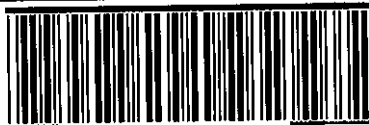


COMPANY NUMBER 2517178

# UniChem PLC

## Annual Report 1995



COMPANIES HOUSE 12/05/96

UniChem's Wholesale Division is a major distributor of pharmaceutical, medical and healthcare products to around 5,500 retail pharmacies and hospitals throughout the UK.

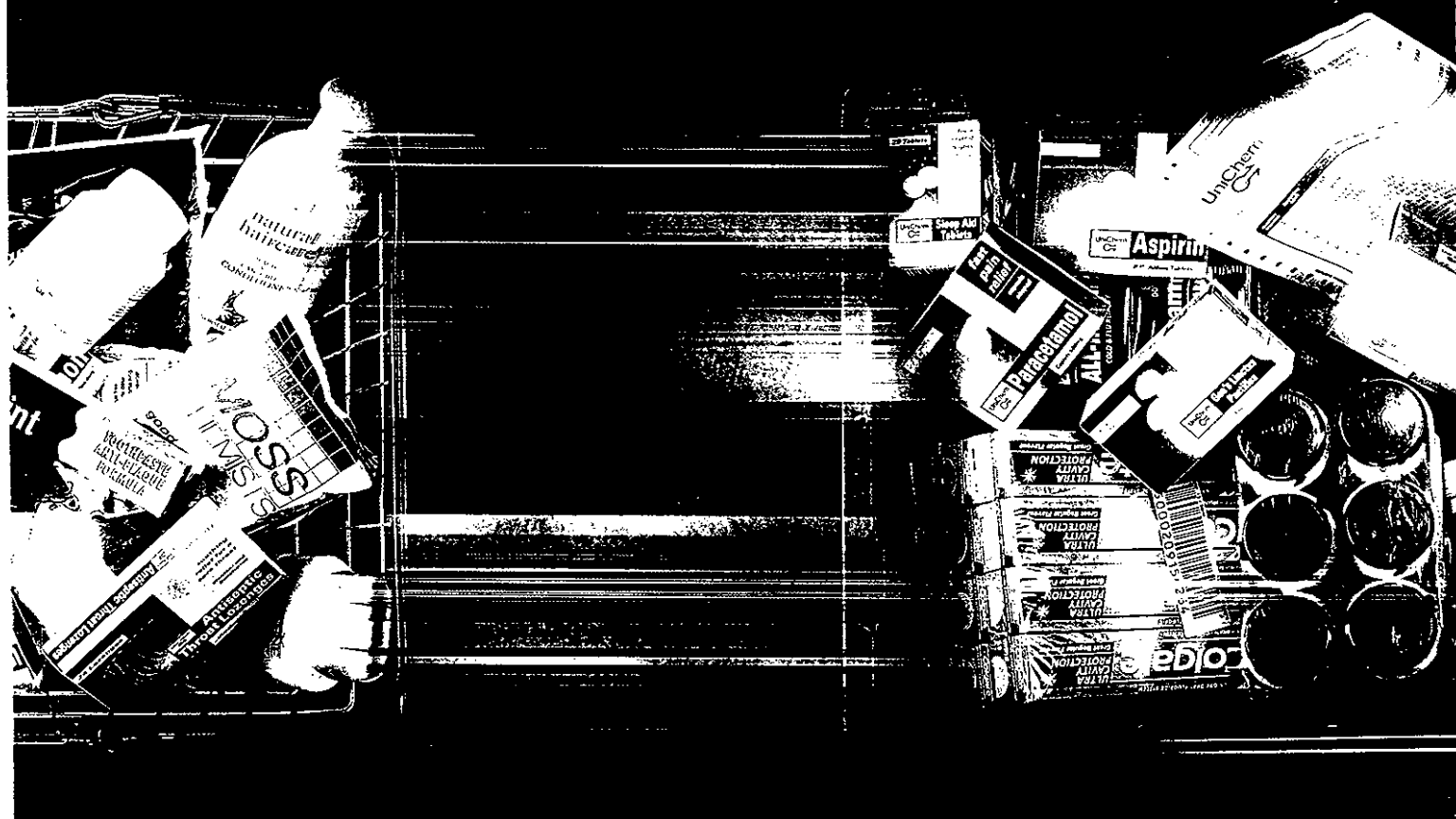
Moss Chemists, UniChem's Retail Pharmacy Division, owns 430 pharmacies in the UK providing a highly professional service to the patient whilst offering value for money.

In Europe, UniChem is a leading pharmaceutical wholesaler in Portugal and is closely linked with major wholesalers in the major European countries through IPSO, a European association.

Established for 57 years, UniChem has been a PLC for 5 years and has a market capitalisation in excess of £400 million. It has a highly motivated workforce of around 6,500.

UniChem's success has been achieved through commitment to customer service, an efficient and cost effective distribution network and innovation in healthcare marketing programmes.

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# HIGHLIGHTS OF THE YEAR

■ Further growth in turnover, operating profit and margin.

■ Positive market trends, particularly the long-term influences of changing demographics and increasingly expensive new drugs, have reinforced the growing importance of the pharmacist's role.

■ Wholesale Division computerisation and warehouse restructuring programme completed, providing a sound base for future development.

■ An overall outstanding performance from the Retail Division, with a further 70 pharmacies added.

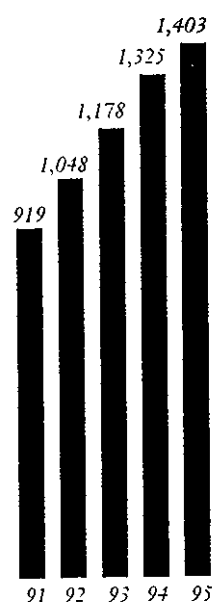
■ Joint venture in Portugal announced to significantly enlarge our operations there.

■ Successful move made into pre-wholesaling with the Smith & Nephew agency.

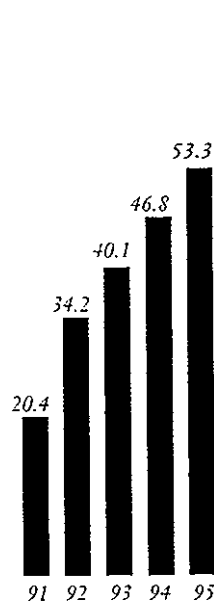


	1995 £000	1994 £000
Turnover	1,402,725	1,324,658
Operating profit	53,304	46,759
Profit on ordinary activities before taxation	49,428	44,011
Dividends per share	8.00p	7.13p
Earnings per share		
- Undiluted	19.3p	19.3p
- Fully diluted	19.0p	18.8p

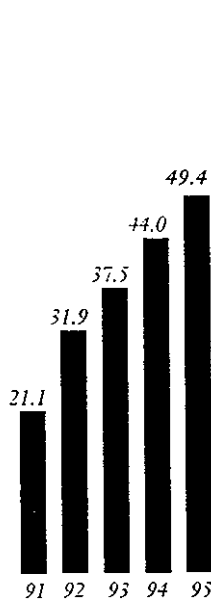
Turnover - £m  
continuing operations



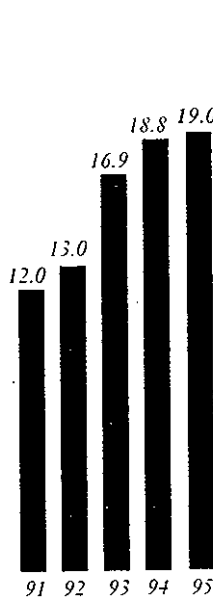
Operating profit - £m  
continuing operations



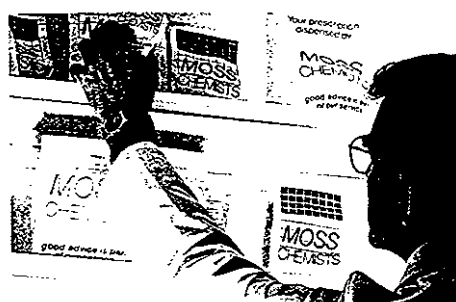
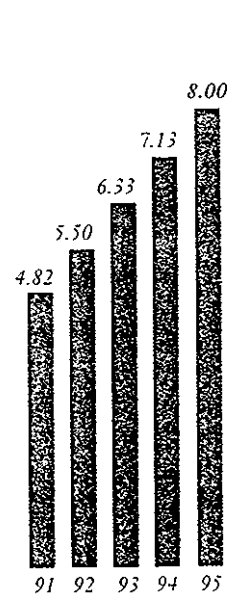
Pre-tax profits - £m  
continuing operations



EPS - pence  
fully diluted



Dividends per share  
- pence



## CHAIRMAN'S STATEMENT

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Lord Rippon,  
Chairman

*"Significant milestones were achieved in the development of the Group's successful strategy of creating a major healthcare company."*

I am pleased to report that in 1995 the Group made substantial progress in its main objectives and further improved its financial performance. Significant milestones were achieved in the development of the Group's successful strategy of creating a major healthcare company, taking advantage of opportunities in growing markets increasingly focused on the pharmacist. All divisions showed increases in sales and operating profits, including an outstanding overall performance from our Retail Division. This is the 24th consecutive year UniChem has reported an increase in sales and pre-tax profits and has grown earnings per share in each year since flotation.

### Group Development

1995 was a year of notable achievement in building the capabilities of our healthcare businesses. Acquisitions of high quality retail pharmacies continued, with Moss Chemists passing the milestone of 400 pharmacies during the year and going on to have 423 units operating by the year end. We have long believed that our strategy of building a retail chain of the highest quality, committed to customer service, is right for UniChem. This year has seen the benefits of that strategy fully demonstrated.

During this year, the Wholesale Division completed its computerisation and warehouse restructuring programme. All the new systems are working well and I am delighted to be able to report that our over the counter ('OTC') toiletries service, disrupted during the first half, is now operating at consistently high levels. The performance of the new OTC Central Distribution Centre at South Normanton has on occasions exceeded the very high performances achieved by our pharmaceutical warehouses. Our medical and surgical wholesaling business, Hospital Management & Supplies Limited ('HM&S'), has settled in well to a new unit adjacent to the Central Distribution Centre and is now winning new customers.

We also successfully launched our healthcare agency business by securing a major contract with Smith & Nephew to distribute their products to wholesalers and hospitals in the UK. We see significant opportunities for us to extend this service to other manufacturers.

On the European front, we announced in November that we had reached agreement with Alliance Santé, a major wholesaler in Italy and France, to merge our respective Portuguese businesses. This represents an important strategic initiative and will create the largest wholesaler in Portugal with a market share of around 20%, well ahead of the next largest competitor. The final merger discussions are proceeding well and we expect to be able shortly to complete the merger.

A number of important developments took place to strengthen further our relationship with our independent pharmacy customers, including a customer care training programme for our staff and a round of customer evenings hosted by each of our Wholesale Division branches. Through those visits, we were delighted to welcome more than 1000 customers to our warehouses. The close links with our pharmacy customers were maintained and developed under the guidance of our Regional Committees, who continue to give us their valuable advice about many aspects of the Group's activities, in conjunction with the wise counsel given by the pharmacists who serve as non-executive directors. A list of regional committee members for each of our branches is included on page 28 of this report.

### Lloyds Chemists plc

As shareholders will be aware, your Company made a recommended offer for Lloyds Chemists plc on 18 January 1996. The bid is a continuation of the successful strategy which has been followed since flotation, of developing a major national retail pharmacy division, increasing efficiency in wholesaling and taking

advantage of related healthcare markets. The bid was well received by both UniChem's and Lloyds' shareholders and, equally importantly, was well supported by the pharmacy profession.

Subsequent to the announcement of that bid, a competing bid for Lloyds was made by GEHE, the German wholesaler which bought AAH last year. In response to that bid, UniChem raised its offer and made a final bid on 16 February 1996. On 1 March 1996, the UniChem bid was referred by the Secretary of State to the Monopolies and Mergers Commission on the advice of the Office of Fair Trading, and subsequently lapsed. The Board continues to believe that the merging of UniChem and Lloyds will bring together two highly complementary businesses to create a group which will offer great advantages for shareholders, employees, consumers and patients alike.

As expressed in our press release at the time, we were surprised to be referred since it was our understanding that any concerns, notably in respect of regional concentration of wholesaling, could have been dealt with by means of undertakings without MMC inquiry. We shall do everything possible to assist the MMC with its enquiries and we remain confident of the eventual outcome. In the meantime, the Board will continue to look for further opportunities to invest profitably in healthcare markets.

## Performance

The prospects for most of our businesses are influenced by the UK market for prescription pharmaceuticals. In 1995, growth in the market fluctuated significantly from month to month, with a particularly slow third quarter. Growth picked up towards the end of the year, and we estimate that the chemists contractors segment of the market grew by around 8 per cent, close to the Government's target for 1995/6 of 6 per cent. Jeff Harris, in his Chief Executive's Report on pages 6 to 9 discusses this and the other market trends apparent in 1995.

Consolidated Group turnover rose by 6 per cent to £1.4 billion, held back by first half disruption to our OTC service in the Wholesale Division.

Profits before tax rose by 12 per cent to £49.4 million, an increase of £5.4 million and operating margins grew strongly, up from 3.53 per cent in 1994 to 3.80 per cent this year. Earnings per share (fully diluted) increased by 1 per cent from 18.8 pence to 19.0 pence, reflecting the new shares raised by the Rights Issue last year to fund Group expansion. A final dividend of 5.3 pence per share is proposed, bringing the full year cash dividend per share up to 8.0 pence. This is equivalent to a 12 per cent increase over last year. The dividend is covered 2.4 times by earnings. Over a five year period, earnings per share growth, adjusted for rights issues, has averaged 10 per cent and dividend growth over the four full years since flotation has averaged 14 per cent per annum. A full analysis of the performance of each of our businesses can be found on pages 12 to 21 of this report.

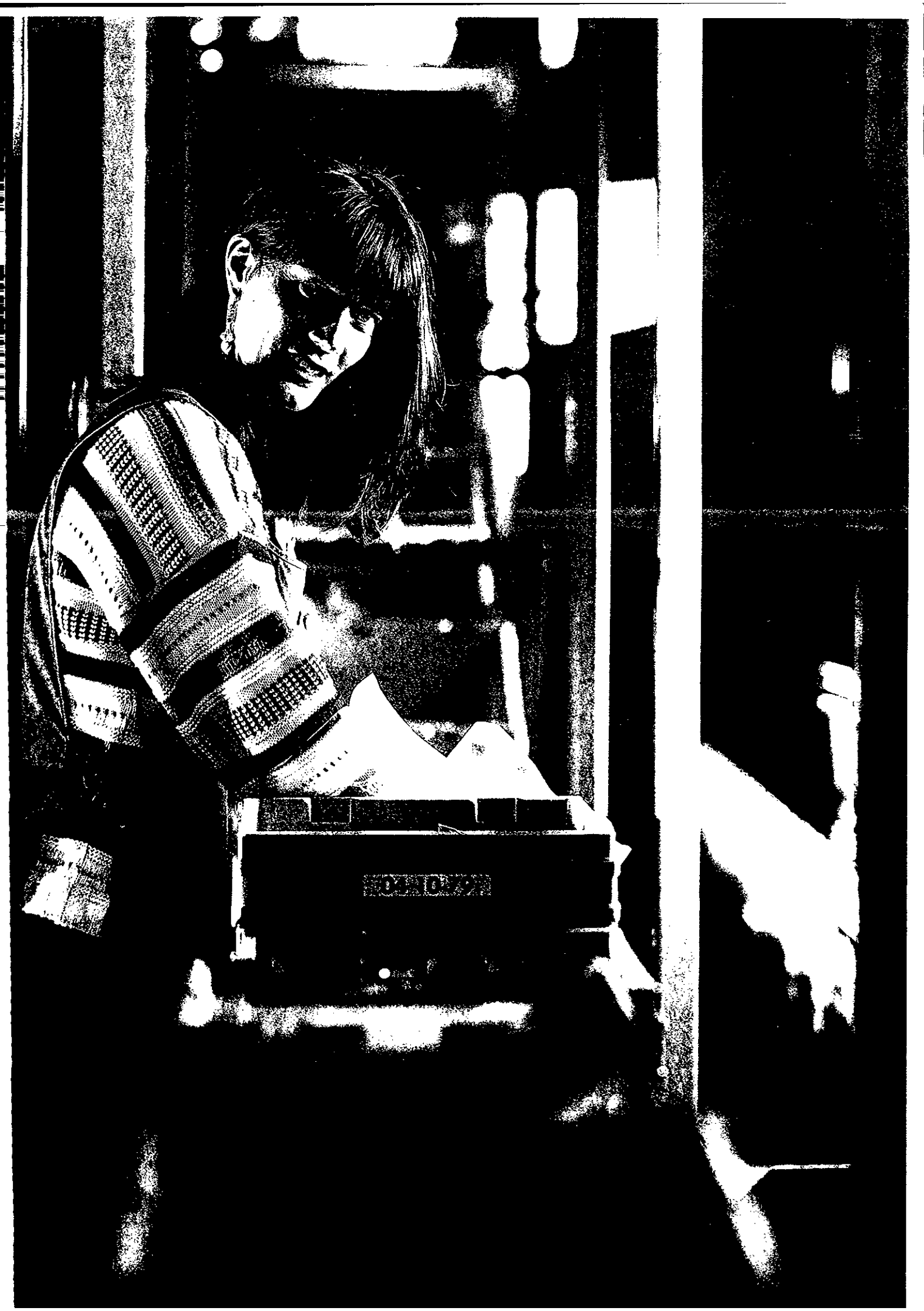
## Financial

We again achieved strong cash generation from operations and utilised our free cashflow after tax and financing costs to purchase retail pharmacies and fixed assets associated with the conclusion of our warehouse restructuring programme. In addition, we issued £14 million of loan notes associated with these pharmacy acquisitions and gearing rose to 13 per cent, from 1 per cent at the end of 1994. Due to the write off of £28 million of goodwill, associated with our acquisition of retail pharmacies, net assets fell slightly to £135 million.

A full financial review is contained on pages 10 to 11 of this report.

*"Important developments took place to strengthen further our relationship with our independent pharmacy customers."*





## CHAIRMAN'S STATEMENT (CONTINUED)

*"The Group is committed to providing the best service to its pharmacy and retail customers and to offering a highly efficient supply chain to its suppliers."*

### Shareholders

A number of new shares (2.6 million) were issued in respect of pharmacy acquisitions, acceptance mainly by private shareholders of the 1994 scrip dividend and the exercise of employee share options.

Pharmacist shareholders continue to be well represented on our register. The Company values highly the participation of its pharmacist shareholders, which maintains a mutuality of interest between the Company and so many of its customers. At the same time, we have also welcomed several new major institutions as shareholders to our register.

We operate a number of schemes to encourage small individual investors in our Company. These include the single Company PEP and general PEP schemes, the scrip dividend offers and employees' SAYE share option scheme.

Approximately one quarter of UniChem's employees have taken up options in the SAYE share purchase scheme. The first option matured during the year and we were pleased that employees were able to benefit from an increased share price.

### People

Once again, our staff have responded magnificently to the challenges arising from the pace of our development and the day-to-day demands of meeting our customers' needs. Across the Group, whether in integrating retail acquisitions, completing restructuring projects, serving patients visiting our pharmacies or reliably delivering pharmaceuticals twice every weekday to our pharmacy customers, our staff have worked hard to maintain our high professional standards.

### Outlook

The long term growth characteristics of the markets in which we trade remain strongly positive. The Group is committed to providing the best service to its pharmacy and retail customers and to offering a highly efficient supply chain to its suppliers. The completion of programmes to improve our computer systems and operational infrastructure achieved during 1995 support our objective to exceed our customers' service expectations. We now have a strong platform on which to expand our core businesses and develop into related healthcare markets. We believe our approach to investing in the future and our commitment to customer service will continue to provide long-term benefits for employees and shareholders.

Growth throughout the Group has been achieved as a result of our business strategy, which places us in a position not just to fully exploit market opportunities as they arise, but also to lead the market in many areas. Combining organic growth across all parts of our operation with strong development by acquisition, and our capacity and ability to quickly and efficiently absorb these acquisitions, is a core foundation for future growth. The continuation of this strategy will allow us to build our business, not just in line with our markets, but ahead of them.



Rippon  
Chairman  
25 March 1996



*Right: The completion of the warehouse restructuring has improved customer service levels.*



Jeff Harris,  
Chief Executive

*"The long term factors of demographic change and the introduction of new drugs should provide continuous growth in healthcare markets."*

UniChem's success derives from execution of strategies that are firmly based on clear analysis and anticipation of trends in healthcare markets. These strategies comprise: development of a high quality retail pharmacy chain focused on the growing segments of the healthcare market; maintenance of cost leadership in pharmaceutical wholesaling; and entry into related healthcare markets utilising the skills and capabilities of our distribution network. These strategies take advantage of the increasing influence of pharmacists, enhance revenues through vertical integration and the economies available to multiple chains and continually raise cost efficiencies. We are also working very actively to position UniChem to be able to take advantage of European market developments.

In this review, I describe the major market developments seen in 1995 and go on to highlight the activities and performance of each of our businesses.

The structural changes in the industry initiated over the last three years or so have now firmly set the trends in our main markets. The long term factors of demographic change and the introduction of new drugs should provide continuous growth in healthcare markets. Whilst the rise in General Practitioner fundholding, together with the increase in generic prescribing, has had a constraining effect on the market, the early release of hospital patients into the community, coupled with the increasing use of drug therapy in place of surgery has had a more positive effect. Also, the Government's actions to encourage greater self medication has spurred growth in the pharmacy-only medicines market.

### Community Pharmaceutical Market

Market growth for the full year was an estimated 8 per cent, close to the Government's target of 6 per cent for the fiscal year 1995/6. During 1995, growth varied significantly from month to month, with a slow third quarter, when monthly growth ranged between 2 to 4 per cent. Towards the end of 1995, however, growth picked up again, assisted partly by the influenza epidemic.

The forecasting of market growth, traditionally unpredictable since official data are published some 3 months after the end of the relevant period, is becoming increasingly difficult. The relevant statistics include Government reimbursement of products that are not supplied by community pharmacists or through the wholesale channel. Growth generated from increased usage of these products, such as vaccines, is not currently available to us.

We are forecasting a future growth rate in the medicines market in the region of 5 to 7 per cent. The UK's relative low per capita drugs cost, compared to other developed economies, is continuing evidence of the effectiveness of the current regulatory regime.

### The OTC Market

Whilst prescription medicines represent the overriding majority of our sales, we also have significant trade in the over-the-counter (OTC) market. That sector divides into OTC toiletries and OTC medicines and the two elements showed very different growth patterns during 1995.

The market in OTC medicines, particularly 'P' medicines, i.e. those which may only be sold under the supervision of a pharmacist, has grown by an estimated 8 to 9 per cent. Our overall wholesale sales growth of 'P' lines in 1995 was 18 per cent. This was achieved despite the launch of relatively few major 'P' products



in 1995. Market growth for some 'P' categories is now showing real impetus following the establishment of switched brands in consumers' minds; for example, the market for hayfever remedies grew by nearly 60 per cent in 1995. The OTC toiletries market through pharmacy declined again this year because grocery superstores have continued to take market share from pharmacies in the traditional OTC categories such as slimming aids, haircare and baby products.

## Competitors

As ever, competition amongst wholesalers remained very keen. Our national wholesaling competitor, AAH, was acquired by GEHE AG of Germany in April 1995. In their offer documentation, we were complimented by GEHE, who compared AAH's relatively much poorer record on sales and operating margin growth with our own. GEHE's aim in making the acquisition was to accelerate AAH's warehouse restructuring to raise operating efficiencies to our level. Since the takeover, we have seen some moves in this direction but little change in national competitive pressures on discount levels. A more significant change in discounts took place towards the end of the year, with action taken by wholesalers to remove refrigerated products from eligibility for customer discount. A tightening of temperature control regulations has meant that we have incurred increasing capital and operating costs in distributing this category of products over the last two years.



## Hospital Pharmaceutical Market

The trend of manufacturers switching from direct supply to use of the wholesale channel continued into 1995. We won a number of additional contracts, including those of SmithKline Beecham and Bayer and we achieved sales growth in this sector of over 14 per cent. We now distribute virtually all hospitals' pharmaceutical requirements and although we expect to continue our strong growth into 1996, the rate of growth is likely to reduce in the medium term now that our product portfolio is complete.

## Agency Business

During 1995 we successfully launched our agency business and were pleased to have won a contract with Smith & Nephew Healthcare. This operation involves the stockholding and delivery of a range of over 800 Smith & Nephew medical and surgical products to wholesalers and hospitals throughout the UK, using our existing branch trunking network and transshipment points. Launched in June 1995, this operation is offering Smith & Nephew's customers an improved service level with faster response times. Also it allows Smith & Nephew to enjoy reduced stockholding and lower operational costs without the need for warehousing space at their production sites. We intend actively to pursue further agency contracts as other pharmaceutical and healthcare manufacturers come to appreciate the benefits that agency pre-wholesaling has to offer. In early 1996 we reached agreement with Lorex to distribute their Ditropan product; this is our second major agency contract and we are close to finalising further arrangements with other companies.

*"During 1995 we successfully launched our agency business."*





### Retail Pharmacy

Commercial pressures on retail pharmacy margins in recent years have tended to disadvantage independent chemists compared to the multiple chains. The structural impact on margins, caused by lower than inflationary increases in pharmacists' dispensing fees and the loss of OTC toiletry market share to grocery superstores, is the principal cause of these commercial pressures.

We have two roles to play in this shift of economic fortunes. Primarily, we are concerned as business partners to ensure a healthy and growing independent chemists sector and we continue to provide a range of additional services from loan guarantees to merchandising advice. We also lobby actively on a range of issues, from Resale Price Maintenance to pharmacists' working capital burdens. In addition we offer many retiring pharmacists who have built high quality businesses the opportunity to realise the value of their pharmacies by selling to us. Against this background, the announcement by the Royal Pharmaceutical Society of a major study into the future of pharmacy, "Pharmacy in a New Age", is welcome. We see a bright future for a profession concentrating increasingly on its core skills and destined to play a larger role in the primary healthcare team. We have facilitated discussion sessions between many groups of independent pharmacists and the Royal Pharmaceutical Society study team, and both UniChem and Moss Chemists will be making submissions in addition to those produced by our Regional Committees.

*"Both medical and OTC customer service levels have reached record high performance levels."*

### International Pharmaceutical Services Organisation (IPSO) B.V.

IPSO, our joint venture with seven other major European wholesalers, of which I am Chairman, was formally launched in December 1994. A Managing Director was appointed in early 1995 and considerable progress has been made in each of the joint venture projects run under IPSO's auspices. As a result, in 1995 we have seen a small but growing number of cross-border trades and joint sourcing contracts for medicines and OTC products, adding to our trading margins.

During the year, UniChem increased to 25 per cent its interest in PAG Pharma Holding AG, a Frankfurt listed company which owns a significant stake in ANZAG, the third-largest German pharmaceutical wholesaler and one of our joint venture partners in IPSO.

In January 1996 the shareholders of PAG, including ourselves, voted to merge the company with ANZAG, liquidating PAG and receiving ANZAG shares.

### Growth of Our Business

This year the Group showed growth in sales, operating profits and operating margins. Apart from the temporary disruption to the Wholesale Division's performance, all of our businesses performed in line with expectations. In the Wholesale Division, I am pleased to report that all aspects of our operations are now running smoothly and all the new systems have been fully and successfully installed. Since the completion of that programme, both medical and OTC customer service levels have reached record high performance levels. This improved service, together with the other operational improvements and controls, fully justifies our decision to entirely update our wholesale systems and procedures. In particular, the benefits are evident in the operating margins for the second half of the year. Wholesale margins were at 2.7 per cent in the first half but a very strong second half meant that we achieved 3.1 per cent for the full year.

The disruption which we caused our customers earlier this year regrettably resulted in some loss of OTC and medical business, as we reported at the interim stage. Although we are seeing a gradual return of customer confidence, our trade in the second half with some of our customers was lower than we had expected. With a platform of excellent service levels within an overall attractive package of services and terms, we are confident of regaining our momentum. The slowing of our usual strong sales growth resulted from our own actions; the remedy is in our own hands.

The Retail Division continues to make excellent progress on all fronts, with sales growth of over 37 per cent and with strong margin growth. Like-for-like sales growth for both NHS and OTC business was ahead of the market. Operating profits were up by 48 per cent with operating margins up from 5.5 per cent to 5.9 per cent. The Division added a net 70 new outlets during the year, including 8 new pharmacy licences. The most recently published statistics show that Moss' like-for-like sales performance is ahead of its major competitors, vindicating Moss' strategy of concentrating on healthcare.

We have completed a major strategic review to set the pattern for our future retail development. The success of our strategy in building the Moss chain, based on the strengths of our very experienced and highly regarded management team, is clearly evident.

Developments elsewhere have also been promising. In Portugal, we consolidated our position in the north of the country with sales growth once again substantially ahead of market growth. Furthermore the operating margin in Portugal grew strongly to 2.4 per cent up from 2.0 per cent last year. We expect to continue to move margins towards those which we achieve in the UK. Our proposed joint venture with Alliance Santé gives us the prospect of establishing a wholesaler that

will be the clear market leader and the first wholesaler with full national coverage. This should make available to us opportunities to establish national agency and pre-wholesaling contracts with key manufacturers.

Towards the end of 1995, we re-equipped Eldon Laboratories, our manufacturer of specially prepared medicines made for patients with particular requirements. This business is now gaining ground in this small but important market, offering an improved next day delivery service to our independent pharmacy customers. We also saw strong growth in 1995 from Selles Medical Limited, our occupational health business, acquired as part of the Selles group in late 1994.

### Prospects

We remain optimistic about the potential for growth in our core markets. The delivery of substantial financial benefits from our retail strategy and the successful completion of our warehouse restructuring and automation programme leaves us well positioned to take advantage of these favourable market trends and to expand into related healthcare markets.

Whilst a considerable part of the Group management's time was spent in 1995 on internal housekeeping issues, now that those matters are resolved, we have the resources in both management and funds to successfully expand our core businesses and secure the acquisition opportunities available within our known healthcare markets. It is a measure of our confidence that we have recommended an increase in the dividend of 12.2 per cent.

### *"The Retail*

### *Division*

*continues to make excellent progress on all fronts."*



### *"It is a measure*

*of our confidence that we have recommended an increase in the dividend of 12.2 per cent."*

Jeff Harris  
Chief Executive  
25 March 1996



Geoff Cooper,  
Finance Director

## Group Results

Group turnover in 1995 increased by 5.9 per cent, which together with an improvement in operating margin to 3.8 per cent has resulted in a 14 per cent increase in operating profit. Net interest costs were £3.9 million and were covered 14 times by operating profit. Average borrowings in the year were £50 million against year end net borrowings of £17 million. Fully diluted earnings per share increased from 18.8 pence to 19.0 pence. The dividend increase for the year of 12.2 per cent to 8.0 pence gives dividend cover of 2.4 times and reflects the directors' confidence in the future prospects of the Group.

## Cashflow

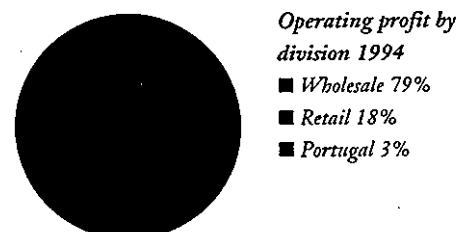
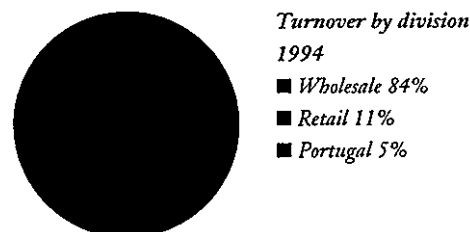
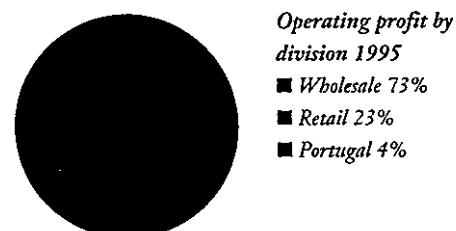
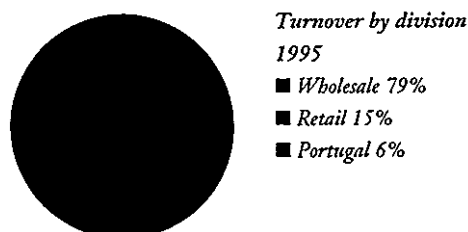
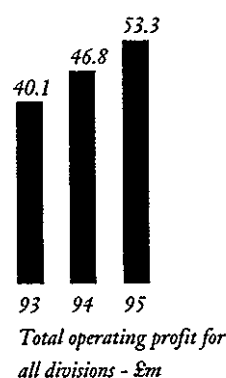
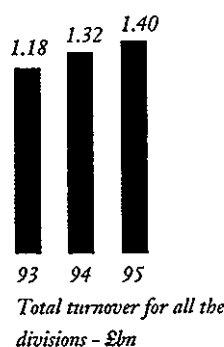
Cash generated from operations is broadly in line with 1994 at £58.1 million against £58.7 million last time. 1994 benefited from a reduction in working capital of £5.0 million which this year has increased by £3.3 million, mainly as a result of increased special buying activity at the CDC at South Normanton. After making payments to the providers of finance and to cover taxation, the resultant cash inflow has been invested in the retail acquisition programme. Year end gearing is 13 per cent up from 1 per cent previously, due in the main to the issue of loan notes to fund retail acquisitions.

## Net Assets

Net assets show a small fall from £139.0 million to £135.4 million. As in earlier years, this reduction results because the goodwill written off on acquisitions of £28.2 million exceeded the retained profit for the year of £19.5 million, together with the share issues of £4.4 million. Total goodwill written off in the last five years amounts to £161.1 million of which £139.0 million relates to pharmacy goodwill. Given our accounting treatment of writing off goodwill to reserves, our net assets do not reflect the underlying value of our pharmacy licences.

## Group Structure

UniChem Healthcare (Netherlands) B.V. was incorporated in the year as a wholly owned subsidiary with the intention that it will become the holding company to manage our European interests. The shareholding in PAG was increased to 25 per cent prior to the merger of PAG and ANZAG and was transferred to UniChem Healthcare (Netherlands) after the year end. It is intended to transfer the holding in our Portuguese interests once the joint venture capital structure has been agreed and also our interest in IPSO.



# FINANCIAL REVIEW



Geoff Cooper,  
Finance Director

## Group Results

Group turnover in 1995 increased by 5.9 per cent, which together with an improvement in operating margin to 3.8 per cent has resulted in a 14 per cent increase in operating profit. Net interest costs were £3.9 million and were covered 14 times by operating profit. Average borrowings in the year were £50 million against year end net borrowings of £17 million. Fully diluted earnings per share increased from 18.8 pence to 19.0 pence. The dividend increase for the year of 12.2 per cent to 8.0 pence gives dividend cover of 2.4 times and reflects the directors' confidence in the future prospects of the Group.

## Cashflow

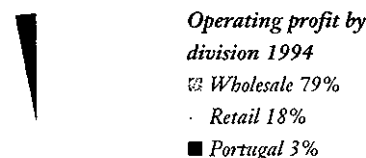
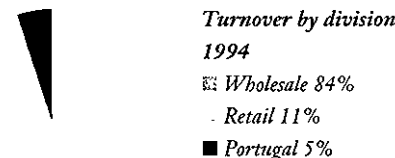
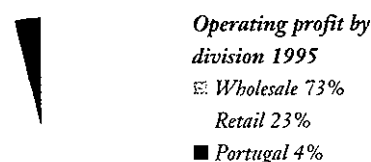
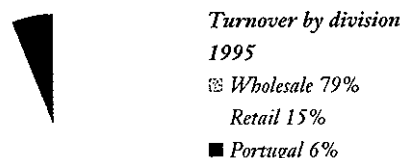
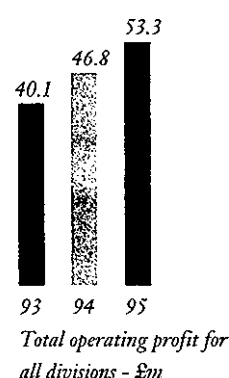
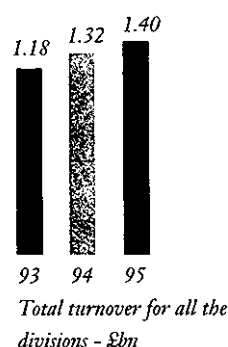
Cash generated from operations is broadly in line with 1994 at £58.1 million against £58.7 million last time. 1994 benefited from a reduction in working capital of £5.0 million which this year has increased by £3.3 million, mainly as a result of increased special buying activity at the CDC at South Normanton. After making payments to the providers of finance and to cover taxation, the resultant cash inflow has been invested in the retail acquisition programme. Year end gearing is 13 per cent up from 1 per cent previously, due in the main to the issue of loan notes to fund retail acquisitions.

## Net Assets

Net assets show a small fall from £139.0 million to £135.4 million. As in earlier years, this reduction results because the goodwill written off on acquisitions of £28.2 million exceeded the retained profit for the year of £19.5 million, together with the share issues of £4.4 million. Total goodwill written off in the last five years amounts to £161.1 million of which £139.0 million relates to pharmacy goodwill. Given our accounting treatment of writing off goodwill to reserves, our net assets do not reflect the underlying value of our pharmacy licences.

## Group Structure

UniChem Healthcare (Netherlands) B.V. was incorporated in the year as a wholly owned subsidiary with the intention that it will become the holding company to manage our European interests. The shareholding in PAG was increased to 25 per cent prior to the merger of PAG and ANZAG and was transferred to UniChem Healthcare (Netherlands) after the year end. It is intended to transfer the holding in our Portuguese interests once the joint venture capital structure has been agreed and also our interest in IPSO.





## Treasury

Financial risks are managed in relation to underlying business needs. Cash balances are offset against short term borrowings elsewhere in the Group in sterling on a daily basis and the net amount is refinanced through money market facilities. Any surplus funds are only invested with counterparties with a credit rating of "double A" or higher, being the current guidelines issued by the Board. Foreign currency exposures are hedged by foreign currency borrowings and currency contracts where appropriate.

During 1995, a loan from 3i plc was repaid and replaced by a committed facility from The Royal Bank of Scotland (RBS) of £15 million. In addition, an uncommitted facility of £30 million has been negotiated with RBS, bringing our total borrowing facilities to £150 million of which £35 million are committed.

£14.2 million of loan notes have been issued during the year to fund the Retail acquisition programme. These can carry tax benefits to some vendors and attractive borrowings to the Group. Interest rate swaps have been entered into to fix the effective rate of interest charge on £20 million of these loan notes at between 5.4 per cent and 8.7 per cent.

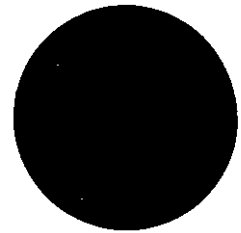
## Internal Control Review

During the year a systematic and structured review of the internal financial controls of the Group has been conducted, involving Divisional management, Group Finance personnel and the Audit Committee. This has provided a valuable focus on the complete system of controls in a year of considerable change and development.

## Accounting Policies

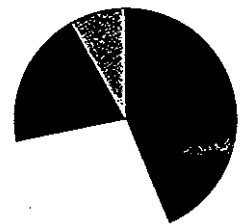
The Group is committed to the adoption of best accounting practice. The presentation of the Balance Sheet has been amended to highlight borrowings included within the various categories of creditors. The accounting policies are unchanged from previous years.

A presentation was made at the Accounting Standards Board's Public Hearing regarding their proposed changes to the accounting treatment of goodwill and intangible assets. At this hearing we outlined our broad support and suggested some minor changes. We await developments in this area with interest.



Sources of funding

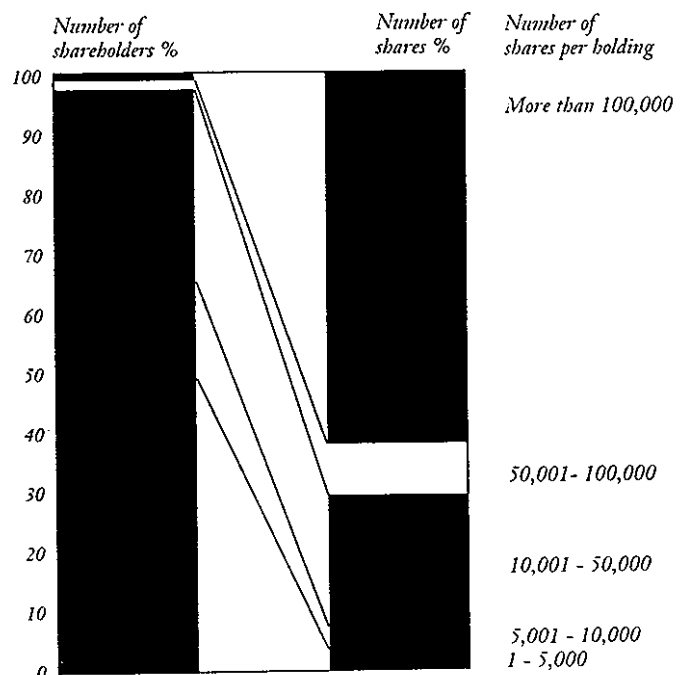
- Operating activities 98%
- Increased share capital 2%



Application of funds

- Acquisitions 28%
- Taxation 21%
- Capital expenditure 13%
- Dividends and interest 23%
- Loans and lease payments 7%
- Investment in PAG 8%

Analysis of shareholders at 31 December 1995.





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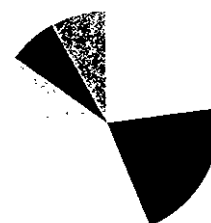
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## Sources of funding

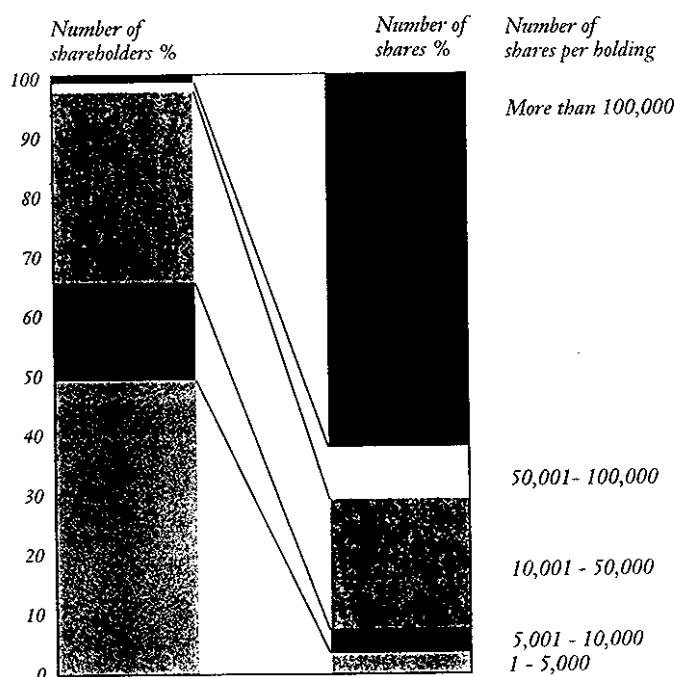
- Operating activities 98%
- Increased share capital 2%



## Application of funds

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- Taxation 21%
- Capital expenditure 13%
- Dividends and interest 23%
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- Investment in PAG 8%

## Analysis of shareholders at 31 December 1995.

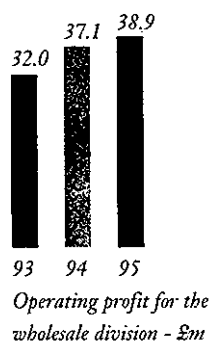
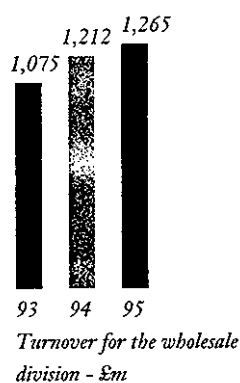


## BUSINESS REVIEW - WHOLESALE DIVISION



*Wholesale Division executives, Keith Slater, Chris Etherington, Tony Jackson and Cliff Irwin.*

***"Our second half margins were the highest ever achieved in the Wholesale Division."***



Sales growth in the Wholesale Division increased year on year by 4.3 per cent to £1,265 million. Like-for-like growth in prescription pharmaceuticals was 6.0 per cent in a market that continues to show a more fluctuating growth pattern compared to previous years. Sales of OTC products were down on last year caused by continuing weakness in the market and by a period of poor customer service earlier in the year. Operating margins moved ahead once again this year despite weak profit performance in the first half. Our second half margins were the highest ever achieved in the Wholesale Division demonstrating the benefits of the systems redevelopment programme, completed during the year.

### Marketing

1995 was a busy and innovative year for our marketing services. During the year, we continued to expand the range of own brand products and we undertook a major re-launch of our own brand healthcare range. This involved: the complete repackaging of 100 core lines, introducing 35 new products including launches in the expanding sectors of analgesics and vitamins; improving retail prices to increase margin for ourselves and our pharmacy customers; new point of sale material and a major magazine advertising campaign. This enables pharmacists to compete more successfully with the multiples and supermarkets, whilst backing-up the simple message that consumers get better value for money from their local pharmacy.

'Healthy Times', our bi-monthly free consumer healthcare magazine with a circulation of over 300,000, has become one of the leading consumer healthcare publications in the country. It aims to promote a healthy lifestyle amongst pharmacy customers, with editorial features written by leading health and lifestyle journalists. Most of the UK's pharmaceutical manufacturers are using 'Healthy Times' to keep consumers up-to-date with developments and features on new products.

Our existing marketing schemes continue to lead the market but we are always looking to further enhance these initiatives. The Gold Partners scheme has been a great success for our independent pharmacy customers and we relaunched the scheme in 1995 with an extended range of advice, services, promotions and monthly bulletins. This has been extremely well received and since the re-launch the number of Gold Partners has increased. Our ranges and presentation of 'chemists sundries' were relaunched through a dedicated catalogue to ensure pharmacists offer consumers the widest possible choice at value for money prices for a range of OTC products including baby care, beauty and hair care and oral hygiene products. Our exclusive agreement with Mediphase was renewed, offering our pharmacy customers the latest in dispensing software whilst facilitating full opportunity for reimbursement of dispensed prescriptions. Facilities include automatic re-ordering, updating of Drug Tariff prices, electronic endorsing of prescriptions, sales and drug usage management information and monthly consolidation of prescription endorsements.

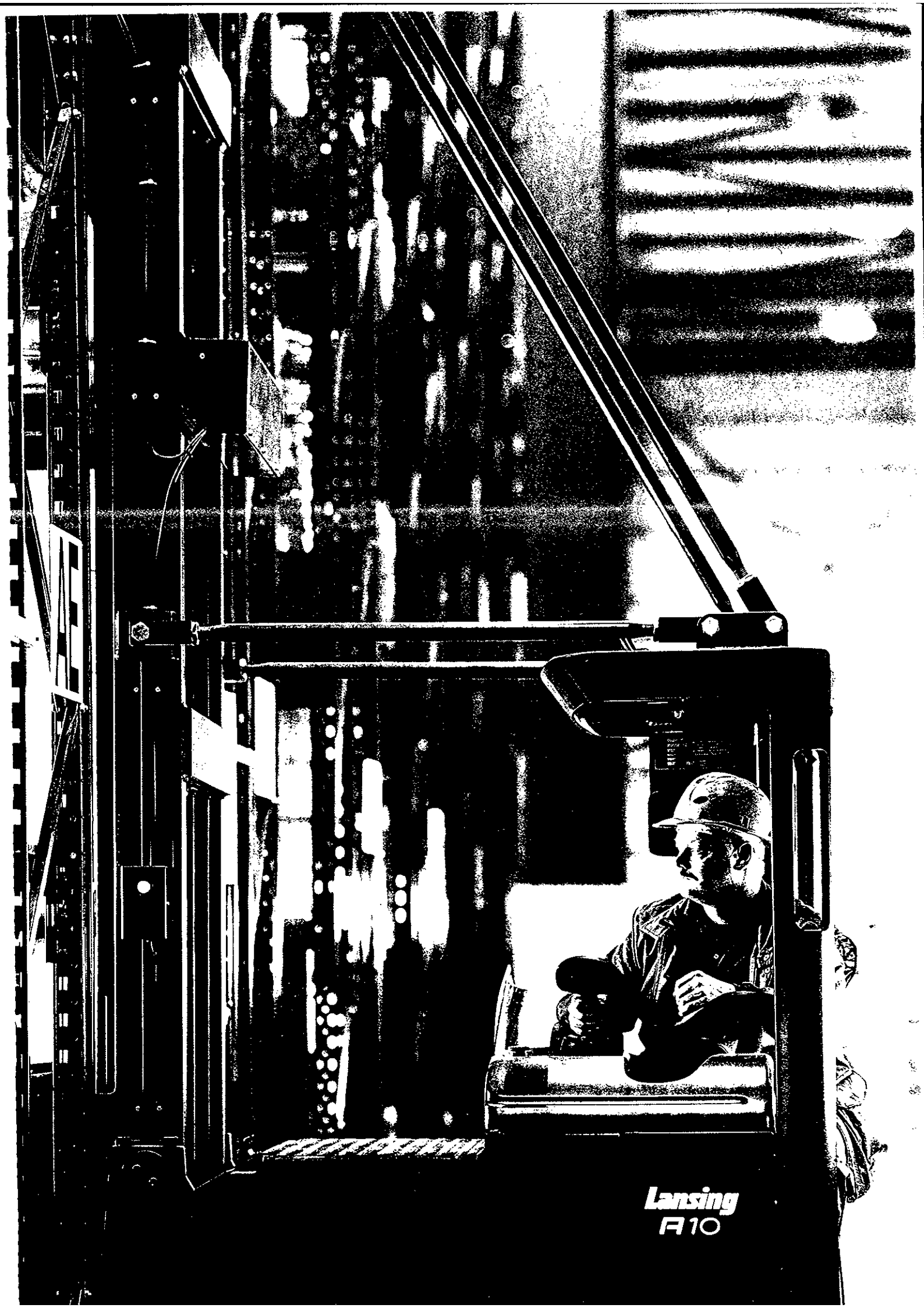
*Right: The dedicated HM&S warehouse at South Normanton.*





UniChem  
  
*Delivering Healthcare*

UniChem  
  
*Delivering Healthcare*



**Lansing**  
**F10**

Surgical products are becoming an increasingly important sector for independent pharmacists. To improve the supply of these products, we moved the stockholding of a significant part of the surgical range from the Central Distribution Centre to each local branch. We are now offering 98 per cent of our customers' surgical purchases on a twice daily delivery service and a next day service for the remainder. We are the only UK wholesaler offering such an efficient service and we are already seeing benefits from this recent change.

### Operations

The centralisation of our over-the-counter products was completed during the year and we are now offering unprecedented levels of service on these products. The anticipated ongoing benefits of operating cost efficiencies, margin improvements, reduction in OTC inventory and the freeing-up of warehouse capacity in the local and regional warehouses have all begun to materialise.

The recently introduced inventory management systems have included the facility centrally to control the replenishment and scheduling of deliveries from suppliers to our warehouses. A specialised team now has a highly sophisticated forecasting system to balance the high level of service required against control of inventory levels. We are also able to respond far more efficiently to supplier problems and to move product around our warehouse network to optimise service relative to local demand.

A much simpler customer invoicing system was launched during the year. This was introduced after consultation with our pharmacist customers and has resulted in a significant reduction in paperwork, by producing easy to understand invoices with presentation options to each customer, and indicating immediate stock availability responses when placing orders. We are proud to have created a new standard for the industry and significantly eased the administration burdens on the hard-working pharmacist community.

We recently announced a restructuring of the Wholesale Division management team. Chris Etherington, Director of Operations, has been appointed Deputy Managing Director, reporting to Jeff Harris, pending the appointment of a Managing Director of that Division. Chris' team comprises: Cliff Irwin, Financial Controller; Keith Slater, Head of Management Services; and Tony Jackson, Head of Operations. A new Head of Sales and Marketing is in the process of being recruited. Tony Foreman, previously Director of Sales and Marketing, has been seconded to lead a project examining our OTC market positioning.

### Taking Care of our Customers

As part of our commitment to improving continuously our service to pharmacists, we introduced a customer care training programme to all our staff. The programme focuses on the provision of the highest quality of customer care, the importance of communication and how to continually improve standards. The attitude changes from this programme have already been reflected in positive feedback from our customers and we intend to continue this programme throughout 1996.

*"A specialised team now has a highly sophisticated forecasting system to balance the high level of service required against control of inventory levels."*





*"The Division has a sound platform for further growth in 1996."*

We have been running a communication programme with our customers to understand better their product and commercial service requirements. These have included; customer receptions at each distribution centre to show the new systems working, to meet the staff and to give feedback on possible improvements; the annual trade fairs; the introduction of a weekly newsletter and a series of evening meetings to discuss marketing opportunities and to provide professional training to our customers. One of the most successful events, which was part of our continuing commitment to a pharmacy education programme, was a series of wound care seminars hosted at our regional branches.

Our five Regional Committees have met regularly during the year and have proved again to be an important link between our customers and ourselves. A number of the initiatives introduced were a direct response to issues raised and discussed at these meetings.

The 1995 Annual Convention was held in Marrakech and proved to be one of the most successful yet. Over 290 delegates including pharmacists' and suppliers' representatives attended the Convention which addressed the key issues currently faced by the industry, through presentations from leading experts and debates amongst the delegates. Following the Incentive Travel Meetings Association Award for the 1993 Bali Conference, we were again delighted to receive an award for the Best Conference and Incentive Travel Organiser to Canada for the Vancouver Convention in 1994.



The Loan Guarantee Scheme continues to provide a competitive and essential source of finance to our customers, allowing them to acquire new pharmacies or expand existing facilities against high street bank lending guaranteed by UniChem. In 1995, we supported 167 acquisitions and 63 expansions. Significantly, we helped 58 young pharmacists in setting up their first business, an important contribution to the long-term success of independent pharmacy. Our insurance and pension schemes have also been well supported during the year, offering competitive and innovative terms.

### Hospital Management & Supplies Limited (HM&S)

1995 has been a year of integration for HM&S. The warehousing activities were moved in May to a dedicated warehouse on the South Normanton complex and the support functions settled into a new office facility in Northampton.

We have restructured the management team at HM&S under its new managing director, Evan Sutherland, and appointed new operations and marketing managers. The new team is delivering significantly improved customer service and we are winning new hospital customers. With continued shifts in purchasing power to NHS trusts and directorates, we are confident of the prospects for growing this business.

### Outlook

Now that the new systems are fully operational, the Division has a sound platform for further growth in 1996. Market prospects remain encouraging and we are confident of further growth in revenues and operating margins.

*Right: Inventory management systems precisely identify the location of all stock items.*





Total year on year sales grew by 37 per cent with strong like-for-like volume growth, ahead of the market, and continuing expansion of the pharmacy chain by acquisitions and new openings. Operating profits grew by 48 per cent, up by £4.0 million to £12.3 million. Operating margin increased sharply to 5.9 per cent demonstrating the benefits of strong divisional management, despite tight control by the Department of Health over increases in pharmacists' prescription fees.

## Portfolio

In total, 68 pharmacies were acquired during the year, 8 new licences were obtained and 6 units were closed or sold, leaving 423 units trading at the year end. The largest of the acquisitions in 1995 was that of Baddon Holdings Limited (23 pharmacies) with other smaller groups such as the Roberts Group of 15 pharmacies also being acquired. The Retail Division's portfolio includes 21 franchised stores, demonstrating the attractions of this franchise programme to young pharmacists seeking to develop their own businesses within retail pharmacy. The number of Moss pharmacies operating in grocery superstores has also increased, with a number of new contracts in 1995 obtained with ASDA, Somerfield, Morrisons and Waitrose, bringing the total number of in-store units operated by Moss up to 65 outlets.

## Marketing

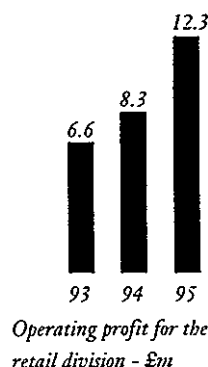
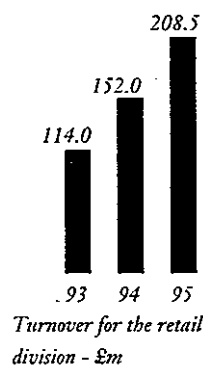
Moss Chemists' emphasis on healthcare services and OTC medicines was primarily responsible for sales performance ahead of the market in both NHS and OTC categories.



*The Moss directors: Neal Hendrie (finance), Caryl Webb (operations), Barry Andrews (managing), Malcolm Bayly (development) and Steve Duncan (marketing).*

Like-for-like turnover of NHS dispensing improved by 9 per cent, ahead of estimated market growth for the year of 8 per cent. Total turnover growth of NHS dispensing was 42 per cent, giving Moss a market share of over 4 per cent in this category. OTC like-for-like sales grew by 2 per cent, ahead of pharmacy market for these products, which declined by 0.5 per cent. The strength of OTC medicines categories is now beginning to match the decline in the market for OTC toiletries. In 1995, the OTC medicines market grew by 3.5 per cent but OTC toiletries declined by 3.1 per cent. Moss outperformed in both these markets, with like-for-like growth of 15 per cent in pharmacy only medicines, 7 per cent in General Sales List medicines and 4 per cent in toiletries. Within the toiletries category, it was the healthcare orientated product groups, with active management from the Moss chain, that outperformed, with for example growth in skincare products at 7.8 per cent. In the pharmacy only medicines category, the focus provided by Moss was supported by a number of manufacturer incentives to promote and present these products more effectively.

*"Operating margin increased sharply to 5.9 per cent demonstrating the benefits of strong divisional management."*



*Left: A programme of remerchandising started during the year which optimises customer choice and enhances store profitability.*



*Above: Good advice is part of the service at Moss Chemists.*

### Operations

During the year, the Moss Chemists management team, assisted by external consultants, completed a major strategic review on the future of retail pharmacy in the UK. The recommendations of the review, which are now starting to be implemented, involve initiatives on the positioning of the shop portfolio and a range of projects to improve further Moss Chemists' retail activities. These projects do not involve significant capital or revenue costs; we expect to see the beneficial effects of these projects on profitability from 1997 onwards.

A number of business development schemes were undertaken. A Professional Services Manager was recruited who is now focusing on maximising revenue from non-core activities within the NHS. All staff have been given training on customer care, on complaints handling and theft and loss prevention, as well as on medicines protocols, as required by the Royal Pharmaceutical Society. The number of nursing and residential homes serviced was increased through active targeting by a new team of four dedicated Care Home Co-ordinators.

### Outlook

This year's results clearly demonstrate the benefits of Moss Chemists' market positioning and the economies of scale now available. These factors have more than offset the pressure on operating margin caused by low increases in Government remuneration. We expect this pattern to continue into 1996 and we are confident of raising operating margins yet further.

We continue to see a significant number of acquisition opportunities, with our management team examining over 250 cases in 1995. This gives us the ability to utilise our managerial and financial capacity to expand by acquisition. Following the strategic review, we will be targeting particular pharmacies suited to the Moss Chemists approach to trading.





Year on year sales grew by 14 per cent to 19.9 billion Escudos (£83.9 million), ahead of the market which grew at an estimated 9 per cent. Operating profits increased by 51 per cent to £2.0 million, giving an operating margin of 2.43 per cent, up from 1.96 per cent last year. The growth in operating profits was achieved despite absorbing some non-recurring costs associated with the move to the new Porto warehouse in late 1994.

## Marketing

The new warehouse facility in Porto, commissioned at the end of 1994, was officially opened in May 1995 by the then British Ambassador to Portugal, Mr Stephen Wall, now the British Ambassador to the European Community. The opening was attended by over 300 of our customers, many of whom travelled a considerable distance to be with us.

The Portuguese market remains very competitive and fragmented. However, the recent introduction of tougher regulations relating to the warehousing of pharmaceutical product is likely to lead to a reduction in the number of small independent distributors over the next few years as they struggle to attain the standards that we already achieve.

The restructuring of the commercial team last year led to a strengthening of our relationships with our pharmacy customers. We made gains both in the number of accounts served and in increased turnover from our existing customers. It is not yet clear what changes, if any, the recently elected government will make in the healthcare sector. However, as in most European countries, greater attention is being focused on the cost of healthcare. There has been some debate about the expansion of generic substitution and a consequent rise in the generics market. With our new, more efficient Porto warehouse and the strengthening of relationships with customers, we are well positioned to take advantage of any structural changes in the market.

## Operations

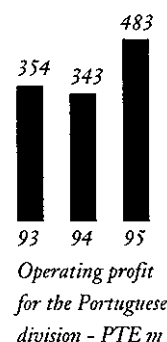
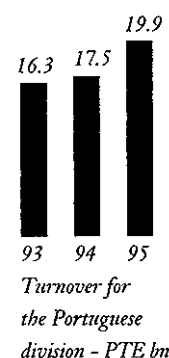
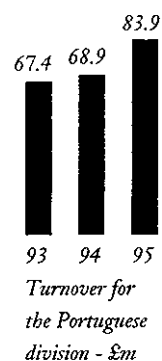
The new Porto warehouse has settled down well and operational efficiencies have improved throughout the year through the application of new working practices. Twice daily delivery was introduced for the majority of our customers during 1995 and the number of deliveries made by third-party carriers has been reduced. The new warehouse still has substantial capacity for expansion and will allow us to concentrate volumes at Porto as part of a rationalisation of activities following the implementation of our recently announced joint venture with Alliance Santé, our partner in IPSO. Our other distribution centre at Aveiro continues to give a highly efficient and cost effective service to central Portugal.

## Outlook

We expect volumes to continue growing ahead of the market and we anticipate cost efficiency gains now that the Porto warehouse is fully operational. We are confident of continuing to increase operating margins to levels approaching those enjoyed in the UK.

We hope shortly to conclude our joint venture. This agreement will establish our Portuguese business as the leading wholesaler in the country. The fit between our two operations is highly complementary; we are market leaders in the north of the country and Alliance Santé's business is mainly in the south. With a market share of nearly 20 per cent, we will be able to offer both pharmacists and pharmaceutical manufacturers full national coverage. Once the integration process is complete, we expect to achieve considerable cost savings through economies of scale. The Portuguese competition authorities have recently approved the merger and the new organisation is expected to be legally registered in April. The joint venture will become operational shortly thereafter.

*"With our new, more efficient Porto warehouse and the strengthening of relationships with customers, we are well positioned to take advantage of any structural changes in the market."*



## DIRECTORS' BIOGRAPHIES



*Executive committee, from left to right, Kelvin Hide, Geoff Cooper, Jeff Harris and Barry Andrews.*

**The Rt. Hon. The Lord Rippon of Hexham, P.C., Q.C.**

**Chairman (Non-Executive)**

Lord Rippon of Hexham (aged 71) is a Barrister of the Middle Temple and a Queen's Counsel. He entered the House of Commons in 1955, has served as a Cabinet Minister and was created a Privy Councillor in 1962. He was appointed a Life Peer in 1987. He is Chairman of Dun & Bradstreet (UK) Limited, President of Brassey's Publishers and a director of other companies. He was appointed to the Board and as Chairman in 1990.

**B.M. Andrews, B. Pharm., M.R. Pharm.S.**  
**Retail Director**

Barry Michael Andrews (aged 51) is a Pharmacist. He is Managing Director of Moss Chemists, a position he held at the time the company was taken over by UniChem, and was appointed to the Board in 1992. He is a member of the Pharmaceutical Services Negotiating Committee and a Director of the Company Chemists Association.

**M.A. Bardsley, M.A.**

**Non-Executive Director**

Michael Ambrose Bardsley (aged 66), after obtaining extensive North American experience in marketing, assumed European managerial responsibility for Dun & Bradstreet Inc. and subsequently I.T.T. World Directories Inc. He was appointed to the Board in 1990.

**Mrs M.F. Burton, M.A.**

**Non-Executive Director**

Marianne Frances Burton (aged 39) is a Solicitor. She worked for Slaughter & May before entering corporate finance with Samuel Montagu and then UBS Phillips & Drew where she was the Director that led the team that handled the UniChem flotation on the Stock Exchange. She was appointed to the Board in 1991.

**W.N.P. Chapman, B. Pharm., F.R.Pharm.S.**  
**Non-Executive Director**

William Neil Paulin Chapman (aged 58) is a Pharmacist with his own independent pharmacy business. He was an active member of UniChem's Northern Regional Committee, latterly as Chairman, and was re-appointed to the Board in 1993 having previously served between 1985 and 1990.

**G.I. Cooper, B.Sc., A.C.M.A.**

**Finance Director**

Geoffrey Ian Cooper (aged 42) is a Cost and Management Accountant. He gained his qualification working in industry and then worked as a Management Consultant with two leading firms before joining the Gateway Group where he became Group Finance Director. He joined UniChem and the Board as Finance Director in 1994.

**J.F. Harris, B.Sc., F.C.A.**

**Chief Executive**

Jeffery Francis Harris (aged 47) is a Chartered Accountant. He worked for Turquands Barton Mayhew & Company and Spicer & Pegler for fourteen years. He joined UniChem as Chief Accountant in 1985, was appointed to the Board as Finance Director in 1986, was appointed Deputy Chief Executive in 1991 and was appointed Chief Executive in 1992.

**K.S.S. Hide, B.A.**

**Commercial Director**

Kelvin Stephen Saxby Hide (aged 48) worked for Robson-Morrow as a Management Consultant. He joined UniChem in 1971, was appointed Assistant Operations Director in 1978 and was appointed to the Board as Operations Director in 1984. He assumed his current responsibilities in 1994.

**D.C. Mair, M.R. Pharm.S.**

**Deputy Chairman (Non-Executive)**

David Campbell Mair (aged 60) is a Pharmacist and has run his own independent pharmacy business. He is a former Chairman of the Pharmaceutical General Council and a former Chairman of the National Pharmaceutical Consultative Committee. He was appointed to the Board in 1976 and was Chairman between 1985 and 1990.

*Right: UniChem's own label range of OTC medicines is available to independent pharmacy.*

**24 Tablets**

**fast  
pain  
relief**

**extra strength**

**sugar coated**

**UniChem**



**Ibuprofen**

**B.P. 400mg Tablets**

**fast  
pain  
relief**

**extra strength**

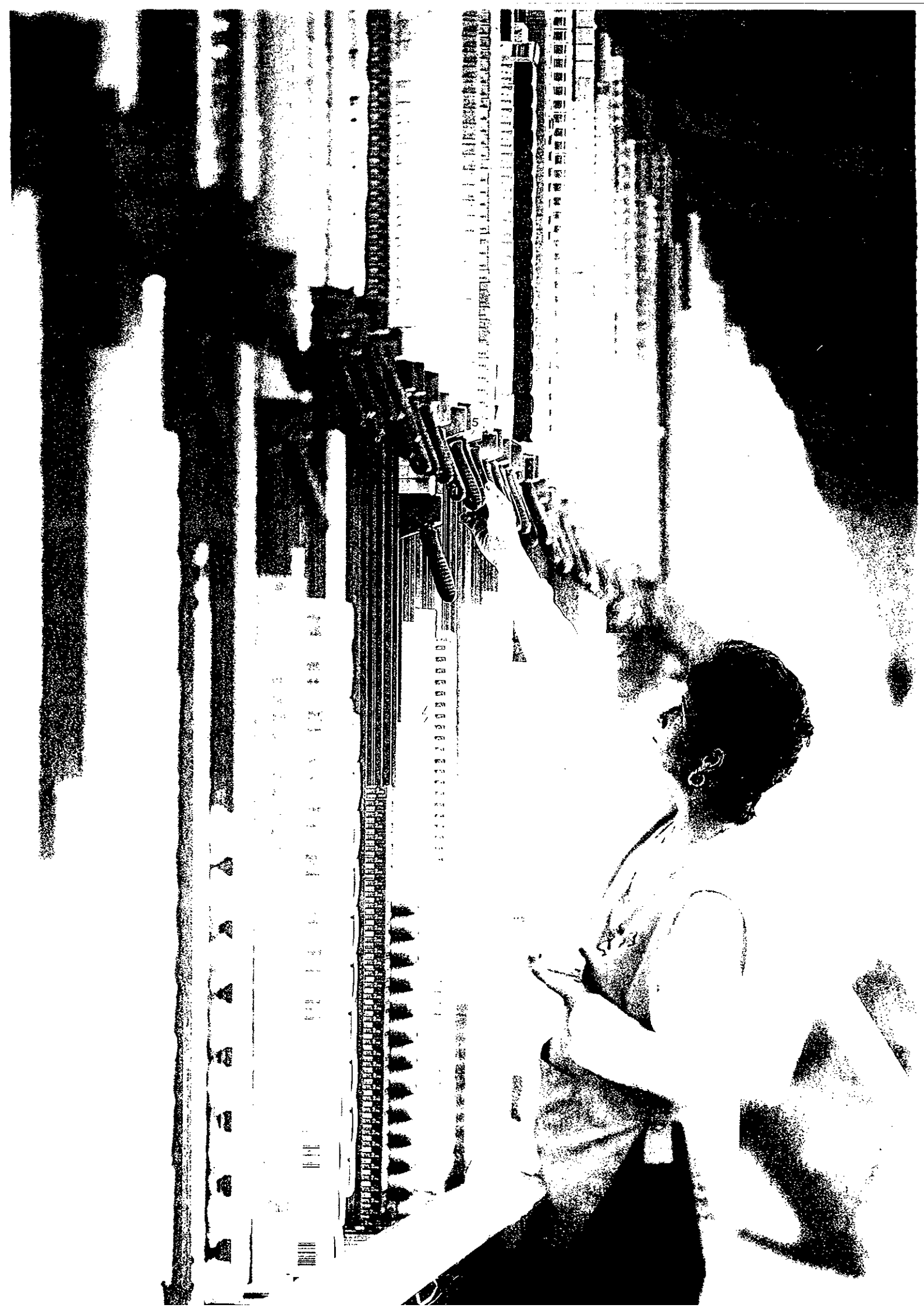
**sugar coated**

**UniChem**



**Ibuprofen**

**B.P. 400mg Tablets**



During 1995 UniChem complied with the **Code of Best Practice**, published by the Committee on the Financial Aspects of Corporate Governance.

**Non-executive directors** are entitled through the Company Secretary and at the expense of UniChem to obtain independent professional advice of their choice where they believe it is essential to the effective discharge of their corporate duties.

The **Board of Directors** met formally on nine occasions during 1995 and the six standing **committees** of the Board of Directors met in accordance with their terms of reference, as detailed below. No other committees were established in 1995 to undertake specific tasks. Where specific decisions of the committees are relevant they are detailed in the pertinent section of the 1995 annual report.

The **audit committee** met twice in 1995 and its main purposes are: to provide a conduit for the interface between UniChem and the auditors; to review the financial statements of UniChem focusing particularly on compliance with legal, regulatory and accounting standard requirements and the going concern assumptions; and to review the internal controls of UniChem.

The **executive, sealing and share capital** committees are constituted so that UniChem can function on a day-to-day basis taking care of routine matters not requiring the consideration of the Board as a whole. Under the terms of reference of these committees parameters have been established which limit their authority to act without consulting the Board as a whole.



*The audit committee, Neil Chapman, Michael Bardsley and Marianne Burton with Company Secretary, Adrian Goodenough.*

The **nomination committee** met once in 1995. Its role is to recommend to the Board any appointment as a director and any re-appointment of a non-executive director at the end of their five year term of office.

The **remuneration committee** met three times in 1995 and is authorised to determine the remuneration of the directors and to grant options under the executive share option scheme. A report from this committee is on pages 26 and 27.

## Committees of the Board of Directors

### Frequency of meetings

- weekly, if possible
- minimum number of times per year
- as required

### Committee members: non-executive directors

Lord Rippon - chairman  
M.A. Bardsley  
Mrs M.F. Burton  
W.N.P. Chapman  
D.C. Mair - deputy chairman

### executive directors

J.F. Harris - chief executive  
B.M. Andrews - retail director  
G.I. Cooper - finance director  
K.S.S. Hide - commercial director

### company executives

C. Etherington - wholesale deputy managing director  
A.D. Foreman - director of wholesale marketing & sales  
A.J. Goodenough - company secretary  
S.D. Sampson - group financial controller

### external

auditor's representative

audit  
executive  
nomination  
remuneration  
sealing  
share capital

-	x	-	-	-	-
2	-	-	1	-	-
-	-	x	-	x	x
r	r	CM	CE	r	r
CE	r	-	-	r	r
E	r	E	E	r	r
E	r	-	-	r	r
r	r	-	E	r	r
r	CM	M	A	CM	CM
r	M	-	-	M	M
A	M	-	-	M	M
r	M	E	-	M	M
-	A	-	-	-	-
-	A	-	-	-	-
A	A	A	A	A	A
A	-	-	-	-	-
A	-	-	-	-	-

'A' indicates an attendee of the committee.

'C' indicates the chairman of the committee.

'E' indicates an elected member of the committee.

'M' indicates an automatic member of the committee and

'r' indicates an individual with the right to attend a meeting of the committee.

# REPORT OF THE REMUNERATION COMMITTEE

During 1995 UniChem complied with section A (remuneration committees) of the best practice provisions on directors' remuneration annexed to the listing rules of the London Stock Exchange, with the exception that Mr J.F. Harris was a member of the committee until 19 September 1995.

The policy of UniChem is to recruit, motivate and retain personnel of the highest calibre so that the position of the Group in the healthcare sector is maximised. Within this policy and in reaching decisions on executive directors' remuneration, the committee took into consideration section B (remuneration policy, service contracts and compensation) of the best practice provisions on directors' remuneration annexed to the listing rules of the London Stock Exchange.

## Emoluments

The emoluments of the directors' for the financial year ended 31 December 1995 were:

director	fees £000	basic salary £000	benefits £000	pension contributions £000	total emoluments 1995 £000	total emoluments 1994 £000
B.M. Andrews	-	170	7	15	192	203
M.A. Bardsley	15	-	-	-	15	10
Mrs M.F. Burton	15	-	-	-	15	10
W.N.P. Chapman	15	-	-	-	15	10
G.I. Cooper	-	170	23	21	214	160
J.F. Harris (highest paid director)	-	245	17	22	284	288
K.S.S. Hide	-	170	13	17	200	204
D.C. Mair	30	-	-	-	30	30
Lord Rippon (chairman)	60	-	-	-	60	60
Others	-	-	-	-	-	237
<b>Total</b>	<b>135</b>	<b>755</b>	<b>60</b>	<b>75</b>	<b>1,025</b>	<b>1,212</b>

The pension figures above are based on the total amount paid by UniChem to the Trustees of the relevant pension schemes.

Each year, since flotation the basic salaries of the executive directors have either been frozen or increased broadly in line with the percentage increase given to the rest of the UniChem staff.

As reported in the 1994 annual report an annual performance related bonus scheme was introduced in 1995 to recognise the increased responsibility of the executive directors in the enlarged and expanding group. The bonus is equivalent to 10% of basic salaries and is payable only if the index of UniChem's total shareholder return, as calculated by reference to Datastream, outperforms the total return on the FTSE Mid 250 over a twelve month period. No payment is due in respect of 1995. Under the rules of the UniChem Pension and Assurance Scheme the yearly average of performance related earnings paid over the previous three years is included in the definition of pensionable pay. The committee is investigating alternative schemes for introduction in, and to cover, 1996.

## Interests in shares

The interests of the directors and their immediate families, all of which are beneficial, in the ten pence ordinary shares of UniChem are detailed below:

FULLY PAID	1 January 1995	movements in the year		31 December 1995	movements in the period		25 March 1996
director		bought	sold		bought	sold	
B.M. Andrews	113,260	731	-	113,991	-	-	113,991
M.A. Bardsley	6,168	170	-	6,338	-	-	6,338
Mrs M.F. Burton	6,014	166	-	6,180	-	-	6,180
W.N.P. Chapman	52,104	-	-	52,104	-	-	52,104
J.F. Harris	9,211	241	-	9,452	16	-	9,468
K.S.S. Hide	6,055	126	-	6,181	38	-	6,219
D.C. Mair	48,980	-	4,000	44,980	-	-	44,980
Lord Rippon	47,679	1,227	-	48,906	54	-	48,960
	<b>289,471</b>	<b>2,661</b>	<b>4,000</b>	<b>288,132</b>	<b>108</b>	<b>-</b>	<b>288,240</b>

# REPORT OF THE REMUNERATION COMMITTEE

## OPTIONS

No options lapsed or were exercised during the financial year or between 1 January 1996 to 25 March 1996.

\* Following the rights issue in 1994, approval was obtained from the Inland Revenue to amend the exercise price for those options indicated below as agreed with the auditors. The balances at 1 January 1995 of savings related options have been adjusted from those shown in the 1994 annual report to take account of the effect of the amendments.

An initial grant of executive share options was made by UniChem prior to flotation. In 1993 and each subsequent year further option grants were made. The number granted to each director was in proportion to the number granted to other groups of employees, subject to individual limits under the rules of the scheme, with allowance being made for future grants within the overall limit of the scheme. The committee is investigating alternative schemes for introduction in 1996.

During 1995 the mid-market price of UniChem shares ranged between £2.34 (8 March 1995) and £2.85 (16 May 1995) and at 29 December 1995 was £2.41.

Further details of the savings related share option scheme and the executive share option scheme are given in note 20 to the financial statements.

## OTHER INTERESTS

The UniChem PLC Employee Share Trust (the "Trust") held 1,033,333 shares at 31 December 1995. There was no change to this holding between 31 December 1995 and 25 March 1996.

All employees and the executive directors are eligible to benefit from the Trust.

### Service contracts

B.M. Andrews, G.I. Cooper, J.F. Harris and K.S.S. Hide have service contracts that are terminable by UniChem on twelve months notice.

No other director has a service contract with UniChem.

Signed by Lord Rippon and on behalf of the other committee members, Mrs M.F. Burton and Mr D.C. Mair.

option reference	1 Jan 1995*	granted in the year	31 Dec 1995	granted in the period	25 Mar 1996
<b>B.M. Andrews</b>					
S2	8,254	-	8,254	-	8,254
S3	3,312	-	3,312	-	3,312
E2	45,000	-	45,000	-	45,000
E3	45,000	-	45,000	-	45,000
E4	-	30,000	30,000	-	30,000
	101,566	30,000	131,566	-	131,566
<b>G.I. Cooper</b>					
S4	-	9,154	9,154	-	9,154
E3	248,076	-	248,076	-	248,076
E4	-	372	372	-	372
	248,076	9,526	257,602	-	257,602
<b>J.F. Harris</b>					
S1	13,902	-	13,902	-	13,902
S3	3,312	-	3,312	-	3,312
S5	-	4,791	4,791	-	4,791
E1	300,000	-	300,000	-	300,000
E2	45,000	-	45,000	-	45,000
E3	45,000	-	45,000	-	45,000
E4	-	30,000	30,000	-	30,000
	407,214	34,791	442,005	-	442,005
<b>K.S.S. Hide</b>					
S1	13,902	-	13,902	-	13,902
S3	3,312	-	3,312	-	3,312
S5	-	4,791	4,791	-	4,791
E1	300,000	-	300,000	-	300,000
E2	45,000	-	45,000	-	45,000
E3	45,000	-	45,000	-	45,000
E4	-	23,568	23,568	-	23,568
	407,214	28,359	435,573	-	435,573
<b>Total</b>	<b>1,164,070</b>	<b>102,676</b>	<b>1,266,746</b>	<b>-</b>	<b>1,266,746</b>

## OPTION DETAILS

scheme	option reference	exercise price	date first exercisable	expiry date
savings related	S1	* £0.8092	01-Nov-95	30-Apr-96
savings related	S2	* £1.6355	01-Jun-99	30-Nov-99
savings related	S3	* £2.0833	01-Jan-99	30-Jun-99
savings related	S4	£2.1300	01-Jul-02	30-Dec-02
savings related	S5	£2.1600	01-Dec-00	30-May-01
executive	E1	* £0.8897	03-Sep-93	02-Sep-00
executive	E2	* £2.5399	01-Nov-96	30-Oct-03
executive	E3	£2.6000	21-Oct-97	20-Oct-04
executive	E4	£2.6900	18 Oct-98	17-Oct-05

*Rippon*

## REGIONAL COMMITTEES

of UniChem PLC

*David Mair and Neil Chapman, both of whom are independent pharmacists and non-executive board members.*



The regional committees consist of independent pharmacy customers of the wholesale division chosen by the relevant chairman of the committee, who is himself an independent pharmacy customer. Each committee meets three times a year to discuss with UniChem senior personnel those issues which are important to the industry and to the service of the wholesale division. After each round of meetings the Chairmen meet as a body, together with the two pharmacist non-executive directors, to highlight particular areas of concern across the country. Once a year a national meeting is held for all committee members.

### Mid East

Mr. J. Cook (Chairman), Norwich, Norfolk.  
Tel. 01603 622868

#### Letchworth Branch

Ms J. Lawson, Stamford, Lincs.

Tel. 01780 63197

Mr H. Patel, London W13

Tel. 0181 576 0720

Mr G Phillips, St. Albans, Herts.

Tel. 01727 852012

#### Walthamstow Branch

Mr P. Patel, London E1

Tel. 0171 480 6796

Mr. C. Shearer, Ipswich, Suffolk

Tel. 01473 728007

Mr. B. Shooter, Hainault, Essex

Tel. 0181 500 2099

### North East

Mr. K. Swanson (Chairman), Hull,  
N. Humberside Tel. 01482 657039

#### Leeds Branch

Mr. I.R. Conquest, Bradford, W. Yorks.

Tel. 01274 571450

Mr. A. Dobson, High Burton, Huddersfield

Tel. 01484 603183

Dr. P.S. Dwyer, Worksop, Nottinghamshire

Tel. 01909 472024

Mr. A.R. Penney, Barnoldswick, Lancs.

Tel. 01282 813766

#### Newcastle Branch

Mr. A. Cairns, Dumfries, Dumfriesshire

Tel. 01387 69183

Mr. M. Merriman, Corbridge, Northumberland

Tel. 01434 632046

Mr. U. Patel, Sunderland, Tyne & Wear

Tel. 0191 548 6364

### North West & Scotland

Mr. J.H.H. Groat (Chairman), Edinburgh,  
Lothian Tel. 0131 225 7770

#### Livingston Branch

Mr. G.E. Allan, Edinburgh, Lothian

Tel. 0131 669 3100

Mrs D.A. Fisher, Edinburgh, Lothian

Tel. 01383 723862

Dr. S. Kayne, Clarkston, Renfrewshire

Tel. 0141 644 4640

Mr. M. Sinclair, Forres, Morayshire

Tel. 01309 672262

#### Preston Branch

Mr. P. Barker, Wirral, Merseyside

Tel. 0151 608 5093

Mr. P. Benson, Manchester

Tel. 0161 881 1452

Mr. M. Mansour, St. Helens, Lancs.

Tel. 01744 814268

Mr. D. Speed, Mold, Clywyd

Tel. 01352 759030

Mr. D. Sukert, Leyland, Lancs.

Tel. 01772 421581

Mr. S.P. Tanna, Lancaster, Lancs.

Tel. 01524 32618

### South

Mr. M.H. Smith (Chairman), Callington,  
Cornwall Tel. 01752 896787

#### Chessington Branch

Mr. L. Cunliffe, Bournemouth, Dorset

Tel. 01202 428181

Mr. R. Patel, Hayes, Middlesex

Tel. 0181 759 9658

Mr. D. Plumb, Southampton, Hampshire

Tel. 01489 892603

Mrs R.J. Thomas, Reading, Berkshire

Tel. 01734 428990

#### Croydon Branch

Mr. S. Amin, Purley, Surrey

Tel. 0181 660 0093

Mr. D. Bishop, Rochester, Kent

Tel. 01634 250882

Mr. W. Patterson, Norbury, London

Tel. 0181 764 1438

Mr. G. Williams, Worthing, East Sussex

Tel. 01903 209767

#### Exeter Branch

Mr. G. Douglas, Bristol, Avon

Tel. 01179 569450

Mr. J. Hincks, Taunton, Somerset

Tel. 01984 623284

### Mid West & Wales

Mr. M.J. W. Chapman (Chairman), Taunton,  
Somerset Tel. 01823 251686

#### Hinckley Branch

Mrs. P. Alesbury, Evesham, Worcs.

Tel. 01386 446244

Mr. P.F. Brown, Boston, Lincs.

Tel. 01205 364506

Mr. P. Cattee, Chesterfield, Derbyshire

Tel. 01246 862240

Mr. N. Sodha, Redditch, Worcs.

Tel. 01527 402146

#### Swansea Branch

Mr. P. Parry, Crymmych, Dyfed

Tel. 01239 831243

Mr. J.B. Shackleton, Abergavenny, Gwent

Tel. 01873 853219

Mr. J. Wall, Sarn, Mid Glamorgan

Tel. 01656 720467



## REPORT OF THE DIRECTORS

for the UniChem Group and UniChem PLC

The reviews, statements, reports, notes, information and notices constituting, or despatched with, the 1995 annual report are material to an appreciation of the business of UniChem and as such form part of this report of the directors.

### Annual General Meeting

The notice convening the 1996 annual general meeting has been despatched with this annual report.

It is the current intention of the directors to convene an extraordinary general meeting later in 1996 to consider various matters which they are not in a position to put to shareholders at the annual general meeting because the matter requires either detailed consideration or statutory implementation. These matters will include changes to the Articles of Association of the Company, the introduction of a long term incentive scheme and changes to the savings related share option scheme rules.

### Directors

The current directors are shown on page 22. There have been no changes during the year.

No director was materially interested in any contract during the financial year which is or was significant to the business of the Company or subsidiary undertakings.

### Employees

UniChem aims to employ the best qualified personnel and to provide equal opportunity in the selection and advancement of employees regardless of age, race, colour, national origin, religious persuasion, sex or marital status.

Full and fair consideration is also given to disabled applicants for employment, having regard to their particular aptitudes and abilities. If any employee becomes disabled the objective is the continued provision of suitable employment either in the same or in an alternative position with appropriate training if necessary.

The company communicates with all employees through regular staff briefings and publication of a staff newsletter. Employees with share options also receive a copy of this report. Subject to practical and commercial considerations, employees are consulted and involved in decisions that affect their employment or future prospects.

### Political and charitable gifts

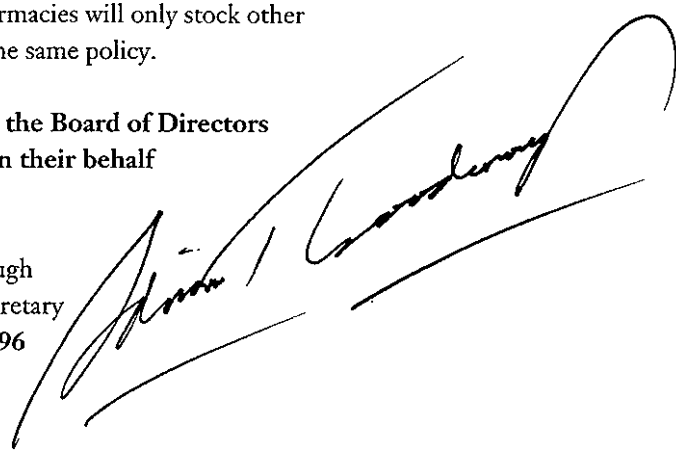
The sum of £20,000 inclusive of tax credit has been given to the Charities Aid Foundation. A further £2,478 has been given to various local charities. No political gifts were made during the financial year.

### Animal testing

It is the policy of UniChem that only skin care products that have not been tested on animals will be introduced to our Own Brand range and that wherever possible our retail pharmacies will only stock other brands with the same policy.

Approved by the Board of Directors  
and signed on their behalf

A J Goodenough  
Company Secretary  
25 March 1996



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

### **Responsibilities in preparing the financial statements**

This statement, which should be read in conjunction with the Auditors' Report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company at any time and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have a reasonable expectation from their enquiries that UniChem has adequate resources to continue in operational existence for the foreseeable future and therefore have continued to adopt the going concern basis in preparing the financial statements.

The directors consider that, in preparing the financial statements on pages 32 to 47, appropriate accounting policies have been used, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

### **Responsibilities on internal financial control**

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. They are also responsible for the system of internal financial control which can provide reasonable but not absolute assurance that material misstatement or loss is prevented and identified on a timely basis and dealt with appropriately.

Key procedures that have been established include:

- authority limits - limits are placed on all employees either acting individually or as a group and some matters are reserved for the Board;

- financial reporting - each operating unit prepares monthly results with a comparison against budget, the latest forecast and the previous year for review by the Board;

- training of personnel - all personnel are trained on joining UniChem and thereafter on proper adherence to the control systems relevant to their role within UniChem; and

- risk assessment - controls over business risks are regularly assessed and contingency plans made against major failures.

In accordance with their terms of reference the audit committee have reviewed the effectiveness of the internal financial controls in place during the financial year and in the period to the date of approval of the financial statements. This has involved considering key points arising from a report dealing with the major business risks, the control environment and the results of the Group Finance department's consideration of the business against the criteria for assessing internal financial control set out in the internal control and financial reporting guidance for directors.

## REPORT OF THE AUDITORS

to the members of UniChem PLC

We have audited the financial statements on pages 32 to 47 which have been prepared under the accounting policies set out on page 36 and the detailed information disclosed in respect of any directors' remuneration, share options and long-term incentive schemes set out in the report to shareholders by the remuneration committee on pages 26 to 27.

### Respective responsibilities of directors and auditors

As described on page 30 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1995 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

### REVIEW REPORT ON CORPORATE GOVERNANCE MATTERS TO THE DIRECTORS OF UNICHEM PLC

In addition to and separate from our audit of the financial statements, we have reviewed the directors' statement on page 25 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed. We have also reviewed the statement of compliance with Section A of the Best Practice Provisions on remuneration committees and the report of the remuneration

committee to the shareholders set out respectively on pages 26 to 27 to the extent that they provide the disclosures specified by the Listing Rules and the Best Practice Provisions annexed to the rules. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

### Basis of opinion

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures or on the appropriateness of the bases used in determining directors' remuneration or on the ability of the Company to continue in operational existence.

### Opinion

With respect to the directors' statements on internal financial control and going concern on page 30, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements. Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 25 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review. Also on this basis, in our opinion the directors' statement of compliance with Section A of the Best Practice Provisions on remuneration committees and the report of the remuneration committee appropriately provide the disclosures specified by the Listing Rules and the Best Practice Provisions and are not inconsistent with the information of which we have become aware from our audit work on the financial statements.



### Deloitte & Touche

Chartered Accountants and Registered Auditors  
Hill House, 1 Little New Street, London EC4A 3TR  
25 March 1996

# GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December

	Note	1995 £000	1994 £000
Turnover	2	1,402,725	1,324,658
Cost of sales		(1,266,475)	(1,206,314)
<b>Gross profit</b>		<b>136,250</b>	<b>118,344</b>
Administrative expenses		(91,196)	(79,892)
		45,054	38,452
Other operating income	3	8,250	8,307
<b>Operating profit</b>	2	<b>53,304</b>	<b>46,759</b>
Interest receivable	4	485	307
Interest payable	5	(4,361)	(3,055)
<b>Profit on ordinary activities before taxation</b>		<b>49,428</b>	<b>44,011</b>
Tax on profit on ordinary activities	9	(16,053)	(14,375)
<b>Profit on ordinary activities after taxation</b>	10	<b>33,375</b>	<b>29,636</b>
Dividends	11	(13,833)	(11,737)
<b>Retained profit for the financial year</b>		<b>19,542</b>	<b>17,899</b>
 <b>Earnings per share</b>	12		
- Undiluted		19.3p	19.3p
 - Fully diluted		19.0p	18.8p

# BALANCE SHEETS

at 31 December

		The Group		Company	
	Note	1995	1994	1995	1994
		£000	£000	£000	£000
<b>Fixed assets</b>					
Tangible assets	13	65,915	59,757	36,858	34,584
Investments	14	12,436	7,598	103,252	74,804
		78,351	67,355	140,110	109,388
<b>Current assets</b>					
Stocks	15	127,224	112,486	91,995	82,798
Debtors	16	223,642	209,333	158,770	155,924
Cash at bank and in hand		36,721	50,902	25,889	42,730
		387,587	372,721	276,654	281,452
<b>Creditors: amounts falling due within one year</b>					
Borrowings	17	40,136	36,144	30,548	21,473
Other creditors	18	274,528	246,238	253,522	224,618
		314,664	282,382	284,070	246,091
<b>Net current assets/(liabilities)</b>		72,923	90,339	(7,416)	35,361
<b>Total assets less current liabilities</b>		151,274	157,694	132,694	144,749
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings	17	14,054	15,765	14,054	15,765
<b>Provisions for liabilities and charges</b>					
	19	1,845	2,937	630	518
		135,375	138,992	118,010	128,466
<b>Capital and reserves</b>					
Called up share capital	20	17,454	17,194	17,454	17,194
Share premium account	20	3,289	61,193	3,289	61,193
Profit and loss account	21	122,774	102,607	105,409	92,081
Goodwill	21	(8,142)	(42,002)	(8,142)	(42,002)
<b>Total equity shareholders' funds</b>		135,375	138,992	118,010	128,466

The financial statements were approved by the Board of Directors of UniChem PLC on 25 March 1996 and are signed on its behalf by:

LORD RIPPON

J F HARRIS

Directors

*John Harris*

# GROUP CASH FLOW STATEMENT

for the year ended 31 December

	Note	1995 £000	1994 £000
<b>Net cash inflow from operating activities</b>	24	58,072	58,734
<b>Returns on investment and servicing of finance</b>			
Interest received		485	320
Interest paid		(4,036)	(2,727)
Interest element of finance lease payments		(414)	(293)
Dividends paid		(10,531)	(7,952)
<b>Net cash outflow from returns on investment and servicing of finance</b>		(14,496)	(10,652)
<b>Taxation</b>			
Corporation tax (including ACT) paid		(12,982)	(13,563)
<b>Investing activities</b>			
Purchase of pharmacy goodwill via asset acquisitions		(8,521)	(8,329)
Purchase of tangible fixed assets		(9,199)	(14,580)
Purchase of subsidiary undertakings	26	(9,809)	(34,865)
Other investments		(4,838)	(1,386)
Sale of pharmacy goodwill		80	302
Sale of tangible fixed assets		1,009	1,958
<b>Net cash outflow from investing activities</b>		(31,278)	(56,900)
<b>Net cash outflow before financing</b>		(684)	(22,381)
<b>Financing</b>			
Issue of ordinary share capital	27	1,288	58,880
Loans drawn down	27	10,554	-
Loans repaid	27	(11,819)	(1,255)
Capital element of finance lease payments	27	(3,173)	(3,245)
<b>Net cash inflow (outflow) from financing</b>		(3,150)	54,380
<b>Increase (decrease) in cash and cash equivalents</b>	28	(3,834)	31,999

# OTHER GROUP PRIMARY STATEMENTS

for the year ended 31 December

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1995	1994
	£000	£000
Profit for the financial year	33,375	29,636
Currency translation differences on foreign currency net investments	453	253
Total recognised gains and losses relating to the year	33,828	29,889

## MOVEMENT IN SHAREHOLDERS' FUNDS

	1995	1994
	£000	£000
At 1 January	138,992	97,886
Total recognised gains and losses for the financial year	33,828	29,889
Dividends	(13,833)	(11,737)
Goodwill acquired and written off during the year	(28,210)	(43,861)
Goodwill previously written off now realised	172	322
Shares issued	4,426	66,493
At 31 December	135,375	138,992

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (1) ACCOUNTING POLICIES

**Convention.** The financial statements have been prepared in accordance with the historical cost convention and applicable accounting standards. The principal accounting policies adopted within that convention are set out below.

**Basis of consolidation.** The consolidated profit and loss account and balance sheets of the Group consolidate the financial statements of UniChem PLC and its subsidiary undertakings. All undertakings within the Group make up their accounts to 31 December.

**Turnover.** Turnover is the amount derived from the provision of goods and services excluding value added tax and sales between undertakings within the Group.

**Pensions.** The costs of funding the defined benefit pension schemes operated by the Group are estimated on the basis of independent actuarial advice, and are charged to the profit and loss account over the expected service lives of participating employees.

This accounting policy follows the funding policy except where an actuarial valuation indicates that a deficiency or a surplus has arisen. Such surpluses or deficiencies are, for funding purposes, dealt with as advised by the actuary. For accounting purposes, they are spread over the expected remaining service lives of participating employees. The costs of funding the defined contribution pension schemes operated by the Group are charged to the profit and loss account as they are payable.

**Goodwill.** The excess of the purchase price over the fair value of the net tangible assets of businesses acquired in the year is taken to reserves. This treatment has been adopted in accordance with current accounting standards.

**Fixed asset investments.** Fixed asset investments are stated at cost less an amount equal to underlying goodwill on acquisition and provisions for permanent diminution in value.

**Tangible fixed assets and depreciation.** Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives at the following rates:

- (a) Freehold buildings - at 2% per annum
- (b) Long and short leasehold properties - at 2% per annum or over the period of the lease whichever is the shorter
- (c) Furniture, fixtures, equipment and motor vehicles - at rates ranging from 10% to 33%, according to their nature.

**Leased assets.** Fixed assets held under finance leases are capitalised and depreciated over the estimated useful life of the asset. The finance charges are allocated over the primary period of the lease in proportion to the capital element of the lease outstanding. The costs of operating leases are charged to the profit and loss account as they accrue.

**Stocks.** Stocks consist of goods held for resale. They are valued at the lower of cost, determined on a first-in, first-out basis, and net realisable value.

**Deferred taxation.** Deferred taxation is provided in respect of significant timing differences to the extent that it is probable that such tax will become payable.

**Foreign exchange.** Transactions of U.K. undertakings denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Balance sheets of foreign undertakings are translated into sterling at the closing rates of exchange and profit and loss accounts are translated at the average rates of exchange for the year. Differences arising on translation are taken direct to reserves.

## (2) ANALYSIS OF TURNOVER AND OPERATING PROFIT - continuing operations

	Turnover	Operating profit	Turnover	Operating profit
	1995	1995	1994	1994
	£000	£000	£000	£000
Wholesale UK	1,264,640	38,956	1,212,257	37,113
Retail UK	208,453	12,309	151,988	8,295
Wholesale Portugal	83,914	2,039	68,888	1,351
Intra-group sales	(154,282)	-	(108,475)	-
	1,402,725	53,304	1,324,658	46,759



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (3) OTHER OPERATING INCOME

	1995 £000	1994 £000
Distribution agency fees, net rental income on pharmacy computer systems and franchise fee income	8,250	8,307

## (4) INTEREST RECEIVABLE

	1995 £000	1994 £000
Bank deposit interest	485	307

## (5) INTEREST PAYABLE

	1995 £000	1994 £000
Bank loans and overdrafts repayable within five years	2,787	1,811
Other loans	1,160	951
Finance charges payable on finance leases	414	293
	4,361	3,055

## (6) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1995 £000	1994 £000
Depreciation of owned assets	5,827	4,639
Depreciation of assets held under finance leases	1,619	2,634
Total depreciation of tangible fixed assets	7,446	7,273
Operating lease rentals - land and buildings	4,964	4,288
- plant and machinery	111	148
Audit fees	195	193
Other fees paid to the auditors	46	122

The costs of distribution are considered to be a component of cost of sales.

## (7) DIRECTORS' EMOLUMENTS

The emoluments of the directors, exclusive of pension contributions, for the financial year ended 31 December 1995 were £950,000 (1994 £1,099,000), and fell within the following bands:

	1995 Number	1994 Number
£5,001 - £10,000	-	3
£10,001 - £15,000	3	-
£25,001 - £30,000	1	1
£50,001 - £55,000	-	1
£55,001 - £60,000	1	1
£70,001 - £75,000	-	1
£150,001 - £155,000	-	1
£175,001 - £180,000	1	2
£180,001 - £185,000	1	-
£190,001 - £195,000	1	-
£250,001 - £255,000	-	1
£260,001 - £265,000	1	-

Further details on the directors, including their emoluments, are given in the report of the remuneration committee.

During the year the Company maintained directors' and officers' insurance cover.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (8) EMPLOYEES

The average number of staff employed by the Group, which includes directors were:	1995	1994
Wholesale UK	3,101	2,799
Retail UK	3,099	2,546
Wholesale Portugal	176	190
	<b>6,376</b>	<b>5,535</b>
The costs incurred in respect of these employees were:	1995	1994
	£000	£000
Wages and salaries	58,461	46,266
Social security costs	4,262	3,988
Other pension costs (note 30)	1,465	1,363
	<b>64,188</b>	<b>51,617</b>

## (9) TAX ON PROFIT ON ORDINARY ACTIVITIES

	1995	1994
	£000	£000
Corporation tax charge at 33% (1994 33%)	15,611	13,356
Deferred taxation	946	1,038
Under (over) provision for earlier years	(504)	(19)
	<b>16,053</b>	<b>14,375</b>

## (10) PROFIT OF THE PARENT COMPANY

	1995	1994
	£000	£000
Dealt with in the accounts of the parent company	27,161	24,423

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts.

## (11) DIVIDENDS

	1995	1994
	£000	£000
Interim paid, net 2.70 pence (1994 2.43 pence)	4,570	3,637
Final proposed, net 5.30 pence (1994 4.70 pence)	9,263	8,100
	<b>13,833</b>	<b>11,737</b>

## (12) EARNINGS PER SHARE

Earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue during the year. The fully diluted earnings per share were calculated by increasing the relevant earnings figures by the amount of interest that could have been earned assuming that the options had been exercised at the start of the relevant year. Further details of the options are given in note 20.

	1995	1994
	£000	£000
Profit after taxation	33,375	29,636
Weighted average number of shares	1995	1994
	000	000
Undiluted	172,766	153,503
Fully diluted	179,379	159,806

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (13) TANGIBLE FIXED ASSETS

Group	Freehold land & buildings	Long leaseholds	Short leaseholds	Furniture fixtures & equipment	Motor vehicles	Total
<b>Cost</b>	£000	£000	£000	£000	£000	£000
At 1 January 1995	26,402	8,164	2,220	41,378	10,236	88,400
Foreign exchange movement	217	-	-	93	18	328
Additions	394	885	173	6,494	4,007	11,953
Subsidiaries acquired	2,491	-	16	363	-	2,870
Disposals	(90)	(71)	(72)	(4,451)	(2,937)	(7,621)
At 31 December 1995	29,414	8,978	2,337	43,877	11,324	95,930
<b>Depreciation</b>						
At 1 January 1995	2,186	984	1,062	19,085	5,326	28,643
Foreign exchange movement	3	-	-	21	12	36
Disposals	-	(66)	(69)	(3,848)	(2,127)	(6,110)
Charge for the year	421	196	60	5,356	1,413	7,446
At 31 December 1995	2,610	1,114	1,053	20,614	4,624	30,015
<b>Net book value</b>						
At 31 December 1995	26,804	7,864	1,284	23,263	6,700	65,915
At 31 December 1994	24,216	7,180	1,158	22,293	4,910	59,757
<b>Company</b>						
<b>Cost</b>						
At 1 January 1995	11,769	5,785	1,395	26,441	8,723	54,113
Additions	36	885	-	3,877	3,217	8,015
Disposals	-	-	-	(2,722)	(2,449)	(5,171)
At 31 December 1995	11,805	6,670	1,395	27,596	9,491	56,957
<b>Depreciation</b>						
At 1 January 1995	1,479	507	646	12,209	4,688	19,529
Disposals	-	-	-	(2,501)	(1,779)	(4,280)
Charge for the year	112	142	-	3,561	1,035	4,850
At 31 December 1995	1,591	649	646	13,269	3,944	20,099
<b>Net book value</b>						
At 31 December 1995	10,214	6,021	749	14,327	5,547	36,858
At 31 December 1994	10,290	5,278	749	14,232	4,035	34,584

The cost of long leaseholds includes capitalised interest of £546,000 (1994 £530,000).

### Leased assets

Included within fixed assets held under finance leases with the following net book values:

	The Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
Furniture, fixtures & equipment	3,582	4,726	3,525	4,726
Motor vehicles	3,790	2,365	3,790	2,365
	7,372	7,091	7,315	7,091

### Capital commitments

	The Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
Contracted for, but not provided for	215	-	-	-
Authorised by the directors, but not contracted for	13,929	16,261	9,375	11,765

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (14) FIXED ASSET INVESTMENTS

	The Group		Company	
	1995 £000	1994 £000	1995 £000	1994 £000
Subsidiary undertakings	-	-	90,816	67,206
Other investments	12,436	7,598	12,436	7,598
<b>Total</b>	<b>12,436</b>	<b>7,598</b>	<b>103,252</b>	<b>74,804</b>

	Shares* £000	Loans £000	Total £000
Subsidiary undertakings			
At 1 January 1995	23,064	44,142	67,206
Acquired / advanced	34,151	22,531	56,682
Disposed	(101)	-	(101)
Repaid / provided	(30,782)	(2,189)	(32,971)
<b>At 31 December 1995</b>	<b>26,332</b>	<b>64,484</b>	<b>90,816</b>

\*Shares are stated at cost less an amount equal to the underlying goodwill on acquisition and provisions for permanent diminution in value.

### Other investments

(i) The Company owns 82,550 (1994 55,250) ordinary bearer shares (representing approximately 25% of the issued equity (1994 17%)) in PAG Pharma-Holding AG, which is incorporated in Germany, acquired at a cost of £9,932,000 (1994 £5,088,000). The market value of this investment as quoted on the Frankfurt stock exchange on 29 December 1995 was £15,901,000 (1994 £6,139,000).

(ii) The UniChem PLC Employee Share Trust has an investment of £2,484,000 (1994 £2,484,000) in the Company's shares. The market value of the holding on 29 December 1995 was £2,490,000 (1994 £2,769,000). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options. Administrative costs in relation to the trust are absorbed by the Company.

(iii) During the year the Company subscribed to 17% of the initial offering of shares by International Pharmaceutical Services Organisation B.V. (IPSO) at a cost of £20,000. IPSO is registered in the Netherlands and is not listed.

## (15) STOCKS

	The Group		Company	
	1995 £000	1994 £000	1995 £000	1994 £000
Finished goods and goods held for resale	127,224	112,486	91,995	82,798

## (16) DEBTORS

	The Group		Company	
	1995 £000	1994 £000	1995 £000	1994 £000
<b>Amounts falling due within one year</b>				
Trade debtors	197,268	190,048	142,236	145,695
Other debtors	10,673	8,161	4,093	2,120
Prepayments	12,662	8,786	9,026	5,698
	<b>220,603</b>	<b>206,995</b>	<b>155,355</b>	<b>153,513</b>
<b>Amounts falling due after more than one year</b>				
Trade debtors	-	221	-	221
ACT recoverable	970	811	1,346	884
Other debtors	240	-	240	-
Prepayments - Pension costs	1,829	1,306	1,829	1,306
	<b>3,039</b>	<b>2,338</b>	<b>3,415</b>	<b>2,411</b>
<b>Total</b>	<b>223,642</b>	<b>209,333</b>	<b>158,770</b>	<b>155,924</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (17) BORROWINGS

	The Group		Company	
	1995	1994	1995	1994
Amounts falling due within one year	£000	£000	£000	£000
Loan notes	27,324	13,627	27,324	13,627
Bank overdraft	9,560	19,453	-	4,823
Obligations under finance leases	3,252	3,064	3,224	3,023
	40,136	36,144	30,548	21,473
<b>Amounts falling due after more than one year</b>				
Bank loan	10,554	11,355	10,554	11,355
Obligations under finance leases	3,500	4,410	3,500	4,410
	14,054	15,765	14,054	15,765
Total borrowings	54,190	51,909	44,602	37,238
Cash at bank and in hand	(36,721)	(50,902)	(25,889)	(42,730)
Net borrowings (cash)	17,469	1,007	18,713	(5,492)

The loan notes can be redeemed by the holders giving notice during the year. At the year end they bore interest at 6.1%. During the year the Company entered into interest rate swap agreements to fix its interest liabilities over £10 million of these notes at 5.4% for two years to 31 December 1997 and a further £10 million at 5.7% for three years to 31 December 1998.

Bank loans	The Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
Aggregate bank loan instalments repayable between two and five years	10,554	3,200	10,554	3,200
in five years or more	-	8,155	-	8,155
	10,554	11,355	10,554	11,355

Interest on bank loans is at variable rates between 4.9% and 9.8% at the year end and is dependent on the currency borrowed. The bank loan facility is committed by the bank until May 2000.

Obligations under finance leases due after more than one year	The Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
Due between one and two years	2,297	1,973	2,297	1,973
Due between two and five years	1,585	3,083	1,585	3,083
	3,882	5,056	3,882	5,056
Less: finance charges allocated to future periods	(382)	(646)	(382)	(646)
	3,500	4,410	3,500	4,410

Creditors have been disclosed in a different format to earlier years both in the notes and on the face of the balance sheets in order to provide a clearer analysis of the borrowing position of the Group.

## (18) OTHER CREDITORS

	The Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
Trade creditors	232,778	211,768	221,155	197,447
Other creditors	5,368	558	4,908	63
Corporation tax	16,675	14,512	12,018	11,383
Other taxation and social security	2,059	4,675	858	4,024
Accruals and deferred income	8,385	6,625	5,320	3,601
Proposed dividend	9,263	8,100	9,263	8,100
	274,528	246,238	253,522	224,618

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (19) PROVISIONS FOR LIABILITIES AND CHARGES

The Group	Provision for reorganisation £000	Deferred tax £000	Total £000
At 1 January 1995	2,161	776	2,937
Foreign exchange movements	-	15	15
Provided	195	-	195
Utilised	(1,780)	-	(1,780)
Subsidiary acquired	-	12	12
Charge for the year	-	946	946
ACT recoverable	-	(476)	(476)
Other movements	-	(4)	(4)
At 31 December 1995	576	1,269	1,845

Company		Deferred tax £000	Total £000
At 1 January 1995		518	518
Charge for the year		285	285
ACT recoverable		(173)	(173)
At 31 December 1995		630	630

The sources of the provision for deferred tax and the amounts for which no provision has been made are as follows:

The Group	Not dealt with in the accounts		Dealt with in the accounts	
	1995 £000	1994 £000	1995 £000	1994 £000
Capital allowances	-	-	1,693	1,462
Short term timing differences	-	-	614	(37)
Chargeable gains deferred by roll-over relief	237	40	87	-
ACT recoverable	-	-	(1,346)	(870)
Property revaluation	739	739	221	221
	976	779	1,269	776

Company	1995 £000	1994 £000	1995 £000	1994 £000
Capital allowances	-	-	1,017	913
Short term timing differences	-	-	583	402
Chargeable gains deferred by roll-over relief	16	16	-	-
ACT recoverable	-	-	(970)	(797)
	16	16	630	518

## (20) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

		Called up share capital 10p ordinary shares £000	Share premium account £000
Issued and fully paid up	Number		
At 1 January 1995	171,936,257	17,194	61,193
Shares issued during the year pursuant to:			
the acquisition of retail pharmacies	369,056	37	963
scrip issues	801,654	80	2,058
the exercise of share options	1,428,623	143	1,145
Adjustment on cancellation of share premium	-	-	(62,070)
At 31 December 1995	174,535,590	17,454	3,289

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (20) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (continued)

The authorised share capital was £23.872 million (238.72 million ten pence ordinary shares) at the end of the year, having been increased from £18.66 million at the annual general meeting held on 24 May 1995.

Of the shares allotted on the acquisition of pharmacies 111,466 shares were allotted for cash on 2 June 1995 at a value of £2.6914 per share through the Company acquiring part of the consideration debt of E. Moss Limited and satisfying this debt by allotting shares.

The shares offered in the scrip issues were instead of the 1994 final dividend and the 1995 interim dividend which had cash equivalent values of £2.644 and of £2.722 respectively.

On 4 October 1995, following the passing of the enabling resolution at the annual general meeting held in 1995, the High Court granted the application to cancel the share premium account in the sum of £62,069,537.13.

Details of the outstanding options at 31 December 1995 are

	31 December 1995		
	Price	outstanding	Exercisable between
1990 Savings related scheme	80.92p	487,599	1 November 1995 and 30 April 1996
	80.92p	505,990	1 November 1997 and 30 April 1998
	163.55p	533,808	1 June 1997 and 30 November 1997
	163.55p	152,637	1 June 1999 and 30 November 1999
	208.33p	543,712	1 January 1999 and 30 June 1999
	208.33p	128,379	1 January 2001 and 30 June 2001
	221.96p	64,077	1 July 1999 and 30 December 1999
	221.96p	5,443	1 July 2001 and 30 December 2001
	208.00p	188,667	1 December 1999 and 30 May 2000
	208.00p	69,074	1 December 2001 and 30 May 2002
	213.00p	132,929	1 July 2000 and 30 December 2000
	213.00p	33,207	1 July 2002 and 30 December 2002
	216.00p	268,590	1 December 2000 and 30 May 2001
	216.00p	22,204	1 December 2002 and 30 May 2003
		3,136,316	
1990 Executive scheme	88.97p	635,000	3 September 1993 and 2 September 2000
	205.60p	269,585	10 October 1995 and 9 October 2002
	253.99p	856,549	1 November 1996 and 30 October 2003
	260.00p	877,548	21 October 1997 and 20 October 2004
	266.00p	10,000	26 April 1998 and 25 April 2005
	269.00p	533,940	18 October 1998 and 17 October 2005
		3,182,622	

The directors are aware of the following shareholdings at 25 March 1996 of 3% or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of present issued ordinary share capital
Phillips & Drew Fund Management	10,415,469	5.96
Newton Investment Management Limited	9,463,726	5.41
HSBC/James Capel Limited	6,406,968	3.67
Australian Mutual Provident Society	5,940,058	3.40

Save for these interests, the directors have not been notified that any person is, directly or indirectly, interested in 3% or more of the issued ordinary share capital.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (21) OTHER RESERVES

	Profit and loss account £000	Special reserve £000	Goodwill £000
<b>The Group</b>			
At 1 January 1995	102,607	-	(42,002)
Foreign exchange movements	453	-	-
Transfer from share premium account	-	62,070	-
Goodwill acquired during the year	-	-	(28,210)
Goodwill written off during the year	-	(62,070)	62,070
Goodwill previously written off, now realised	172	-	-
Retained profit for the year	19,542	-	-
At 31 December 1995	122,774	-	(8,142)
<b>Company</b>			
At 1 January 1995	92,081	-	(42,002)
Transfer from share premium account	-	62,070	-
Goodwill acquired during the year*	-	-	(28,210)
Goodwill written off during the year	-	(62,070)	62,070
Retained profit for the year	13,328	-	-
At 31 December 1995	105,409	-	(8,142)

\*Includes an amount equal to the underlying goodwill on acquisition which is adjusted against the investment in subsidiaries.

## (22) GOODWILL

During the year the Group made a number of retail pharmacy acquisitions, either by acquiring companies which owned pharmacies or by acquiring pharmacy businesses direct. The acquired goodwill can be analysed as follows:

	£000
Company acquisitions	19,689
Asset acquisitions	8,521
	28,210

The most important acquisitions were the Roberts group, which was acquired for £5,241,000 (representing £4,085,000 goodwill) on 30 May 1995, and Baddons for £15,649,000 (representing £11,839,000 goodwill) on 1 August 1995. The assets acquired and consideration paid during the year for those acquisitions are shown together with the other small company acquisitions below:

Assets acquired	Book and fair value £000
Fixed assets	2,870
Stock	2,245
Debtors	3,825
Cash at bank and in hand	1,496
Bank overdrafts	(1,574)
Creditors	(3,979)
Deferred taxation	(12)
	4,871
<b>Consideration paid</b>	
UniChem PLC 10p ordinary shares	700
Loan notes	14,129
Cash	9,731
	24,560
<b>Purchased goodwill</b>	19,689



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (22) GOODWILL (continued)

All company acquisitions have been accounted for by the acquisition accounting method. Cumulative goodwill written off to reserves to 31 December 1995, net of that attributable to disposals was £161,337,000 of which £139,016,000 related to pharmacy goodwill.

The directors believe that the right to be reimbursed for dispensing NHS prescriptions, the pharmacy licence which is attached to a particular pharmacy, has a continuing value. Such rights, conferred by the Department of Health as contracts to dispense prescriptions, are not generally granted to new pharmacies in the same locality. It is generally accepted accounting policy that purchased goodwill arising from the acquisition of such licences be eliminated from the accounts immediately on acquisition against reserves.

## (23) ANALYSIS OF NET ASSETS

	1995	1994
	£000	£000
Wholesale UK	141,895	143,792
Retail UK	135,440	95,630
Wholesale Portugal	14,524	11,850
Retail pharmacy goodwill	(139,015)	(111,273)
Net assets before net borrowings	152,844	139,999
Net borrowings	17,469	1,007
	135,375	138,992

## (24) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1995	1994
	£000	£000
Operating profit	53,304	46,759
Depreciation and profit & loss on disposal of fixed assets	8,032	6,944
(Increase) decrease in stocks	(12,060)	(3,670)
(Increase) decrease in debtors	(9,890)	(17,321)
(Decrease) increase in creditors	18,686	26,022
Net cash inflow from operating activities	58,072	58,734

## (25) MAJOR NON-CASH TRANSACTIONS

(a) During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £2,446,000.

(b) Part of the purchase consideration for the acquisition of subsidiary undertakings that occurred during the year comprised shares and other loans. Further details of the acquisitions are set out below and in note 22.

## (26) ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE PURCHASE OF SUBSIDIARY UNDERTAKINGS

	£000
Cash consideration (note 22)	9,731
Cash at bank and in hand acquired (note 22)	(1,496)
Bank overdrafts acquired (note 22)	1,574
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	9,809

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (27) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	Loans and finance lease obligations	Share capital	Loans and finance lease obligations
	1995 £000	1995 £000	1994 £000	1994 £000
At 1 January	78,387	32,456	23,414	15,433
Cash inflows (outflows) from financing	1,288	(4,438)	58,880	(4,500)
Loan notes issued for non-cash consideration	-	14,129	-	13,647
Shares issued for non-cash consideration	3,138	-	13,115	-
Adjustment on cancellation of share premium	(62,070)	-	(17,022)	-
Subsidiaries acquired	-	37	-	238
Inception of finance lease contracts	-	2,446	-	7,638
At 31 December	20,743	44,630	78,387	32,456

## (28) ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	1995 £000	1994 £000
At 1 January	31,449	(236)
Net cash inflow (outflow) before adjustments for the effect of foreign exchange rate changes	(3,834)	31,999
Effect of foreign exchange rate changes	(454)	(314)
At 31 December	27,161	31,449

## (29) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1995 £000	1994 £000	Change in year £000
Cash at bank and in hand	36,721	50,902	(14,181)
Bank overdraft	(9,560)	(19,453)	9,893
	27,161	31,449	(4,288)

## (30) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost was £1,465,000 (1994 £1,363,000). Included in the balance sheet is an amount totalling £2,158,000 (1994 £1,406,000) representing the excess of the cumulative contributions paid over the accumulated pension cost.

The Group operates two main pension schemes: the UniChem PLC Pension and Assurance Scheme ("the Scheme") which is a funded defined benefits scheme, and the UniChem PLC Pension Plan ("the Plan") which is a funded defined contribution scheme. Both arrangements are administered by an independent company and their assets are held under trust separately from those of the Group.

The pension costs (and balance sheet prepayments) in respect of the Scheme are assessed in accordance with the advice of an independent qualified actuary. The most recent actuarial valuation of the Scheme used for this purpose was carried out as at 1 January 1995. The actuarial method adopted for the valuation was the projected unit method and the main assumptions were:

	% per annum
Investment return	9.5
Salary increases (excluding increases due to promotion)	7.0
Equity dividend increases	5.25
Pension increases	5.0

At 1 January 1995, the market value of the Scheme's assets was £18,738,000. At that date, the actuarial value of the assets represented 105% of the value of the benefits that had accrued to members after allowing, in the case of active members, for the future increases to salaries.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1995

## (31) OTHER FINANCIAL COMMITMENTS

	Land and buildings	Other
At 31 December 1995 the Group had the following commitments payable within one year under operating leases expiring:	£000	£000
within one year	325	6
between two and five years	1,165	3
in five years or more	3,608	-
	5,098	9

## (32) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings, all of which are wholly owned by UniChem PLC, are:

Company	Country of operation	Country of registration	Main activity
E. Moss Limited	U.K.	England	retail pharmacy operator & franchisor
Eldon Laboratories Limited	U.K.	England	manufacturer of pharmaceutical specials
Hospital Management & Supplies Limited	U.K.	England	distributor of medical & surgical supplies
Selles Medical Limited	U.K.	England	supplier of occupational health products
UniChem Healthcare (Netherlands) B.V.	Netherlands	Netherlands	holding company
UniChem Portuguesa (S.G.P.S.) Lda	Portugal	Portugal	holding company
UniChem Farmaceutica, S.A.	Portugal	Portugal	pharmaceutical wholesaler
UniChem (Warehousing) Limited	U.K.	England	warehousing services to UniChem PLC

## (33) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £142.6 million (1994 £112.6 million) to third parties for the financing of pharmacy businesses and has given other guarantees on behalf of Group companies of £5,388,000 (1994 £3,253,000). UniChem Farmaceutica has discounted bills receivable of £4,988,000 (1994 £2,416,000) with banks who have recourse should the bill not be honoured by the customer.

## (34) POST BALANCE SHEET EVENT

As discussed in the Chairman's statement on pages 2 to 3, the Company's offer to acquire Lloyds Chemists was referred to the MMC on 1 March 1996 causing the bid to lapse. Costs of approximately £10 million have so far been incurred. These costs will be capitalised should the Company successfully acquire Lloyds Chemists.

## FIVE YEAR SUMMARY

<b>Group Profit and Loss Accounts - year ended 31 December</b>	<b>1991 £000</b>	<b>1992 £000</b>	<b>1993 £000</b>	<b>1994 £000</b>	<b>1995 £000</b>
<b>Turnover</b>					
Continuing operations	919,115	1,047,858	1,177,623	1,324,658	1,402,725
Discontinued operations	990	874	-	-	-
	920,105	1,048,732	1,177,623	1,324,658	1,402,725
<b>Cost of sales</b>	<b>(862,359)</b>	<b>(964,512)</b>	<b>(1,077,810)</b>	<b>(1,206,314)</b>	<b>(1,266,475)</b>
<b>Gross profit</b>	<b>57,746</b>	<b>84,220</b>	<b>99,813</b>	<b>118,344</b>	<b>136,250</b>
<b>Administrative expenses</b>	<b>(39,659)</b>	<b>(58,403)</b>	<b>(67,807)</b>	<b>(79,892)</b>	<b>(91,196)</b>
	18,087	25,817	32,006	38,452	45,054
<b>Other operating income</b>	<b>2,573</b>	<b>8,315</b>	<b>8,069</b>	<b>8,307</b>	<b>8,250</b>
<b>Operating profit</b>					
Continuing operations	20,384	34,200	40,075	46,759	53,304
Discontinued operations	276	(68)	-	-	-
	20,660	34,132	40,075	46,759	53,304
<b>Loss on disposal of discontinued operations</b>	<b>-</b>	<b>(2,449)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Interest</b>	<b>(288)</b>	<b>(2,259)</b>	<b>(2,570)</b>	<b>(2,748)</b>	<b>(3,876)</b>
<b>Profit on ordinary activities before taxation</b>	<b>20,372</b>	<b>29,424</b>	<b>37,505</b>	<b>44,011</b>	<b>49,428</b>
<b>Tax on profit on ordinary activities</b>	<b>(7,056)</b>	<b>(10,795)</b>	<b>(12,675)</b>	<b>(14,375)</b>	<b>(16,053)</b>
<b>Profit on ordinary activities after taxation</b>	<b>13,316</b>	<b>18,629</b>	<b>24,830</b>	<b>29,636</b>	<b>33,375</b>
<b>EPS fully diluted</b>	<b>11.97p</b>	<b>13.00p</b>	<b>16.87p</b>	<b>18.80p</b>	<b>18.96p</b>
<b>Dividends per share</b>	<b>4.82p</b>	<b>5.50p</b>	<b>6.33p</b>	<b>7.13p</b>	<b>8.00p</b>
<b>Group Balance Sheets - 31 December</b>	<b>1991 £000</b>	<b>1992 £000</b>	<b>1993 £000</b>	<b>1994 £000</b>	<b>1995 £000</b>
<b>Fixed assets</b>					
Intangible assets	84	-	-	-	-
Tangible assets	31,951	33,809	39,002	59,757	65,915
Investments	4,239	5,088	6,212	7,598	12,436
	36,274	38,897	45,214	67,355	78,351
<b>Working capital</b>					
Stocks	75,983	81,881	96,023	112,486	127,224
Debtors	144,093	163,497	174,239	209,333	223,642
Amount due from rights issue	35,121	-	-	-	-
Creditors and provisions	(161,977)	(176,552)	(201,921)	(249,175)	(276,373)
	93,220	68,826	68,341	72,644	74,493
<b>Net borrowings</b>	<b>(17,652)</b>	<b>(14,565)</b>	<b>(15,669)</b>	<b>(1,007)</b>	<b>(17,469)</b>
	111,842	93,158	97,886	138,992	135,375
<b>Capital and reserves</b>					
Called up share capital	9,803	13,755	14,232	17,194	17,454
Share premium account	25,882	730	9,182	61,193	3,289
Shares to be issued	52,367	-	5,502	-	-
Special reserve	-	10,373	-	-	-
Other reserves	57,050	68,300	84,133	102,607	122,774
Goodwill	(33,260)	-	(15,163)	(42,002)	(8,142)
	111,842	93,158	97,886	138,992	135,375

# SHAREHOLDER INFORMATION

## 1996 Financial Calendar

26 March	1995 final profit and proposed final dividend announced
20 May	Deadline for receipt of proxy forms
21 May	Deadline for receipt of elections to receive the 1995 final dividend in shares
22 May	Annual general meeting
1 July	1995 final dividend paid to shareholders registered on 11 April 1996
18 September*	1996 half year profit and interim dividend announced
23 October*	1996 interim report despatched
15 November*	Deadline for receipt of elections to receive the 1996 interim dividend in shares (if offered)
30 December*	1996 interim dividend paid to shareholders registered on 8 October 1996 *

\* Date subject to confirmation

## Shareholding enquiries

Enquiries relating to existing UniChem shareholdings should be directed to the registrars, Lloyds Bank Registrars, who may be contacted by phoning 01903 502541 or by writing to their address which is shown on the right.

## Share price

UniChem's "real-time" share price and a stock market summary is available by phoning 0891 500504. As at April 1996 calls are charged at 40 pence per minute cheap rate and 50 pence at all other times.

## Capital gains tax

On 2 July 1990 UniChem shares were converted from shares in an industrial and provident society to shares in a public company limited by shares. For capital gains tax purposes shares acquired before this date will be deemed to have been acquired on 2 July 1990 at ten pence each because by virtue of Section 111(b) of the Taxation of Chargeable Gains Act 1992 (as derived from Section 113(1) of the Finance Act 1988) the capital gains indexation provisions do not apply and it is believed that the conversion is regarded by the Inland Revenue as a reorganisation of share capital.

## Amalgamation of your shareholdings

If you have received more than one copy of this annual report your shareholding may be registered in more than one account. To amalgamate your accounts please write to Lloyds Bank Registrars giving details of the accounts concerned.

## Personal equity plans (PEPs)

UniChem offers a Single Company PEP and a General PEP to individuals wishing to hold UniChem shares. An explanatory booklet, which includes the requisite forms, may be obtained from the manager of the plans, Godwins Limited, by phoning 01252 544484.

## Share dealing service

A simple postal share dealing service is available to individuals wishing to buy or sell shares in UniChem. An explanatory leaflet, which includes the requisite forms, may be obtained from the broker, NatWest Investments, by phoning 0171 895 5448.

## ProShare Nominee Code

UniChem supports the above code which has been developed so that shareholders who hold their shares through a broker's nominee may receive information from UniChem and may attend UniChem's general meetings. Further details of the code may be obtained from ProShare by writing to them at 13-14 Basinghall Street, London, EC2V 5BQ.

## Annual general meeting

The notice convening the 1996 annual general meeting has been despatched with this annual report.

**Advisers**  
to UniChem PLC

**Merchant Bankers**  
UBS Limited  
100 Liverpool Street  
London EC2M 2RH

Barclays de Zoete Wedd  
Limited  
Ebbgate House  
2 Swan Lane  
London EC4R 3TS

**Bankers**  
National Westminster  
Bank Plc  
21 Lombard Street  
London EC3P 3AR

Barclays Bank PLC  
Cardinal Point  
Newall Road  
Heathrow Airport  
Hounslow TW6 2AH

The Royal Bank of  
Scotland plc  
Waterhouse Square  
138-142 Holborn  
London EC1N 2TH

**Auditors**  
Deloitte & Touche  
Chartered Accountants  
Hill House  
1 Little New Street  
London EC4A 3TR

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100 Liverpool Street  
London EC2M 2RH

de Zoete & Bevan  
Limited  
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2 Swan Lane  
London EC4R 3TS

**Solicitors**  
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London EC2V 5DB

**Registrars**  
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Registrars Department  
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**Registered Office**  
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Cox Lane  
Chessington  
Surrey KT9 1SN

Tel. 0181 391 2323  
Fax 0181 974 1707

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