

## Chairman's introduction

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



**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



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.