

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