Continuous growth since flotation

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Alliance UniChem

Annual Report 2003

Alliance UniChem is committed to improving the quality of health in the communities we serve

Alliance UniChem

Alliance UniChem is a leading European healthcare group focused on improving the quality of health in the communities we serve through the distribution of medicines to pharmacies and the provision of dispensing and advice to patients

"Our track record of consistent success since the Company floated in 1990 clearly shows our ability to meet the challenges we face year after year"

Continuous growth since flotation

2003 performance

	Compound annual growth*** 1 year	5 years	since flotation in 1990
Turnover* £8,799.3 million	+13.2%	+11.0%	+19.5%
Total operating profit before amortisation of intangible assets** £263.4 million	+15.8%	+14.3%	+22.3%
Profit before tax before amortisation of intangible assets** £209.9 million	+16.3%	+13.7%	+21.7%
Diluted earnings per share before amortisation of intangible assets** 41.2 pence	+11.7%	+11.6%	+10.1%
Diluted earnings per share 37.3 pence	+12.7%	+9.5%	+9.3%
Dividends per share 16.7 pence	+9.2%	+9.5%	+10.9%

* Figures reflect the adoption of a new accounting policy on turnover following an amendment to FRS 5.

** Figures are calculated before amortisation of intangible assets of £13.6 million (2002 £12.6 million) since the Directors consider that this gives a useful additional indication of underlying performance. Figures reflect the adoption of FRS 17.

*** The five year and "since flotation" compound annual growth figures are based on the 1998 and 1990 figures published in the five year records of the 2002 and 1994 Annual Reports respectively, figures being unadjusted other than for turnover which has been adjusted to reflect the current accounting policy and dividends where the 1991 figure has been used, being the first full year after flotation.
The "since flotation" figures include the impact of the business combination of UniChem PLC and Alliance Santé Group in 1997.

Group at a glance

Wholesale

We aim to achieve this by:

- providing the highest level of distribution service to dispensing pharmacists, in terms of product availability, delivery accuracy, timeliness and reliability;
- helping pharmacists to develop their businesses through the provision of a range of innovative value added services;
- helping suppliers optimise the economic and therapeutic performance of their pharmaceutical products through the provision of value added services;
- running the most efficient and lowest cost logistics operations; and
- recruiting, developing and retaining highly motivated, skilled management teams.

We aim to become indispensable to suppliers and customers by adding more value to their businesses than our competitors. This will make us the wholesaler of choice in each of the markets we serve.

Country	Wholesale depots at 31 December 2003
United Kingdom	11
The Netherlands	5
Czech Republic	6
Norway	1
France	57
Italy (including associates)	48
Spain	26
Portugal	7
Turkey*	52
Switzerland*	3
Greece*	6
Total	222

*Associate interest

Country	Retail pharmacies at 31 December 2003
United Kingdom	816
The Netherlands	46
Norway	109
Italy (including associates)	28
Switzerland*	93
Total	**1,092**

*Associate interest

We aim to achieve this by:

- locating pharmacies in the heart of the communities they serve, often close to doctors' surgeries or within healthcare centres;
- having a pharmacy offering which is heavily orientated towards healthcare, led by friendly and professional pharmacists providing patient advice in close conjunction with local primary care teams;
- using geodemographic analysis and local knowledge to tailor our pharmacy offering to the particular requirements of the individual communities in which we operate;
- helping suppliers optimise the performance of their pharmaceutical products through dispensing disciplines and pharmacist relationships with patients and doctors; and
- providing an attractive professional environment for pharmacists and other staff, with opportunities for career enhancement and development.

We aim to make ourselves indispensable to patients, payers and suppliers by adding more value to their activities than our competitors. This will enable us to maintain our position as a leader in our chosen markets.

Retail

Chairman's statement

"The 2003 results demonstrate the Group's ability to continue to deliver strong financial performance" Jeff Harris, Chairman

"Our results have been achieved through organic sales growth, an ongoing focus on margin management and cost control and increasing contributions from associates"

Overview and financial results

The 2003 results demonstrate the Group's ability to continue to deliver strong financial performance in what has been a year of comparatively low acquisition activity. This has been achieved through organic sales growth, an ongoing focus on margin management and cost control and increasing contributions from associates. In our wholesale division, businesses in Northern Europe continued to perform strongly. Southern Europe remained more challenging, with government action to reduce drug expenditure impacting trading performance, most notably in France, although in Italy our underlying performance improved. Our retail division delivered strong organic profit growth, acquisition expansion being relatively slow, as potential vendors awaited the outcome of various regulatory reviews.

Group turnover was £8,799.3 million (€12,697.4 million), a year on year increase of 13.2% on a comparable basis, the 2002 figures having been restated for a change in accounting policy resulting from the amendment in December to the accounting standard FRS 5. The principal impact of this is that all customer discounts are now offset against turnover, rather than forming part of cost of sales. On the previous accounting basis, Group turnover in 2003 would have been £9,111.7 million (€13,148.2 million).

Gross margins improved in each division, in part due to an increase in generic penetration in certain markets. Total operating profit before amortisation of intangible assets increased by 15.8% to £263.4 million (€380.1 million) on a comparable basis, the 2002 figures having been restated for FRS 17, the accounting standard on retirement benefits, which the Group has chosen to adopt early in full. Profit before taxation and amortisation of intangible assets increased by 16.3% to £209.9 million (€302.9 million). Diluted earnings per share before amortisation of intangible assets increased by 11.7% to 41.2 pence per share (59.5 cents). Currency translation benefits from the stronger Euro were largely offset by its negative impact on margins on certain UK product segments.

Net cash inflow from operating activities was particularly strong at £322.3 million (€465.1 million), a year on year increase of £121.7 million. Working capital reduced over the course of the year by £68.6 million (€97.3 million) in cash terms, with stock, debtor and creditor days all improving. Reductions were achieved in all wholesale businesses, reflecting the success of our programme to improve working capital efficiency.

"Since the beginning of 2004 business performance has been in line with our expectations"

Dividend

The Board is recommending a final dividend of 11.0 pence per share, making a total dividend for the year of 16.7 pence per share (24.1 cents). The proposed final dividend is 8.9% higher than the 2002 final dividend, the total dividend for the year being up 9.2%. The proposed final dividend will be paid on 11 May 2004 to shareholders on the register at the close of business on 5 March 2004. The Board will, as in previous years, offer shareholders a share alternative.

Board and organisational changes

In April 2003, I retired as a full-time executive, continuing as Chairman in a non-executive capacity.

Steve Duncan, Managing Director of our retail division, was appointed to the Board as Retail Director in January 2003 and in September Per Utnegaard joined the Group and Board as Wholesale Director, responsible for all our wholesale businesses. Coinciding with Per's appointment, Ornella Barra, previously the Director responsible for Southern Europe wholesale, became Group Services Director. Chris Etherington, the Director formerly responsible for Northern Europe wholesale, left the Board and Group in March 2003 to take up a senior position in another business sector.

In the second half of the year we further strengthened the Board through the appointment of two new independent non-executive Directors, Adrian Loader and Manfred Stach, senior executives with Shell and Unilever respectively. Both Directors bring to the Board extensive multinational skills in European consumer markets. Claude Berretti will retire as a non-executive Director at the conclusion of the Annual General Meeting in April. I would like to thank Claude for his services over many years in both an executive and non-executive capacity.

Group development

In our retail division we acquired 61 pharmacies and opened a further ten during 2003, of which ten in total were in associate businesses. This brought our retail portfolio to 1,092 pharmacies at the year end, including 101 operated by associate businesses.

In June, the Group reduced its direct investment in Alloga, our prewholesaling associate, from 50% to 20%, the shares being sold to our partner, Galenica, which is in turn 25.5% owned by us. Galenica has managed Alloga since its inception and the revised ownership structure more closely reflects the preference of manufacturer clients to use prewholesalers who are independent of the wholesale sector.

Early in the second half of 2003, Hedef Alliance, our Turkish associate, acquired 40% of UCP, the joint market leader in the Egyptian pharmaceutical wholesaling market, and has a three year option over an additional 11% of the equity. This investment is a first step in our strategy to use Hedef Alliance as a platform for growth in similar markets.

On 28 January 2004, the Group completed the purchase of 19% of the equity of Andreae-Noris Zahn ("ANZAG"), the third largest pharmaceutical wholesaler in Germany, at a cost before expenses of £41.7 million (€60.5 million), taking our shareholding to 29.99%. We intend to account for ANZAG as an associate from that date. This transaction represents a significant step forward for the Group in Germany, the largest single pharmaceutical market in Europe.

People

I continue to be impressed by the dedication of the people who work in our businesses, providing customers and patients with consistently high levels of service, while at the same time increasing productivity and the financial performance of our Group. I take this opportunity to thank them, on behalf of shareholders, for their continued success, innovation and hard work.

Outlook

Our 2003 financial performance has once again demonstrated the strength of the Group. Despite the background of market growth rates at the lower end of the range we have seen in recent years and comparatively low acquisition activity, we have delivered strong earnings per share growth and significantly increased the generation of cash from operating activities. As ever, our markets are subject to commercial and regulatory pressures, which remain manageable. Our track record of consistent success since the Company floated on the London Stock Exchange in 1990 clearly shows our ability to meet such challenges year after year.

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. Following the review last year of the system of awarding new pharmacy contracts in the UK, we expect more opportunities to add to our pharmacy chain in 2004. Since the beginning of 2004, business performance has been in line with our expectations, and we remain confident of continuing our strong financial track record.

Jeff Harris

Jeff Harris
Chairman
24 February 2004

"We remain confident of being able to continue our strong financial record"

Our markets

The healthcare markets in which the Group operates are forecast to continue to exhibit long-term stable and manageable growth

This reflects socio-demographic trends across Europe which show an ageing population and rising quality of life expectations in old age.

These trends are placing increasing financial and operational demands on healthcare systems, resulting in continuing growth in prescription medicine volumes.

Alliance UniChem is well placed to work in partnership with manufacturers of pharmaceutical products and governments to help them achieve their respective goals.

The Group helps manufacturers optimise the economic and therapeutic performance of their pharmaceutical products through the provision of value added services. Examples of these include capture and supply of data, patient monitoring and advice to ensure compliance with drug regimes, and supply chain management to facilitate a regular and orderly market for their products.

Once products reach the end of their patent life, the Group can work with manufacturers to facilitate the effective introduction of lower priced generic products. Governments see increasing the proportion of generic drugs used as one of the most effective ways of controlling growth in drug expenditure. Regulatory controls on generic drugs allow us to use our scale and expertise to work with suppliers and payers to achieve their objectives, while typically earning a cash margin equal to or better than that on the more expensive

■ The Alliance UniChem network

comparable branded drug. We also offer suppliers the opportunity to use "Almus", our branded product range for generics, as a further channel to penetrate the market.

Other mechanisms used by governments to manage growth in expenditure include controlling drug reimbursement prices, cutting maximum wholesale margins, increasing clawbacks of discounts from pharmacies, delisting products from reimbursement lists and increasing demands on manufacturers to prove and monitor the therapeutic performance of their branded pharmaceutical products.

Price cuts on medicines most directly affect manufacturers. When this happens the manufacturers have an additional impetus to seek other ways of maximising their earnings. This provides us with additional opportunities to assist them in logistics, marketing and in other areas of their businesses.

Cuts in maximum wholesaler margins and increases in clawback can have a short-term impact on our businesses, but typically we are able to counter these by managing our commercial relationships and expanding our range of value added services, aimed at improving pharmacists' margins and enhancing their earnings.

In many cases, delisting products from reimbursement lists does not reduce overall prescription volumes, as doctors simply move patients to a comparable prescription item rather than encouraging them to purchase what has become a non-prescription product. We are then able to work with a manufacturer of the comparable product to promote its usage, while at the same time actively supporting the marketing of the delisted product as a non-prescription item through our owned and virtual chains of pharmacies.

Governments across Europe are increasingly seeking ways to ease the pressure on overstretched community doctors' services, through the enhanced use of pharmacists to advise patients and manage their medicines' regime. As a result, a range of new opportunities and revenue streams is opening up to our owned pharmacies, virtual chains and other pharmacy customers.

Full line pharmaceutical wholesalers and community pharmacies play a vital role in the supply and dispensing of medicines. The quality of service and professional advice delivers significant benefits to customers, patients, payer governments and to the community as a whole.

Operating review

Divisional highlights
for the year ended 31 December 2003

	Turnover £million	Operating profit* £million	Year on year growth Turnover %	Year on year growth Operating profit* %
Wholesale – Northern Europe	2,899.8	84.3	12.7	8.9
– Southern Europe	5,618.9	74.4	15.1	–
	8,518.7	158.7	14.3	4.5
Retail – Europe	1,107.4	79.3	13.7	20.5
Corporate	–	(11.4)	–	–
Intra-group	(826.8)	–	–	–
Group	8,799.3	226.6	13.2	10.1
Share of operating profit of associates	–	36.8	–	71.2
Total	**8,799.3**	**263.4**	**13.2**	**15.8**

* before amortisation of intangible assets.
Figures for turnover reflect a change in accounting policy resulting from the amendment in December 2003 to the accounting standard FRS 5. Operating profit reflects the early adoption in full of FRS 17 on retirement benefits. Operating margins reflect these changes. Year on year growth rates are on a comparable basis.

Total operating profit before amortisation of intangibles increased by 15.8% year on year

Markets
The wholesale markets in which our businesses operate grew, we estimate, by 6% year on year, weighted on the basis of our wholesale turnover, which is ahead of our forecast at the beginning of 2003. The principal factors determining market growth rates in individual countries continue to be regulatory actions and demographics.

Generic prescribing continues to increase, reducing wholesale market growth as more expensive brands come off patent and are replaced by cheaper generic medicines which typically offer higher trading margins to us.

The growth of parallel trade slowed during the year as a result of efforts to curtail it through the restriction of product supply in certain markets, patent expiry of some high volume products, the implementation by manufacturers of quota systems on products and the strengthening of the Euro against Sterling.

Operating review (continued)

Warehousing best practice

Best practice, our Group-wide benchmarking initiative for warehouse layout, operating procedures and warehouse technology, brings together the knowledge and experience of logistic specialists across the Group to create an optimised operational model for our wholesale businesses.

Re-laid warehouses are showing substantial improvements in customer service, productivity and operational efficiency, realising significant cost savings, avoiding the need to relocate to larger premises. For example, by the end of 2003 our customers at Hinckley in the UK, the first of the re-lay projects, were enjoying a 1.7% higher service level, and costs per line handled had reduced by 15.7%. Capacity increased by around 25% at the same time.

Over the last two years, four UK warehouses have been re-laid in compliance with best practice and two built in the Netherlands, one of which is shown here. We continue to roll out the best practice model across our network.

Best practice warehouse design improves productivity and customer service and reduces stock investment

Wholesale

Northern Europe

Operating profit before amortisation of intangible assets was £84.3 million (€121.6 million), an increase of 8.9% on the previous year, on turnover up 12.7% to £2,899.8 million (€4,184.4 million). Overall market growth was better than predicted primarily as a result of higher growth in the UK. Like for like sales were up 6.5% on a constant currency basis, reflecting an overall increase in market share. Operating margins decreased by ten basis points to 2.91% due to the impact of opening and closing warehouses in The Netherlands as part of our warehouse rationalisation programme, underlying margins improving in all countries. Operating profit before amortisation of intangible assets in the second half was £44.7 million, an increase of 4.2% on the second half of 2002 on turnover up 9.7%.

In the UK, turnover increased by 6.9% to £1,931.2 million (€2,786.7 million), reflecting further gains in market share, with estimated market growth of 5% being higher than we had predicted at the start of the year. A continuing strong commercial focus, together with productivity gains, resulted in higher operating margins and good profit growth, despite competitive discounting and the strong Euro squeezing margins on certain product segments.

Almus generics appeal to both pharmacists and patients

Wholesale

Northern Europe (continued)

In April, we launched a range of generic drugs, branded "Almus", following research carried out amongst pharmacists and a commercial programme we initiated involving manufacturers, licence holders and packaging designers. Reaction from pharmacists and patients has been very positive, the range having been expanded to 70 products by the year end.

We continue to build on the success of our portfolio of added value services and industry acclaimed loyalty schemes to independent community pharmacies. Our work in medicines management was nationally recognised when Pharmacy Alliance, our virtual chain organisation, was awarded the Pharmaceutical Care Award by The Pharmaceutical Journal.

Following the successful re-laying of the Hinckley warehouse in 2002, as part of the Group-wide benchmarking initiative designed to increase warehouse productivity, the Croydon warehouse was completed in 2003, with the Preston and Livingston warehouses completed in February 2004.

In The Netherlands, turnover increased by 15.0% to £610.7 million (€881.2 million), up 4.2% on a constant currency basis, with estimated market growth slowing to just below 4%. Underlying operating margins were higher than last year, regulatory developments having less impact on performance than we had expected, although reported operating profits and margins were lower due to our warehouse rationalisation programme.

A new warehouse in Almere was successfully opened in January 2003, replacing outdated facilities, the layout of which incorporates benefits derived from the Group-wide benchmarking initiative. Customers will in future be serviced from four modern facilities in The Netherlands, with the fifth, smaller, warehouse in Rotterdam being scheduled to close in March 2004.

In the Czech Republic, turnover increased by 18.3% to £166.7 million (€240.6 million), up 10.9% on a constant currency basis, compared to a market which we estimate grew by 11%. Operating profits in local currency increased, higher sales and improved productivity more than offsetting gross margin pressures. Two warehouses were closed during the year, following the extension of the principal facility in Prague in late 2002.

In Norway, turnover increased by 103.8% to £191.2 million (€275.9 million), the business having been acquired at the end of June 2002. Like for like sales growth for the second half of the year was 5.9% on a constant currency basis, with profitability higher. Market growth for the full year is estimated at 3%.

Southern Europe

Operating profit before amortisation of intangible assets was £74.4 million (€107.4 million), unchanged from the previous year, on turnover up 15.1% to £5,618.9 million (€8,108.1 million). Like for like sales growth was 3.1% on a constant currency basis. Operating margins decreased by 20 basis points to 1.32%, mainly as a result of lower gross margins in France. Second half operating profit before amortisation of intangible assets was £40.5 million, an increase of 4.4% on the second half of 2002 on turnover up 15.0%.

Market growth was higher than we had predicted in all countries, growth being particularly strong in Spain. These markets remained challenging nevertheless, government action to reduce drug expenditure impacting trading performance, most notably in France. In response to these pressures, we took further action to reduce costs and offer enhanced services to customers.

Almus

In April 2003 we launched an exclusive range of generic drugs in the UK, branded Almus, following research carried out amongst pharmacists and a commercial programme we initiated between manufacturers, licence holders and packaging designers.

Almus's innovative colour-coded packaging helps pharmacists avoid dispensing errors. Patients also appreciate Almus's easily recognisable packaging with clear, concise instructions for use. Those patients who are on repeat prescriptions benefit from greater continuity in dispensing, as our competitive prices encourage pharmacists to choose Almus, time and again, over other generics. For manufacturers, Almus represents an attractive additional sales route to sell their products.

Almus has quickly become a great success; in 2003 we launched 70 products, making it already an important generics brand in the UK. The range received an industry accolade, with generic Almus Metformin, winning "Pharmacy Business Generic Product of the Year 2003" at the UK Pharmacy Business Awards.

ALMUS

Operating review (continued)

Alphega

Virtual chains allow our pharmacist customers in the UK, Holland, France and Italy to enjoy some of the financial and operational benefits of chain membership whilst maintaining their independence. In France, 182 independent pharmacists have chosen to join our newest virtual branded chain, Alphega, shown here, and Alphega has recently been launched in Italy.

The Alphega format offers pharmacists a wide range of tools to help them develop and grow their businesses. Merchandising and marketing support enables pharmacists to optimise investment decisions, enhance selling space and anticipate patient needs. Consultation tools aid dispensing, while Alphega's literature provides easily accessible information on treatment and prevention.

In total, 1,181 pharmacies are members of our virtual chains.

Increasing numbers of independent pharmacists are choosing to join our virtual retail chains

Wholesale

Southern Europe (continued)

In France, turnover increased by 16.9% to £3,634.3 million (€5,244.3 million), the high growth rate reflecting the acquisition of Ouest Répartition Pharmaceutique in the second half of 2002 and the strengthening of the Euro against Sterling. Like for like sales growth was 3.8% on a constant currency basis, compared to estimated market growth in the wholesaling segment of 5%, competition from co-operatives being more aggressive in the latter part of the year. We estimate that the total market grew in value by 6.5% with the proportion of products which manufacturers distribute direct to pharmacies rapidly increasing. This reflects the growing importance of generic products, partially as a result of the new reference pricing system. We are working closely with a number of generics manufacturers to increase our market share in this category.

Operating margins were lower than in 2002, due to higher ACOSS healthcare taxes, the full year impact of owning the lower margin Ouest Répartition Pharmaceutique business and non recurring costs. These included a £1.6 million additional charge for a failed appeal against a 2001 competition fine. This fine related to discounting in the early 1990s by wholesalers, one of whom was a company subsequently acquired by the Group. The closure of one warehouse completed the rationalisation plan begun in 2001. Following the successful launch in 2002 of Alphega, a virtual pharmacy network concept which independent pharmacies can join, the number of pharmacies in the programme rose during the year by 72 to 182.

In Italy, turnover increased by 5.6% to £898.0 million (€1,295.9 million), a decrease of 4.4% on a constant currency basis. This compares with a market which we estimate grew by 3%. Our sales reduction reflected the final stage of our programmed withdrawal from heavily discounted and unprofitable supplies to a number of municipal pharmacy chains as long-term contracts expire, together with the impact of aggressive competition, particularly in southern Italy.

Underlying operating profitability improved year on year, reflecting the benefits of swift action taken in 2002 and a continuing focus on gross margin management and cost control in what has recently been a more stable market environment. Reported operating profitability was, however, lower than in 2002, due to the impact of our debtors' securitisation programme launched in June 2002, which increased operating costs but gave us a corresponding reduction in interest charges. Minor restructuring charges were incurred in the first half of the year. We continue our review of operational strategy in Italy to determine how best to improve longer-term business performance.

In Spain, turnover increased by 19.5% to £765.1 million (€1,104.0 million), up 8.2% on a constant currency basis, domestic sales growth of 11.7% more than offsetting a decline in export business. We continue to gain market share with domestic market growth estimated at 11%. Underlying profitability increased year on year, reported operating profits and margins being adversely impacted by minor restructuring charges to streamline the management structure.

Turnover in Portugal increased by 14.7% to £321.5 million (€463.9 million), up 4.0% on a constant currency basis, compared to an estimated market growth rate of 3.5%. Year on year profitability increased with operating margins being slightly higher. One warehouse was closed during the period.

Community pharmacy is a key part of the primary care network

Retail

Operating profit before amortisation of intangible assets was £79.3 million (€114.4 million), an increase of 20.5% on the previous year on turnover up 13.7% to £1,107.4 million (€1,598.0 million). In the second half, operating profit before amortisation of intangible assets was £43.2 million, an increase of 24.1% on the second half of 2002 on turnover up 13.6%. Like for like sales on a constant currency basis increased by 4.2% year on year. Overall retail operating margins at 7.16% were 40 basis points higher than in 2002 as a result of operating margin improvements in all countries other than Italy.

In the UK, turnover increased by 9.4% to £784.8 million (€1,132.5 million), with like for like sales growing by 6.0%. Our National Health Service prescription income increased by 11.0%. Operating margins were higher as a result of increased incomes from professional services and operational efficiencies. During the year, one new pharmacy was opened adjacent to a health centre and 33 pharmacies were acquired, the majority in the second half. The total UK chain, as at 31 December 2003, comprised 816 pharmacies and 55 other healthcare related retail outlets. During the year, 67 branches were refitted and eight pharmacies were relocated, five to new healthcare developments. Contracts to supply and dispense medicines to a further four prisons were won during the year, and a pilot scheme is underway to offer help and support to patients at home provided by trained care workers.

Moss Pharmacy

The cornerstone of the Group's retail strategy is our belief that the pharmacy is a key part of the primary care network. Our pharmacies are typically located in communities, usually close to doctors' surgeries and health centres, which is convenient for patients obtaining prescriptions and facilitates the development of close working relationships with general practitioners and other local healthcare professionals.

In the UK, over half our pharmacies are within 100 metres of a main doctor's surgery or health centre with over 75% within 250 metres. Here in Send, the Moss Pharmacy is actually attached to the local health centre. The pharmacy benefits from a significant share of the centre's prescriptions and repeat prescriptions, and works closely with the practice nurses as part of the local Primary Care Trust's bulk dressing supply service. Other services provided include weight management, advice to care homes and lifestyle checks related to a wider cardiac risk assessment programme.

Operating review (continued)

Kring

Pharmacists from Kring, our virtual chain in The Netherlands, recently undertook a study to identify the frequency, nature and causes of potential drug related problems in elderly patients who frequently take more than one medication at a time.

Over the course of a year, Kring pharmacists screened 196 patients, each taking on average 8.7 prescriptions. The study concluded that elderly patients are vulnerable to frequent drug-related problems. Through pharmacist screening the number of medications taken can be reduced, alternative medications substituted, compliance monitored and side-effects better managed.

For pharmacists involved in the study, the screening also resulted in enhanced relationships with elderly patients and their doctors and new service related revenues were gained (for each patient screened, pharmacists were paid a fee by a Dutch insurer).

KRING APOTHEEK

Pharmacy practice is increasingly focused on improving patient care

Retail (continued)

In January 2003, the Office of Fair Trading published recommendations to fully deregulate the National Health Service contract system for pharmacies. These recommendations were rejected by the governing bodies in Scotland, Wales and Northern Ireland. In July 2003, the Department of Trade and Industry countered these recommendations for England, proposing instead further changes to pharmacy regulation which recognise the vital role that community pharmacies, such as those operated by Moss Pharmacy, play in providing primary care and patient services. This concept, endorsed by government in all regions of the United Kingdom, is entirely consistent with the way we have developed our UK pharmacy business. Moss Pharmacy has, for some time, led the community pharmacy sector in the development of professional services, continuing education and development of pharmacists and integration with other healthcare professionals. The 12 week Department of Health consultation period ended on 21 November 2003, and we await the detailed procedures that will implement the government's policy.

The vision developed by Moss Pharmacy, "Leading at the Heart of Healthcare", defines our ambition to be at the forefront of future changes to the role of pharmacies in the UK through the development of services on offer beyond the core dispensing activity. This presents a compelling and attractive environment to pharmacists, and we continue to attract, develop and retain excellent patient-orientated professional pharmacists.

An investment is underway to install advanced branch EPOS and pharmacy management systems, linked into new head office systems. This investment, which will be completed in 2005, will facilitate the delivery of new pharmacy services and enable us to manage the business even more effectively.

In Norway, turnover increased by 23.1% to £214.6 million (€309.7 million), up 19.1% on a constant currency basis, reflecting the continued expansion programme. Like for like sales decreased by 2.1% because of an increase in the total number of Norwegian pharmacies. Our reduction was lower than that of the market as a whole, reflecting the inherent quality of our pharmacies. 14 pharmacies were acquired during the year and six opened, bringing the total chain to 109 at 31 December 2003. Operating margins continued to grow as the business benefits from increased scale, both in terms of commercial and cost leverage. As a result, operating profits before amortisation of intangibles more than doubled.

In The Netherlands, turnover increased by 38.1% to £85.5 million (€123.4 million), up 25.2% on a constant currency basis, reflecting the expansion of the chain. Like for like sales increased by 4.7%. During the year, seven pharmacies were purchased, increasing the chain size to 46. As in Norway, operating margins increased as the business increased its scale, resulting in substantially higher operating profits.

In Italy, turnover increased by 9.8% to £22.5 million (€32.4 million), an increase of 0.1% on a constant currency like for like basis. No pharmacies were acquired during the year, leaving a total of 28 at the year end, including eight in associate businesses. Operating margins and profit were lower due to costs incurred in strengthening the management team.

Through other associate retail businesses the Group operated 93 pharmacies and seven other retail outlets at 31 December 2003 with seven pharmacies being acquired during the year and three opened.

Associates can provide a relatively low risk point of entry into new, fast-growing markets

Corporate

Net corporate costs totalled £11.4 million (€16.5 million), a £0.3 million reduction on 2002, primarily due to lower pharmology.com costs, as a result of operating companies assuming responsibility for pharmology service delivery and marketing, and also following the completion of the bulk of the software development work. Included in corporate costs was income from the sale of 30% of the Alloga prewholesaling associate, which was almost completely offset by costs for the settlement of litigation relating to the Group's former investment in Rx.com and other internet technology businesses.

Associates

Associates contributed £36.8 million (€53.1 million) to total operating profit before amortisation of intangible assets, a 71.2% increase year on year.

Hedef Alliance in Turkey contributed £20.4 million (€29.4 million), compared to £6.9 million in 2002. Business operating profits before amortisation of intangible assets increased by 97.3% on an inflation adjusted basis, reflecting the efforts made by joint teams of executives from Alliance UniChem and Hedef on key business drivers, leading to strong sales and gross margin growth. The balance of the increase in contribution from Hedef Alliance reflects the purchase of the second 25% shareholding in the business in September 2002 and a strengthening of the Turkish Lira against Sterling. The balance of the consideration for this additional shareholding is expected to be settled in the first half of 2004, based on Hedef Alliance's financial performance for the two years ended 31 December 2003.

Contributions from other associates increased by 12.3% in total to £16.4 million (€23.7 million), an increase of 1.7% on a like for like constant currency basis. In June 2003, the Group reduced its direct investment in its Alloga prewholesaling associate from 50% to 20%, the shares being sold to our partner, Galenica, which is in turn 25.5% owned by the Group.

Hedef Alliance

In 2001 we entered the Turkish market via a 25% investment in Hedef (now Hedef Alliance), the largest wholesaler in Turkey, subsequently increasing our stake to 50%. Through this very successful associate investment, we have accessed the rapid growth of a large emerging market.

Since our relationship began, we have worked in partnership with our Turkish colleagues, sharing skills and experience. Hedef Alliance participates in our warehouse best practice programme and will implement our next-generation wholesale computer systems.

We view our associates as partners with whom to develop our common interests in new regions. In keeping with this strategy, we supported Hedef Alliance in 2003 to expand beyond its borders through the purchase of a 40% stake in UCP, the joint market leader in the Egyptian pharmaceutical wholesaling market.

Financial review

Accounting policies

The principal accounting policies adopted by the Group are unchanged, with the exception of the early adoption in full of FRS 17 "Retirement Benefits" and a change to the accounting policy on turnover following the issuance of an Application Note to FRS 5 "Reporting the Substance of Transactions" in December 2003. Comparable figures have been restated to reflect these changes. A prior year adjustment of £19.6 million (€30.1 million) has been made for FRS 17 in the 31 December 2002 balance sheet, reducing shareholders' funds. Profit before taxation in 2003 is £2.0 million (€2.9 million) higher as a result of the implementation of FRS 17, the restated figures for 2002 being £1.0 million higher. The principal impact of the Application Note to FRS 5 in 2003 has been a reclassification of £312.4 million (€450.8 million) of customer discounts and other operating income to turnover. All customer discounts are now offset against turnover, rather than forming part of cost of sales. Following changes in UK legislation and subsequent amendments to UK GAAP, the investment in own shares via the Employee Share Ownership Plan Trust has been reclassified in the balance sheet.

The Group is well advanced in determining the likely impact of International Accounting Standards on its future financial statements. An impact analysis was completed during 2003 and a detailed implementation programme is underway.

Results for the year

Group turnover increased by 13.2% on a comparable basis to £8,799.3 million (€12,697.4 million). This compares with Group turnover of £9,111.7 million (€13,148.2 million) on the previous accounting basis.

Group operating profit before amortisation of intangible assets increased by 10.1% to £226.6 million (€327.0 million). The share of operating profit in associated undertakings before amortisation of intangible assets grew by 71.2% to £36.8 million (€53.1 million), resulting in total operating profit before amortisation of intangible assets growing by 15.8% to £263.4 million (€380.1 million). Amortisation of intangible assets increased by 7.9% to £13.6 million (€19.6 million), largely as a result of the increased shareholdings in associated undertakings. Total operating profit increased by 16.3% to £249.8 million (€360.5 million).

Net interest payable was £53.5 million (€77.2 million), a year on year increase of 14.1%. On a constant currency basis, net interest payable increased by 3.2%, principally reflecting acquisition funding costs and higher interest margins applicable on longer maturity borrowings, partially offset by the effect of the share placing in September 2002 and lower interest rates, to the extent that interest was not previously hedged. Included in net interest payable is a charge of £1.0 million (€1.4 million) being the difference between the expected return on pension scheme assets and the interest on pension scheme liabilities in accordance with FRS 17; this compares to £nil in 2002. Interest cover, calculated before the amortisation of intangible assets, was 4.9 times, equivalent to 5.0 times on a pre-FRS 17 basis.

Profit on ordinary activities before taxation and amortisation of intangible assets increased by 16.3% to £209.9 million (€302.9 million), and profit on ordinary activities before taxation increased by 16.9% to £196.3 million (€283.3 million).

Taxation

The Group's effective rate of tax, based on profit on ordinary activities before taxation and amortisation of intangible assets, was 32.0% (2002 32.1%), which is just above the weighted average standard tax rate of 31.8% (2002 32.5%). The weighted average standard tax rate is 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 41.2 pence (59.5 cents), up 11.7% on the previous year. After amortisation of intangible assets, diluted earnings were 37.3 pence (53.8 cents), a year on year increase of 12.7%. The Board is recommending a final dividend of 11.0 pence per share, making a total dividend for the year of 16.7 pence per share (24.1 cents). The proposed final dividend is 8.9% higher than the final dividend in 2002, the total dividend for the year being 9.2% higher than the total dividend for 2002. The total dividend is covered 2.5 times by basic earnings per share before amortisation of intangible assets and 2.3 times after amortisation.

Financial review (continued)

Cash flow

for the year ended 31 December 2003

£million	2003	2002
Operating cash flow	322.3	200.6
Interest and dividends	(78.2)	(86.0)
Tax	(46.2)	(51.9)
Maintenance capital expenditure	(24.1)	(28.9)
Free cash flow	173.8	33.8
Growth capital expenditure and financial investment	(65.5)	(146.6)
Cash flow before financing	108.3	(112.8)
Financing	1.3	73.6
Translation differences	(56.6)	(59.6)
Decrease/(increase) in net borrowings	53.0	(98.8)

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 particularly strong at £322.3 million (€465.1 million). This compared to £200.6 million (€319.6 million) in 2002, which included £94.2 million (€150.0 million) inflow from the Italian securitisation programme, partially offset by a £37.0 million (€58.9 million) non-recurring variance on the timing of UK securitisation receipts at the end of 2001. Working capital net inflow was £68.6 million (€99.0 million), all key year end working capital ratios improving compared to the start of the year and working capital reductions being achieved in all wholesale businesses. Cash outflow on stocks was £39.4 million (€56.9 million), with stock levels decreasing by close to one day over the course of the year. Stock levels were higher than at the end of the first half due to attractive buying opportunities towards the end of the year, which resulted in a corresponding increase in creditors. Cash outflow from debtors was £60.3 million (€87.0 million), reflecting increased sales, partially offset by close to a two day reduction in trade debtor days. Cash inflow from higher creditors was £168.3 million (€242.9 million), reflecting higher cost of sales, increased stock purchases towards the end of the year and an extra day's credit.

Net capital expenditure on tangible fixed assets was £38.0 million (€54.8 million), including £24.1 million (€34.8 million) of gross expenditure on replacement fixed assets. Total cash paid for acquisitions was £59.2 million (€85.4 million). This expenditure was mainly on the purchase of retail pharmacies. In addition, £1.2 million (€1.7 million) was incurred in the further purchase of shares in associated undertakings. The Group has also continued to buy out minority interests in its businesses in France, Spain and the UK.

Shareholders' funds
Shareholders' funds at the year end were £929.8 million (€1,319.4 million), an increase of £108.8 million, principally reflecting £71.4 million (€103.0 million) of retained profit and £25.0 million (€36.1 million) of shares issued.

Financial position
At 31 December 2003, net borrowings were £827.2 million (€1,173.8 million) compared to £880.2 million at the end of 2002. This decrease was primarily due to a higher net cash inflow from operating activities, partially offset by a £56.6 million (€81.7 million) currency translation difference on borrowings hedging continental European assets.

Treasury policy
The Group's treasury policy seeks to ensure that appropriate financial resources are available for the development of the Group whilst managing currency, interest rate and counterparty risks. The Group treasury department acts as a service centre operating within clearly defined parameters 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 total operating profit before 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 £100 million of committed borrowing facilities were renewed for a further year and £40 million of new facilities were introduced. These facilities mature on 31 October 2004, although at the Group's election the term may be extended for a further two years. In addition, the Group has £97 million of five-year committed borrowing facilities that mature in 2007 and £40 million of other committed borrowing facilities that mature between 2004 and 2006.

At the year end, 54% of gross borrowings were repayable in more than five years compared to 51% at the end of 2002. Undrawn committed borrowing facilities at the year end totalled £173.7 million (€246.5 million) compared to £105.3 million at the end of 2002.

Interest rate risk management
The Board's policy is to partially protect itself against adverse movements in interest rates by hedging up to 60% of average projected borrowings over a three-year horizon, with borrowings beyond that period on a floating rate basis. 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 assets in continental Europe, which it partly hedges with borrowings denominated in the same currency, either directly or through the use of cross currency swaps. At 31 December 2003, 69% of the Group's gross borrowings were in Euros and 13% were in Sterling.

Approximately 43% of the Group's earnings generated in 2003 was earned in currencies other than Sterling, of which around 53% was in Euros. Although the translation of Euro denominated profits into Sterling was beneficial for reporting, due to the comparative strength of the Euro, this was largely offset by its negative impact on margins on certain UK product segments.

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
FRS 17 "Retirement Benefits" was adopted early in full in the year. Under FRS 17, the net pension liability reflected in the balance sheet was £34.3 million (€48.7 million) at the year end compared to £23.8 million restated at the end of December 2002. The year end balance comprises deficits of £37.4 million for the UK defined benefit pension scheme, £11.1 million for other European defined benefit pension schemes, and £0.8 million for other pension schemes, partially offset by a £15.0 million deferred tax asset. The movement in liability is principally accounted for by an actuarial loss arising from a revision of actuarial assumptions, partially offset by deferred tax thereon. The total pension charge against profit before taxation was £14.0 million (€20.2 million) compared to £11.5 million, restated, last year. This compares to £16.0 million (2002 £12.5 million) had the previous accounting policy been applied for the year.

Share price
The Company's share price ranged from a low of 375.0 pence to a high of 555.0 pence during the financial year. On 31 December 2003 the mid market price was 519.0 pence, giving a market capitalisation of approximately £1.8 billion.

Board of Directors

01 Jeff Harris, Chairman, 55, was appointed to the Board in 1986, becoming Chairman in April 2001. Jeff retired as a full-time executive in April 2003, continuing as Chairman in a non-executive capacity. He was previously Chief Executive, Deputy Chief Executive, Finance Director and Chief Accountant, having joined the Group in 1985. Jeff is a Chartered Accountant and a non-executive Director of Associated British Foods, Bunzl and Andreae-Noris Zahn (ANZAG), a German company in which the Group has an interest.

02 The Right Hon. Ken Clarke, Deputy Chairman and independent senior non-executive Director, 63, 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 Independent News and Media (UK).

03 Stefano Pessina, Chief Executive, 62, 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 1977. Before this, Stefano held a number of academic posts and worked as an independent business consultant. Stefano is an engineer by profession and a non-executive Director of Galenica, an associate company.

04 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 this, Geoff worked in a range of industrial and commercial companies and as a management consultant. Geoff is a Chartered Management Accountant and a non-executive Director of Abbey National.

05 George Fairweather, Group Finance Director, 46, 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 and a non-executive Director of Mitchells & Butlers.

06 Ornella Barra, Group Services Director, 50, 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 2003, having been Director, Wholesale – Southern Europe. Ornella was previously the President of a pharmaceutical distribution company founded by her in 1984. She is a Pharmacist.

07 Per Utnegaard, Wholesale Director, 44, was appointed to the Board upon joining the Group in September 2003. Before this, Per was Director General of Swiss Federal Railways Cargo, having previously held various senior management roles within Danzas – Deutsche Post and the TNT Group.

08 Steve Duncan, Retail Director, 53, 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 2000, having been a Director since 1991. Steve joined Moss in 1974 and is a Pharmacist.

09 Neil Cross, Independent non-executive Director, 58, 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 Sofres, The Bayard Fund and British Maritime Technology and is Vice President 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.

10 Adrian Loader, Independent non-executive Director, 55, was appointed to the Board in September 2003. Adrian is Director of Strategic Planning, Sustainable Development and External Affairs at Shell International, having previously held senior management positions with the Royal Dutch/Shell Group of Companies, in South America, Asia Pacific and in Central and Eastern Europe.

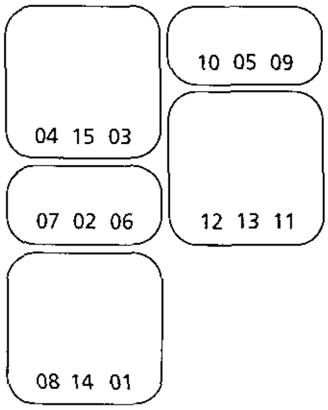
11 Patrick Ponsolle, Independent non-executive Director, 59, was appointed to the Board in 1997. Patrick is Vice Chairman of Morgan Stanley International and Chairman of Morgan Stanley France. Before this, Patrick was executive Chairman of Eurotunnel.

12 Paolo Scaroni, Independent non-executive Director, 57, was appointed to the Board in 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. Before this, Paolo was Chief Executive of Pilkington. Paolo has worked as a consultant and in industry since 1973.

13 Manfred Stach, Independent non-executive Director, 61, was appointed to the Board in December 2003. Manfred is President of Unilever Bestfoods Europe, having previously held a number of senior executive positions within Unilever in Europe, North America and Africa.

14 Claude Berretti, Non-executive Director, 69, 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, and is a Chartered Accountant. He will retire from the Board at the conclusion of the Annual General Meeting in April 2004.

15 Etienne Jornod, non-executive Director, 51, was appointed to the Board in 2000. Etienne is Chairman and Managing Director of Galenica, an associate company. Etienne is non-executive Chairman of BG Ingénieursconseils.



Corporate and social responsibility

At the heart of Alliance UniChem's business is a commitment to work to improve the well-being of the communities that we serve. We believe that to achieve this fully, we have a moral obligation and commercial imperative to treat the development, implementation and monitoring of the Group's corporate and social responsibility policies and initiatives as core to our business activities.

Recognising the importance of this area to the Group's business we have allocated direct responsibility for this area at Board level to Ornella Barra in her role as Group Services Director. Within her portfolio of management responsibilities, Ornella has a number of functions with direct accountability for a number of areas recognised as core to a structured corporate and social responsibility programme. These include Human Resources, which encompasses health and safety, training and employee welfare issues, and Corporate Communications, which monitors a number of areas contributing to our corporate citizenship policy.

Customers' requirements, employees' needs, the social and community conditions in which we operate and the regulatory demands upon us vary considerably across Europe. We believe that it is in the interests of all our stakeholders to tailor activities to match the needs of the local markets in which we operate, while adhering to common principles. These principles are supported by our core ethos of partnership, service, excellence and innovation, which form the foundation from which we deliver the highest quality of service to our customers.

Ethical trading

In all activities, we strive vigorously to ensure transparent and ethical trading. We believe this is our moral responsibility and that it is essential 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 we must operate to provide the best level of care available to the patient and ensure that we always act in the patient's interests. We have enshrined this as the core principle of our 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. To underline this, we encourage our pharmacists to report dispensing errors, so that we can constantly learn from them and improve our systems and procedures. We also use "mystery shopper" surveys to monitor the levels of customer service and the quality of advice provided in our pharmacies.

Our wholesale businesses strive vigorously to operate on a completely transparent basis with customers, providing them with a clear basis 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.

Non-resale products and services are sourced under the coordination of our procurement function, which operates a strict ethical code utilising industry best practice to ensure fairness and transparency with our suppliers whilst achieving best commercial terms.

Product testing

The Group operates a policy under which we ourselves do not participate in product animal testing. No testing is undertaken on our behalf, and none of our non prescription own brand products has been tested on animals. Suppliers of our exclusive generic pharmaceutical products may, however, have been compelled to undertake testing in order to obtain their original product licences, and many of the formulations will have been licensed by their initial developer using animal testing to support their licensing application.

As far as possible, we extend our policy of not using products tested on animals to suppliers of the raw materials that are used in the production of our own brand products. We are, however, unable to guarantee that all raw material suppliers do not use, 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 towards 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 a wholesaler of pharmaceutical products and operator of pharmacies, 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 and legal obligation to do so only as a secondary factor to patient well-being.

Health and safety

The Group conducts its business with the highest concern for the health and safety of its employees, contractors, customers, neighbours and the general public. The Board is committed to improving health and safety management continuously.

In September 2003, the Board approved a new health and safety policy aimed at promoting health and safety best practice across the Group.

Our aim is 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. Accordingly, it is the Group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risks to health and safety. To support the practical implementation and monitoring of this policy, the Human Resources department has been working with external advisers on a benchmarking exercise to identify the most effective and suitable points of measurement of health and safety performance within the Group and set targets that will improve the well-being of our employees. This exercise is already at an advanced stage and during 2004 will begin to generate meaningful and auditable information on our performance in this area.

The Group's accident frequency rate (number of reportable accidents per 100,000 hours worked) was 1.42 in 2003, compared to 1.70 in 2002. When looking specifically at three day lost time accidents, the accident frequency rate was 1.13, down from 1.26 for 2002. In all cases, we work closely with relevant health and safety authorities to address any issues that are identified.

Environment

Our businesses have an 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 wholesale depots are secure and well-maintained facilities with climate control systems required for certain products. When implementing processes and technology in our operations, we seek to limit energy use in each depot, both to help contain energy costs and to limit our impact on the environment.

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

Across the Group, we also operate programmes, where commercially viable, to ensure the responsible disposal of packaging, including the re-use and recycling of all packaging types and, where possible, the use of licensed contractors to dispose of non-recyclable waste packaging safely.

Our retail pharmacies operate the same general principles and systems as our wholesale businesses for the collection and disposal of unused pharmaceuticals, and for the safe storage of stock. Similarly, where possible, we use appropriate fittings and equipment, for example, low consumption energy efficient lighting and environmentally friendly materials.

We continually look at the most appropriate way of limiting the fuel consumption of our vehicle fleet. A number of studies have been conducted on the practicality of using fuels other than petrol or diesel, taking into account the combined requirements of urban, suburban and rural delivery schedules. At present we do not believe that there is a viable alternative to these traditional fuels.

We are in the process of working with external consultants to prepare an environment policy that can be applied across the Group effectively. This policy will be put to the Board for consideration during 2004, and work will start during the year to identify appropriate measures to be used to monitor our performance against this policy.

Employees

The Group operates a strict policy against discrimination on the grounds of sex, age, religion, nationality, marital status, disability or sexual preference and promotes diversity throughout our workforce to the greatest possible extent.

We strive to reflect the diversity of the markets and communities in which we do business. The Group's people operate on a European scale. Whether this results in a career within or beyond national borders, we put in place programmes to support individual development in line with our needs. We look to recruit, develop and promote employees to achieve their maximum potential and we are a committed equal opportunities employer.

We value the experience of our employees and 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 a continuing professional training programme for our pharmacists that exceeds the requirements of their professional bodies. This helps us achieve significantly above average recruitment and retention levels for qualified employees.

A fair appraisal package has been introduced and developed involving 500 top managers in the Group. This assessment can be conducted through the internet in several languages and gives managers a clearer and more comprehensive picture of their skills. 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 we 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 and develop excellent long-term careers – to be an employer that people aspire to work for.

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 the 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 and aim 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.

Report of the Directors

The Directors submit their Report and audited financial statements for the year ended 31 December 2003. 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 fourteenth Annual General Meeting ("AGM") will be held in the York Suite at Oatlands Park Hotel, 146 Oatlands Drive, Weybridge, Surrey KT13 9HB, UK on Thursday 22 April 2004, 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 £128.5 million (2002 £109.5 million). An interim dividend of 5.7 pence was paid on 17 November 2003 to shareholders registered at the close of business on 15 August 2003 and the Directors are recommending the payment of a final dividend of 11.0 pence per share, making a total dividend in respect of the financial year of 16.7 pence per share.

If approved by shareholders at the AGM, the final dividend will be paid on 11 May 2004 to shareholders on the register at the close of business on 5 March 2004. 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), Ken Clarke (Deputy Chairman), Stefano Pessina (Chief Executive), Geoff Cooper, George Fairweather, Ornella Barra, Per Utnegaard, Steve Duncan, Neil Cross, Adrian Loader, Patrick Ponsolle, Paolo Scaroni, Manfred Stach, Claude Berretti and Etienne Jornod. Biographical details of the Directors are shown on pages 28 and 29.

Chris Etherington resigned as a Director on 31 March 2003. Steve Duncan was appointed a Director on 13 January 2003, Per Utnegaard on 3 September 2003, Adrian Loader on 24 September 2003 and Manfred Stach on 8 December 2003. As Per Utnegaard, Adrian Loader and Manfred Stach were appointed after the last AGM in May 2003, they will each be seeking election as a Director at the next AGM. Jeff Harris, Ken Clarke, Geoff Cooper and George Fairweather will be retiring as Directors by rotation at the AGM and will be seeking re-election at the meeting. Claude Berretti, who has served as a Director of the Company since 1998, will retire at the conclusion of the AGM.

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

Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from this date under the provisions of section 26 (5) of the Companies Act 1989.

A resolution to re-appoint Deloitte & Touche LLP 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 £94,000 were made during 2003, of which £9,000 were in the UK. The Group has no affiliation to any political party or group in any country and makes no political donations.

Share capital

At 31 December 2003 there were 350,692,477 ordinary shares in issue held by 9,171 shareholders on the register.

Details of 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 did not acquire any shares in the Company during the year and held 5,255,836 shares in the Company on 31 December 2003 and 5,225,836 shares on 17 February 2004. Under the terms of the trust the dividend receivable on shares held has been waived.

As at 17 February 2004 the Company has been notified of the following major interests in its issued ordinary share capital, disclosed to it in accordance with Sections 198 to 208 of the Companies Act 1985:

	Number of shares	Percentage of present issued Ordinary share capital
Stefano Pessina	106,415,034	30.34%
Scottish Widows Investment Partnership Limited	13,694,301	3.90%
Morley Fund Management Limited	11,110,387	3.17%

106,349,503 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 a diverse workforce of employees regardless of race, creed, colour, nationality, gender, age, marital status, sexual preference 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 creation of long-term shareholder value for the Company's shareholders.

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

Marco Pagni
Company Secretary
24 February 2004

Marco Pagni

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 throughout the year complied with the provisions of Section 1 of the Combined Code on Corporate Governance issued by the UK Financial Services Authority which applied to this period.

The Directors have agreed action that will raise the level of compliance in 2004 with the revised Combined Code on Corporate Governance issued by the UK Financial Services Authority on 23 July 2003, which applies for reporting years beginning on or after 1 November 2003. The way in which the principles of good corporate governance are applied, along with comment and explanation relating to significant extra disclosures under the revised Combined Code, are described below.

The Board

The Board comprises a non-executive Chairman whom the Board considers to be non-independent, an independent non-executive Deputy Chairman, a Chief Executive, five other executive Directors and seven other non-executive Directors, five of whom the Board considers to be independent. Biographical details of the Directors are shown on pages 28 and 29.

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.

Jeff Harris was appointed Chairman in September 2001. In April 2003 he retired as a full time executive, continuing as Chairman in a non-executive capacity. He joined the Group in 1985, was appointed to the Board in 1986 and held the position of Chief Executive from 1992 to 2001. The Directors are of the opinion that his extensive industry and business specific knowledge and experience, gained during 17 years as an executive Director, are extremely beneficial to the Board and that his ongoing chairmanship provides valuable continuity to develop the business in the best interests of shareholders and customers.

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 for which contact through the normal channels of Chairman or Chief Executive is inappropriate or which such contact has failed to resolve.
The senior independent non-executive Director periodically holds meetings with the other non-executive Directors outside the presence of executive Directors.

At each AGM, at least one-third of the Directors and any Director who has served for more than three years without being proposed for re-election at an AGM retire by rotation and seek re-election.

The Board does not have a majority of independent non-executive Directors, as required by the revised Combined Code; steps have been taken to address this by the appointment of two additional independent non-executive Directors in 2003. The balance between independent and non-independent Directors will further change when Claude Berretti retires at the conclusion of the AGM. The additional appointments have also broadened the pool of independent non-executive Directors who can serve on committees, such that undue reliance is not placed on particular individuals. It is considered that the composition of the Board has the balance of skills and experience appropriate for the requirements of the business and that no small group of individuals can dominate the Board's decision making.

Operation of the Board

The Directors met nine times as a Board in 2003 and are scheduled to meet at least eight times in 2004. Additional meetings are held as required. The attendance record for the Board meetings held in 2003, as required by the revised Combined Code, is shown below.

The Board has adopted principles of good boardroom practice. These principles ensure that the Directors can perform their role effectively and 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 scheduled 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 Board delegates day to day management of the Group to the executive committee.

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 Board. In July 2003 Marco Pagni was appointed General Counsel and Company Secretary, replacing Adrian Goodenough who had served as Company Secretary since 1990.

During the year the Board undertook a formal and rigorous evaluation of its own performance including that of the Board committees. This evaluation was carried out by an independent firm of management consultants.

Board committees

The Board has delegated specific responsibilities to four Board committees. The attendance record, as required by the revised Combined Code, membership of these Board committees and a summary of their main duties under their terms of reference are shown below.

Meeting attendance record

	Board	Executive committee	Audit committee	Remuneration committee	Nomination committee
Number of meetings in 2003	9	16	4	3	6
Director					
J.F. Harris	9	–	–	–	5
K.H. Clarke	9	–	–	3	5
S. Pessina	9	16	–	–	5
G.I. Cooper	9	16	–	–	–
G.R. Fairweather	9	16	–	–	–
O. Barra	9	16	–	–	–
P. Utnegaard[1]	4	6	–	–	–
S.W.J. Duncan[2]	8	16	–	–	–
C. Etherington[3]	2	3	–	–	–
N.E. Cross	9	–	4	3	6
A.W. Loader[4]	1	–	–	–	–
P. Ponsolle	8	–	4	3	4
P. Scaroni	5	–	1	–	–
M. Stach[5]	–	–	–	–	–
C.J.S. Berretti	6	–	–	–	–
E. Jornod	5	–	–	–	–

[1]appointed to the Board in September 2003; four Board meetings and six executive committee meetings were held after his appointment
[2]appointed to the Board in January 2003; eight Board meetings and 16 executive committee meetings were held after his appointment
[3]resigned from the Board in March 2003
[4]appointed to the Board and audit committee in September 2003; three Board meetings were held after his appointment but no audit committee meetings; appointed to the remuneration committee in February 2004
[5]appointed to the Board in December 2003; no Board meetings were held after his appointment; appointed to the audit committee in February 2004

Executive committee

The executive committee, chaired by Geoff Cooper, consists of the executive Directors. The executive committee met 16 times in 2003.

The duties of the executive committee are to:

- run the Group on a day to 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.

Audit committee

The audit committee consists of five independent non-executive Directors: Neil Cross (Chairman), Adrian Loader, Patrick Ponsolle, Paolo Scaroni and Manfred Stach. Others normally attending meetings in advisory capacities are the Group Finance Director, the Director of Internal Audit, the Group Financial Controller, the General Counsel and Company Secretary and representatives from the external auditors. The committee met four times in 2003.

The duties of the audit committee are to:

- consider the appointment, re-appointment and/or removal of the external auditor;
- consider any change to, independence of, objectivity of and fees to the external auditors;
- consider the effectiveness of the external audit process taking into consideration relevant UK professional and regulatory requirements;
- maintain and monitor a policy on the engagement of the external auditor to supply non-audit services;
- agree with the external auditors the scope and nature of their 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, effectiveness and results of the internal audit function and approve any change to the Director of Internal Audit;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- review the effectiveness of systems for internal financial control, financial reporting and risk management;
- monitor, review and challenge where necessary the integrity of financial statements and formal announcements relating to the financial performance 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.

Board report on corporate governance (continued)

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 certain 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's principal external auditors will audit all major subsidiaries with effect from 2004.

In accordance with the above duties, particular areas of focus of the audit committee during 2003 included:

- a review of the Internal Audit function;
- the appointment of a new Director of Internal Audit;
- the implementation by January 2004 of a policy to ensure that the principal external auditors audit all major subsidiaries;
- agreement of a policy for the approval of non-audit services provided by external auditors;
- a review of post-investment audits; and
- the implementation of an effective system for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Remuneration committee

The remuneration committee consists of four independent non-executive Directors: Ken Clarke (Chairman), Neil Cross, Adrian Loader 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 three times in 2003.

The duties of the remuneration committee are to:

- determine the Group's remuneration policy for executive Directors and executive management;
- determine the remuneration for the Chairman and the executive Directors;
- ensure that payments made on termination of employment of executive Directors are fair to both parties;
- execute standard service 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.

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 six times in 2003.

The principal duties of the nomination committee are to:

- review regularly the structure, size and composition of the Board;
- identify and nominate candidates to fill vacancies on the Board;
- review annually the time required from non-executive Directors and evaluate whether each non-executive Director is spending sufficient time to fulfil his duties;
- ensure succession plans are in place for Directors and, in particular, for the Chairman and Chief Executive;
- recommend the re-appointment of Directors taking into account the evaluation of individual performance; and
- recommend candidates for senior Board positions.

Appointments to the Board are made on merit and against objective criteria, taking into account the balance of skills, knowledge and experience required. External search consultants are used to recruit executive and non-executive Directors. The non-executive Directors confirm that they have sufficient time available to devote to their role.

A rigorous, wide-ranging review process was undertaken for the selection and appointment of the two additional non-executive Directors and the appointment of the Wholesale Director during the year, in recognition of the need to refresh the membership of the Board and to broaden further the level of international experience.

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.

The senior independent Director took steps to arrange to meet and understand the views of major shareholders.

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 2003 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 businesses;
- 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 providing 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 in writing that the system of internal control is operating effectively.

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 to the terms and conditions of employment of executive Directors. The Committee consists of four independent non-executive Directors: Ken Clarke (Chairman), Neil Cross, Adrian Loader 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 their remuneration package to the performance of the Group and the creation of long-term shareholder value.

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, which applied to this period, with regard to Directors' remuneration.

In accordance with the remuneration policy, the remuneration of 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 benefits, all of which are detailed below. The executive Directors' remuneration is reviewed at the start of each calendar year.

Service contracts

Geoff Cooper, George Fairweather, Per Utnegaard and Steve Duncan are employed within the Group under contracts that can be terminated by either party with notice of twelve months. Stefano Pessina and Ornella Barra have service contracts that can be terminated by the Group with notice of twelve months or by each of them with notice of six months. There are provisions in the service contracts for payment in lieu of current salary to cover the required notice period. Were the situation to arise, the Company intends to apply the principle of mitigation to any payment of compensation on termination as a result of unsatisfactory performance. The dates of the executive Directors' current service contracts are:

Director	Contract date
S. Pessina	10 December 2002
G.I. Cooper	4 March 1994
G.R. Fairweather	28 March 2002
O. Barra	10 December 2002
P. Utnegaard	3 September 2003
S.W.J. Duncan	29 December 1995

The Company recognises that its executive Directors may be invited to become non-executive Directors of other listed companies and that such duties can broaden experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept one external non-executive appointment with the Company's prior approval as long as this is not in any way connected with the company's business and would not lead to any conflict of interest. Fees received by the Director may be retained. Jeff Harris is a non-executive Director of Bunzl and retained fees for that appointment of £7,916 during the period he was executive Chairman of Alliance UniChem Plc. He is also a Director of Andreae-Noris Zahn, a German company in which the Group has an interest, the fees payable being retained by the Company. Stefano Pessina is a non-executive Director of Galenica, an associate company. He waived his entitlement to a Director's fee as part of the agreement with Galenica on reciprocal board representation. Geoff Cooper was appointed a non-executive Director of Abbey National in January 2004 and will retain the fees payable. George Fairweather was appointed a non-executive Director of Mitchells & Butlers in April 2003 and retained fees paid of £33,986 in 2003 for that appointment.

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 his or her contribution to the business. For determining basic salary in 2003 and 2004, 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 2003 is detailed in the emoluments section below.

Benefits

Other benefits available to executive Directors relate to the provision of company cars or a car allowance, private medical insurance, and, for Stefano Pessina, and in the case of Ornella Barra from September 2003, 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 2003, 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.

In 2003, the budgeted performance was based on the challenging but achievable 2003 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.

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 2003 is detailed in the emoluments section below.

Non-executive Directors

All non-executive Directors are entitled to a basic fee of £35,000. Jeff Harris retired as an executive in April 2003, continuing as Chairman in a non-executive capacity under which he is entitled to a total fee of £250,000 per annum. In addition, in 2003 he received £15,000 of unfunded pension payments directly from the Company, further details of which are set out in the pensions section of this report. Ken Clarke is the Deputy Chairman and senior independent non-executive Director and receives a total fee of £125,000 per annum, which includes a fee of £5,000 per annum for chairing the remuneration committee. Neil Cross receives a total fee of £45,000, which includes a fee of £10,000 per annum for chairing and serving on the audit committee. Other members of the audit committee are each paid an additional fee of £5,000 per annum. 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. Jeff Harris receives a pension in respect of his service whilst acting as an executive of the Company. 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. Jeff Harris will continue to be eligible to receive share options in connection with allocations made under the long-term incentive plan whilst he was an executive Director. In the case of the award arising from the 2000 allocation he has a year in which to exercise his option. In the case of any award arising from the 2001 allocation he will be entitled to 50% of the award and will have six months to exercise the award and in the case of any award arising from the 2002 allocation he will be entitled to 25% of the award and will have six months to exercise the award.

Non-executive Directors are appointed for fixed terms, normally of three years. Non-executive Directors who have served beyond six years are subject to a more rigorous review when they come up for re-election. This review takes account of the need for progressive refreshing of the Board. The initial appointment dates and next date of election/re-election for the current non-executive Directors are as follows:

Director	Appointment date	Date when next subject to election/re-election
J.F. Harris	1 August 1986	Re-election 2004 AGM
K.H. Clarke	9 September 1997	Re-election 2004 AGM
N.E. Cross	17 February 1997	Re-election 2005 AGM
A.W. Loader	24 September 2003	Election 2004 AGM
P. Ponsolle	30 December 1997	Re-election 2006 AGM
P. Scaroni	10 December 2002	Re-election 2006 AGM
M. Stach	8 December 2003	Election 2004 AGM
C.J.S. Berretti	12 June 1998	Retiring at conclusion of 2004 AGM
E. Jornod	26 January 2000	Re-election 2006 AGM

Board report on remuneration (continued)

Emoluments

The emoluments of the Directors for the financial year ended 31 December 2003 were:

Director	Salaries and fees £'000	Benefits £'000	Bonus and cash payments £'000	Total emoluments excluding pensions 2003 £'000	Total emoluments excluding pensions 2002 £'000
Executive Directors					
J.F. Harris[1]	138	8	–	**146**	670
S. Pessina	350	54	175	**579**	547
G.I. Cooper	350	23	175	**548**	454
G.R. Fairweather[2]	330	22	165	**517**	331
O. Barra	270	5	108	**383**	325
P. Utnegaard[3]	116	7	–	**123**	–
S.W.J. Duncan[4]	235	20	117	**372**	–
C. Etherington[5]	68	8	–	**76**	348
	1,857	147	740	**2,744**	2,675
Non-executive Directors					
J.F. Harris[1]	181	–	15	**196**	–
K.H. Clarke	125	–	–	**125**	125
N.E. Cross	45	–	–	**45**	30
A.W. Loader[6]	11	–	–	**11**	–
P. Ponsolle	40	–	–	**40**	25
P. Scaroni[7]	40	–	–	**40**	2
M. Stach[8]	2	–	–	**2**	–
C.J.S. Berretti	35	–	–	**35**	25
	479	–	15	**494**	207
Total	2,336	147	755	**3,238**	2,882

(1)retired as an executive in April 2003, continuing in a non-executive capacity thereafter; his total emoluments for 2003 were £342,000
(2)prior year emoluments include only nine months as an executive Director
(3)appointed in September 2003
(4)appointed in January 2003
(5)resigned in March 2003
(6)appointed in September 2003
(7)prior year emoluments include only one month as a non-executive Director
(8)appointed in December 2003

Etienne Jornod waived his entitlement to a Director's fee of £35,000 (2002 £25,000), 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 24 February 2004 are:

Director	2001 allocation maximum amount £	2002 allocation maximum amount £	2003 allocation maximum amount £	2004 allocation maximum amount £
J.F. Harris	299,667	308,666	–	–
S. Pessina	196,167	216,666	233,333	300,000
G.I. Cooper	189,000	206,666	233,333	266,666
G.R. Fairweather	–	155,775	220,000	233,333
O. Barra	153,333	160,666	180,000	193,333
P. Utnegaard	–	–	–	206,666
S.W.J. Duncan	–	–	156,667	186,666

The performance periods for the allocations are:

	2001 allocation	2002 allocation	2003 allocation	2004 allocation
Period start	1 January 2001	1 January 2002	1 January 2003	1 January 2004
Period end	31 December 2003	31 December 2004	31 December 2005	31 December 2006

The amount of the award is dependent on the achievement of certain performance measures during the performance period that the Committee believe are the most appropriate measure of the underlying performance of the Group. 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. Inbucon Group provides the Committee with a total shareholder return monitoring report and advises on performance under the long-term incentive plan based on diluted earnings per share performance. Earnings per share are defined as the diluted earnings per share before amortisation of intangible assets 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 2001 and 2002 allocation, the total shareholder return measure is compared with the performance of companies in the FTSE 250.

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%

For the 2003 and 2004 allocations, the total shareholder return measure is compared with the performance of companies in the FTSE 100, and the earnings per share measure was 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 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 2003, awards were made on allocations with the performance period 1 January 2000 to 31 December 2002. During the performance period, the Company was in the 86th percentile of 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 100% of the allocations were made and converted into share options at 467 pence per share, as follows:

Director	Allocation £	Award nominal value £	Award share options number
J.F. Harris	280,000	280,000	59,957
S. Pessina	183,333	183,333	39,257
G.I. Cooper	176,667	176,667	37,830
O. Barra	143,333	143,333	30,692

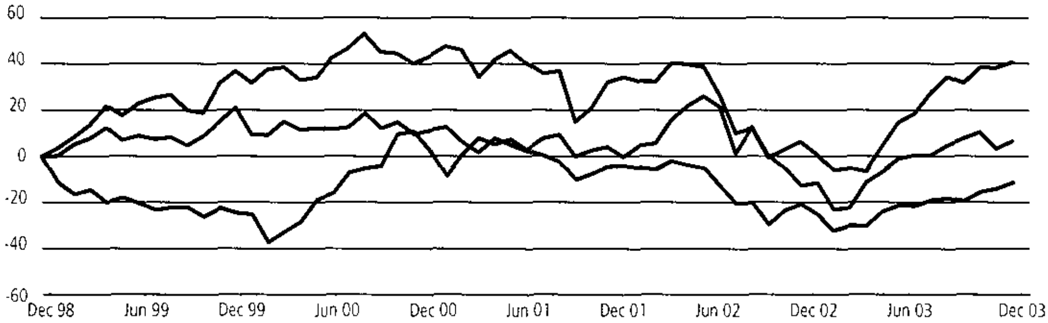
Board report on remuneration (continued)

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

Following the end of the performance period for the 2001 allocation detailed above, the Committee has recommended to the trustees of the 1992 Employee Trust that awards equivalent to 82% of the allocation are made. Their basis for doing this is that during the performance period, the Company was in the 63rd percentile of the comparator group on shareholder return and the increase in earnings per share was in excess of RPI-x +4%.

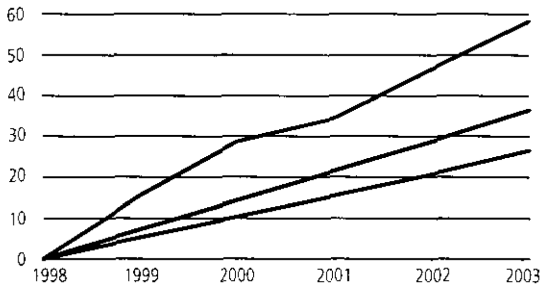
Performance

Total shareholder return for the Company and total shareholder return for FTSE 250 and FTSE 100 companies, being the comparator groups used for the long-term incentive plan, over the five years ending 31 December 2003 are:



FTSE 250 Index
FTSE 100 Index
Alliance UniChem
Source: Bloomberg

The increase in earnings per share over the five years ending 31 December 2003 compared to RPI-x +3% and RPI-x +5% over the same period is:



EPS
RPI-x +3%
RPI-x +5%

Pensions

Pension benefits earned by the Directors during 2003 were:

Director	Age at year end	Increase in accrued pension during the year (excluding inflation) £'000	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 2003 £'000	Additional money purchase contributions 2002 £'000	Transfer value of defined benefits at 31 December 2003 £'000	Transfer value of defined benefits at 31 December 2002 £'000	Increase in transfer value during the year net of Director's contributions £'000
J.F. Harris	55	46	45	353	–	–	–	6,900	5,652	1,241
G.I. Cooper	49	3	4	32	61	89	84	315	264	36
G.R. Fairweather	46	3	3	6	43	49	37	46	18	13
O. Barra	50	–	–	–	–	81	72	–	–	–
S.W.J. Duncan[1]	52	15	16	110	–	–	–	1,272	1,019	242
C. Etherington[2]	51	–	–	39	12	18	64	407	367	37

[1]existing member of pension scheme on appointment in January 2003
[2]resigned March 2003

Stefano Pessina has no pension benefits. Per Utnegaard is eligible to join the Company's pension scheme with effect from 1 January 2004.

The accrued pension is a benefit of the defined benefit plan of the Company's pension scheme. The arrangements of the pension scheme are as follows: the normal retirement age of the Directors is 60; Jeff Harris received an unreduced pension from age 55, based on arrangements entered into with the Company in 1992. The pension arising was agreed to be calculated on the basis of the annual rate of basic salary at the time of retirement plus the annual average of car/fuel benefit and bonus over the three years preceding retirement. £14,000 of this pension is unfunded and paid directly by the Company, and the cost for this is reported in the emoluments disclosure. The above figures take account of this unfunded pension liability. All current executive Directors' pension benefits are calculated excluding bonuses. 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; no allowance is made for discretionary benefits within transfer values.

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 benefits arising from such contributions, are excluded from the table.

Board report on remuneration (continued)

Share option schemes

In addition to the long-term incentive plan, the Company operates two discretionary and one savings related share option scheme, which are open to executive Directors as well as certain other employees. Details of outstanding options under these schemes are shown in note 22 to the financial statements.

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

Director	Type	1 January 2003*	Granted in the year	Exercised[a] /lapsed[b] in the year	31 December 2003	Exercise price £	Market price on exercise £	Normally exercisable from
J.F. Harris	S	1,757	–	1,757[b]	–	3.8400		01.07.2004 to 31.12.2004
	S	1,255	–	1,255[b]	–	4.6300		01.07.2004 to 31.12.2004
	d	45,000	–	45,000[a]	–	2.5399	5.380	01.11.1996 to 30.10.2003
	d	45,000	–	45,000[a]	–	2.6000	5.380	21.10.1997 to 20.10.2004
	D	45,000	–	45,000[a]	–	4.2950	4.400	07.05.2001 to 06.05.2005
	L	18,299	–	18,299[a]	–	0.0001	4.400	06.04.2001 to 05.04.2011
	L	15,804	–	15,804[a]	–	0.0001	4.400	19.03.2002 to 18.03.2012
	L	–	59,957	–	**59,957**	0.0001		17.04.2003 to 16.04.2004
		172,115	59,957	172,115	**59,957**			
S. Pessina	L	–	39,257	39,257[a]	–	0.0001	4.965	17.04.2003 to 16.04.2013
		–	39,257	39,257	–			
G.I. Cooper	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	9,852	–	–	**9,852**	0.0001		19.03.2002 to 18.03.2012
	L	–	37,830	–	**37,830**	0.0001		17.04.2003 to 16.04.2013
		95,740	37,830		**133,570**			
G.R. Fairweather	S	–	2,804	–	**2,804**	3.3700		01.07.2006 to 31.12.2006
			2,804		**2,804**			
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	–	30,692	30,692[a]	–	0.0001	4.965	17.04.2003 to 16.04.2013
		250,000	30,692	30,692	**250,000**			
S.W.J. Duncan	S	5,324	–	5,324[a]	–	3.2400	5.305	01.08.2003 to 31.01.2004
	D	15,000	–	15,000[a]	–	3.7900	5.546	23.03.2003 to 22.03.2007
	D	15,000	–	–	**15,000**	5.9200		06.04.2004 to 05.04.2008
	D	20,000	–	–	**20,000**	6.0900		09.04.2005 to 08.04.2009
		55,324		20,324	**35,000**			
C. Etherington	S	3,194	–	3,194[b]	–	3.2400		01.08.2003 to 31.01.2004
	S	1,757	–	1,757[b]	–	3.8400		01.07.2004 to 31.12.2004
		4,951		4,951	–			
Total		578,130	170,540	267,339	**481,331**			

*or at date of appointment, if later.

S = Savings Related Share Option Scheme 1990
d = Discretionary Executive Share Option Scheme 1990
D = Discretionary 1997 Share Option Scheme
L = Long-term incentive plan

The aggregate gains before tax made by the Directors on the exercise of share options was £792,308 (2002 £311,731).

There were no changes to the options of the Directors above between 1 January 2004 and 24 February 2004.

The mid-market price of shares of the Company ranged during 2003 between 555.0 pence on 15 October and 375.0 pence on 12 March and at 31 December was 519.0 pence.

No further awards will be made under the Executive Share Option Scheme 1990.

The options granted under the 1997 Share Option Scheme 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 intangible assets 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, £4.3500 and £3.7900 have been passed.

The options granted to Ornella Barra under the 1997 Share Option Scheme with an exercise price of £4.2950 and £4.3500 formed part of the arrangements of the merger with Alliance Santé S.A..

Directors' shareholdings

The beneficial interests of the Directors in office at 31 December 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 2003	Ordinary shares 1 January 2003*
J.F. Harris	229,050	327,520
K.H. Clarke	6,566	6,340
S. Pessina	106,415,034	105,124,438
G.I. Cooper	94,052	94,052
G.R. Fairweather	2,000	2,000
O. Barra	51,207	19,471
P. Utnegaard	–	–
S.W.J. Duncan	8,112	–
N.E. Cross	5,000	5,000
A.W. Loader	–	–
P. Ponsolle	500	500
P. Scaroni	–	–
M. Stach	–	–
C.J.S. Berretti	–	–
E. Jornod	–	–
Total	106,811,521	105,579,321

*or at date of appointment, if later.

There were no changes to Directors' shareholdings between 1 January 2004 and 17 February 2004.

106,349,503 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 following sections of the above report have been audited: the sections headed "Emoluments", "Long-term incentive plan", "Pensions", "Share option schemes" and "Directors' shareholdings".

Approved by the Board of Directors and signed on their behalf

Marco Pagni
Company Secretary
24 February 2004

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 judgements 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 2003 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 movements in Group shareholders' funds, the note on historical cost profits and losses, and the related notes numbered 1 to 36 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.

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 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 Report of the Directors and other information contained in the Annual Report as described in the contents section, including the unaudited part of the Board report on remuneration and the unaudited proforma information shown on the primary financial statements, 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 2003 and of the profit 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 LLP Deloitte & Touche LLP
Chartered Accountants and Registered Auditors, London
24 February 2004

Group profit and loss account

for the year ended 31 December 2003

Unaudited proforma 2003 €million		Note	2003 £million	2002 restated £million
12,697.4	**Turnover** – continuing operations	3,4	8,799.3	7,771.6
314.1	**Group operating profit** – continuing operations	3	217.7	197.0
46.4	Share of operating profit in associated undertakings		32.1	17.8
360.5	**Total operating profit**	4	249.8	214.8
(77.2)	Net interest payable and similar charges	6	(53.5)	(46.9)
302.9	Profit on ordinary activities before taxation and amortisation of intangible assets		209.9	180.5
283.3	**Profit on ordinary activities before taxation**	7	196.3	167.9
(97.0)	Tax on profit on ordinary activities	8	(67.2)	(58.0)
186.3	Profit on ordinary activities after taxation		129.1	109.9
(0.9)	Equity minority interests		(0.6)	(0.4)
185.4	**Profit for the financial year**		128.5	109.5
(82.4)	Dividends	9	(57.1)	(52.6)
103.0	Retained profit for the financial year		71.4	56.9
	Earnings per share	10		
	Basic		37.6p	33.3p
	Diluted		37.3p	33.1p
	Basic, before amortisation of intangible assets		41.6p	37.1p
	Diluted, before amortisation of intangible assets		41.2p	36.9p

Balance sheets

as at 31 December 2003

Unaudited proforma 2003 €million		Note	Group 2003 £million	Group 2002 restated £million	Company 2003 £million	Company 2002 restated £million
	Fixed assets					
1,113.5	Intangible assets	11	**784.7**	723.1	**–**	–
432.7	Tangible assets	12	**304.9**	284.4	**0.5**	1.3
493.7	Investments	13	**347.9**	306.0	**1,394.8**	1,505.2
2,039.9			**1,437.5**	1,313.5	**1,395.3**	1,506.5
	Current assets					
1,034.2	Stocks	14	**728.8**	649.9	**–**	–
636.8	Securitised receivables		**448.8**	422.4	**–**	–
(566.9)	Non-recourse receipts		**(399.5)**	(377.1)	**–**	–
69.9	Net securitised receivables	15	**49.3**	45.3	**–**	–
1,601.5	Other debtors	16	**1,128.6**	1,017.2	**10.5**	16.6
166.3	Cash at bank and in hand	17	**117.2**	149.7	**28.9**	11.8
2,871.9			**2,023.9**	1,862.1	**39.4**	28.4
	Creditors: amounts falling due within one year					
(365.4)	Borrowings	17	**(257.5)**	(361.7)	**(45.8)**	(112.5)
(2,162.3)	Other creditors	19	**(1,523.8)**	(1,278.8)	**(182.2)**	(182.9)
(2,527.7)			**(1,781.3)**	(1,640.5)	**(228.0)**	(295.4)
344.2	**Net current assets/(liabilities)**		**242.6**	221.6	**(188.6)**	(267.0)
2,384.1	**Total assets less current liabilities**		**1,680.1**	1,535.1	**1,206.7**	1,239.5
	Creditors: amounts falling due after more than one year					
(974.7)	Borrowings	17	**(686.9)**	(668.2)	**(563.7)**	(632.3)
(26.4)	**Provisions for liabilities and charges**	20	**(18.6)**	(11.7)	**–**	–
1,383.0	**Net assets excluding net pension (liabilities)/assets**		**974.6**	855.2	**643.0**	607.2
(48.7)	Net pension (liabilities)/assets	21	**(34.3)**	(23.8)	**–**	1.7
1,334.3	**Net assets including net pension (liabilities)/assets**		**940.3**	831.4	**643.0**	608.9
	Capital and reserves					
49.8	Called up share capital	22	**35.1**	34.5	**35.1**	34.5
630.4	Share premium account	24	**444.2**	419.8	**444.2**	419.8
35.6	Shares to be issued	23	**25.1**	17.7	**25.1**	17.7
(32.8)	Investment in own shares	25	**(23.1)**	(26.1)	**(23.1)**	(26.1)
3.7	Capital reserve	24	**2.6**	2.2	**–**	–
632.7	Profit and loss account	24	**445.9**	372.9	**161.7**	163.0
1,319.4	**Equity shareholders' funds**		**929.8**	821.0	**643.0**	608.9
14.9	Minority interests		**10.5**	10.4	**–**	–
1,334.3			**940.3**	831.4	**643.0**	608.9

The financial statements were approved by the Board on 24 February 2004 and are signed on its behalf by:

S Pessina
G R Fairweather Directors

Group cash flow statement

for the year ended 31 December 2003

Unaudited proforma 2003 €million		Note	2003 £million	2002 £million
465.1	**Net cash inflow from operating activities**	27a	322.3	200.6
4.8	Dividends received from associated undertakings		3.3	2.7
(73.2)	Returns on investments and servicing of finance	27b	(50.7)	(48.6)
(66.7)	Taxation		(46.2)	(51.9)
(61.8)	Capital expenditure and financial investment	27c	(42.8)	(62.0)
(67.5)	Acquisitions and disposals	27d	(46.8)	(113.5)
(44.4)	Equity dividends paid		(30.8)	(40.1)
156.3	**Cash inflow/(outflow) before financing**		108.3	(112.8)
	Financing			
2.9	Issue of ordinary share capital		2.0	89.7
(115.9)	Net cash (outflow)/inflow from (decrease)/increase in debt and lease financing	28	(80.3)	93.3
(113.0)	Net cash (outflow)/inflow from financing		(78.3)	183.0
43.3	**Increase in cash in the year**		30.0	70.2

	Note	2003 £million	2002 £million
Reconciliation of net cash flow to movement in net borrowings			
Increase in cash in the year		30.0	70.2
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	28	80.3	(93.3)
Decrease/(increase) in net borrowings resulting from cash flows		110.3	(23.1)
Borrowings acquired with businesses		(0.3)	(2.6)
Loan notes issued for non-cash consideration	26	(0.4)	(13.5)
Currency translation differences		(56.6)	(59.6)
Decrease/(increase) in net borrowings for the year		53.0	(98.8)
Net borrowings at 1 January		(880.2)	(781.4)
Net borrowings at 31 December	29	(827.2)	(880.2)

Group statement of total recognised gains and losses

for the year ended 31 December 2003

	Note	2003 £million	2002 restated £million
Profit for the financial year		128.5	109.5
Actuarial loss on defined benefit pension schemes	21	(17.1)	(19.9)
Deferred tax associated with defined benefit pension schemes		5.0	5.9
Currency translation differences on foreign currency net investments		13.8	7.8
Tax on currency translation differences on foreign currency borrowings		0.4	4.5
Total recognised gains and losses relating to the year		130.6	107.8
Prior year adjustment for FRS 17	1,21	(19.6)	
Total recognised gains and losses since last Annual Report		111.0	

Reconciliation of movements in Group shareholders' funds

for the year ended 31 December 2003

	Note	2003 £million	2002 restated £million
At 1 January, as previously stated		866.7	680.8
Prior year adjustment for FRS 17	1,21	(19.6)	(6.3)
Reclassification of investment in own shares	1,25	(26.1)	(13.9)
At 1 January, as restated		821.0	660.6
Total recognised gains and losses for the financial year		130.6	107.8
Dividends	9	(57.1)	(52.6)
Shares issued	22	25.0	102.0
Shares to be issued	23	7.4	17.7
Consideration received on sale of own shares	25	2.9	(12.2)
Other		–	(2.3)
At 31 December		929.8	821.0

Note of historical cost profits and losses

for the year ended 31 December 2003

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 2002.

Notes to the financial statements

for the year ended 31 December 2003

(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:

(a) the adoption in full of Financial Reporting Standard 17 "Retirement Benefits", the effects of which are explained in note 21. A prior year adjustment of £19.6 million is the cumulative prior year effect of this change of accounting policy and has been charged against reserves;

(b) in accordance with the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 and UITF Abstract 38 "Accounting for ESOP Trusts", both issued in the year, the Group's investment in its own shares via its Employee Share Ownership Plan Trust has been reclassified from fixed asset investments to shareholders' funds; and

(c) changes to the Group's policy on the classification of items included within turnover following an amendment to FRS 5 "Reflecting the Substance of Transactions" in December 2003. Accordingly 2002 turnover, cost of sales and other operating income have been restated with no impact on total operating profit.

An unaudited memorandum disclosure has been made on the face of the primary financial statements to show the Euro equivalents, using the average exchange rate for the Group profit and loss account and Group cash flow statement, and the closing exchange rate for the Group balance sheet as disclosed in note 2. 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 with in 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 the statement of total recognised gains and losses.

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 the statement of total recognised gains and losses, 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.

(1) ACCOUNTING POLICIES (CONTINUED)

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 in the normal course of business outside the Group, net of trade discounts, value added tax and other sales-related taxes. Turnover is recognised at the point at which title passes.

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.

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 in the event of 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. The capital element of future lease obligations are recorded as liabilities, while the 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, less an amount equal to the goodwill written off to reserves.

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 typically cancelled and the profit or loss recognised immediately.

(1) ACCOUNTING POLICIES (CONTINUED)

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 the statement of total recognised gains and losses. 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.

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 is 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

The Group accounts for pension schemes in accordance with FRS 17 "Retirement Benefits". For defined contribution schemes, contributions are charged to the profit and loss account as payable in respect of the accounting period. For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period the vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Where defined benefit schemes are funded, the assets of the scheme are held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated on the balance sheet date. The resulting defined benefit asset or liability, net of the related deferred taxation, is presented separately after other net assets on the face of the balance sheet.

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.

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.

(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/£	US Dollar $/£
As at 31 December 2003	1.419	45.970	11.910	2.214	1.790
As at 31 December 2002	1.534	48.420	11.150	2.226	1.610
Average for 2003	1.443	46.009	11.592	2.198	1.645
Average for 2002	1.593	49.060	11.990	2.335	1.505

(3) GROUP OPERATING PROFIT

	2003 £million	2002 restated £million
Turnover	**8,799.3**	7,771.6
Cost of sales	**(7,965.2)**	(7,039.3)
Gross profit	**834.1**	732.3
Administrative expenses	**(618.4)**	(536.8)
	215.7	195.5
Other operating income	**2.0**	1.5
Group operating profit	**217.7**	197.0

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 principally includes dividend income from other fixed asset investments.

All transactions are derived from continuing operations.

(4) SEGMENTAL ANALYSIS

		Total operating profit			Total operating profit	
	Turnover 2003 £million	before amortisation of intangible assets 2003 £million	after amortisation of intangible assets 2003 £million	Turnover 2002 restated £million	before amortisation of intangible assets 2002 restated £million	after amortisation of intangible assets 2002 restated £million
Wholesale Northern Europe	**2,899.8**	**84.3**	**79.3**	2,572.0	77.4	71.5
Wholesale Southern Europe	**5,618.9**	**74.4**	**70.9**	4,881.1	74.4	71.8
Retail – Europe	**1,107.4**	**79.3**	**78.9**	974.0	65.8	65.4
Corporate	**–**	**(11.4)**	**(11.4)**	–	(11.7)	(11.7)
Intra-Group	**(826.8)**	**–**	**–**	(655.5)	–	–
Group	**8,799.3**	**226.6**	**217.7**	7,771.6	205.9	197.0
Share of operating profit in associated undertakings	**–**	**36.8**	**32.1**	–	21.5	17.8
Total	**8,799.3**	**263.4**	**249.8**	7,771.6	227.4	214.8

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

Notes to the financial statements (continued)

for the year ended 31 December 2003

(4) SEGMENTAL ANALYSIS (CONTINUED)

Analysis of net assets	2003 £million	2002 restated £million
Wholesale Northern Europe	327.0	340.2
Wholesale Southern Europe	559.4	510.6
Retail – Europe	654.9	642.7
Corporate	11.0	26.2
Net operating assets	1,552.3	1,519.7
Associated undertakings	287.6	250.5
Proposed dividends	(38.1)	(34.8)
Net borrowings	(827.2)	(880.2)
Net pension liabilities	(34.3)	(23.8)
	940.3	831.4

(5) STAFF COSTS

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

	2003	2002
Wholesale Northern Europe	5,039	4,965
Wholesale Southern Europe	7,274	7,169
Retail – Europe	9,785	9,103
Corporate	62	55
	22,160	21,292

Costs incurred in respect of these employees were:

	2003 £million	2002 restated £million
Wages and salaries	333.0	296.0
Social security costs	64.7	54.7
Other pension costs (see Note 21)		
– amounts within operating profit	13.0	11.5
– amounts included as other finance costs	1.0	–
– amounts recognised in statement of total recognised gains and losses	17.1	19.9
	428.8	382.1

Directors' emoluments for the financial year ended 31 December 2003 are provided in the Board report on remuneration.

(6) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £million	2002 restated £million
Interest payable		
Bank loans and overdrafts	34.0	32.9
Loan notes	21.5	20.9
Other loans	0.9	0.8
Finance charges payable on securitised receivables	2.9	2.2
Finance charges payable on finance leases	0.4	0.5
Associate interest payable	3.1	5.3
	62.8	62.6
Interest receivable		
Bank deposit interest receivable	(1.2)	(0.5)
Other finance income	(8.3)	(8.9)
Associate interest receivable	(1.7)	(6.5)
	(11.2)	(15.9)
Other finance costs		
Net return on defined benefit pension schemes (see Note 21)	1.0	–
Discount on deferred acquisition consideration	0.9	0.2
	1.9	0.2
	53.5	46.9

(7) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 £million	2002 £million
Depreciation of owned assets	40.5	36.0
Depreciation of assets held under finance leases	0.7	1.1
Total depreciation of tangible fixed assets	41.2	37.1
Goodwill amortisation – subsidiary undertakings	8.6	8.5
– associated undertakings	4.7	3.7
Amortisation of retail pharmacy licences	0.3	0.4
Total amortisation of intangible assets	13.6	12.6

		2003 £million	2002 £million
Administration costs of securitised receivables		5.1	6.2
Profit on disposal of fixed assets		(9.7)	(8.0)
Operating lease rentals	– land and buildings	21.3	18.7
	– furniture, fixtures and equipment	6.8	4.2
	– motor vehicles	1.3	1.5
Audit fees	– principal auditors	0.9	0.7
	– other auditors	0.4	0.4

Notes to the financial statements (continued)

for the year ended 31 December 2003

(7) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

Audit fees include £0.1 million (2002 £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	2003 £million	2002 £million
Due diligence reviews	0.1	0.1	0.2	0.3
Taxation services	0.9	0.1	1.0	0.4
Other	0.1	–	0.1	0.2
	1.1	0.2	1.3	0.9

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £million	2002 restated £million
UK corporation tax		
Current tax on income for the year at 30% (2002 30%)	55.3	26.5
Adjustment in respect of prior years	–	(0.9)
	55.3	25.6
Double taxation relief	(35.7)	(5.8)
	19.6	19.8
Overseas tax		
Current tax on income for the year	30.1	27.6
Adjustment in respect of prior years	1.3	0.6
	31.4	28.2
Associated undertakings – current tax	8.4	7.9
Current tax charge	59.4	55.9
Deferred tax		
UK	0.2	(1.1)
Overseas	5.8	4.0
Adjustment in respect of prior years	0.8	(1.1)
	6.8	1.8
Deferred tax on defined benefit pension schemes	1.0	0.3
Deferred tax charge	7.8	2.1
	67.2	58.0

All charges for deferred tax in the current and prior years 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 31.8% (2002 32.5%) to the actual current tax charge is as follows:

	2003 £million	2002 restated £million
Profit on ordinary activities before taxation	196.3	167.9
Amortisation of intangible assets	13.6	12.6
Profit on ordinary activities before taxation and amortisation	209.9	180.5

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

	2003 £million	2002 restated £million
Expected tax charge at standard tax rate	66.7	58.7
Permanent timing differences	1.2	1.0
Roll-over relief on capital gains	–	(1.0)
Exempt capital gains	(1.9)	(0.2)
Timing differences in deferred tax	(7.0)	(3.3)
Tax losses brought forward and utilised in year	(1.2)	(0.1)
Unrelieved tax losses arising in year	0.3	1.1
Adjustment in respect of prior years	1.3	(0.3)
Current tax charge	59.4	55.9

(9) DIVIDENDS

	2003 £million	2002 £million
Interim paid, net 5.7 pence (2002 5.2 pence)	19.0	17.8
Final proposed, net 11.0 pence (2002 10.1 pence)	38.1	34.8
	57.1	52.6

Dividends in respect of shares held by the ESOP Trust have been waived.

(10) EARNINGS PER SHARE

	2003			2002		
	Profit for the financial year £million	Weighted average number of shares million	Earnings per share pence	Profit for the financial year restated £million	Weighted average number of shares million	Earnings per share restated pence
Basic	128.5	341.4	37.6	109.5	328.9	33.3
Share options	–	1.0	(0.1)	–	1.9	(0.2)
Deferred acquisition consideration	0.9	4.9	(0.2)	0.2	0.9	–
Diluted	129.4	347.3	37.3	109.7	331.7	33.1
Basic	128.5	341.4	37.6	109.5	328.9	33.3
Amortisation of intangible assets	13.6	–	4.0	12.6	–	3.8
Basic, before amortisation of intangible assets	142.1	341.4	41.6	122.1	328.9	37.1
Share options	–	1.0	(0.1)	–	1.9	(0.2)
Deferred acquisition consideration	0.9	4.9	(0.3)	0.2	0.9	–
Diluted, before amortisation of intangible assets	143.0	347.3	41.2	122.3	331.7	36.9

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 prepared 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	185.1	(1.9)	183.2	562.7	**745.9**
Businesses acquired	6.9	–	6.9	48.4	**55.3**
Disposals	(0.2)	–	(0.2)	–	**(0.2)**
Currency translation differences	14.1	–	14.1	3.1	**17.2**
At 31 December	**205.9**	**(1.9)**	**204.0**	**614.2**	**818.2**
Amortisation					
At 1 January	21.6	(0.2)	21.4	1.4	**22.8**
Disposals	(0.1)	–	(0.1)	–	**(0.1)**
Charge/(credit) for the year	10.3	(1.7)	8.6	0.3	**8.9**
Currency translation differences	1.8	–	1.8	0.1	**1.9**
At 31 December	**33.6**	**(1.9)**	**31.7**	**1.8**	**33.5**
Net book value at 31 December 2003	**172.3**	**–**	**172.3**	**612.4**	**784.7**
Net book value at 31 December 2002	163.5	(1.7)	161.8	561.3	723.1

(12) TANGIBLE FIXED ASSETS

		Land and buildings				
Group	Freehold £million	Long leasehold £million	Short leasehold £million	Furniture, fixtures and equipment £million	Motor vehicles £million	Total £million
Cost						
At 1 January	166.3	21.6	5.0	286.6	24.5	**504.0**
Additions	4.3	0.9	0.7	42.8	5.1	**53.8**
Businesses acquired	0.7	–	0.1	1.6	–	**2.4**
Disposals	(4.2)	(0.1)	–	(8.4)	(7.8)	**(20.5)**
Currency translation differences	10.2	1.0	–	12.3	0.3	**23.8**
At 31 December	**177.3**	**23.4**	**5.8**	**334.9**	**22.1**	**563.5**
Depreciation						
At 1 January	32.5	4.0	2.2	167.4	13.5	**219.6**
Charge for the year	3.8	0.4	0.3	32.0	4.7	**41.2**
Businesses acquired	0.1	–	–	–	–	**0.1**
Disposals	(0.8)	(0.1)	–	(6.4)	(5.9)	**(13.2)**
Currency translation differences	2.2	0.1	–	8.3	0.3	**10.9**
At 31 December	**37.8**	**4.4**	**2.5**	**201.3**	**12.6**	**258.6**
Net book value at 31 December 2003	**139.5**	**19.0**	**3.3**	**133.6**	**9.5**	**304.9**
Net book value at 31 December 2002	133.8	17.6	2.8	119.2	11.0	284.4

Included within the Group cost of buildings and furniture, fixtures and equipment are assets in the course of construction of £19.4 million (2002 £5.5 million).

(12) TANGIBLE FIXED ASSETS (CONTINUED)

Company	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	–	–	0.6	0.7	0.8	**2.1**
Disposals	–	–	–	(0.7)	(0.8)	**(1.5)**
At 31 December	–	–	**0.6**	–	–	**0.6**
Depreciation						
At 1 January	–	–	0.1	0.3	0.4	**0.8**
Disposals	–	–	–	(0.3)	(0.4)	**(0.7)**
At 31 December	–	–	**0.1**	–	–	**0.1**
Net book value at 31 December 2003	–	–	**0.5**	–	–	**0.5**
Net book value at 31 December 2002	–	–	0.5	0.4	0.4	1.3

The Group cost of long leaseholds includes capitalised interest of £0.5 million (2002 £0.5 million).

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

Group	2003 £million	2002 £million
Land and buildings	**23.6**	21.7
Furniture, fixtures and equipment	**0.1**	0.1
	23.7	21.8

(13) FIXED ASSET INVESTMENTS

Group	2003 £million	2002 restated £million
Associated undertakings	**287.6**	250.5
Other investments	**60.3**	55.5
	347.9	306.0

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	84.6	126.6	39.3	**250.5**
Profit for the year	–	27.0	–	**27.0**
Amortisation of goodwill	(4.7)	–	–	**(4.7)**
Dividends	–	(3.3)	–	**(3.3)**
Additions	2.3	5.5	22.2	**30.0**
Disposals	0.9	(7.2)	(14.9)	**(21.2)**
Transfer to subsidiary undertakings	–	(0.7)	–	**(0.7)**
Currency translation differences	0.7	9.2	0.1	**10.0**
At 31 December	**83.8**	**157.1**	**46.7**	**287.6**

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, dependent upon performance, in cash or shares, or a combination thereof, at the Group's option, which the Directors anticipate will not exceed US$45.4 million (£25.4 million). The estimated deferred consideration has been discounted and accounted for as shares to be issued of £25.1 million in accordance with FRS 4 "Capital Instruments". Following improvements in the operating results of Hedef Alliance, the deferred consideration was increased by £6.5 million at 31 December 2003. The additional £2.3 million of goodwill on associated undertakings reflects this amount, offset by fair value adjustments on this acquisition.

Loans to associated undertakings are provided at normal commercial rates.

(13) FIXED ASSET INVESTMENTS (CONTINUED)

Group Other investments	Other listed investments £million	Other unlisted investments £million	Total £million
At 1 January, as restated	51.3	4.2	**55.5**
Additions	0.4	0.2	**0.6**
Businesses acquired	–	0.2	**0.2**
Impairment provision	–	(0.1)	**(0.1)**
Currency translation differences	4.1	–	**4.1**
At 31 December	**55.8**	**4.5**	**60.3**

Company	Shares in Group undertakings £million	Loans to Group undertakings £million	Shares in associated undertakings £million	Total £million
At 1 January, as restated	730.7	736.8	37.7	**1,505.2**
Additions	200.4	374.2	6.5	**581.1**
Disposals	(731.1)	–	–	**(731.1)**
Currency translation differences	–	39.6	–	**39.6**
At 31 December	**200.0**	**1,150.6**	**44.2**	**1,394.8**

The aggregate market value of the Group's other listed investments on 31 December 2003 was £57.6 million (2002 £52.1 million).

(14) STOCKS CONSIST

Stocks consist of goods held for resale. Their replacement cost does not differ significantly from the carrying value.

(15) SECURITISED RECEIVABLES

(a) French and Italian schemes

Receivables of £333.8 million (2002 £307.0 million) from French and Italian pharmacies have been securitised under five year programmes that mature in 2007. The Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements, being £299.5 million (2002 £277.1 million), 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.

(b) 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 £15.0 million, which 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 £15.0 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.

(15) SECURITISED RECEIVABLES (CONTINUED)

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	2003 £million	2002 £million
Interest receivable	6.2	6.4
Interest payable	(6.2)	(6.4)
Net interest receivable	–	–
Administrative expenses	–	–
Profit for the financial period	–	–

Balance sheet		
Current assets – investments	115.1	116.0
– cash at bank	0.8	4.1
Creditors due within one year	(0.5)	(0.8)
Creditors due in more than one year – debt securities	(115.4)	(119.3)
Net assets represented by equity shareholders' funds	–	–

At 31 December Group companies held £61.3 million (2002 £63.7 million) on behalf of Alliance, being amounts collected in respect of securitised receivables. These amounts were transferred to Alliance on 5 January 2004.

(16) OTHER DEBTORS

	Group		Company	
	2003 £million	2002 restated £million	2003 £million	2002 restated £million
Amounts falling due within one year				
Trade debtors	905.3	819.6	–	–
Amounts owed by associated undertakings	0.4	0.7	–	–
Loans to customers	50.7	39.1	–	–
Other debtors and accrued income	97.2	86.7	3.9	8.4
Other prepayments	27.8	26.4	–	1.2
Corporation tax recoverable	3.2	5.1	–	–
Deferred tax	3.0	3.3	–	1.2
Group relief receivable	–	–	6.6	5.8
	1,087.6	980.9	10.5	16.6
Amounts falling due after more than one year				
Trade debtors	0.8	1.8	–	–
Loans to customers	38.9	31.8	–	–
Other debtors	1.3	2.7	–	–
	41.0	36.3	–	–
Total	1,128.6	1,017.2	10.5	16.6

Notes to the financial statements (continued)

for the year ended 31 December 2003

(17) NET BORROWINGS

	Group		Company	
	2003 £million	2002 £million	2003 £million	2002 £million
Amounts falling due within one year				
Bank overdrafts	156.8	245.9	17.3	56.0
Bank loans	70.7	95.8	–	46.6
Loan notes	28.8	18.9	28.5	9.9
Obligations under finance leases	1.2	1.1	–	–
	257.5	361.7	45.8	112.5
Amounts falling due after more than one year				
Bank loans	140.2	121.9	24.3	94.1
2008 Senior notes 6.63% (US$57 million)	35.4	32.8	35.4	32.8
2009 Senior notes 6.67% (US$113 million)	70.3	65.0	70.3	65.0
2011 Senior notes 6.55% (US$173 million)	136.8	126.5	136.8	126.5
2011 Senior notes 6.07% (€30 million)	21.1	19.6	21.1	19.6
2012 Senior notes 7.19% (US$300 million)	223.9	216.1	223.9	216.1
2017 Senior notes 7.01% (£50 million)	51.9	50.7	51.9	50.7
Loan notes	–	27.5	–	27.5
Obligations under finance leases	7.3	8.1	–	–
	686.9	668.2	563.7	632.3
Total borrowings	944.4	1,029.9	609.5	744.8
Cash at bank and in hand	(117.2)	(149.7)	(28.9)	(11.8)
Net borrowings	827.2	880.2	580.6	733.0

Interest on bank loans at the year end was at floating rates of between 0.61% and 9.40%, dependent upon the currency borrowed.

Loan notes totalling £3.9 million falling due within one year 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 2.36% and 3.37% per annum.

Loan notes totalling £24.6 million and falling due within one year are repayable on 16 June 2004. At the year end they bore interest at a fixed rate of 3.50% per annum. The remaining loan notes are redeemable on demand.

The proceeds from the issue of Senior notes have been converted through cross-currency swaps into 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 year end, the Senior notes effectively bore interest at floating rates of between 2.63% and 8.75% per annum dependent upon currency. The amount reported against each Senior note represents the translation of the swapped currencies at year end exchange rates.

Within cash at bank and in hand, amounts totalling £61.3 million (2002 £63.7 million) were temporarily held by Group companies on behalf of Alliance No.1 PLC in relation to the UK securitised receivables programme. These amounts were transferred to Alliance No.1 PLC on 5 January 2004. Excluding these amounts, cash at bank and in hand totalled £55.9 million (2002 £86.0 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:

	2003		2002	
	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	117.2	117.2	149.7	149.7
Loans to associated undertakings	46.7	46.7	39.3	39.3
Other listed investments	55.8	57.6	51.3	52.1
Other unlisted investments	4.5	4.5	4.2	4.2
Debtors due after one year	41.0	41.0	36.3	36.3
Financial assets	265.2	267.0	280.8	281.6
Bank overdrafts	(156.8)	(156.8)	(245.9)	(245.9)
Bank loans	(196.9)	(196.9)	(212.2)	(212.2)
Loan notes	(460.4)	(483.1)	(515.4)	(557.7)
Obligations under finance leases	(8.5)	(8.5)	(9.2)	(9.2)
Total debt	(822.6)	(845.3)	(982.7)	(1,025.0)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate derivatives	–	(11.9)	–	(14.1)
Cross currency derivatives	(121.8)	(99.2)	(47.2)	(5.1)
Financial liabilities	(944.4)	(956.4)	(1,029.9)	(1,044.2)

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.

(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:

2003 Financial assets	At floating interest rates £million	Non-interest bearing £million	Total £million
Sterling	59.1	0.7	59.8
Euro	79.2	59.0	138.2
Other	64.5	2.7	67.2
	202.8	62.4	265.2
2002 Financial assets			
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

The Group has £nil of fixed rate financial assets at 31 December 2003 (2002 £nil).

Notes to the financial statements (continued)

for the year ended 31 December 2003

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate profile (continued)

Floating rate financial assets mainly comprise bank deposits and loans to associated undertakings which bear interest based on London interbank reference rates.

	Fixed rate financial liabilities				
2003 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	1.6	44.6	79.1	123.7
Euro	4.3	1.5	421.2	226.2	647.4
Other	6.4	2.6	12.0	161.3	173.3
			477.8	466.6	944.4
2002 Financial liabilities					
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

The Group has further Euro denominated derivative financial instruments to hedge securitisation costs that vary according to interest rates, totalling £112.5 million (2002 £131.8 million). These instruments have a weighted average interest rate of 4.3% which is fixed for a weighted average period of 1.5 years (2002 4.5% and 1.7 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.

(d) Maturity profile of financial liabilities

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

2003	Bank overdrafts £million	Bank loans £million	Loan notes £million	Obligations under finance leases £million	Total £million
Within one year	156.8	70.7	28.8	1.2	257.5
Between one and two years	–	12.4	–	1.4	13.8
Between two and five years	–	123.4	35.4	4.0	162.8
Over five years	–	4.4	504.0	1.9	510.3
	156.8	210.9	568.2	8.5	944.4
2002					
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

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(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:

	2003 £million	2002 £million
Within one year	**0.8**	3.0
Between two and five years	**172.9**	102.3
Total	**173.7**	105.3

(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 2003	47.7	(19.7)	**28.0**
Arising in previous years that were recognised in the year	(13.2)	13.3	**0.1**
Arising before 1 January that were not recognised in the year	34.5	(6.4)	**28.1**
Arising in the year that were not recognised in the year	(9.0)	(8.4)	**(17.4)**
At 31 December 2003	**25.5**	**(14.8)**	**10.7**
Of which expected to be recognised:			
In 2004	16.0	(6.8)	**9.2**
After 2004	9.5	(8.0)	**1.5**

(19) OTHER CREDITORS

	Group		Company	
Amounts falling due within one year	2003 £million	2002 £million	2003 £million	2002 £million
Trade creditors	**1,164.1**	967.6	–	–
Amounts owed to subsidiary undertakings	–	–	**132.6**	125.3
Capital creditors	**5.9**	–	–	–
Other creditors	**143.9**	119.4	**6.1**	10.3
Corporation tax	**23.6**	21.0	–	–
Other taxation and social security	**91.0**	86.5	–	3.6
Accruals and deferred income	**57.2**	49.5	**5.4**	8.9
Proposed dividend	**38.1**	34.8	**38.1**	34.8
	1,523.8	1,278.8	**182.2**	182.9

(20) PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred tax £million	Pensions £million	Total £million
At 1 January 2003, as previously stated	9.2	9.4	18.6
At 1 January 2003, in debtors, as previously stated	(3.3)	–	(3.3)
Prior year adjustment for FRS 17	2.5	(9.4)	(6.9)
At 1 January 2003, as restated	8.4	–	8.4
Charge for the year	6.8	–	6.8
Currency translation differences	0.4	–	0.4
	15.6	–	15.6
Asset recognised in debtors	3.0	–	3.0
At 31 December 2003	**18.6**	–	**18.6**

The deferred tax asset at 31 December 2003 of £3.0 million represents £0.6 million losses expected to be utilised against profits arising in 2004 and £2.4 million of other timing differences.

(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	2003 £million	2002 restated £million	2003 £million	2002 £million
Capital allowances	22.6	12.6	(0.6)	(0.1)
Other timing differences	1.7	(2.6)	(0.1)	–
Unrelieved tax losses	(8.7)	(1.6)	(7.7)	(5.6)
Chargeable gains deferred by roll-over relief	–	–	14.4	13.8
Property revaluation	–	–	5.1	4.6
Capital losses	–	–	–	(0.9)
	15.6	8.4	11.1	11.8

Company				
Short term timing differences, in other debtors	–	(1.2)	–	–

No deferred tax has been provided on gains covered by roll-over relief as such tax, estimated to be £14.4 million (2002 £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 £5.1 million (2002 £4.6 million), would only become payable if the property were sold without further roll-over relief being obtained.

(21) PENSIONS

Financial Reporting Standard 17, "Retirement Benefits" (FRS 17) has been adopted in full with effect from 1 January 2003. The adoption of FRS 17 has required a change to the accounting treatment of defined benefit pension arrangements, such that the Group includes the assets and liabilities of these arrangements in the Group's balance sheet. Current service costs, curtailment and settlement gains and losses, and net financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The Group operates several pension arrangements; the Group's total pension cost included within operating profit was £13.0 million (2002 £11.5 million, restated), being £7.2 million (2002 £6.4 million, restated) in respect of its defined benefit pension arrangements and £5.8 million (2002 £5.1 million) in respect of its defined contribution arrangements.

This total pension cost included within operating profit compares to £16.0 million (2002 £12.5 million), which would have been incurred under the previous accounting policy.

Restatement of comparatives

Prior year results have been restated as follows:

Group profit and loss account	Group operating profit £million	Net interest payable £million	Tax on profit on ordinary activities £million	Profit for the period £million
Year to 31 December 2002				
As previously stated	196.0	(46.9)	(57.7)	108.8
Adoption of FRS 17	1.0	–	(0.3)	0.7
As restated	197.0	(46.9)	(58.0)	109.5

Group balance sheet	Other debtors £million	Provision for liabilities and charges £million	Net pension liabilities £million	Profit and loss account £million
31 December 2002				
As previously stated	1,019.9	(18.6)	–	392.5
Adoption of FRS 17	(2.7)	6.9	(23.8)	(19.6)
As restated	1,017.2	(11.7)	(23.8)	372.9

(21) PENSIONS (CONTINUED)

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 in respect of the UK 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 2003. This has been updated by Hewitt Bacon & Woodrow to take account of the requirements of FRS 17, in order to assess the liabilities at 31 December 2003.

Following the valuation, it was agreed to adopt an employer contribution rate of 10.9% of pensionable pay, effective from 1 January 2004. In addition annual payments of £5.5 million have been agreed for 2003, 2004 and 2005 and further annual payments of £4.3 million for the subsequent 11 years. Previously, the rate payable had been 13.3% of pensionable pay since 1 January 2001.

Other schemes

The Group also sponsors a number of defined benefit plans outside of the UK, some of which are material. In The Netherlands there is a defined benefit pension plan, which is administered by a separate pension fund. In France there are insured arrangements providing retirement and termination benefits. In Norway many employees participate in an industry-wide multi-employer scheme which is accounted for as a defined contribution plan in accordance with FRS 17. In addition, in Norway there are two insured defined benefit schemes in place, which are accounted for as defined benefit schemes. The costs of material defined benefit plans have been recognised in the Group financial statements in accordance with the requirements of FRS 17.

The financial assumptions for the non-UK plans are weighted averages of the assumptions used for the overseas plans included.

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

		2003		2002		2001
	UK Benefit Plan % pa	Other European % pa	UK Benefit Plan % pa	Other European % pa	UK Benefit Plan % pa	Other European % pa
Discount rate	5.4	5.4	5.4	5.5	5.9	5.5
Inflation rate	2.8	2.0	2.3	2.5	2.5	2.0
Salary increases	3.8	2.4	3.3	2.5	3.5	2.7
Pension in payment increases for members who joined:						
up to 31 December 1996 (pre-July 2003 service)	5.0	1.6	5.0	2.0	5.0	2.5
up to 31 December 1996 (post-June 2003 service)	2.7	1.6	–	–	–	–
from 1 January 1997	2.7	1.6	2.3	2.0	2.5	2.5

The market value of the assets and expected rates of return for the defined benefit schemes at 31 December were:

		2003		2002		2001
UK Benefit Plan	Expected long-term return % pa	Value £million	Expected long-term return % pa	Value £million	Expected long-term return % pa	Value £million
Equities	7.8	56.8	7.5	40.8	7.9	45.3
Bonds	4.8	20.2	4.4	15.2	5.0	14.0
Other	4.3	1.8	4.0	2.7	4.9	1.8
		78.8		58.7		61.1
Other European benefit plans						
Equities	8.0	4.3	8.0	3.2	8.0	4.1
Bonds	5.1	16.4	5.1	13.5	5.0	9.8
Other	5.0	5.5	5.0	4.9	5.0	4.2
		26.2		21.6		18.1
Total		105.0		80.3		79.2

Notes to the financial statements (continued)

for the year ended 31 December 2003

(21) PENSIONS (CONTINUED)

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

	2003			2002		
	UK Benefit Plan £million	Other European £million	Total £million	UK Benefit Plan £million	Other European £million	Total £million
Total market value of assets	78.8	26.2	105.0	58.7	21.6	80.3
Present value of scheme liabilities	(116.2)	(37.3)	(153.5)	(82.9)	(32.2)	(115.1)
Deficit in the schemes	(37.4)	(11.1)	(48.5)	(24.2)	(10.6)	(34.8)
Related deferred tax asset	11.2	3.8	15.0	7.3	3.7	11.0
Net pension liability	(26.2)	(7.3)	(33.5)	(16.9)	(6.9)	(23.8)

The net pension liability in respect of other pension schemes at 31 December 2003 was £0.8 million (2002 £nil).

The following amounts have been recognised in the financial statements:

	2003		
Profit and loss account	UK Benefit Plan £million	Other European £million	Total £million
Operating profit			
Current service cost	(4.9)	(2.4)	(7.3)
Past service cost	–	0.1	0.1
Charge to operating profit	(4.9)	(2.3)	(7.2)
Net interest payable and similar charges			
Expected return on pension scheme assets	4.2	1.4	5.6
Interest on pension scheme liabilities	(4.6)	(2.0)	(6.6)
Net return on defined benefit pension schemes	(0.4)	(0.6)	(1.0)
Net pension expense before taxation	(5.3)	(2.9)	(8.2)

	2002		
Profit and loss account	UK Benefit Plan £million	Other European £million	Total £million
Operating profit			
Current service cost	(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)
Net return on defined benefit pension schemes	0.6	(0.6)	–
Net pension expense before taxation	(3.5)	(2.9)	(6.4)

	2003		
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	5.0	(0.3)	4.7
Experience gains and losses arising on the scheme liabilities	(7.8)	2.0	(5.8)
Changes in assumptions underlying the present value of the scheme liabilities	(15.9)	(0.1)	(16.0)
Actuarial (losses)/gains recognised	(18.7)	1.6	(17.1)

	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 (losses)/gains recognised	(20.2)	0.3	(19.9)

(21) PENSIONS (CONTINUED)

Movement in scheme deficits	2003 UK Benefit Plan £million	2003 Other European £million	2002 UK Benefit Plan £million	2002 Other European £million
Deficit at 1 January	(24.2)	(10.6)	(6.2)	(8.7)
Current service costs	(4.9)	(2.4)	(4.1)	(2.3)
Past service costs	–	0.1	–	–
Contributions	10.8	1.7	5.7	1.2
Businesses acquired	–	–	–	0.1
Other finance income	(0.4)	(0.6)	0.6	(0.6)
Actuarial (losses)/gains	(18.7)	1.6	(20.2)	0.3
Currency translation differences	–	(0.9)	–	(0.6)
Deficits at 31 December	(37.4)	(11.1)	(24.2)	(10.6)

Details of experience gains and losses	2003 UK Benefit Plan £million	2003 Other European £million	2002 UK Benefit Plan £million	2002 Other European £million
Difference between expected and actual returns on scheme assets				
Amount	5.0	(0.3)	(13.6)	(1.2)
Percentage of scheme assets (%)	6.3	(1.1)	(23.2)	(5.6)
Experience gains and losses on scheme liabilities				
Amount	(7.8)	2.0	–	(0.3)
Percentage of present value of scheme liabilities (%)	(6.7)	5.4	–	(0.9)
Amount in Group statement of total recognised gains and losses				
Amount	(18.7)	1.6	(20.2)	0.3
Percentage of present value of scheme liabilities (%)	(16.1)	4.3	(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 2003	344.8	34.5
Shares issued during the year	5.9	0.6
At 31 December 2003	350.7	35.1

Details of shares allotted during the year were:

	Number million	Price paid per share £	Consideration £million
Share option exercises	0.7	1.92-5.00	2.0
Scrip elections in lieu of:			
2002 final dividend	3.6	4.21	15.1
2003 interim dividend	1.6	4.96	7.9
Share capital and share premium account movement	5.9		25.0
Of which:			
Share capital			0.6
Share premium account			24.4

Notes to the financial statements (continued)

for the year ended 31 December 2003

(22) SHARE CAPITAL (CONTINUED)

Details of outstanding options over ordinary shares at 31 December 2003 were:

Year of grant	Price (p)	Outstanding 2003	Outstanding 2002	Normally exercisable from
1990 Savings related scheme				
1995	216.00	–	3,429	01.12.2002 to 31.05.2003
1996	192.00	–	91,349	01.07.2003 to 31.12.2003
1997	214.00	–	10,312	01.07.2002 to 31.12.2002
1997	214.00	**136,168**	139,265	01.07.2004 to 31.12.2004
1998	324.00	**13,299**	241,849	01.08.2003 to 31.01.2004
1998	324.00	**78,968**	83,371	01.08.2005 to 31.01.2006
1999	384.00	–	14,856	01.07.2002 to 31.12.2002
1999	384.00	**146,727**	158,581	01.07.2004 to 31.12.2004
1999	384.00	**45,095**	46,242	01.07.2006 to 31.12.2006
2000	291.00	**23,973**	393,379	03.07.2003 to 02.01.2004
2000	291.00	**264,739**	278,406	03.07.2005 to 02.01.2006
2000	291.00	**111,984**	129,785	03.07.2007 to 02.01.2008
2001	463.00	**246,769**	327,660	01.07.2004 to 31.12.2004
2001	463.00	**179,591**	260,885	01.07.2006 to 31.12.2006
2001	463.00	**35,454**	61,637	01.07.2008 to 31.12.2008
2002	480.00	**280,182**	474,556	01.07.2005 to 31.12.2005
2002	480.00	**208,805**	339,784	01.07.2007 to 31.12.2007
2002	480.00	**49,502**	86,037	01.07.2009 to 31.12.2009
2003	337.00	**836,823**	–	01.07.2006 to 31.12.2006
2003	337.00	**556,811**	–	01.07.2008 to 31.12.2008
2003	337.00	**82,354**	–	01.07.2010 to 31.12.2010
		3,297,244	3,141,383	
1990 Executive scheme				
1993	253.99	–	55,000	01.11.1996 to 30.10.2003
1994	260.00	**15,000**	60,000	21.10.1997 to 20.10.2004
1995	269.00	**372**	372	18.10.1998 to 17.10.2005
		15,372	115,372	
1997 Discretionary scheme				
1997	268.50	**36,872**	66,872	13.06.2000 to 12.06.2004
1998	429.50	**678,263**	1,011,778	07.05.2001 to 06.05.2005
1999	442.00	**544,500**	664,500	14.05.2002 to 13.05.2006
1999	435.00	**63,737**	90,222	27.05.2002 to 26.05.2006
2000	379.00	**843,199**	1,343,084	23.03.2003 to 22.03.2007
2001	592.00	**1,590,000**	1,800,000	06.04.2004 to 05.04.2008
2002	609.00	**1,850,000**	1,990,000	09.04.2005 to 08.04.2009
2003	489.00	**2,062,000**	–	21.05.2006 to 20.05.2013
		7,668,571	6,966,456	
1998 Long term incentive plan				
2001	0.0001	–	31,812	06.04.2001 to 05.04.2011
2002	0.0001	**9,852**	40,023	19.03.2002 to 18.03.2012
2003	0.0001	**106,352**	–	17.04.2003 to 16.04.2013
		116,204	71,835	

(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. Following improvements in the operating results of Hedef Alliance, the deferred consideration was increased by £6.5 million at 31 December 2003. In addition, £0.9 million of discount on deferred consideration was charged through the profit and loss account in the year.

(24) OTHER RESERVES

Group	Share premium account £million	Capital reserve £million	Profit and loss account £million
At 1 January 2003, as previously stated	419.8	2.2	392.5
Prior year adjustment for FRS 17	–	–	(19.6)
At 1 January 2003, as restated	419.8	2.2	372.9
Shares issued	24.4	–	–
Retained profit for the year	–	–	71.4
Transfer	–	0.4	(0.4)
Loss on sale of own shares	–	–	(0.1)
Actuarial loss on defined benefit pension	–	–	(17.1)
Deferred tax associated with defined benefit pension	–	–	5.0
Currency translation differences	–	–	13.8
Tax on currency translation differences on foreign currency borrowings	–	–	0.4
At 31 December 2003	**444.2**	**2.6**	**445.9**
Company			
At 1 January 2003	419.8	–	163.0
Shares issued	24.4	–	–
Loss on sale of own shares	–	–	(0.1)
Retained loss for the year	–	–	(1.2)
At 31 December 2003	**444.2**	–	**161.7**

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

Group	2003 £million	2002 restated £million
Profit and loss account excluding net pension deficit	**480.2**	396.7
Pension reserve	**(34.3)**	(23.8)
Profit and loss account	**445.9**	372.9

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 £55.9 million (2002 £132.9 million).

(25) INVESTMENT IN OWN SHARES

Group and Company	2003 £million	2002 £million
Employee Share Trust		
At 1 January	**26.1**	13.9
Additions	**–**	17.1
Disposals	**(3.0)**	(4.9)
At 31 December	**23.1**	26.1

The Employee Share Trust (ESOP) had an investment at 31 December 2003 of £23.1 million (2002 £26.1million) in 5.3 million (2002 6.4 million) of the Company's shares. The market value of the holding at 31 December 2003 was £27.3 million (2002 £28.4 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.

Notes to the financial statements (continued)

for the year ended 31 December 2003

(26) 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 acquisitions below.

Wholesale Assets acquired at book and fair value	Book value at acquisition £million	Accounting policy alignment £million	Provisional fair value £million
Fixed assets – tangible	0.4	0.4	**0.8**
– transfer from associate to subsidiary	(0.7)	–	**(0.7)**
Stocks	0.1	–	**0.1**
Creditors and provisions	(1.1)	–	**(1.1)**
Minority interests acquired	0.6	–	**0.6**
	(0.7)	0.4	**(0.3)**
Overdraft acquired	(0.1)	–	**(0.1)**
Borrowings acquired	–	(0.3)	**(0.3)**
Liabilities acquired	(0.8)	0.1	**(0.7)**

Consideration paid	£million
Cash	**(7.7)**
Deferred consideration movement	**1.5**
	(6.2)
Purchased goodwill	**6.9**

There were no fair value alignments in respect of wholesale acquisitions.

Retail Assets acquired at book and fair value	Book and provisional fair value at acquisition £million
Fixed assets – intangible	**48.4**
– tangible	**1.5**
– investments	**0.2**
Stocks	**4.7**
Debtors	**5.2**
Creditors and provisions	**(7.6)**
Minority interests acquired	**0.2**
Assets acquired	**52.6**

Consideration paid	£million
Cash	**(51.5)**
Loan notes	**(0.4)**
Deferred consideration	**(0.7)**
	(52.6)
Purchased goodwill	–

Retail acquisitions comprised the acquisition of 61 pharmacies in the UK, Norway and The Netherlands. There were no accounting policy or fair value alignments required in respect of these acquisitions.

At 31 December 2003, cumulative goodwill written off to reserves for businesses acquired prior to 1998, net of that attributable to disposals, was £360.8 million (2002 £360.8 million).

(27) CASH FLOW STATEMENT

(a) Reconciliation of Group operating profit to net cash inflow from operating activities	2003 £million	2002 restated £million
Group operating profit	217.7	197.0
Depreciation	41.2	37.1
Amortisation of goodwill	8.6	8.5
Amortisation of pharmacy licences	0.3	0.4
Profit on disposal of fixed assets	(9.7)	(8.0)
(Increase)/decrease in stocks	(39.4)	50.1
Increase in debtors	(60.3)	(50.8)
Increase/(decrease) in creditors	168.3	(33.2)
Decrease in net pension liabilities	(4.4)	(0.5)
Net cash inflow from operating activities	322.3	200.6

(b) Returns on investments and servicing of finance		
Interest received	9.5	9.3
Interest paid	(59.4)	(57.0)
Dividends paid to minority shareholders	(0.4)	(0.4)
Interest element of finance lease payments	(0.4)	(0.5)
Net cash outflow from returns on investments and servicing of finance	(50.7)	(48.6)

(c) Capital expenditure and financial investment		
Purchase of fixed assets	(47.9)	(56.3)
Disposal of fixed assets	9.9	18.3
Loans to associated undertakings	(22.2)	(12.6)
Loans repaid by associated undertakings	14.9	0.8
Other investments (net)	2.5	(12.2)
Net cash outflow from capital expenditure and financial investment	(42.8)	(62.0)

(d) Acquisitions and disposals		
Purchase of businesses	(59.2)	(74.8)
Net overdrafts of businesses acquired	(0.1)	(8.5)
Purchase of shares in associated undertakings	(1.2)	(35.9)
Disposal of businesses	–	4.0
Net cash of businesses sold	0.3	–
Disposal of investment in associated undertakings	13.4	1.7
Net cash outflow from acquisitions and disposals	(46.8)	(113.5)

(28) NET CASH (OUTFLOW)/INFLOW FROM (DECREASE)/INCREASE IN DEBT AND LEASE FINANCING

	2003 £million	2002 £million
Debt due within one year:		
Net movement in money market borrowings maturing within one week	(35.4)	39.5
Decrease in short term borrowings	(65.1)	(67.3)
Borrowings due after one year:		
Increase in borrowings	32.4	267.0
Repayment of borrowings	(10.5)	(143.8)
Capital element of finance lease rental payments	(1.7)	(2.1)
Net cash (outflow)/inflow from (decrease)/increase in debt and lease financing	(80.3)	93.3

Notes to the financial statements (continued)

for the year ended 31 December 2003

(29) 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 2003	149.7	(361.7)	(668.2)	(880.2)
Increase in cash	(35.1)	65.1	–	30.0
Decrease/(increase) in debt	–	102.2	(21.9)	80.3
Businesses acquired	–	(0.1)	(0.2)	(0.3)
Reclassification	–	(46.5)	46.5	–
Other non cash movement	–	(0.4)	–	(0.4)
Currency translation differences	2.6	(16.1)	(43.1)	(56.6)
At 31 December 2003	**117.2**	**(257.5)**	**(686.9)**	**(827.2)**

(30) MAJOR NON-CASH TRANSACTIONS

Part of the purchase consideration for the acquisition of retail pharmacy businesses comprised loan notes. Further details are set out in note 26. 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.

(31) OTHER FINANCIAL COMMITMENTS

At 31 December 2003 the Group had the following commitments payable within one year under operating leases expiring:

	Land and buildings £million	Other £million
Within one year	1.9	1.6
Between one and two years	1.4	3.1
Between two and five years	5.0	2.5
Over five years	13.8	–
	22.1	7.2

(32) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings all of which were indirectly held were:

Company	Interest in ordinary share capital	Country of operation	Country of incorporation	Main activity
Northern Europe Wholesale				
UniChem Limited	100%	UK	UK	pharmaceutical wholesaler
Interpharm B.V.	100%	The Netherlands	The 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	100%	UK	UK	retail pharmacy operator
Alliance UniChem Norge A.S.	100%	Norway	Norway	retail pharmacy operator
De Vier Vijzels B.V.	100%	The Netherlands	The Netherlands	retail pharmacy operator

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.

(33) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings were:

Company	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Hedef Alliance Holding A.Ş.	50%	Turkey	Turkey	pharmaceutical wholesaler
Galenica A.G.[1]	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Alloga S.A.[2]	20%	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A.[2]	50%	Switzerland	Switzerland	retail pharmacy operator
Unifarma Distribuzione S.r.l	36%	Italy	Italy	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software

1 All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.
2 The remaining shares are owned by Galenica A.G. which is itself an associated undertaking.

(34) 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:

	2003		2002	
	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	–	0.2	0.1
Hedef Alliance Holding A.Ş.	0.3	–	–	–
Alloga S.A. and subsidiaries	2.1	0.3	–	–
Pharmacy Initiative 1 Plc	1.4	0.1	1.2	0.1
Pharmacy Initiative 2 Plc	1.2	0.1	1.3	0.1
Pharmacy Initiative 3 Plc	0.1	0.1	–	–

	2003		2002	
	Purchases in year £million	Balance at year end £million	Purchases in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	0.6	0.2	5.1	0.6
Alloga S.A. and subsidiaries	92.3	3.9	52.7	7.5

(35) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £37.0 million (2002 £42.5 million) and other Group companies have guaranteed bank loans of £31.8 million (2002 £33.6 million) to third parties for the financing of pharmacy businesses.

(36) POST BALANCE SHEET EVENTS

On 28 January 2004, the Group completed the purchase of 19% of the equity of Andreae-Noris Zahn AG ("ANZAG") at a cost before expenses of £41.7 million (€60.5 million), taking its shareholding to 29.99%. ANZAG is intended to be accounted for as an associate from this date.

Five year summary

Group profit and loss accounts – year ended 31 December	1999 £million	2000 £million	2001 £million	2002 £million	2003 £million
Turnover	5,927.8	5,999.9	7,089.4	7,771.6	**8,799.3**
Operating profit before amortisation	145.0	155.1	181.3	205.9	**226.6**
Amortisation of intangible assets	(1.6)	(2.5)	(8.5)	(8.9)	**(8.9)**
Group operating profit	143.4	152.6	172.8	197.0	**217.7**
Income from associated undertakings	3.3	6.9	14.6	17.8	**32.1**
Exceptional items	–	(9.7)	–	–	**–**
Net interest payable	(25.2)	(29.4)	(39.6)	(46.9)	**(53.5)**
Profit on ordinary activities before taxation	121.5	120.4	147.8	167.9	**196.3**
Tax on profit on ordinary activities	(41.9)	(40.7)	(52.3)	(58.0)	**(67.2)**
Profit on ordinary activities after taxation	79.6	79.7	95.5	109.9	**129.1**
Equity minority interests	(1.2)	(1.1)	(1.0)	(0.4)	**(0.6)**
Profit for the financial year	78.4	78.6	94.5	109.5	**128.5**
EPS diluted – before exceptional items and amortisation of intangibles	27.5p	31.1p	32.9p	36.9p	**41.2p**
Dividends per share	11.7p	12.8p	14.0p	15.3p	**16.7p**

Segmental analysis – year ended 31 December	1999 £million	2000 £million	2001 £million	2002 £million	2003 £million
Turnover					
Wholesale Northern Europe	1,610.8	1,695.9	2,260.1	2,572.0	**2,899.8**
Wholesale Southern Europe	4,199.3	4,164.5	4,630.2	4,881.1	**5,618.9**
Retail – Europe	433.8	552.0	728.0	974.0	**1,107.4**
Intra-Group	(316.1)	(412.5)	(528.9)	(655.5)	**(826.8)**
	5,927.8	5,999.9	7,089.4	7,771.6	**8,799.3**
Total operating profit before amortisation of intangible assets					
Wholesale Northern Europe	47.1	50.7	71.0	77.4	**84.3**
Wholesale Southern Europe	71.0	67.3	70.2	74.4	**74.4**
Retail – Europe	29.9	42.6	56.4	65.8	**79.3**
Corporate	(3.0)	(5.5)	(16.3)	(11.7)	**(11.4)**
Associated undertakings	3.3	8.0	17.4	21.5	**36.8**
	148.3	163.1	198.7	227.4	**263.4**

Group balance sheets – 31 December	1999 £million	2000 £million	2001 £million	2002 £million	2003 £million
Fixed assets					
Intangible assets	280.5	459.1	630.6	723.1	**784.7**
Tangible assets	232.7	257.4	255.2	284.4	**304.9**
Investments	70.3	140.4	221.8	306.0	**347.9**
	583.5	856.9	1,107.6	1,313.5	**1,437.5**
Working capital					
Stocks	556.4	609.5	647.0	649.9	**728.8**
Securitised receivables	191.1	194.7	306.2	422.4	**448.8**
Non-recourse receipts	(165.0)	(172.5)	(267.8)	(377.1)	**(399.5)**
Debtors	807.6	901.2	900.0	1,017.2	**1,128.6**
Creditors and provisions	(1,009.9)	(1,134.5)	(1,228.6)	(1,290.5)	**(1,542.4)**
	380.2	398.4	356.8	421.9	**364.3**
Net pension liabilities	n/a	n/a	n/a	(23.8)	**(34.3)**
Net borrowings	(532.8)	(661.5)	(781.4)	(880.2)	**(827.2)**
Net assets	430.9	593.8	683.0	831.4	**940.3**

1999 to 2002 have been restated for changes to the accounting policy for turnover, following an amendment to FRS 5, and for the reclassification of investments in own shares via the ESOP. Only the comparatives for 2002 have been restated for the adoption of FRS 17 in 2003.

Shareholder information

2004 financial calendar

24 February	2003 preliminary results and dividend announced
5 March	2003 final dividend record date
20 April	Deadline for receipt of elections to receive the 2003 final dividend in shares
	Deadline for receipt of proxies for the Annual General Meeting
22 April	Annual General Meeting
11 May	2003 final dividend paid
29 July*	2004 interim results and interim dividend announced
6 August*	Record date for interim dividend
20 September*	Deadline for receipt of elections to receive the 2004 interim dividend in shares (if offered)
11 October*	2004 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 (0) 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. 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 http://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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Merchant in collaboration with navyblue
Photography by Douglas Fry
Printed by St Ives Westerham Press

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