

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).