Chairman's statement

The strength and diversity of the
has enabled us to deliver another

Overview and financial results

I am pleased to report that Alliance UniChem has again delivered a strong financial performance in the first half of the year, the balance of our activities and geographical spread providing resilience to short-term fluctuations in any single market. The Group continues to develop in line with our strategy of driving enhanced financial performance and synergies from our portfolio of core wholesale and retail activities, including associates, while at the same time seeking opportunities to expand in countries in which we currently operate and beyond.

In the first half of the year operating profit increased by 3.1% on the comparable period last year to £121.9 million, an increase of 11.8% when we include our share of operating profit from associates. Adjusted profit for the period after tax (which excludes items classified by us as exceptional in nature and IAS 39 timing differences from hedging interest rate and currency exposures) increased by 17.4% to £88.4 million. Our key profit measure, adjusted diluted earnings per share, increased by 14.0% to 24.4 pence per share, unadjusted diluted earnings per share growing by 35.5%.

As previously reported, our wholesale division's performance was held back by relatively difficult markets, particularly in the UK in the early months, and in France and Spain. This had a greater short-term impact on wholesale performance in the first half than was anticipated at the beginning of the year. The Group's retail division continued to perform strongly throughout the period, our pharmacies in England and Wales having successfully operated under the new pharmacy contract since the beginning of April. Performance from associates was well ahead of our expectations at the beginning of the year, reflecting excellent results from Hedef Alliance, Turkey's leading wholesaler.

Dividend

The Board has declared an interim dividend of 6.90 pence per share, an increase of 10.4% on the comparable dividend last year. The interim dividend will be paid on 11 October 2005 to shareholders on the register at the close of business on 5 August 2005 with an ex-dividend date of 3 August 2005. The Board, after careful consideration, has decided not to offer a scrip dividend alternative and instead will offer shareholders the opportunity to reinvest their cash dividend in buying existing issued shares in the Company through a dividend reinvestment plan. This change is being made as the Board believes that, given the increasing financial strength of the Group, it is no longer in the best interests of shareholders to dilute their equity through the issue of new shares.

Board and organisational changes

I was honoured to be appointed as non-executive Chairman of your Company at the conclusion of the Annual General Meeting held on 22 April 2005, succeeding Jeff Harris who retired from the Board after nearly 19 years as a Director. I would like to take this opportunity to thank Jeff for his outstanding contribution to the development of the Group from its early stages into a FTSE 100 company.

Per Utnegaard, our former Wholesale Director, resigned from the Board in March after 18 months with the Group. This followed the decision that Ian Meakins, who joined the Board in December 2004 as Chief Executive, should have direct responsibility for the Group's major wholesale businesses, direct responsibility for the other wholesale businesses being split between Ornella Barra and Steve Duncan, both executive Directors.

Paolo Scaroni
Chairman 28 July 2005

Group's business portfolio strong financial performance

Strategic and corporate developments

During the period the Group further strengthened its portfolio of businesses. 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. In addition, we sold our 50% direct interest in the GaleniCare Swiss pharmacy chain to Galenica.

In May, we entered the Northern Ireland market through the acquisition of Bairds Chemists, the region's largest pharmacy chain with 50 outlets. This provides a platform for future growth in the region. In addition, we added a further net 19 pharmacies to our total retail portfolio in the first half of the year, of which four were in associates, bringing our total portfolio to 1,251 pharmacies at 30 June 2005, including 111 operated by associates.

Also in May, we expanded our Spanish wholesale business, strengthening our market position through the completion of the acquisition of Farmacen, the sixth largest pharmaceutical wholesaler in Spain and the largest independent wholesaler not under co-operative ownership.

Just before the end of the half year, we were pleased to enter into a strategic partnership with Associação Nacional das Farmácias, Portugal's highly influential national association of pharmacies, to accelerate the development of our Portuguese wholesale business, Alliance UniChem Farmacêutica. Under the terms of the agreement, we sold 49% of our business to the association and 2% to an independent investment company.

In the UK, a substantial retail pharmacy refit programme is well under way. The new design incorporates private consultation facilities to meet the requirements of the new contract and beyond. This is being rolled out in conjunction with the international rebranding of our pharmacies as "Alliance" followed by the local term for pharmacy.

Just after the end of the half year, we completed the disposal of Elvetec, a small loss-making French business supplying products to medical laboratories. This was in line with our strategy of selling businesses which we do not consider as part of our core activities.

Outlook

The strength and diversity of the Group's business portfolio has enabled us to deliver another strong financial performance in the first half of the year, despite some relatively difficult wholesale markets.

We continue to focus on improving the performance of all our businesses, through our commitment to consistently deliver superior customer service, our expertise in margin management and our drive for further productivity savings and synergies, combined with our strong emphasis on working capital efficiency and cash generation to fund profitable expansion.

This focus, together with the benefits of our business portfolio, our opportunities for expansion and the initiatives we are taking to drive future growth, give us confidence in maintaining our track record of strong financial performance for the Group for the year as a whole.