

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

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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.



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

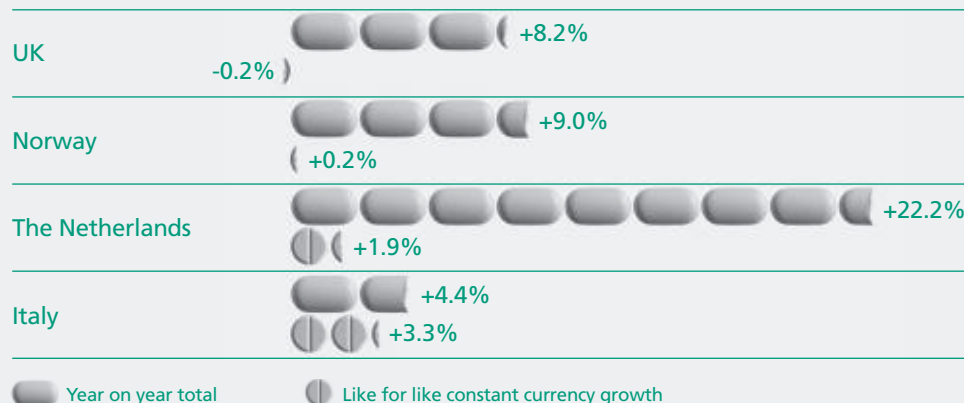
In the UK revenue increased by 8.2% to £939.2 million, sales growth being held back by the impact of the PPRS price cuts and the new lower drug tariff for generic medicines. Like for like sales declined by 0.2% in value. This compares with a market which we estimate grew by around 1.5%, our pharmacies 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

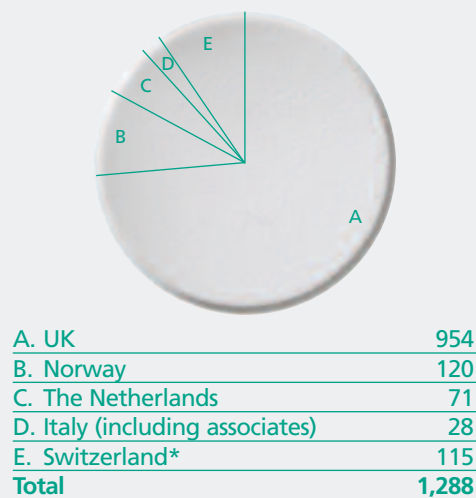
unwanted medicines, promotion of healthy lifestyles, signposting to other courses of care and support for self care and people with disabilities. The principal Advanced service currently is Medicine Use Reviews designed to help patients use medicines more effectively and improve the clinical and cost 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.

Retail revenue growth



Retail pharmacies at 31 December 2005



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.

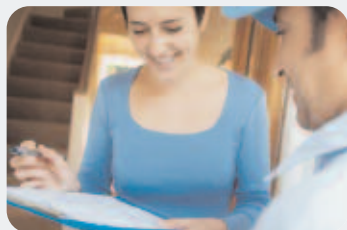
In the first half of the year the roll out of advanced EPOS systems was completed other than in recently acquired pharmacies. The new EPOS system has been closely followed by the installation of new dispensing systems, 43 pharmacies having the new software at the year end with roll out scheduled for 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.



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



Our European chain now comprises of 1,288 pharmacies.



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.



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

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.