healthcare	£175,000
B. Developing countries (health/ social welfare/emergency relief)	£90,000
C. Other local community projects	£30,000
Total	**£295,000**

This includes cash donations and commercial initiatives in the community.

Community targets

Continue to strengthen relationships with our two partner charities (Macmillan and Leonard Cheshire), in ways that are mutually beneficial.

Set up payroll giving schemes in our corporate office, UK retail and wholesale businesses.

Our total community investment during the year (cash, gifts in kind and employee volunteering) was £341,000.

In addition, our UK employees raised over £100,000 for Diabetes UK and a further £70,000 for other recognised healthcare charities. Fundraising initiatives included organised events, sales of charity pin badges and collection tins in pharmacies and warehouses.

Examples of community giving:
The Group has given an initial £50,000 to Macmillan in the UK to sponsor a Mobile Macmillan Cancer Information Centre. This tours the country providing advice and support to people living with cancer.

The Group has donated an initial £50,000 to the disability charity Leonard Cheshire in the UK to help fund a communications project. This is enabling disabled people who cannot speak to communicate more effectively through the use of pictures and symbols. Lindsey Steward (shown in the photo above) indicates her likes and dislikes by choosing from a range of images from a personally tailored 'communication book'.

Our UK retail business has set up a new volunteering scheme for pharmacy graduates who, working in teams, plan and carry out community projects. By the year end five teams involving a total of 68 graduates had completed projects. Activities included cleaning up a conservation area at a local school in the Midlands, decorating a Leonard Cheshire home for the disabled in Peckham and helping to renovate a night refuge centre in Chichester. In addition to the graduate scheme around 40 employees volunteered to run educational sessions for children on "Safety of medicines in the home", as part of a junior citizenship scheme coordinated by the police.

In The Netherlands our wholesale and retail businesses have donated £10,000 to the development charity Mensen in Nood. This money has helped provide vaccinations for children from the province of Kananga in the Congo. The Group has also matched this donation by giving £10,000 to the charity for a project to improve healthcare in small villages in Navrongo Bolgatangaonze, Ghana.

Energy (2005)	
Energy (GWh)	142
Energy efficiency (KWh/m² floor space)	233
CO_2 from energy (tonnes)	29,700

Below: Bioforce Development Institute training for development workers.

Below right: Medicines donated to help victims of the Pakistan earthquake.

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In France our wholesale business donated £8,000 to the Bioforce Development Institute which provides training and advice for humanitarian and development workers in order to improve the delivery and effectiveness of international aid.

In the UK our wholesale business donated antibiotics and other pain relief medicines to help victims of the Pakistan earthquake. The products, with a wholesale value of around £7,000, were distributed by International Health Partners to emergency relief organisations in Pakistan. Almus also donates medicines for doctor's travel packs, providing essential medicines for British doctors involved in humanitarian work in developing countries.

Environmental targets

Source 40% of electricity used by our existing businesses from renewable sources by 31 December 2006. This would help cut our total CO_2 emissions from energy by approximately one third.[1]

Improve fleet efficiency (units delivered per tonne of CO_2) by 5% over a three-year period (by 31 December 2008).[2]

Increase the proportion of general waste recycled at our warehouses by 5% over a three-year period (by 31 December 2008).[1]

1 Target applicable to Group businesses as at 31 December 2005.

2 Target applicable to our own delivery vehicle fleet in the UK, France and The Netherlands wholesale businesses.

Caring for the environment

Our key environmental concerns are energy, transport, waste and water. The Group's Environmental Policy sets out our commitment to minimising our impact on the environment.

In 2005 we gathered data for the first time on key environmental impacts and set quantitative targets to drive forward improvements across the Group.

As well as tackling our direct impacts, in the UK we have also started to engage with suppliers on environmental and social issues.

Energy

In 2005 the Group used 142 GWh of energy – equivalent to the annual energy use of around 6,000 UK households. This resulted in emissions of 29,700 tonnes of carbon dioxide (CO_2), a greenhouse gas which contributes to climate change. Our overall energy efficiency was 233 KWh per square metre (m²) of floor space. We are working to reduce CO_2 emissions by improving energy efficiency as well as switching to renewable sources of electricity where this is cost effective.

At a number of depots across Europe our warehouse Best Practice programme has led to improvements in energy efficiency through the upgrading of electrical equipment and the installation of new heating/cooling systems. In addition, improvements in operational productivity such as reduced picking times have also resulted in energy savings. For example, at our depot in Livingston, UK, energy efficiency increased by around 20% in 2005 following implementation of the programme in 2004. As part of our Best Practice programme, upgrades were carried out at a total of six depots in 2005 in addition to six carried out in 2004.

In the UK our wholesale business has set out to improve energy efficiency, working in partnership with The Carbon Trust, a government funded organisation. Audits were carried out at its head office and at two of the eleven wholesale depots in order to identify ways to save energy. In response, posters have been put up at each location to raise awareness of energy conservation. An energy management system has also been installed at its head office in Chessington which tracks energy use on a half hourly basis. The management system will be extended to the wholesale depots in 2006. Our UK retail business has also started to work with The Carbon Trust and energy audits are planned for 2006.

We purchased renewable energy in our UK retail, UK wholesale and Dutch wholesale businesses. The UK businesses switched to a renewable contract in October 2005, which supplies electricity from large-scale hydropower plants in Scotland. In The Netherlands we purchased electricity generated from a mix of

Transport (2005)

Transport fuel (000 litres)	9,600
Distance travelled (000 km)	83,600
CO_2 from fuel use (tonnes)	25,200
Transport efficiency (km per litre)	8.6
Transport efficiency (units delivered per tonne of CO_2)	31,700

Data covers our own product delivery fleet only. It does not include third party distribution or business travel.

Water (2005)

Water (m^3)	181,600

Waste (2005)

General waste disposal (tonnes)	6,500
General waste recycled (tonnes)	8,200
General waste recycled (%)	56
Pharmaceutical and hazardous waste disposed (tonnes)	600

Data on general waste and recycling is not currently available for our retail business. Data on pharmaceutical and hazardous waste does not include unwanted pharmaceuticals returned by customers.

biomass and wind power throughout the year. Our businesses in Norway also receive all electricity from hydropower. In 2005 23% of our total electricity consumption was from renewable sources.

Transport

Our businesses manage the handling and distribution of pharmaceutical products in seven European countries. In the UK and The Netherlands our own vehicle fleets carry out the majority of our product delivery. In France around half of our deliveries are conducted by third party contractors and in the Czech Republic, Norway, Italy and Spain most of our product delivery is outsourced.

In 2005 we owned or leased approximately 1,400 product delivery vehicles. The majority are vans which deliver products from our wholesale depots to customers. Larger trucks and lorries make deliveries from our central distribution centres to our depots. Over 90% of our vehicles meet the EURO III or higher standards on emissions. In 2005 the fleet produced emissions of 25,200 tonnes of carbon dioxide (CO_2). In our wholesale businesses in the UK, France and The Netherlands the fleet efficiency was 8.6 kilometres per litre of fuel and 31,700 units delivered per tonne of CO_2.

Fuel efficiency is a key consideration in our fleet purchasing decisions. Our UK wholesale business has selected a new standard van for its fleet that is 8% more fuel efficient than previous models.

We also seek to optimise efficiency through logistical planning such as increasing vehicle loads and plotting the most efficient routes. In the last 18 months our UK wholesale business installed a telematics unit in all vans which monitors vehicle movements and enables better route planning. In addition the UK business re-evaluated all van routes using a new computer routing system. The initial results show some significant savings, with some depots achieving up to a 15% reduction in kilometres travelled. In The Netherlands our wholesale business has also reduced kilometres on certain routes by integrating deliveries at our warehouses.

Waste

In 2005 our wholesale businesses generated 14,700 tonnes of general waste – equivalent to the annual household waste produced by around 12,000 UK households. A total of 8,200 tonnes (56%) was recycled, including 7,900 tonnes of cardboard and 250 tonnes of plastic.

The majority of our waste is packaging and we work to reduce this by using reusable plastic containers for the majority of our deliveries. Although nearly all our wholesale depots send waste for recycling, there is currently a considerable variation in the proportion of waste recycled across our sites which we are seeking to address. Our UK wholesale business is planning to increase recycling by switching to a single waste and recycling contractor for all depots and by getting dedicated managers at each site to monitor recycling rates and practices.

We also seek to reuse unwanted retail products including discontinued stock items or damaged goods. For example, our UK retail business donated £17,000 worth of discontinued reading glasses to charity.

In 2005 the Group disposed of around 600 tonnes of pharmaceutical and hazardous waste from our own operations. This included out of date or damaged pharmaceutical stock as well as other medical and special waste including needles from blood tests and chemicals used in photo processing. Our pharmacies also take back unwanted pharmaceuticals from customers, in line with legal requirements, and ensure these are disposed of safely. We have procedures in place to prevent spillage or leakage of hazardous materials into the surrounding environment.

Water

In 2005 we used an estimated 181,600 m^3 of water – equivalent to the annual water use of around 1,400 UK households. Water is mainly used for general purposes, some of our wholesale depots also using water for the controlled washing of vehicles. Water use is monitored to identify potential leaks and ways of improving efficiency.

Global 100

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Alliance UniChem is included in the 2006 list of the Global 100 Most Sustainable Corporations in the World, researched by Innovest Strategic Value Advisors Inc and published by Corporate Knights Inc.

Accident rate (2005)

	2005	2004
Lost-time accidents (number)	**450**	464
Lost-time accident rate (number per 100,000 hours worked)	**1.32**	1.42
Three-day lost time accidents (number)	**346**	350
Three-day lost time accident rate (number per 100,000 hours worked)	**1.01**	1.07

The accident data covers all businesses including new acquisitions that were purchased during 2005. The data for 2004 has been revised to exclude associate businesses.

Health and safety targets

Reduce our three-day lost time accident rate within the existing Group by 30% over the next five years (by 31 December 2010).

Target applicable to Group businesses as at 31 December 2005.

Promoting health and safety

Workplace health and safety

The health and safety of our employees, contractors and the general public is of paramount importance to the Group. We have a Group Health and Safety Policy and we introduced new Environment, Health and Safety Standards in 2005 covering 20 key areas. Our businesses are working to implement these standards and we monitor compliance through an assessment process.

Each of our businesses is required to report lost-time accidents to the Group on a monthly basis and to fully investigate all accidents and near misses to prevent similar incidents. In 2005 the lost-time accident rate was 1.32, 7.0% lower than in 2004. The three-day lost-time accident rate was 1.01, 5.6% lower than in 2004. The three-day lost-time accidents resulted in 3,883 calendar days lost – an average of 11 days off work for each of these accidents.

In our wholesale depots one of the main health and safety risks is strains and muscular injuries incurred from lifting and moving boxes. Our wholesale businesses carry out regular training on manual handling and are working to minimise risks and manual handling injuries in the future. In our wholesale business in The Netherlands regular training of employees has contributed to zero manual handling injuries in 2005.

Road safety is also a key priority for our drivers. In our wholesale business in The Netherlands a pilot project was carried out during the year on safe driving techniques and ways to control vehicles in difficult circumstances. This will be extended during 2006. In our UK wholesale business training for drivers is planned in accordance with the Safe and Fuel Efficient Driving (SAFED) standard.

Our businesses also promote awareness of health and safety issues. For example, the internal magazine of our UK wholesale business, 'Team Talk', includes regular tips on health and safety. Our UK retail business is developing an online training tool on health and safety which will be rolled out to all its pharmacies in 2006. Our businesses in Italy and Spain also have online training programmes on health and safety.

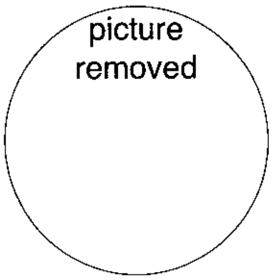
As a healthcare group the health and wellbeing of our employees is important to us. For example, our UK wholesale business has introduced free diabetes and blood pressure testing for employees at its head office and depot in Chessington.

Customer safety

Our UK retail business has comprehensive operating procedures to ensure safe processes for the dispensing of prescriptions. These are reviewed regularly to reflect our culture of continual improvement and delivery of best practice. Dispensing errors are recorded and investigated in order to learn how to avoid them. In Norway, dispensing errors are also recorded and there are processes in place to promote ongoing improvement. In The Netherlands, all major incidents are reported to the National Inspector of Healthcare, as required by regulations. A third of our pharmacies in The Netherlands are certified to the HKZ national quality management standard for the healthcare sector which sets out procedures for recording dispensing errors and incidents. Certification will be extended to all our pharmacies in The Netherlands by the end of 2006.

Our Almus range of generic medicines features innovative colour differentiated packaging, specifically designed to enhance safety in dispensing. In 2005 Almus sponsored a new Patient Safety Award for UK pharmacies which recognises the expertise of pharmacists and technicians in creating practical solutions to dispensing risks. The award is open to all UK pharmacies. Jonathan Burton, superintendent pharmacist at the independent Danderhall Pharmacy, Danderhall, Scotland and a customer of our UK wholesale business, won the award for his initiative 'Making Patient Safety a Priority', which included posters, monthly newsletters and a training safety pack.

Causes of three-day lost time accidents (2005)



A. Slips/trips/falls	39%
B. Manual handling	36%
C. Equipment/warehousing	13%
D. Vehicle accidents	6%
E. Other	6%

Respecting ethics

Product testing

No animal testing is commissioned or carried out by the Group.

Alliance UniChem does all that it can to source products that have not been tested on animals and believes that alternative methods of testing should always be sought first.

We work closely with our suppliers of our own brand non-prescription healthcare products to ensure they do not use animal testing unless it is legally required. No animal testing is carried out by Almus or our other own brand generics suppliers, although it may have been undertaken by the developers of the original patented drugs in order to obtain product licences.

It is our policy that no animal testing should be carried out on our own brand personal care products such as soap and shampoo. In 2005 we have contacted all our suppliers to check compliance with our policy. None of our own brand personal care products are tested on animals and the raw materials within them have not been tested since at least 30 June 2000, in line with EU regulations.

As a wholesaler of pharmaceutical products and operator of pharmacies we recognise that many of the branded 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. If we have a choice of products to be used, we consider the methods of testing before deciding on which products to stock. We fully acknowledge that we have an ethical and legal obligation to do so but as a secondary factor to patient wellbeing.

Standards of business conduct

In 2005 we introduced standards of business conduct to ensure a consistent approach across the Group on a range of ethical and corporate responsibility issues. These standards provide detailed guidance for employees to help them make appropriate judgements and decisions in the course of their work. Our UK retail business is planning workshops about the Standards for its managers during 2006.

We strive to be honest and fair in all our business dealings and the Standards explicitly prohibit the giving or receiving of any bribes. We do not make any donations to political parties.

Pharmacy ethics

Pharmacists are highly skilled healthcare professionals and complete rigorous academic and practical training. Community pharmacists are not only responsible for dispensing medicines but also provide professional advice to customers on safe and effective use of drugs. In addition they provide guidance on healthy living. Pharmacists have a duty to act in their patients' best interests and deliver the highest standards of care available. Professional regulators set out strict ethical and moral guidelines for pharmacy practitioners. For example, pharmacists in the UK must comply with the Code of Ethics drafted by the Royal Pharmaceutical Society of Great Britain. Our UK retail business acknowledges the fundamental importance of these legal and ethical parameters and employs designated pharmacists to conduct regular branch audits in order to monitor and support ongoing compliance.

Gender diversity (2005)

	Executive directors	Senior managers (Group)	UK employees
Total employees	5	77	11,794
Male employees (%)	80	91	27
Female employees (%)	20	9	73

Workplace
Our business success depends on the hard work, skills and expertise of the people who work for us. We aim to provide excellent career development opportunities and to be an employer that people aspire to work for.

Our Standards of Business Conduct set out our approach on a range of employment issues including equal opportunities, diversity, trade unions, health and safety and ethics.

At the end of 2005 78% of our employees had been working for the Group for over one year and 49% over five years.

Training and development
We invest in training programmes to help employees enhance their skills and reach their full potential. In 2005 we spent £4.3 million on training.

During 2005 we operated a two-week management development programme for our 77 Senior Managers at the INSEAD business school in France.

Our UK wholesale and retail businesses use the Investors in People Standard, demonstrating the importance we attach to employee development. UniChem, our UK wholesale business, is accredited to the Standard.

Within our UK retail business, the operations and human resources departments are accredited and there are plans to roll this out across all pharmacies by the end of 2007.

Equal opportunities
We recognise the importance of reflecting within our workforce the diversity of communities we serve. Our Standards of Business Conduct set out our commitment to equal opportunities and to providing a workplace that is free from any form of discrimination on the grounds of gender, age, religion, nationality, marital status, disability or sexual orientation. We have collected data on gender diversity for senior managers and UK employees.

Our UK retail business has started a series of diversity training workshops for senior management including directors. These focus on the value that diversity can bring to the business. In 2005 three one-day workshops were held for 30 senior managers and additional workshops are planned for 2006.

Pay and benefits
We seek to attract and retain experienced and skilled employees through competitive rates of pay and benefits. Salaries are determined by each of our businesses, taking into account remuneration levels in comparable businesses.

Communication and consultation
Our businesses maintain an on-going dialogue with employees in a range of ways including regular staff briefings, internal newsletters and employee surveys. Our UK retail business has employee consultation panels that meet on a regular basis and it also carries out an annual employee survey.

We recognise the right of all employees to join trade unions. In 2005 around 50% of employees were represented by trade unions or other collective bargaining arrangements. Our European Works Council, set up in 2002, briefs and consults with elected employee representatives on pan-European issues and met twice in 2005.

Human rights
Our Standards of Business Conduct set out a commitment to upholding human rights in the workplace and to avoiding any form of child or forced labour.

In the UK we have also started to engage with our suppliers to ensure there are no human rights abuses in our supply chain.

Supply chain targets

Introduce a Group ethics policy for suppliers of own brand products by 31 December 2006.

Supply chain
We have started to manage the environmental and social risks in the supply chain of own brand products, which include non-prescription healthcare products and personal care items. In the UK we developed a draft Statement of Social and Ethical Practices which sets out minimum standards on issues such as wages, working hours, discrimination, child labour and environment. This will be formally adopted and incorporated into all new and renewable supplier agreements for own brand products supplied to our UK wholesale and retail businesses in 2006.

Our UK wholesale and retail businesses have also developed a self-assessment questionnaire to monitor social and ethical practices in the supply chain, and to date all their own-brand suppliers have been asked to complete it. The UK quality assurance manager has started to follow up any issues or concerns arising from the self-assessment. Our UK retail business has also sent the questionnaire to suppliers of branded products for its 2005 Christmas gifts range and plans to extend the monitoring in 2006 to cover all high-risk suppliers of branded products.

Customer service
We strive to provide high levels of service for both our retail and wholesale customers. For example, our UK retail business has developed a range of new services to give customers better access to healthcare, in line with new government regulations. Private consultation areas were available in over half our 738 pharmacies in England and Wales. Services on offer at a range of pharmacies include healthy heart assessments, cholesterol testing, blood pressure measurement, smoking cessation programmes, travel advice and pregnancy tests. Mystery shopper surveys are also regularly carried out in the UK to monitor the quality of customer service and advice.

Our UK wholesale business has continued to enhance customer service through its Customer First programme. In 2005 a range of new initiatives were launched including a Customer Care Card providing details of key contacts, a bulletin on out of stock items and customer presentations to help employees understand the importance of their individual roles in delivering healthcare solutions. The business also maintains dialogue with customers through its Customer Forum meetings.

Governance and financial statements

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Governance

The Board is committed to meeting the standards of good corporate governance set out in the Combined Code on corporate governance.

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Auditors' report and financial statements

Contains the independent auditors' report and the financial statements and related notes for the year ended 31 December 2005.

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Other information

Contains shareholder information, including the financial calendar for 2006, shareholder enquiry information and details of registrars.

Contents

Board of Directors

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Paolo Scaroni
Chairman

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Ian Meakins
Chief Executive

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Stefano Pessina
Executive Deputy Chairman

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Ornella Barra
Executive Director

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George Fairweather
Group Finance Director

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Steve Duncan
Executive Director

Paolo Scaroni
Chairman, 59
Was appointed to the Board in 2002 becoming Chairman in April 2005. Paolo is Chief Executive of Eni, a member of the board of the Business School at Columbia University in New York and a member of the supervisory board of ABN AMRO Bank. He is also a member of the board of Il Sole 24 Ore. Before this, Paolo was Chief Executive of Enel and Pilkington. Paolo has worked as a consultant and in industry since 1973.

Ian Meakins
Chief Executive, 49
Was appointed to the Board upon joining the Group in December 2004 as Chief Executive. In addition, Ian assumed direct responsibility for the wholesale business in the UK and France following Per Utnegaard's departure from the Company in April 2005. 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.

Stefano Pessina
Executive Deputy Chairman, 64
Was appointed to the Board in 1997, when the Alliance Santé group became part of the Group. Stefano has operational responsibility for strategic development, including acquisitions, having previously been Chief Executive for three years up until December 2004. 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 and for marketing research firm, ACNielsen. Stefano is an engineer by profession. He is a non-executive Director of Galenica and Hedef Alliance Holding, both associate companies.

George Fairweather
Group Finance Director, 48
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.

Ornella Barra
Executive Director, 52
Was appointed to the Board in 1997, when the Alliance Santé group became part of the Group. Ornella has responsibility for the Group's commercial and pre-wholesaling activities, its wholesale businesses in Italy, Spain and the Czech Republic, and corporate communications activities. Ornella was previously the President of a pharmaceutical distribution company founded by her in 1984. She is also a Director of Alliance UniChem Farmacêutica, an associate company and is a pharmacist by profession.

Steve Duncan
Executive Director, 55
Was appointed to the Board in January 2003 having had overall responsibility for the retail division since September 2001. In addition, Steve has responsibility for the Group's wholesale businesses in The Netherlands and Norway. He was appointed Managing Director of Alliance Pharmacy (formerly Moss Pharmacy) in 2000, having been a Director since 1991. Steve joined the Group in 1974 and is a pharmacist and a member of the Royal Pharmaceutical Society of Great Britain.

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The Right Hon. Kenneth Clarke
Deputy Chairman and senior independent non-executive Director

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Adrian Loader
Independent non-executive Director

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Manfred Stach
Independent non-executive Director

picture removed

Neil Cross
Independent non-executive Director

picture removed

Patrick Ponsolle
Independent non-executive Director

picture removed

Etienne Jornod
Non-executive Director

The Right Hon. Kenneth Clarke
Deputy Chairman and senior independent non-executive Director, 65
Was appointed to the Board in 1997 as Chairman, a position he held until September 2001 when he became Deputy Chairman. Kenneth is a Queen's Counsel and Member of Parliament and has served in the UK Government as Chancellor of the Exchequer and Health Secretary. Kenneth is non-executive Chairman of Savoy Asset Management, non-executive Deputy Chairman of British American Tobacco and a non-executive Director of Foreign & Colonial Investment Trust and Independent News and Media (UK).

Neil Cross
Independent non-executive Director, 60
Was appointed to the Board in 1997.
Neil is non-executive Chairman of Close Technology and General VCT and BMT Ltd, a non-executive Director of Dawson Holdings, The Bayard Fund and Bernard Matthews Holdings, 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.

Adrian Loader
Independent non-executive Director, 57
Was appointed to the Board in September 2003. Adrian is Director of Strategy and Business Development at Royal Dutch Shell. He is Chairman of the supervisory board of Deutsche Shell and a Director of Shell Canada Limited. Previously he held senior management positions with Royal Dutch Shell in Europe, South America, and Asia Pacific. Adrian is a Fellow of the Chartered Institute of Personnel and Development.

Patrick Ponsolle
Independent non-executive Director, 61
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.

Manfred Stach
Independent non-executive Director, 63
Was appointed to the Board in December 2003. Manfred is head of the supervisory board of Unilever Deutschland, Chairman of the supervisory board of Unilever Austria and a member of the supervisory boards of British American Tobacco (BAT) Germany and Neumann Coffee Group. Manfred was President of Unilever Bestfoods Europe until June 2005, having previously held a number of senior executive positions within Unilever in Europe, North America and Africa.

Etienne Jornod
Non-executive Director, 53
Was appointed to the Board in 2000.
Etienne is Chairman and Chief Executive of Galenica, an associate company, and is a board member of the Swiss Society of Chemical Industries.

Report of the Directors

The Directors submit their Report and audited financial statements for the year ended 31 December 2005. For the purposes of this report, "Company" means Alliance UniChem Plc and "Group" means the Company, its subsidiaries and associates.

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.

The Chairman's introduction, and operating 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.

The principal subsidiaries and associates of the Group at 31 December 2005 are listed in note 47 to the financial statements.

Annual General Meeting
The sixteenth Annual General Meeting ("AGM") will be held in the York Suite at Oatlands Park Hotel, 146 Oatlands Drive, Weybridge, Surrey KT13 9HB on Tuesday 25 April 2006, 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 equity shareholders amounted to £210.7 million (2004 £187.3 million). An interim dividend of 6.9 pence per share was paid on 11 October 2005 to shareholders registered at the close of business on 5 August 2005, and the Directors are recommending the payment of a final dividend of 13.6 pence per share, making a total dividend in respect of the financial year of 20.5 pence per share.

If approved by shareholders at the AGM, the final dividend will be paid on 10 May 2006 with an ex-dividend date of 8 March 2006 to shareholders on the register at the close of business on 10 March 2006. Shareholders will have the opportunity to reinvest their cash dividend in buying existing issued shares in the Company through a dividend reinvestment plan. Further details of this offer are given in a separate document accompanying this Annual Report.

Directors
The Directors of the Company are Paolo Scaroni (Chairman), Ian Meakins (Chief Executive), Stefano Pessina (Executive Deputy Chairman), George Fairweather, Ornella Barra, Steve Duncan, Kenneth Clarke (Deputy Chairman), Neil Cross, Adrian Loader, Patrick Ponsolle, Manfred Stach and Etienne Jornod. Biographical details of the Directors are shown on pages 44 and 45.

Jeff Harris stepped down as Chairman of the Company and retired from the Board at the conclusion of the 2005 AGM. Paolo Scaroni, who was appointed as an independent non-executive Director of the Company in 2002, replaced him as Chairman. Per Utnegaard resigned as a Director on 17 March 2005.

George Fairweather, Ornella Barra, Patrick Ponsolle and Etienne Jornod will retire as Directors by rotation at the 2006 AGM and will seek re-election at the meeting. In accordance with Company policy, it had previously been agreed that Neil Cross who has now served nine years as a non-executive Director would retire from the Board at the conclusion of the 2006 AGM. In view of the Company's proposed merger with Boots, the nomination committee has suspended the process to identify a candidate with recent and relevant financial experience to succeed Neil Cross as a non-executive Director and as chairman of the audit committee. In accordance with the Company's Articles of Association and the Combined Code on corporate governance (the "Code"), which require non-executive Directors serving longer than nine years to seek annual re-election, Neil Cross will seek re-election at the 2006 AGM for a period up until the conclusion of the 2007 AGM. Following a rigorous review conducted by the nomination committee, the Board is satisfied that Neil Cross continues to contribute effectively and with proper commitment.

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 £295,000 were made during 2005, of which £211,000 were in the UK. The Group has no affiliation to any political party or group in any country and makes no political donations.

Share capital
At 31 December 2005, there were 361,726,095 ordinary shares in issue held by 8,128 shareholders on the register.

Details of shares allotted during the year are given in note 34 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 executive Directors.

In accordance with a policy approved by the Company and the Trustees of the 1992 Employee Trust (the "Trust"), the Trust acquired 5.1 million shares in the Company during the year and held 6,097,296 shares in the Company on 31 December 2005 and 5,986,513 on 21 February 2006. Under the terms of the Trust, the dividend receivable on shares held is 0.001 pence per share.

The Alliance UniChem Employee Share Trust did not acquire shares in the Company during the year and held 119,946 shares in the Company on 31 December 2005 which it also held on 21 February 2006.

As at 21 February 2006 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	108,472,659	29.99%
Barclays	18,805,427	5.20%

108,350,000 shares of the interest of Stefano Pessina are held by Alliance Santé Participations S.A.. Stefano Pessina indirectly wholly owns Alliance Santé Participations S.A. registered in Luxembourg, and the directors include Stefano Pessina and Ornella Barra.

Paris delisting
Up until 5 January 2006 the Company's shares were listed on the Paris stock exchange. This listing was cancelled due to very low trading activity.

Directors' responsibilities statement
This statement, which should be read in conjunction with the independent auditors' reports, 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 responsible for preparing the financial statements. The Directors have chosen to prepare the financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of UK GAAP accounts, the Directors are required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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.

In the case of IFRS accounts, International Accounting Standard 1 requires that the financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on a going concern basis unless, having assessed the ability of the Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

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. 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;
- for the preparation of the report of the Directors and the Board report on remuneration which comply with the requirements of the Companies Act 1985; 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 employees and the needs of the Group's businesses. 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 executive Directors and employees to contribute effectively to the creation of long-term 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.

Financial instruments
The Group's treasury policies are described on pages 30 and 31 in the operating and financial review. The exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk in respect of financial instruments is set out in notes 28 and 30 to the financial statements.

Post balance sheet event
On 17 February 2006 the Group announced that it had reached an agreement to enter the Russian pharmaceutical wholesale market, details of which are described in note 49 to the financial statements.

Approved by and signed on behalf of the Board of Directors

Marco Pagni
Company Secretary
28 February 2006

Board report on corporate governance

The Board is committed to meeting the standards of good corporate governance set out in the Code. This report, together with the audit committee report on pages 52 and 53 and the Board report on remuneration on pages 54 to 62, describes how the Board applied the Code during the year under review.

The Board
The Board currently comprises the Chairman, five executive Directors and six non-executive Directors. The names of the Directors together with their biographical details are set out on pages 44 and 45. Jeff Harris stepped down as Chairman of the Company and retired from the Board at the conclusion of the 2005 AGM. Per Utnegaard resigned as a Director on 17 March 2005. 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
Paolo Scaroni, who is responsible for the operation of the Board, was appointed as Chairman in April 2005, having been an independent non-executive Director since December 2002. On his appointment as Chairman, Paolo Scaroni met the independence criteria set out in the Code.

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 eleven times in 2005. The Board is scheduled to meet nine times in 2006, with additional meetings held as required. The attendance record for Board and committee meetings, including the AGM, is set out on page 51.

The Board has adopted principles of good boardroom practice. These principles ensure that the Directors can perform their role effectively and that they are given the means and information necessary 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, advisors and employees.

At each scheduled Board meeting, the Board receives a report on current trading and major business issues. The Board also reviews annually the Group's strategic plan and approves 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.

Directors' and officers' insurance
The Company maintains an appropriate level of Directors' and officers' insurance in respect of legal action against Directors. In accordance with recent changes in the law, the Company, under its Articles of Association, granted deeds of indemnity to each of the Directors and to the Company Secretary.

Board balance and independence
The Board has reviewed the independence of all the non-executive Directors and determined that of the seven non-executive Directors, six are independent. Etienne Jornod is Chairman and Chief Executive of Galenica, an associate company, and therefore is considered to be non-independent. 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 Group and that no individual or group of individuals unduly influences the Board's decision making.

The senior independent non-executive Director is Kenneth Clarke. The role's terms of reference provide that he is available to shareholders if they have a concern that would make contact through the normal channels of Chairman or Chief Executive inappropriate, or if a concern has 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 normally 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 the Board in the previous year. This process was in the form of a questionnaire, supplemented by one-to-one meetings between the Chairman and each of the non-executive Directors, where individual performance was discussed. 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, which was considered by the nomination and the remuneration committees.

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.

In accordance with Company policy, it had previously been agreed that Neil Cross who has now served nine years as a non-executive Director would retire from the Board at the conclusion of the 2006 AGM. In view of the Company's proposed merger with Boots, the nomination committee has suspended the process to identify a candidate with recent and relevant financial experience to succeed Neil Cross as a non-executive Director and as Chairman of the audit committee. In accordance with the Company's Articles of Association and the Code, which require non-executive Directors serving longer than nine years to seek annual re-election, Neil Cross will seek re-election at the 2006 AGM for a period up until the conclusion of the 2007 AGM. The other Directors coming up for re-election at the 2006 AGM are George Fairweather, Ornella Barra, Patrick Ponsolle and Etienne Jornod.

Prior to recommending the re-election of non-executive Directors to the Board, the nomination committee reviews their effectiveness. The review process in 2005 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.

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. With the exception of the executive committee, the terms of reference for each of these committees 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, Kenneth Clarke (committee Chairman), Neil Cross, Patrick Ponsolle and Manfred Stach and three other Directors, Paolo Scaroni, Ian Meakins and Stefano Pessina. The majority of the members of the committee are independent non-executive Directors as required by the Code. The committee met twice in 2005, the attendance record of members being shown in the table on page 51.

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.

As part of the ongoing review of succession, early in 2005 the committee instructed external consultants to identify candidates for a number of positions as independent non-executive Directors. This process involved 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 to serve as Chairman of the audit committee. In view of the Company's proposed merger with Boots this process was suspended by the committee. Following a rigorous review conducted by the nomination committee, the Board is satisfied that Neil Cross, who has served on the Board for more than nine years, continues to contribute effectively and with proper commitment.

Remuneration committee
The remuneration committee consists of three independent non-executive Directors, Kenneth Clarke (committee Chairman), Neil Cross and Adrian Loader. Patrick Ponsolle resigned from the committee in July 2005, having up until that date been a member of three Board committees. 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 three times in 2005, the attendance record of members being shown in the table on page 51. 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 54 to 62.

Audit committee
The audit committee consists of four independent non-executive Directors, Neil Cross (committee Chairman), Adrian Loader, Patrick Ponsolle, and Manfred Stach. Paolo Scaroni on his appointment as Chairman of the Company resigned from the committee in accordance with the requirements of the Code. The role of the committee and details of how it carried out its duties are set out in the audit committee report on pages 52 and 53.

Executive committee
The executive committee consists of the executive Directors and is chaired by Ian Meakins. The executive committee met 11 times in 2005.

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 Group 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 address 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 seek to understand those views on an ongoing basis and provide regular feedback to the Board. The non-executive Directors are offered the opportunity to attend meetings with institutional investors and shareholder events. They also make themselves available to shareholders 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 risk management and 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 an efficient risk management and control framework to be fundamental to the Company achieving its corporate objectives, with an actively managed balance of risk and reward. The effectiveness of the ongoing process to identify, evaluate and manage significant risks in the Group's system of risk management and internal controls is reviewed annually by the audit committee on behalf of the Board, the committee having responsibility for overseeing management action needed to remedy any shortcomings or weaknesses identified.

Throughout 2005 and up until the date of this report the risk management and internal controls systems comply with the revised 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 the Group's strategic plan and annual budget ;
- an annual risk review by the audit committee and subsequently by the Board, based on business risk reviews and control self assessments;
- clearly defined organisational structures and appropriate delegated authorities for the Group's businesses;
- monthly reviews 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, executing and monitoring business acquisitions, divestments and capital expenditure projects, supplemented by post-investment performance reviews;

Meeting attendance record

	AGM	Board	Nomination committee	Remuneration committee	Audit committee	Executive committee
Number of meetings in 2005	1	11	2	3	4	11
Director						
P. Scaroni(1)	1	10	2	–	1	–
I. K. Meakins	1	11	2	–	–	11
S. Pessina	1	11	2	–	–	11
G. R. Fairweather	1	11	–	–	–	11
O. Barra	1	11	–	–	–	11
S. W. J. Duncan	1	11	–	–	–	11
K. H. Clarke	1	10	2	3	–	–
N. E. Cross	1	9	2	3	4	–
W. A. Loader	1	10	–	2	3	–
P. Ponsolle(2)	1	8	1	1	3	–
M. Stach(3)	1	10	–	–	4	–
E. Jornod	1	10	–	–	–	–
P. Utnegaard(4)	–	2	–	–	–	2
J. F. Harris(5)	1	3	1	–	–	–

(1) Resigned from the audit committee in April 2005 on his appointment as Chairman. One audit committee meeting was held before his resignation.

(2) Resigned from the remuneration committee in July 2005; two remuneration committee meetings were held before his resignation.

(3) Appointed to the nomination committee in January 2006.

(4) Resigned from the Board in March 2005; two Board meetings and three executive committee meetings were held before his resignation.

(5) Retired from the Board in April 2005; three Board meetings and one nomination committee meeting were held before his retirement.

- dispensing and professional pharmacy protocols which are reviewed and against which compliance is audited on a regular basis;
- 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;
- a Group internal audit function providing independent scrutiny of internal control systems and risk management procedures;
- operational review teams within individual businesses providing management assurance on key controls primarily in wholesale depots and retail outlets;
- regular monitoring of risks and control systems throughout the year by operating businesses, with periodic exception reporting;
- 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.

Compliance statement

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

- Code provision A.2.2 – for the period 1 January to 22 April 2005 – Jeff Harris, who was Chairman up until 22 April 2005, was Chief Executive of the Company prior to his appointment as Chairman;
- Code provision A.3.2 – during the year, a majority of the members of the Board (excluding the Chairman) were not independent non-executive Directors; and
- Code provision A.4.1 – for the period from 22 April – the nomination committee did not comprise a majority of independent non-executive Directors. Its membership did not change during 2005, however on his appointment as Chairman, Paolo Scaroni, a committee member, was no longer considered to be independent. Manfred Stach, an independent non-executive Director, was appointed as a member of the committee on 26 January 2006.

Audit committee report

The audit committee consists of four independent non-executive Directors, Neil Cross (committee Chairman), Adrian Loader, 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 2005, the attendance record of members being shown in the table on page 51. In accordance with the requirements of the Code, Paolo Scaroni resigned as a member of the committee on his appointment as Chairman of the Company.

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 2005 the committee met the Director of Internal Audit and representatives from the external auditor 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. Following each committee meeting, the Chairman of the committee reports material matters to the Board at the next available opportunity.

Neil Cross has a background in investment analysis and corporate finance, is a Chartered Secretary and currently chairs two PLC audit committees. The Board is satisfied 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 reviewed and updated during 2005. 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 auditor;
- 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 auditor the scope and nature of their audit, review their quality control procedures, ensure co-ordination 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;
- a review of the Company's compliance with the Code, including disclosures required to be included in the Annual Report;
- a review of the appropriateness and financial impact of accounting policy changes arising from the adoption of IFRS. This included a review of choices made under the first time adoption transition arrangements;
- a review of the preliminary comparative financial information prepared in accordance with IFRS for the six months ended 30 June 2004 and year ended 31 December 2004, together with detailed income statements and balance sheet reconciliations to UK GAAP. This information was published on 18 July 2005;
- proposals from the external auditor about their independent review of the financial information contained within the Interim Report 2005 and their audit programme for the 2005 financial statements;
- the amounts of audit and non-audit fees paid to the external auditor. (The amounts for 2005 are set out in note 9 to the financial statements.) The Company's policy on non-audit services provided by the external auditor is set out on page 53;
- a review of the objectivity, independence and effectiveness of the external auditor. 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 2006 AGM;

- a review of internal controls, accounting policies and practices and risk management procedures including an annual risk review. 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;
- proposals from the internal audit function about its audit programme for 2006;
- the results of audits conducted by the internal audit function and management's response to issues raised;
- an annual review of the effectiveness of the internal audit function. The committee considered that the function had been effective throughout 2005 based on an external assessment conducted in the second half of 2005;
- 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 below; and
- a review of the committee's effectiveness which concluded that it had discharged its responsibilities as set out in its terms of reference.

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 auditor. The committee has approved a policy for the approval of non-audit services provided by the external auditor. Under this policy, the external auditor 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 or pension advisory 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 a case by case 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 during 2005 was £0.6 million in total for taxation services and £0.5 million in total for due diligence and related services. In accordance with this policy, during 2005 the committee approved the appointment of the external auditor to prepare a synergy report, a working capital report and to carry out due diligence work in connection with the Company's proposed merger with Boots.

Policy on employment of former employees of the external auditor
As part of its remit, the committee keeps under review the objectivity, independence and effectiveness of the external auditor. During 2005 the committee approved a policy on the employment by the Group of former employees or partners of the external auditor. Under this policy:

- no member of the external audit team can be recruited into a Group role in the Company for a period of two years following their association with the audit;
- no current or former partner of the external auditor may be appointed as a Director of the Company for three years after the termination of their employment with the external auditor; and
- no current or former partner or employee of the external auditor may be appointed as a Director of the Company or join its executive committee at any time without the prior approval of the Chairman of the audit committee.

Each year, the Group Director of Human Resources is required to satisfy compliance with this policy to the audit committee.

Whistleblowing
A 24 hour helpline, managed by a third party, was introduced in the UK in 2004. This helpline, which will be introduced in The Netherlands in 2006, 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
28 February 2006

Board report on remuneration

The remuneration committee ("the committee") determines the remuneration of the Chairman and the executive Directors and makes recommendations to the Board for any changes to the terms and conditions of employment of executive Directors. The committee consists of three independent non-executive Directors: Kenneth Clarke (committee Chairman), Neil Cross, and Adrian Loader. Patrick Ponsolle resigned from the committee in July 2005, having up until that date been a member of three Board committees. Paolo Scaroni, 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 attract, retain and motivate the highest calibre of executive Directors and senior executives, aligning the rewards of those individuals with the interests of shareholders by linking a substantial 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 of 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, 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, and Steve Duncan are employed under service 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 of current basic salary in lieu of the required notice period to terminate a service contract. Were the situation to arise, the Company intends to apply the principle of mitigation to any payment on termination of a Directors' service contract, and is contractually entitled to apply this principle in the case of Ian Meakins.

Per Utnegaard resigned from the Board on 17 March 2005. 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
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.

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 2005 for that appointment. Ian Meakins was a non-executive Director of mmO2 until March 2005, for which he retained fees paid of £12,500 in 2005 for that appointment.

Jeff Harris, who retired from the Board in April 2005, is a member of the supervisory board of Andreae-Noris Zahn, an associate 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 2005 and 2006, the committee appointed and received advice from PricewaterhouseCoopers (PwC). PwC provide remuneration and other consultancy services directly to the Company. The amount paid to each Director in 2005 is detailed in the emoluments section on page 56.

Following a report from PwC in December 2005, 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) (the "Comparator Group"). Salary increases, which are effective from 1 January 2006, were based on this data after taking account of the performance of each Director.

Executive Directors' basic salaries at 1 January 2006 are as follows:

Director	£
I. K. Meakins	670,000
S. Pessina	510,000
G. R. Fairweather	390,000
O. Barra	330,000
S. W. J. Duncan	330,000

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 2005, including expenses chargeable to UK income tax, are detailed in the emoluments section on page 56. 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 performance of the Group and of the individual businesses for which they are responsible for achieving their budgeted performance, after the cost of bonuses. Payments also take into account personal performance. To bring the level of bonus into line with market practice, the committee, following consultation with the Company's major shareholders, raised the maximum bonus an executive Director could receive from a maximum of 50% of basic salary to a maximum of 100% of basic salary from the beginning of 2005. The committee is satisfied that the new level is commensurate with that in companies of a similar size and complexity. 80% of the bonus was based on adjusted profit for the year attributable to equity shareholders (which is after tax and excludes exceptional items and IAS 39 timing differences) and 20% was based on personal performance. A potential target bonus of 40% of base salary was payable for the achievement of the 2005 budget which the committee considered as challenging but achievable. For those executive Directors with specific business responsibilities (Steve Duncan and Ornella Barra) half of their financial performance target was based on the results of the Group as a whole and half on the combined performance of the businesses for which they have responsibility. Bonuses started to accrue on the achievement of 96% of the budget and the maximum profit related bonus of 80% would have been payable for achieving 104% of budget. Personal performance was based on a 360° appraisal process. Following Per Utnegaard's departure from the Company in April 2005, Ian Meakins assumed direct responsibility for the wholesale businesses in the UK and France, therefore half of his financial performance was based on Group performance and half on the combined performance of the businesses for which he had direct responsibility.

The amounts actually earned by each Director are detailed in the emoluments section on page 56.

Non-executive Directors
All non-executive Directors were entitled to a basic fee of £45,000 in 2005. The Board reviewed fees payable to non-executive Directors in January 2005, based on advice from PwC, which compared the level of fees paid by the Comparator Group. No changes were made to the fees payable to Jeff Harris and Kenneth Clarke. The basic fees payable to the other non-executive Directors were increased by £10,000 per annum with effect from 1 January 2005. Jeff Harris, who retired from the Board and as non-executive Chairman on 22 April 2005, earned a fee of £83,333 up until the date of his retirement. Based on market data provided by PwC and Spencer Stuart, the remuneration committee approved Paolo Scaroni's fee of £175,000 per annum for acting as Chairman of the Company. Kenneth 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 £65,000, which included a fee of £10,000 per annum for chairing and serving on the Board of Alliance UniChem Pension Trustee Limited 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.

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 was eligible to receive share options in connection with the 2002 LTIP allocation made under the long-term incentive plan when he was an executive Director. He was entitled to 25% of the award which he exercised during the year, details of which are set out on page 59.

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
K. H. Clarke	9 September 1997	22 April 2004
N. E. Cross	17 February 1997	22 April 2005
W. A. Loader	24 September 2003	22 April 2004
P. Ponsolle	30 December 1997	21 May 2003
P. Scaroni	10 December 2002	22 April 2005
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 2005 were:

Director	Salaries and fees £'000	Benefits £'000	Salary supplement £'000	Bonus payments £'000	Termination payment £'000	Total emoluments excluding pensions 2005 £'000	Total emoluments excluding pensions 2004 £'000
Executive Directors							
I. K. Meakins(1)	625	24	263	266	–	**1,178**	425
S. Pessina	485	54	–	315	–	**854**	729
G. R. Fairweather	375	22	48	225	–	**670**	605
O. Barra	310	19	–	256	–	**585**	454
S. W. J. Duncan	315	20	–	260	–	**595**	440
	2,110	139	311	1,322	–	**3,882**	2,653
Former Directors							
P. Utnegaard(2)	105	7	–	58	454	**624**	472
J. F. Harris(3)	105	–	–	–	–	**105**	250
	210	7	–	58	454	**729**	722
Non-executive Directors							
P. Scaroni(4)	136	–	–	–	–	**136**	40
K. H. Clarke	125	–	–	–	–	**125**	125
N. E. Cross(5)	65	–	–	–	–	**65**	46
W. A. Loader	50	–	–	–	–	**50**	40
P. Ponsolle	50	–	–	–	–	**50**	40
M. Stach	50	–	–	–	–	**50**	35
E. Jornod(6)	–	–	–	–	–	**–**	–
	476	–	–	–	–	**476**	326
Total	2,796	146	311	1,380	454	**5,087**	3,701

(1) Highest paid Director in 2005. Salary supplement comprises long-term financial provision of £240,000 and £23,000 (which is equivalent to the total gross dividend on the 119,946 shares (the initial award) held by the Alliance UniChem Employee Share Trust for the Ian Meakins – share incentive plan, details of which are set out on page 60).

(2) Resigned from the Board on 17 March 2005 and left the Company on 30 April 2005. Received payment on termination of his employment. This payment covered basic salary for his contractual notice period, a severance payment and legal fees. Received a prorated 2005 bonus payment for the period up to the date he left the Company.

(3) Resigned from the Board and as Chairman on 22 April 2005. Total emoluments for 2005 include fees of £21,333 as a member of the supervisory board of Andreae-Noris Zahn (ANZAG), an associate company.

(4) Appointed as Chairman on 22 April 2005.

(5) Includes a fee of £10,000 per annum for chairing and serving on the Board of Alliance UniChem Pension Trustee Limited and £10,000 for chairing the audit committee.

(6) Etienne Jornod waived his entitlement to a Director's fee of £45,000 (2004 £35,000), as part of the agreement with Galenica on reciprocal board representation.

(7) Fees and benefits totalling £41,210 (2004 £66,000) were paid to Barry Andrews, a former Director, of which £40,000 (2004 £40,000) was for acting as a non-executive Chairman of Alliance Pharmacy (formerly Moss Pharmacy).

(8) In accordance with an agreement dated 29 July 2004, benefits totalling £11,000 (2004 £23,000) were paid to Geoff Cooper a former Director.

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 28 February 2006 are:

Director	2003 allocation maximum amount £	2004 allocation maximum amount £	2005 allocation maximum amount £
I. K. Meakins	–	400,000	625,000
S. Pessina	233,333	300,000	485,000
G. R. Fairweather	220,000	233,333	375,000
O. Barra	180,000	193,333	310,000
S. W. J. Duncan	156,667	186,666	315,000

The performance periods for the allocations are:

	2003 allocation	2004 allocation	2005 allocation
Period start	1 January 2003	1 January 2004	1 January 2005
Period end	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 the period when the Group reported under UK GAAP and adjusted diluted earnings per share (which excludes exceptional items and IAS 39 timing differences) for the periods when the Group reported under IFRS, in both cases for full accounting years ("Earnings Per Share"). RPI-x is the index of retail prices for all items excluding mortgage payments as published by the UK Government ("RPI"). The performance against RPI-x is calculated on a per annum compound basis.

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

Performance measure	Achievement	% awarded
Total shareholder return	below median	–
	at median (50%)	12.5%
	for every 1% above median	+1.5%
	up to upper quartile (75%)	50.0%
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, following consultation with the Company's major shareholders, raised the allocation from 66.66% to 100% of basic salary for 2005 onwards.

In anticipation of the proposed merger of the Company with Boots, the remuneration committee has delayed the 2006 allocations under the long term incentive plan to the executive Directors in order to facilitate the alignment of the long-term remuneration arrangements of the executive Directors of the combined business following the merger.

For the 2005 allocation, the TSR and EPS targets are:

Performance measure	Achievement	% awarded
Total shareholder return	below median	–
	at median (50%)	12.5%
	for every 1% above median	+1.5%
	up to upper quartile (75%)	50.0%
Earnings per share	below RPI-x +5%	–
	at RPI-x +5%	5.0%
	for every 0.1% above RPI-x +5%	+2.25%
	up to RPI-x +7%	50.0%

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.

During 2005, awards were made on allocations for the performance period 1 January 2002 to 31 December 2004. During the performance period, the Company was in the 66th percentile of the comparator group on total shareholder return, which was the FTSE 250 for the 2002 allocation, and the increase in earnings per share was in excess of RPI-x +4%. On this basis, awards equivalent to 86.8% of the allocations were made and converted into share options at 753.5 pence and 823.5 pence per share, with the exception of Jeff Harris who was only entitled to 25% of the allocation, reflecting his period as an executive Director.

Director	Allocation £	Award nominal value £	Option price pence	Award share options Number
S. Pessina	216,666	188,066	753.5	24,959
G. R. Fairweather	155,775	135,213	823.5	16,419
O. Barra	160,666	139,458	823.5	16,934
J. F. Harris(1)	308,666	66,979	753.5	8,889
G. I. Cooper(2)	206,666	179,386	823.5	21,783

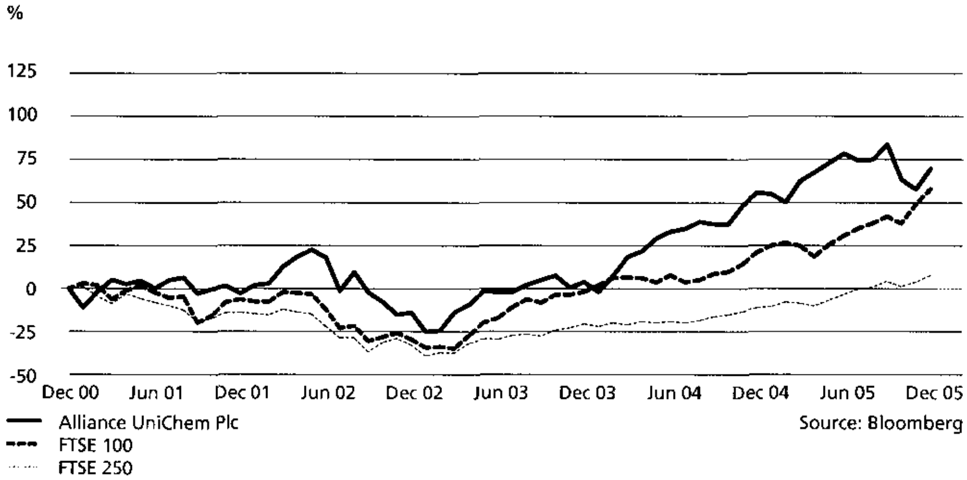
(1) Resigned from the Board and as Chairman of the Company on 22 April 2005.

(2) Resigned from the Board in July 2004 and left the Company on 31 December 2004. In accordance with an agreement between the Company and G. I. Cooper, Mr Cooper exercised an option over 27,577 ordinary shares (at an option price of £1 in total) in the Company which had been awarded to him in 2004 on allocations for the performance period 1 January 2001 to 31 December 2003. The option was normally exercisable from 31 December 2004 to 31 December 2005. The market price of the Company's shares on the date of exercise was 820 pence.

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 2003 allocation detailed above, the committee has recommended to the trustees of the 1992 Employee Trust that awards equivalent to 90.1% of the allocation are made. Their basis for doing this is that during the performance period, the Company was in the 68.4th percentile of the comparator group on shareholder return and the increase in earnings per share was in excess of RPI-x +6%.

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 ended 31 December 2005 were:



The increase in published earnings per share over the five years ending 31 December 2005 compared to RPI-x +3% and RPI-x +5% over the same period is:

The EPS figures from 2000 to 2004 were calculated under UK GAAP.
The EPS figure for 2005 was calculated under IFRS.

graph removed

Share option schemes
In addition to the long-term incentive plan, the Company operates a discretionary and a savings related share option scheme. The Directors may participate in the savings related share option scheme but do not participate in the discretionary scheme. Details of outstanding options under these schemes are shown in note 34 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.

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. The performance conditions for options granted up to and including 2002 have been satisfied.

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 2005	Granted in the year	Exercised in the year	**31 December 2005**	Exercise price £	Market price on exercise £	Normally exercisable from
I. K. Meakins	a	119,946	–	–	**119,946**	0.0001		01.12.2005 to 01.12.2014
S. Pessina	d	–	24,959	24,959	–	0.0001	7.78	26.10.2005 to 25.10.2015
G. R. Fairweather	b	2,804	–	–	**2,804**	3.3700		01.07.2006 to 31.12.2006
	d	–	16,419	–	**16,419**	0.0001		16.05.2005 to 15.05.2015
		2,804	16,419	–	**19,223**			
O. Barra	d	–	16,934	16,934	–	0.0001	8.19	16.05.2005 to 15.05.2015
S. W. J. Duncan	b	3,715	–	–	**3,715**	4.4000		01.07.2009 to 31.12.2009
	c	20,000	–	20,000	–	6.0900	8.06	09.04.2005 to 08.04.2009
		23,715	–	20,000	**3,715**			
J. F. Harris	d	–	8,889	–	**8,889**	0.0001		26.10.2005 to 25.04.2006
Total		146,465	67,201	61,893	**151,773**			

a = Ian Meakins Share Incentive Plan.

b = Savings Related Share Option Scheme 1990.

c = Discretionary 1997 Share Option Scheme.

d = Long-term incentive plan 1998.

The aggregate gains before tax made by Directors on the exercise of share options during 2005 was £39,400 (2004 £750,482) and on the exercise of long-term incentive plan awards £332,868 (2004 £1,093,585).

There were no changes to the options of Directors between 1 January 2006 and 28 February 2006.

The mid-market price of shares of the Company ranged during 2005 between 910 pence on 3 October and 689 pence on 25 February and at 31 December was 800.5 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. He has waived any dividend entitlement in consideration of this payment.

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 2005 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 2005 Number	Ordinary shares 1 January 2005 Number
P. Scaroni	**13,000**	–
I. K. Meakins	**33,625**	33,625
S. Pessina	**108,472,659**	107,446,101
G. R. Fairweather	**2,000**	2,000
O. Barra	**347,445**	325,102
S. W. J. Duncan	**10,261**	10,122
K. H. Clarke	**6,873**	6,761
N. E. Cross	**5,000**	5,000
W. A. Loader	**6,126**	5,998
P. Ponsolle	**500**	500
M. Stach	**–**	–
E. Jornod	**1,150**	–
Total	**108,898,639**	107,835,209

There were no changes to Directors' shareholdings between 1 January 2006 and 28 February 2006.

108,350,000 shares of the interest of Stefano Pessina are held by Alliance Santé Participations S.A.. Stefano Pessina indirectly wholly owns Alliance Santé Participations 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.

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 2005 were:

Director	Age at 31 December 2005	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 2005 £'000	Additional money purchase contributions 2004 £'000	Transfer value of defined benefits at 31 December 2005 £'000	Transfer value of defined benefits at 31 December 2004 £'000	Increase/(decrease) in transfer value during the year net of Directors' contributions £'000
G. R. Fairweather	48	4	4	13	**69**	82	**149**	86	47
O. Barra	52	–	–	–	**298**	81	**–**	–	–
S. W. J. Duncan(1)	54	7	9	106	–	–	**1,683**	1,869	(247)
J. F. Harris(2)	57	–	10	373	–	–	**8,100**	7,580	520
G. I. Cooper(3)	51	–	1	38	–	99	**516**	410	106

(1) The total accrued pension of £140,000 disclosed for S. W. J. Duncan at the end of 2004 included a pension debit of £44,000. The comparable figure for 2005 of £106,000 does not include the pension debit since it has been transferred to another pension arrangement under a pension sharing order.

(2) Resigned as a Director in April 2005.

(3) 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. £20,773 per annum of this pension is unfunded and is paid directly by the Company.

Ian Meakins has no pension benefit. He 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. In addition, provision for life assurance and spouse's death in service pension has been made through insurance policies. Stefano Pessina receives no pension benefits.

George Fairweather and Steve Duncan 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 by the Director 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. An actuarial review has identified a funding deficit relating to service up until 31 December 2005 of approximately £108,000 for George Fairweather and £454,000 for Geoff Cooper which will be paid by April 2006.

The Company has undertaken a review of pension arrangements in light of the provisions of the Finance Act 2004. As a result, the 1993 Scheme will be closed in 2006, with suitable adjustments being made to the Company's pension scheme to reflect contractual promises. These changes will maximise the use of the defined benefit section of the Company's pension scheme rather than using unapproved arrangements. The changes do not represent an increase in the value or cost of the contractual promise, but allow the benefits to be provided more efficiently.

Ornella Barra is a member of the unapproved International Pension Scheme, which is a defined contribution arrangement. Based on actuarial advice, the contributions include an amount of previous underfunding of the contractual promise. From 2006, contributions will reflect the cost of future service, as determined by the actuary.

Audit
The following sections of the above report form part of the financial statements on which the auditors have expressed their opinion on page 63: "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
28 February 2006

Independent auditors' report

to the members of Alliance UniChem Plc

Introduction
We have audited the Group financial statements (the "financial statements") of Alliance UniChem Plc for the year ended 31 December 2005 which comprise the Group income statement, the Group statement of recognised income and expense, Reconciliation of movements in total equity, the Group balance sheet, the Group cash flow statement, and the related notes 1 to 50. These financial statements have been prepared under the accounting policies set out therein.

The Board report on corporate governance and the Board report on remuneration are included in the individual Company annual report of Alliance UniChem Plc for the year ended 31 December 2005. We have reported separately on the individual Company financial statements of Alliance UniChem Plc for the year ended 31 December 2005 and on the information in the Board report on remuneration in the individual Company annual report 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
The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted for use in the European Union are set out in the Directors' responsibilities statement.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report 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 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 statement on internal control covers 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, and we 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with those International Financial Reporting Standards as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS
As explained in note 2, the Group in addition to complying with its legal obligation to apply those IFRSs adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
28 February 2006

Deloitte & Touche LLP

Group income statement
for the year ended 31 December 2005

	Note	2005 £million	2004 £million
Revenue including share of associates' revenue		**11,136.5**	10,605.9
Less: share of associates' revenue		**(1,965.3)**	(1,707.5)
Revenue	4	**9,171.2**	8,898.4
Operating profit including share of associates' operating profit		**331.8**	289.7
Less: share of associates' operating profit		**(70.8)**	(46.1)
Operating profit	5	**261.0**	243.6
Costs in relation to proposed merger		**(3.8)**	–
Share of associates' post tax earnings	6	**45.3**	34.0
Profit on disposal of businesses	7	**7.8**	19.2
Profit on disposal of/(amounts written off) investments	8	**2.1**	(1.9)
Profit from operations	4,9	**312.4**	294.9
Finance income	11	**13.2**	8.0
Finance costs	12	**(46.7)**	(49.9)
Profit before tax		**278.9**	253.0
Tax	13	**(67.6)**	(65.3)
Profit for the year		**211.3**	187.7
Attributable to:			
Equity shareholders		**210.7**	187.3
Minority interests		**0.6**	0.4
		211.3	187.7
Earnings per share	15		
Basic		**58.9p**	53.4p
Diluted		**58.3p**	52.8p

All activities relate to continuing operations.

A glossary of key terms is provided on page 125.

Group statement of recognised income and expense

for the year ended 31 December 2005

	Note	2005 £million	2004 £million
Currency net investments			
– currency translation differences		**(5.8)**	8.8
– related deferred tax charge		**–**	(0.3)
– currency translation differences on minority interests		**(0.1)**	0.1
Defined benefit pension schemes			
– actuarial loss	33	**(18.8)**	(7.9)
– related deferred tax credit		**6.0**	2.6
Net gains on cash flow and net investment hedges			
– fair value change deferred in equity		**15.3**	–
– related deferred tax credit		**0.3**	–
– transferred to income statement (net of tax)		**4.9**	–
Available-for-sale investments			
– gains on revaluation deferred in equity		**9.7**	–
– related deferred tax charge		**(0.8)**	–
– transferred to income statement		**(2.1)**	–
Income and expense recognised directly in equity		**8.6**	3.3
Profit for the year		**211.3**	187.7
Total recognised income and expense for the year		**219.9**	191.0

Attributable to:		
Equity shareholders	**219.4**	190.5
Minority interests	**0.5**	0.5
	219.9	191.0

Reconciliation of movements in total equity

for the year ended 31 December 2005

	Share capital £million	Share premium £million	Shares to be issued £million	Employee share trusts £million	Retained earnings £million	Hedging, translation and other reserves £million	Attributable to equity holders of the parent £million	Minority interest £million	Total equity £million
At 1 January 2004	35.1	444.2	25.1	(23.1)	393.0	2.6	876.9	10.5	887.4
Total recognised income and expense for the year	–	–	–	–	182.0	8.5	190.5	0.5	191.0
Share-based compensation									
– charged to income statement	–	–	–	–	2.2	–	2.2	–	2.2
– deferred tax credit	–	–	–	–	0.5	–	0.5	–	0.5
Utilisation of accrual for long-term incentive plan	–	–	–	–	2.5	–	2.5	–	2.5
Dividends paid	–	–	–	–	(59.6)	–	(59.6)	(0.1)	(59.7)
Shares issued									
– businesses acquired	0.2	12.2	(12.4)	–	–	–	–	–	–
– share options exercised	0.1	1.8	–	–	–	–	1.9	–	1.9
– dividends	0.4	27.5	–	–	–	–	27.9	–	27.9
Decrease in estimate of shares to be issued on acquisitions	–	–	(12.7)	–	–	–	(12.7)	–	(12.7)
Proceeds from own shares sold	–	–	–	10.0	0.3	–	10.3	–	10.3
Minority interests acquired	–	–	–	–	–	–	–	(0.5)	(0.5)
Transfer to retained earnings	–	–	–	–	(0.1)	0.1	–	–	–
At 31 December 2004	35.8	485.7	–	(13.1)	520.8	11.2	1,040.4	10.4	1,050.8
IAS 39 adjustment at 1 January 2005	–	–	–	–	(8.9)	(3.2)	(12.1)	–	(12.1)
At 1 January 2005	35.8	485.7	–	(13.1)	511.9	8.0	1,028.3	10.4	1,038.7
Total recognised income and expense for the year	–	–	–	–	197.9	21.5	219.4	0.5	219.9
Share-based compensation									
– charged to income statement	–	–	–	–	5.3	–	5.3	–	5.3
Dividends paid	–	–	–	–	(68.4)	–	(68.4)	(0.3)	(68.7)
Shares issued									
– share options exercised	0.1	2.0	–	–	–	–	2.1	–	2.1
– dividends	0.3	21.7	–	–	–	–	22.0	–	22.0
Fair value of option to acquire minority interests	–	–	–	–	–	(4.3)	(4.3)	–	(4.3)
Net cost of own shares purchased	–	–	–	(32.0)	1.4	–	(30.6)	–	(30.6)
Minority interests in businesses acquired	–	–	–	–	–	–	–	0.4	0.4
At 31 December 2005	36.2	509.4	–	(45.1)	648.1	25.2	1,173.8	11.0	1,184.8

Group balance sheet

as at 31 December 2005

	Note	2005 £million	2004 £million
Assets			
Non-current assets			
Goodwill	16	**232.1**	175.6
Intangible assets	17	**819.3**	715.4
Property, plant and equipment	19	**350.0**	306.0
Investments in associates	21	**394.5**	332.4
Loans to associates		**–**	42.5
Other investments	22	**–**	42.6
Available-for-sale investments	23	**48.4**	–
Deferred tax assets	32	**9.2**	7.8
Trade and other receivables	25	**27.2**	40.2
Derivative financial instruments	30	**3.5**	–
		1,884.2	1,662.5
Current assets			
Inventories	24	**670.5**	692.2
Securitised receivables		**–**	456.1
Non-recourse receipts		**–**	(400.8)
Net securitised receivables		**–**	55.3
Trade and other receivables	25	**1,424.7**	1,027.1
Cash and cash equivalents	26,28	**133.5**	101.9
Derivative financial instruments	30	**0.6**	–
		2,229.3	1,876.5
Non-current assets classified as held for sale	27	**–**	1.7
Total assets		**4,113.5**	3,540.7
Liabilities			
Current liabilities			
Financial liabilities			
– borrowings	28	**(216.4)**	(175.7)
– financing linked to securitisation	29	**(289.4)**	–
Derivative financial instruments	30	**(12.2)**	–
Trade and other payables	31	**(1,383.5)**	(1,383.3)
Current corporate tax liabilities		**(42.6)**	(37.5)
		(1,944.1)	(1,596.5)
Net current assets		**285.2**	280.0
Non-current liabilities			
Financial liabilities			
– borrowings	28	**(605.2)**	(732.0)
– financing linked to securitisation	29	**(103.3)**	–
Derivative financial instruments	30	**(83.4)**	–
Deferred tax liabilities	32	**(123.6)**	(108.4)
Retirement benefit obligations	33	**(69.1)**	(53.0)
		(984.6)	(893.4)
Net assets		**1,184.8**	1,050.8
Equity			
Share capital	34	**36.2**	35.8
Share premium	35	**509.4**	485.7
Employee share trusts	36	**(45.1)**	(13.1)
Retained earnings	37	**648.1**	520.8
Translation reserve	38	**2.7**	8.5
Hedging reserve	38	**13.8**	–
Available-for-sale revaluation reserve	38	**10.3**	–
Other reserves	38	**(1.6)**	2.7
Shareholders' equity		**1,173.8**	1,040.4
Minority interests		**11.0**	10.4
Total equity		**1,184.8**	1,050.8

The financial statements and related notes on pages 64 to 114 were approved by the Board of Directors on 28 February 2006 and were signed on its behalf by:

I. K. Meakins
G. R. Fairweather
Directors

Group cash flow statement

for the year ended 31 December 2005

	Note	2005 £million	2004 £million
Cash generated by operations	39a	**275.1**	311.1
Tax paid		**(59.2)**	(49.0)
Interest paid		**(45.2)**	(52.9)
Net cash from operating activities		**170.7**	209.2
Net cash used in investing activities	39b	**(45.1)**	(149.2)
Net cash (used in)/from financing activities	39c	**(162.2)**	0.9
Net (decrease)/increase in cash and cash equivalents in the year		**(36.6)**	60.9
Cash and cash equivalents at 1 January		**19.8**	(38.8)
Currency translation differences		**6.0**	(2.3)
Cash and cash equivalents at 31 December		**(10.8)**	19.8

Set out below is a reconciliation of the net (decrease)/increase in cash and cash equivalents to the decrease in net borrowings. Net borrowings are defined by the Group as borrowings net of cash and cash equivalents and derivative financial instruments.

	Note	2005 £million	2004 £million
(Decrease)/increase in cash and cash equivalents		**(36.6)**	60.9
Cash and cash equivalents outflow/(inflow) from decrease/(increase) in debt and lease financing	39d	**87.0**	(20.6)
Decrease in net borrowings resulting from cash flows		**50.4**	40.3
Borrowings acquired with businesses		**(38.8)**	–
Finance leases entered into		**–**	(9.1)
Loan notes issued for non-cash consideration		**–**	(0.7)
		11.6	30.5
Currency translation differences and fair value adjustments on financial instruments		**36.9**	(9.9)
Decrease in net borrowings in the year		**48.5**	20.6
Net borrowings at 1 January		**(805.8)**	(826.4)
IAS 39 adjustment at 1 January 2005	2	**(22.3)**	–
Net borrowings at 31 December	40	**(779.6)**	(805.8)

Notes to the financial statements
for the year ended 31 December 2005

(1) GENERAL INFORMATION
Alliance UniChem Plc is a public company incorporated in the United Kingdom. The address of its registered office is disclosed in the Shareholder information section of the annual report. The principal activities of the Company and its subsidiaries are described in note 4.

(2) ACCOUNTING POLICIES
The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS in relation to the transition from UK GAAP to IFRS are provided in note 50. The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The Group has taken the exemption permitted by IFRS 1 to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005.

These financial statements have been prepared in accordance with relevant IFRS and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied in preparing these financial statements. The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investments and any financial assets and liabilities that are held for trading.

First time adoption
IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures to be followed when IFRS is adopted for the first time. 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 has chosen the following options:

- Business combinations: Business combinations prior to the opening balance sheet date (1 January 2004) have not been restated.
- Employee benefits: All actuarial gains and losses arising on defined benefit pensions schemes 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 and losses directly to reserves via the statement of recognised income and expense.
- Share-based payments: Only equity instruments granted after 7 November 2002 that had not vested prior to 1 January 2005 have been included in the charge to income.
- Cumulative translation differences: One of the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" is that, on disposal of an operation, the cumulative amount of exchange differences previously recognised directly in equity for that foreign operation is to be transferred to the income statement as part of the profit or loss on disposal. The Group has adopted the exemption allowing these cumulative translation differences to be reset to zero at the transition date.
- IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement": Comparatives have not been restated for IAS 32 and IAS 39. As a result, the figures for 2004 comparatives are presented under the previously reported UK GAAP basis. 2005 figures reflect the adoption of IAS 32 and IAS 39 from 1 January 2005. The adjustments required to the opening balance sheet at 1 January 2005 are:
  - Derivative financial instruments are recognised in the balance sheet at their fair value as financial assets or liabilities and reported separately. The carrying values of borrowings held by the Group which are designated within an effective fair value hedge relationship are also adjusted to reflect movements associated with the hedged risks. The net effect of these adjustments at 1 January 2005 was to reduce equity by £15.6 million due to the recognition of additional financial liabilities of £22.3 million, partially offset by related deferred taxation of £6.7 million; and
  - Other investments are categorised as available-for-sale and recorded at fair value. The effect of this at 1 January 2005 was to increase equity by £3.5 million due to an increase in the carrying value of these investments of £3.9 million, partially offset by the related deferred taxation liability of £0.4 million.

  The combined effect of these adjustments was to reduce shareholders equity by £12.1 million at 1 January 2005, as shown in the Reconciliation of movements in total equity statement.

Early adoption
The Group has applied IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" from 1 January 2004 and has elected to early adopt the option offered by the amendment to IAS 19 "Employee Benefits" allowing actuarial gains and losses to be taken directly to reserves via the statement of recognised income and expense.

(2) ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of the disposal, as appropriate.

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling, the financial and operating policies of the entity. Associates are accounted for using the equity method. Losses of an associate in excess of the Group's interest in the associate are not recognised, except to the extent that the Group has incurred obligations in respect of the associate. Unrealised profits and losses recognised by the Group on transactions with an associate are eliminated to the extent of the Group's interest in the associate concerned.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Currency translation

At entity level, transactions denominated in currencies other than the entity's functional currency are translated into the entity's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date with any currency translation differences recognised in the income statement.

The Group's presentation currency is Sterling. On consolidation, the results of entities whose functional currency is other than Sterling are translated into Sterling at the average exchange rate for the year. The assets and liabilities of entities whose functional currency is other than Sterling are translated into Sterling at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised in the currency translation reserve.

The results, assets and liabilities of entities operating 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 income statement.

Revenue recognition

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

Interest and investment income is recognised separately under finance income on the face of the income statement.

Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the fair value of cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, and any impairment arising is recognised in the income statement. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated.

(b) Intangible assets – 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 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, and any impairment arising is recognised in the income statement. The cost of retail pharmacy licences less any impairment and amortisation is included in intangible fixed assets.

(c) Intangible assets – computer software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Amortisation is provided on a straight-line basis so as to charge the cost of the software to the income statement over its expected useful life, which does not exceed five years.

(2) ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any provision for impairment. 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, fittings, plant and equipment	– between three and ten years
Vehicles	– between three and ten years

Freehold land is not depreciated.

Residual values and useful lives are reviewed at each balance sheet date and adjusted where appropriate.

Taxation

Current tax is the amount payable or recoverable in respect of the taxable profit or loss for the year.

Deferred tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax is provided on temporary differences arising on investment in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable the temporary difference will not reverse in the foreseeable future.

Tax relating to items recognised directly in equity is recognised in equity, not in the income statement.

Impairment of tangible assets, intangible fixed assets and goodwill

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (referred to as cash-generating units).

Cash and cash equivalents

In the cash flow statement, cash and cash equivalents includes cash at bank and cash in hand, short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Inventories

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

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the asset is available for immediate sale in its present condition and the sale is highly probable within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

(2) ACCOUNTING POLICIES (CONTINUED)

Other investments/Available-for-sale investments

To 31 December 2004:
Other investments comprise listed and unlisted investments in companies other than subsidiaries and associates. Other investments are recorded at cost less provisions for impairment.

From 1 January 2005:
The Group classifies its listed and unlisted investments as available-for-sale financial assets which are measured at fair value and accounted for on a settlement date basis. The fair values of quoted investments are based on current bid prices and for investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows or by reference to the current market value of similar investments. Gains and losses arising from changes in the fair values are recognised in equity until the investment is either disposed of or derecognised.

Derivative financial instruments

Derivative financial instruments utilised by the Group include interest rate swaps, foreign currency swaps, interest rate caps and forward exchange contracts. These derivative financial instruments are used to manage the foreign currency and interest rate risk of the Group's borrowings and investments.

To 31 December 2004:
The Group has used derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges were structured so as to reduce the market risk associated with the underlying transaction being hedged. If the underlying transaction being hedged ceased to exist, the hedge was typically cancelled and the profit or loss recognised in the income statement immediately.

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

Cash flows associated with derivative financial instruments were classified in the cash flow statement in a manner consistent with those of the transaction being hedged. Finance costs associated with debt issuances were charged to the income statement over the life of the issue.

From 1 January 2005:
Derivative financial instruments are designated as hedges in line with the Group's risk management policies. Derivatives are measured at fair value. The accounting treatment is determined by the type of hedge relationship adopted and falls into the following categories:

- Fair value hedges – gains and losses on the derivative instrument are recognised in the income statement and the carrying value of the hedged item is adjusted to reflect movements associated with the hedged risks where the relationship is assessed to be effective. Where there is hedge accounting ineffectiveness the gain or loss on the derivative is recognised immediately in the income statement and the underlying hedged item is recognised at amortised cost with no adjustment to the carrying value permitted.
- Cash flow hedges – gains and losses on the derivative instrument are recognised in equity where the relationship is assessed to be effective. Gains and losses deferred in equity are recycled through the income statement at the time that the hedged item is recognised in the income statement. Where there is hedge accounting ineffectiveness, the gain or loss arising since the date the relationship was last assessed to be effective is recognised immediately in the income statement. Any gains and losses deferred in equity continue to be deferred in equity until the forecast transaction occurs.
- Net investment hedges – gains and losses on the derivative instrument are recognised in equity where the relationship is assessed to be effective. Gains and losses deferred in equity are recycled through the income statement at the time that the hedged item is recognised in the income statement. Where there is hedge accounting ineffectiveness, the gain or loss arising since the date the relationship was last assessed to be effective is recognised immediately in the income statement. Any gains and losses deferred in equity continue to be deferred in equity until the forecast transaction occurs.

Those derivatives which are not designated as hedges are classified as held-for-trading and gains and losses on the derivative financial instrument are recognised immediately in the income statement.

Borrowings held by the Group are measured at amortised cost except where the underlying transaction is designated within an effective fair value hedge relationship. In these cases the carrying value is adjusted to reflect movements associated with the hedged risks.

(2) ACCOUNTING POLICIES (CONTINUED)

Leases

Leases of property, plant and equipment are classified as finance leases where the Group has substantially all the risks and rewards of ownership. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are classified as borrowings within financial liabilities. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term.

Employee benefits

(a) Pension obligations

Defined benefit plans:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations obtained at least triennially and updated on the balance sheet date. Actuarial gains and losses are recognised in full in the year in which they occur and are recognised outside the income statement in the statement of recognised income and expense. Past service cost is recognised immediately to the extent that the benefits are already vested, otherwise it is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Defined contribution plans:

The cost represents the Group's contributions to the plans that are charged to the income statement in the period in which they fall due.

(b) Share-based compensation

Share options granted before 7 November 2002 and vested before 1 January 2005:

No expense is recognised in respect of the options granted under the savings related and discretionary share option schemes. In respect of the long-term incentive plan, the fair value of the employee services received in exchange for the grant is recognised as an expense.

Share options granted after 7 November 2002 and vested after 1 January 2005:

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises estimates of the number of options that are expected to become exercisable, and the impact of the revision of original estimates is recognised, if any, in the income statement and a corresponding adjustment is made to equity.

Share capital and share premium

Ordinary shares are classified as equity.

Own shares held by the Company's employee share trusts are deducted at cost from equity.

(3) EXCHANGE RATES

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

	Average		Year end	
	2005	2004	**2005**	2004
Euro	**1.460**	1.475	**1.452**	1.413
Czech Koruna	**43.63**	47.20	**42.27**	42.93
Norwegian Kroner	**11.71**	12.38	**11.60**	11.64
Swiss Franc	**2.260**	2.279	**2.260**	2.185
Turkish Lira			**2.320**	2.596
US Dollar	**1.830**	1.825	**1.719**	1.916

(4) SEGMENTAL ANALYSIS

Primary segments – nature of operations

The principal activity of the Group is to operate as wholesalers and retailers of pharmaceutical, medical and healthcare products. The Group considers its primary segments to be Wholesale and Retail. Trading between segments is carried out on an arms length basis and transactions are priced accordingly.

The primary segment results were as follows:

	Revenue		Profit from operations	
	2005 £million	2004 £million	**2005 £million**	2004 £million
Wholesale – before profit on disposal of businesses	**8,687.3**	8,536.8	**169.6**	166.5
– profit on disposal of businesses	**–**	–	**2.9**	19.2
Wholesale	**8,687.3**	8,536.8	**172.5**	185.7
Retail – before profit on disposal of businesses	**1,337.3**	1,222.6	**112.9**	95.3
– profit on disposal of businesses	**–**	–	**0.4**	–
Retail	**1,337.3**	1,222.6	**113.3**	95.3
Corporate – before costs in relation to proposed merger	**–**	–	**(21.5)**	(18.2)
– costs in relation to proposed merger	**–**	–	**(3.8)**	–
Corporate	**–**	–	**(25.3)**	(18.2)
Intra-group	**(853.4)**	(861.0)	**–**	–
Share of associates' post tax earnings	**–**	–	**45.3**	34.0
Profit on disposal of associate businesses	**–**	–	**4.5**	–
Profit on disposal of/(amounts written off) investments	**–**	–	**2.1**	(1.9)
	9,171.2	8,898.4	**312.4**	294.9

The primary segment assets and liabilities were as follows:

	2005			2004		
	Assets £million	**Liabilities £million**	**Total £million**	Assets £million	Liabilities £million	Total £million
Wholesale	**2,361.9**	**(1,300.0)**	**1,061.9**	2,407.8	(1,314.6)	1,093.2
Retail	**1,195.0**	**(65.8)**	**1,129.2**	1,029.0	(50.9)	978.1
Corporate	**10.0**	**(17.7)**	**(7.7)**	13.7	(17.8)	(4.1)
Net operating assets	**3,566.9**	**(1,383.5)**	**2,183.4**	3,450.5	(1,383.3)	2,067.2
Investments in and loans to associates			**394.5**			374.9
Tax			**(151.7)**			(131.7)
Financing linked to securitisation/non-recourse receipts			**(392.7)**			(400.8)
Net borrowings			**(779.6)**			(805.8)
Retirement benefit obligations			**(69.1)**			(53.0)
			1,184.8			1,050.8

Other segmental information in respect of the primary segments was as follows:

	Capital expenditure			
	Property, plant and equipment £million	**Intangible fixed assets £million**	**Depreciation £million**	**Amortisation of intangible fixed assets £million**
Year ended 31 December 2005				
Wholesale	**37.7**	**13.3**	**24.2**	**2.5**
Retail	**29.1**	**2.4**	**13.9**	**0.4**
Corporate	**0.7**	**–**	**0.6**	**–**
	67.5	**15.7**	**38.7**	**2.9**

(4) SEGMENTAL ANALYSIS (CONTINUED)
Primary segments – nature of operations (continued)

	Capital expenditure			
	Property, plant and equipment £million	Intangible fixed assets £million	Depreciation £million	Amortisation of intangible fixed assets £million
Year ended 31 December 2004				
Wholesale	31.8	11.9	24.7	4.0
Retail	28.1	3.8	11.3	1.3
Corporate	1.0	–	0.4	0.1
	60.9	15.7	36.4	5.4

Secondary segments – geographical
The Group considers its secondary segments to be the countries in which it operates. The secondary segment financial information was as follows:

	Revenue		Segment assets		Capital expenditure	
	2005 £million	2004 £million	**2005 £million**	2004 £million	**2005 £million**	2004 £million
UK	**2,177.4**	2,117.7	**1,513.8**	1,384.6	**44.9**	48.7
The Netherlands	**702.8**	677.8	**391.3**	381.8	**2.2**	1.6
France	**3,790.7**	3,640.1	**884.1**	848.2	**22.4**	13.0
Italy	**941.2**	927.6	**454.0**	466.8	**6.4**	5.7
Spain	**917.7**	790.2	**238.1**	179.5	**2.3**	2.7
Other	**688.2**	790.4	**85.6**	189.6	**5.0**	4.9
Intra-group	**(46.8)**	(45.4)	**–**	–	**–**	–
	9,171.2	8,898.4	**3,566.9**	3,450.5	**83.2**	76.6

With the exception of the UK, The Netherlands, France, Italy and Spain, no other individual country contributed more than 10% of consolidated revenue or assets.

(5) OPERATING PROFIT

	2005 £million	2004 £million
Revenue	**9,171.2**	8,898.4
Cost of sales	**(8,189.3)**	(8,014.0)
Gross profit	**981.9**	884.4
Administrative expenses	**(720.9)**	(640.8)
	261.0	243.6

Distribution expenses 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.

(6) ASSOCIATES
The analysis of the Group's share of associates' post tax earnings was as follows:

	2005 £million	2004 £million
Profit from operations	**70.8**	46.1
Finance income	**0.8**	6.4
Finance costs	**(6.6)**	(4.6)
Tax	**(19.8)**	(14.2)
Minority interests	**0.1**	0.3
	45.3	34.0

(7) PROFIT ON DISPOSAL OF BUSINESSES

During the year the Group disposed of its 50% direct interest in the ordinary share capital of GaleniCare S.A., its 20% direct interest in the Swiss part of Alloga S.A., 51% of its interest in Alliance UniChem Farmacêutica S.A. and a number of minor interests. The net profit on these disposals was £7.8 million before tax.

The profit on disposal in the comparative year related to the disposal of a number of non-core businesses within the UK wholesale operations.

(8) PROFIT ON DISPOSAL OF/(AMOUNTS WRITTEN OFF) INVESTMENTS

During the year the Group disposed of its investment in Sanacorp Pharmahandel A.G..

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

(9) PROFIT FROM OPERATIONS

The following items have been included in arriving at profit from operations:

	2005 £million	2004 £million
Cost of inventories recognised as an expense	**8,189.3**	8,014.0
Depreciation of property, plant and equipment		
– owned assets	**37.7**	35.6
– held under finance leases	**1.0**	0.8
Amortisation of intangible fixed assets	**2.9**	5.4
(Profit)/loss on disposal of property, plant and equipment	**(1.0)**	0.4
Auditors' remuneration for audit services		
– principal auditor	**1.4**	1.5
– other auditors	**0.1**	0.1

Auditors' remuneration includes £0.1 million (2004 £0.1 million) for the audit of the Company.

An analysis of the total remuneration paid to the auditors and other accountancy firms is provided below:

	Principal auditor		Other auditors		Other accountancy firms	
	2005 £million	2004 £million	2005 £million	2004 £million	2005 £million	2004 £million
Audit	**1.4**	1.5	**0.1**	0.1	–	–
Taxation services	**0.1**	0.1	–	–	**0.5**	0.9
Other assurance services including due diligence	**0.7**	0.1	–	–	**1.3**	0.4
Consulting	–	0.1	–	–	**0.7**	0.2
	2.2	1.8	**0.1**	0.1	**2.5**	1.5

(10) STAFF COSTS

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

	2005 Number	2004 Number
Wholesale	**12,257**	12,233
Retail	**11,279**	10,371
Corporate	**88**	87
	23,624	22,691

Costs incurred in respect of these employees were:

	2005 £million	2004 £million
Wages and salaries	**397.8**	364.3
Social security costs	**77.7**	73.0
Other pension costs (note 33)		
– amounts within operating profit	**15.8**	12.6
– amounts included as other finance costs	**0.6**	1.0
– amounts recognised in statement of recognised income and expense	**18.8**	7.9
Share-based compensation charge (note 44)	**5.3**	2.2
	516.0	461.0

(11) FINANCE INCOME

	2005 £million	2004 £million
Interest income		
Bank deposit interest income	**1.6**	1.2
Other finance income	**6.4**	6.8
	8.0	8.0
Gains on derivative financial instruments		
Classified as held for trading	**0.3**	–
Ineffectiveness on fair value hedges	**2.8**	–
Ineffectiveness on cash flow and net investment hedges	**2.1**	–
	5.2	–
	13.2	8.0

(12) FINANCE COSTS

	2005 £million	2004 £million
Interest expense		
Bank loans and overdrafts	**15.5**	23.9
Loan notes	**18.2**	19.7
Finance charges on finance leases	**1.0**	0.6
Finance charges on securitised receivables	**3.5**	3.5
Other loans	**0.9**	1.0
	39.1	48.7
Other finance costs		
Net return on defined benefit pension schemes	**0.6**	1.0
Discount on deferred acquisition consideration	**–**	0.2
	0.6	1.2
Losses on derivative financial instruments		
Losses on cash flow hedges transferred from equity	**7.0**	–
	46.7	49.9

(13) TAX

An analysis of the tax charge in the year was as follows:

	2005 £million	2004 £million
UK corporation tax		
Current tax on income for the year at 30% (2004 30%)	**61.0**	57.4
Double taxation relief	**(28.3)**	(27.4)
Adjustments in respect of prior years	**(0.9)**	–
	31.8	30.0
Overseas tax		
Current tax on income for the year	**29.5**	28.5
Adjustments in respect of prior years	**1.2**	2.5
	30.7	31.0
Current tax charge	**62.5**	61.0
Deferred tax		
UK	**5.3**	0.8
Overseas	**(1.0)**	1.9
Remittable associates' earnings	**3.2**	2.6
Adjustments in respect of prior years	**(3.4)**	(2.8)
	4.1	2.5
Deferred tax on defined benefit pension schemes	**1.0**	1.8
Deferred tax charge	**5.1**	4.3
	67.6	65.3

(13) TAX (CONTINUED)

The underlying tax charge, calculated before exceptional items as classified by Alliance UniChem (comprising costs in relation to the proposed merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments) and IAS 39 timing differences from hedging interest rate and currency exposures, reconciles to the tax charge in the year as follows:

	2005 £million	2004 £million
Underlying tax	**69.7**	65.3
Tax on		
– exceptional items	**(3.0)**	–
– IAS 39 timing differences	**0.9**	–
	67.6	65.3

For the purpose of reconciling the expected total tax charge to the actual total tax charge, the Group's profit before tax is calculated as follows:

	2005 £million	2004 £million
Profit before tax	**278.9**	253.0
Less: share of associates' post tax earnings	**(45.3)**	(34.0)
	233.6	219.0

The Group'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 total tax charge using this standard tax rate of 31.1% (2004 32.3%) to the actual total tax charge was as follows:

	2005 £million	2004 £million
Expected tax charge at standard tax rate	**72.6**	70.7
Profit on disposal of businesses	**(5.4)**	(5.9)
Profit on disposal of/(amounts written off) investments	–	0.6
Permanent timing differences	**3.8**	2.7
Income taxed at lower rates	**(1.5)**	(1.7)
Withholding tax on remitted associates' earnings	**1.0**	0.4
Deferred tax on unremitted associates' earnings	**3.2**	2.6
Tax losses brought forward and utilised in year	**(0.1)**	(0.9)
Unrelieved tax losses arising in year	–	0.1
Adjustment in respect of prior years	**(3.1)**	(0.3)
Rate difference on deferred tax	**(2.9)**	(3.0)
Total tax charge	**67.6**	65.3

Tax on items charged/(credited) to equity comprised:

	2005 £million	2004 £million
Tax charge on currency translation differences on foreign currency borrowings	–	0.3
Tax credit on net losses on cash flow hedges	**(0.3)**	–
Tax credit on share based compensation	–	(0.5)
Tax credit on defined benefit pension schemes	**(6.0)**	(2.6)
Tax charge on revaluation of available-for-sale investments	**0.8**	–

Deferred tax on net losses of cash flow hedges transferred to the income statement amounted to £2.1 million.

(14) DIVIDENDS

	2005 £million	2004 £million
Amounts recognised as distributions to equity holders in the year		
Final dividend per share for the year ended 31 December 2004, net 12.25p (2003 11.0p)	**43.5**	38.1
Interim dividend per share for the year ended 31 December 2005, net 6.9p (2004 6.25p)	**24.9**	21.5
	68.4	59.6
Proposed final dividend per share for the year ended 31 December 2005, net 13.6p (2004 12.25p)	**48.4**	43.5

The proposed final dividend for the year ended 31 December 2005 is subject to approval by shareholders at the Annual General Meeting on 25 April 2006 and has not been included as a liability in these financial statements.

(15) EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of shares in issue during the year. The diluted earnings per share are calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of shares in issue added to the dilutive potential shares assuming they had all converted to issued shares at the beginning of the year.

			2005			2004
	Profit for the year attributable to equity shareholders £million	Weighted average number of shares million	Earnings per share pence	Profit for the year attributable to equity shareholders £million	Weighted average number of shares million	Earnings per share pence
Basic	**210.7**	**357.6**	**58.9**	187.3	350.6	53.4
Potentially dilutive share options	**–**	**3.9**	**(0.6)**	–	3.0	(0.4)
Deferred acquisition consideration	**–**	**–**	**–**	0.2	1.5	(0.2)
Diluted	**210.7**	**361.5**	**58.3**	187.5	355.1	52.8

To assist investors in understanding the underlying performance, adjusted earnings per share amounts are calculated excluding exceptional items as classified by Alliance UniChem (comprising costs in relation to the proposed merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments) and IAS 39 timing differences arising from hedging interest rate and currency exposures as follows:

			2005			2004
	Profit for the year attributable to equity shareholders £million	Weighted average number of shares million	Earnings per share pence	Profit for the year attributable to equity shareholders £million	Weighted average number of shares million	Earnings per share pence
Basic	**210.7**	**357.6**	**58.9**	187.3	350.6	53.4
Exceptional items net of tax	**(9.1)**	**–**	**(2.5)**	(17.3)	–	(4.9)
IAS 39 timing differences net of tax	**(4.3)**	**–**	**(1.2)**	–	–	–
Adjusted basic	**197.3**	**357.6**	**55.2**	170.0	350.6	48.5
Potentially dilutive share options	**–**	**3.9**	**(0.6)**	–	3.0	(0.4)
Deferred acquisition consideration	**–**	**–**	**–**	0.2	1.5	(0.2)
Adjusted diluted	**197.3**	**361.5**	**54.6**	170.2	355.1	47.9

(16) GOODWILL

	£million
Cost	
At 1 January 2004	204.0
Elimination of accumulated amortisation prior to the adoption of IFRS 3	(31.7)
Businesses acquired	14.2
Businesses disposed	(12.0)
Currency translation differences	1.1
At 1 January 2005	**175.6**
Businesses acquired	**64.1**
Businesses disposed	**(3.6)**
Currency translation differences	**(4.0)**
At 31 December 2005	**232.1**

(17) INTANGIBLE ASSETS

	Retail pharmacy licences £million	Software £million	Software under development £million	Total £million
Cost				
At 1 January 2004	614.2	33.7	3.5	651.4
Additions	–	5.7	–	5.7
Additions – internally developed	–	–	10.0	10.0
Businesses acquired	76.2	–	–	76.2
Disposals	–	–	(1.5)	(1.5)
Businesses disposed	–	(1.0)	–	(1.0)
Currency translation differences	3.4	0.3	–	3.7
At 1 January 2005	**693.8**	**38.7**	**12.0**	**744.5**
Additions	**–**	**5.7**	**–**	**5.7**
Additions – internally developed	**–**	**–**	**10.0**	**10.0**
Businesses acquired	**93.9**	**1.7**	**–**	**95.6**
Disposals	**–**	**(0.1)**	**(0.2)**	**(0.3)**
Businesses disposed	**–**	**(0.9)**	**–**	**(0.9)**
Currency translation differences	**(3.5)**	**(0.3)**	**–**	**(3.8)**
At 31 December 2005	**784.2**	**44.8**	**21.8**	**850.8**
Amortisation				
At 1 January 2004	1.8	22.5	–	24.3
Charge for the year	0.4	5.0	–	5.4
Businesses disposed	–	(0.8)	–	(0.8)
Currency translation differences	0.1	0.1	–	0.2
At 1 January 2005	**2.3**	**26.8**	**–**	**29.1**
Charge for the year	**0.3**	**2.6**	**–**	**2.9**
Businesses acquired	**–**	**0.7**	**–**	**0.7**
Businesses disposed	**–**	**(0.9)**	**–**	**(0.9)**
Currency translation differences	**(0.1)**	**(0.2)**	**–**	**(0.3)**
At 31 December 2005	**2.5**	**29.0**	**–**	**31.5**
Net book value at 31 December 2005	**781.7**	**15.8**	**21.8**	**819.3**
Net book value at 31 December 2004	691.5	11.9	12.0	715.4

(18) IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE FIXED ASSETS WITH INDEFINITE LIVES

Goodwill acquired and retail pharmacy licences with indefinite useful lives are allocated to the appropriate cash-generating unit (CGU) identified according to the country of operation and business.

The carrying amounts of goodwill by these segments were as follows:

			2005			2004
	Wholesale £million	**Retail £million**	**Total £million**	Wholesale £million	Retail £million	Total £million
UK	**–**	**29.2**	**29.2**	–	6.1	6.1
The Netherlands	**98.3**	**19.6**	**117.9**	98.5	6.5	105.0
France	**27.0**	**–**	**27.0**	21.8	–	21.8
Italy	**16.9**	**1.4**	**18.3**	16.3	1.3	17.6
Spain	**32.7**	**–**	**32.7**	17.8	–	17.8
Other	**5.3**	**1.7**	**7.0**	5.0	2.3	7.3
	180.2	**51.9**	**232.1**	159.4	16.2	175.6

(18) IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE FIXED ASSETS WITH INDEFINITE LIVES (CONTINUED)
The net book value of retail pharmacy licences by these segments were as follows:

	2005 £million	2004 £million
UK	**579.7**	486.6
The Netherlands	**101.0**	103.8
Other	**75.5**	74.6
Indefinite lives	**756.2**	665.0
Subject to amortisation	**25.5**	26.5
	781.7	691.5

Goodwill and retail pharmacy licences are subject to annual impairment testing, or more frequently if there are indications of impairment. The recoverable amounts of the CGUs are determined from value-in-use calculations which use amounts from the approved budgets and plans. The discount rate applied to the cash flow projections was 8% (2004 8%). Average growth rates used to extrapolate cash flows beyond the approved budget and plan period were determined with reference to the CGU's country of operation and business segment, and ranged from 1% to 2% (2004 1% to 2%). The respective growth rates did not exceed the average long-term growth rate for the relevant market.

(19) PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £million	Furniture, fittings, plant and equipment £million	Vehicles £million	Total £million
Cost				
At 1 January 2004	205.3	297.7	22.1	525.1
Additions	18.4	37.7	4.8	60.9
Businesses acquired	0.9	1.1	–	2.0
Disposals	(4.8)	(8.6)	(7.4)	(20.8)
Businesses disposed	(0.9)	(9.8)	(0.4)	(11.1)
Currency translation differences	1.1	1.9	–	3.0
At 1 January 2005	**220.0**	**320.0**	**19.1**	**559.1**
Additions	**21.4**	**41.7**	**4.4**	**67.5**
Businesses acquired	**20.2**	**24.0**	**0.7**	**44.9**
Disposals	**(2.3)**	**(9.6)**	**(5.0)**	**(16.9)**
Businesses disposed	**(3.8)**	**(8.9)**	**(0.2)**	**(12.9)**
Currency translation differences	**(2.9)**	**(5.6)**	**0.1**	**(8.4)**
At 31 December 2005	**252.6**	**361.6**	**19.1**	**633.3**
Depreciation				
At 1 January 2004	44.4	178.8	12.6	235.8
Charge for the year	4.2	28.7	3.5	36.4
Businesses acquired	0.3	0.2	–	0.5
Disposals	(2.1)	(6.4)	(5.8)	(14.3)
Businesses disposed	(0.4)	(6.3)	(0.2)	(6.9)
Currency translation differences	0.2	1.4	–	1.6
At 1 January 2005	**46.6**	**196.4**	**10.1**	**253.1**
Charge for the year	**5.5**	**30.3**	**2.9**	**38.7**
Businesses acquired	**2.3**	**10.4**	**0.4**	**13.1**
Disposals	**(0.8)**	**(6.7)**	**(3.8)**	**(11.3)**
Businesses disposed	**(0.7)**	**(5.3)**	**(0.2)**	**(6.2)**
Currency translation differences	**(0.5)**	**(3.3)**	**(0.3)**	**(4.1)**
At 31 December 2005	**52.4**	**221.8**	**9.1**	**283.3**
Net book value at 31 December 2005	**200.2**	**139.8**	**10.0**	**350.0**
Net book value at 31 December 2004	173.4	123.6	9.0	306.0

The net book value of assets held under finance leases, capitalised and included in land and buildings was:

	2005 £million	2004 £million
At 31 December	**28.2**	27.4

(20) SUBSIDIARIES

Details of the Group's principal subsidiaries, including their names, countries of incorporation and percentage proportion of ownership are provided in note 47.

(21) INVESTMENTS IN ASSOCIATES

	Share of net assets £million	Goodwill £million	Total £million
At 1 January 2004	157.1	83.8	240.9
Share of post tax earnings	34.0	–	34.0
Dividends	(4.3)	–	(4.3)
Businesses acquired	36.4	5.7	42.1
Transfer from other investments	14.4	–	14.4
Businesses disposed	(2.3)	–	(2.3)
Adjustments in respect of prior year investments	–	(1.0)	(1.0)
Currency translation differences	8.0	0.6	8.6
At 1 January 2005	**243.3**	**89.1**	**332.4**
Share of post tax earnings	**45.3**	**–**	**45.3**
Dividends	**(16.1)**	**–**	**(16.1)**
Businesses acquired	**5.2**	**12.9**	**18.1**
Part disposal of subsidiary undertaking	**13.8**	**–**	**13.8**
Investment in existing associate	**10.0**	**–**	**10.0**
Conversion of associate to subsidiary	**(16.3)**	**–**	**(16.3)**
Repayment of capital	**(2.8)**	**–**	**(2.8)**
Currency translation differences	**10.6**	**(0.5)**	**10.1**
At 31 December 2005	**293.0**	**101.5**	**394.5**

Details of the Group's principal associates are provided in note 47.

Included within the total carrying value of investments in associates was £157.8 million (2004 £156.8 million) in respect of listed companies. The market value of the holdings based on the closing share prices at 31 December 2005 was £248.3 million (2004 £231.2 million).

The part disposal of subsidiary undertaking and investment in existing associate relate to the disposal of 51% of the Group's interest in Alliance UniChem Farmacêutica S.A., and the Group's subsequent purchase of its share of new equity issued by the company.

The conversion of associate to subsidiary relates to the Group's increase in its direct ownership in Alloga S.A. from 20% to 100%, with the exception of the Swiss part of the business. This transaction was part of the Group's restructuring of its relationship with Galenica S.A., in which it holds a 25.5% interest in the ordinary share capital.

One of the Group associates, Hedef Alliance Holding A.S., operated in a hyperinflationary environment. During 2005, a monetary loss of £4.0 million (2004 £7.9 million) was recognised and recorded within share of post tax earnings.

The aggregated assets and liabilities reported by these associates were as follows:

	2005 £million	2004 £million
Total assets	**2,334.7**	2,052.5
Total liabilities	**(1,518.6)**	(1,326.7)
Net assets	**816.1**	725.8
Group share	**293.0**	243.3

The aggregated revenues reported by these associates were as follows:

	2005 £million	2004 £million
Total revenue	**5,450.7**	4,724.2
Group share	**1,965.3**	1,707.5

(22) OTHER INVESTMENTS

	Other listed investments £million	Other unlisted investments £million	Total £million
At 1 January 2004	55.8	4.5	60.3
Transfer to investments in associates	(14.4)	–	(14.4)
Impairment provision	–	(2.2)	(2.2)
Businesses acquired	–	0.5	0.5
Businesses disposed	–	(1.0)	(1.0)
Currency translation differences	(0.6)	–	(0.6)
At 31 December 2004	**40.8**	**1.8**	**42.6**
Reclassified under IAS 32 to available-for-sale investments at 1 January 2005	**(40.8)**	**(1.8)**	**(42.6)**
At 1 January and 31 December 2005	**–**	**–**	**–**

Following the adoption of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005, the other investments were reclassified to available-for-sale investments (see note 23).

(23) AVAILABLE-FOR-SALE INVESTMENTS

	£million
At 31 December 2004	–
Reclassified under IAS 32 from other investments at 1 January 2005	**42.6**
IAS 39 fair value adjustment at 1 January 2005	**3.9**
At 1 January 2005	**46.5**
Businesses acquired	**1.0**
Increase in fair value transferred to equity (note 38)	**9.7**
Disposals	**(7.4)**
Currency translation differences	**(1.4)**
At 31 December 2005	**48.4**

Available-for-sale financial assets comprised the following:

	2005	2004	
	Fair value £million	Book value £million	Fair value £million
Listed securities			
– equity securities	**46.6**	40.8	44.7
Unlisted securities			
– equity securities	**1.8**	1.8	1.8
	48.4	42.6	46.5

The values shown for available-for-sale financial assets were derived using quoted market prices for listed securities. For unlisted securities the original cost has been used as a proxy for their current marketable value due to the absence of an active market. Where original cost is used the investment will be subject to impairment testing where an indicator of impairment has been observed. The investments have no fixed maturity date or coupon rate and are accounted for on a settlement date basis.

The 2004 values reflect UK GAAP and the disclosure requirements under FRS 13 "Derivatives and other financial instruments".

(24) INVENTORIES

Inventories comprised solely finished goods and are valued at the lower of cost and net realisable value.

(25) TRADE AND OTHER RECEIVABLES

	2005		2004	
	Current £million	**Non-current £million**	Current £million	Non-current £million
Trade debtors	**1,272.8**	–	869.4	–
Less: provision for impairment of trade debtors	**(24.0)**	–	(24.7)	–
Trade debtors – net	**1,248.8**	–	844.7	–
Loans to customers	**63.0**	**25.5**	48.6	39.4
Other debtors	**70.9**	**1.7**	103.3	0.8
Prepayments and accrued income	**36.7**	–	24.1	–
Corporate tax recoverable	**5.3**	–	6.4	–
	1,424.7	**27.2**	1,027.1	40.2

Concentrations of credit risk with respect to trade debtors are limited due to the Group's customer base being large and unrelated. Due to this, management believe there is no further credit risk provision required in excess of the normal provision for impairment of trade debtors.

In certain wholesale businesses overdue accounts are subject to interest penalties. The value of interest levied in such cases is not significant.

(26) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised cash held by the Group and short-term bank deposits with an original maturity of no more than three months.

(27) NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The major classes of assets classified as held for sale were as follows:

	2005 £million	2004 £million
Land and buildings	–	1.7

(28) FINANCIAL LIABILITIES – BORROWINGS

IFRS 1 "First-time Adoption of International Financial Reporting Standards" allows a number of exceptions to the general principle that IFRS accounting policies are to be applied retrospectively. One of the exceptions adopted by the Group is to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005.

In accordance with IFRS, the 2005 amounts are shown before the impact of derivative financial instruments, which are described in note 30. The 2004 borrowings are presented on the previously reported UK GAAP basis and are shown net of the impact of derivative financial instruments taken out to hedge currency risk.

(28) FINANCIAL LIABILITIES – BORROWINGS (CONTINUED)

(a) Carrying amount

The carrying amount of the Group's borrowings net of cash and cash equivalents was as follows:

	2005 £million	2004 £million
Current		
Bank overdrafts	**144.3**	82.1
Bank loans	**67.8**	85.1
Loan notes	**2.1**	3.1
Obligations under finance leases	**2.2**	5.4
	216.4	175.7
Non-current		
Bank loans	**131.9**	178.4
2008 Senior notes 6.63% (US$57 million)	**33.8**	35.6
2009 Senior notes 6.67% (US$113 million)	**67.3**	70.6
2011 Senior notes 6.55% (US$173 million)	**102.6**	137.4
2011 Senior notes 6.07% (€30 million)	**21.8**	21.2
2012 Senior notes 7.19% (US$300 million)	**183.2**	226.0
2017 Senior notes 7.01% (£50 million)	**51.5**	52.0
Obligations under finance leases	**13.1**	10.8
	605.2	732.0
Borrowings	**821.6**	907.7
Cash and cash equivalents	**(133.5)**	(101.9)
Borrowings net of cash and cash equivalents	**688.1**	805.8

Debt denominated in a foreign currency has been translated into Sterling (the Group's reporting currency) at the rates applicable on the reporting date.

Loan notes totalling £1.9 million, classified within current borrowings, 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.

(b) Maturity profile

The maturity profile of the Group's borrowings at 31 December was:

	Bank overdrafts £million	Bank loans £million	Loan notes £million	Senior notes £million	Obligations under finance leases £million	Total £million
At 31 December 2005						
On demand or within one year	**144.3**	**67.8**	**2.1**	–	**2.2**	**216.4**
Between one and two years	–	**117.7**	–	–	**2.1**	**119.8**
Between two and five years	–	**12.4**	–	**101.1**	**3.3**	**116.8**
In more than five years	–	**1.8**	–	**359.1**	**7.7**	**368.6**
	144.3	**199.7**	**2.1**	**460.2**	**15.3**	**821.6**
At 31 December 2004						
On demand or within one year	82.1	85.1	3.1	–	5.4	175.7
Between one and two years	–	63.3	–	–	1.2	64.5
Between two and five years	–	112.7	–	106.2	3.0	221.9
In more than five years	–	2.4	–	436.6	6.6	445.6
	82.1	263.5	3.1	542.8	16.2	907.7

(28) FINANCIAL LIABILITIES – BORROWINGS (CONTINUED)
(b) Maturity profile (continued)
The minimum lease payments under finance leases fall due as follows:

	2005 £million	2004 £million
Within one year	**2.9**	6.9
Between one and five years	**7.5**	6.4
In more than five years	**20.1**	19.4
Future finance charges on finance leases	**(15.2)**	(16.5)
Present value of finance lease liabilities	**15.3**	16.2

The average term of all outstanding finance leases at 31 December 2005 is 11.6 years (2004 11.2 years).

(c) Currency and interest rate profile
The Group carries a cash flow risk when there are changes in the interest rates levied on the Group's floating rate borrowings. The Group is exposed to fair value risk in respect of the Group's fixed rate borrowings. These risks are managed using interest rate swap derivative instruments. Where the borrowings are denominated in a foreign currency the Group hedges this through the use of cross-currency derivative instruments.

Details of derivative financial instruments are provided in note 30.

The Group's borrowings were denominated in the following currencies:

	Bank overdrafts £million	Bank loans £million	Loan notes £million	Senior notes £million	Obligations under finance leases £million	Total £million
At 31 December 2005						
Sterling	**56.9**	–	**1.9**	**51.5**	**6.2**	**116.5**
Euro	**77.0**	**172.7**	**0.2**	**21.8**	**9.1**	**280.8**
Czech Koruna	**10.4**	**19.1**	–	–	–	**29.5**
Norwegian Kroner	–	**7.9**	–	–	–	**7.9**
US Dollar	–	–	–	**386.9**	–	**386.9**
	144.3	**199.7**	**2.1**	**460.2**	**15.3**	**821.6**
At 31 December 2004						
Sterling	1.1	17.3	2.9	50.0	6.4	77.7
Euro	63.1	189.8	0.2	21.2	9.8	284.1
Czech Koruna	17.9	7.1	–	–	–	25.0
Norwegian Kroner	–	7.1	–	–	–	7.1
Swiss Franc	–	27.6	–	–	–	27.6
US Dollar	–	–	–	335.6	–	335.6
	82.1	248.9	3.1	406.8	16.2	757.1

The comparative amounts at 31 December 2004 are before the impact of derivative financial instruments taken out to hedge currency risk.

In addition, the Group has Sterling and Euro denominated financial liabilities relating to financing linked to securitisation (see note 29).

The effective interest rates at the balance sheet dates were as follows:

	2005 %	2004 %
Bank overdrafts	**3.4**	3.9
Bank loans	**2.7**	3.1
Loan notes	**4.4**	4.4
Senior notes	**6.9**	6.9

Bank overdrafts are repayable on demand. The interest rates applicable to bank overdrafts, bank loans and loan notes are all floating rates. The effective interest rates for these are very closely related to the relevant LIBOR rate plus any margin as at the balance sheet date. The weighted average interest rate for bank overdrafts and loans during the year was 3.5% (2004 5.8%). Loan notes carried a weighted average interest rate during the year of 4.4% (2004 4.4%).

The Senior notes bear interest at fixed rates and therefore the effective interest rate is the rate required to discount the future expected cash flows over the expected life of the debt to equal the carrying value of the debt. The fixed interest rates are shown in the table in section (a) of this note.

(28) FINANCIAL LIABILITIES – BORROWINGS (CONTINUED)

(d) Undrawn committed borrowing facilities

The maturity profile of the Group's undrawn committed facilities at 31 December was:

	2005 £million	2004 £million
Between one and two years	**489.6**	–
Between two and five years	**–**	126.6
	489.6	126.6

The Group has financial covenants in respect of the committed bank facilities and the Senior notes. These covenants relate to maintaining a minimum level of interest cover and not exceeding a defined level of gearing. In respect of the Senior notes only, there is an additional covenant requiring the Group to limit the amount of subsidiary indebtedness when expressed as a percentage of Group equity. The Group has complied with all covenants throughout the period.

(29) SECURITISED RECEIVABLES

(a) French and Italian schemes

Receivables of £344.2 million (2004 £343.2 million) from French and Italian pharmacies have been securitised under five year programmes that mature in 2007. Consistent with Group policy, the Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements. The amounts advanced amounted to £292.7 million (2004 £300.8 million). 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.

In respect of the Italian receivables, these have been sold to Alleanza No.1 which in line with SIC 12 "Consolidation – Special purpose entities", has been determined to be controlled by the Group and consequently has been consolidated in the Group financial statements. The French receivables have been sold to a multi-purpose vehicle which is not treated as a subsidiary under SIC 12 as it is not deemed to be controlled by the Group.

(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 £100.0 million (2004 £100.0 million) secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £14.0 million (2004 £12.9 million), which is subordinated, representing the excess of the face value of the receivables sold over the £100.0 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £14.0 million of finance provided by the Group (2004 £12.9 million).

In accordance with SIC 12, Alliance has been determined to be controlled by the Group and consequently has been consolidated within these financial statements. The Group exposure to any additional financial risks is judged to be negligible.

The maturity profile of the Group's financing linked to securitisation at 31 December 2005 was:

	France securitisation £million	Italy securitisation £million	UK securitisation £million	2005 Total £million
Within one year	**189.4**	**–**	**100.0**	**289.4**
Between one and two years	**–**	**103.3**	**–**	**103.3**
	189.4	**103.3**	**100.0**	**392.7**

(30) FINANCIAL INSTRUMENTS

IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures

IFRS 1 "First-time Adoption of International Financial Reporting Standards" allows a number of exceptions to the general principle that IFRS accounting policies are to be applied retrospectively. One of the exceptions adopted by the Group is to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005. Whilst not required, the Group has provided certain disclosure information on derivative financial instruments at 1 January 2005 in order to aid comparison with the 2005 year end disclosures.

The 2004 comparative disclosures are prepared under UK GAAP, specifically FRS 13 "Derivatives and other financial instruments", and the second part of this note provides the disclosure information required.

(30) FINANCIAL INSTRUMENTS (CONTINUED)

IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures (continued)

(a) Book and fair value of financial instruments

A comparison of book values and fair values of the Group's financial assets and liabilities at 31 December 2005 is set out below:

	Carrying value £million	Fair value £million
Financial assets		
Non-current assets		
Available-for-sale investments	48.4	48.4
Trade and other receivables	27.2	27.2
Derivative financial instruments	3.5	3.5
Current assets		
Trade and other receivables	1,424.7	1,424.7
Cash and cash equivalents	133.5	133.5
Derivative financial instruments	0.6	0.6
Financial liabilities		
Current liabilities		
Financial liabilities		
– borrowings	(216.4)	(216.4)
– financing linked to securitisation	(289.4)	(289.4)
Derivative financial instruments	(12.2)	(12.2)
Trade and other payables	(1,383.5)	(1,383.5)
Non-current liabilities		
Financial liabilities		
– borrowings	(605.2)	(624.3)
– financing linked to securitisation	(103.3)	(103.3)
– derivative financial instruments	(83.4)	(83.4)

With the exception of the Senior notes classified within non-current borrowings, the fair value of the financial assets and financial liabilities approximate to the carrying value.

The fair value of the Senior notes is 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 the Senior notes is £479.3 million.

The fair value of borrowings and financing linked to securitisation approximate to the carrying value due to either their short-term nature or being priced at variable interest rates.

Available-for-sale investments and derivative financial instruments are recorded at fair value. The fair values of derivative instruments have been calculated by discounting the future cash flows of the individual contracts using the appropriate market interest rate curve and foreign currency rate.

(b) Currency and interest rate risk

The Group's approach to managing financial risk is described in the financial review.

Currency risk

The Group has foreign currency net investments denominated in Euros, Swiss Francs, Norwegian Kroner and Czech Koruna. The Group uses derivative financial instruments, specifically cross-currency swaps, and foreign currency borrowings to hedge the foreign currency risk. The effect of currency-swaps on borrowings is shown below:

	Before hedging £million	After hedging £million
Borrowings at 31 December 2005		
Sterling	116.5	(42.4)
Euro	280.8	838.2
Czech Koruna	29.5	29.5
Norwegian Kroner	7.9	11.6
Swiss Franc	–	76.2
US Dollar	386.9	–
	821.6	**913.1**

The after-hedging currency borrowings are used to hedge the Group's foreign currency net investments.

In addition, the Group has Sterling denominated financial liabilities of £100.0 million and Euro denominated financial liabilities of £292.7 million relating to financing linked to securitisation.

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.

(30) FINANCIAL INSTRUMENTS (CONTINUED)
IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures (continued)
(b) Currency and interest rate risk (continued)
Interest rate risk
The Group has a mixture of fixed and floating rate borrowings. Of these, £475.5 million (58.0%) is at fixed interest rates (which predominantly relates to the Senior notes), and £346.1 million (42.0%) is at floating interest rates. The re-pricing risk of the Senior notes coincides with their maturity, which is provided in note 28. The floating rate borrowings re-price within three months of the reporting date based on short-term LIBOR rates for the relevant currency.

The fixed rate Senior notes have been swapped to floating interest rates (using derivative financial instruments, specifically cross-currency interest rate swaps) for their remaining life.

The Group hedges the cash flow interest rate exposure resulting from floating rate borrowings, financing linked to securitisation and cross-currency swaps through the use of interest rate swaps.

At 31 December 2005 the weighted average rate of pay fixed interest rate swaps was as follows:

	Weighted average %	Notional £million
Sterling	5.7	20.0
Euro	3.6	327.0
Norwegian Kroner	6.6	10.0

The gains or losses deferred in equity relating to cash flow hedges will reverse in the income statement during the next two years (being the life of the swaps).

The interest rate profile of the Group's borrowings and financing linked to securitisation, after taking into account derivative financial instruments, was as follows:

	At fixed interest rates £million	At floating interest rates £million	Total £million
Sterling	61.2	(3.6)	57.6
Euro	270.4	860.6	1,131.0
Czech Koruna	–	29.5	29.5
Norwegian Kroner	9.9	1.6	11.5
Swiss Franc	–	76.2	76.2
	341.5	964.3	1,305.8

The following table shows the impact on the fair value of the Group's financial assets and liabilities of a 1% increase in interest rates and a 10% change in the value of Sterling:

	Fair value £million	1% increase in interest rates £million	10% weakening of Sterling £million
Cash at bank and in hand	133.5	–	5.4
Borrowings	(821.6)	24.5	(78.3)
Interest rate swaps	(0.4)	0.7	–
Cross-currency interest rate swaps	(91.1)	(16.3)	(23.4)
Financing linked to securitisation	(392.7)	–	(32.5)

(c) Derivative financial instruments
Hedge accounting
Achieving hedge accounting under IAS 32 and IAS 39 is based on measuring the effectiveness of the derivative as a hedge instrument as well as fulfilling hedge documentation rules. The effectiveness test compares the change in the fair value of the designated derivative and the change in the fair value of the hedged item, to determine if this ratio falls within the permitted range of 80% to 125%. Any derivative that falls outside the permitted range is reclassified as held-for-trading. Gains or losses on the derivative are recognised immediately in the income statement except where the derivative is designated within an effective cash flow or net investment hedge relationship, in which case the gains or losses are deferred in equity and are recycled through the income statement at the time that the hedged item is recognised in the income statement. The hedge accounting treatment is described further under accounting policies, derivative financial instruments.

Where a derivative does fall within the permitted range but is not 100% effective, the ineffective element is recognised in the income statement immediately. This gives rise to a gain or loss which is recognised under Finance income or Finance costs as appropriate. These gains or losses represent timing differences that will reverse over the life of the financial instruments.

(30) FINANCIAL INSTRUMENTS (CONTINUED)
IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures (continued)
(c) Derivative financial instruments (continued)
Notional and fair value
The notional and fair value of the derivative financial instruments taken out by the Group to manage financial risk was as follows:

	Assets		Liabilities	
	Notional £million	Fair value £million	Notional £million	Fair value £million
Current				
At 31 December 2005				
Cash flow hedge derivatives	–	–	**(161.8)**	–
Net investment hedge derivatives	–	–	**(100.0)**	**(11.4)**
Held-for-trading derivatives	**109.7**	**0.6**	**(167.6)**	**(0.8)**
	109.7	**0.6**	**(429.4)**	**(12.2)**
At 1 January 2005				
Fair value hedge derivatives	35.0	0.1	–	–
Held-for-trading derivatives	100.0	1.1	(100.0)	(1.2)
	135.0	1.2	(100.0)	(1.2)

	Assets		Liabilities	
	Notional £million	Fair value £million	Notional £million	Fair value £million
Non-current				
At 31 December 2005				
Fair value hedge derivatives	**35.7**	**2.8**	**(431.0)**	**(48.1)**
Cash flow hedge derivatives	**51.7**	**0.1**	**(302.2)**	**(3.2)**
Net investment hedge derivatives	**103.9**	**0.6**	**(342.1)**	**(32.1)**
	191.3	**3.5**	**(1,075.3)**	**(83.4)**
At 1 January 2005				
Fair value hedge derivatives	36.2	2.2	(431.0)	(76.8)
Cash flow hedge derivatives	53.1	0.1	(449.4)	(9.7)
Net investment hedge derivatives	–	–	(546.0)	(61.0)
	89.3	2.3	(1,426.4)	(147.5)

Derivative financial instruments are used to manage the foreign currency risk of the net investments and the interest rate and currency risk of the Group's borrowings. The derivatives are classified as current or non-current in accordance with their maturity date.

The Group's risk management policy is to take out hedging instruments to cover actual interest rate or foreign currency risks. The Group's policy is not to engage in speculative transactions. Where a derivative (in whole or in part) cannot be designated to an underlying transaction or the hedge relationship falls outside the permitted effectiveness range, any gain or loss arising on the undesignated portion of a derivative is recognised in the income statement immediately. This could arise from temporary timing differences (for example, early closure of the underlying exposure) or differences between the timing or fair value of the hedged item compared to the derivative. Those derivative instruments (or portions thereof) that are not designated in a hedging relationship are classified as held-for-trading.

The Group transacts derivatives with counterparties that are highly rated by international credit rating agencies. These ratings are continually monitored.

(30) FINANCIAL INSTRUMENTS (CONTINUED)

UK GAAP disclosures of comparative information

As noted, the Group has taken up the option to only apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005. The 2004 comparative disclosures are prepared under previous UK GAAP, and the following provides the information required under FRS 13 "Derivatives and other financial instruments" for the interest rate profile for financial assets and liabilities and hedge accounting. 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 primary financial assets and liabilities at 31 December 2004 is set out below:

	Book value £million	Fair value £million
Cash at bank and in hand	101.9	101.9
Loans to associated undertakings	42.5	42.5
Other listed investments	40.8	44.7
Other unlisted investments	1.8	1.8
Debtors due after one year	40.2	40.2
Financial assets	227.2	231.1
Bank overdrafts	(82.1)	(82.1)
Bank loans	(249.0)	(249.0)
Loan notes	(409.8)	(444.3)
Obligations under finance leases	(16.2)	(16.2)
Total debt	(757.1)	(791.6)
Derivative financial instruments held to manage the interest rate and currency profile		
– interest rate derivatives	–	(7.1)
– cross currency derivatives	(150.6)	(136.9)
Financial liabilities	(907.7)	(935.6)

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 risk 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	–	49.8	0.2	50.0
Euro	–	73.4	47.5	120.9
Other	2.3	52.5	1.5	56.3
	2.3	175.7	49.2	227.2

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

(30) FINANCIAL INSTRUMENTS (CONTINUED)
UK GAAP disclosures of comparative information (continued)
(b) Interest rate risk 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	19.0	(150.0)	(103.5)
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	489.4	14.5	907.7

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

In addition to the amounts detailed, the Group had Sterling denominated floating financial liabilities of £100.0 million and Euro denominated floating financial liabilities of £300.8 million relating to non-recourse securitised 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 had further Euro denominated derivative financial instruments to hedge securitisation costs that varied according to interest rates, totalling £98.8 million. These instruments had a weighted average interest rate of 3.9% which was fixed for a weighted average period of 1.8 years.

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

(c) Hedging
Under UK GAAP, gains and losses on instruments used for hedging were not recognised until the exposure that was being hedged was itself recognised. Unrecognised gains and losses on hedging instruments, and movements thereof, were as follows:

	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

A comparison of book and fair values of the Group's derivative financial instruments at 31 December 2004 is set out below:

	Book value £million	Fair value £million
Interest rate derivatives	–	(7.1)
Cross-currency derivatives	(150.6)	(136.9)

(31) TRADE AND OTHER PAYABLES

	2005 £million	2004 £million
Trade payables	**1,081.0**	1,130.9
Amounts owed to associate undertakings	**–**	0.5
Capital creditors	**7.3**	6.6
Other tax and social security payable	**92.3**	75.3
Other creditors	**142.8**	112.1
Accruals and deferred income	**60.1**	57.9
	1,383.5	1,383.3

(32) DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using the appropriate country tax rate. Deferred tax assets have been recognised in full on taxable losses where realisation of the tax benefit from these losses is probable.

The movement in the net deferred tax liability over the year was as follows:

	Unrelieved tax losses £million	Capital allowances £million	Fair value and revaluations £million	Chargeable gains deferred by roll over relief £million	Pensions £million	Associate remittable earnings £million	Other £million	Total £million
At 31 December 2004	(12.8)	26.1	78.2	14.9	(16.2)	7.4	3.0	100.6
IAS 39 adjustments at 1 January 2005	–	–	(6.7)	–	–	–	–	(6.7)
At 1 January 2005	(12.8)	26.1	71.5	14.9	(16.2)	7.4	3.0	93.9
Charged to the income statement	1.4	4.6	1.5	(1.7)	1.0	3.2	(4.9)	5.1
Businesses acquired	(2.6)	–	20.7	–	(0.2)	–	0.1	18.0
Business disposals	–	–	–	–	–	–	0.1	0.1
Reclassifications	–	0.7	0.3	–	–	–	0.1	1.1
Net amounts taken to equity	–	–	2.6	–	(6.0)	–	–	(3.4)
Currency translation differences	–	(0.2)	(0.5)	(0.1)	0.1	–	0.3	(0.4)
At 31 December 2005	(14.0)	31.2	96.1	13.1	(21.3)	10.6	(1.3)	114.4

Certain deferred tax balances have been offset as permitted by IAS 12 "Income Taxes". Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The following is an analysis of the deferred tax balances after offset:

	2005 £million	2004 £million
Deferred tax liabilities	**123.6**	108.4
Deferred tax assets	**(9.2)**	(7.8)
Net deferred tax liability	**114.4**	100.6

The Group did not recognise deferred income tax assets of £2.6 million (2004 £2.9 million) in respect of tax losses amounting to £7.5 million (2004 £8.2 million) that can be carried forward against future profits. This is because there are no current forecasts for profits against which those losses could be utilised.

(33) RETIREMENT BENEFIT OBLIGATIONS

The Group operates several pension arrangements; the Group's pension cost included within profit from operations was £15.8 million (2004 £12.6 million), being £8.7 million (2004 £5.7 million) in respect of its defined benefit pension arrangements and £7.1 million (2004 £6.9 million) in respect of its defined contribution arrangements. The Group's pension cost in respect of its defined benefit pension arrangements included within finance costs was £0.6 million (2004 £1.0 million).

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 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 to take account of the requirements of IAS 19, in order to assess the liabilities at 31 December 2005.

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.

(33) RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)
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 there are five defined benefit plans in place. Four of the plans are insured and are accounted for as defined benefit plans. The fifth plan is an industry-wide multi-employer defined benefit plan operated by a government agency. This plan has been treated on a defined contribution basis under IAS 19 because the Group is unable to identify its share of the assets and liabilities on a consistent and reasonable basis. The contributions currently payable to this plan are calculated as a flat percentage of salary across all the employers and no account is taken of the actual accrued liabilities and assets of a particular employer. As at 31 December 2005, the agency provided a notional allocation of the assets and liabilities. The Group's notional allocation of the deficit at 31 December 2005 was £7.7 million (2004 £2.1 million surplus). The government agency is reviewing the structure of this scheme with a view to identifying the assets and liabilities of the various participating employers. 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 IAS 19.

The main financial assumptions used for the purpose of the actuarial valuations are set out below. The financial assumptions for the non-UK plans are weighted averages of the assumptions used for the overseas plans included.

	2005		2004	
	UK benefit plan % pa	**Other European % pa**	UK benefit plan % pa	Other European % pa
Discount rate	**4.8**	**4.0**	5.3	4.6
Expected return on assets	**6.5**	**5.1**	6.8	5.9
Inflation rate	**2.8**	**2.0**	2.9	2.0
Salary increases	**3.8**	**2.4**	3.9	2.4
Pension in payment increases for members who joined:				
– up to 31 December 1996 (pre-July 2003 service)	**5.0**	**1.1**	5.0	1.1
– up to 31 December 1996 (post-July 2003 service)	**2.6**	**1.1**	2.7	1.1
– from 1 January 1997	**2.6**	**1.1**	2.7	1.1

The amount recognised in the balance sheet in respect of the defined benefit plans is summarised as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
Present value of plan obligations	**(167.9)**	**(55.3)**	**(223.2)**	(132.1)	(46.3)	(178.4)
Fair value of plan assets	**119.8**	**34.3**	**154.1**	95.3	30.1	125.4
Deficit in the plans	**(48.1)**	**(21.0)**	**(69.1)**	(36.8)	(16.2)	(53.0)

The net pension expense before taxation recognised in the income statement in respect of the defined benefit plans is summarised as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
Current service cost	**(5.0)**	**(3.7)**	**(8.7)**	(4.9)	(2.5)	(7.4)
Curtailments/settlements	–	–	–	0.2	–	0.2
Past service cost	–	–	–	–	1.5	1.5
Charge to profit from operations	**(5.0)**	**(3.7)**	**(8.7)**	(4.7)	(1.0)	(5.7)
Expected return on plan assets	**6.8**	**1.9**	**8.7**	5.8	1.4	7.2
Interest on plan obligations	**(7.1)**	**(2.2)**	**(9.3)**	(6.3)	(1.9)	(8.2)
Charge to finance costs	**(0.3)**	**(0.3)**	**(0.6)**	(0.5)	(0.5)	(1.0)
Net pension expense before taxation	**(5.3)**	**(4.0)**	**(9.3)**	(5.2)	(1.5)	(6.7)

(33) RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)
Other schemes (continued)
The actuarial gains and losses recognised in the statement of recognised income and expenditure in respect of the defined benefit plans is summarised as follows:

	2005			2004		
	UK benefit plan £million	Other European £million	Total £million	UK benefit plan £million	Other European £million	Total £million
Actual return on pension scheme assets less expected return on pension scheme assets	**10.1**	**1.3**	**11.4**	3.2	0.9	4.1
Experience gains and losses arising on the plan obligations	**0.7**	**0.2**	**0.9**	(2.3)	(0.9)	(3.2)
Changes in assumptions underlying the present value of the plan obligations	**(26.0)**	**(5.1)**	**(31.1)**	(4.2)	(4.6)	(8.8)
	(15.2)	**(3.6)**	**(18.8)**	(3.3)	(4.6)	(7.9)

The cumulative amount of actuarial gains and losses recognised in the statement of income and expense is summarised as follows:

	2005			2004		
	UK benefit plan £million	Other European £million	Total £million	UK benefit plan £million	Other European £million	Total £million
Cumulative amount of actuarial gains and losses recognised in the statement of income and expense	**(18.5)**	**(8.2)**	**(26.7)**	(3.3)	(4.6)	(7.9)

The reconciliation of the opening and closing balances of the present value of the plan obligations is as follows:

	2005			2004		
	UK benefit plan £million	Other European £million	Total £million	UK benefit plan £million	Other European £million	Total £million
At 1 January	**132.1**	**46.3**	**178.4**	116.2	37.3	153.5
Charge to profit from operations	**5.0**	**3.7**	**8.7**	4.7	1.0	5.7
Interest on plan obligations	**7.1**	**2.2**	**9.3**	6.3	1.9	8.2
Actuarial losses	**25.3**	**4.9**	**30.2**	6.5	5.5	12.0
Contributions from participants	**1.6**	**0.6**	**2.2**	2.0	0.6	2.6
Benefits paid	**(3.2)**	**(1.5)**	**(4.7)**	(3.6)	(1.0)	(4.6)
Businesses acquired	**–**	**0.5**	**0.5**	–	–	–
Currency translation differences	**–**	**(1.4)**	**(1.4)**	–	1.0	1.0
At 31 December	**167.9**	**55.3**	**223.2**	132.1	46.3	178.4

The reconciliation of the opening and closing balances of the fair value of the plan assets is as follows:

	2005			2004		
	UK benefit plan £million	Other European £million	Total £million	UK benefit plan £million	Other European £million	Total £million
At 1 January	**95.3**	**30.1**	**125.4**	78.4	26.1	104.5
Expected return on plan assets	**6.8**	**1.9**	**8.7**	5.8	1.4	7.2
Actuarial gains	**10.1**	**1.3**	**11.4**	3.2	0.9	4.1
Contributions from employers	**9.2**	**3.1**	**12.3**	9.5	1.3	10.8
Contributions from participants	**1.6**	**0.6**	**2.2**	2.0	0.6	2.6
Benefits paid	**(3.2)**	**(1.5)**	**(4.7)**	(3.6)	(1.0)	(4.6)
Currency translation differences	**–**	**(1.2)**	**(1.2)**	–	0.8	0.8
At 31 December	**119.8**	**34.3**	**154.1**	95.3	30.1	125.4

(33) RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Other schemes (continued)

The market value of the plan assets at 31 December is summarised as follows:

	2005 £million	2004 £million
UK Plan		
Equities	**85.7**	66.8
Bonds	**29.4**	23.9
Other	**4.7**	4.6
	119.8	95.3
Other European plans		
Equities	**7.4**	5.8
Bonds	**20.4**	17.9
Other	**6.5**	6.4
	34.3	30.1
	154.1	125.4

The plan assets do not comprise any of the Group's own financial instruments nor does the Group occupy any property or use any other assets held by the plans.

The derivation of the overall expected return on assets reflects the actual asset allocation at the measurement date combined with an expected return for each asset class. The bond return is based on the prevailing return available on bonds. The return on equities and other assets is based on a number of factors including; the income yield at the measurement date; the long-term growth prospects for the economy in general; the long-term relationship between each asset class and bond returns; and the movement in market indices since the previous measurement date.

A breakdown of the expected returns for each category of assets is as follows:

	2005 %	2004 %
UK Plan		
Equities	**7.4**	7.5
Bonds	**4.0**	4.9
Other	**5.9**	6.1
Other European plans		
Equities	**8.0**	7.0
Bonds	**4.0**	4.1
Other	**5.0**	4.8

The actual return of the plan assets is summarised as follows:

	2005			2004		
	UK benefit plan £million	Other European £million	Total £million	UK benefit plan £million	Other European £million	Total £million
Actual return on plan assets	**16.9**	**3.2**	**20.1**	9.0	2.3	11.3

(33) RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Other schemes (continued)

The funded status and experience adjustments in respect of the defined benefit plans is summarised as follows:

	2005		2004	
	UK benefit plan £million	**Other European £million**	UK benefit plan £million	Other European £million
Present value of plan obligations	**(167.9)**	**(55.3)**	(132.1)	(46.3)
Fair value of plan assets	**119.8**	**34.3**	95.3	30.1
Deficit in the plans	**(48.1)**	**(21.0)**	(36.8)	(16.2)

	2005		2004	
	UK benefit plan	**Other European**	UK benefit plan	Other European
Experience gains and losses on plan obligations				
Amount (£million)	**0.7**	**0.2**	(2.3)	(0.9)
Percentage of present value of plan obligations (%)	**0.4%**	**0.4%**	(1.7)%	(1.9)%
Difference between expected and actual returns on plan assets				
Amount (£million)	**10.1**	**1.3**	3.2	0.9
Percentage of plan assets (%)	**8.4%**	**3.8%**	3.4%	3.0%

The estimated amounts of contributions expected to be paid to the plans during the financial year ended 31 December 2006 is £11.8 million.

(34) CALLED UP SHARE CAPITAL

	2005		2004	
	Number million	**Share capital 10p ordinary shares £million**	Number million	Share capital 10p ordinary shares £million
Authorised share capital	**432.9**	**43.3**	432.9	43.3
Called up, issued and fully paid up				
At 1 January	**358.2**	**35.8**	350.7	35.1
Shares issued during the year	**3.5**	**0.4**	7.5	0.7
At 31 December	**361.7**	**36.2**	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**	**2.14–5.89**	**2.1**
Scrip dividends in lieu of 2004 final dividend	**3.0**	**7.36**	**22.0**
Share capital and share premium movement	**3.5**		**24.1**
Of which:			
Share capital			**0.4**
Share premium			**23.7**
			24.1

(34) CALLED UP SHARE CAPITAL (CONTINUED)
Details of outstanding options over ordinary shares at 31 December 2005 were:

Year of grant	Exercise price pence	Outstanding 2005 Number	Outstanding 2004 Number	Normally exercisable from
1990 Savings related scheme				
1997	214.00	–	1,457	01.07.2004 to 31.12.2004
1998	324.00	**2,645**	73,313	01.08.2005 to 31.01.2006
1999	384.00	–	527	01.07.2004 to 31.12.2004
1999	384.00	**40,024**	44,138	01.07.2006 to 31.12.2006
2000	291.00	**7,575**	250,715	03.07.2005 to 02.01.2006
2000	291.00	**105,168**	108,197	03.07.2007 to 02.01.2008
2001	463.00	–	334	01.07.2004 to 31.12.2004
2001	463.00	**160,345**	167,947	01.07.2006 to 31.12.2006
2001	463.00	**31,966**	33,710	01.07.2008 to 31.12.2008
2002	480.00	**11,537**	238,582	01.07.2005 to 31.12.2005
2002	480.00	**169,597**	184,419	01.07.2007 to 31.12.2007
2002	480.00	**42,096**	45,388	01.07.2009 to 31.12.2009
2003	337.00	**671,830**	729,297	01.07.2006 to 31.12.2006
2003	337.00	**445,739**	484,319	01.07.2008 to 31.12.2008
2003	337.00	**63,186**	66,134	01.07.2010 to 31.12.2010
2004	440.00	**408,903**	478,349	01.07.2007 to 31.12.2007
2004	440.00	**218,134**	237,595	01.07.2009 to 31.12.2009
2004	440.00	**65,392**	76,912	01.07.2011 to 31.12.2011
2005	589.47	**403,652**	–	01.07.2008 to 31.12.2008
2005	589.47	**191,816**	–	01.07.2010 to 31.12.2010
2005	589.47	**44,732**	–	01.07.2012 to 31.12.2012
		3,084,337	3,221,333	
1997 Discretionary scheme				
1998	429.50	–	66,000	07.05.2001 to 06.05.2005
1999	442.00	**68,000**	150,000	14.05.2002 to 13.05.2006
2000	379.00	**126,400**	371,000	23.03.2003 to 22.03.2007
2001	592.00	**382,000**	707,000	06.04.2004 to 05.04.2008
2002	609.00	**685,000**	1,610,000	09.04.2005 to 08.04.2009
2003	489.00	**1,797,000**	1,907,000	21.05.2006 to 20.05.2013
2004	556.00	**1,771,295**	1,896,295	19.03.2007 to 18.03.2014
2005	810.50	**1,525,945**	–	06.05.2008 to 05.05.2015
2005	818.20	**147,090**	–	19.05.2009 to 18.05.2015
2005	759.17	**27,500**	–	26.10.2008 to 25.10.2015
		6,530,230	6,707,295	
1998 Long-term incentive scheme				
2004	0.0001	–	27,577	20.03.2004 to 19.03.2014
2005	0.0001	**8,889**	–	26.10.2005 to 25.04.2006
2005	0.0001	**38,202**	–	16.05.2005 to 15.05.2006
		47,091	27,577	
I.K. Meakins share incentive plan				
2004	0.0001	**119,946**	119,946	01.12.2005 to 01.12.2014
		119,946	119,946	

(35) SHARE PREMIUM

	£million
At 1 January 2004	444.2
Shares issued	41.5
At 1 January 2005	**485.7**
Shares issued	**23.7**
At 31 December 2005	**509.4**

(36) EMPLOYEE SHARE TRUSTS

	2005 £million	2004 £million
At 1 January	**13.1**	23.1
Additions	**40.5**	–
Disposals	**(8.5)**	(10.0)
At 31 December	**45.1**	13.1

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 2005 of £45.1 million (2004 £13.1million) in 6.2 million (2004 2.9 million) of the Company's shares. The market value of the holdings at 31 December 2005 was £49.8 million (2004 £21.9 million). Under the terms of the trust, the dividend receivable in respect of the shares held in the 1992 Employee Trust, which held 6.1 million of the Company's shares at 31 December 2005, 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.

(37) RETAINED EARNINGS

	£million
At 1 January 2004	393.0
Profit for the year attributable to equity shareholders of the parent	187.3
Share-based compensation	
– charged to income statement	2.2
– deferred tax credit	0.5
Utilisation of accrual for long-term incentive plan	2.5
Dividends paid	(59.6)
Defined benefit pension schemes	
– actuarial loss	(7.9)
– deferred tax credit	2.6
Profit on sale of own shares	0.3
Transfer from capital reserve	(0.1)
At 31 December 2004	**520.8**
IAS 39 adjustments at 1 January 2005	**(8.9)**
At 1 January 2005	**511.9**
Profit for the year attributable to equity shareholders of the parent	**210.7**
Share-based compensation	
– charged to income statement	**5.3**
Dividends paid	**(68.4)**
Defined benefit pension schemes	
– actuarial loss	**(18.8)**
– deferred tax credit	**6.0**
Profit on sale of own shares	**1.4**
At 31 December 2005	**648.1**

(38) HEDGING, TRANSLATION AND OTHER RESERVES

	Translation reserve £million	Hedging reserves £million	Available-for-sale reserve £million	Capital reserve £million	Other reserves £million	Total £million
At 1 January 2004	–	–	–	2.6	–	2.6
Currency net investments						
– currency translation differences	8.8	–	–	–	–	8.8
– related deferred tax charge	(0.3)	–	–	–	–	(0.3)
Transfer to retained earnings	–	–	–	0.1	–	0.1
At 31 December 2004	8.5	–	–	2.7	–	11.2
IAS 39 adjustments at 1 January 2005	–	(6.7)	3.5	–	–	(3.2)
At 1 January 2005	8.5	(6.7)	3.5	2.7	–	8.0
Currency net investments						
– currency translation differences	(5.8)	–	–	–	–	(5.8)
Fair value of option to acquire minority interests	–	–	–	–	(4.3)	(4.3)
Cash flow and net investment hedges						
– fair value change in year	–	15.3	–	–	–	15.3
– deferred tax charge	–	0.3	–	–	–	0.3
– transferred to income statement	–	4.9	–	–	–	4.9
Available-for-sale investments						
– gains on revaluation	–	–	9.7	–	–	9.7
– deferred tax charge	–	–	(0.8)	–	–	(0.8)
– transferred to income statement	–	–	(2.1)	–	–	(2.1)
At 31 December 2005	**2.7**	**13.8**	**10.3**	**2.7**	**(4.3)**	**25.2**

(39) CASH FLOW STATEMENT

	2005 £million	2004 £million
(a) Cash generated by operations		
Continuing operations		
Profit from operations	**312.4**	294.9
Share of associates' post tax earnings	**(45.3)**	(34.0)
Profit on disposal of businesses	**(7.8)**	(19.2)
(Profit on disposal of)/amounts written off investments	**(2.1)**	1.9
Depreciation and amortisation	**41.6**	41.8
Share-based compensation charge	**5.3**	2.2
(Profit)/loss on disposal of property, plant and equipment	**(1.0)**	0.4
Decrease in inventories	**17.3**	33.3
(Increase)/decrease in receivables	**(11.6)**	67.0
Decrease in payables	**(30.2)**	(71.3)
Decrease in retirement benefit obligations	**(3.5)**	(5.9)
	275.1	311.1
(b) Net cash used in investing activities		
Acquisition of businesses	**(136.7)**	(88.7)
Net (overdrafts)/cash of businesses acquired	**(15.0)**	2.0
Disposal of businesses	**44.5**	31.0
Net overdrafts of businesses disposed	**66.2**	0.8
Purchase of investments in associates	**(11.8)**	(54.0)
Disposal of investments in associates	**8.7**	1.9
Repayment of capital by associate	**2.8**	–
Loans repaid by associates	**41.4**	4.3
Dividends from associates	**16.1**	4.3
Purchase of property, plant and equipment and intangible assets	**(82.5)**	(66.6)
Disposal of property, plant and equipment	**6.7**	7.7
Interest received	**7.1**	8.1
Proceeds from available-for-sale investments	**7.4**	–
	(45.1)	(149.2)

(39) CASH FLOW STATEMENT (CONTINUED)

	2005 £million	2004 £million
(c) Net cash (used in)/from financing activities		
Interest element of finance lease obligations	**(1.0)**	(0.6)
Dividend paid to equity shareholders	**(46.4)**	(31.7)
Dividends paid to minority interests	**(0.3)**	(0.1)
Proceeds from borrowings	**17.1**	40.7
Repayment of borrowings	**(102.2)**	(18.6)
Repayment of capital element of finance lease obligations	**(1.9)**	(1.5)
Proceeds from shares issued	**2.1**	1.9
Other investments (net)	**(29.6)**	10.8
	(162.2)	0.9
(d) Cash and cash equivalents outflow/(inflow) from decrease/(increase) in debt and lease financing		
Proceeds from borrowings	**(17.1)**	(40.7)
Repayment of borrowings	**102.2**	18.6
Repayment of capital element of finance lease obligations	**1.9**	1.5
	87.0	(20.6)

(40) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash and cash equivalents £million	Borrowings within current liabilities £million	Borrowings within non-current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 31 December 2004	**101.9**	**(175.7)**	**(732.0)**	**–**	**(805.8)**
IAS 39 adjustment at 1 January 2005	**–**	**–**	**122.8**	**(145.1)**	**(22.3)**
At 1 January 2005	**101.9**	**(175.7)**	**(609.2)**	**(145.1)**	**(828.1)**
Decrease in cash and cash equivalents	**28.0**	**(64.6)**	**–**	**–**	**(36.6)**
Decrease in borrowings	**–**	**65.3**	**21.7**	**–**	**87.0**
Borrowings acquired with businesses	**–**	**(38.1)**	**(0.7)**	**–**	**(38.8)**
Other non-cash movements	**–**	**(9.7)**	**9.7**	**–**	**–**
Currency translation differences and fair value adjustments on financial instruments	**3.6**	**6.4**	**(26.7)**	**53.6**	**36.9**
At 31 December 2005	**133.5**	**(216.4)**	**(605.2)**	**(91.5)**	**(779.6)**

In the cash flow statement, cash and cash equivalents include bank overdrafts which are classified within borrowings within current liabilities in the balance sheet and amounted to £144.3 million (2004 £82.1 million).

(41) NET CASH OUTFLOW ON ACQUISITIONS AND DISPOSALS

An analysis of the net cash flow on acquisitions and disposals of businesses, associates and available-for-sale investments in the year is shown below:

	2005 £million	2004 £million
Acquisition of businesses	**(136.7)**	(88.7)
Net (overdrafts)/cash of businesses acquired	**(15.0)**	2.0
Disposal of businesses	**44.5**	31.0
Net overdrafts of businesses disposed	**66.2**	0.8
Purchase of investments in associates	**(11.8)**	(54.0)
Disposal of investments in associates	**8.7**	1.9
Loans repaid by associates	**41.4**	4.3
Proceeds from available-for-sale investments	**7.4**	–
Borrowings acquired with businesses	**(38.8)**	–
Loan notes issued for non-cash consideration	**–**	(0.7)
	(34.1)	(103.4)

(42) ACQUISITIONS

Purchase of businesses

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

The unaudited pro forma consolidated results of operations acquired during the year, presented as if the acquisitions had been made at the beginning of the financial year, would be as follows:

	2005 £million
Revenue	**409.8**
Profit attributable to equity shareholders	**6.0**

The excess of the fair value of the purchase price over the fair value of net assets of businesses acquired in the year, is recognised as goodwill, as follows:

Wholesale

Assets acquired at book and provisional fair value	Book and provisional fair value at acquisition £million
Intangible assets – software	**1.0**
Property, plant and equipment	**25.3**
Investments in associates	**5.2**
Available-for-sale investments	**1.0**
Deferred tax assets	**2.6**
Inventories	**16.7**
Trade and other receivables	**66.7**
Cash and cash equivalents	**5.1**
Borrowings	
– bank overdrafts	**(17.6)**
– bank loans	**(35.8)**
– finance leases	**(0.5)**
Trade and other payables	**(60.7)**
Current corporate tax liabilities	**(0.8)**
Minority interest	**(0.4)**
Net assets acquired	**7.8**

Consideration paid	£million
Cash	**19.4**
Deferred consideration	**16.3**
Non-cash consideration	**11.4**
	47.1
Purchased goodwill	**39.3**

The non-cash consideration relates to the Group's restructuring of its relationship with Galenica A.G., in which it holds a 25.5% interest in the ordinary share capital. Under the terms of the restructuring, the Group increased its direct ownership in Alloga S.A. from 20% to 100%, with the exception of the Swiss part of the business, which was fully acquired by Galenica A.G.. In addition, the Group sold its 50% direct interest in the ordinary share capital of GaleniCare S.A. to Galenica A.G.. The consideration for these transactions was settled on a net basis.

Of the purchased goodwill of £39.3 million, £11.4 million relates to the purchase of associates within the Alloga Group.

(42) ACQUISITIONS (CONTINUED)
Purchase of businesses (continued)
Retail

Assets acquired at book and provisional fair value	Book value at acquisition £million	Fair value adjustments £million	Provisional fair value at acquisition £million
Intangible assets – retail pharmacy licences	24.7	69.2	93.9
Property, plant and equipment	6.7	(0.2)	6.5
Inventories	11.2	(0.5)	10.7
Trade and other receivables	9.2	0.2	9.4
Borrowings			
– bank overdrafts	(2.5)	–	(2.5)
– bank loans	(2.5)	–	(2.5)
Trade and other payables	(10.7)	–	(10.7)
Current corporate tax liabilities	(3.3)	(0.1)	(3.4)
Deferred tax liabilities	–	(20.6)	(20.6)
Net assets acquired	32.8	48.0	80.8

Consideration paid	£million
Cash	117.3
Deferred consideration movement	(0.3)
	117.0
Purchased goodwill	36.2

Retail acquisitions comprised the acquisition of 83 pharmacies in the UK, Norway and The Netherlands.

(43) DISPOSALS
Disposal of businesses
During the year the Group disposed of 51% of its interest in Alliance UniChem Farmacêutica A.G., its entire interest in Elvetec in France and a number of other minor interests. The proceeds received for these transactions were £32.5 million. Within the balance sheets of the businesses disposed were net overdrafts of £66.2 million.

In addition, the Group received deferred consideration of £12.0 million arising from the disposal of non-core UK businesses in 2004.

Disposal of investments in associates
As described in note 42, during the year the Group restructured its relationship with Galenica A.G.. The transaction was settled on a net basis and resulted in a net cash inflow to the Group of £15.7 million. This comprised £8.6 million of net proceeds, £41.4 million of associate loans being repaid and, in respect of the acquired companies, £2.0 million of net cash and £36.3 million of borrowings were held in the acquired balance sheets.

In addition, the Group disposed of a minor associated undertaking for disposal proceeds of £0.1 million.

Disposal of available-for-sale investments
During the first half of the year, the Group disposed of its investment in Sanacorp Pharmahandel A.G..

(44) SHARE-BASED PAYMENTS
The Group issues equity settled, share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of an actuarial binomial model. The model includes adjustments, based on management's best estimate, for the effects of exercise restrictions, behavioural considerations and expected dividend payments. The option life is derived by the model based on these assumptions and the other assumptions identified below.

The total expense included within profit from operations in respect of share-based payments was £5.3 million (2004 £2.2 million).

(44) SHARE-BASED PAYMENTS (CONTINUED)

Further details of the different types of share-based payments are as follows:

Discretionary 1997 Share Option Scheme

The Group operates a discretionary share option scheme for certain employees whereby options become exercisable on the achievement of certain financial earnings per share performance targets by the Group. Options granted under the 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 option price is set at the market price of the Company's shares.

For those share option awards which gave rise to an expense in the year, the assumptions used in the calculation of the fair values were as follows:

Grant date	21 May 2003	19 March 2004	6 May 2005	19 May 2005	26 October 2005
Exercise price	489.0p	556.0p	810.5p	818.2p	759.2p
Vesting period (years)	3–4	3–4	3	4	3
Contractual lifetime (years)	7	7	7	7	7
Expected volatility	28%	28%	26%	26%	26%
Expected option life (years)	3.9–4.6	3.9–4.6	4.2	4.8	4.2
Risk free rate	3.9%	4.5%–4.6%	4.6%	4.3%	4.6%
Expected dividends expressed as a dividend yield	3.1%	3.1%	2.3%	2.3%	2.3%
Fair value (pence)	117.1p–121.3p	136.5p–142.5p	206.4p	214.6p	193.3p

The expected volatility is based on the historic volatility of the Company's share price over the expected life of the option.

The movement during the year of the total outstanding options in respect of the awards identified above is provided below. The analysis of the outstanding options by award date at the beginning and the end of the year is provided in note 34.

	Number	Weighted average exercise price
Outstanding at 1 January 2005	**3,803,295**	**522.4p**
Granted	**1,753,506**	**810.3p**
Lapsed	**(128,971)**	**647.5p**
Exercised	**(159,000)**	**520.2p**
Outstanding at 31 December 2005	**5,268,830**	**615.2p**

None of the share options identified above as outstanding at 31 December 2005 had vested at that date.

Savings Related Scheme

The Group provides UK employees with the ability to participate in the Group's Save As You Earn (SAYE) scheme which allows qualifying employees the opportunity to make regular savings over a fixed period of three, five or seven years. These savings accumulate with interest at a guaranteed rate. At the end of the savings contracts a bonus is added to the savings and participants have the option to use their savings to buy shares in Alliance UniChem Plc at a fixed price. In common with other UK companies, the option price is set at a 20% discount to the market price of the Company's shares at the date of grant. Exercise of an option is subject to continued employment.

For those share options issued under SAYE schemes which gave rise to an expense in the year, the assumptions used in the calculation of the fair values were as follows:

Grant date	17 April 2003	6 April 2004	5 April 2005
Exercise price	337.0p	440.0p	589.5p
Vesting period (years)	3, 5 or 7	3, 5 or 7	3, 5 or 7
Expected volatility	28%	28%	26%
Expected option life (years)	3.7–7.7	3.7–7.7	3.6–7.5
Risk free rate	3.9%–4.4%	4.7%–4.9%	4.7%
Expected dividends expressed as a dividend yield	3.3%	2.9%	2.4%
Fair value	141.9p–156.6p	202.5p–225.8p	267.1p–304.4p

The expected volatility is based on the historic volatility of the Company's share price over the expected life of the option.

4) SHARE-BASED PAYMENTS (CONTINUED)

avings Related Scheme (continued)

The movement during the year of the total outstanding options in respect of the schemes identified above is provided below. The analysis of the outstanding options by award date at the beginning and the end of the year is provided in note 34.

	Number	Weighted average exercise price
Outstanding at 1 January 2005	2,072,606	376.4p
Granted	691,918	589.5p
Lapsed	(2,251)	387.7p
Forfeited	(124,283)	437.9p
Cancelled	(113,041)	429.3p
Exercised	(11,565)	364.0p
Outstanding at 31 December 2005	**2,513,384**	**429.7p**

None of the share options identified above as outstanding at 31 December 2005 had vested at that date.

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 amount of the award is dependent on the achievement of certain performance measures during the performance period that the remuneration committee believe are the most appropriate measure of the underlying performance of the Group. 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. Further details are provided in the Board report on remuneration.

For those awards which gave rise to an expense in the year, the assumptions used in the calculation of the fair values were as follows:

	2003 allocation	2004 allocation	2005 allocation
Grant date	7 March 2003	19 February 2004	18 February 2005
Exercise price	0.001p	0.001p	0.001p
Vesting period (years)	3	3	3
Possibility of ceasing employment before vesting	0%	0%	0%
Expectation of meeting performance criteria	70.3%	70.3%	71.7%

The movement during the year of the total outstanding allocations in respect of the awards identified above is provided below. The analysis of the outstanding allocations by award date at the end of the year and the comparative year is provided in the Board report on remuneration.

	Allocation £
Outstanding at 1 January 2005	2,493,331
Granted	2,425,000
Forfeited	(521,666)
Outstanding at 31 December 2005	**4,396,665**

None of the allocations identified above as outstanding at 31 December 2005 had vested at that date.

) SHARE-BASED PAYMENTS (CONTINUED)

itial share grant to Chief Executive and performance based matching

n 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. He has waived any dividend entitlement in consideration of this payment.

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 certain performance conditions and this has been allowed for in the calculation of the fair value.

The assumptions used in the calculation of the fair values were as follows:

	Initial share grant	Performance based matching Chief Executive shares
Grant date	1 December 2004	1 December 2004
Number of share options	119,946	153,571
Exercise price	£1 in total	£1 in total
Vesting period (years)	1	3
Expected dividends expressed as a dividend yield	n/a	2.4%
Fair value	719.0p	234.9p

There has been no movement in the number of options awarded under the schemes identified above.

(45) OPERATING LEASE COMMITMENTS

The operating lease rental expense in the year was:

	2005 £million	2004 £million
Operating lease rental expense		
– land and buildings	**27.7**	25.4
– furniture, fittings, plant and equipment	**1.3**	1.3
– vehicles	**7.2**	7.2
	36.2	33.9

At 31 December 2005 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005 £million	2004 £million
Within one year	**29.0**	34.8
Between one and five years	**78.1**	75.3
After five years	**52.4**	43.1
	159.5	153.2

(46) CAPITAL AND OTHER FINANCIAL COMMITMENTS

	2005 £million	2004 £million
Contracts placed for future capital expenditure not provided in the financial statements	**5.6**	1.0

(47) RELATED PARTY DISCLOSURES

Subsidiary undertakings

The consolidated financial statements include the financial statements of Alliance UniChem Plc and its subsidiary undertakings. The principal subsidiary undertakings all of which were indirectly held were:

	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Northern Europe Wholesale				
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
Southern Europe Wholesale				
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
Alloga S.A.	100%	Europe	Luxembourg	holding company for a number of pre-wholesalers
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.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Associates

The Group's principal associates were:

	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Alliance UniChem Farmacêutica S.A.(1)	49%	Portugal	Portugal	pharmaceutical wholesaler
Andreae-Noris Zahn AG(2)	29.99%	Germany	Germany	pharmaceutical wholesaler
Galenica A.G.(3)	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Hedef Alliance Holding A.S.	50%	Turkey	Turkey	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software
UniDrug Distribution Group Limited	50%	UK	UK	pre-wholesaler
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler

(1) The Group previously owned 100% of the ordinary share capital of Alliance UniChem Farmacêutica S.A. 51% of the ordinary share capital was disposed of during the year.
(2) The accounting reference date for Andreae-Noris Zahn AG is 31 August.
(3) All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

Trading transactions with associated undertakings, all of which are carried out on an arms length basis were:

	2005		2004	
	Revenue in year £million	Balance at year end £million	Revenue in year £million	Balance at year end £million
Sales				
Alloga S.A. and subsidiaries	**–**	–	2.0	0.1
Pharmacy Initiative 1 Plc	**1.8**	**0.3**	1.9	0.2
Pharmacy Initiative 2 Plc	**1.4**	**0.3**	1.4	0.2
Pharmacy Initiative 3 Plc	**0.6**	**0.1**	0.6	0.1

	2005		2004	
	Purchases in year £million	Balance at year end £million	Purchases in year £million	Balance at year end £million
Purchases				
Alloga S.A. and subsidiaries	**0.2**	–	97.1	0.5
Unifarma Distribuzione S.r.l.	**0.2**	–	–	–

(47) RELATED PARTY DISCLOSURES (CONTINUED)

Key management remuneration

The remuneration of the executive Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified by IAS 24 "Related Party Disclosures". Further information regarding the individual remuneration of individual Directors is provided in the Board report on remuneration.

	2005 £million	2004 £million
Short-term employee benefits	**3.8**	3.7
Post-employment benefits	**1.1**	0.6
Other long-term benefits	**–**	–
Termination benefits	**0.5**	0.8
Share-based compensation charge	**2.1**	0.8
	7.5	5.9

(48) 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 2005 amounted to £19.6 million (2004 £18.6 million).

The Group has written a number of guarantees in relation to third party funding arrangements with subsidiaries. These guarantees can only be exercised by the lender in the event of predefined events all of which reflect financial risks. Therefore these agreements are accounted for under IAS 37.

Guarantees are also provided by another Group company that totalled £11.3 million at 31 December 2005 (2004 £30.7 million). Total loans outstanding through these financing arrangements at 31 December 2005 were £205.6 million (2004 £205.8 million).

On 31 December 2005 the total extent of these guarantees amounted to £30.9 million (2004 £49.3 million).

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

(49) POST BALANCE SHEET EVENTS

On 17 February 2006 the Group announced that it had reached an agreement to enter the Russian pharmaceutical wholesale market through the acquisition of a 96% controlling stake in A.P. Apteka Holding Limited, the parent company of Apteka Holding ZAO, for a consideration of approximately £18 million. In addition the Group will assume approximately £10 million of net debt. The Group will have an option to acquire the remaining 4% of A.P. Apteka Holding Limited within three to six years. The transaction, which is conditional upon receiving regulatory approval, is expected to be completed by the end of March 2006.

(50) TRANSITION TO IFRS

All references to "UK GAAP" in this note are to UK GAAP applicable for the year ended 31 December 2004. This is the first year that the Group has presented its financial statements under IFRS. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was 1 January 2004. On 18 July 2005, the Group published detailed income statement and balance sheet reconciliations of UK GAAP to IFRS. The following is an abridged extract of the published document describing the effects of adoption of IFRS and the reconciliations required in the year of transition.

Summary of the effects of IFRS adoption

The principal impacts of IFRS on the Group's 2004 financial statements were as follows:

- recognition of a charge for the fair value of share-based compensation;
- requirement not to amortise goodwill;
- recognition of deferred taxation liabilities on pharmacy licences, unremitted earnings of associates and rolled over capital gains; and
- recognition of dividends only when they are declared rather than when proposed.

In terms of the 2004 results, reported profits increased under IFRS, mainly because of the reversal of goodwill amortisation and the reversal of goodwill recycled from reserves on the disposal of subsidiaries.

Impact on profit

Excluding goodwill amortisation, the profit on disposal of subsidiaries and amounts written off investments, the effect of adoption of IFRS was not significant. The Group considers the measurement of profit excluding these items to be a useful indication of underlying performance. The reduction in profits as a result of the requirement to recognise a charge for the fair value of share-based compensation awards was largely offset by the net credit arising from the movements in deferred taxation liabilities recognised on unremitted earnings of associates, pharmacy licences and rolled over capital gains.

Impact on net assets

Net assets at 31 December 2004 decreased under IFRS. This was predominantly due to the recognition of additional deferred taxation liabilities under IFRS – as a general principle, the recognition of deferred taxation liabilities is more comprehensive under IFRS than UK GAAP. Partially offsetting this reduction in net assets was the reversal of the 2004 goodwill amortisation charge and the accrual for the proposed 2004 final dividend.

(50) TRANSITION TO IFRS (CONTINUED)

Explanation of adjustments to conform to IFRS

The significant changes as a result of the transition to IFRS and of adopting the IFRS Group accounting policies are described below:

Share-based compensation

Principal difference

Under UK GAAP, a charge to the profit and loss account was 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 was 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. The Group has taken up the option under IFRS 1 permitting companies to apply IFRS 2 only to equity instruments granted after 7 November 2002 that had not vested prior to 1 January 2005. As a result, the share-based compensation charge in respect of equity settled compensation was £2.2 million for the year ended 31 December 2004.

Goodwill amortisation – business combinations

Principal difference

Under UK GAAP, goodwill was amortised over its expected useful economic life, up to a maximum of 20 years. Under IFRS 3 "Business Combinations" goodwill is not amortised. Under both UK GAAP and IFRS, the carrying value of goodwill is tested for impairment and provided for as necessary. The Group has carried out impairment tests and no adjustment was deemed necessary.

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

The Group has taken up the option under IFRS 1 permitting companies not to restate past business combinations prior to the opening balance sheet date (1 January 2004).

Impact

Goodwill amortisation under UK GAAP of £15.1 million, comprising £10.0 million in respect of subsidiary undertakings and £5.1 million in respect of associates, was added back to the profit for the year ended 31 December 2004.

The exceptional item under UK GAAP in the second half of 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 was increased by a net amount of £5.6 million, being a reduction of the 2004 amortisation charge of £0.9 million deducted from the capitalised goodwill disposed of, and an increase due to the reversal of the amount of £6.5 million of goodwill recycled from reserves.

Deferred taxation

Principal difference

Under UK GAAP, deferred taxation was 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 was provided on remittable earnings of associates only where there is a commitment to remit the earnings. Deferred taxation was not provided on timing differences arising from either rolled over gains or the revaluation of fixed assets where there was 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, IFRS is generally more comprehensive in the requirement to recognise deferred taxation. 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 provided on remittable earnings of associates where incremental tax would be due, regardless of whether there is a commitment to remit the earnings. Deferred taxation is also provided when retail pharmacy licences are acquired through the purchase of shares, regardless of whether there is an intention to sell the licences or not.

Impact

The most significant impact was on the opening balance sheet where there was a reduction in net assets of £90.3 million as a result of recognising additional deferred taxation liabilities. The largest item was £67.3 million in respect of deferred taxation liabilities on pharmacy licences, which arose as a consequence of our decision to take up the exemption not to revisit acquisition accounting prior to the IFRS transition date. Taking up the exemption meant that we were required to recognise this liability as a reduction to equity in the opening IFRS balance sheet, and as such it was a "one off" effect. Going forward, recognition of this type of deferred taxation liability results in an increase in capitalised goodwill.

Changes in taxation rates and indexation when applied to these additional deferred taxation liabilities impact profits under IFRS when compared to UK GAAP. The net impact of deferred taxation on the results of the Group for the year ended 31 December 2004 was an increase in profits of £1.5 million.

The following section describes in more detail the impact of the more significant additional deferred taxation liabilities recognised under IFRS.

(50) TRANSITION TO IFRS (CONTINUED)
Explanation of adjustments to conform to IFRS (continued)
Deferred taxation (continued)
Impact (continued)
Remittable earnings of associates:
A deferred taxation charge of £2.6 million arising on remittable earnings of associates was recognised in the year ended 31 December 2004 under IFRS. At 31 December 2004 the cumulative deferred taxation liability on all such remittable earnings was £7.4 million and at 1 January 2004 was £4.8 million.

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 was provided on timing differences and initial recognition of pharmacy licences as a fair value adjustment does not create a timing difference.

As noted, the Group chose not to restate business combinations prior to the IFRS transition date (1 January 2004). A consequence of this was that under the transitional requirements of IFRS 1, the deferred taxation liability on retail pharmacy licences required to be recognised under IFRS was adjusted through retained earnings rather than capitalised goodwill. For the Group, the effect of this requirement was 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. From 1 January 2004, the deferred taxation liability has been recognised on acquisitions with a corresponding increase in capitalised goodwill, and as such there is no effect on total equity.

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

Rolled over capital gains:
The requirement to recognise a deferred tax liability on rolled over capital gains regardless of whether there was a commitment to sell the asset resulted in a decrease in total equity at the opening balance sheet date of £14.4 million. A deferred taxation credit of £1.0 million was recognised in the second half of the year ended 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 brought the total deferred taxation liability on rolled over gains at 31 December 2004 to £13.4 million.

Fixed asset revaluations:
The requirement to recognise a deferred tax liability on fixed asset revaluations regardless of whether there was a commitment to sell the asset resulted in a decrease in total equity at the opening balance sheet of £5.1 million. A deferred taxation credit of £0.5 million was recognised in the second half of the year as a result of the disposal of certain fixed assets. This brought the total deferred taxation liability on fixed asset revaluations at 31 December 2004 to £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 and results in an increase in total equity at the opening balance sheet date of £0.2 million. On re-measurement of the deferred taxation asset, an element of this is taken to the income statement under IFRS, which amounts to a £0.5 million deferred taxation credit in the year ended 31 December 2004, and the remainder is taken directly to reserves. As at 31 December 2004 the cumulative deferred taxation asset on all such options was £1.2 million.

Dividends
Principal difference
Under UK GAAP, dividends proposed were provided for in the period to which they related. Under IFRS, dividends are only provided for when the dividend has been declared.

Impact
The requirement to provide for dividends only when they are declared resulted in an increase in total equity of £38.1 million at the opening balance sheet date and an increase of £43.5 million at 31 December 2004.

Consolidation of special purpose entities
Principal difference
The Group runs securitisation programmes in the UK, France and Italy whereby it sells certain trade receivables and receives an initial cash payment on a non-recourse basis in return. The securitised receivables are purchased by special purpose entities which under UK GAAP were not consolidated. Under SIC-12 (Consolidation – Special Purpose Entities), 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 there is no requirement to consolidate the French special purpose entity.

Impact
The consolidation of the UK and Italian special purpose entities had the effect of eliminating from operating expenses fixed charges of £0.8 million for the year ended 31 December 2004 and increasing finance costs by £0.8 million for the year ended 31 December 2004.

There was no impact on profits resulting from this change, which is merely a reclassification within the financial statements.

(50) TRANSITION TO IFRS (CONTINUED)
Explanation of adjustments to conform to IFRS (continued)
Computer software
Principal difference
Under UK GAAP, the Group's capitalised computer software was included within tangible fixed assets, whereas under IFRS it is classified as an intangible asset.

Impact
At the opening balance sheet date, computer software with a net book value of £14.7 million was reclassified from tangible fixed assets to intangible assets. At 31 December 2004 the net book value reclassified was £23.9 million. Depreciation amounting to £5.0 million was reclassified as amortisation under IFRS in the year ended 31 December 2004.

Other reclassifications
Principal differences
The other significant reclassifications for the Group under IFRS compared to UK GAAP were as follows:

- items that were treated as non-operating exceptional items under UK GAAP and relate to continuing operations are included in arriving at profit from operations; and
- the Group's share of the results of associates are now shown on a single line in the income statement.

Adoption of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement"
The Group has chosen not to restate comparatives for IAS 32 and IAS 39, and is applying these standards with effect from 1 January 2005. As a result, the relevant 2004 comparative information does not reflect the impact of these standards and is accounted for and presented on a UK GAAP basis. Set out below are the significant areas where the Group was affected from 1 January 2005, which are predominantly around the presentation of the balance sheet.

Securitised receivables
Principal difference
Under UK GAAP linked presentation was used by the Group to record receivables sold and non-recourse receipts received in respect of securitisation programmes in the UK, France and Italy. Under IAS 32 and IAS 39, linked presentation is no longer permitted and the non-recourse receipts are to be reported separately within liabilities. As a result of the Group's decision not to restate comparatives for IAS 32 and IAS 39, the non-recourse receipts in the balance sheet presented in the comparative information are presented under the UK GAAP basis of linked presentation.

Impact
Liabilities will include amounts relating to non-recourse receipts received in respect of securitisation programmes. Based on the position at 31 December 2004, this amounted to £400.8 million in the 2005 opening balance sheet. There is no impact on reserves resulting from these changes, which are merely reclassifications within the balance sheet.

Derivative instruments and hedging activities
Principal difference
Under IAS 32 and IAS 39, 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 the related hedged item. If the derivative is hedging the variability of future cash flows in a cash flow hedge which meet the hedging criteria, 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 non-sterling investments. 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. Excluding the impact of the grossing up of the securitised receivables as discussed above, the financial liabilities in the opening balance sheet in 2005 increased 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 are 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 or is determined to be impaired.

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 increased 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 gave a net increase to total equity of £3.5 million.

(50) TRANSITION TO IFRS (CONTINUED)
Reconciliation of equity at 1 January 2004

	UK GAAP £million	IAS 12 £million	IAS 37 £million	Other and reclassifi-cations £million	IFRS £million
Assets					
Non-current assets					
Goodwill	172.3	–	–	–	172.3
Intangible assets	612.4	–	–	14.7	627.1
Property, plant and equipment	304.9	–	–	(15.6)	289.3
Investments in associates	240.9	–	–	–	240.9
Loans to associates	46.7	–	–	–	46.7
Other investments	60.3	–	–	–	60.3
Deferred tax assets	3.0	1.1	–	–	4.1
Trade and other receivables	41.0	–	–	–	41.0
	1,481.5	1.1	–	(0.9)	1,481.7
Current assets					
Inventories	728.8	–	–	–	728.8
Securitised receivables	448.8	–	–	–	448.8
Non-recourse receipts	(399.5)	–	–	–	(399.5)
Net securitised receivables	49.3	–	–	–	49.3
Trade and other receivables	1,084.6	–	–	(1.1)	1,083.5
Cash and cash equivalents	117.2	–	–	0.8	118.0
	1,979.9	–	–	(0.3)	1,979.6
Non-current assets classified as held for sale	–	–	–	1.8	1.8
Total assets	3,461.4	1.1	–	0.6	3,463.1
Liabilities					
Current liabilities					
Financial liabilities					
– borrowings	(257.5)	–	–	–	(257.5)
Trade and other payables	(1,500.2)	–	38.1	(0.8)	(1,462.9)
Current corporate tax liabilities	(23.6)	–	–	–	(23.6)
	(1,781.3)	–	38.1	(0.8)	(1,744.0)
Net current assets	198.6	–	38.1	(1.1)	235.6
Non-current liabilities					
Financial liabilities					
–borrowings	(686.9)	–	–	–	(686.9)
Deferred tax liabilities	(3.6)	(91.8)	–	0.4	(95.0)
Retirement benefit obligations	(49.3)	–	–	(0.5)	(49.8)
	(739.8)	(91.8)	–	(0.1)	(831.7)
Net assets	940.3	(90.7)	38.1	(0.3)	887.4
Equity					
Share capital	35.1	–	–	–	35.1
Share premium	444.2	–	–	–	444.2
Shares to be issued	25.1	–	–	–	25.1
Employee share trusts	(23.1)	–	–	–	(23.1)
Retained earnings	445.9	(90.7)	38.1	(0.3)	393.0
Other reserves	2.6	–	–	–	2.6
Shareholders' equity	929.8	(90.7)	38.1	(0.3)	876.9
Minority interests	10.5	–	–	–	10.5
Total equity	940.3	(90.7)	38.1	(0.3)	887.4

(50) TRANSITION TO IFRS (CONTINUED)
Reconciliation of equity at 31 December 2004

	UK GAAP £million	IFRS 3 amortisation £million	IFRS 3 disposals £million	IAS 12 £million	IAS 37 £million	Other and reclassifi-cations £million	IFRS £million
Assets							
Non-current assets							
Goodwill	157.2	10.0	(0.9)	8.9	–	0.4	175.6
Intangible assets	691.5	–	–	–	–	23.9	715.4
Property, plant and equipment	334.4	–	0.1	–	–	(28.5)	306.0
Investments in associates	327.3	5.1	–	–	–	–	332.4
Loans to associates	42.5	–	–	–	–	–	42.5
Other investments	42.6	–	–	–	–	–	42.6
Deferred tax assets	5.8	–	–	2.1	–	(0.1)	7.8
Trade and other receivables	40.2	–	–	–	–	–	40.2
	1,641.5	15.1	(0.8)	11.0	–	(4.3)	1,662.5
Current assets							
Inventories	692.2	–	–	–	–	–	692.2
Securitised receivables	456.1	–	–	–	–	–	456.1
Non-recourse receipts	(400.8)	–	–	–	–	–	(400.8)
Net securitised receivables	55.3	–	–	–	–	–	55.3
Trade and other receivables	1,027.6	–	–	–	–	(0.5)	1,027.1
Cash and cash equivalents	100.9	–	–	–	–	1.0	101.9
	1,876.0	–	–	–	–	0.5	1,876.5
Non-current assets classified as held for sale	–	–	(0.1)	–	–	1.8	1.7
Total assets	3,517.5	15.1	(0.9)	11.0	–	(2.0)	3,540.7
Liabilities							
Current liabilities							
Financial liabilities							
– borrowings	(175.8)	–	–	–	–	0.1	(175.7)
Trade and other payables	(1,425.0)	–	–	–	43.5	(1.8)	(1,383.3)
Current corporate tax liabilities	(37.5)	–	–	–	–	–	(37.5)
	(1,638.3)	–	–	–	43.5	(1.7)	(1,596.5)
Net current assets	237.7	–	–	–	43.5	(1.2)	280.0
Non-current liabilities							
Financial liabilities							
– borrowings	(736.1)	–	–	–	–	4.1	(732.0)
Deferred tax liabilities	(9.1)	–	–	(99.7)	–	0.4	(108.4)
Retirement benefit obligations	(52.5)	–	–	–	–	(0.5)	(53.0)
	(797.7)	–	–	(99.7)	–	4.0	(893.4)
Net assets	1,081.5	15.1	(0.9)	(88.7)	43.5	0.3	1,050.8
Equity							
Share capital	35.8	–	–	–	–	–	35.8
Share premium	485.7	–	–	–	–	–	485.7
Employee share trusts	(13.1)	–	–	–	–	–	(13.1)
Retained earnings	560.0	15.1	(0.9)	(88.7)	43.5	(8.2)	520.8
Translation reserve	–	–	–	–	–	8.5	8.5
Other reserves	2.7	–	–	–	–	–	2.7
Shareholders' equity	1,071.1	15.1	(0.9)	(88.7)	43.5	0.3	1,040.4
Minority interests	10.4	–	–	–	–	–	10.4
Total equity	1,081.5	15.1	(0.9)	(88.7)	43.5	0.3	1,050.8

(50) TRANSITION TO IFRS (CONTINUED)
Reconciliation of profit for the year ended 31 December 2004

	UK GAAP £million	IFRS 2 £million	IFRS 3 £million	IAS 12 £million	Associates reclassification £million	Other £million	IFRS £million
Revenue including share of associates' revenue	10,605.9	–	–	–	–	–	10,605.9
Less: share of associates' revenue	(1,707.5)	–	–	–	–	–	(1,707.5)
Revenue	8,898.4	–	–	–	–	–	8,898.4
Operating profit including share of associates' operating profit	275.9	(2.2)	15.1	–	–	0.9	289.7
Less: share of associates' operating profit	(41.0)	–	(5.1)	–	–	–	(46.1)
Operating profit	234.9	(2.2)	10.0	–	–	0.9	243.6
Share of associates' operating profit	41.0	–	5.1	–	(46.1)	–	–
Share of associates' post tax earnings	–	–	–	–	34.0	–	34.0
Profit on disposal of businesses	13.6	–	5.6	–	–	–	19.2
Amounts written off investments	(1.9)	–	–	–	–	–	(1.9)
Profit from operations	287.6	(2.2)	20.7	–	(12.1)	0.9	294.9
Finance income	14.3	–	–	–	(6.4)	0.1	8.0
Finance costs	(53.7)	–	–	–	4.6	(0.8)	(49.9)
Profit before tax	248.2	(2.2)	20.7	–	(13.9)	0.2	253.0
Tax	(81.0)	–	–	1.5	14.2	–	(65.3)
Profit for the year	167.2	(2.2)	20.7	1.5	0.3	0.2	187.7
Attributable to:							
Equity shareholders	167.1	(2.2)	20.7	1.5	–	0.2	187.3
Minority interests	0.1	–	–	–	0.3	–	0.4
	167.2	(2.2)	20.7	1.5	0.3	0.2	187.7

Explanation of material adjustments to the cash flow statement for the year ended 31 December 2004
The cash flow statement for the year ended 31 December 2004 is presented on page 68.

The material adjustments caused by the transition to IFRS on the cash flow statement for that year were as follows:

1. Tax paid is classified as an operating cash flow under IFRS, whereas under UK GAAP this was shown as a separate category of cash flow.
2. Interest paid is classified as an operating cash flow under IFRS, whereas under UK GAAP this was shown within the returns on investments category.
3. Dividends received from associates are classified within investing activities under IFRS, whereas under UK GAAP this was shown as a separate category of cash flow.
4. Cash flows arising from acquisitions and disposals are classified within investing activities under IFRS, whereas under UK GAAP these were shown as a separate category of cash flow.
5. Cash flows arising from capital expenditure and financial investment are classified within investing activities under IFRS, whereas under UK GAAP these were shown as a separate category of cash flow.
6. Dividends paid to equity shareholders are classified within financing activities under IFRS, whereas under UK GAAP these were shown as a separate category of cash flow.
7. The definition of cash and cash equivalents under IFRS includes money market borrowings maturing within one week.

Beneath the IFRS cash flow statement a reconciliation of the increase in cash and cash equivalents to net borrowings is provided. Under IFRS, net borrowings are defined by the Group as borrowings net of cash and cash equivalents and derivative financial instruments. This definition is consistent with the definition of net borrowings under UK GAAP. The only significant difference between the net borrowings amount at 31 December 2004 between IFRS and UK GAAP is in respect of the land element of certain leases for land and buildings. Under UK GAAP these were treated wholly as finance leases, whilst under IFRS it is necessary to split out the land from the building element and consider these separately. In some instances, under IFRS the land element no longer met the definition of a finance lease and is accounted for as an operating lease. The effect of this different treatment is to decrease net borrowings under IFRS by £4.2 million at 31 December 2004. The total decrease in net borrowings under IFRS at 31 December 2004 was £5.2 million.

Independent auditors' report
to the members of Alliance UniChem Plc

We have audited the individual Company financial statements (the "financial statements") of Alliance Unichem Plc for the year ended 31 December 2005 which comprise the balance sheet and the statement of accounting policies and the related notes A to P. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Board report on remuneration that is described as having been audited.

We have reported separately on the Group financial statements of Alliance UniChem Plc for the year ended 31 December 2005.

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
The Directors' responsibilities for preparing the annual report, the Board report on remuneration and the individual Company financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice are set out in the Directors' responsibilities statement.

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 and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements and the part of the Board report on remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements. We also report to you 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 is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 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 Company's corporate governance procedures or its risk and control procedures.

We read the Report of the Directors and the other information contained in the annual report for the above year and described in the contents section including the unaudited part of the Board report on remuneration 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Board report on remuneration described as having been 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005;
- 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, England

Deloitte & Touche LLP

28 February 2006

Company balance sheet
as at 31 December 2005

	Note	2005 £million	2004 restated £million
Fixed assets			
Tangible assets	D	**0.4**	0.4
Investments	E	**1,380.4**	1,314.1
		1,380.8	1,314.5
Current assets			
Debtors	F	**22.9**	7.7
Cash at bank and in hand	G	**1.9**	8.5
		24.8	16.2
Creditors: amounts falling due within one year			
Borrowings	G	**(30.1)**	(18.0)
Other creditors	H	**(47.3)**	(25.5)
		(77.4)	(43.5)
Net current liabilities		**(52.6)**	(27.3)
Total assets less current liabilities		**1,328.2**	1,287.2
Creditors: amounts falling due after more than one year			
Borrowings	G	**(460.2)**	(557.3)
Other creditors	H	**(83.4)**	–
Net assets		**784.6**	729.9
Equity			
Share capital	J	**36.2**	35.8
Share premium	K	**509.4**	485.7
Employee share trusts	L	**(45.1)**	(13.1)
Retained earnings	M	**284.1**	221.5
Total equity		**784.6**	729.9

The financial statements were approved by the Board of Directors on 28 February 2006 and were signed on its behalf by:

I. K. Meakins
G. R. Fairweather
Directors

Notes to the Company financial statements

for the year ended 31 December 2005

(A) 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.

The accounting policies have all been applied consistently throughout the year and the preceding year with the exception of the adoption of:

FRS 21 "Events after the Balance Sheet Date"

FRS 21 removes the requirement to accrue for proposed dividends at the balance sheet date if they have not been approved. A prior year adjustment increasing net assets by £43.5 million at 31 December 2004 results from this change in accounting policy.

FRS 25 "Financial instruments: disclosure and presentation" and FRS 26 "Financial instruments: recognition and measurement"

The application of FRS 25 and FRS 26 affects the Group balance sheet principally in respect of derivative financial instruments which are recognised in the balance sheet at their fair value as financial assets or liabilities. The carrying values of borrowings held by the Group which are designated within an effective fair value hedge relationship are also adjusted to reflect movements associated with the hedged risks. The accounting policy is described more fully in the derivative financial instruments policy below.

FRS 25 and FRS 26 allow companies to opt to apply these standards from the date of the opening balance sheet of the first period reported under the standards without restating the comparative period. The Company has chosen this option.

The net effect of this change in accounting policy at 1 January 2005 is to reduce net assets by £13.6 million due to the recognition of additional financial liabilities of £19.9 million, partially offset by related deferred taxation of £6.3 million.

As permitted by the standard, the Company has not included the disclosure requirements of FRS 25 in these financial statements as the Company is included in the consolidated financial statements within this annual report which include disclosures that comply with FRS 25.

Tangible assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. 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:

Long and short leasehold properties – the shorter of the period of the lease and 50 years.

Taxation

Current tax is the amount payable or recoverable in respect of the taxable profit or loss for the year.

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 remittable 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.

Currency translation

Transactions denominated in currencies other than the Company's functional currency are translated into the Company's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date with any currency translation differences recognised in the profit and loss account.

Derivative financial instruments

Derivative financial instruments utilised by the Company include interest rate swaps, foreign currency swaps, interest rate caps and forward exchange contracts. These derivative financial instruments are used to manage the foreign currency and interest rate risk of the Company's and Group's borrowings and investments.

To 31 December 2004:

The Company has used derivative financial instruments to hedge its and the Group's exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges were structured so as to reduce the market risk associated with the underlying transaction being hedged. If the underlying transaction being hedged ceased to exist, the hedge was typically cancelled and the profit or loss recognised in the profit and loss account immediately.

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

(A) ACCOUNTING POLICIES (CONTINUED)
Derivative financial instruments (continued)
From 1 January 2005:
Derivative financial instruments are designated as hedges in line with the Group's risk management policies. Derivatives are measured at fair value. The accounting treatment in the Company is determined by the type of hedge relationship adopted. Currently the only derivative financial instruments which are designated as within a hedge relationship for the Company are fair value hedges. Gains and losses on these derivative instruments are recognised in the profit and loss account and the carrying value of the hedged item is adjusted to reflect movements associated with the hedged risks where the relationship is assessed to be effective. Where there is hedge accounting ineffectiveness the gain or loss on the derivative is recognised immediately in the profit and loss account and the underlying hedged item is recognised at amortised cost with no adjustment to the carrying value permitted.

Those derivatives which are not designated as hedges are classified as held-for-trading and gains and losses on the derivative financial instruments are recognised immediately in the profit and loss account.

Loans held by the Company are measured at amortised cost except where the underlying transaction is designated within an effective fair value hedge relationship. In these cases the carrying value is adjusted to reflect movements associated with the hedged risks.

Share capital and share premium
Ordinary shares are classified as equity.

Own shares held by the Company's employee share trusts are deducted at cost from equity.

(B) PROFIT FOR THE YEAR
As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the year of £143.2 million (2004 £81.0 million).

The Directors' remuneration which was borne by a subsidiary undertaking is disclosed within the Board report on remuneration on page 56.

The auditors' remuneration for services to the Company was £0.1 million (2004 £0.1 million).

(C) DIVIDENDS

	2005 £million	2004 £million
Amounts recognised as distributions to equity holders in the year		
Final dividend per share for the year ended 31 December 2004, net 12.25p (2003 11.0p)	**43.5**	38.1
Interim dividend per share for the year ended 31 December 2005, net 6.90p (2004 6.25p)	**24.9**	21.5
	68.4	59.6
Proposed final dividend per share for the year ended 31 December 2005, net 13.60p (2004 12.25p)	**48.4**	43.5

The proposed final dividend for the year ended 31 December 2005 is subject to approval by shareholders at the Annual General Meeting on 25 April 2006 and has not been included as a liability in these financial statements.

(D) TANGIBLE ASSETS
The tangible fixed assets of the Company, which are in relation to short leasehold land and buildings, are included in the balance sheet at a cost of £0.6 million (2004 £0.6 million) and cumulative depreciation of £0.2 million (2004 £0.2 million). There were no additions during the year.

(E) INVESTMENTS

	Shares in Group undertakings £million	Loans to Group undertakings £million	Shares in associated undertakings £million	Total £million
At 1 January 2005	**200.0**	**1,070.9**	**43.2**	**1,314.1**
Loans advanced	–	**83.1**	–	**83.1**
Currency translation differences	–	**(16.8)**	–	**(16.8)**
At 31 December 2005	**200.0**	**1,137.2**	**43.2**	**1,380.4**

Details of subsidiary and associated undertakings are provided in notes N and O.

(F) DEBTORS

	2005 £million	2004 £million
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**11.3**	5.2
Other debtors and accrued income	**1.9**	2.5
Corporation tax recoverable	**0.8**	–
Deferred tax	**3.6**	–
Derivative financial instruments	**1.9**	–
	19.5	7.7
Amounts falling due after more than one year		
Derivative financial instruments	**3.4**	–
	3.4	–
	22.9	7.7

The deferred tax asset relates to movements in the fair values of derivative financial instruments and the carrying values of borrowings held by the Group which are designated within an effective fair value hedge relationship.

(G) NET BORROWINGS

	2005 £million	2004 £million
Amounts falling due within one year		
Bank overdrafts	**28.2**	15.1
Loan notes	**1.9**	2.9
	30.1	18.0
Amounts falling due after more than one year		
Bank loans	–	14.5
2008 Senior notes 6.63% (US$57 million)	**33.8**	35.6
2009 Senior notes 6.67% (US$113 million)	**67.3**	70.6
2011 Senior notes 6.55% (US$173 million)	**102.6**	137.4
2011 Senior notes 6.07% (€30 million)	**21.8**	21.2
2012 Senior notes 7.19% (US$300 million)	**183.2**	226.0
2017 Senior notes 7.01% (£50 million)	**51.5**	52.0
	460.2	557.3
Borrowings	**490.3**	575.3
Cash at bank and in hand	**(1.9)**	(8.5)
Borrowings net of cash at bank and in hand	**488.4**	566.8

Loan notes totalling £1.9 million classified within current borrowings 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.

(H) OTHER CREDITORS

	2005 £million	2004 restated £million
Amounts falling due within one year		
Amounts owed to subsidiary undertakings	**26.7**	15.4
Corporation tax	–	1.4
Other creditors	**4.4**	3.5
Accruals and deferred income	**4.7**	5.2
Derivative financial instruments	**11.5**	–
	47.3	25.5

Other creditors falling due after more than one year relate to derivative financial instruments.

(I) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments utilised by the Company include interest rate swaps, foreign currency swaps, interest rate caps and forward exchange contracts. These derivative financial instruments are used to manage the foreign currency and interest rate risk of the Company's and Group's borrowings and investments.

Derivative financial instruments are designated as hedges in line with the Group's risk management policies. Derivatives are measured at fair value. The accounting treatment in the Company is determined by the type of hedge relationship adopted. Currently the only derivative financial instruments which are designated as within a hedge relationship for the Company are fair value hedges. Gains and losses on these derivative instruments are recognised in the income statement and the carrying value of the hedged item is adjusted to reflect movements associated with the hedged risks where the relationship is assessed to be effective. Where the hedge relationship falls outside the permitted range of 80% to 125%, the gain or loss on the derivative is recognised immediately in the profit and loss account and the underlying hedged item is recognised at amortised cost with no adjustment to the carrying value permitted.

Those derivatives which are not designated as hedges are classified as held-for-trading and gains and losses on the derivative financial instruments are recognised immediately in the profit and loss account.

Loans held by the Company are measured at amortised cost except where the underlying transaction is designated within an effective fair value hedge relationship. In these cases the carrying value is adjusted to reflect movements associated with the hedged risks.

At 31 December 2005 the fair value of the derivative financial instruments taken out by the Company to manage financial risk was as follows:

	Assets £million	Liabilities £million
Current		
Held-for-trading derivatives	**1.9**	**(11.5)**

	Assets £million	Liabilities £million
Non-current		
Fair value hedge derivatives	**2.8**	**(48.1)**
Held-for-trading derivatives	**0.6**	**(35.3)**
	3.4	**(83.4)**

The changes in fair value included in the profit and loss account for the year ended 31 December 2005 were:

	£million
Fair value hedges – effective	**26.2**
Fair value hedges – ineffective	**2.8**
Classified as held-for-trading	**0.7**
	29.7

(J) CALLED UP SHARE CAPITAL

	2005		2004	
	Number million	Share capital 10p ordinary shares £million	Number million	Share capital 10p ordinary shares £million
Authorised share capital	**432.9**	**43.3**	432.9	43.3
Called up, issued and fully paid up				
At 1 January	**358.2**	**35.8**	350.7	35.1
Shares issued during the year	**3.5**	**0.4**	7.5	0.7
At 31 December	**361.7**	**36.2**	358.2	35.8

(J) CALLED UP SHARE CAPITAL (CONTINUED)

Details of shares allotted during the year were:

	Number million	Price paid per share £	Consideration £million
Share option exercises	**0.5**	**2.14–5.89**	**2.1**
Scrip dividends in lieu of 2004 final dividend	**3.0**	**7.36**	**22.0**
Share capital and share premium account movement	**3.5**		**24.1**
Of which:			
Share capital			**0.4**
Share premium account			**23.7**
			24.1

Details of outstanding options over ordinary shares at 31 December 2005 were:

Year of grant	Exercise price pence	**Outstanding 2005 Number**	Outstanding 2004 Number	Normally exercisable from
1990 Savings related scheme				
1997	214.00	–	1,457	01.07.2004 to 31.12.2004
1998	324.00	**2,645**	73,313	01.08.2005 to 31.01.2006
1999	384.00	–	527	01.07.2004 to 31.12.2004
1999	384.00	**40,024**	44,138	01.07.2006 to 31.12.2006
2000	291.00	**7,575**	250,715	03.07.2005 to 02.01.2006
2000	291.00	**105,168**	108,197	03.07.2007 to 02.01.2008
2001	463.00	–	334	01.07.2004 to 31.12.2004
2001	463.00	**160,345**	167,947	01.07.2006 to 31.12.2006
2001	463.00	**31,966**	33,710	01.07.2008 to 31.12.2008
2002	480.00	**11,537**	238,582	01.07.2005 to 31.12.2005
2002	480.00	**169,597**	184,419	01.07.2007 to 31.12.2007
2002	480.00	**42,096**	45,388	01.07.2009 to 31.12.2009
2003	337.00	**671,830**	729,297	01.07.2006 to 31.12.2006
2003	337.00	**445,739**	484,319	01.07.2008 to 31.12.2008
2003	337.00	**63,186**	66,134	01.07.2010 to 31.12.2010
2004	440.00	**408,903**	478,349	01.07.2007 to 31.12.2007
2004	440.00	**218,134**	237,595	01.07.2009 to 31.12.2009
2004	440.00	**65,392**	76,912	01.07.2011 to 31.12.2011
2005	589.47	**403,652**	–	01.07.2008 to 31.12.2008
2005	589.47	**191,816**	–	01.07.2010 to 31.12.2010
2005	589.47	**44,732**	–	01.07.2012 to 31.12.2012
		3,084,337	3,221,333	
1997 Discretionary scheme				
1998	429.50	–	66,000	07.05.2001 to 06.05.2005
1999	442.00	**68,000**	150,000	14.05.2002 to 13.05.2006
2000	379.00	**126,400**	371,000	23.03.2003 to 22.03.2007
2001	592.00	**382,000**	707,000	06.04.2004 to 05.04.2008
2002	609.00	**685,000**	1,610,000	09.04.2005 to 08.04.2009
2003	489.00	**1,797,000**	1,907,000	21.05.2006 to 20.05.2013
2004	556.00	**1,771,295**	1,896,295	19.03.2007 to 18.03.2014
2005	810.50	**1,525,945**	–	06.05.2008 to 05.05.2015
2005	818.20	**147,090**	–	19.05.2009 to 18.05.2015
2005	759.17	**27,500**	–	26.10.2008 to 25.10.2015
		6,530,230	6,707,295	
1998 Long-term incentive scheme				
2004	0.0001	–	27,577	20.03.2004 to 19.03.2014
2005	0.0001	**8,889**	–	26.10.2005 to 25.04.2006
2005	0.0001	**38,202**	–	16.05.2005 to 15.05.2006
		47,091	27,577	
I.K. Meakins share incentive plan				
2004	0.0001	**119,946**	119,946	01.12.2005 to 01.12.2014
		119,946	119,946	

(K) SHARE PREMIUM

	£million
At 1 January 2004	444.2
Shares issued	41.5
At 1 January 2005	**485.7**
Shares issued	**23.7**
At 31 December 2005	**509.4**

(L) EMPLOYEE SHARE TRUSTS

	2005 £million	2004 £million
At 1 January	**13.1**	23.1
Additions	**40.5**	–
Disposals	**(8.5)**	(10.0)
At 31 December	**45.1**	13.1

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 2005 of £45.1 million (2004 £13.1million) in 6.2 million (2004 5.3 million) of the Company's shares. The market value of the holdings at 31 December 2005 was £49.8 million (2004 £21.9 million). Under the terms of the trust, the dividend receivable in respect of the shares held in the 1992 Employee Trust, which held 6.1 million of the Company's shares at 31 December 2005, 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.

(M) RETAINED EARNINGS

	£million
At 1 January 2005, as previously stated	**178.0**
Prior year adjustment in respect of FRS 21	**43.5**
At 1 January 2005, as restated	**221.5**
FRS 26 adjustment at 1 January 2005	**(13.6)**
At 1 January 2005	**207.9**
Profit on sale of own shares	**1.4**
Retained profit	**74.8**
At 31 December 2005	**284.1**

(N) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings of Alliance UniChem Plc, all of which were indirectly held, were:

	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Northern Europe Wholesale				
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
Southern Europe Wholesale				
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
Alloga S.A.	100%	Europe	Luxembourg	holding company for a number of pre-wholesalers
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.

(O) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings of Alliance UniChem Plc are set out in the table below. Except for 25% of the interest in Hedef Alliance Holding A.S., these were indirectly held.

	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Alliance UniChem Farmacêutica S.A.(1)	49%	Portugal	Portugal	pharmaceutical wholesaler
Andreae-Noris Zahn AG	29.99%	Germany	Germany	pharmaceutical wholesaler
Galenica A.G.(2)	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Hedef Alliance Holding A.S.	50%	Turkey	Turkey	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software
UniDrug Distribution Group Limited	50%	United Kingdom	United Kingdom	pre-wholesaler
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler

(1) The Group previously owned 100% of the ordinary share capital of Alliance UniChem Farmacêutica S.A.. 51% of the ordinary share capital was disposed of during the year.
(2) All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

(P) 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 2005 amounted to £19.6 million (2004 £18.6 million).

Five-year summary

The figures for 2004 and 2005 are extracted from this Annual Report and thus prepared under IFRS. The figures for 2001, 2002 and 2003 are UK GAAP figures presented in the same format as the 2004 and 2005 figures. The principal differences between UK GAAP and IFRS are described in note 50 to the financial statements which provides an explanation of the transition to IFRS.

Group income statements – year ended 31 December	UK GAAP 2001 £million	UK GAAP 2002 £million	UK GAAP 2003 £million	IFRS 2004 £million	**IFRS 2005 £million**
Revenue	7,089.4	7,771.6	8,799.3	8,898.4	**9,171.2**
Operating profit before amortisation of goodwill including share of associates' operating profit	198.1	227.0	263.1	289.7	**331.8**
Less: share of associates' operating profit	(17.4)	(21.5)	(36.8)	(46.1)	**(70.8)**
Operating profit before amortisation of goodwill	180.7	205.5	226.3	243.6	**261.0**
Costs in relation to proposed merger	–	–	–	–	**(3.8)**
Share of associates' post tax earnings	9.4	14.8	27.0	34.0	**45.3**
Profit on disposal of businesses	–	–	–	19.2	**7.8**
(Amounts written off)/profit on disposal of investments	–	–	–	(1.9)	**2.1**
Amortisation of goodwill	(10.7)	(12.2)	(13.3)	–	**–**
Profit from operations	179.4	208.1	240.0	294.9	**312.4**
Net finance costs	(37.2)	(48.1)	(52.1)	(41.9)	**(33.5)**
Profit before tax	142.2	160.0	187.9	253.0	**278.9**
Tax	(46.7)	(50.1)	(58.8)	(65.3)	**(67.6)**
Profit for the year	95.5	109.9	129.1	187.7	**211.3**
Adjusted diluted EPS(1)	32.7p	36.8p	41.1p	47.9p	**54.6p**

Segmental analysis – year ended 31 December					
Revenue					
Wholesale Northern Europe	2,260.1	2,572.0	2,899.8	2,897.6	**2,913.1**
Wholesale Southern Europe	4,630.2	4,881.1	5,618.9	5,684.6	**5,821.0**
Retail – Europe	728.0	974.0	1,107.4	1,222.6	**1,337.3**
Intra-Group	(528.9)	(655.5)	(826.8)	(906.4)	**(900.2)**
	7,089.4	7,771.6	8,799.3	8,898.4	**9,171.2**
Operating profit before amortisation of goodwill including share of associates' operating profit					
Wholesale Northern Europe	71.0	77.4	84.3	89.4	**92.2**
Wholesale Southern Europe	69.6	74.0	74.1	77.1	**77.4**
Retail – Europe	56.4	65.8	79.3	95.3	**112.9**
Corporate	(16.3)	(11.7)	(11.4)	(18.2)	**(21.5)**
Share of associates' operating profit	17.4	21.5	36.8	46.1	**70.8**
	198.1	227.0	263.1	289.7	**331.8**

Group balance sheets – 31 December					
Fixed assets					
Goodwill	147.0	161.8	172.3	175.6	**232.1**
Intangible assets	483.6	561.3	627.2	715.4	**819.3**
Property, plant and equipment	255.2	284.4	290.1	306.0	**350.0**
Investments in and loans to associates	167.6	250.5	287.6	374.9	**394.5**
Other non-current assets (excluding deferred tax)	54.2	55.5	60.3	82.8	**75.6**
	1,107.6	1,313.5	1,437.5	1,654.7	**1,871.5**
Working capital					
Inventories	647.0	649.9	728.8	692.2	**670.5**
Securitised receivables	306.2	422.4	448.8	456.1	**–**
Non-recourse receipts	(267.8)	(377.1)	(399.5)	(400.8)	**–**
Financing linked to securitisation	–	–	–	–	**(392.7)**
Trade and other receivables	894.1	1,008.8	1,122.4	1,022.4	**1,419.4**
Trade and other payables	(1,176.0)	(1,257.8)	(1,500.2)	(1,383.3)	**(1,383.5)**
	403.5	446.2	400.3	386.6	**313.7**
Current and deferred tax	(46.7)	(13.3)	(21.0)	(131.7)	**(151.7)**
Retirement benefit obligations	n/a	(34.8)	(49.3)	(53.0)	**(69.1)**
Net borrowings(2)	(781.4)	(880.2)	(827.2)	(805.8)	**(779.6)**
Net assets	683.0	831.4	940.3	1,050.8	**1,184.8**

(1) Adjusted diluted EPS is calculated excluding items Alliance UniChem consider to be exceptional (costs in relation to the proposed merger, profit on disposal of businesses and profit on disposal/(amounts written off) investments), IAS 39 timing differences arising from hedging interest rate and currency exposures and, in respect of 2001-2003, amortisation of goodwill.
(2) Defined by Alliance UniChem as borrowings net of cash and cash equivalents and derivative financial instruments.

Glossary of key terms

Adjusted diluted earnings per share
Diluted earnings per share adjusted to exclude exceptional items and IAS 39 timing differences, both net of tax.

Adjusted profit for the year
Profit for the year adjusted to exclude exceptional items and IAS 39 timing differences, both net of tax.

Direct sales
Sales of pharmaceutical products from manufacturers to pharmacies or patients which are not sold and delivered through the normal full line or short line wholesale channels but instead are either delivered direct from manufacturers or via their appointed contract logistics or pre-wholesaler's warehouse.

Exceptional items
Items classified by Alliance UniChem as exceptional in nature. In the reporting periods this comprises costs in relation to the proposed merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments.

Full line wholesaler
Pharmaceutical wholesalers who stock an extensive range of products available for delivery to pharmacies on a 'just in time' basis, typically between one to three times per day.

IAS 39 timing differences
Derivative financial instruments are used to hedge interest rate and currency exposures. IAS 39 dictates whether changes in the fair value of these instruments can be matched in the income statement by changes in the fair value of the item being hedged. Where they cannot be matched, or do not fully match, the unmatched amount represents a timing difference that will reverse over the life of the financial instruments.

Interest cover
Operating profit divided by underlying net finance costs.

Net borrowings
Borrowings, net of cash and cash equivalents and derivative financial instruments.

Net finance costs
Finance costs net of finance income.

Operating margins
Operating profit expressed as a percentage of revenue.

Operating profit
Profit from operations before share of associates' post tax earnings and exceptional items.

Parallel trade
The exporting and importing of branded pharmaceutical products between countries other than by the manufacturers themselves or their authorised distributors.

Short line wholesaler
Pharmaceutical wholesalers who stock a limited range of drugs (usually generics and product imported through parallel trade) which are typically delivered on a less frequent and slower timescale than available from a full line wholesaler.

Trade working capital efficiency
The movement in monetary terms of improvements in working capital days over the previous period.

Underlying net finance costs
Net finance costs adjusted to exclude IAS 39 timing differences.

Underlying rate of tax
The underlying tax charge expressed as a percentage of operating profit net of underlying net finance costs.

Underlying tax charge
The tax charge excluding tax on exceptional items and IAS 39 timing differences.

Shareholder information

2006 financial calendar

28 February	2005 preliminary results and dividend announced
8 March	2005 final dividend ex-dividend date
10 March	2005 final dividend record date
18 April	Deadline for receipt of applications to participate in the dividend reinvestment plan
23 April	Deadline for receipt of proxies for the Annual General Meeting
25 April	Annual General Meeting
10 May	2005 final dividend paid and purchase date for the dividend reinvestment plan shares
1 August*	2006 interim results and interim dividend announced
9 August*	2006 interim dividend ex-dividend date
11 August*	2006 interim dividend record date
22 September*	Deadline for receipt of applications to participate in the dividend reinvestment plan
13 October*	2006 interim dividend paid and purchase date for the dividend reinvestment plan shares

*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 Stock Exchange. They are listed under EPIC – AUN, SEDOL – 916572 and ISIN – GB0009165720.

Up until 5 January 2006 the Company's shares were also listed on the Paris Stock Exchange. This listing was cancelled due to very low trading activity.

Further information on the London Stock Exchange, its trading systems and current trading in Alliance UniChem Plc shares can be found on the London Stock Exchange website www.londonstockexchange.com.

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E-mail: enquiries@alliance-unichem.com
Website: www.alliance-unichem.com

Analysis of shareholders as at 31 December 2005

	Shareholders		Shares	
Number of shares held	Number	%	Number	%
1 to 1,000	3,351	41.2	1,375,138	0.4
1,001 to 10,000	3,237	39.8	11,312,574	3.1
10,001 to 100,000	1,301	16.0	33,352,640	9.2
100,001 to 1,000,000	194	2.4	60,334,986	16.7
above 1,000,000	45	0.6	255,350,757	70.6
	8,128	**100.0**	**361,726,095**	**100.0**

Principal Group businesses

Wholesale

UniChem
UniChem House
Cox Lane
Chessington
Surrey KT9 1SN
UK
Telephone: +44 (0) 20 8391 2323
Facsimile: +44 (0) 20 8974 1707

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France
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Facsimile: +39 0185 323 210

Safa Galenica
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50830 Villanueva de Gállego
Zaragoza
Spain
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Facsimile: +34 976 72 86 20

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Alliance Apotek
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