Annual Report 2002

Alliance UniChem

COMPANY NUMBER 2517178

Continuing to deliver

Our ethos

Alliance UniChem Plc aims to be a leader in the healthcare sector, focussing on the distribution of healthcare products, information and services.

We work continuously to develop and enhance the service we offer to pharmacists and patients, improving the level of healthcare and advice available through pharmacies to the benefit of all in the communities we serve.

Our core businesses are pharmaceutical wholesaling and retail pharmacy. Our strategic market positioning enables us to offer vital services to other key participants in the healthcare sector – manufacturers, pharmacists, hospitals, doctors, patients and payors – working closely with them to develop strong long term relationships.

We believe that working in this way will allow us to deliver superior service to our customers, superior returns for our investors, and an excellent working environment for our employees.

Partnership
Working together with our customers and suppliers we create mutual added value and improve the health of the millions of patients who depend on us.

Service
We offer the highest levels of service to our pharmacy customers, suppliers and to the patients that we serve in our pharmacies. We deliver reliably, consistently and on schedule, with rapid order turnaround times. Service levels are monitored hourly in every one of our wholesale branches and are regularly surveyed in our retail outlets.

Excellence
Our Group's priority is simple: to be the first choice for pharmacists, patients and manufacturers, and the leader in our markets by achieving excellence in everything that we do.

Innovation
As a European leader in healthcare distribution, wholesaling and retailing, we realise the importance of looking to the future. Our vision can be seen not only through the development of state-of-the-art systems, which provide a more efficient service to pharmacies, but also in our unique support and service solutions to our customers. Such innovative thinking keeps us one step ahead in the pan-European market.

Group at a glance

Pharmaceutical company services

Alliance UniChem aims to work in partnership with all major pharmaceutical companies. As a wholesaler we stock a full range of products from manufacturers, and are their primary route to the patient, playing a vital part in the success of their businesses.

This relationship is, however, a two way process. At the same time that we physically distribute pharmaceutical companies' products, we are able to offer them access to, and data on, areas of the healthcare supply chain that are otherwise closed to them. We have the ability to support them in safeguarding and developing their market positions, educating the consumers taking their products and providing them with more timely and detailed information on the markets.

Where we are able to foster and develop these true partnerships with pharmaceutical companies, we can work with them to bring mutual benefit in many areas, be it exploiting the benefit of our skills in logistics, our pharmacy skills, our access to information gathering systems or our close and trusting relationships with our pharmacist customers.

Pharmaceutical wholesale

Our pharmaceutical wholesale division is a core activity of the Group. We operate wholesale businesses in 11 countries, providing an essential service to over half the pharmacists in our territories.

With thousands of products available for doctors to prescribe, many of high value, it is neither physically nor financially practical for the average pharmacy to stock more than a small fraction of the drugs that they may need to dispense.

Providing high service levels, with accurate, reliable and timely delivery means that the pharmacist can effectively use us as their off-site stockroom. This allows pharmacists to offer their patients high product availability without tying up capital in stock in-store. It also limits the quantity of controlled drugs stored in the community, improving security to the benefit of society in general.

We also recognise that, as a wholesaler, the health of our business is linked to the health of our pharmacist customers' businesses. We therefore offer a wide range of additional services aimed at improving the efficiency and professional service that our customers can offer their patients, while strengthening their links with Alliance UniChem.

Retail pharmacy

Alliance UniChem operates the third largest retail pharmacy network in Europe, with over 1,000 outlets in five countries. The majority of our pharmacies are in the UK, where the Group acquired Moss Pharmacy in 1992.

In many countries of Europe the ownership of pharmacies is restricted, making it impossible for companies to establish chains of outlets. Where it is possible and economically viable, we seek to establish chains based on the precept of offering high quality service and advice to communities. Our heavy focus on professional pharmacy services and coupling dispensing with professional advice, brings high levels of customer loyalty and repeat business to our pharmacies. This is complemented by our work to optimise the locations of our outlets to ensure they are in the best possible position to serve their patients.

We continually work to enhance the level of professional pharmacy service offered and to benefit all our customers across the Group. Much of this work is done in our retail division, which works closely with our wholesalers to develop initiatives which can be implemented in our own pharmacies and offered to our preferred independent pharmacy customers, to enhance and develop their own businesses.

Services to the patient

One of the fundamental beliefs at the heart of the way we approach our business is that pharmacists are more than dispensers. They are skilled and highly trained healthcare professionals and we recognise the key role that they can and do fulfill in the provision of primary healthcare.

Patients visiting our owned pharmacies can expect to find an environment geared to allow them maximum access to pharmacists who are specially trained in key advisory skills and have the facilities and resources to spend time with their patients and provide informed assistance with their medication.

Many of our pharmacies have specially equipped consultation rooms, allowing pharmacists to discuss confidential issues with patients.

In addition, we operate programmes to improve patient awareness of chronic illnesses, such as asthma or diabetes, which are run by pharmacists who have undergone specialist training. We also run programmes to promote general health and well-being both within our own pharmacies and in partnership with our pharmacist customers.

We believe that it is both sound business sense and our ethical duty to strive continuously toward professional excellence in pharmacy and work hard to achieve this both within our own and our customers' pharmacies.

The Alliance UniChem network

As at 31 December 2002

Country	Number of employees	Wholesale customers	Wholesale depots	Retail pharmacies
United Kingdom	11,340	7,258	11	782
The Netherlands	1,328	763	5	39
Czech Republic	457	2,190	8	–
Norway	1,241	581	1	89
France	5,101	13,242	58	–
Italy (including associates)	1,592	10,729	46	28
Spain	763	7,139	26	–
Portugal	428	1,585	8	–
Turkey*	4,239	31,042	37	–
Switzerland*	3,035	6,500	3	83
Greece*	330	1,200	6	–
Total	29,854	82,229	209	1,021

*Associate interest.

Financial highlights

Turnover up 9.7%

£8,023.5 million

Group operating profit up 13.0%
before amortisation of intangible assets*

£204.9 million

Profit before tax up 12.8%
before amortisation of intangible assets*

£179.5 million

Diluted earnings per share up 11.6%
before amortisation of intangible assets*

36.7 pence

Dividends per share up 9.3%

15.3 pence

*Figures are calculated before amortisation of intangible assets since the Directors consider that this gives a useful additional indication of underlying performance.

- Continued development of the international retail chain, with 94 new pharmacies acquired during 2002, bringing the network to over 1,000 pharmacies in five countries.
- Acquisition of a further 25% stake in Hedef Alliance in Turkey, bringing Alliance UniChem's holding to 50%.
- Enhanced market presence in Norway, with the acquisition of Holtung, the third largest Norwegian wholesaler.
- Further financing initiatives to strengthen and diversify the balance sheet, including financing and re-financing from the securitisation, private placement and equity markets.
- Restructuring of the Board and appointment of an additional non-executive director, with continued development of our management structure.

The importance of delivery
by Jeff Harris

In 1997, UniChem PLC and Alliance Santé S.A. merged in order to become **Alliance UniChem.**

Retail

Jan 1999: Alliance UniChem Retail International (AURI)
AURI is formed by Alliance UniChem

Jun 1999: AURI goes into Italy
(Eight pharmacies in Rimini)

Jan 2000: AURI goes into Switzerland
(Joint venture with Galenica)

Aug 2000: AURI goes into Holland
(De Vier Vijzels acquisition)

Mar 2001: AURI goes into Norway
(Market deregulation)

Wholesale

Aug 1998: SAFA Spain
Founded in 1919

May 1999: Alliance UniChem CZ Czech Republic
Integration of Plus spol s.r.o. and Pragopharm S.r.o

Dec 2000: Interpharm Holland
Founded in 1896

Mar 2001 (25%); Sep 2002 (25%): Hedef Alliance Turkey
Founded in 1987

Jun 2002: Holtung Norway
Founded in 1896

The heart of any business is its people, and for the people of Alliance UniChem their great skill and motivation is the delivery of perfect service to our customers and patients.

With tens of thousands of pharmaceutical products available to be prescribed in every country in Europe, and our pharmacist customers physically or financially constrained in the range of products that they can practically stock, our wholesaling businesses effectively act as the stock room for the pharmacist. If we are to fulfill this service properly the pharmacist must be able to rely on us to have the products that they need in stock, and to deliver them accurately and at the appointed time and to do this every time they deal with us.

By providing consistently high service levels, we can improve and maintain high standards of medicine distribution in Europe. Our customers also look to us for advice and services to complement the core professional dispensing business.

As pharmacists, our skill at delivering medicines and advice to patients with great accuracy, easy access and dependability is essential to their health and well-being. We couple this skill with the offer of professional advice and service, as part of the primary healthcare team in the community. This combined service of distribution and retail pharmacy is equally important to pharmaceutical manufacturers who need a smooth and efficient supply of their product to the marketplace, and to national governments, who must guarantee that people have access to a cost-effective and dependable supply of pharmaceuticals.

Of course our business is not only about its customers and partners – we must deliver for other stakeholders: our shareholders, our employees, and for the communities in which we work. We have worked hard to ensure that we maintain reliable and dependable results for our shareholders. In seemingly more volatile investment markets we continue to focus on delivering strong and reliable financial growth, reflected both in a growth in sales, profits and earnings and through our progressive yet prudent dividend policy.

For our employees we are working hard to ensure that we offer a rewarding and professional working environment within which we can actively encourage employee participation in the development of our business, and provide them with the skills and resources to grow with the business in the future.

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01 "Consolidation of volume creates more efficient wholesalers"; Alliance UniChem works with all the world's major pharmaceutical wholesalers.

02 "The integration of pharmaceutical wholesaling and retail pharmacy into one group brings many commercial benefits for us"; sharing skills and experience between our businesses makes us more efficient pharmacists and better wholesalers.

Extracts from the interviews with senior management are available on-line at:
www.alliance-unichem.com
'videos of the senior management'

Continuing to deliver

Consolidation in the healthcare industry

Stefano Pessina

When I first started working in the pharmaceutical wholesale industry over 25 years ago, it became very clear to me that the industry offered the opportunity to improve efficiency and service across Europe through consolidation. At that time, consolidation in retail pharmacy was almost unheard-of outside the UK.

In most European countries the wholesale industry was split among a large number of regional businesses, some operating as co-operatives and others family run.

These businesses mostly performed their role well, within the bounds of what was possible. However, they lacked the scale and resources needed to improve service levels and develop additional facilities so as to offer the support and assistance that pharmacists increasingly wanted, as more was asked and expected of them.

A concentration of volume creates more efficient wholesalers, able to offer the highest possible levels of service to the pharmacist, enabling them in turn to offer higher levels of service to their patients.

Patients benefit from ever improving levels of pharmacy service available to them and the improved efficiency that larger wholesalers brings, in terms of cost savings and a wider and more reliable supply of products.

Consolidation in retail pharmacy in the UK, allowed within strict parameters controlling the pharmacy sector, has seen the evolution of pharmacy chains focusing on a variety of different market segments. These chains exist alongside a well structured and managed independent pharmacy sector. Where chains are owned by wholesalers, they work closely with independent pharmacists and professional bodies to improve services and reduce costs involved in running high quality pharmacy services.

With increasing pressure both on national health services and on national budgets, it was also inevitable that if consolidation could deliver better standards of service at lower cost, it would be not only welcomed, but positively encouraged.

Of course I was not alone in recognising this, and in other key markets across Europe similar consolidation was beginning, forming the genesis of the three main pan-European wholesalers operating today, and there is still some way to go before consolidation is complete in Europe.

The benefits of our network

Geoff Cooper

Our work in bringing together a geographically and professionally diverse range of businesses into a unified group, and in so doing being an agent for consolidation in our industry, has brought with it many benefits, both those most obvious and tangible, and those more subtle but nonetheless of considerable significance.

The portfolio of businesses that we have brought together gives us exposure to a range of different markets, each with their own unique characteristics. This means that, while from time to time competitive or regulatory pressures may restrain growth in any individual market, we are able to continue the overall development of the Group in line with long-term trends.

The inclusion of retail pharmacy within that portfolio also spreads our exposure within certain markets, while maintaining our focus on the provision of healthcare. The integration of pharmaceutical wholesaling and retail pharmacy into one group brings many commercial benefits for us, facilitating the sharing of expertise and experience, allowing the wholesale division to focus its service specifically on areas of most benefit to our retail pharmacists and use this focus to offer equal benefit to our independent retail partners.

A more immediate benefit of our portfolio to us is the ability to share services and resources across many businesses, allowing optimum use of resources and appreciation of expertise in key business functions such as information technology, human resources management and procurement, reducing the cost to each individual business and improving the overall efficiency of the Group.

Of course we also benefit as our part in the consolidation process lets us bring together diverse businesses in a structure that allows us to benchmark and standardise activities, to establish and roll out best practice not just within a business, but across a continent and beyond, reducing our costs and bringing benefit to our customers across the Group.

Continuing to deliver (continued)

Working as partners

Stefano Pessina

Our business is one of interdependence with our customers. It is not a simple customer-supplier relationship. A pharmacist relies on his full line wholesaler to a great extent. They depend on being able to get their pharmaceuticals delivered accurately and on time, every time.

It is vital for us that we know our customers and understand their needs. We believe that one of our competitive advantages is this view of the pharmacist as a partner more than just a customer. This focus on the pharmacist as a partner is enshrined in our heritage, as many of the companies that make up our Group began as pharmacist-owned co-operatives, drawing much of their management from the pharmacist community who could identify exactly what their colleagues needed from a wholesaler.

We maintain our co-operative heritage through the continued participation of independent pharmacists in our business, both through a significant presence among our shareholders, and through our international consultation programme which gives pharmacists the opportunity to raise commercial and professional issues with us and actively participate in the direction and development of our business and services.

We also maintain the tradition of employing pharmacists throughout our business, so that their knowledge and understanding touch almost everything that we do. Pharmacists can be found not just in our pharmacies, but in warehouses and offices across Europe, working at every level, from shop floor to Board room. They act as a constant guiding force for the Group.

Our own pharmacists extend our ethos of partnership into the community, working closely with other healthcare professionals to play an active role in the provision of primary care, and with patients themselves, providing the skills, advice and support to ensure the patients' well-being.

Partnership is as important to us internally as it is in our relationships with our customers. The success of the Group is based on our businesses actively working together to improve themselves. This is particularly important between our retail and wholesale divisions, allowing both to enhance their performance, and the service that they offer their customers.

The successful expansion of our Group also owes much to our belief in partnership. Our willingness to enter into partnerships in new markets, rather than to insist on outright takeovers has afforded us the opportunity to enter such markets as Turkey and Spain.

Practical partnerships

Geoff Cooper

The concept of partnership is admirable, but it is the manner in which we put this into practice that differentiates our business. This can be seen at every stage as product flows through our businesses.

We work in close collaboration with manufacturers to help them reduce their costs and better manage their finished goods inventory, through Alloga, our pre-wholesaling "joint-venture" with our partners, Galenica of Switzerland. In distribution we have built a wholesale division based on the firm belief that when a business joins our Group, its management team and its ability to work seamlessly as a partner in our business, is every bit as important as any other aspect of the Company. We apply this approach clearly when choosing to establish minority investments in businesses, recognising the importance of building a partnership before a company is fully integrated into our Group.

In our wholesale businesses we constantly strive to act as a partner with our pharmacist customers in developing their own businesses, rather than as a simple supplier of goods. Whether through the provision of better and less expensive business support services, through the use of state-of-the-art technological systems or the other added value services which we provide, our pharmacist customers know they are working with a wholesaler who truly has their interests at heart. Of course the partnership between our own retailers and wholesalers adds an entirely new dimension to this, as our pharmacist customers find themselves with the opportunity to work with a wholesaler who better understands their business. We bring this experience across our Group to offer our pharmacy customers the opportunity to tap into this skill base to exploit the benefits of chain pharmacy within their own business and so enhance their own financial and professional performance.

01 "We believe that our service should be driven by the needs of our pharmacist partners"; an example of this belief can be seen in both our continued development of our traditional pharmaceutical businesses, and through the support we supply in new areas of the pharmacy business such as in Italy where we are the largest supplier of homeopathic products.

02 "We employ a significant number of pharmacists throughout our business"; in every market supervising pharmacists work with our wholesalers to ensure accuracy and help maintain our focus on the needs of our pharmacist customers.

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Continuing to deliver (continued)

The importance of service

Stefano Pessina

The quality and consistency of our service is a significant differentiator between ourselves and our competitors in many markets, and we believe it is the key to our success.

Every market in which we operate is competitive, with regulated pricing. Naturally competitive pricing remains important, but, provided the pricing is competitive, it is the level of service that will provide the commercial advantage with the pharmacist, and so win their order.

We monitor service levels continuously, and regularly commission independent research to compare our service against those of our competitors.

Service levels are measured in many different ways; in wholesale it can be measured by factors such as accuracy of delivery, timeliness, or incidences of out-of-stock lines. In our pharmacies we work hard to ensure that we maintain the highest possible levels of professional service and believe that the number of repeat customers we have reflects our success.

We are not, however, complacent about our service levels, and benchmark ourselves not only against the best in our own industry, but increasingly against other industries as well to ensure that we provide the best service we possibly can.

Making service an everyday creed

Geoff Cooper

In almost every aspect of our business we live or die by our service levels. We constantly monitor stocking levels, order accuracy, and order turnaround times through our depots to ensure that our pharmacist customers get the products that they need reliably, accurately and on time, every time. This means the pharmacist is able to reliably meet the levels of service expected and demanded by their patients.

From the patient's perspective, service is vital. When a patient enters a pharmacy to get a prescription filled they are placing a great deal of faith in that pharmacist, expecting them to ensure that they dispense the right product in the correct dose with adequate and accurate instructions for taking the medicines. Patients also expect their pharmacist to be aware of the implications for them of taking the drug, and the manner in which it should impact their condition. They quite rightly expect high levels of advice and professional integrity from a well trained, informed and resourced expert.

When they choose to enter one of our pharmacies, or one of those of our independent pharmacist partners, we must ensure that they get the highest possible level of service from that pharmacy. Our success in this is shown in our UK market share of the National Health Service prescription sector of the market, and the volume of repeat business that comes from loyal and long-standing customers.

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01 "We constantly monitor stocking levels, order accuracy, and turnaround times through our depots"; a combination of technology and advanced processes are used to improve the speed and accuracy with which goods flow through our warehouses.

02 "In retail we continuously strive to identify and develop new services"; as we re-fit our pharmacies we are combining advanced dispensary processes with the latest pharmacy management systems to provide the highest levels of patient care.

Innovation

Stefano Pessina

We must continually innovate to enhance and maintain our service levels, economic performance and market leading position. In an industry where our competitors copy our every move, and our prices are regulated, innovation allows us to stay one step ahead.

Innovation is about process and procedures, as much as technology, and we focus on innovating in every area of our operation in turn to make it better or more efficient.

Many of the areas of innovation that we have worked on over the years have focused on helping the pharmacist build their own business. This has been achieved through improving the efficiency of the pharmacy, through improving their professional skills, or through improving collaboration and dispensary disciplines and skills to improve overall service levels across the industry.

We have also, however, been able to work with manufacturers to develop a number of specialist services for them, from logistics and support services to assistance in the marketing of their product in the pharmacy and advising patients on its use.

Making innovation work

Geoff Cooper

We structure our businesses to promote innovation at all levels and champion the best of these ideas and concepts to the benefit of our own or our customers businesses.

We are working to develop common technology and process systems across our wholesale businesses, to improve the efficiency of operation and accuracy of service while at the same time helping us collect more accurate and timely data about the operations of each warehouse.

In retail we continuously strive to identify and develop new services. These are developed in concept stores in key locations within which we can showcase and fine-tune ideas before rolling them out across our retail chain. These innovations, once tested and refined, are made available to our pharmacist partners through our virtual chains, operating with considerable success in the UK under the name Pharmacy Alliance, in The Netherlands under the name Kring Apotek, and most recently with our new concept specially developed for the French markets, called Alphega.

Our companies have always been at the forefront of technological advances in pharmacy. We are currently involved with trials of electronic prescription transfer in the UK and elsewhere, and are in the process of rolling out a new pharmacy management software system that we have developed to bring this area of the pharmacy business up to date.

The community focus of our retail business has meant that our pharmacy chain has long been recognised as a leader, outside academic and hospital pharmacy, in clinical pharmacy and in pharmacists professional development. Our retail division has won much praise and recognition for its innovative new training and professional development which allows pharmacists to meet their professional requirements for on-going development, helping to enhance overall standards in the industry while at the same time meeting a legal and professional requirement.

01 "Regulation must achieve a balance between protecting the public interest as a payer and protecting consumers' interests"; we must recognise this balance and our skill is in serving both these interests simultaneously, while recognising that we must always place the patient's interests first.

02 "To dismiss all regulation as a threat to our business is to not understand the nature of the regulation or the businesses themselves"; most regulation presents opportunity as much as restriction to our business, although this may not always be obvious.

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Continuing to deliver (continued)

Managing regulation

Stefano Pessina

The regulatory environment within which we work has always had within it an inherent tension. In Europe, unlike most of the world, national governments are the primary payer for pharmaceuticals. Almost every aspect of the distribution of these products is handled by the private sector.

Regulation must therefore achieve a balance between protecting the public interest as a payer and protecting consumers' interests. As a consumer, the public wants high service levels. Consumers want products to be available immediately wherever they may live and they want the pharmacist that dispenses the product to be able to offer advice and counselling on their condition and the pharmaceuticals that are being dispensed.

The demand for these services continues to rise steadily through demographic trends raising the average age of the population, while at the same time expectations from national health systems continue to rise.

When governments act to review regulation they do so to manage this growth, to avoid unsustainable pressure on the public purse. At the same time, however, they are aware of the benefits of a thriving and efficient distribution system, and want to reap those benefits for the patient. Regulation reduces the rate of market growth, but our skill at working within the regulatory environment, and the service that we offer both government and the public, are such that we recognise regulation to be as much a protection for us as it is for the public; a stabilising rather than destabilising force in the industry.

Working with governments

Geoff Cooper

Probably the most significant management skill required to maintain a market leading position in our business is the ability to manage the regulatory environment in which we work, and to meet the challenges and exploit the opportunities presented by changes in regulations.

We meet the challenges of regulatory change by a combination of refinements to our businesses, their cost structures and commercial terms, or through innovating new services to address the issues raised by the new regulations. But regulation can provide long-term market stability, as well as a challenge to be overcome. It defines the parameters within which we work, and ensures a smooth and reliable environment in which we can plan and develop our businesses in the future.

Regulation change is often predictable. Changes to regulation occasionally makes the news headlines, but in fact they typically arrive after a long lead-time, and involve much consultation, all of which we are involved in, affording us the opportunity to influence change, as well as to properly plan and prepare for it. We share a mutual interest with regulators in maintaining efficient and reliable availability of medicines and pharmaceutical care, we help regulators achieve their objectives by actively co-operating to manage supply and suggesting innovations in structures and reimbursement regimes.

One of the biggest opportunities that regulatory change offers us is the choice to exploit the competitive advantages that our efficiency and focus on costs brings. No matter what alterations may be made to regulations governing the operation or compensation we receive for our services, the most efficient will prosper. To dismiss all regulation as a threat to our businesses is to misunderstand the nature of the regulation, or the businesses themselves.

Chairman's statement

We continue to seek opportunities to expand the Group, both in countries in which we operate and beyond, and to drive enhanced financial performance from our core businesses.

Overview and financial results

The 2002 results demonstrate the Group's ability to continue to deliver strong and stable growth in financial performance, reflecting the inherent quality of our businesses and the benefits of a diverse geographical and commercial portfolio. In our wholesale division, all businesses performed well, although in Italy trading conditions continue to be difficult. Our retail division again delivered strong sales and profit growth, both organically and through its continuing acquisition programme, and we now have over 1,000 retail pharmacies, including those operated by associated businesses.

Group turnover was £8,023.5 million (€12,781.4 million), a year on year increase of 9.7%. Group operating profit before amortisation of intangible assets increased by 13.0% to £204.9 million (€326.4 million). Profit before taxation and amortisation of intangible assets increased by 12.8% to £179.5 million (€285.9 million). Diluted earnings per share before amortisation of intangible assets increased by 11.6% on a comparable basis to 36.7 pence per share (58.5 cents), last year's figure having been restated for FRS19, the new accounting standard on deferred taxation, which was adopted in full in the year.

Dividend

The Board is recommending a final dividend of 10.1 pence per share, making a total dividend for the year of 15.3 pence per share (24.4 cents). The proposed final dividend is 9.8% higher than for the final dividend in 2001, the total dividend for the year being up 9.3%. The proposed final dividend will be paid on 9 June 2003 to shareholders on the register at the close of business on 21 March 2003. The Board will, as in previous years, offer shareholders a share alternative.

Board and organisational changes

In September 2001, when I became Executive Chairman as part of a number of Board and management changes, it was announced that I intended to retire as an executive of the Group in 2003. This will happen in early April 2003, after which I will chair the Group in a non-executive capacity.

As part of these changes, George Fairweather joined in April 2002 as Group Finance Director, succeeding Geoff Cooper who became Deputy Chief Executive.

In January 2003, Steve Duncan, Managing Director of our retail division, was appointed to the Board as Retail Director. This coincided with the announcement that Chris Etherington, the Director responsible for Northern Europe wholesale, is to leave the Board and Group at the end of March to take up a senior position in another business sector. We wish Chris every success in his future career. The Group is recruiting a Wholesale Director to the Board who will be responsible for all wholesale businesses. Once this appointment has been made, Ornella Barra, currently the Director responsible for Southern Europe wholesale, will become Group Services Director.

Paolo Scaroni, previously Chief Executive of Pilkington Plc and now Chief Executive of Enel SpA, Italy's leading electricity company, joined our Board in December 2002 as an independent non-executive Director. We are currently in the process of appointing a further two independent non-executive Directors.

Group development

We continue to develop the Group in accordance with our long-established strategic objectives.

In our retail division we acquired 94 pharmacies during 2002, including 37 in associate businesses. This brings our retail portfolio to 1,021 pharmacies, including 91 operated by associate businesses. For the first time, the majority of pharmacy acquisitions were in mainland Europe, reflecting our continuing investment in new markets, particularly The Netherlands and

Jeff Harris, Chairman

"I continue to be impressed by the dedication and professionalism of the people who work in our businesses."
Jeff Harris

Norway and through our associate business in Switzerland. Uncertainty in the UK, caused by the Office of Fair Trading inquiry into the National Health Service ("NHS") contract arrangements for pharmacies, led us to slow down UK pharmacy acquisitions until any changes in pharmacy licensing regulations are known.

In June we completed the acquisition of Holtung, the third largest Norwegian pharmaceutical wholesaler; this follows our successful entry into the Norwegian retail market in 2001. The transfer of most of our retail supply business into Holtung took place shortly thereafter, significantly improving sales, market share and the underlying performance of Holtung.

In September we completed the exercise of an option to acquire a further 25% of Hedef-Alliance, the largest pharmaceutical wholesaler in Turkey, taking our interest to 50%. Hedef-Alliance continues to perform well compared to our initial forecasts, despite the economic difficulties in Turkey.

During the year a number of steps were taken to strengthen the Group's capital structure, diversifying its sources of capital and lengthening the maturity profile of its borrowings. In September we successfully placed 16.3 million new shares, raising £88.1 million (€140.3 million) to provide the Group with additional financial flexibility to take advantage of future expansion opportunities. Earlier in the year, a placing of fixed rate unsecured Senior Notes and a securitisation of Italian receivables were completed, totalling approximately £345 million (€530 million), the proceeds being used to repay existing short-term bank borrowings.

People

I continue to be impressed by the dedication and professionalism of the people who work in our businesses, in particular their contribution to ensuring consistently high levels of service for our customers, while at the same time continuing to improve productivity and the financial performance of our Group. I take this opportunity to thank them, on behalf of all our shareholders, for their continued hard work.

Outlook

In 2002, our financial results once again demonstrated the strength of the Group, our markets continuing to grow overall at close to the robust growth trends that we have seen in recent years. Today there is further economic and political uncertainty, with the resulting regulatory and commercial pressures, but our track record demonstrates our consistent ability to meet these challenges and to deliver strong financial performance.

We continue to seek opportunities to expand the Group, both in countries in which we operate and beyond, and to drive enhanced financial performance from our core businesses. In particular, we are having to wait to see what action the UK government will take on pharmacy licencing, following the recent Office of Fair Trading review. We have comprehensive plans to deal with the various scenarios that may be finally implemented and remain confident that our focused retail community pharmacy chain can continue its strong growth and financial performance. When the Government decides on its course of action we will swiftly resume the expansion of our UK retail pharmacy chain through acquisition, and if regulation permits, through the opening of new pharmacies ourselves.

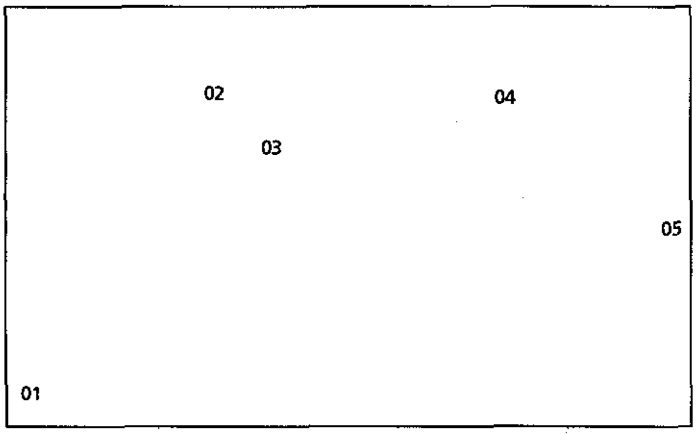
Early indications are that 2003 business performance has started in line with our expectations, and we remain confident of being able to continue our strong performance.

Jeff Harris

Jeff Harris
Chairman
10 March 2003

Operating review

We continue to focus on our core wholesale and retail business activities, seeking to grow market share and profits of existing businesses.



About the team
The executive committee, chaired by Geoff Cooper, consists of the executive Directors. Since December 2002, the executive committee has taken over responsibility for the day by day running of the Group, implement the decisions of the Board, and attend to all matters not reserved for approval by the Board.

01
Stefano Pessina
Chief Executive

02
George Fairweather
Group Finance Director

03
Steve Duncan
Retail Director

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Geoff Cooper
Deputy Chief Executive

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Ornella Barra
Director – Wholesale Southern Europe (Group Services Director designate)

Divisional highlights
for the year ended 31 December 2002

			Year on year growth	
	Turnover £million	Operating profit* £million	Turnover %	Operating profit* %
Wholesale Northern Europe	2,770.5	77.4	+13.8	+9.0
Wholesale Southern Europe	4,988.9	73.8	+5.5	+5.1
Retail – Europe	972.5	65.4	+35.1	+16.0
Corporate	–	(11.7)	–	–
Intra-group	(708.4)	–	–	–
Group	8,023.5	204.9	+9.7	+13.0
Share of operating profit of associated businesses	–	21.5	–	+23.6
Total	8,023.5	226.4	+9.7	+13.9

*Before amortisation of intangible assets.

In 2002, each of our divisions delivered strong growth in turnover and operating profits, demonstrating again the Group's ability to deliver good growth in financial performance. We continue to focus on our core wholesale and retail business activities, seeking to grow market share and profits of existing businesses through differentiating ourselves by providing superior customer service supported by ever-improving operational efficiencies.

During the course of the year we increased development activities on a number of cross-country business improvement projects, including the establishment of small central teams for logistics management, procurement and information technology, the benefits of which are already being seen.

Markets
Overall, we estimate that the wholesale markets in which our businesses operate grew by around 5.1% year on year, weighted according to our wholesale turnover. The principal factors determining market growth continue to be demographics and government actions in each country. The 2002 average growth rate is in line with other forecasts and with rates seen in recent years.

Generic prescribing continues to increase, particularly in the UK and The Netherlands, reducing wholesale turnover growth as more expensive brands come off patent and are replaced by cheaper generic medicines which typically offer higher trading margins to us. Despite the lower sales growth, we have used our market position to improve our rate of growth and expect to be able to continue this success.

Parallel importing, continues to increase in several markets across Europe, despite manufacturers' efforts to curtail it through the implementation of quota systems on products and the restriction of product supply in certain markets. This growth is being encouraged in some markets by governments introducing or maintaining economic incentives or regulations to increase the incidence of dispensing of parallel imported products. Manufacturers' actions are subject to ongoing legal challenges by industry associations across Europe, as they

**Northern Europe:
Highlights of the year**

UK: New warehouse layout, developed as result of a Group-wide benchmarking process, trialled extremely successfully in Hinckley warehouse. Continued enhancements to our industry acclaimed loyalty schemes. Launch of the new Nexphase pharmacy management system.

The Netherlands: Further significant growth in market share. One new warehouse opened in 2002 to replace and update old facilities, with another new opening since the year end, both using the new benchmarked warehouse layout.

The Czech Republic:
New organisational structure implemented, strengthening focus on customer service.

Norway: Entry into the Norwegian wholesale market with acquisition of Holtung in June 2002.

are aimed at restricting free trade within the European Union. Overall, however, trade in parallel imports is limited.

Wholesale

Northern Europe

Operating profit before amortisation of intangible assets was £77.4 million (€123.3 million), an increase of 9.0% on the previous year, on turnover up 13.8% to £2,770.5 million (€4,413.4 million). Underlying like for like sales growth was 10.7% on a constant currency basis. Operating margins decreased by 13 basis points to 2.79%, mainly as a result of lower gross margins in The Netherlands. In the second half, operating profit before amortisation of intangible assets was £42.9 million (€67.8 million), an increase of 10.9% on the second half of 2001 on turnover up 18.3%.

In the UK, turnover for the year was £1,923.2 million (€3,063.6 million). Underlying sales growth was 8.4%, representing a further increase in market share, the market growing, we estimate, by around 7.5%. As previously reported, a major supplier transferred the remaining part of its business from a wholesale to an agency basis in the first half, reducing reported year on year turnover growth to 4.9%.

Gross margins in the UK were higher than in 2001, following management action to increase sales of higher margin product categories and more effective management of customer and supplier relationships. Overall, the business achieved good profit growth.

Having rationalised the UK warehouse network in recent years, further improvements in productivity are being sought through a Group-wide benchmarking initiative covering warehouse layout, operating procedures and related systems. In October, as part of this programme, we completed the process of re-laying our Hinckley facility to a new format. Early indications are that substantial improvements in productivity can be achieved and actions to roll out the programme to other facilities, both in the UK and other countries, are underway.

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01 In June 2002 the Group completed the acquisition of Holtung, the third largest pharmaceutical wholesaler in Norway.

02 The integration of the business into the Group is now complete, including the transfer of our Norwegian retail supply business, significantly improving sales, market share, and the underlying financial performance of the business.

03 As elsewhere the close working relationship between pharmaceutical wholesale and retail pharmacy is already delivering benefits to both businesses.

04 Based just outside Oslo, Holtung gives the Group a wholesale presence in Scandinavia for the first time.

Operating review (continued)

During the course of the year we increased development activities on a number of cross-country business improvement projects.

01 Our business is one of interdependence with our customers. It is not a simple customer-supplier relationship.

02 We are not complacent about our service levels, and benchmark ourselves against the best in our industry to ensure that we provide the best service we possibly can.

03 Areas of differentiation for our business include product sectors where we can add value through specialist advice and product ranges to enhance our customers own businesses.

04 The pharmacist relies on his full line wholesaler. He depends on being able to get his pharmaceuticals delivered accurately and on time, every time.

05 The initiatives underway in France are designed to increase customer loyalty, establish stronger relationships with pharmacist buying groups and go some way to counter competitor discounting.

We have also launched our new pharmacy management system software in the UK. Called Nexphase, this is the replacement for the highly successful market-leading Mediphase system, currently used by over 4,000 pharmacies in the UK.

In addition, we have continued to enhance our industry acclaimed loyalty schemes, including a series of enhancements to the popular "Community Pharmacy Initiative +" programme, designed to help independent community pharmacies take advantage of category management systems developed within the Group.

In The Netherlands, our turnover increased by 24.9% to £613.5 million (€977.3 million), up 23.4% on a constant currency basis. Sales growth accelerated in the second half of the year, despite estimated market growth slowing down to around 9% for the year, which was below our expectations at the half year stage. Despite strong competition, we continue to win significant market share by providing our customers with excellent customer service whilst matching discount conditions in the market. As reported in our interim results, competitors have increased discounts, resulting in lower gross margins.

Our pharmacist internet service, pharmology.com, was launched in The Netherlands during the year; it has been well received and attracted a large number of enthusiastic pharmacy users.

Southern Europe: Highlights of the year

France: Further action to reduce costs, with a further two warehouses closed in 2002, completing the planned rationalisation process. Additional work on service initiatives, including the successful launch of the new Alphega independent pharmacy network concept in January 2002.

Italy: Significant work to reduce costs, with a review of operational strategy still underway to identify how best to improve performance.

Spain: Strong results further bolstered by the inclusion of a small regional wholesaler acquired in September 2001 and further cost reductions with two warehouses closed during the first half of the year.

Portugal: Gains in both market share and margin, with implementation of first warehouse re-formatted to new benchmark led warehouse plan to provide basis for future improvements in efficiency.

In December, the new warehouse and head office at 's-Hertogenbosch were successfully opened, replacing outdated facilities. Since the year end, a second warehouse has been similarly opened in Almere, again replacing an existing facility. The layout of both these warehouses incorporates benefits derived from the Group-wide benchmarking initiative.

In the Czech Republic, turnover increased by 27.6% to £140.1 million (€223.2 million), an increase of 14.0% on a constant currency basis, compared to a market which we estimate grew by around 9%. Large sales growth and market share gains were achieved in the hospital sector. Significant productivity gains more than compensated for gross margin pressures, resulting in higher operating margins and profits. This was a significant achievement, despite the disruption caused by floods in the autumn when one warehouse was severely damaged. During the year a new organisational structure was successfully implemented, strengthening our focus on customer service, and the principal warehouse in Prague was extended providing additional capacity.

In June, the Group completed the acquisition of Holtung, the third largest pharmaceutical wholesaler in Norway, based just outside Oslo, giving us a wholesale presence in Scandinavia for the first time. Turnover for the six months to 31 December 2002 was £93.7 million (€149.3 million). The integration of the business into the Group is now complete, including the transfer of our Norwegian retail supply business, significantly improving sales, market share and the underlying financial performance of the business. As a result, the business delivered profits, a year ahead of the business plan developed at the time of the acquisition.

Wholesale

Southern Europe

Operating profit before amortisation of intangible assets was £73.8 million (€117.5 million), an increase of 5.1% on the previous year on turnover up 5.5% to £4,988.9 million (€7,947.3 million). Underlying like for like sales growth was 3.3% on a constant currency basis. Operating margins for the year were at a similar level to 2001, but improved in the second half. As a result, second half operating profit before amortisation of intangible assets was £38.6 million (€60.9 million), an increase of 11.6% on the second half of 2001 on turnover up 8.4%.

In France, our largest business in the region, turnover increased by 6.4% to £3,198.3 million (€5,094.9 million), the growth rate being faster in the second half of the year following the acquisition of Ouest Répartition Pharmaceutique, a three branch regional wholesaler, which increased our market share. Our underlying organic sales growth was 3.7%, compared to a market which we estimate grew in value by around 3.5%, but declined in volume terms. As anticipated at the time of our 2002 interim results, this market growth was slower than in previous years. This reflects the full year impact of price reductions on branded ethical products announced in September 2001, increasing growth in generics, the marketing of fewer new medications and governmental efforts to reduce the number of prescriptions, including the delisting of certain medications available under prescription.

Despite the difficult market, operating profits in France grew substantially year on year, with operating margins improving through tight management controls and lower ACOSS healthcare taxes. Tough action has been taken to contain costs. Two warehouses were closed in the first half of the year; a further warehouse will be closed in the first half of 2003 to complete the rationalisation plan begun in 2001.

Operating review (continued)

Our pharmacies are well located, with the overriding majority close to doctors' surgeries.

In addition to cutting costs, our French business continues to develop and enhance customer service initiatives designed to increase customer loyalty, establish stronger relationships with pharmacist buying groups and go some way to countering competitor discounting. In January 2002 Alphega, a network concept which independent pharmacies can join, was successfully launched. By the end of the year, 110 French pharmacies had joined the network. The business also continues to develop its professional services.

In Italy, turnover reduced by 7.0% to £848.1 million (€1,351.0 million), representing an 8.2% reduction on a like for like basis. This was mainly the result of a 5% reduction in prices imposed by the Italian government at the start of the second quarter and further governmental measures at the beginning of September, together with actions taken by ourselves in 2001 to withdraw from heavily discounted and unprofitable supply contracts with a number of municipal pharmacy chains. We estimate the comparable year on year market growth rate to be around 2.5%. Strong competition also impacted gross margins and contributed to lower operating margins and profitability. However, swift action was taken in the first half of the year to eliminate costs, resulting in a headcount reduction of 9% over the course of the year. As a result of these measures, operating profits in the second half of the year were over 50% higher than in the first half, matching the second half results for 2001.

Our review of operational strategy in Italy is continuing, to determine how best to improve longer term business performance in what is a difficult market from a regulatory and commercial perspective. This is being led by a new managing director recently appointed from within the Group.

In Spain, turnover increased by 18.6% to £639.7 million (€1,019.0 million). Like for like turnover grew by 13.3% on a constant currency basis, with growth also coming from the acquisition of a small regional wholesaler in September 2001. This compares with market growth we estimate to be around 9%. Operating profit for the year was ahead of 2001. This profit development was aided by a continued focus on costs, including the closure of two warehouses in the first half of the year.

Turnover in Portugal increased by 12.1% to £302.8 million (€482.4 million), up 11.6% on a like for like basis, compared to a market growth rate we estimate to be around 8%. Growth in the second half of the year was particularly strong, as the business gained market share while at the same time improving margins. Profitability increased year on year, despite a number of one-off costs in the first half, the most significant of which were redundancy costs as a result of our response to regulatory cost pressures experienced last year. Improvements in profitability should be assisted further by the introduction of the new format warehouse configuration being introduced into the first warehouse in Portugal as part of its implementation programme following its success in the UK.

Retail

Operating profit before amortisation of intangible assets was £65.4 million (€104.2 million), an increase of 16.0% on the previous year, on turnover up 35.1% to £972.5 million (€1,549.2 million). In the second half, operating profit before amortisation of intangible assets was £34.6 million (€54.6 million), an increase of 9.5% on the second half of 2001 on turnover up 27.7%. Operating margins in Norway, The Netherlands and Italy all rose year on year as these businesses grew in scale. Overall retail operating margins for the year were 112 basis points lower than in 2001; this was as a result of earlier government action to stabilise generic prices in the UK and a mix effect from having a greater proportion of sales in non-UK markets.

Retail:
Highlights of the year

94 new pharmacies added to the network across Europe.

Further diversification of pharmacy portfolio, with expansion focus mainly outside the UK.

Implementation of new branch EPOS system underway.

New board representation with appointment of Steve Duncan as Retail Director to the Board during 2002.

Participation with UK regulatory enquiry into Pharmacy contracting and licensing, and detailed work to confirm the limitations of its potential impact on Alliance UniChem's business.

In the UK, turnover increased by 20.1% to £715.8 million (€1,140.3 million), like for like sales growing by 7.5%. Turnover from National Health Service prescription income increased by 24.9%. Operating profits increased year on year at a lower rate than sales, operating margins being lower for the reasons explained above. During the year we acquired 20 pharmacies and sold five, of which four operated in supermarkets. This brought our total UK chain, as at 31 December 2002, to 782 pharmacies and 62 other healthcare related retail outlets. As previously highlighted, we temporarily slowed down our pace of expansion in the UK, pending the outcome of the Office of Fair Trading review of pharmacy licensing and control.

The Office of Fair Trading, after a number of delays, finally published its recommendations on 17 January 2003. The report recommended the removal of the current contract system, introduced by the Department of Health in 1987. The Government is considering to what extent the Office of Fair Trading's opinions can be implemented, while ensuring the continued provision of appropriate distribution of pharmaceuticals and services to all communities across the United Kingdom. Alliance UniChem is actively participating in the Government's consultation process, the outcome of which is expected to be announced in mid-April.

We are confident that the recommended liberalisation of the regulations, if implemented in full, will have no overall negative effect on our existing business. Instead, it will provide new opportunities for further growth in our UK retail chain through the opening of new pharmacies – a process which has already been planned.

Alliance UniChem is committed to the concept of community pharmacy. Our pharmacies are well located, with the overriding majority close to doctors' surgeries, and would be largely unaffected by any new pharmacy openings in superstores, high streets or other destination shopping locations. Our typical customer is a patient requiring immediate fulfilment of a prescription or with a regular repeat prescription.

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01 When a patient enters a pharmacy to get a prescription filled they are placing a great deal of faith in that pharmacist, expecting them to ensure that they dispense the right product in the correct dose with adequate and accurate instructions for taking the medicines.

02 During the year 11 new pharmacies were added to our network in Italy, including this newly refurbished 24 hour pharmacy in Lucca.

03 Our pharmacists are given additional training in specialist areas of patient advice and counselling, and additional therapeutic skills or complementary treatments to enhance the service offering in our pharmacies.

04 On-going training is both a professional requirement for our pharmacists, and a significant element of our strategy to differentiate our pharmacies through the quality and range of services offered.

05 In addition to our own programmes to promote patient well being we participate in a wide range of national or industry programmes, such as this co-sponsored smoking cessation programme being promoted by the Norwegian government. Similar programmes are underway with governmental support across Europe.

Operating review (continued)

Alliance UniChem is committed to the concept of community pharmacy. Our pharmacy offering is focused on customer service and advice.

01 The community focus of our retail business has meant that our pharmacy chain has long been recognised as a leader, outside academic and hospital pharmacy, in clinical pharmacy and pharmacists professional development.

02 When a patient chooses to enter one of our pharmacies, or one of our independent pharmacist partners, we must ensure that they get the highest possible level of service from that pharmacy.

03 Provided our pricing is competitive it is the level of service that will provide the competitive advantage with the pharmacist, and so win their order.

04 The quality and consistency of our service is a significant differentiator between ourselves and our competitors in many markets, and we believe it is the key to our success.

Our pharmacy offering is focused on customer service and advice, thereby attracting an enhanced market share of NHS prescription patients. This professional approach provides us with a competitive advantage in attracting and retaining qualified pharmacists who prefer to work with patients in an advice-orientated environment.

We will also seek to increase the number of pharmacies which our UK wholesale business serves as a result of any liberalisation of the pharmacy contract system. We do, however, believe that these proposals, if implemented in full, carry with them the risk of compromising the national pharmacy service by jeopardising the quality of pharmacy service available from the independently owned pharmacies in the UK.

We remain confident that our focused retail pharmacy offering will allow us to continue our strong growth and financial performance and to ensure that the intrinsic value of our UK pharmacy chain remains robust. The value of our pharmacy chain is reviewed each year on a discounted cash flow basis, in accordance with UK Generally Accepted Accounting Principles. Cash flows remain strong and no significant devaluation in the carrying value of pharmacies on the Group balance sheet is anticipated.

We continue to invest in the UK business; 98 pharmacies were refitted during the period, all in the latest Moss format.
An investment is underway to install next generation information technology systems throughout the business; this includes the implementation of new branch EPOS and pharmacy management systems linked into new head office systems. This investment will facilitate the delivery of new pharmacy services in the future, and also enable us to manage the business even more effectively.

In Norway, turnover increased by 123.7% to £174.3 million (€277.7 million), as we continue to expand the business. 21 pharmacies were acquired during the year, three new pharmacies were opened and one closed, bringing the total chain to 89 outlets as at 31 December 2002. Operating margins almost doubled as the business achieved the scale necessary to operate effectively. As a result of these factors, operating profit levels were substantially higher than in 2001.

In The Netherlands, turnover increased by 111.3% to £61.9 million (€98.6 million), again reflecting the rapid expansion of the chain. 12 pharmacies were purchased during the year increasing the chain size to 39 outlets. Operating margins also increased as the business increased its scale. Together these factors, as with Norway, resulted in substantially higher operating profits. In August we acquired the remaining 30% minority interest in the business, giving us full ownership of all our retail outlets in that country.

In Italy, turnover increased by 22.8% to £20.5 million (€32.7 million), 11 pharmacies being acquired during the year and one merged pharmacy being returned to its municipality, bringing the total to 28 at the year end, including eight in associate businesses. Operating margins improved year on year.

Through our other associate retail business we now operate 83 pharmacies and seven other retail outlets.

Corporate costs
Net corporate costs totalled £11.7 million (€18.6 million), a £4.6 million reduction on 2001, which included higher internet technology costs.

Associate businesses
Our associate businesses contributed £21.5 million (€34.2 million) to total operating profit before amortisation of intangibles, a 23.6% increase year on year.

Hedef-Alliance, the largest pharmaceutical wholesaler in Turkey, contributed £6.9 million (€11.0 million), compared to £3.8 million (€6.1 million) in 2001. Business operating profits before amortisation of intangibles increased by 7.4% on an inflation adjusted US dollar basis, the balance of the increase in contribution mainly reflecting the timing of the purchase of our two-stage investment.

In September, we completed the purchase of a further 25% interest in Hedef-Alliance, taking our interest to 50%. This was done through the exercise of our option, the terms of which were renegotiated in recognition of the volatility in the Turkish economy. £20.8 million (€33.1 million) of the consideration was paid in 2002; the balance will be paid between 2004 and 2005, based on the business's performance, and will be met in cash or shares at Alliance UniChem's sole discretion. We continue to account for Hedef-Alliance as an associated undertaking.

Contributions from other associate businesses increased by 7.3% in total to £14.6 million (€23.2 million), a strong performance by Galenica of Switzerland being partially offset by the absence of operating profits from associate businesses in The Netherlands which were sold in 2001.

In the final quarter of 2002, we disposed of our associate interest in Sophasud in Morocco, as it did not meet our strict investment criteria for associate investments.

Financial review

The Group continues its well established track record of generating free cash flow to fund investment in wholesale acquisitions and new pharmacies.

Accounting policies
The principal accounting policies adopted by the Group are unchanged, with the exception of the adoption in the year of FRS 19 "Deferred Tax". All comparable figures have been restated accordingly. A prior year deferred tax adjustment of £3.7 million has been reflected in the balance sheet. The tax charge for 2002 is £0.6 million (€1.0 million) higher as a result of the implementation of FRS 19.

Alliance UniChem welcomes the decision that European Union-based listed companies will adopt International Accounting Standards in 2005. Transitional arrangements for implementation of these standards have not yet been established by the relevant regulatory bodies. The Group is reviewing the likely impact of these standards on its financial statements.

Results for the year
Group turnover increased by 9.7% to £8,023.5 million (€12,781.4 million), including £204.8 million (€326.2 million) from acquisitions. Group operating profit before amortisation of intangible assets increased by 13.0% to £204.9 million (€326.4 million), the majority of this improvement coming from continuing operations. The share of operating profit in associated undertakings before amortisation of intangible assets grew by 23.6% to £21.5 million (€34.2 million). Amortisation of intangible assets increased by 11.5% to £12.6 million (€20.1 million), largely as a result of the increased shareholdings in associated undertakings. Total operating profit increased by 14.1% to £213.8 million (€340.6 million).

Net interest payable was £46.9 million (€74.7 million), an increase of 18.4% over 2001; this increase principally reflects acquisition funding costs, higher working capital, together with higher interest margins applicable on new, longer maturity, borrowings, partially offset by the effect of the share placing at the end of the third quarter. Interest cover, calculated before the amortisation of intangible assets, was 4.8 times for 2002 (2001 5.0 times), reflecting tight management control of cash.

Profit on ordinary activities before taxation and amortisation of intangible assets increased by 12.8% to £179.5 million (€285.9 million).

Taxation
The Group's effective rate of tax, based on profit on ordinary activities before taxation and amortisation of intangible assets, was 32.1% (2001 32.9%), which is broadly in line with the weighted average standard tax rate of 32.5% (2001 32.0%). These are higher than the UK standard rate of 30% due to higher rates on non-UK profits.

Shareholders' return and dividends
Diluted earnings per share before amortisation of intangible assets were 36.7 pence (58.5 cents), up 11.6% on the previous year. The Board is recommending a final dividend of 10.1 pence per share, making a total dividend for the year of 15.3 pence per share (24.4 cents). The proposed final dividend is 9.8% higher than for the final dividend in 2001, the total dividend for the year being up 9.3%, which is covered 2.2 times by basic earnings per share (2001 2.1 times).

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Cash flow and investment in the business

The Group continues its well established track record of generating free cash flow to fund investment in wholesale acquisitions and new pharmacies.

Net cash inflow from operating activities was £200.6 million (€319.6 million), compared to £239.9 million (€387.0 million) in 2001. Working capital net outflow was £33.4 million (€53.2 million). Cash inflow from lower stocks was £50.1 million (€79.8 million), the major reduction being in Italy, from lower pricing and sales volumes, and in both our UK and Italian wholesale businesses from intensive stock management programmes. Net cash outflow from debtors of £51.6 million (€82.2 million) reflects increased sales and a non-recurring £37.0 million (€58.9 million) variance on the timing of UK securitisation receipts at the year end, partially offset by £94.2 million (€150.0 million) from the Italian securitisation programme initiated in June. Cash outflow from creditors of £31.9 million (€50.8 million) arose mainly from lower pricing and sales volumes in Italy and higher than typical creditor balances at the start of the year as a result of a number of factors. Net capital expenditure on tangible fixed assets was £38.0 million (€60.5 million), including £28.9 million (€46.0 million) of gross expenditure on replacement fixed assets.

Total consideration for acquisitions was £89.0 million (€141.8 million), comprising cash paid of £74.8 million (€119.2 million), loan notes and shares. Net borrowings acquired were £11.1 million (€17.7 million). In addition, expenditure of £35.9 million (€57.2 million) was incurred in the further purchase of shares in associated undertakings. The Group has continued to purchase minority interests in its businesses in France, Spain and the Czech Republic.

About the team
The Executive Committee and Board is advised on financial policy by an informal management committee chaired by George Fairweather, Group Finance Director, and comprising experts that head up each area of the Group's day to day financial management.

01
Steve Sampson
Director of Financial Structuring

02
David Mallac
Group Treasurer

03
Jason Grover
Group Financial Controller

04
George Fairweather
Group Finance Director

05
Stefano Pessina
Chief Executive

06
Geoff Cooper
Deputy Chief Executive

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01 The manner in which we put partnership into practice differentiates our business. This can be seen at every stage as product flows through our business.

02 We believe that our continued focus on the pharmacist is central to our business and ensures that they are always at its heart.

Shareholders' funds

Shareholders' funds at the year end were £866.7 million (€1,329.5 million), an increase of £185.9 million, principally reflecting £56.2 million (€89.5 million) of retained profit and £102.0 million (€162.5 million) of shares issued.

Financial position

At 31 December 2002 total borrowings were £1,029.9 million (€1,579.9 million) compared to £918.8 million (€1,502.2 million) at the end of 2001. At 31 December 2002 cash at bank and in hand totalled £149.7 million (€229.6 million) compared to £137.4 million (€224.6 million) at the end of 2001. Net borrowings were £880.2 million at the year end compared to £781.4 million in 2001. Of this increase, £59.6 million related to currency translation differences on borrowings hedging continental European assets.

Treasury policy

The Group's treasury policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its currency, interest rate and counterparty risks. The Group treasury department acts as a service centre operating within clearly defined guidelines approved by the Board. The Group's policy is to not engage in speculative transactions.

The Group seeks to maintain levels of interest cover that are commensurate with an implied investment grade debt rating; to achieve this it targets a long-term interest cover of around five times before the amortisation of intangible assets. This level may temporarily fall where the Group has undertaken a strategically important investment in any year.

Liquidity and funding

During the year, the Group has diversified its sources of capital and lengthened the maturity profile of its borrowings. This improvement has been achieved by a placing of fixed rate, unsecured Senior Notes for ten years (US$ 300 million) and 15 years (£50 million). The US dollar and sterling liabilities were swapped into the underlying currencies of the bank debt being repaid on a floating rate basis. In addition, core committed banking facilities were renewed for a further five-year period.

In Italy, £94.2 million (€150.0 million) was raised by securitising receivables from our wholesale business under a five-year programme; in France our existing receivables securitisation programme was renewed for a further five-year period.

At the year end, 51% (2001 27%) of gross borrowings were repayable in more than five years.

In September, 16.3 million new ordinary shares were placed raising approximately £88.1 million (€140.3 million), to provide the Group with additional financial flexibility.

At the year end, undrawn committed borrowing facilities were £105.3 million (2001 £110.3 million).

01 Whether through the provision of better and less expensive support services, through the use of state-of-the-art technological systems or the other value added services which we provide, our pharmacist customers know that they are working with a wholesaler who truly has their interests at heart.

02 Consumers want products to be available immediately wherever they may live and they want the pharmacist that dispenses the product to be able to offer advice and counselling on their condition and the pharmaceuticals that they are being dispensed.

Interest rate risk management

The Board's policy is to hedge against adverse movements in interest rates by requiring that the interest expense on around 60% of average projected borrowings over a three-year horizon is either fixed or capped, with borrowings beyond that period on a floating rate basis. As a result, interest costs have been higher in recent years than if no hedging had taken place. This policy is currently under review. The Group borrows on both a fixed and floating interest rate basis and manages its exposure through the use of interest rate swaps and caps.

Currency risk management

The Group has significant investment in continental Europe and, as a result, its sterling balance sheet can be significantly affected by movements in exchange rates. The Group seeks to mitigate the effect of these exposures by partially hedging its foreign currency net assets with borrowings denominated in the same currency, either directly or through the use of cross currency swaps. At 31 December 2002 66% of the Group's total borrowings were in euros and 14% were in sterling.

Approximately 40% of the Group's profit generated in 2002 was earned in currencies other than sterling, of which around 80% was in euros.

The Group has a policy of hedging foreign currency denominated transactions by entering into forward foreign exchange sale and purchase contracts where these transaction exposures arise.

Counterparty risk

The Group monitors the distribution of its cash assets, borrowings and other financial instruments against pre-determined limits so as to control exposure to any country or institution.

Pensions

The Group has made use of the transitional requirements of FRS 17 "Retirement Benefits". Had the standard been adopted in full for the 2002 financial statements, profit before tax would have increased by £1.0 million (€1.6 million). The net pension liability under FRS 17 at 31 December 2002 was £23.8 million (€36.5 million); this comprises deficits of £24.2 million for UK pension schemes and £10.6 million for other European pension schemes, partially offset by a £11.0 million deferred tax asset. Had the standard been adopted in full at the year end, shareholders funds would have been lower by £19.6 million (€30.1 million). The net FRS 17 pension liability therefore represents under 3% of shareholders' funds.

FRS 17 will be adopted in full in 2003. Net pension costs of defined benefit schemes under FRS 17 are estimated to be around £9.0 million in 2003 compared to £6.4 million on the same basis in 2002, the increase primarily related to the net finance cost.

Share price

The Alliance UniChem share price ranged from a low of 431.5 pence to a high of 672.5 pence during the financial year. On 31 December 2002 the mid market price was 447.0 pence, giving a market capitalisation of approximately £1.5 billion on that date.

Board of Directors

Left to right

01 The Right Hon. Ken Clarke
Deputy Chairman and independent senior non-executive Director, 62
was appointed to the Board in 1997 as Chairman, a position he held until September 2001. Ken is a Queen's Counsel and Member of Parliament and has served in the UK Government as Chancellor of the Exchequer and Health Secretary. Ken is Chairman of Savoy Asset Management and of British American Racing, Deputy Chairman of British American Tobacco and a non-executive Director of Foreign and Colonial Investment Trust and of Independent News and Media (UK).

02 Jeff Harris
Chairman, 54
was appointed to the Board in 1986. Jeff was appointed to his current role in September 2001, having previously been Chief Executive, Deputy Chief Executive, Finance Director and Chief Accountant. Before joining the Group in 1985, Jeff worked for two major auditing firms. Jeff is a Chartered Accountant and is a non-executive Director of Bunzl and of Andreae-Noris Zahn (ANZAG), a German company in which the Group has an interest.

03 Paolo Scaroni
Independent non-executive Director, 56
was appointed to the Board in December 2002. Paolo is Chief Executive of Enel, a non-executive Director of BAE Systems and a member of the board of the Business School at Columbia University in New York. Paolo was previously Chief Executive of Pilkington and has worked as a consultant and in industry since 1973.

04 Dr Neil Cross
Independent non-executive Director, 57
was appointed to the Board in 1997. Neil is Chairman of Close Technology and General VCT, a Non-Executive Director of Dawson Holdings, Taylor Nelson Sofrès, The Bayard Fund and British Maritime Technology and is Chairman of The Royal Society for the encouragement of Arts, Manufacturing and Commerce. Neil was previously an executive Director of 3i Group and is a Chartered Secretary.

05 Stefano Pessina
Chief Executive, 61
was appointed to the Board in 1997, when the Alliance Santé group became part of the Group. Stefano was appointed to his current role in September 2001, having previously been Executive Deputy Chairman.
The Alliance Santé group had pharmaceutical wholesaling interests in a number of European countries, having been established in Italy by Stefano in 1976. Before this, Stefano held a number of academic posts and worked as an independent business consultant. Stefano is an engineer by profession.

06 Patrick Ponsolle
independent non-executive Director, 58
was appointed to the Board in 1997. Patrick is Vice Chairman of Morgan Stanley International and Chairman of Morgan Stanley France. Patrick was previously executive Chairman of Eurotunnel.

07 Geoff Cooper
Deputy Chief Executive, 49
was appointed to the Board in 1994. Geoff was appointed to his current role in September 2001, having previously been Finance Director. Before joining the Group in 1994, Geoff worked in a range of industrial and commercial companies and as a management consultant. Geoff is a Chartered Management Accountant.

08 Ornella Barra
Director – Wholesale Southern Europe, 49
was appointed to the Board in 1997, when the Alliance Santé group became part of the Group. Ornella was appointed to her current role in September 2001, having previously been President of Alleanza Salute Italia, a company that acquired the distribution company founded by Ornella in 1984. She is a Pharmacist. Ornella will become Group Services Director upon the appointment of a Wholesale Director.

09 Claude Berreti
Non-executive Director, 68
was appointed to the Board in 1998. Claude had been Chief Executive and Chairman of Ile de France Pharmaceutique, a company acquired by the Alliance Santé group. Claude is a Chartered Accountant.

10 George Fairweather
Group Finance Director, 45
was appointed to the Board upon joining the Group in April 2002. Before this, George held similar positions with Elementis and Dawson International having worked in industry and for a major auditing firm. George is a Chartered Accountant.

11 Etienne Jornod
Non-executive Director, 50
was appointed to the Board in 2000. Etienne is Chairman and Managing Director of Galenica, an associate company. Etienne is a non-executive Director of Bon Appetit group and of Bonnard & Gardel Ingénieursconseils.

12 Steve Duncan
Retail Director, 52
was appointed to the Board in January 2003 having had overall responsibility for the retail division since September 2001. Steve was appointed Managing Director of Moss in May 2001, having been a director since 1991. Steve joined Moss in 1974 and is a Pharmacist.

Report of the Directors

The Directors submit their Report and audited financial statements for the year ended 31 December 2002. For the purposes of this report, "Company" means Alliance UniChem Plc and "Group" means the Company and its subsidiary and associated undertakings.

Principal activity, business review and development
The Company is the holding company for the Group. The principal activity of the Group is to operate as wholesalers and retailers of pharmaceutical, medical and healthcare products within Europe.

The Chairman's statement, Operating review and Financial review contain details of the development of the business of the Group during the year, the position at the end of the year, events since the end of the year and likely future developments.

The Group carries out research and development to support existing activities and to ensure the adoption of best practice in business processes used throughout the Group.

Annual general meeting
The thirteenth annual general meeting ("AGM") will be held in the Bluebird Room at Brooklands Museum, Brooklands Road, Weybridge, Surrey, England on Wednesday 21 May 2003, starting at 2:00 p.m.

The notice convening the meeting is given in a separate document accompanying this Annual Report and includes a commentary on the business of the AGM, notes to help shareholders exercise their rights at the meeting and details of the venue.

Results and dividend
The Group profit for the year attributable to shareholders amounted to £108.8 million (2001 £94.5 million). An interim dividend of 5.2 pence was paid on 10 December 2002 to shareholders registered at the close of business on 27 September 2002 and the Directors are recommending the payment of a final dividend of 10.1 pence per share, making a total dividend in respect of the financial year of 15.3 pence per share.

If approved by shareholders at the AGM, the final dividend will be paid on 9 June 2003 to shareholders registered at the close of business on 21 March 2003. Shareholders will be able to elect to receive additional shares in lieu of the final dividend through the Company's scrip dividend offer. Further details of this offer are given in a separate document accompanying this Annual Report.

Directors
The Directors of the Company are Jeff Harris (Chairman), Stefano Pessina (Chief Executive), Geoff Cooper, George Fairweather, Chris Etherington, Ornella Barra, Steve Duncan, Ken Clarke, Neil Cross, Patrick Ponsolle, Paolo Scaroni, Claude Berretti and Etienne Jornod. Biographical details of the Directors are shown on pages 26 and 27.

Paolo Scaroni was appointed a Director in December 2002 and Steve Duncan was appointed a Director in January 2003. As these appointments were after the last AGM, they will each be seeking election as a Director at the AGM. Ornella Barra, Etienne Jornod and Patrick Ponsolle will be retiring as Directors by rotation at the AGM and will be seeking re-election at the meeting. Chris Etherington will be leaving the Group at the end of March 2003 to take up a senior position in another business sector.

Details of Directors' contracts and a statement of their interests in the share capital of the Company is set out in the Board report on remuneration.

Auditors
A resolution to re-appoint Deloitte & Touche as auditors of the Company and to authorise the directors to fix their remuneration will be proposed at the AGM.

Charitable and political donations
Charitable donations of £43,000 were made during 2002. The Group has no affiliation to any political party or group in any country and makes no political donations.

Share capital
In September 2002, 16,313,900 shares were placed at 550 pence per share. The proceeds from the placing will provide the Group with additional financial flexibility to take advantage of future expansion opportunities. Details of other shares allotted during the year are given in note 22 to the financial statements.

A trust exists for facilitating the holding of shares in the Company by employees and the Executive Directors (the 1992 Employee Trust). This trust acquired 3,620,688 shares in the Company during the year and held 6,358,341 shares in the Company at 3 March 2003.

The Company has been informed that on 3 March 2003 the following shareholders held interests of more than 3% in the issued share capital of the Company:

	Number of shares	Percentage of present issued ordinary share capital
Stefano Pessina	105,124,438	30.49%
Scottish Widows Investment Partnership Limited	23,182,102	6.73%
Britannic Asset Management	10,738,649	3.11%

105,099,503 shares of the interest of Stefano Pessina are held by Alliance Santé Participation S.A.. Stefano Pessina indirectly wholly owns the company, registered in Luxembourg, and the directors include Stefano Pessina and Ornella Barra.

Employment policies, communication and involvement
The Group's employment policies are designed to ensure that it can attract the highest calibre of employee and to provide equal opportunity in the selection and advancement of employees regardless of race, creed, colour, nationality, gender, age, marital status or disability.

Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the Group's business. If any employee becomes disabled, the objective is the continued provision of suitable employment either in the same or an alternative position with appropriate training if necessary.

Communication with employees takes place through regular staff briefings. A works council exists to brief and consult with elected employee representatives on pan-European issues. Subject to practical and commercial considerations, employees are consulted and involved in decisions that affect their employment or future prospects.

The Group operates a number of share option and bonus schemes to encourage employees to contribute effectively to the success of the Group.

Creditors and supplier payment policy
The Group applies a policy of abiding by the payment terms negotiated with each of its suppliers whenever it is satisfied that the invoiced goods or services have been ordered and have been supplied in accordance with agreed terms and conditions.
The Company is a holding company and has no trade creditors.

Approved by and signed on behalf of the Board of Directors

Adrian Goodenough
Company Secretary
10 March 2003

Board report on corporate governance

Combined code
The Directors are committed to the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the Group. The Company has throughout the year complied with the provisions of Section 1 of the Combined Code on Corporate Governance issued by the UK Financial Services Authority. The way in which the principles of good governance are applied is described below.

The Directors have agreed action that will raise the level of compliance with the suggested revised Code on Corporate Governance contained in the UK Government sponsored independent review of the role and effectiveness of non-executive Directors published on 20 January 2003 (the "Higgs Review").

The Board
The Board comprises a Chairman, a Chief Executive, five other executive Directors and six non-executive Directors, four of whom the Board consider independent. Biographical details of the Directors are shown on pages 26 and 27.

There is a division of responsibility between the Chairman, Jeff Harris, who is responsible for the effective operation of the Board and the Chief Executive, Stefano Pessina, who is responsible for the performance of the Group's businesses. The Chairman and Chief Executive each have terms of reference that include provision that they must ensure there is agreement between them on the division of responsibilities.

The senior independent non-executive Director is Ken Clarke. The role has terms of reference that include the provision that he is available to shareholders if they have a concern which contact through the normal channels of Chairman or Chief Executive is inappropriate or has failed to resolve.

Non-executive Directors are appointed for a fixed term, normally of three years. At each Annual General Meeting, approximately one-third of the Directors and any Director who has served for more than three years without being proposed for re-election at an Annual General Meeting, retire by rotation and seek re-election.

Operation of the Board
The Directors met eight times in 2002 and are scheduled to meet at least seven times in 2003. Additional meetings will be held as required.

The Board has adopted principles of good boardroom practice. These principles ensure that the Directors can perform their role effectively and that the Directors are given the means and information necessary for them to make informed decisions. The principles include details of:

- the legal responsibilities of Directors;
- the role and appointment of non-executive Directors;
- the procedures by which Directors are given and can obtain information, training and independent advice;
- the procedures for the provision of notices, agendas, papers and minutes for meetings of the Board and Board committees; and
- how meetings of the Board and Board committees are conducted.

The Board is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. There is a schedule of matters reserved for approval by the Board, which ensures that it takes all major strategy, policy and investment decisions affecting the Group. This schedule is reviewed annually and includes specific matters under the categories of legal, stock exchange, strategic management control, Board membership, Board committees, capital and revenue commitments, financing, advisers and employees. At each meeting, the Board receives a report on current trading and major business issues and annually agrees the operating plan for the following financial year.

The Company Secretary attends all meetings of the Board and of Board committees and all Directors have access to his advice and services. The appointment and removal of the Company Secretary is a matter reserved for the whole Board.

Board committees
The Board has delegated specific responsibilities to four Board committees. The membership of these Board committees and a summary of their main duties under their terms of reference are as follows.

Audit committee
The audit committee consists of three non-executive Directors, all of which are independent: Neil Cross (Chairman), Patrick Ponsolle and Paolo Scaroni. Others normally attending meetings in advisory capacities are the Group Finance Director, the Director of Internal Audit, the Group Financial Controller, the Director of Financial Structuring and representatives from the external auditors. The committee met three times in 2002.

The duties of the audit committee are to:

- consider any change to, independence of, objectivity of and fees to the external auditors;
- with the external auditors, discuss the scope and nature of the audit, review their quality control procedures, ensure coordination of audits, review their management letter and management's response and discuss any issues arising from their audit;
- review the programme, resourcing and results of the internal audit function and approve any change to the Director of Internal Audit;
- review the Group's procedures for handling allegations from whistle-blowers;
- review reports on the effectiveness of systems for internal financial control, financial reporting and risk management;
- monitor the integrity of the financial statements of the Group;
- review the consistency of accounting policies;
- monitor compliance with the Group's borrowing limits; and
- monitor compliance with the principles of good boardroom practice.

The Group has a policy of not awarding management consultancy assignments to the external auditors except where they have specific knowledge not available to others. The Group has a preference to use its external auditors for due diligence assignments on potential acquisitions where their knowledge of the industry can provide insights useful in assessing the target company and its fit with the Group. Tax related work is shared between a small number of selected firms, including the Group's external auditors. The Group is working towards ensuring that its principal external auditors will audit all major subsidiaries in due course.

Executive committee
The executive committee, chaired by Geoff Cooper, consists of the executive Directors. Since December 2002, the executive committee has taken over responsibility for matters previously delegated to the management board. The management board met thirteen times in 2002.

The duties of the executive committee are to:

- run the Group on a day by day basis;
- implement decisions of the Board;
- attend to all matters not reserved for approval by the Board or delegated by the Board to other Board committees; and
- attend to all matters delegated to it.

Nomination committee
The nomination committee consists of five Directors, three of whom are independent non-executives: Ken Clarke (Chairman), Jeff Harris, Stefano Pessina, Neil Cross and Patrick Ponsolle. The nomination committee met twice in 2002.

The duties of the nomination committee are to:

- review the structure, size and composition of the Board;
- nominate candidates to fill vacancies in the Board having evaluated the skills, knowledge and experience required;
- ensure succession plans are in place for executive Directors;
- recommend the re-appointment of Directors; and
- nominate candidates for senior Board positions.

Remuneration committee
The remuneration committee consists of three independent non-executive Directors: Ken Clarke (Chairman), Neil Cross and Patrick Ponsolle. Jeff Harris and Stefano Pessina attend meetings in advisory capacities but are not present when their own remuneration is discussed. The remuneration committee met six times in 2002.

The duties of the remuneration committee are to:

- determine the Group's remuneration policy for executive Directors and senior executives;
- determine the remuneration of the executive Directors;
- ensure that payments made on termination of employment of executive Directors are fair to both parties;
- execute standard employment contracts with executive Directors;
- recommend any changes in terms and conditions of employment of executive Directors;
- approve the annual Board report on remuneration;
- agree the policy on authorising expenses from the Chairman and from the Chief Executive; and
- grant options under and agree amendments to the rules of the discretionary share option schemes.

The Board report on remuneration provides details on how the committee exercises these duties.

Board report on corporate governance (continued)

Investor relations
The Company values its interaction with both private and institutional investors. Institutional shareholders, fund managers and analysts are kept informed of the overall strategy of the Group through regular meetings and presentations.

The AGM is seen as the main opportunity for private investors to communicate with the Directors face to face. To facilitate this:

- notices convening AGMs are sent to shareholders at least 20 working days before a meeting;
- the document containing the notice of the relevant AGM will include a commentary on the business of the meeting and notes to help shareholders exercise their rights at the meeting;
- all shareholders, whether they can attend an AGM or not, are encouraged to ask questions; and
- it is the intention of all Directors to be present at AGMs.

Financial reporting and going concern
The Directors have acknowledged their responsibilities in relation to the financial statements in the Directors' responsibilities statement. The Directors are also responsible for the publication of unaudited interim reports of the Group that provide balanced and understandable assessments of the Group's financial position for the first six months of each accounting period. The same standards are applied to other price sensitive public reports and reports to regulators, as well as information provided to satisfy statutory requirements.

After making appropriate enquiries, the Directors consider that the Company has adequate resources to continue in operational existence for the near future and therefore have continued to adopt the going concern basis in preparing the financial statements.

Internal controls
The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurances against material misstatement or loss. The Board considers risk assessment and control to be fundamental to achieving its corporate objectives within an acceptable risk/reward profile and confirms that there is an ongoing process for identifying and combating significant risks in the Group controls. The effectiveness of the internal control system is reviewed annually by the audit committee on behalf of the Board and throughout 2002 and up until the date of this report accords with the Turnbull internal control guidance for Directors as required by the Combined Code.

Key elements of the Group's system of internal controls are as follows:

- regular Board meetings with a formal schedule of matters reserved by the Board for decision;
- Board approval of business strategies, medium term business plans and annual operating plans;
- an annual risk review by the audit committee, based on a detailed self-assessment by management of all business risks in terms of impact, likelihood and control strength;
- clearly defined organisational structures and appropriate delegated authorities for the Group's business;
- monthly review by the executive committee of key performance indicators to assess progress towards objectives, action being taken as required;
- continuous monitoring of regulatory developments;
- procedures for planning, approving and monitoring business acquisitions, divestments and capital expenditure projects, supplemented by post-investment performance reviews;
- dispensing and professional pharmacy protocols;
- procedures for security and specialist handling of certain drug classes;
- a rolling programme of surveys by the Group's insurance brokers to advise on physical risks;
- centralised treasury operations operating within defined limits and subject to regular reporting requirements;
- an effective internal audit function to provide independent scrutiny of internal control systems and risk management procedures;
- regular monitoring of risks and control systems throughout the year by operating businesses; and,
- a self-certification process, whereby operating businesses are required to confirm that the system of internal control is operating effectively.

Corporate and social responsibility

Alliance UniChem has the well-being of the communities that it serves at the heart of its business.

Within Alliance UniChem, responsibility for areas of our corporate and social responsibilities resides at Board level with Ornella Barra, in her designate position as Group Services Director. Within her portfolio of functions Ornella is responsible for Human Resources, which encompasses health and safety, training and employee welfare issues. Implementing and monitoring environmental and operational issues reside with the Directors responsible for the wholesale and retail divisions respectively.

Across Europe social and community conditions, regulatory requirements, customer demands and employee needs vary considerably. We believe that it is in the interests of all our stakeholders to tailor our activities to match our responsibilities to the needs of local markets within which we operate, while adhering to common principles:

Ethical trading

In all activities we seek to ensure transparent and ethical trading. We believe it is both our moral responsibility and also a sound commercial approach for the long-term success of our business. In retail pharmacy we operate within strict moral and ethical parameters laid down by professional and regulatory bodies in every market in which we operate. All these parameters have the same basis: that our pharmacies and employees in them must operate to provide the best level of care available to the patient and ensure that they always act primarily in the patient's interests. We have enshrined this as a core of our own retail business. The Group's management team, at every level, includes a significant number of qualified pharmacists who are bound by these professional standards, and we measure our activities against them. We provide on-going training for our retail employees and resource them suitably to empower them to provide the best advice and care they can. This commitment to professional standards helps us achieve significantly above average recruitment and retention levels for qualified employees and enhances our standing with the professional bodies who we work with closely to promote and enhance best practice in the profession.

Our wholesale businesses aim to operate on a completely transparent basis with customers, providing them with clear terms and commitments for our commercial relationships. In a number of markets these are laid out in a documented "Customer Charter", providing commitments on the service levels and professional standards that they can expect from us.

Product testing

Alliance UniChem operates a policy that none of our own brand products are tested on animals. As far as possible, we extend this to suppliers of the raw materials that are used in the production of these products; however we are unable to guarantee that all raw material suppliers do not, or have not in the past, used animal testing. When selecting suppliers of own brand product, we review their policy on animal testing as a factor in the selection process and in doing so we are moving toward a position where we aim to be able to provide a commitment in future that none of the raw materials used in the preparation of own brand products have been tested on animals.

As an operator of pharmacies and a "full line" wholesaler of pharmaceutical products, we acknowledge that many products that we stock will have been tested on animals as part of their product licensing procedures. We have an obligation professionally and legislatively to ensure the provision of licensed medicines to patients, and therefore must stock and supply all required licensed pharmaceutical products. Where we have a choice as to which products can be used, we consider the methods of testing in deciding on which products to stock, but have an ethical obligation to do so only as a secondary factor to patient well-being.

Health and safety

Alliance UniChem conducts its business with the highest concern for the health and safety of its employees, contractors, customers, neighbours and the general public.

We aim to offer our employees a safe and comfortable work environment, which meets or exceeds all legal health and safety requirements in every country in which we operate. While these requirements vary across Europe, we have begun to standardise collection and monitoring of health and safety statistics on a pan-European basis to identify opportunities to further raise standards across the Group. We use this information to work with local managers across the Group, and with our associate businesses, to promote best practice in this area and improve the safety of our workplace environments.

The Group's accident frequency rate (number of reportable accidents per 100,000 hours worked) was 1.70 in 2002. When looking specifically at three day lost time accidents, the accident frequency rate falls to 1.26 for the year. We received no convictions or irreconcilable complaints for health and safety contraventions in 2002 and there have been no work related fatalities within the Group.

Corporate and social responsibility (continued)

Environment
Our businesses impact on the environment in three main areas: the operation of warehouses, the operation of retail pharmacies and the operation of a fleet of vehicles, largely for the distribution of pharmaceuticals.

Our depots are secure and well-maintained facilities with an element of climate control due to the nature of the products held. Energy is by far the biggest resource consumed and is used for maintaining climate tolerances and driving the automation that forms the core of many of our depots. In implementing processes and technology in the operation of our businesses we seek to limit our energy usage in each depot, both to help contain energy costs and limit our impact on the environment.

We also operate programmes to collect and safely dispose of unwanted pharmaceuticals. While it is important to safely dispose of out of date product or part used product on which safety seals have been broken, we work where possible with regulators and the pharmaceutical industry to recycle suitable pharmaceutical products for charitable use if appropriate. Where products do require disposal we ensure controlled and licensed neutralisation and disposal of the product in collaboration with regulators.

Across the Group we also operate programmes in geographical regions where it is commercially viable to ensure the responsible disposal of packaging, which include the re-using and recycling of all suitable packaging types and where possible the use of licensed environmentally safe contractors to dispose of non-recyclable waste packaging.

Our retail pharmacies are typically limited in size and therefore environmental impact. They operate the same general principles and systems as wholesaler for the collection and disposal of unused pharmaceuticals, and for the safe storage of stock. As with wholesale, we factor in appropriate and commercially viable energy efficiencies and environmental impact limitations when fitting out our shops, using low consumption energy efficient equipment and environmentally friendly materials where possible.

We continually look at the most appropriate approach to limiting fuel consumption within our vehicle fleet. A number of studies have been conducted on the practicality of using alternative fuel sources to petrol or diesel, bearing in mind the combined requirements of urban, suburban and rural delivery schedules across our area of operation. So far we do not believe there to be a credible alternative for us to these traditional fuels. The efficiency of our delivery process is vital to our business, and the commercial pressures on us to optimise vehicle usage and the corporate responsibility that we have to adopt environmentally sympathetic operating practices complement each other in this instance.

Employees
Alliance UniChem's aim is to develop a European outlook within the Group. Whether this results in a career within or over national borders we put in place programmes to support individual development in line with the needs of the Group. We look to recruit, develop and promote employees to achieve their maximum potential, and are a committed equal opportunities employer.

We value the experience of our employees and so aim to provide training, development and secondment opportunities to enable them to meet or exceed individual objectives. Our commitment to training has led us to develop an on-going professional training programme for our pharmacists that exceeds the requirements of their professional bodies and has become a desirable recourse for pharmacists outside the Group, be they customers or affiliates, to meet on-going training needs while enhancing their professional skills.

For senior management we have introduced a 360 degree review process with assessment by peers and subordinates as well as superiors and work is underway to roll out this system within the Group.

We have established a structure which allows us to share best practice experience and skills across the Group. We were an early adopter of the European Directives on Works Councils and have been operating an active and successful European workers council for some time. Within our UK wholesale and retail businesses we have also obtained the coveted "Investors in People" award.

Our aim is that Alliance UniChem should be regarded as a professional organisation which values employees highly and provides them with a work environment within which they can continuously grow their skills and abilities developing excellent long-term careers – to be an employer that people aspire to work with.

Community
Our business is the provision of community healthcare, either as a primary provider through our retail pharmacies or as a secondary provider working with independent pharmacist customers. As part of this, the fostering of community well-being and promotion of healthcare initiatives are both a commercial necessity and a core corporate responsibility. We work closely with local healthcare providers to advise and inform the communities we serve.

Initiatives to promote community well-being are operated at a local and national level in each country where we operate, in many cases in partnership with local or national authorities, local healthcare teams or charitable organisations. We support localised community charitable projects, with the results that centralised Group charitable activities have historically been limited. We are currently reviewing this policy, however, to establish a more structured approach towards our centralised charitable activities to ensure that we focus our activities in areas or with organisations where we can offer more than simply a source of funding, but can offer the benefit of our employees' skills and experience as well.

Board report on remuneration

The remuneration committee ("the Committee") determines the remuneration of the executive Directors and makes recommendations to the Board of any changes in terms and conditions of employment of executive Directors. The Committee consists of three Independent non-executive Directors: Ken Clarke (Chairman), Neil Cross and Patrick Ponsolle. Jeff Harris and Stefano Pessina attend meetings in advisory capacities but are not present when their own remuneration is discussed.

Remuneration policy

The aims of the Group's remuneration policy has been, and will continue to be, to: maximise the position of the Group in the European healthcare sector by attracting, retaining and motivating the highest calibre of executive Directors and senior executives; and align the rewards of those individuals with the interests of shareholders by linking part of the remuneration package to the performance of the Group.

In implementing the remuneration policy, the Committee has considered the principles in the Combined Code on Corporate Governance issued by the UK Financial Services Authority with regard to Directors' remuneration.

In accordance with the remuneration policy, the remuneration of the executive Directors is made up of a combination of basic salary, annual performance bonus, non-cash benefits, long-term incentive plan benefits, share options and pension arrangements, all of which are detailed below. The executive Directors' remuneration is reviewed at the start of each calendar year.

Employment agreements

Geoff Cooper, George Fairweather, Chris Etherington and Steve Duncan are employed within the Group under contracts that can be terminated by either party with notice of 12 months. Ornella Barra, Jeff Harris and Stefano Pessina have employment agreements that can be terminated by the Group with notice of 12 months or by each of them with notice of six months. There are provisions in the service agreements for pay in lieu of current salary for the un-expired period of appointment or to cover the required notice period.

Chris Etherington will be leaving the Group at the end of March 2003. By mutual agreement, this is before the date at the end of his notice period and no payment in lieu of current salary will be made.

Non-executive Directors

Ken Clarke is the Deputy Chairman and senior non-executive Director and receives a fee of £120,000 per annum. The other non-executive Directors are entitled to a fee (£25,000 per annum in 2002 and £35,000 per annum with effect from January 2003). Ken Clarke and Neil Cross are each paid an additional fee of £5,000 per annum for chairing the remuneration and audit committees respectively. Neil Cross and other members of the audit committee will each be paid an additional fee of £5,000 per annum with effect from January 2003. The fees paid reflect the time non-executive Directors are required to commit to their duties and amounts paid to non-executives in comparable companies. The UK Board Index of the 150 largest quoted companies by market value published by Spencer Stuart was used to assess comparability. The Board reviews these fees periodically and no Director is permitted to vote in respect of their own remuneration.

Non-executive Directors derive no other benefits from their office and are not eligible to participate in the Group's pension arrangements. It is Company policy not to grant share options to non-executive Directors or to require part of their fees to be paid in the form of shares.

Salaries

The setting of basic salary reflects the Committee's assessment of the market rate for relevant positions taking into account the levels of responsibility, the individual Director's experience and their contribution to the business. For determining basic salary in 2002, the Committee used a number of comparative remuneration surveys, the principal one being provided by Executive Remuneration Review Limited ("ERRL"). The ERRL survey comprised 95 companies, 27 of which were in the FTSE 100 index and 31 were in the FTSE mid-250 index, and comparability was measured against companies with a similar market capitalisation and similar turnover. For determining basic salary in 2003, the Committee appointed and received advice from Monks Partnership. Monks Partnership does not provide any other service to the Company. Where a Director is entitled to a benefit but chooses not to take that benefit, a supplement to the salary is paid in lieu of that benefit. The amount paid to each Director in 2002 is detailed in the emoluments section below.

Benefits

Other benefits available to Directors relate to the provision of company cars, private medical insurance, personal accident insurance, travel insurance and, for Stefano Pessina, the cost of travel to and from work and accommodation while working for the Group in the UK. The provision of these benefits reflects market practice and is not related to performance. The value of these non-cash benefits for each Director in 2002, including expenses chargeable to UK income tax, are detailed in the emoluments section below.

Annual performance bonuses

The annual performance bonus rewards executive Directors for the Group and individual divisions for which they are responsible achieving their budgeted performance, after the cost of the bonuses. The payment also takes into account personal performance.

Board report on remuneration (continued)

In 2002, the budgeted performance was based on the challenging but achievable 2002 budget for earnings, before amortisation of intangible assets, at constant exchange rates, agreed by the Board at the beginning of the year. Depending upon responsibilities, a bonus of between 5% and 15% was payable for performance of 100% of the Group and divisional performance, rising to 40% for performance of 105% of the Group and divisional budgeted performance.

Personal performance was based on a 360-degree appraisal process and determined by the remuneration committee. Depending on responsibilities, a bonus of up to 15% was payable based on this appraisal and other factors.

The maximum bonus an executive Director could receive was 50% of their basic salary. The amount due to each Director in respect of performance in 2002 is detailed in the emoluments section below.

Emoluments

The emoluments of the Directors for the financial year ended 31 December 2002 were:

Director	Salaries and fees £'000	Benefits £'000	Bonus payments £'000	Total emoluments excluding pensions 2002 £'000	Total emoluments excluding pensions 2001 £'000
Executive Directors					
J.F. Harris	463	22	185	**670**	560
S. Pessina	325	92	130	**547**	355
G.I. Cooper	319	11	124	**454**	361
G.R. Fairweather	245	5	81	**331**	–
C. Etherington	241	22	85	**348**	326
O. Barra	241	–	84	**325**	265
	1,834	152	689	**2,675**	1,867
Non-executive Directors					
K.H. Clarke	125	–	–	**125**	125
N.E. Cross	30	–	–	**30**	30
P. Ponsolle	25	–	–	**25**	25
P. Scaroni	2	–	–	**2**	–
C. Berretti	25	–	–	**25**	25
	207	–	–	**207**	205
Former Directors	–	–	–	–	336
Total	2,041	152	689	**2,882**	2,408

Etienne Jornod waived his entitlement to a Director's fee of £25,000 in 2001 and 2002, as part of the agreement with Galenica on reciprocal Board representation.

Long-term incentive plan

The long-term incentive plan is a discretionary arrangement under which allocations are made to executive Directors with the aim of rewarding them for creating shareholder value. Each allocation takes the form of a non-binding statement of intent to make an award of a stated maximum amount following the end of a specified performance period. The allocation is determined as a percentage of basic salary in the year the performance period starts. The Directors' allocations outstanding at 10 March 2003 are:

Director	2000 allocation maximum amount £	2001 allocation maximum amount £	2002 allocation maximum amount £	2003 allocation maximum amount £
J.F. Harris	280,000	299,667	308,666	–
S. Pessina	183,333	196,167	216,666	233,333
G.I. Cooper	176,667	189,000	206,666	233,333
G.R. Fairweather	–	–	155,775	220,000
O. Barra	143,333	153,333	160,666	180,000
S.W. Duncan	–	–	–	156,667

Chris Etherington will be leaving the Group at the end of March 2003 and allocations previously made to him lapsed when he gave notice to end his employment with the Group.

The performance periods for the allocations are:

	2000 allocation	2001 allocation	2002 allocation	2003 allocation
Period start	1 January 2000	1 January 2001	1 January 2002	1 January 2003
Period end	31 December 2002	31 December 2003	31 December 2004	31 December 2005

The amount of the award is dependent on the achievement of certain performance measures during the performance period that the remuneration committee believe are the most appropriate measure of the underlying performance of the Group. For 2000, 2001 and 2002, these measures are:

Performance measure	Achievement	% awarded
Total shareholder return	below median	–
	at median (50%)	12.5
	for every 1% above median	+1.5
	up to upper quartile (75%)	50.0
Earnings per share	below RPI-x +3%	–
	at RPI-x +3%	5.0
	for every 0.1% above RPI-x +3%	+4.5
	Up to RPI-x +4%	50.0

Total shareholder return measures the total return to shareholders in terms of share price growth and dividends reinvested in the shares of the Company over the performance period. Performance is compared with the same measure of performance for companies in the FTSE 250. Earnings per share are defined as the diluted earnings per share before amortisation of intangibles, taxation and exceptional items as reported for a full accounting year. RPI-x is the index of retail prices for all items excluding mortgage payments as published by the UK Government. The performance against RPI-x is calculated on a per annum compound basis.

For the 2003 allocation, the total shareholder return measure will be compared with the performance of companies in the FTSE 100, although the committee intend to move to a more suitable European index. In addition, the earnings per share measure has been changed to:

Performance measure	Achievement	% awarded
Earnings per share	below RPI-x +5%	–
	at RPI-x +5%	5.0
	for every 0.1% above RPI-x +5%	+4.5
	Up to RPI-x +6%	50.0

The award takes the form of a right to acquire ordinary shares in the Company for a nominal sum within a period of ten years from the date of the award. The number of shares will be determined by the market price of the Company's shares at the date of the award. The remuneration committee has the discretion to withhold or reduce awards to any extent it considers appropriate, having regard to the Group's underlying financial performance and irrespective of the level of attainment of the performance targets.

During 2002, awards were made on allocations with the performance period 1 January 1999 to 31 December 2001. During the performance period, the Company was below the median in the comparator group on total shareholder return and the increase in earnings per share was in excess of RPI-x +4%. On this basis, awards equivalent to 50% of the allocations were made and converted into share options at 609 pence per share, as follows:

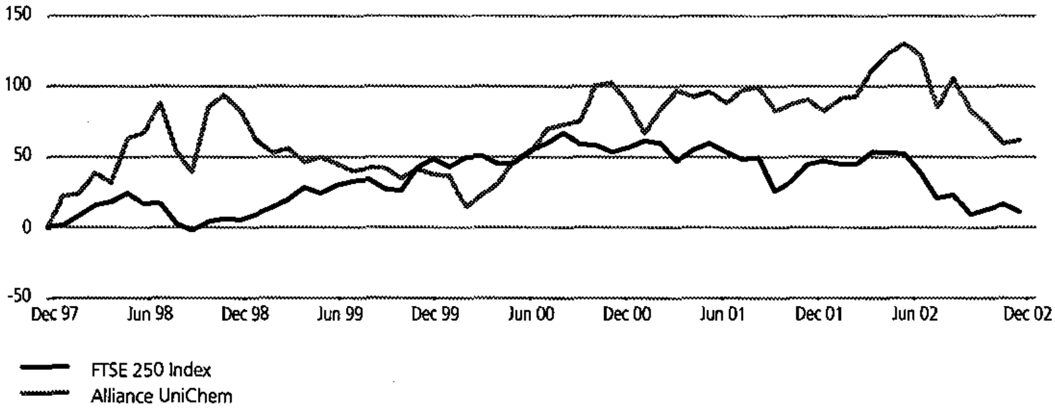
Director	Allocation £	Award nominal value £	Award share options number
J.F. Harris	192,500	96,250	15,804
S. Pessina	125,000	62,500	10,262
G.I. Cooper	120,000	60,000	9,852
C. Etherington	100,000	50,000	8,210
O. Barra	100,000	50,000	8,210

Board report on remuneration (continued)

The awards are further detailed in the table of interests in share option schemes below.

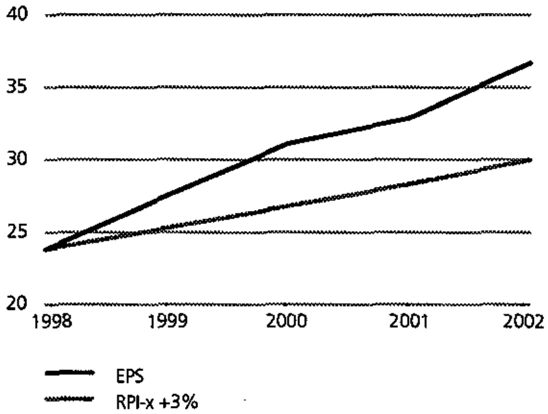
Following the end of the performance period for the 2000 Allocation detailed above, the remuneration committee has recommended to the trustees of the 1992 Employee Trust that awards equivalent to 100% of the allocation are made. Their basis for doing this is that during the performance period, the Company was in the 86th percentile of the comparator group on shareholder return and the increase in earnings per share was in excess of RPI-x +4%.

Performance
Total shareholder return for the Company and total shareholder return for FTSE 250 companies, being the comparator group used for the long-term incentive plan, over the five years ending 31 December 2002 are:



The mid-market price of shares of the Company ranged during 2002 between 672.5 pence on 13 June and 431.5 pence on 18 November and at 31 December was 447.0 pence.

The increase in earnings per share over the five years ending 31 December 2002 compared to RPI-x +3% over the same period is:



Pensions

Pension benefits earned by the Directors during 2002 were:

Director	Age at year end	Increase in accrued pension during the year £'000	Total accrued pension at year end £'000	Salary supplement paid during the year £'000	Additional money purchase contributions 2002 £'000	Additional money purchase contributions 2001 £'000	Transfer value of defined benefits at 31 December 2002 £'000	Transfer value of defined benefits at 31 December 2001 £'000	Increase in transfer value during the year net of Director's contributions £'000
J.F. Harris	54	24	302	–	–	–	5,652	4,907	722
G.I. Cooper	48	3	28	55	84	62	264	226	23
G.R. Fairweather	45	2	2	24	37	–	18	–	7
C. Etherington	50	3	38	43	64	56	367	326	29
O. Barra	49	–	–	–	72	69	–	–	–

S. Pessina has no pension benefits.

The increase in accrued pension during the year excludes the increase resulting from inflation. The accrued pension is a benefit of the defined benefit plan of the Company's pension scheme. The accrued pension at the end of 2001 for Jeff Harris, the highest paid Director, was £273,000.

The Company pays the additional money purchase contributions into separate schemes with no additional contributions from the Directors. Any additional voluntary contributions paid by the Directors, and the benefit arising from such contributions, are excluded from the above table.

Under the arrangements of the pension scheme: the normal retirement age of the Directors is 60; Jeff Harris, on leaving service, is entitled to receive an unreduced pension from age 55; Directors are required to pay a contribution of 5% of basic salary; a spouse's pension of one half of the Director's pension is payable on death after retirement; a statutory minimum pension for the legal widow and the Director's accumulated contributions are payable on death after leaving service but before retirement; Directors' pensions are automatically increased each year after retirement in line with inflation; additional increases may be payable at the discretion of the Trustee of the scheme, subject to the approval of the Company; and no allowance is made for discretionary benefits within transfer values.

Board report on remuneration (continued)

Share option schemes

The Company operates two discretionary and one savings related share option scheme, which are open to executive Directors as well as other employees. Details of outstanding options under these schemes can be found in note 22 to the financial statements.

The Directors' options over ten pence ordinary shares of the Company are detailed below:

Director	Type	31 December 2001	Granted in the year	Exercised in the year	31 December 2002	Exercise price £	Market price on exercise £	Normally exercisable from
J.F. Harris	S	1,757	–	–	**1,757**	3.8400		01.07.2004 to 30.12.2004
	S	1,255	–	–	**1,255**	4.6300		01.07.2004 to 30.12.2004
	D	45,000	–	–	**45,000**	2.5399		01.11.1996 to 30.10.2003
	D	45,000	–	–	**45,000**	2.6000		21.10.1997 to 30.10.2004
	D	45,000	–	–	**45,000**	4.2950		07.05.2001 to 06.05.2005
	L	18,299	–	–	**18,299**	0.0001		06.04.2001 to 05.04.2011
	L	–	15,804	–	**15,804**	0.0001		19.03.2002 to 18.03.2012
		156,311	15,804	–	**172,115**			
S. Pessina	L	–	10,262	10,262	–	0.0001	6.5950	19.03.2002 to 18.03.2012
		–	10,262	10,262	–			
G.I. Cooper	S	9,154	–	9,154	–	2.1300	5.9400	01.07.2002 to 30.12.2002
	S	3,644	–	–	**3,644**	4.6300		01.07.2006 to 31.12.2006
	D	372	–	–	**372**	2.6900		18.10.1998 to 17.10.2005
	D	36,872	–	–	**36,872**	2.6850		13.06.2000 to 12.06.2004
	D	45,000	–	–	**45,000**	4.2950		07.05.2001 to 06.05.2005
	L	13,513	–	13,513	–	0.0001	5.3000	06.04.2001 to 05.04.2011
	L	–	9,852	–	**9,852**	0.0001		19.03.2002 to 18.03.2012
		108,555	9,852	22,667	**95,740**			
C. Etherington	S	3,194	–	–	**3,194**	3.2400		01.08.2003 to 30.01.2004
	S	1,757	–	–	**1,757**	3.8400		01.07.2004 to 30.12.2004
	D	45,000	–	45,000	–	4.2950	5.2000	07.05.2001 to 06.05.2005
	L	–	8,210	8,210	–	0.0001	5.2000	19.03.2002 to 18.03.2012
		49,951	8,210	53,210	**4,951**			
O. Barra	D	186,263	–	–	**186,263**	4.2950		07.05.2001 to 06.05.2005
	D	63,737	–	–	**63,737**	4.3500		27.05.2002 to 26.05.2006
	L	–	8,210	8,210	–	0.0001	6.5950	19.03.2002 to 18.03.2012
		250,000	8,210	8,210	**250,000**			
Total		564,817	52,338	94,349	**522,806**			

S = savings D = discretionary L = long-term incentive plan

There were no changes to the options of the Directors above between 1 January 2003 and 10 March 2003. Steve Duncan was appointed a Director on 13 January 2003 and on that date and at 10 March 2003 his options over ten pence ordinary shares were:

Director	Type	Number	Exercise price £	Normally exercisable from
S.W. Duncan	D	15,000	3.7900	23.03.2003 to 22.03.2007
	S	5,324	3.2400	01.08.2003 to 31.01.2004
	D	15,000	5.9200	06.04.2004 to 05.04.2008
	D	20,000	6.0900	09.04.2005 to 08.04.2009
		55,324		

No options lapsed between 1 January 2002 and 10 March 2003. Chris Etherington will be leaving the Group at the end of March 2003 and his options will lapse at that date.

The options granted to O. Barra with an exercise price of £4.2950 and £4.3500 formed part of the arrangements of the merger with Alliance Santé S.A..

The options with an exercise price of £2.6850, £4.2950, £4.3500, £3.7900, £5.9200 and £6.0900 are exercisable only if, at any time during the exercise period, earnings per share growth of the Company in the period from the grant of the option was greater than the increase in RPI-x plus 4% compound. Earnings per share are defined as the diluted earnings per share before amortisation of intangibles, taxation and exceptional items as reported for a full accounting year. RPI-x is the index of retail prices for all items excluding mortgage payments as published by the UK Government. The performance criteria in respect of options with an exercise price of £2.6850, £4.2950 and £4.3500 have been passed.

Directors' shareholdings

The beneficial interests of the Directors in office at 10 March 2003 and their families in the share capital of the Company are shown below. The Company's register of Directors' interests, which is open to inspection, contains full details of Directors' interests in the Company's shares.

Director	Ordinary shares 31 December 2002	Ordinary shares 31 December 2001*
J.F. Harris	327,520	347,358
S. Pessina	105,124,438	105,113,714
G.I. Cooper	94,192	69,225
G.R. Fairweather	2,000	–
C. Etherington	17,240	14,941
O. Barra	19,471	11,261
K.H. Clarke	6,340	3,916
N.E. Cross	5,000	5,000
P. Ponsolle	500	500
Total	105,596,701	105,565,915

*Or at date of appointment, if later.

There were no changes to the Directors' shareholdings between 1 January 2003 and 3 March 2003.

A trust exists for facilitating the holding of shares in the Company by employees and the executive Directors (the 1992 Employee Trust). The trust held 3,678,348 shares in the Company on 31 December 2001, 6,358,341 shares on 31 December 2002 and 6,358,341 shares on 3 March 2003.

105,099,503 shares of the interest of Stefano Pessina are held by Alliance Santé Participation S.A.. Stefano Pessina indirectly wholly owns the Company, registered in Luxembourg, and the Directors include Stefano Pessina and Ornella Barra. The other interests of Ornella Barra in the fully paid shares of the Company are as detailed in this report.

Other interests

Save for the interests mentioned in this report, no Director was materially interested in any contract during the financial year that is or was significant to the business of the Company or any subsidiary undertakings.

Audit

The Directors' emoluments in 2002 and the details of Directors' pensions have been audited by the Company's principal external auditor.

Approved by the Board of Directors and signed on their behalf

Adrian Goodenough
Company Secretary
10 March 2003

Directors' responsibilities statement

This statement, which should be read in conjunction with the independent 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 United Kingdom legislation to prepare financial statements for each financial year that 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.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose, with reasonable accuracy, at anytime, the financial position of the Company and which enables them to ensure that the financial statements comply with United Kingdom legislation. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are also responsible for:

- safeguarding the assets of the Company and the Group;
- taking reasonable steps for the prevention and detection of fraud and other irregularities; and
- ensuring the maintenance and integrity of the Company's corporate website.

Independent auditors' report
to the members of Alliance UniChem Plc

Introduction
We have audited the financial statements of Alliance UniChem Plc for the year ended 31 December 2002 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses, the reconciliation of movement in Group shareholders' funds and the notes 1 to 34 to the financial statements. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Board report on remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors
The Directors' responsibilities for the Annual Report, including the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards, are set out in the Directors' responsibilities statement. The Directors are also responsible for the preparation of other information contained in the Annual Report including the Board report on remuneration. Our responsibility is to audit the financial statements and the part of the Board report on remuneration described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, Auditing Standards issued by the Auditing Practices Board, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Board report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Board report on corporate governance reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom 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 and the part of the Board report on remuneration described as being audited. 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 and the part of the Board report on remuneration described as having been audited 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, and the part of the Board report on remuneration described as having been audited.

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 2002 and of the profit and cash flows of the Group for the year then ended and together with the part of the Board report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche Deloitte & Touche
Chartered Accountants and Registered Auditors, London
10 March 2003

Group profit and loss account

for the year ended 31 December 2002

Unaudited proforma 2002 €million		Note	2002 £million	2001 restated £million
	Turnover			
12,455.2	Continuing operations		**7,818.7**	7,314.1
326.2	Acquisitions		**204.8**	–
12,781.4		3,4	**8,023.5**	7,314.1
	Operating profit			
302.4	Continuing operations		**189.8**	172.8
9.8	Acquisitions		**6.2**	–
312.2	**Group operating profit**	3,4	**196.0**	172.8
28.4	Share of operating profit in associated undertakings		**17.8**	14.6
340.6	**Total operating profit**	4	**213.8**	187.4
(74.7)	Net interest payable and similar charges	6	**(46.9)**	(39.6)
285.9	Profit on ordinary activities before taxation and amortisation of intangible assets		**179.5**	159.1
265.9	**Profit on ordinary activities before taxation**	7	**166.9**	147.8
(92.0)	Tax on profit on ordinary activities	8	**(57.7)**	(52.3)
173.9	Profit on ordinary activities after taxation		**109.2**	95.5
(0.6)	Equity minority interests		**(0.4)**	(1.0)
173.3	**Profit for the financial year**		**108.8**	94.5
(83.8)	Dividends	9	**(52.6)**	(45.8)
89.5	Retained profit for the financial year		**56.2**	48.7
	Earnings per share	10		
	Basic		**33.1p**	29.6p
	Diluted		**32.9p**	29.4p
	Basic, before amortisation of intangible assets		**36.9p**	33.1p
	Diluted, before amortisation of intangible assets		**36.7p**	32.9p

Balance sheets

as at 31 December 2002

Unaudited proforma 2002 €million		Note	Group 2002 £million	Group 2001 restated £million	Company 2002 £million	Company 2001 £million
	Fixed assets					
1,109.3	Intangible assets	11	**723.1**	630.6	**–**	–
436.3	Tangible assets	12	**284.4**	255.2	**1.3**	1.4
509.4	Investments	13	**332.1**	235.7	**1,531.3**	1,207.3
2,055.0			**1,339.6**	1,121.5	**1,532.6**	1,208.7
	Current assets					
996.9	Stocks	14	**649.9**	647.0	**–**	–
648.0	Securitised receivables		**422.4**	306.2	**–**	–
(578.5)	Non-recourse receipts		**(377.1)**	(267.8)	**–**	–
69.5	Net securitised receivables	15	**45.3**	38.4	**–**	–
1,564.5	Other debtors	16	**1,019.9**	900.0	**18.3**	13.0
229.6	Cash at bank and in hand	17	**149.7**	137.4	**11.8**	0.1
2,860.5			**1,864.8**	1,722.8	**30.1**	13.1
	Creditors: amounts falling due within one year					
554.8	Borrowings	17	**361.7**	348.5	**112.5**	104.6
1,961.7	Other creditors	19	**1,278.8**	1,212.2	**182.9**	170.9
2,516.5			**1,640.5**	1,560.7	**295.4**	275.5
344.0	**Net current assets/(liabilities)**		**224.3**	162.1	**(265.3)**	(262.4)
2,399.0	**Total assets less current liabilities**		**1,563.9**	1,283.6	**1,267.3**	946.3
	Creditors: amounts falling due after more than one year					
1,025.0	Borrowings	17	**668.2**	570.3	**632.3**	511.3
28.5	**Provisions for liabilities and charges**	20	**18.6**	16.4	**–**	–
1,345.5			**877.1**	696.9	**635.0**	435.0
	Capital and reserves					
52.9	Called up share capital	22	**34.5**	32.6	**34.5**	32.6
644.0	Share premium account	24	**419.8**	319.7	**419.8**	319.7
27.2	Shares to be issued	23	**17.7**	–	**17.7**	–
3.4	Capital reserve	24	**2.2**	1.4	**–**	–
602.0	Profit and loss account	24	**392.5**	327.1	**163.0**	82.7
1,329.5	**Equity shareholders' funds**		**866.7**	680.8	**635.0**	435.0
16.0	Minority interests		**10.4**	16.1	**–**	–
1,345.5			**877.1**	696.9	**635.0**	435.0

The financial statements were approved by the Board on 10 March 2003 and are signed on its behalf by:

J F Harris
G R Fairweather

Directors

Group cash flow statement

for the year ended 31 December 2002

Unaudited proforma 2002 €million		Note	2002 £million	2001 restated £million
319.6	**Net cash inflow from operating activities**	26a	200.6	239.9
4.3	Dividends received from associated undertakings		2.7	1.9
(77.4)	Returns on investments and servicing of finance	26b	(48.6)	(38.0)
(82.7)	Taxation		(51.9)	(38.3)
(98.8)	Capital expenditure and financial investment	26c	(62.0)	(60.1)
(180.8)	Acquisitions and disposals	26d	(113.5)	(128.1)
(63.9)	Equity dividends paid		(40.1)	(35.1)
(179.7)	**Cash outflow before financing**		(112.8)	(57.8)
	Financing			
142.9	Issue of ordinary share capital		89.7	4.8
148.6	Net cash inflow from increase in debt and lease financing	27	93.3	82.9
291.5	Net cash inflow from financing		183.0	87.7
111.8	**Increase in cash in the year**		70.2	29.9

	Note	2002 £million	2001 restated £million
Reconciliation of net cash flow to movement in net borrowings			
Increase in cash in the year		70.2	29.9
Cash inflow from increase in debt and lease financing	27	(93.3)	(82.9)
Increase in net borrowings resulting from cash flows		(23.1)	(53.0)
Borrowings acquired with businesses		(2.6)	(1.4)
Loan notes issued for non cash consideration	25	(13.5)	(78.1)
Currency translation differences		(59.6)	12.6
Increase in net borrowings for the year		(98.8)	(119.9)
Net borrowings at 1 January		(781.4)	(661.5)
Net borrowings at 31 December	28	(880.2)	(781.4)

Group statement of total recognised gains and losses

for the year ended 31 December 2002

	Note	2002 £million	2001 restated £million
Profit for the financial year		108.8	94.5
Currency translation differences on foreign currency net investments		7.8	(5.6)
Tax on currency translation differences on foreign currency borrowings		4.5	–
Total recognised gains and losses relating to the year		121.1	88.9
Prior year adjustment for FRS 19	1, 20	(3.7)	
Total recognised gains and losses since last Annual Report		117.4	

Reconciliation of movements in Group shareholders' funds

for the year ended 31 December 2002

	Note	2002 £million	2001 restated £million
At 1 January, as previously stated		684.5	601.2
Prior year adjustment for FRS 19		(3.7)	(2.2)
At 1 January, as restated		680.8	599.0
Total recognised gains and losses for the financial year		121.1	88.9
Dividends	9	(52.6)	(45.8)
Shares issued	22	102.0	41.2
Shares to be issued	23	17.7	–
Other	24	(2.3)	(2.5)
At 31 December		866.7	680.8

Note of historic cost profits and losses

for the year ended 31 December 2002

There were no material differences between the reported profit on ordinary activities before taxation and the retained profit and their historical cost equivalents for the year. Similarly there were no such differences in 2001.

Notes to the financial statements

for the year ended 31 December 2002

(1) ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles and applicable accounting standards. The principal accounting policies adopted within that convention are set out below. These are unchanged from the previous year with the exception of the adoption of Financial Reporting Standard 19 "Deferred Tax", the effects of which are explained in note 20.

An unaudited memorandum disclosure has been made on the face of the primary financial statements to show the Euro equivalents. In addition, profit on ordinary activities before taxation and amortisation of intangible assets has been disclosed on the face of the Group profit and loss account to assist understanding.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company, its subsidiary undertakings and the Group's shares of the results and net assets of associated undertakings and joint ventures. The results of undertakings acquired or disposed of during the year are dealt within the Group financial statements for the period that the Group has control. All material undertakings within the Group make up their accounts to 31 December.

Acquisitions

Businesses acquired are accounted for using the acquisition method. On the acquisition of a business, or an interest in an associate, fair values reflecting conditions at the date of acquisition, are attributed to the net assets including retail pharmacy licences acquired. Adjustments are also made to bring accounting policies into line with those of the Group. Where statutory merger relief is applicable, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

Foreign exchange

The profit and loss accounts and cash flows of undertakings with a reporting currency other than sterling are translated into sterling at average rates of exchange, other than substantial exceptional items that are translated at the rate on the date of the transaction. The adjustment to closing rates is taken to reserves.

Balance sheets are translated at closing rates. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of undertakings with a reporting currency other than sterling are taken to reserves, less exchange differences arising on related currency borrowings and financial instruments. Tax charges and credits arising on such items are also taken to reserves. Other currency translation differences are taken to the profit and loss account.

The results, assets and liabilities of undertakings in hyper-inflationary economies are determined using an appropriate relatively stable currency as the functional currency. The currency translation differences arising from this process are taken to the profit and loss account.

Transactions in currencies other than the reporting currency of the undertaking are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related foreign currency contract.

Turnover

Turnover is the amount derived from the sale of goods and services outside the Group, excluding value added tax.

Retail pharmacy licences

Retail pharmacy licences, being the exclusive right to be reimbursed for the dispensing of prescription medicines from a specified location, are capitalised, where there is an asset that can be separated from the other identifiable assets that together form a retail pharmacy business. Where they have a finite economic life they are amortised over that economic life. Where they do not have a finite economic life they are not amortised and are subjected to an annual impairment test. The cost of retail pharmacy licences less any impairment in value and any amortisation are included in intangible fixed assets.

(1) ACCOUNTING POLICIES (CONTINUED)

Goodwill

The excess of the purchase price over the fair value of net assets (including retail pharmacy licences) of businesses acquired in the year is capitalised and amortised over its useful economic life, up to a maximum of 20 years. Goodwill acquired prior to 1998 was written-off against reserves, and will be charged through the profit and loss account on subsequent disposal.

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 on a straight line basis over the period of their estimated useful economic lives:

Freehold buildings	– 50 years
Long and short leasehold properties	– the shorter of the period of the lease and 50 years
Furniture, fixtures and equipment	– between 3 and 10 years
Motor vehicles	– between 3 and 10 years

Freehold land is not depreciated.

Leased assets

Assets held under finance leases are capitalised and depreciated over the estimated useful life of the asset. Finance charges are allocated over the primary period of the lease in proportion to the capital element of the lease outstanding. Costs of operating leases are charged to the profit and loss account as they accrue.

Investments

Investments are stated at cost less provisions for impairment and, for the Company's investments prior to 1998, an amount equal to the goodwill written-off to reserves.

Employee Share Ownership Plans (ESOPs)

Assets and liabilities held by ESOPs are included in the balance sheet where the Group has de facto control of the shares held by the ESOP trust. Where the shares are conditionally gifted or under option to employees at below book value the difference is charged as an administration cost over the period to which the employee's performance relates.

Stocks

Stocks consist of goods held for resale and are valued at the lower of cost and net realisable value.

Derivatives and other financial instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profit or loss recognised immediately.

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Foreign exchange contracts hedging balance sheet assets and liabilities are revalued at closing rates and exchange differences arising are taken to reserves. Gains and losses on contracts hedging forecast transactional cash flows, and on option instruments hedging the sterling value of foreign currency denominated income, are recognised in the hedged periods.

Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged. Finance costs associated with debt issuances are charged to the profit and loss account over the life of the issue.

(1) ACCOUNTING POLICIES (CONTINUED)

Securitised receivables

Where the Group has sold trade receivables and received an initial cash payment on a non-recourse basis in return, the gross amount of the trade receivables sold are disclosed on the face of the balance sheet as securitised receivables and the amounts received as non-recourse receipts. The Group retains an interest in the receivables represented by the net of these two amounts.

Charges payable in respect of receivables so securitised that are fixed are included within administration expenses. Costs that vary according to a principal amount, an interest rate and a time period are treated as net interest payable and similar charges.

Pensions

Costs of funding 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.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law, at the balance sheet date. Deferred tax is not provided on timing differences arising from either the revaluation of fixed assets or rolled over gains where there is no commitment to sell the asset. Deferred tax is only provided on unremitted earnings of subsidiaries and associates where there is a commitment to remit the earnings. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

(2) EXCHANGE RATES

The following exchange rates have been used in the preparation of the financial statements.

	Euro/£	Czech Koruna CZK/£	Norwegian Kroner NOK/£	Swiss Franc CHF/£
As at 31 December 2002	1.534	48.42	11.15	2.226
As at 31 December 2001	1.635	51.76	13.05	2.416
Average for 2002	1.593	49.06	11.99	2.335
Average for 2001	1.613	54.89	13.00	2.434

(3) GROUP OPERATING PROFIT

	Continuing operations £million	Acquisitions £million	2002 £million	2001 £million
Turnover	7,818.7	204.8	**8,023.5**	7,314.1
Cost of sales	(7,137.7)	(180.1)	**(7,317.8)**	(6,713.8)
Gross profit	681.0	24.7	**705.7**	600.3
Administrative expenses	(519.0)	(18.8)	**(537.8)**	(459.8)
	162.0	5.9	**167.9**	140.5
Other operating income	27.8	0.3	**28.1**	32.3
Group operating profit	189.8	6.2	**196.0**	172.8

Distribution costs are considered to be a component of cost of sales, due to the nature of the Group's business, and as such are not separately disclosed.

Other operating income includes income received from services provided to pharmacists, doctors and suppliers, together with dividend income from listed investments.

(4) SEGMENTAL ANALYSIS

		Total operating profit			Total operating profit	
	Turnover 2002 £million	before amortisation of intangible assets 2002 £million	after amortisation of intangible assets 2002 £million	Turnover 2001 £million	before amortisation of intangible assets 2001 £million	after amortisation of intangible assets 2001 £million
Wholesale Northern Europe	**2,770.5**	**77.4**	**71.5**	2,433.7	71.0	65.3
Wholesale Southern Europe	**4,988.9**	**73.8**	**71.2**	4,727.0	70.2	68.0
Retail – Europe	**972.5**	**65.4**	**65.0**	719.7	56.4	55.8
Corporate	**–**	**(11.7)**	**(11.7)**	–	(16.3)	(16.3)
Intra-group	**(708.4)**	**–**	**–**	(566.3)	–	–
Group	**8,023.5**	**204.9**	**196.0**	7,314.1	181.3	172.8
Share of operating profit in associated undertakings	**–**	**21.5**	**17.8**	–	17.4	14.6
Total	**8,023.5**	**226.4**	**213.8**	7,314.1	198.7	187.4

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

Analysis of net assets	2002 £million	2001 restated £million
Wholesale Northern Europe	**339.0**	254.7
Wholesale Southern Europe	**505.4**	522.1
Retail – Europe	**642.5**	512.2
Corporate	**54.7**	53.2
Net operating assets	**1,541.6**	1,342.2
Associated undertakings	**250.5**	167.6
Proposed dividends	**(34.8)**	(31.5)
Net borrowings	**(880.2)**	(781.4)
	877.1	696.9

Notes to the financial statements (continued)

for the year ended 31 December 2002

(5) STAFF COSTS

The average number of persons employed by the Group, including Directors and part time staff, was:

	2002	2001
Wholesale Northern Europe	4,965	4,659
Wholesale Southern Europe	7,169	7,099
Retail	9,103	8,017
Corporate	55	48
	21,292	19,823

Costs incurred in respect of these employees were:

	2002 £million	2001 £million
Wages and salaries	296.0	256.5
Social security costs	54.7	48.6
Other pension costs	12.5	8.2
	363.2	313.3

Directors' emoluments, exclusive of pension contributions, for the financial year ended 31 December 2002 were £3.0 million (2001 £2.4 million). Further details on the Directors, including their emoluments, are given in the Board report on remuneration.

(6) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £million	2001 £million
Interest payable		
Bank loans and overdrafts	32.9	36.3
Loan notes	20.9	6.9
Other loans	0.8	3.0
Finance charges payable on securitised receivables	2.2	1.6
Finance charges payable on finance leases	0.5	0.8
Associate interest payable	5.3	4.0
	62.6	52.6
Discount on deferred acquisition consideration	0.2	–
Interest receivable		
Bank deposit interest receivable	(0.5)	(0.8)
Other finance income	(8.9)	(10.6)
Associate interest receivable	(6.5)	(1.6)
	(15.9)	(13.0)
	46.9	39.6

(7) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation has been arrived at after charging:

	2002 £million	2001 £million
Depreciation of owned assets	36.0	32.0
Depreciation of assets held under finance leases	1.1	2.1
Total depreciation of tangible fixed assets	37.1	34.1
Goodwill amortisation – subsidiary undertakings	8.5	7.9
– associated undertakings	3.7	2.8
Amortisation of retail pharmacy licences	0.4	0.6
Total amortisation of intangible assets	12.6	11.3
Administration costs of securitised receivables	6.2	6.7
Profit on disposal of fixed assets	(8.0)	(5.5)
Operating lease rentals – land and buildings	18.7	12.1
– furniture, fixtures and equipment	4.2	1.7
– motor vehicles	1.5	2.9
Audit fees – principal auditors	0.7	0.6
– other auditors	0.4	0.3

Audit fees include £0.1 million (2001 £0.1 million) for the audit of the Company by the principal auditors. In addition to audit fees, other fees paid to the auditors, including fees capitalised, were as follows:

	Principal auditors £million	Other auditors £million	2002 £million	2001 £million
Due diligence reviews	0.2	0.1	0.3	0.2
Taxation services	0.3	0.1	0.4	0.1
Other	0.2	–	0.2	0.2
	0.7	0.2	0.9	0.5

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £million	2001 restated £million
UK corporation tax		
Current tax on income for the period at 30% (2001 30%)	26.5	24.1
Adjustment in respect of prior periods	(0.9)	(0.2)
	25.6	23.9
Double taxation relief	(5.8)	(3.3)
	19.8	20.6
Overseas tax		
Current tax on income for the period	27.6	26.8
Adjustment in respect of prior periods	0.6	–
	28.2	26.8
Associated undertakings – current tax	7.9	5.6
Current tax charge	55.9	53.0
Deferred tax		
UK	(1.1)	–
Overseas	4.0	(0.5)
Adjustment in respect of prior periods	(1.1)	(0.2)
Deferred tax charge	1.8	(0.7)
	57.7	52.3

Notes to the financial statements (continued)

for the year ended 31 December 2002

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Adoption of FRS 19 has required a change in the method of accounting for deferred tax. As a result the comparative figure for the tax on profit on ordinary activities has been restated from the previously reported amount of £50.8 million to £52.3 million. The impact of adopting FRS 19 on the 2002 results is an increase in the tax charge of £0.6 million. All charges for deferred tax in the current and prior periods have arisen due to the origination and reversal of timing differences.

Alliance UniChem's principal operations are in Europe and the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit on ordinary activities before taxation and amortisation of intangible assets. The reconciliation of expected tax charge using this standard tax rate of 32.5% (2001 32.0%) to the actual current tax charge is as follows:

	2002 £million	2001 £million
Profit on ordinary activities before taxation	166.9	147.8
Amortisation of intangible assets	12.6	11.3
Profit on ordinary activities before taxation and amortisation	179.5	159.1

	2002 £million	2001 £million
Expected tax charge at standard tax rate	58.3	51.0
Permanent differences	1.0	5.8
Roll-over relief on capital gains	(1.0)	(3.3)
Other exempt capital gains	(0.2)	(0.8)
Tax losses brought forward and utilised in year	(0.1)	(1.3)
Unrelieved tax losses arising in year	1.1	1.3
Other timing differences	(2.9)	0.5
Adjustment in respect of prior periods	(0.3)	(0.2)
Current tax charge	55.9	53.0

(9) DIVIDENDS

	2002 £million	2001 £million
Interim paid, net 5.2 pence (2001 4.8 pence)	17.8	15.6
Final proposed, net 10.1 pence (2001 9.2 pence)	34.8	30.2
	52.6	45.8

(10) EARNINGS PER SHARE

	Profit for the financial year 2002 £million	Weighted average number of shares 2002 million	Earnings per share 2002 pence	Profit for the financial year 2001 £million	Weighted average number of shares 2001 million	Earnings per share 2001 pence
Basic	**108.8**	**328.9**	**33.1**	94.5	319.4	29.6
Share options	–	**1.9**	**(0.2)**	–	2.2	(0.2)
Deferred acquisition consideration	**0.2**	**0.9**	–	–	–	–
Diluted	**109.0**	**331.7**	**32.9**	94.5	321.6	29.4
Basic	**108.8**	**328.9**	**33.1**	94.5	319.4	29.6
Amortisation of intangible assets	**12.6**	–	**3.8**	11.3	–	3.5
Basic, before amortisation of intangible assets	**121.4**	**328.9**	**36.9**	105.8	319.4	33.1
Share options	–	**1.9**	**(0.2)**	–	2.2	(0.2)
Deferred acquisition consideration	**0.2**	**0.9**	–	–	–	–
Diluted, before amortisation of intangible assets	**121.6**	**331.7**	**36.7**	105.8	321.6	32.9

Earnings per share are also calculated before amortisation of intangible assets and exceptional items, if any, since the Directors consider that this gives a useful additional indication of underlying performance.

The diluted earnings per share calculations are based on the assumption that shares that may be potentially issued to meet the deferred consideration for the acquisition of Hedef-Alliance, were issued when the investment was made. The discount on this deferred acquisition consideration is therefore adjusted when computing the relevant profit for the financial year.

(11) INTANGIBLE FIXED ASSETS

	Positive goodwill £million	Negative goodwill £million	Total goodwill £million	Retail pharmacy licences £million	Total £million
Cost					
At 1 January	158.9	–	158.9	484.5	**643.4**
Business acquired	14.8	(1.9)	12.9	67.3	**80.2**
Transfer from unlisted investments	1.6	–	1.6	–	**1.6**
Disposals	(0.1)	–	(0.1)	(2.7)	**(2.8)**
Currency translation differences	9.9	–	9.9	13.6	**23.5**
At 31 December	185.1	(1.9)	183.2	562.7	**745.9**
Amortisation					
At 1 January	11.9	–	11.9	0.9	**12.8**
Charge/(credit) for the year	8.7	(0.2)	8.5	0.4	**8.9**
Currency translation differences	1.0	–	1.0	0.1	**1.1**
At 31 December	21.6	(0.2)	21.4	1.4	**22.8**
Net book value					
At 31 December 2002	**163.5**	**(1.7)**	**161.8**	**561.3**	**723.1**
Net book value					
At 31 December 2001	147.0	–	147.0	483.6	630.6

Negative goodwill arose on the acquisition of Holtung in 2002 and is being released to the profit and loss account over a four-year period, being the estimated economic life.

(12) TANGIBLE FIXED ASSETS

Group	Land and buildings Freehold £million	Long leasehold £million	Short leasehold £million	Furniture, fixtures and equipment £million	Motor vehicles £million	Total £million
Cost						
At 1 January	145.9	20.8	4.9	240.4	25.9	**437.9**
Additions	13.3	–	0.1	37.6	5.3	**56.3**
Businesses acquired	6.9	–	–	4.5	0.2	**11.6**
Disposals	(8.1)	–	–	(6.9)	(7.3)	**(22.3)**
Currency translation differences	8.3	0.8	–	11.0	0.4	**20.5**
At 31 December	166.3	21.6	5.0	286.6	24.5	**504.0**
Depreciation						
At 1 January	29.0	3.4	1.9	135.2	13.2	**182.7**
Charge for the year	2.6	0.5	0.3	28.8	4.9	**37.1**
Businesses acquired	0.5	–	–	1.6	0.1	**2.2**
Disposals	(1.2)	–	–	(4.5)	(5.0)	**(10.7)**
Currency translation differences	1.6	0.1	–	6.3	0.3	**8.3**
At 31 December	32.5	4.0	2.2	167.4	13.5	**219.6**
Net book value						
At 31 December 2002	**133.8**	**17.6**	**2.8**	**119.2**	**11.0**	**284.4**
At 31 December 2001	116.9	17.4	3.0	105.2	12.7	255.2

Company						
Cost						
At 1 January	–	–	0.6	0.7	0.8	**2.1**
Additions	–	–	–	0.2	0.3	**0.5**
Disposals	–	–	–	(0.2)	(0.3)	**(0.5)**
At 31 December	–	–	0.6	0.7	0.8	**2.1**
Depreciation						
At 1 January	–	–	0.1	0.2	0.4	**0.7**
Charge for the year	–	–	–	0.2	0.2	**0.4**
Disposals	–	–	–	(0.1)	(0.2)	**(0.3)**
At 31 December	–	–	0.1	0.3	0.4	**0.8**
Net book value						
At 31 December 2002	–	–	**0.5**	**0.4**	**0.4**	**1.3**
At 31 December 2001	–	–	0.5	0.5	0.4	1.4

The Group cost of long leaseholds includes capitalised interest of £0.5 million (2001 £0.4 million).

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

Group	2002 £million	2001 £million
Land and buildings	**21.7**	18.0
Furniture, fixtures and equipment	**0.1**	0.3
	21.8	18.3

(13) FIXED ASSET INVESTMENTS

Group	2002 £million	2001 £million
Associated undertakings	**250.5**	167.6
Other investments	**81.6**	68.1
	332.1	235.7

Group Associated undertakings	Goodwill on associated undertakings £million	Share of net assets of associated undertakings £million	Loans to associated undertakings £million	Total £million
At 1 January	62.7	80.1	24.8	**167.6**
Profit for the year	–	14.4	–	**14.4**
Amortisation of goodwill	(3.7)	–	–	**(3.7)**
Dividends	–	(2.7)	–	**(2.7)**
Additions	23.4	30.0	12.6	**66.0**
Transfer from unlisted investments	–	0.4	–	**0.4**
Disposals	(0.1)	(1.5)	(0.8)	**(2.4)**
Currency translation differences	2.3	5.9	2.7	**10.9**
At 31 December	84.6	126.6	39.3	**250.5**

In September 2002, the Group increased its stake in Hedef-Alliance from 25% to 50%, paying £20.8 million in cash on completion. A further amount will be payable, dependant upon performance, in cash or shares, or a combination thereof, at the Group's option, which the Directors anticipate will not exceed US$38.8 million (£24.1 million). The estimated deferred consideration has been discounted and accounted for as shares to be issued of £17.7 million in accordance with FRS 4 "Capital Instruments". Provisional goodwill of £20.8 million has been recognised in respect of this transaction.

Loans to associated undertakings are provided at normal commercial rates.

Group Other investments	ESOP investment in own shares £million	Other listed investments £million	Other unlisted investments £million	Total £million
At 1 January	13.9	47.5	6.7	**68.1**
Additions	17.1	–	0.1	**17.2**
Businesses acquired	–	–	0.3	**0.3**
Disposals	(4.9)	–	(0.1)	**(5.0)**
Transfer to associated undertakings	–	–	(0.4)	**(0.4)**
Transfer to intangible assets	–	–	(1.6)	**(1.6)**
Currency translation differences	–	3.8	(0.8)	**3.0**
At 31 December	26.1	51.3	4.2	**81.6**

Company	Shares in group undertakings £million	Loans to group undertakings £million	Shares in associated undertakings £million	Loans to associated undertakings £million	ESOP investment in own shares £million	Total £million
At 1 January	707.2	485.6	–	0.6	13.9	**1,207.3**
Additions	23.5	205.4	37.7	–	17.1	**283.7**
Disposals	–	–	–	(0.6)	(4.9)	**(5.5)**
Currency translation differences	–	45.8	–	–	–	**45.8**
At 31 December	730.7	736.8	37.7	–	26.1	**1,531.3**

(13) FIXED ASSET INVESTMENTS (CONTINUED)
The Employee Share Trust (ESOP) had an investment at 31 December 2002 of £26.1 million (2001 £13.9 million) in 6.4 million (2001 3.7 million) of the Company's shares. The market value of the holding at 31 December 2002 was £28.4 million (2001 £19.0 million). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options with administrative costs absorbed by the Company.

The aggregate market value of the Group's other listed investments on 31 December 2002 was £52.1 million (2001 £50.3 million).

(14) STOCKS
Stocks consists of goods held for resale. Their replacement cost does not differ significantly from the carrying value.

(15) SECURITISED RECEIVABLES
French and Italian schemes
Certain amounts receivable from French and Italian pharmacies have been securitised on a non-recourse basis, under five year facilities. The Italian facility was entered into during the year and the French facility was renewed in the year. The Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements, nor does it intend to do so. The provider of these arrangements has agreed in writing that it will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

UK scheme
In 2001, the Group entered into a five year agreement to sell UK receivables to Alliance No.1 PLC ("Alliance"). Alliance has issued £100 million secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £15.4 million (of which £14.8 million is subordinated), representing the excess of the face value of the receivables sold over the £100 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £15.4 million of finance provided by the Group.

Under the agreements with the note holders, the Group is not obliged to support any losses in respect of the securitised receivables other than to the extent of the subordinated loans and does not intend to do so.

The controlling interest in Alliance is held by a discretionary trust established for charitable purposes. The Group receives interest on the subordinated loans and is paid administrative fees by Alliance.

Alliance is a quasi-subsidiary of the Group and is not consolidated, as it meets the requirements of linked presentation under FRS 5 "Reporting the substance of transactions". The summary financial position of Alliance was:

Profit and loss	2002 £million	2001 £million
Interest receivable	6.4	2.3
Interest payable	(6.4)	(2.3)
Net interest receivable	–	–
Administrative expenses	–	–
Profit for the financial period	–	–

Balance sheet	2002 £million	2001 £million
Current assets – investments	116.0	112.3
– cash at bank	4.1	1.0
Creditors due within one year	(0.8)	(0.6)
Creditors due in more than one year – debt securities	(119.3)	(112.6)
Net assets represented by equity shareholders' funds	–	0.1

The current asset investments include amounts owed by Group Companies, being £36.1 million (2001 £73.1 million) collected in respect of securitised receivables and held in trust on 31 December.

(16) OTHER DEBTORS

	Group 2002 £million	Group 2001 £million	Company 2002 £million	Company 2001 £million
Amounts falling due within one year				
Trade debtors	**819.6**	675.7	**–**	–
Amounts owed by associated undertakings	**0.7**	0.1	**–**	–
Loans to customers	**39.1**	46.4	**–**	–
Other debtors and accrued income	**86.7**	123.5	**8.4**	7.2
Pension prepayment	**2.7**	1.9	**2.4**	1.9
Other prepayments	**26.4**	25.8	**1.2**	0.5
Corporation tax recoverable	**5.1**	–	**–**	–
Deferred tax	**3.3**	5.9	**0.5**	–
Group relief receivable	**–**	–	**5.8**	3.4
	983.6	879.3	**18.3**	13.0
Amounts falling due after more than one year				
Trade debtors	**1.8**	1.1	**–**	–
Loans to customers	**31.8**	17.7	**–**	–
Other debtors	**2.7**	1.9	**–**	–
	36.3	20.7	**–**	–
Total	**1,019.9**	900.0	**18.3**	13.0

(17) NET BORROWINGS

	Group 2002 £million	Group 2001 £million	Company 2002 £million	Company 2001 £million
Amounts falling due within one year				
Bank overdrafts	**245.9**	257.7	**56.0**	28.7
Bank loans	**95.8**	25.5	**46.6**	12.7
Loan notes	**18.9**	63.3	**9.9**	63.2
Obligations under finance leases	**1.1**	2.0	**–**	–
	361.7	348.5	**112.5**	104.6
Amounts falling due after more than one year				
Bank loans	**121.9**	301.4	**94.1**	259.3
2008 Senior notes 6.63% (US$57 million)	**32.8**	30.7	**32.8**	30.7
2009 Senior notes 6.67% (US$113 million)	**65.0**	61.0	**65.0**	61.0
2011 Senior notes 6.55% (US$173 million)	**126.5**	118.8	**126.5**	118.8
2011 Senior notes 6.07% (€30 million)	**19.6**	18.3	**19.6**	18.3
2012 Senior notes 7.19% (US$300 million)	**216.1**	–	**216.1**	–
2017 Senior notes 7.01% (£50 million)	**50.7**	–	**50.7**	–
Other loan notes	**27.5**	31.4	**27.5**	23.2
Obligations under finance leases	**8.1**	8.7	**–**	–
	668.2	570.3	**632.3**	511.3
Total borrowings	**1,029.9**	918.8	**744.8**	615.9
Cash at bank and in hand	**(149.7)**	(137.4)	**(11.8)**	(0.1)
Net borrowings	**880.2**	781.4	**733.0**	615.8

Interest on bank loans at the year end was at floating rates of between 0.98% and 7.43%, dependent upon the currency borrowed.

(17) NET BORROWINGS (CONTINUED)

Loan notes totalling £8.9 million falling due within one year may be redeemed on 31 May 2003. The remaining loan notes can be redeemed by the holders giving one month's notice before an interest payment date. However, if no notice is given, these notes will fall due at their maturity dates, which for the most part will be 2012. At the year end these loan notes bore interest at floating rates of between 2.90% and 3.38% per annum.

The proceeds from the issue of Senior notes have been effectively converted through cross-currency swaps into the currencies of the underlying debt being refinanced (Euros, Swiss francs, Sterling and Norwegian kroner). At the same time, the underlying fixed interest rates have been swapped into floating rates of the relevant currency for the duration of the Senior notes. At the year end the Senior notes effectively bore interest at floating rates of between 2.01% and 7.52% per annum dependant upon currency. The amount reported against each Senior note represents the translation of the swapped currencies at year end exchange rates.

The other loan notes falling due after more than one year are repayable in 2004. At the year end, they bore interest at a fixed rate of 3.50% per annum.

Within cash at bank and in hand, amounts totalling £36.1 million (2001 £73.1 million) were temporarily held in trust in relation to the UK securitised receivables programme. Excluding these amounts, cash at bank and in hand totalled £113.6 million (2001 £64.3 million).

(18) FINANCIAL INSTRUMENTS

The Group's approach to managing financial risk is described in the Financial review. Short-term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

(a) Book and fair value of financial instruments

A comparison of book values and fair values of the Group's financial assets and liabilities is set out below:

		2002		2001
	Book value £million	Fair value £million	Book value £million	Fair value £million
Primary financial instruments held to finance the Group's operations:				
Cash at bank and in hand	**149.7**	**149.7**	137.4	137.4
Loans to associated undertakings	**39.3**	**39.3**	24.8	24.8
Other listed investments	**51.3**	**52.1**	47.5	50.3
Other unlisted investments	**4.2**	**4.2**	6.7	6.7
Debtors due after one year	**36.3**	**36.3**	20.7	20.7
Financial assets	**280.8**	**281.6**	237.1	239.9
Bank overdrafts	**(245.9)**	**(245.9)**	(257.7)	(257.7)
Bank loans	**(217.7)**	**(217.7)**	(326.9)	(326.9)
Loan notes	**(557.1)**	**(557.1)**	(323.5)	(323.5)
Obligations under finance leases	**(9.2)**	**(9.2)**	(10.7)	(10.7)
Financial liabilities	**(1,029.9)**	**(1,029.9)**	(918.8)	(918.8)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate derivatives	**–**	**(14.1)**	–	(8.8)
Cross currency derivatives	**(5.5)**	**(5.7)**	0.8	0.8
	(5.5)	**(19.8)**	0.8	(8.0)

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair value of all other financial instruments is approximately equal to book value due to either their short-term nature or their being at variable interest rates.

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate profile

The interest rate profile of financial assets and liabilities, after taking into account interest rate and currency derivative contracts, was as follows:

2002 Financial assets	Fixed rate financial assets: Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £million	At floating interest rates £million	Non-interest bearing £million	Total £million
Sterling	–	–	–	56.5	0.5	57.0
Euro	–	–	–	114.7	56.3	171.0
Other	–	–	–	49.6	3.2	52.8
				220.8	60.0	280.8
2001 Financial assets						
Sterling	–	–	–	88.3	4.4	92.7
Euro	–	–	–	51.2	59.6	110.8
Other	4.0	1.0	1.0	32.6	–	33.6
			1.0	172.1	64.0	237.1

Floating rate financial assets mainly comprise bank deposits predominantly bearing interest based on London interbank reference rates.

2002 Financial liabilities	Fixed rate financial liabilities: Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £million	At floating interest rates £million	Total £million
Sterling	4.9	2.5	47.1	95.0	142.1
Euro	4.5	1.7	597.6	80.1	677.7
Other	5.9	1.7	32.8	177.3	210.1
			677.5	352.4	1,029.9
2001 Financial liabilities					
Sterling	4.7	2.1	65.5	102.2	167.7
Euro	4.6	2.4	474.8	108.6	583.4
Other	5.3	2.1	37.0	130.7	167.7
			577.3	341.5	918.8

The Group has further Euro denominated derivative financial instruments to hedge securitisation costs that vary according to interest rates, totalling £131.8 million (2001 £79.6 million). These instruments have a weighted average interest rate of 4.5% which is fixed for a weighted average period of 1.7 years (2001 4.6% and 2.4 years).

Floating rate financial liabilities mainly comprise bank overdrafts, loans and loan notes predominantly bearing interest at margins over London interbank reference rates.

(c) Currency profile

There are no significant unmatched currency exposures on monetary assets and liabilities after taking into account the effects of currency swaps and forward exchange contracts.

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(d) Maturity profile of financial liabilities

An analysis of financial liabilities, by due date of repayment, is as follows:

2002	Bank overdrafts £million	Bank loans £million	Loan notes £million	Obligations under finance leases £million	Total £million
Within one year	245.9	95.8	18.9	1.1	361.7
Between one and two years	–	22.5	27.5	1.4	51.4
Between two and five years	–	90.4	–	4.0	94.4
Over five years	–	9.0	510.7	2.7	522.4
	245.9	217.7	557.1	9.2	1,029.9
2001					
Within one year	257.7	25.5	63.3	2.0	348.5
Between one and two years	–	15.9	8.2	1.3	25.4
Between two and five years	–	273.2	23.2	3.7	300.1
Over five years	–	12.3	228.8	3.7	244.8
	257.7	326.9	323.5	10.7	918.8

(e) Undrawn committed borrowing facilities

The maturity profile of the Group's undrawn committed facilities, where all conditions precedent had been met, at 31 December was:

	2002 £million	2001 £million
Within one year	3.0	88.6
Between one and two years	–	21.7
Between two and five years	102.3	–
Total	105.3	110.3

(f) Hedging

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on hedging instruments, and movements therein, were as follows:

Unrecognised gains and losses	Gains £million	Losses £million	Total £million
At 1 January 2002	–	(8.8)	(8.8)
Arising in previous years that were recognised in the year	–	0.5	0.5
Arising before 1 January that were not recognised in the year	–	(8.3)	(8.3)
Arising in the year that were not recognised in the year	5.4	(11.4)	(6.0)
At 31 December 2002	5.4	(19.7)	(14.3)
Of which expected to be recognised:			
In 2003	2.4	(13.3)	(10.9)
After 2003	3.0	(6.4)	(3.4)

(19) OTHER CREDITORS

Amounts falling due within one year	Group 2002 £million	Group 2001 £million	Company 2002 £million	Company 2001 £million
Trade creditors	**967.6**	958.1	–	–
Amounts owed to subsidiary undertakings	–	–	**125.3**	124.3
Amounts owed to associated undertakings	–	0.9	–	–
Other creditors	**119.4**	84.5	**10.3**	13.2
Corporate tax	**21.0**	36.2	–	1.9
Other taxation and social security	**86.5**	62.4	**3.6**	–
Accruals and deferred income	**49.5**	38.6	**8.9**	–
Proposed dividend	**34.8**	31.5	**34.8**	31.5
	1,278.8	1,212.2	**182.9**	170.9

(20) PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred tax £million	Pensions £million	Total £million
At 1 January 2002, as previously stated	5.0	7.7	12.7
Prior year adjustment for FRS 19	3.7	–	3.7
At 1 January 2002, as restated	8.7	7.7	16.4
At 1 January 2002, in debtors	(5.9)	(1.9)	(7.8)
Charge for the year	1.8	12.5	14.3
Utilised	0.5	(12.2)	(11.7)
Businesses acquired	0.7	0.3	1.0
Currency translation differences	0.1	0.3	0.4
	5.9	6.7	12.6
Asset recognised in debtors	3.3	2.7	6.0
At 31 December 2002	**9.2**	**9.4**	**18.6**

The deferred tax asset at 31 December 2002 of £3.3 million represents £1.5 million of losses expected to be utilised following recapitalisation of certain Group companies in 2002 and £1.8 million of other timing differences.

Financial Reporting Standard 19 "Accounting for Deferred Tax" (FRS 19) has been adopted with effect from 1 January 2002 and comparative figures restated. This has resulted in an increased provision for deferred tax of £3.7 million arising from the recognition of further deferred tax on accelerated capital allowances and other timing differences.

Company	Deferred tax £million	Pensions £million	Total £million
At 1 January 2002, in debtors	–	(1.9)	**(1.9)**
Charge for the year	(0.5)	1.0	**0.5**
Utilised	–	(1.5)	**(1.5)**
Asset recognised in debtors	0.5	2.4	**2.9**
At 31 December 2002	–	–	**–**

Notes to the financial statements (continued)

for the year ended 31 December 2002

(20) PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

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

	Provided		Not provided	
Group	2002 £million	2001 restated £million	2002 £million	2001 restated £million
Capital allowances	**12.6**	11.1	**(0.1)**	(0.3)
Pension accrual	**(2.2)**	(2.4)	**–**	–
Other timing differences	**(2.9)**	(0.7)	**–**	(0.5)
Unrelieved tax losses	**(1.6)**	(5.3)	**(5.6)**	–
Chargeable gains deferred by roll-over relief	**–**	–	**13.8**	15.0
Property revaluation	**–**	0.1	**4.6**	4.8
Capital losses	**–**	–	**(0.9)**	(2.7)
	5.9	2.8	**11.8**	16.3
Company				
Short-term timing differences	**(0.5)**	–	**–**	–

No deferred tax has been provided on gains covered by roll-over relief as such tax, estimated to be £13.8 million, would only become payable if the replacement property was sold without roll-over relief being obtained. No deferred tax has been provided on property revaluations as such tax, estimated to be £4.6 million, would only become payable if the property were sold without further roll-over relief being obtained.

(21) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost was £12.5 million (2001 £8.2 million). Included in the balance sheet is a prepayment totalling £2.7 million (2001 £1.9 million) representing the excess of the cumulative contributions paid over the accumulated pension cost in respect of the UK and Norwegian schemes and a provision of £9.4 million (2001 £7.7 million) being the liability in respect of schemes in France and the Netherlands.

UK scheme

The Group operates a principal UK pension scheme which has two plans: the UK Benefit Plan which is a funded defined benefit arrangement, and the UK Contribution Plan, which is a funded defined contribution arrangement. Both plans 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 prepayment) in respect of the Benefit Plan are assessed in accordance with the advice of Hewitt Bacon & Woodrow, an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2000. The method for the valuation was the projected unit method and the main assumptions were:

	% per annum
Investment return post-retirement	4.9
Investment return pre-retirement for active members	6.9
Salary increases	3.9
Pension in payment increases for members who joined up to 31 December 1996	5.0
Pension in payment increases for members who joined from 1 January 1997	2.8

Following the valuation, it was agreed to adopt an employer contribution rate of 13.3% of pensionable pay, effective from 1 January 2001.

At 1 January 2000, the actuarial value of the Benefit Plan's assets was £59.5 million. This represented 101% 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.

(21) PENSIONS (CONTINUED)

Other schemes

The Group also sponsors a number of defined benefit plans. The costs of these plans have been recognised in the Group financial statements in accordance with the requirements of SSAP24. The material plans are in France, The Netherlands and, following the acquisition of Holtung during the year, in Norway.

FRS 17 disclosures

The Group is making use of the transitional arrangements regarding the adoption of FRS 17 "Retirement Benefits". As required under these transitional provisions, certain information is disclosed below under FRS 17 as if it had been applied from 1 January 2002.

The main financial assumptions used by the actuaries at 31 December were:

	2002		2001	
	UK benefit plan % pa	Other European % pa	UK benefit plan % pa	Other European % pa
Discount rate	5.4	5.5	5.9	5.5
Inflation rate	2.3	2.5	2.5	2.0
Salary increases	3.3	2.5	3.5	2.7
Pension in payment increases for members who:				
joined up to 31 December 1996	5.0	2.0	5.0	2.5
joined from 1 January 1997	2.3	2.0	2.5	2.5

Market value of the assets and expected rates of return for the defined benefit schemes were:

	2002		2001	
UK Benefit Plan	Expected return % pa	Value £million	Expected return % pa	Value £million
Equities	7.5	40.8	7.9	45.3
Bonds	4.4	15.2	5.0	14.0
Other	4.0	2.7	4.9	1.8
		58.7		61.1
Other European				
Equities	8.0	3.2	8.0	4.1
Bonds	5.1	13.5	5.0	9.8
Other	5.0	4.9	5.0	4.2
		21.6		18.1

Notes to the financial statements (continued)

for the year ended 31 December 2002

(21) PENSIONS (CONTINUED)

The value of the defined benefit pension scheme assets and liabilities can be summarised:

	2002			2001		
	UK benefit plan £million	Other European £million	Total £million	UK benefit plan £million	Other European £million	Total £million
Total market value of assets	**58.7**	**21.6**	**80.3**	61.1	18.1	79.2
Present value of scheme liabilities	**(82.9)**	**(32.2)**	**(115.1)**	(67.3)	(26.8)	(94.1)
Deficit in the schemes	**(24.2)**	**(10.6)**	**(34.8)**	(6.2)	(8.7)	(14.9)
Related deferred tax asset	**7.3**	**3.7**	**11.0**	1.9	3.0	4.9
Net pension liability	**(16.9)**	**(6.9)**	**(23.8)**	(4.3)	(5.7)	(10.0)

If these amounts had been recognised in the financial statements, the Group's net profit and loss account would have been as follows:

	2002 £million	2001 £million
Net assets excluding pension liability	**881.3**	700.5
Net pension liability	**(23.8)**	(10.0)
Net assets including pension liability	**857.5**	690.5
Profit and loss account excluding pension liability	**396.7**	330.7
Pension reserve	**(23.8)**	(10.0)
Profit and loss account	**372.9**	320.7

The Group pension expense in 2002 for its defined benefit schemes under FRS 17 would have been:

Profit and loss account	UK benefit plan £million	Other European £million	Total £million
Charge to operating profit	(4.1)	(2.3)	(6.4)
Expected return on pension scheme assets	4.6	1.1	5.7
Interest on pension scheme liabilities	(4.0)	(1.7)	(5.7)
Amount credited to other finance income	0.6	(0.6)	–
Net pension expense before taxation	**(3.5)**	**(2.9)**	**(6.4)**

The charge to operating profit is all in respect of the current service cost. The net pension expense before taxation compares to an actual amount charged of £7.4 million in respect of defined benefit schemes under SSAP 24 in 2002.

Statement of total recognised gains and losses	UK benefit plan £million	Other European £million	Total £million
Actual return on pension scheme assets less expected return on pension scheme assets	(13.6)	(1.2)	(14.8)
Experience gains and losses arising on the scheme liabilities	–	(0.3)	(0.3)
Changes in assumptions underlying the present value of the scheme liabilities	(6.6)	1.8	(4.8)
Actuarial loss recognised	**(20.2)**	**0.3**	**(19.9)**

(21) PENSIONS (CONTINUED)

Movement in scheme deficit	UK benefit plan £million	Other European £million	Total £million
Deficit at 1 January 2002	(6.2)	(8.7)	(14.9)
Current service costs	(4.1)	(2.3)	(6.4)
Contributions	5.7	1.2	6.9
Businesses acquired	–	0.1	0.1
Other finance income	0.6	(0.6)	–
Actuarial loss	(20.2)	0.3	(19.9)
Currency translation differences	–	(0.6)	(0.6)
Deficit at 31 December 2002	**(24.2)**	**(10.6)**	**(34.8)**

Details of experience gains and losses for 2002	UK benefit plan £million	Other European £million
Difference between expected and actual returns on scheme assets		
Amount	**(13.6)**	**(1.2)**
Percentage of scheme assets (%)	**(23.2)**	**(5.6)**
Experience gains and losses on scheme liabilities		
Amount	**–**	**(0.3)**
Percentage of present value of scheme liabilities (%)	**–**	**(0.9)**
Amount in Group statement of total recognised gains and losses		
Amount	**(20.2)**	**0.3**
Percentage of present value of scheme liabilities (%)	**(24.4)**	**0.9**

(22) SHARE CAPITAL

	Number million	Share capital 10p ordinary shares £million
Authorised share capital	432.9	43.3
Called up, issued and fully paid up		
At 1 January 2002	326.1	32.6
Shares issued during the year	18.7	1.9
At 31 December 2002	**344.8**	**34.5**

Details of shares allotted during the year were:

	Number million	Price paid per share £	Consideration £million
Share option exercises:			
Cash from employees	0.7	1.92-4.63	1.6
Contribution from Employee Trust	–	–	2.3
Scrip elections in lieu of:			
2001 final dividend	1.3	5.99	7.8
2002 interim dividend	0.3	5.18	1.5
Businesses acquired	0.1	5.38	0.7
Share placing	16.3	5.50	88.1
Share capital and share premium account movement	18.7		102.0
Of which:			
Share capital			1.9
Share premium account			100.1

(22) SHARE CAPITAL (CONTINUED)

Details of outstanding options over ordinary shares at 31 December 2002 were:

Year of grant	Price (p)	Outstanding 2002	Outstanding 2001	Normally exercisable from
1990 Savings related scheme				
1994	208.00	–	12,374	01.12.2001 to 30.05.2002
1995	213.00	–	18,196	01.07.2002 to 30.12.2002
1995	216.00	3,429	8,123	01.12.2002 to 30.05.2003
1996	192.00	–	18,501	01.07.2001 to 30.12.2001
1996	192.00	91,349	91,349	01.07.2003 to 30.12.2003
1997	214.00	10,312	377,145	01.07.2002 to 30.12.2002
1997	214.00	139,265	145,277	01.07.2004 to 30.12.2004
1998	324.00	–	24,168	01.08.2001 to 30.01.2002
1998	324.00	241,849	260,503	01.08.2003 to 30.01.2004
1998	324.00	83,371	87,219	01.08.2005 to 30.01.2006
1999	384.00	14,856	191,074	01.07.2002 to 30.12.2002
1999	384.00	158,581	172,718	01.07.2004 to 30.12.2004
1999	384.00	46,242	46,816	01.07.2006 to 30.12.2006
2000	291.00	393,379	448,525	01.07.2003 to 30.12.2003
2000	291.00	278,406	302,046	01.07.2005 to 30.12.2005
2000	291.00	129,785	133,823	01.07.2007 to 30.12.2007
2001	463.00	327,660	376,026	01.07.2004 to 30.12.2004
2001	463.00	260,885	289,068	01.07.2006 to 30.12.2006
2001	463.00	61,637	77,346	01.07.2008 to 31.12.2008
2002	480.00	474,556	–	01.07.2005 to 30.12.2005
2002	480.00	339,784	–	01.07.2007 to 30.12.2007
2002	480.00	86,037	–	01.07.2009 to 30.12.2009
		3,141,383	3,080,297	
1990 Executive scheme				
1993	253.99	55,000	59,890	01.11.1996 to 30.10.2003
1994	260.00	60,000	75,000	21.10.1997 to 20.10.2004
1995	269.00	372	372	18.10.1998 to 17.10.2005
		115,372	135,262	
1997 Discretionary scheme				
1997	268.50	66,872	146,872	13.06.2000 to 12.06.2004
1998	429.50	1,011,778	1,152,778	07.05.2001 to 06.05.2005
1999	442.00	664,500	1,060,000	14.05.2002 to 13.05.2006
1999	435.00	90,222	90,222	27.05.2002 to 26.05.2006
2000	379.00	1,343,084	1,373,084	23.03.2003 to 22.03.2007
2001	592.00	1,800,000	1,830,000	06.04.2004 to 05.04.2008
2002	609.00	1,990,000	–	09.04.2005 to 08.04.2009
		6,966,456	5,652,956	
1998 Long term incentive plan				
2001	0.0001	31,812	45,325	06.04.2001 to 05.04.2011
2002	0.0001	40,023	–	19.03.2002 to 18.03.2012
		71,835	45,325	

(23) SHARES TO BE ISSUED

The shares to be issued represent the estimated value of the shares, including share premium, that will be potentially issued for deferred consideration for the acquisition of Hedef- Alliance, discounted to reflect the future payment date. The Group can elect to satisfy the deferred consideration for Hedef-Alliance in cash or shares, or a combination thereof.

(24) OTHER RESERVES

Group	Share premium account £million	Capital reserve £million	Profit and loss account £million
At 1 January 2002, as previously stated	319.7	1.4	330.8
Prior year adjustment for FRS 19	–	–	(3.7)
At 1 January 2002, as restated	319.7	1.4	327.1
Shares issued	100.1	–	–
Retained profit for the year	–	–	56.2
Transfer from profit and loss to capital reserve	–	0.8	(0.8)
Employee Trust	–	–	(2.3)
Currency translation differences	–	–	7.8
Tax on currency translation differences on foreign currency borrowings	–	–	4.5
At 31 December 2002	**419.8**	**2.2**	**392.5**

Company			
At 1 January 2001	319.7	–	82.7
Shares issued	100.1	–	–
Retained profit for the year	–	–	80.3
At 31 December 2002	**419.8**	**–**	**163.0**

The capital reserve represents non-distributable reserves arising in some countries.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit for the financial year dealt with in the profit and loss account of the Company was £132.9 million (2001 £38.5 million).

(25) ACQUISITIONS

The Group has continued its development during the year through a number of business acquisitions, that have been accounted for by the acquisition accounting method, and are summarised for wholesale and retail acquisition below.

Wholesale **Assets acquired at book and fair value**	Book value at acquisition £million	Accounting policy alignment £million	Fair value alignment £million	Provisional fair value £million
Fixed assets – tangible	9.2	(0.2)	(1.9)	**7.1**
– investments	0.3	–	–	**0.3**
Stock	18.3	(0.1)	(0.2)	**18.0**
Debtors	32.6	(2.2)	(0.3)	**30.1**
Creditors and provisions	(51.5)	(0.4)	1.4	**(50.5)**
Minority interests acquired	4.4	–	–	**4.4**
	13.3	(2.9)	(1.0)	**9.4**
Overdraft acquired	(9.5)	–	–	**(9.5)**
Borrowings acquired	(2.6)	–	–	**(2.6)**
Assets/(liabilities) acquired	1.2	(2.9)	(1.0)	**(2.7)**
Consideration paid				
Cash				**(7.4)**
Purchased goodwill				**10.1**

Notes to the financial statements (continued)

for the year ended 31 December 2002

(25) ACQUISITIONS (CONTINUED)

In June 2002, 100% of a Norwegian wholesaler, Holtung, was acquired for £0.3 million, principally advisors costs. Assets acquired totalled £2.2 million, giving rise to provisional negative goodwill of £1.9 million.

In July 2002, 83.8% of a French wholesaler, Ouest Répartition Pharmaceutique, was acquired from the receivers of this company for £1.9 million. Net liabilities of £7.9 million were acquired giving rise to provisional goodwill of £9.8 million.

During the year, minority interests in certain wholesale businesses were acquired for £5.2 million. Assets acquired totalled £3.0 million, giving rise to provisional goodwill of £2.2 million.

Retail **Assets acquired at book and fair value**	Book and provisional fair value at acquisition £million
Fixed assets – intangible	**67.3**
– tangible	**2.3**
Stock	**5.0**
Debtors	**6.0**
Creditors and provisions	**(5.5)**
Minority interests acquired	**1.1**
	76.2
Net cash acquired	**1.0**
Assets acquired	**77.2**
Consideration paid	
Shares	**(0.7)**
Cash	**(67.4)**
Loan notes	**(13.5)**
	(81.6)
Purchased goodwill	**4.4**

Retail acquisitions comprised the acquisition of 59 pharmacies in the UK, Norway, the Netherlands and Italy. There were no accounting policy or fair value alignments required in respect of these acquisitions.

At 31 December 2002, cumulative goodwill written-off to reserves for businesses acquired prior to 1998, net of that attributable to disposals, was £360.8 million (2001 £360.8 million).

(26) CASH FLOW STATEMENT

(a) Reconciliation of Group operating profit to net cash inflow from operating activities	2002 £million	2001 £million restated
Group operating profit	196.0	172.8
Depreciation	37.1	34.1
Amortisation of goodwill	8.5	7.9
Amortisation of pharmacy licences	0.4	0.6
Profit on disposal of fixed assets	(8.0)	(5.5)
Decrease/(increase) in stocks	50.1	(22.0)
Increase in debtors	(51.6)	(15.6)
(Decrease)/increase in creditors	(31.9)	67.6
Net cash inflow from operating activities	200.6	239.9

(b) Returns on investments and servicing of finance		
Interest received	9.3	11.3
Interest paid	(57.0)	(48.4)
Dividends paid to minority shareholders	(0.4)	(0.1)
Interest element of finance lease payments	(0.5)	(0.8)
Net cash outflow from returns on investments and servicing of finance	(48.6)	(38.0)

(c) Capital expenditure and financial investment		
Purchase of fixed assets	(56.3)	(51.8)
Disposal of fixed assets	18.3	16.5
Loans to associated undertakings	(12.6)	(24.2)
Loans repaid by associated undertakings	0.8	0.5
Other investments (net)	(12.2)	(1.1)
Net cash outflow from capital expenditure and financial investment	(62.0)	(60.1)

(d) Acquisitions and disposals		
Purchase of businesses	(74.8)	(126.6)
Net (overdrafts)/cash of businesses acquired	(8.5)	1.8
Purchase of shares in associated undertakings	(35.9)	(38.6)
Disposal of businesses	4.0	24.3
Net cash of businesses sold	–	(0.1)
Disposal of investment in associated undertakings	1.7	11.1
Net cash outflow from acquisitions and disposals	(113.5)	(128.1)

Notes to the financial statements (continued)

for the year ended 31 December 2002

(27) NET CASH FLOW FROM INCREASE IN DEBT AND LEASE FINANCING

	2002 £million	2001 £million
Debt due within one year:		
Net movement in money market borrowings maturing within one week	39.5	7.4
Decrease in short-term borrowings	(67.3)	(9.6)
Borrowings due after one year:		
Increase in borrowings	267.0	157.8
Repayment of borrowings	(143.8)	(69.7)
Capital element of finance lease rental payments	(2.1)	(3.0)
Net cash inflow from increase in debt and lease financing	93.3	82.9

(28) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash at bank and in hand £million	Borrowings due within one year £million	Borrowings due after more than one year £million	Net borrowings £million
At 1 January 2002	137.4	(348.5)	(570.3)	(781.4)
Increase in cash	6.1	64.1	–	70.2
Decrease/(increase) in debt	–	29.9	(123.2)	(93.3)
Businesses acquired	–	(1.7)	(0.9)	(2.6)
Reclassification	–	(77.0)	77.0	–
Other non cash movement	–	(13.5)	–	(13.5)
Currency translation differences	6.2	(15.0)	(50.8)	(59.6)
At 31 December 2002	**149.7**	**(361.7)**	**(668.2)**	**(880.2)**

(29) MAJOR NON-CASH TRANSACTIONS

Part of the purchase consideration for the acquisition of retail pharmacy businesses comprised shares and loan notes. Further details are set out in notes 22 and 25. Part of the purchase consideration for the increased stake in Hedef-Alliance comprises shares to be issued. Further details are set out in note 23.

(30) OTHER FINANCIAL COMMITMENTS

At 31 December 2002 the Group had the following commitments payable within one year under operating leases expiring:

	Land and buildings £million	Other £million
Within one year	2.4	1.6
Between one and two years	0.8	2.4
Between two and five years	4.3	1.8
Over five years	12.9	0.2
	20.4	6.0

(31) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings all of which were indirectly held except where indicated below, were:

Company	Interest in ordinary share capital (%)	Country of operation	Country of incorporation	Main activity
Northern Europe Wholesale				
UniChem Limited[1]	100	UK	England	pharmaceutical wholesaler
Interpharm B.V.	100	Netherlands	Netherlands	pharmaceutical wholesaler
Alliance UniChem CZ Spo	97.1	Czech Republic	Czech Republic	pharmaceutical wholesaler
Holtung A.S.	100	Norway	Norway	pharmaceutical wholesaler
Southern Europe Wholesale				
Alliance Santé S.A.	99.7	France	France	pharmaceutical wholesaler
Alleanza Salute Italia SpA	100	Italy	Italy	pharmaceutical wholesaler and holding company
Safa Galenica S.A.	99.2	Spain	Spain	pharmaceutical wholesaler
Alliance UniChem Farmaceutica S.A.	100	Portugal	Portugal	pharmaceutical wholesaler
Retail				
E. Moss Limited[1]	100	UK	England	retail pharmacy operator
Alliance UniChem Norge A.S.	100	Norway	Norway	retail pharmacy operator
De Vier Vijzels B.V.	100	Netherlands	Netherlands	retail pharmacy operator

1 Directly held by the Company.

As permitted by section 231(5) of the Companies Act 1985, only principal undertakings are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

(32) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings were:

Company	Interest in ordinary share capital (%)	Country of operation	Country of incorporation	Main activity
Hedef – Alliance A.Ş.[1]	50	Turkey	Turkey	pharmaceutical wholesaler
Galenica A.G.[2]	25.3	Switzerland	Switzerland	pharmaceutical wholesaler
Alloga S.A.[3,4]	50	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A.[4,5]	50	Switzerland	Switzerland	retail pharmacy operator
Unifarma Distribuzione S.r.l.[6]	36	Italy	Italy	pharmaceutical wholesaler
Pharmapartners B.V.[7]	40	Netherlands	Netherlands	pharmaceutical software

1 Representing 50% of the votes.
2 Representing 18.7% of the votes on 31 December 2002. Since the year end, the shareholders in Galenica have agreed that all shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.
3 Representing 50% of the votes.
4 The remaining shares are owned by Galenica A.G. which is itself an associated undertaking.
5 Representing 50% of the votes.
6 Representing 36% of the votes.
7 Representing 40% of the votes.

Notes to the financial statements (continued)

for the year ended 31 December 2002

(33) RELATED PARTY TRANSACTIONS

The Group has entered into a contract with Hedef-Alliance to develop and supply warehouse management and financial software.

Trading transactions with associated undertakings were:

	2002		2001	
	Turnover in year £million	Balance at year end £million	Turnover in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	0.2	0.1	0.4	0.1

	2002		2001	
	Purchases in year £million	Balance at year end £million	Purchases in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	5.1	0.6	5.6	0.5
Alloga S.A. and subsidiaries	52.7	7.5	38.3	4.6

(34) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £42.5 million (2001 £49.9 million) and other Group companies have guaranteed bank loans of £33.6 million (2001 £34.6 million) to third parties for the financing of pharmacy businesses.

In 2001, French competition authorities levied fines on the main pharmaceutical wholesalers in France as a legacy of discounting policies operated by some wholesalers in the early 1990s. One of these companies was absorbed by Alliance Santé in 1997, and Alliance Santé has been held liable for these actions by the competition authorities. This fine has been paid, but is still under appeal; an amount of £1.4 million, reflecting 50% of the fine, was charged to the profit and loss account at the time, which the Group believes reflects its possible liability should the fine be upheld.

The Group is subject to various law suits filed in the United States in relation to its investment in Rx.com. These are being vigorously defended and, in any event, in the opinion of the Directors, will not have a significant effect on the financial position of the Group.

Five year summary

Group profit and loss accounts – year ended 31 December	1998 £million	1999 £million	2000 £million	2001 £million	2002 £million
Turnover	5,353.4	6,094.0	6,191.2	7,314.1	**8,023.5**
Operating profit before amortisation	133.1	145.0	155.1	181.3	**204.9**
Amortisation of intangible assets	(0.3)	(1.6)	(2.5)	(8.5)	**(8.9)**
Group operating profit	132.8	143.4	152.6	172.8	**196.0**
Income from associated undertakings	2.1	3.3	6.9	14.6	**17.8**
Exceptional items	–	–	(9.7)	–	**–**
Net interest payable	(24.8)	(25.2)	(29.4)	(39.6)	**(46.9)**
Profit on ordinary activities before taxation	110.1	121.5	120.4	147.8	**166.9**
Tax on profit on ordinary activities	(40.1)	(41.9)	(40.7)	(52.3)	**(57.7)**
Profit on ordinary activities after taxation	70.0	79.6	79.7	95.5	**109.2**
Equity minority interests	(1.2)	(1.2)	(1.1)	(1.0)	**(0.4)**
Profit for the financial year	68.8	78.4	78.6	94.5	**108.8**
EPS diluted – before exceptional items and amortisation of intangibles (p)	23.8	27.5	31.1	32.9	**36.7**
Dividends per share (p)	10.6	11.7	12.8	14.0	**15.3**

Segmental analysis – year ended 31 December	1998 £million	1999 £million	2000 £million	2001 £million	2002 £million
Turnover					
Wholesale Northern Europe	1,488.4	1,713.9	1,803.0	2,433.7	**2,770.5**
Wholesale Southern Europe	3,800.0	4,293.9	4,252.3	4,727.0	**4,988.9**
Retail – Europe	353.5	432.4	548.4	719.7	**972.5**
Intra-group	(288.5)	(346.2)	(412.5)	(566.3)	**(708.4)**
	5,353.4	6,094.0	6,191.2	7,314.1	**8,023.5**
Total operating profit before amortisation of intangible assets					
Wholesale Northern Europe	45.3	47.1	50.7	71.0	**77.4**
Wholesale Southern Europe	66.6	71.0	67.3	70.2	**73.8**
Retail – Europe	23.9	29.9	42.6	56.4	**65.4**
Corporate	(2.6)	(3.0)	(5.5)	(16.3)	**(11.7)**
Associated undertakings	2.1	3.3	8.0	17.4	**21.5**
	135.3	148.3	163.1	198.7	**226.4**

Group balance sheets – 31 December	1998 £million	1999 £million	2000 £million	2001 £million	2002 £million
Fixed assets					
Intangible assets	231.0	280.5	459.1	630.6	**723.1**
Tangible assets	231.6	232.7	257.4	255.2	**284.4**
Investments	25.8	81.7	155.6	235.7	**332.1**
	488.4	594.9	872.1	1,121.5	**1,339.6**
Working capital					
Stocks	529.7	556.4	609.5	647.0	**649.9**
Investments	0.5	–	–	–	**–**
Securitised receivables	224.8	191.1	194.7	306.2	**422.4**
Non-recourse receipts	(193.8)	(165.0)	(172.5)	(267.8)	**(377.1)**
Debtors	805.6	807.6	901.2	900.0	**1,019.9**
Creditors and provisions	(975.2)	(1,009.9)	(1,134.5)	(1,228.6)	**(1,297.4)**
	391.6	380.2	398.4	356.8	**417.7**
Net borrowings	(493.0)	(532.8)	(661.5)	(781.4)	**(880.2)**
Net assets	387.0	442.3	609.0	696.9	**877.1**

1998 to 2001 have been restated as a result of the adoption of FRS 19 in 2002.

Shareholder information

2003 financial calendar

10 March	2002 preliminary results and dividend announced
21 March	2002 final dividend record date
19 May	Deadline for receipt of elections to receive the 2002 final dividend in shares
19 May	Deadline for receipt of proxies for the Annual General Meeting
21 May	Annual General Meeting
9 June	2002 final dividend paid
31 July*	2003 interim results and interim dividend announced
15 August*	Record date for interim dividend
27 October*	Deadline for receipt of elections to receive the 2003 interim dividend in shares (if offered)
17 November*	2003 interim dividend paid to shareholders

*Provisional date.

Shareholding enquiries
Enquiries or information concerning existing shareholdings should be directed to the Company's registrars, Lloyds TSB Registrars either:

- in writing to The Causeway, Worthing, West Sussex BN99 6DA, UK;
- by telephone from within the UK on 0870 600 3970 (or 0870 600 3950 for those with hearing difficulties);
- by telephone from outside the UK on +44 121 433 8000; or
- through the website http://www.shareview.co.uk.

If you use the shareview Website you will be required to enter your name, postcode and shareholder reference number which can be found on your share certificate(s) and on correspondence from Lloyds TSB Registrars.

Changes of address should be promptly notified to the Registrars.

Amalgamation of shareholdings
If you have received more than one copy of this report, your shareholding may be registered under more than one shareholder reference number. To amalgamate your accounts please contact Lloyds TSB Registrars with the details of the accounts concerned.

Dividend mandate
Shareholders who have their dividends paid directly into a bank or building society avoid the risk of delay or loss of dividend cheques in the post and ensure that their account is credited on the dividend payment date. Dividend mandate forms are available from Lloyds TSB Registrars.

Corporate nominee
Shareholders can hold their shares electronically through a dedicated nominee service, which has many advantages over the traditional paper based procedures involving share certificates. Further information on this service is available from Lloyds TSB Registrars.

Electronic shareholder communication
Shareholders can now elect to receive shareholder documents, such as annual and interim reports and notices of general meetings, electronically from the Company's website rather than in hard copy through the mail. This has the advantage of improving the speed of communications and reducing administrative costs of printing and postage. The terms on which this electronic facility is provided can be found on the Company's website www.alliance-unichem.com or on request from the registered office. Any shareholder wishing to take advantage of this free service may do so by registering their details on the Lloyds TSB Registrars shareview website at www.shareview.co.uk.

Website
Press releases, the share price and other information on the Group is available on the Company's Website http://www.alliance-unichem.com.

Share listings
The Company's shares are listed on the London and Paris stock exchanges. They are listed under EPIC – AUN, SEDOL – 916572 and ISIN – GB0009165720.

Further information on both these markets, their trading systems and current trading in Alliance UniChem Plc shares can be found on both the London Stock Exchange Website http://www.londonstockexchange.com and the EuroNext markets website http://euronext.com.

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