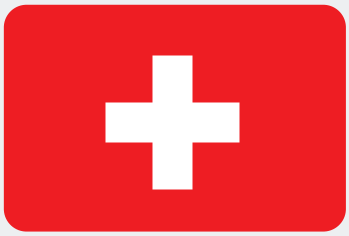
Corporate and associates

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


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.