

Notes to the financial information

for the six months ended 30 June 2005

(1) BASIS OF PREPARATION

The interim financial information has been prepared in accordance with International Financial Reporting Standards, using the same accounting policies as set out in the Company's Adoption of International Financial Reporting Standards document which was published on 18 July 2005, and is available on the Company's website at www.alliance-unichem.com.

For the year ended 31 December 2005, the Group will be required to prepare consolidated financial statements under International Accounting Standards as adopted by the European Commission. These will be those International Accounting Standards, International Financial Reporting Standards and related interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been endorsed by the European Commission. This process is ongoing and the Commission has yet to endorse certain standards issued by the IASB. In particular the Commission:

- have indicated that they will adopt IFRS 2 "Share-based Payment", but have not yet formally done so; and
- endorsed a version of IAS 39 "Financial Instruments: Recognition and Measurement" that differed from that issued by the IASB in two respects (the so-called "carve-out"). Firstly, the endorsed version of IAS 39 removes the option in the IASB version to fair value certain financial liabilities and secondly, widens the range of circumstances in which hedge accounting may be applied. The Group has not taken advantage of these provisions and therefore will comply with both versions of IAS 39.

The preliminary opening balance sheet and IFRS comparatives for 2004 have been prepared by management using its best knowledge of the expected standards and interpretations of the IASB, facts and circumstances, and accounting policies that will be applied when the Group prepares its first complete set of IFRS financial statements as at 31 December 2005. Therefore, until such time, the possibility cannot be excluded that the preliminary opening balance sheet and IFRS comparatives may require adjustment before constituting the final opening balance sheet and IFRS comparatives. Moreover, under IFRSs, only a complete set of financial statements comprising an income statement, the statement of recognised income and expense and the reconciliation of movement in shareholders' equity, balance sheet, cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the Group's financial position, results of operations and cash flow.

The information for the year ended 31 December 2004 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985 but has been extracted from the reconciliations of UK GAAP to IFRS presented in the Adoption of International Financial Reporting Standards document referred to above. The UK GAAP financial information as at 31 December 2004 within the document had been extracted from the 2004 statutory financial statements which has been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified.

Adoption of IAS 32 and IAS 39 "Financial Instruments"

IFRS 1 "First-time adoption of International Financial Reporting Standards" sets out procedures to be followed when IFRS is adopted for the first time.

In relation to IAS 32 and IAS 39, IFRS 1 allows companies to opt to apply these standards from the date of the opening balance sheet of the first period reported under IFRS without restating the comparative period. The Group has chosen this option as previously announced.

The application of IAS 32 and IAS 39 affects the Group balance sheet principally in respect of derivative financial instruments and available-for-sale financial assets:

- derivative financial instruments are recognised in the balance sheet at their fair value as financial assets or liabilities. The net effect of this at 1 January 2005 is to reduce equity by £15.6 million due to the recognition of additional financial liabilities of £22.3 million, partially offset by related deferred taxation of £6.7 million; and
- listed investments are categorised as available-for-sale and recorded at fair value. The effect of this at 1 January 2005 is to increase equity by £3.5 million due to the increase in the carrying value of these listed investments of £3.9 million, partially offset by the related deferred taxation liability of £0.4 million.

The combined effect of these adjustments is to reduce shareholders' equity by £12.1 million at 1 January 2005, as shown in the Reconciliation of movements in Group shareholders' equity statement.

(2) EXCHANGE RATES

The significant exchange rates relative to Sterling used in the preparation of the financial statements are as follows:

	Average			Period end		
	2005 Six months to 30 June	2004 Six months to 30 June	2004 Year to 31 December	2005 As at 30 June	2004 As at 30 June	2004 As at 31 December
Euro	1.453	1.477	1.475	1.481	1.491	1.413
Czech Koruna	43.78	48.03	47.20	44.51	47.45	42.93
Norwegian Kroner	11.86	12.48	12.38	11.72	12.57	11.64
Swiss Franc	2.242	2.299	2.279	2.296	2.271	2.185
Turkish Lira				2.394	2.706	2.596

(3) SEGMENTAL ANALYSIS – PRIMARY SEGMENTS

	Revenue			Profit from operations		
	2005 Six months to 30 June £million	2004 Six months to 30 June £million	2004 Year to 31 December £million	2005 Six months to 30 June £million	2004 Six months to 30 June £million	2004 Year to 31 December £million
Wholesale – before profit on disposal of businesses	4,400.8	4,313.4	8,536.8	79.9	80.4	166.5
Profit on disposal of businesses	–	–	–	9.1	–	19.2
Wholesale	4,400.8	4,313.4	8,536.8	89.0	80.4	185.7
Retail	633.7	579.5	1,222.6	53.3	45.1	95.3
Corporate	–	–	–	(11.3)	(7.3)	(18.2)
Intra-group	(415.2)	(412.5)	(861.0)	–	–	–
Group	4,619.3	4,480.4	8,898.4	131.0	118.2	262.8
Profit on disposal of/(amount written off) investments	–	–	–	2.1	–	(1.9)
Share of associates' post tax earnings	–	–	–	18.9	11.9	34.0
	4,619.3	4,480.4	8,898.4	152.0	130.1	294.9

The analysis of revenue by destination is not materially different from the analysis of revenue by origin.

(4) ASSOCIATES

An analysis of the Group's share of associates' post tax earnings is shown below:

	2005 Six months to 30 June £million	2004 Six months to 30 June £million	2004 Year to 31 December £million
Profit from operations	30.6	18.2	46.1
Finance income	0.3	3.1	6.4
Finance costs	(2.7)	(2.9)	(4.6)
Tax	(9.4)	(6.7)	(14.2)
Minority interests	0.1	0.2	0.3
	18.9	11.9	34.0

(5) PROFIT ON DISPOSAL OF BUSINESSES

During the period the Group disposed of its 50% direct interest in the ordinary share capital of GaleniCare S.A., its 20% direct interest in the Swiss part of Alloga S.A., 51% of its interest in Alliance UniChem Farmaceutica S.A. and a number of minor interests. In addition, at the period end, the Group was committed to the disposal of Elvetec S.A. and this disposal was completed shortly thereafter. The net profit on these disposals was £9.1 million before tax.

The profit on disposal in the comparative period to 31 December 2004 related to the disposal of a number of non-core businesses within the UK wholesale operations.

(6) PROFIT ON DISPOSAL OF/(AMOUNTS WRITTEN OFF) INVESTMENTS

During the period the Group disposed of its investment in Sanacorp Pharmahandel A.G..

The amounts written off investments in the comparative period to 31 December 2004 related to the Group's residual US investment in a central dispensing business.

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(7) TAX

	2005 Six months to 30 June £million	2004 Six months to 30 June £million	2004 Year to 31 December £million
UK corporation tax	17.6	15.4	30.0
Overseas tax	14.5	15.7	31.0
Deferred tax	0.3	1.2	4.3
	32.4	32.3	65.3

The underlying tax charge shown below is calculated before items that the Directors consider to be exceptional in nature (profit on disposal of businesses and profit on disposal of/(amounts written off) investments) and IAS 39 timing differences from hedging interest rate and currency exposures.

	2005 Six months to 30 June £million	2004 Six months to 30 June £million	2004 Year to 31 December £million
Underlying tax	34.2	32.3	65.3
Tax on			
– profit on disposal of businesses	(2.9)	–	–
– IAS 39 timing differences	1.1	–	–
	32.4	32.3	65.3

(8) EARNINGS PER SHARE

Earnings per share are calculated by dividing the earnings by the weighted average number of shares in issue during the period. The diluted earnings per share are calculated by dividing the earnings by the weighted average number of shares in issue added to the dilutive potential shares assuming they had converted to issued shares at the beginning of the period.

	2005			2004		
	Profit for six months to 30 June £million	Weighted average number of shares six months to 30 June million	Earnings per share six months to 30 June pence	Profit for six months to 30 June £million	Weighted average number of shares six months to 30 June million	Earnings per share six months to 30 June pence
Basic	104.6	356.7	29.3	75.0	347.5	21.6
Potentially dilutive share options	–	4.1	(0.3)	–	1.8	(0.1)
Deferred acquisition consideration	–	–	–	0.2	2.6	(0.1)
Diluted	104.6	360.8	29.0	75.2	351.9	21.4

To assist investors in understanding the underlying performance, adjusted earnings per share amounts are calculated excluding items that the Directors consider to be exceptional in nature (profit on disposal of businesses and profit on disposal of/(amounts written off) investments) and IAS 39 timing differences arising from hedging interest rate and currency exposures.

	2005			2004		
	Profit for six months to 30 June £million	Weighted average number of shares six months to 30 June million	Earnings per share six months to 30 June pence	Profit for six months to 30 June £million	Weighted average number of shares six months to 30 June million	Earnings per share six months to 30 June pence
Basic	104.6	356.7	29.3	75.0	347.5	21.6
Profit on disposal of businesses and investments net of tax	(14.1)	–	(3.9)	–	–	–
IAS 39 timing differences net of tax	(2.4)	–	(0.7)	–	–	–
Adjusted basic	88.1	356.7	24.7	75.0	347.5	21.6
Potentially dilutive share options	–	4.1	(0.3)	–	1.8	(0.1)
Deferred acquisition consideration	–	–	–	0.2	2.6	(0.1)
Adjusted diluted	88.1	360.8	24.4	75.2	351.9	21.4

(9) CASH FLOW STATEMENT

	2005 Six months to 30 June £million	2004 Six months to 30 June £million	2004 Year to 31 December £million
(a) Cash generated by operations			
Continuing operations			
Profit from operations	152.0	130.1	294.9
Share of associates' post tax earnings	(18.9)	(11.9)	(34.0)
Profit on disposal of businesses	(9.1)	–	(19.2)
(Profit on disposal of)/amounts written off investments	(2.1)	–	1.9
Depreciation and amortisation	21.6	20.2	41.8
Share-based compensation charge	1.8	0.9	2.2
(Profit)/loss on disposal of property, plant and equipment	(0.9)	–	0.4
Decrease in inventories	31.9	93.8	33.3
(Increase)/decrease in receivables	(54.2)	(14.2)	67.0
Decrease in payables	(71.0)	(126.3)	(71.3)
Decrease in retirement benefit obligations	(2.6)	(3.7)	(5.9)
	48.5	88.9	311.1
(b) Net cash from/(used in) investing activities			
Purchase of businesses	(98.4)	(36.6)	(88.7)
Net (overdrafts)/cash of businesses acquired	(11.6)	1.6	2.0
Disposal of businesses	48.2	0.2	31.0
Net overdrafts of businesses sold	67.0	–	0.8
Purchase of investments in associates	(10.0)	(54.0)	(54.0)
Disposal of investments in associates	8.6	1.9	1.9
Loans repaid by associates	41.4	4.3	4.3
Dividends from associates	15.9	4.3	4.3
Purchase of property, plant and equipment and intangible assets	(39.5)	(29.0)	(66.6)
Disposal of property, plant and equipment	2.0	2.1	7.7
Interest received	4.4	3.8	8.1
Proceeds from available-for-sale investments	6.6	–	–
	34.6	(101.4)	(149.2)
(c) Net cash (used in)/from financing activities			
Interest element of finance lease obligations	(0.6)	(0.2)	(0.6)
Dividend paid to equity shareholders	(21.5)	(20.0)	(31.7)
Dividends paid to minority interests	–	–	(0.1)
Proceeds from borrowings	15.3	64.1	40.7
Repayment of borrowings	(92.1)	(36.6)	(18.6)
Repayment of capital element of finance lease obligations	(0.9)	(0.8)	(1.5)
Proceeds from shares issued	1.1	–	1.9
Other investments (net)	9.5	4.8	10.8
	(89.2)	11.3	0.9

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(10) ANALYSIS OF NET BORROWINGS

	2005 Six months to 30 June £million	2004 Six months to 30 June £million	2004 Year to 31 December £million
Cash and cash equivalents outflow/(inflow) from decrease/(increase) in debt and lease financing			
Proceeds from borrowings	(15.3)	(64.1)	(40.7)
Repayment of borrowings	92.1	36.6	18.6
Repayment of capital element of finance lease obligations	0.9	0.8	1.5
	77.7	(26.7)	(20.6)

(11) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash and cash equivalents £million	Borrowings within current liabilities £million	Borrowings within non-current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 1 January 2005	101.9	(175.7)	(732.0)	–	(805.8)
IAS 39 adjustment at 1 January 2005	–	–	122.8	(145.1)	(22.3)
At beginning of period	101.9	(175.7)	(609.2)	(145.1)	(828.1)
Decrease in cash and cash equivalents	3.4	(56.1)	–	–	(52.7)
Decrease in borrowings	–	66.0	11.7	–	77.7
Borrowings acquired with businesses	–	(38.1)	(0.7)	–	(38.8)
Other non-cash movement	–	(9.7)	9.7	–	–
Currency translation differences and fair value adjustments on financial instruments	(1.2)	9.4	(17.8)	55.3	45.7
At 30 June 2005	104.1	(204.2)	(606.3)	(89.8)	(796.2)

In the cash flow statement, cash and cash equivalents include bank overdrafts which are classified within borrowings within current liabilities in the balance sheet and amounted to £132.1 million compared to £82.1 million as at 31 December 2004.

(12) NET CASH INFLOW ON ACQUISITIONS AND DISPOSALS

An analysis of the net cash inflow on acquisitions and disposals of businesses, associates and available-for-sale investments in the period is shown below:

	2005 Six months to 30 June £million
Purchase of businesses	(98.4)
Net overdrafts of businesses acquired	(11.6)
Disposal of businesses	48.2
Net overdrafts of businesses sold	67.0
Purchase of investments in associates	(10.0)
Disposal of investments in associates	8.6
Loans repaid by associates	41.4
Proceeds from available-for-sale investments	6.6
Borrowings acquired with businesses	(38.8)
	13.0