Alliance UniChem Plc Annual Report 2001.

Alliance UniChem
Company number: 2517178

Delivering our future

Annual Report 2001

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Financial highlights

Turnover

£7,314m

Operating profit
(before goodwill amortisation)

£181.3m

Profit on ordinary activities
(before goodwill amortisation, taxation and exceptional items)

£159.1m

Diluted earnings per share
(before goodwill amortisation, taxation and exceptional items)

33.4p

Dividend per share

14.0p

Strong growth with record turnover, profits and earnings for the Group.

Successful integration of Interpharm in The Netherlands and acquisition of 25 per cent of Hedef in Turkey.

Retail acquisitions in the UK and Norway and further retail expansion planned.

Continued focus on business efficiencies across the Group.

"Across Europe the same trend is evident in healthcare, with intrinsic pressures on the healthcare system driving demand to optimise resources at all levels. The pharmacist remains one of the least utilised of these resources – but this is changing."

Jeff Harris, Chairman.

The delivery of healthcare

The sector in which we work is one of the most socially important and politically sensitive sectors of business. The issue of healthcare provision has an impact on every single individual and so is one of the central pillars of modern society. This naturally secures its place at the centre of political debate. This is every bit as true in countries where the burden of payment for healthcare rests with the individual as for those which operate a state-funded social service.

Most debate has traditionally been centred on those services involved in the provision of secondary care, mainly through hospitals. This is not surprising, given that they are often the *most visible symbols of healthcare* systems and the services where expenditure is most concentrated.

However, secondary care provision is by definition a reactive service and often the most difficult to plan and resource. Ever-increasing expectations by individuals about the level of healthcare provision mean that demand for services continually exceeds the ability of many countries to fund supply. Also, it is difficult to structure a healthcare system capable of expanding to accommodate the largest peak, or contracting to avoid waste during the lowest trough, when changes occur on a daily or even hourly basis. In the member countries of the European Union this pressure has intensified in recent years as governments have sought to meet the financial targets required in the Euro system.

With the consequent severe demands on public expenditure, *health service planners are* increasingly examining the efficiency and effectiveness of primary care services, with their emphasis on prevention and monitoring. Of course, healthcare planners will seek to maintain →

well-resourced and capable hospital and emergency services, but to work effectively these need to be balanced with a well-structured primary care service reaching deep into the community.

The focus of primary care has traditionally been the family doctor network. However, there is every bit as much pressure on the general practitioner networks in most of Europe as there is on hospitals. This is being driven in part by the same factors that are driving demand in the secondary care sector, with more patients and higher patient expectation of the healthcare system. General practitioners often act as a gateway to the rest of the system, intensifying pressure on them. Pressure is also being fuelled by increased patient awareness of conditions and potential treatments, leading to a greater demand for explanation and information from the doctor and so greater demand on doctors' time. Technological advances have also facilitated the provision in the community of more treatments, including minor surgery, both as an alternative to hospitalisation and as a means of better utilising the available resources, further increasing the pressure on the general practitioner across Europe.

To lessen this pressure and help general practitioners to become more effective, planners are looking at the other resources available within the healthcare network and, in doing so, the focus is increasingly turning to the pharmacist.

Across Europe, pharmacists have been entrusted with the important public safety role of ensuring that patients get the right medicines, whether prescribed for them or purchased for self-care, with information to ensure their appropriate use. Pharmacists' unique skill is the understanding of medicines' efficacy, formulation, indications, interactions and side effects. Working alongside doctors, nurses and other community healthcare professionals, pharmaceutical services are a powerful and effective part of the healthcare system.

The re-definition of the role of pharmacists in the community is being approached in differing ways and to differing extents across the countries in which we operate. In The Netherlands we have already seen the inclusion of pharmacists in local area technology networks, connecting pharmacists with local doctors and hospitals to provide seamless information to these healthcare professionals on, for example, patients' diagnoses, disease states and medication. In the UK the Government has produced a discussion paper looking at the potential in this area and others, with proposals which include pharmacists not only having limited prescribing rights but also receiving payment for such services as repeat prescription management and compliance-focused medicines management programmes.

The need to contain the rate of growth in the prescription drugs bill is also turning the focus onto pharmacists, with their unique skills. There is a trend across Europe, already well established in many countries, towards pharmacists having the right and sometimes legal obligation to substitute lower-cost generic products for higher-priced brands, where such a lower-cost product is available and appropriate. This right and obligation applies the pharmacists' knowledge and training to ensure that the lowest cost and most efficient product is used to treat patients, and is a particular trait in the publicly-funded co-payment systems in operation across most of Europe. It can only be a matter of time before governments explore the next logical step, →

1 Our network combines the application of technology and a highly experienced workforce to ensure industry leading accuracy and service levels.

2 Automated picking, packing and tracking combines with state-of-the-art logistics planning to couple high service levels with unrivalled efficiency.

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"There is no country in Europe in which pharmacists are not already actively involved in providing advice, screening and health promotion alongside their healthcare colleagues."

which is to allow pharmacists who, after all, are the medicine experts, to substitute one product for another within a therapeutic category, giving a clinical dimension to what at present is largely a cost argument.

In every country in Europe the pharmacy community is now actively involved with advice, screening, or health promotion programmes in association with the other local healthcare professionals. This advice and monitoring role will increase with the proliferation of patient-specific medicines, which are tailored to unique sub-groups of the population. These products typically are of a specialised nature and require higher levels of advice and patient monitoring for them to be effective. These trends are already raising the profile of pharmacists and affirm them in the role more of a valued advisor than a mere dispenser. One recent industry report on the pharmacy sector concluded that there was a notable increase in the perception across Europe of the pharmacist as a respected healthcare professional and that the evidence indicated that the influence and responsibility of the pharmacist was likely to increase greatly in the next five to ten years.

Already we are seeing pharmacists taking steps to ensure that they are ready to meet these new challenges. The curriculum of education for pharmacists is evolving to include, for example, a greater emphasis on counselling and communication skills and the inclusion of behavioural sciences. Post-qualification, there are now options for greater specialisation in all sectors of pharmacy, and the professional and registration bodies are actively engaged in defining how continuing competence to practice should be assured. As these trends are spreading across Europe and as pharmacy qualifications and courses become more and more aligned, we are also seeing the beginnings of a new breed of Euro-pharmacists more able to take advantage of the mutual recognition by member states of pharmacy qualifications.

1 Each of our depots mix differing systems and technologies to cater for every product the pharmacist may need.

2 Where technology is uneconomic or inefficient we maintain traditional hand picking, maintaining computerised product tracking.

3 The integration of high volume automation, robotics and human finishing and checking provides high speed accurate compilation and dispatch in as little as 30 minutes of receipt of order.

In addition the pharmacies themselves are changing, with increased emphasis on private consultation and access to the pharmacist for advice and treatment, more screening equipment and greater availability of information.

Our own pharmacies are in the vanguard of this trend. We have developed, and are implementing, new pharmacy layouts aimed at supporting the provision of advisory services. We promote the continuing education not only of our pharmacists but of all employees in the pharmacy, encouraging training in both medical and alternative treatments.

Our experience with these developments in our own pharmacies then enables us to help independent pharmacists to play the same role in their →

"In many markets we find the integration of retail and wholesale helps spread best practice and in deregulated markets provides real benefits to the independent pharmacist, who can use their relationship with their wholesaler to access many of the benefits available to pharmacy chains."

community, and our wholesale businesses work closely with their retail colleagues to ensure that information and skills are appropriately transferred. We see no conflict in this. Health service managers are looking to invest in pharmacists who can deliver services, and the success of pharmacy as a whole in contributing to improved health outcomes will determine both the scope and the speed of new service development.

All of this additional training and professional services comes at a price and, as usual in healthcare, the debate about funding of new services is intense. Pharmacies across Europe already subsidise the provision of pharmaceutical care with revenues from over-the-counter business, but it would conflict with the role of pharmacists as healthcare providers, advisors and counsellors for them to rely for their remuneration on retail sales.

As a Group we are better placed than individual pharmacists to promote the development of these skills and services as an integral part of our business, but even our scope to do so is limited. If governments are to continue to rely increasingly on pharmacists extending their role as part of the primary care network, as they undoubtedly should, they will have to address issues about the levels of remuneration available to the pharmacist to fund these services.

We are committed to continue to support the role of the pharmacist, from our position both as wholesaler and as pharmacy operator, so as to improve our service to patients and to our partners in the healthcare industry.

We work in a sector that has never stood still. We have succeeded in that constantly changing environment, bringing stable and reliable benefits to our customers, shareholders and employees. Whatever else we may see by way of change, that is one trend that I know will continue. ○

The benefits of group

When starting my work in pharmaceutical wholesaling more than twenty-five years ago, I had a vision of creating a major international group that worked in partnership – as a business 'alliance' – with all stakeholders. Alliance UniChem embodies this philosophy and works for the mutual benefit of the Company and all its stakeholders – be they patients, pharmacists, doctors, other healthcare professionals, hospitals, manufacturers, employees or investors.

We aim to deliver to our stakeholders the benefits of working with a large international group encompassing many skills and resources, together with the benefits of a localised business that offers market-leading services and that little extra by way of a tailored, customer-specific service.

The spread of our activities across many markets gives our Group a natural portfolio that hedges against any single market exposure. When any one market experiences adverse government action or heightened competitive activity we have other markets performing well. In recent years we have seen market growth or margins constrained in two or three markets at a time, yet the performance of other businesses in our portfolio has compensated for this to deliver smooth and reliable growth across the Group as a whole to the benefit of shareholders, customers and employees alike.

On a national level, governments need to maintain a reliable and stable supply of medicines, within an effectively operating market. Fragmented distribution markets typically lead to volatile competitive forces and unpredictable supply conditions. They do not normally bring the benefits of a highly efficient distribution infrastructure. Governments and patients →

1 Our independent customers across Europe have the opportunity to share the benefits we gain as a significant retail pharmacy chain through a wide range of programmes designed to help them develop their own businesses.

benefit from rationalisation of the distribution sector, subject to normal competition regulations. Alliance UniChem is one of three international groups with significant presence across Europe in this market, which ensures high levels of competition that governments desire, coupled with the stability that a large and financially secure distributor can offer.

To the customer, the size and reach of our business brings the ability to offer all the advantages of international experience, with access to best practice in a variety of markets, coupled with the resources to develop and offer significant value-added services to help them run and develop their businesses. These benefits are supplied through a local presence and a familiar customer-focused team, with whom the customer can enjoy a close working relationship.

Our business model comprises firm basic principles: significant wholesale market share; the most efficient warehouse structure; the highest service levels; the best value-added services; and, where possible, our own retail chain or 'virtual' chain with high loyalty between pharmacy and wholesaler. These principles provide us with a firm platform for growth, which yields more opportunities for us the wider it is applied. In this respect we also benefit from the scale and reach of our Group.

Additionally, as we expand we increasingly find ourselves the partner of choice for customers and commercial partners alike. Our profile enhances our desirability as a place to work for the best people in our industry. Our people benefit from the opportunity to share knowledge and experience across borders and cultures, giving them improved opportunities for promotion or secondment into areas of our business that they may not have had the opportunity to work in before.

These benefits of being a group are not, however, loose ideas, but tangible and highly profitable opportunities that we work hard to maximise.

In pursuing this aim, as in everything we do, we adhere to the four abiding tenets that form the foundation of our Group: **Service** to customers, suppliers and patients; **Partnership** with all our stakeholders; **Innovation** to improve our services and enhance efficiency; and the pursuit of **Excellence** in everything we do.

"The real benefit of being a group comes when we can harness each incremental advantage it offers us and focus them all intensely on each individual customer to combine a tailored local service with the strength and support of a pan-European market leader."

Stefano Pessina, Chief Executive.

"One of the core principles of our Group is partnership. As we develop our Group we ensure that we are doing so to the benefit of our partners throughout the healthcare system."

Benefits to pharmacists

The integration of wholesale and retail allows us as a group a far better understanding of the retail pharmacy market than we would otherwise have, making us as a wholesaler far better placed to offer pharmacists a better and more relevant service which addresses, and often anticipates, customer needs. Given its position and strength in the market our retail division is well placed to negotiate preferential terms with manufacturers and suppliers, and to develop additional services such as the provision of data or compliance programmes for manufacturers. These additional sources of revenue are difficult and time consuming for independent pharmacists to access on their own, but are made available to them through our virtual chain concepts and other customer incentivisation programmes. These programmes offer independent pharmacists access to many initiatives aimed at improving the efficiency and profitability of pharmacy, including systems and management schemes that allow them to apply the latest pharmacy disciplines in their stores.

"In certain countries our independent pharmacist customers can join one of our 'virtual chains', aimed at improving the services that they can offer and their financial returns. Virtual chains currently operate in the United Kingdom, where our Pharmacy Alliance programme has 1,579 members, in The Netherlands, where the Kring Group has 205 members, and in France where we are trialling a virtual chain concept with some 50 pharmacies."

As markets develop, value-added services become more important both for winning and maintaining business. These services require specific management skills and are costly to start from nothing. We have an extensive portfolio of value-added services that we can offer to pharmacists. These services, many developed using our extensive retail skills, are difficult, if not impossible, for smaller localised wholesalers to offer and, in many cases, can be easily deployed on an international basis.

Benefits to patients

The role of the pharmacist as part of the community healthcare team and, in most countries, the only healthcare professional that it is possible to see without an appointment, offers a wealth of benefit to the patients that they serve. A strong pharmacy sector playing a proactive role in the community through the provision of medicine and healthcare related advice, counselling and monitoring, can provide a vital component in the community healthcare offering. As a group we have the scale and security to offer a strong backing to our pharmacy customers and our own pharmacists, giving them the support and resources that they need to offer the highest level of service and advice, to maintain their own professional standards through our drive to improve clinical excellence across our areas of operation. We work both within the Group, with our pharmacist partners and customers, and with relevant professional bodies to continuously improve the levels of pharmacy practice and discipline across Europe.

1 Our market positioning and mix of business allow us to source products and manage our inventory to the maximum benefit of our customers.

2 Our focus on excellence and professional development in pharmacy benefits our customers and our pharmacists alike, providing an ever improving healthcare recourse in the community.

3 We encourage our customers and pharmacists to develop and maintain their knowledge of the healthcare options available to them to complement traditional therapies.

4 Our virtual chains offer a wide variety of benefits to the independent pharmacist including, in The Netherlands, a dedicated own brand range of products.

5 We are never complacent about our performance for all our stakeholders. We continually strive for improvements in service level or efficiency, even in the most evolved of markets.

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Benefits to pharmaceutical companies

The vast majority of our business involves working closely with pharmaceutical and healthcare manufacturers. We use our distribution power to over 60,000 pharmacies across Europe to help ensure that products achieve their potential in each market, are correctly used by patients and that their pharmaceutical application is well understood by doctors. We also develop services, such as pre-wholesaling, directly for manufacturers to help them run their businesses more efficiently and focus on their own core businesses. This approach brings commercial benefits to both Alliance UniChem and to our manufacturer partners. ○

Benefits to the business

We continually raise our efficiencies by spreading best practice throughout the Group. We analyse every individual business process in each of our operations and identify the best and most efficient operating procedures. The real cost savings this generates are significant. As markets evolve and liberalise and governments react to these evolutions, we benefit from the ability to share the experiences of one market and management team with others across the Group. Perhaps the best example of this is in retail, where for many years the UK was the only country with a long experience of managing pharmacies, a skill they are now exporting to great effect elsewhere across the Group.

In certain business areas we can also use our size and market presence. Outside the branded ethical sector, healthcare product markets are fragmented, with generics, surgical consumables, parallel imports and over-the-counter medicines being the largest groups. Other over-the-counter product sectors, such as vitamins, homeopathics and toiletries, are also important but less economically significant. In all these non-branded ethical markets we can use our scale and scope of geographic operations to source good products at competitive prices, benefiting Alliance UniChem and our customers. ○

"Spending time with my customers allows me to work with them to identify ways in which we can help them develop their own business. On a daily basis my role is to deliver the four core principles of our Group. I work with our customers in partnership to ensure we deliver service with excellence and innovation."

Wendy Kuijpers, Account Manager, The Netherlands.

Value added services

1 Speed, accuracy, and reliability are essential to our business. We apply the latest technology, where appropriate, to provide the highest service levels to our customers in the most efficient manner.

The distribution and dispensing of medicines and other healthcare products – our core activities – are themselves of significant value to patients, pharmacists, doctors, hospitals, manufacturers and governments. They can rely on us to ensure that medicines are available in the right place at the right time, and in the right condition, for supply by the pharmacist to the right patient with the right information to ensure appropriate and effective use. Whether measured in terms of order response times, stock availability, accuracy, delivery timeliness or dispensing accuracy, we aim to be the best operator in each of our markets. This provides the bedrock of our commercial relationships. However, each of our businesses goes further, offering customers a range of additional services that add value to their businesses and, in turn, enhance Alliance UniChem.

As individual markets evolve, so the focus on these additional services alters such that service becomes as much a factor as price when customers are choosing their supplier. This evolution means that much of the development of these additional services takes place in markets where the distribution network has already concentrated and consolidated, such as the United Kingdom, Switzerland and The Netherlands. We are then able to replicate these services in other markets, tailoring them to local demand in order to give us and our customers commercial advantage.

In each of our businesses these additional services not only add value but strengthen the partnership that we see as the foundation to our relationship with our customers.

"The delivery of value through the delivery of healthcare is one of the fundamental philosophies underlying the partnership approach we use to run Alliance UniChem."

Geoff Cooper, Deputy Chief Executive.

1 We work closely with our pharmacists and their professional bodies to create an environment in which they have the resources, facilities, training and experience to focus on providing healthcare advice and guidance.

Retail

For most people across Europe the pressures on healthcare systems are such that their local pharmacist is the only healthcare professional they can consult without an appointment, without going to the emergency services.

Within our own pharmacies we offer patients significantly more than a dispensing service. With a focus on offering a full range of pharmaceutical care, including healthcare advice and an over-the-counter offer concentrated on healthcare-related products, we seek to provide patients with a comprehensive service for health-related queries. This service is delivered in an environment designed specifically to meet this purpose, with staff trained to offer this advice.

Many of our stores are equipped with information and counselling areas where people can talk with a pharmacist privately about the use of a new medicine or a medical device, discuss their medicines or receive other healthcare advice. We are also investigating how extended sources of information, such as online, can be accessed through our pharmacies conveniently and quickly by our customers.

Working closely with regulators and the pharmacists' professional bodies we develop programmes to improve pharmacy discipline and enhance services to patients. Our efforts have won us industry recognition as a Group, and individual recognition for outstanding contributions from a number of our people.

Our service is not just restricted to in-pharmacy customers. Our pharmacists take pharmaceutical services such as medicines review and anti-coagulation monitoring closer to patients in general practitioners' surgeries and provide services to those unable to get to a pharmacy, including the housebound elderly and those whose care is managed in long-term nursing and social care facilities.

The benefits of this approach have been proved through an increasing share of the prescription market. This, combined with the use of advanced retail disciplines such as geo-demographic profiling and integrated margin and merchandising management, means we are able to optimise business in each of our outlets. Our use of advanced dispensary systems allows us to operate efficient stock control and ordering, and provides significant cost savings to both the retail and wholesale divisions. These systems also provide the framework for the effective operation of the patient compliance and adherence programmes which will increasingly be part of the pharmacist's future role within the healthcare team, and collect valuable data for evidence-based medicine research. ○

2 Across Europe the core disciplines required in pharmacy are similar, but the range of services offered in each outlet can vary widely, from laboratory skills to patient counselling.

3 The high level of service offered by our retail pharmacies requires a strong, reliable and flexible supplier – something that they share with our independent pharmacy customers.

1 End to end responsibility for their own deliveries makes our drivers more than just delivery people. They form a key part of our customer service offering.

Wholesale

Almost no value-added service offered to customers at either end of our business could operate without the foundation of our wholesale businesses.

The developments in our own pharmacy network help us to identify and develop programmes to add value to the independent pharmacy customers of our wholesale businesses. Such programmes provide financial and commercial benefits and assistance to the pharmacist in return for commitments to dispensing and 'back of store' disciplines. They enhance our wholesale revenues from pharmacy customers and contribute to our own income through enhancing the services we can offer to both manufacturers and healthcare payers.

The range of services we offer is broad, with a wide variety of schemes that provide assistance with shop-fitting and planning, staff management programmes, flexible ordering and stock control, provision of advanced pharmacy management systems, financial services and ongoing training and education. We also create direct commercial opportunities, working in partnership with manufacturers and pharmacists to help ensure that products achieve their market and therapeutic potential. The additional revenues generated by the pharmacist's participation in these commercial programmes are divided between Alliance UniChem and the pharmacist.

Those pharmacists who elect to work closely with us in these customer support programmes in some markets can join our 'virtual chains'. These have grown to become a powerful presence in the markets in the UK and The Netherlands and are now being launched in France.

The enhanced cooperation and communication that these programmes provide between pharmacist and wholesale depot provide the opportunity for the programmes to add →

Pan-European wholesale coverage

Czech Republic	20%
France	30%
Greece	12%
Italy	25%
Morocco	15%
Portugal	20%
Spain	11%
Switzerland	50%
The Netherlands	22%
Turkey	42%
United Kingdom	23%

2 Responsibility for the controlled medicines that they carry is more than a regulatory requirement for our drivers, it demonstrates their importance in the delivery process.

3 Our customers rely on us delivering what they ordered on the agreed schedule – 80 per cent of their order 30 minutes late is simply not good enough in our business.

4 Our drivers pride themselves on knowing their customers and maintaining service levels to them.

value there as well, with better predictive stock management allowing for more efficient warehouse operation. This, in turn, enables those manufacturers who work closely with us to plan more efficiently their production activities.

Information has become an increasingly valuable and sought-after commodity in healthcare, reflecting the development and use of evidence-based medicine by governments and health authorities. We play a vital role in collecting and collating this information. ○

5 As the most frequent point of contact between our business and our pharmacists our drivers work hard to understand their customer base and its needs.

"Our pharmacy customers rely on us for timely and accurate service and value these qualities in us as their chosen partner."

Adrian Smith , Delivery Driver, United Kingdom.

Pre-wholesale

In a business driven by efficiency and reliability our existing relationships with manufacturers, understanding of the marketplace and reputation for quality and flexibility of service provide us with a genuine advantage.

Pre-wholesale is, by definition, a value-added service in its own right, bringing us closer to manufacturers and acting as a platform for other services, adding further value to the manufacturers' stock management and distribution functions. In Alloga, our joint venture with Galenica of Switzerland, which encompasses our UK partnership with United Drug plc of Ireland, we have built a pre-wholesale network that covers much of Europe and is still growing.

Pre-wholesaling comprises a suite of services from which the manufacturer can choose to outsource. These include basic facilities management and logistics, invoicing, sample handling, collection services and assistance with predictive production planning.

Our pre-wholesaling service operates flexibly to cater for every type of client, from the small specialist manufacturer who has limited logistical resource and is looking for everything from stock and revenue management through to marketing support, to some of the largest multinational pharmaceutical companies who seek to outsource on a specific task-by-task basis.

Our detailed understanding of the dynamics of the market and positioning in the healthcare distribution chain make us supplier of choice for many seeking these services and have significantly contributed to their growth.

There remain opportunities to enhance further the value of this service to our manufacturer partners as the demand for outsourcing of this kind grows and manufacturers begin to look at supply chain issues on a Europe-wide basis. ○

1 Alloga, our pan-European joint venture with Galenica of Switzerland, extends our services back up the distribution chain towards the pharmaceutical companies.

2 Dedicated resources and systems provide a secure and dependable partner for pharmaceutical companies seeking to outsource their non-core distribution activities.

Contents

Delivered in 2001

Chairman's statement

"I am pleased to report entry into markets in three new countries and further growth in our existing operations."

It is a great pleasure to report another successful year for Alliance UniChem Plc in this, my first period as Chairman of the Group. In 2001 we focused on continuing the strong growth of our existing operations in the healthcare distribution and retail pharmacy markets, while integrating the businesses acquired in the previous year. This period of expansion and consolidation of the network across Europe has achieved a strong performance both commercially and financially.

Existing businesses have continued to grow and our new businesses have contributed to what was already a good performance. This has particularly been the case in Northern Europe, where we have experienced the first full year contribution from Interpharm in The Netherlands. Our Southern European businesses have also performed well, reporting growth in almost every territory despite market conditions remaining extremely challenging throughout the year. Overall Group turnover increased by 18 per cent to £7.314 billion / €11.798 billion (2000: £6.191 billion/€10.160 billion).

The beneficial effect of our retail expansion this year, together with continued work to improve efficiencies and control costs in all businesses, has helped deliver an increased operating profit before goodwill amortisation of £181.3 million / €292.4 million (2000: £155.1 million / €254.6 million), up 17 per cent. Diluted earnings per share before goodwill amortisation and excluding the effects of exceptional items increased by 10 per cent to 33.4 pence (2000: 30.4 pence) and, in accordance with our policy of increasing dividends in line with earnings per share, your Board is recommending a final dividend of 9.2 pence per share (2000: 8.4 pence), making a total dividend for the year of 14.0 pence per share (2000: 12.8 pence), an increase of 9 per cent. The final dividend payment will be made on 10 June 2002, to qualifying shareholders on the register as at 5 April 2002. It is the Board's intention to offer a stock dividend alternative in relation to this dividend.

Board structure

A number of changes to the Board and management structure were announced with the interim results in September 2001. I was appointed Executive Chairman of the Board, whilst Kenneth Clarke, as Non-Executive Deputy Chairman, remains the senior non-executive director on the Board. These changes were made to ensure a smooth transition of management in the lead-up to my retirement as an executive of the Group in 2003.

Stefano Pessina has replaced me as Chief Executive, with Geoff Cooper moving from his role as Group Finance Director to become Deputy Chief Executive. In February 2002 we were pleased to announce the appointment of George Fairweather as the new Finance Director of the Group. George will join us on 2 April 2002 from his current role as Finance Director of Elementis plc.

As part of the restructuring of the Board, Antonin De Bono stood down as a director of the Group for personal reasons. We are pleased that Antonin has agreed to remain President of our French and Luxembourg-based holding companies and would like to thank him for his contribution as a director during the time since our merger. Antonin has, throughout his 27 year career, been one of the major contributors to the construction of the Alliance UniChem Group.

We intend to appoint two further non-executive directors to our Board to meet best practice in →

1 Technology is no replacement for a dedicated team focused on delivering for their customers.

2 Many medicines require special handling, such as refrigerated storage and handling or special security arrangements, making them unsuited for automatic picking.

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"Existing businesses have continued to grow, and our new businesses have contributed to what was already a good performance."

corporate governance.

In conjunction with the Board changes, we implemented a new management reporting structure below the main Board to maintain strong management control as the Group continues to expand. We are confident that the new structure will provide us with a strong management platform on which to develop the Group.

Group development

In 2001 our attention was directed towards developing our existing businesses, continuing to control costs and expand our market positions in existing territories in Europe both organically and through infill acquisitions.

In the first half of the year we completed the integration of Interpharm in The Netherlands, which was acquired in the last quarter of 2000. We have been pleased to see this business quickly establish itself as a significant contributor to our Northern European division. The acquisition of 25 per cent of Hedef, the leading Turkish pharmaceutical wholesaler, was completed in March 2001 and we are reviewing the possible exercise of our option to increase the stake by a further 25 per cent.

Smaller infill acquisitions were made by our wholesale businesses in both Northern and Southern Europe and some non-core businesses were disposed of, particularly in The Netherlands.

In retail we have continued our programme of pharmacy acquisitions both in the UK and across Europe. In the UK Moss acquired a total of 114 outlets during the year. This included the acquisition in December 2001 of the Taylor Group of 59 pharmacies. This represented the largest single transaction made by Moss to date and was one of the few remaining opportunities to acquire a chain of significantly high quality outlets. The acquisition brought the net increase in our UK retail chain to 64, comfortably in line with our development targets.

In Europe our international retail team, Alliance UniChem Retail International, completed the acquisition of a total of 127 outlets in Norway, The Netherlands, Italy and Switzerland (the last through our GaleniCare joint venture with Galenica). Most acquisitions occurred in Norway, where pharmacy deregulation took effect from March 2001. This allowed us to build a significant market position, with →

1 We are regularly achieving higher standards of customer service and efficiency; these are delivered through the dedication, professionalism and hard work of every member of our team.

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66 pharmacies and a 15 per cent market share, making us one of the largest pharmacy chains in Norway.

Considerable opportunities remain for us to develop our retail business, and 2002 will see further growth in this area.

Shareholders

A total of 7.47 million new shares were issued during 2001. The majority of these, 5.1 million issued in March 2001, formed part of the consideration for the acquisition of our stake in Hedef and were issued to the family owners of that business. The remaining new shares were issued under the stock dividend option scheme and employee incentivisation schemes, with a small number of shares being issued in respect of retail pharmacy acquisitions.

This brings the total number of Alliance UniChem Plc shares in issue to 326.06 million as at 31 December 2001.

We have continued to see growing interest in our shares from the international investment community across Europe and in North America which complements our strong UK shareholder base amongst institutions, employees and customers, and adds both strength and diversity to our share register.

> "The diversity of our geographical and commercial operations, our expertise within our core wholesaling and retailing businesses, and our strong market positions provide us with commercial and competitive advantages."

People

Once again it is the people who run our businesses every day in Europe that we have to thank for our excellent performance. We are regularly achieving higher standards of customer service and efficiency; these are delivered through the dedication, professionalism and hard work of every member of our team. I am pleased to take this opportunity to thank them, on behalf of all the shareholders, for their continued efforts that drive the financial and commercial success of our businesses.

Outlook

In 2001 we have continued to see strong and consistent growth from our portfolio of businesses in the wholesale, pre-wholesale and retail pharmacy markets. Our ability to develop our existing businesses while proving a desirable partner for others provides a number of opportunities for expansion in the markets in which we operate.

The diversity of our geographical and commercial operations, our expertise within our core wholesaling and retailing businesses, and our strong market positions provide us with commercial and competitive advantages. These have delivered excellent growth and profitability despite the turbulence we encounter from time to time in our individual markets as governments struggle to contain the growth in healthcare costs.

Early indications are that 2002 has started well across the Group, and that our businesses are performing in line with our expectations.

The underlying pressures driving our markets forward, coupled with the qualities and strength of our business, give us every confidence in our ability to continue our track record of delivering strong results, both commercial and financial, for our shareholders and customers alike.

Jeff Harris, Chairman
19 March 2002

Operating review

We are focused on expanding our businesses in our core European markets and improving operating efficiencies across the divisions in order to achieve our aim to be the leading healthcare distributor in Europe.

In 2001 we saw strong turnover growth in every division and operating company. This growth was matched by significant increases in operating profits both for the Group as a whole and for our operating divisions. On a like-for-like basis the Group comfortably outperformed our core markets' growth of 7 per cent, both in terms of sales and profit growth.

The healthcare markets across Europe continued their normal long-term trends of strong inherent growth, limited by government actions in specific markets, most markedly in Southern Europe. However, our strategy of spreading our business interests across Europe continues to ensure that the market growth across our operations remains relatively consistent.

Wholesale: Northern Europe

Performance
The Northern European division benefited significantly from the first full-year contribution from Interpharm in The Netherlands. Interpharm itself grew strongly in the year, and this growth was complemented by an excellent result from both UniChem in the UK and AUCZ in the Czech Republic, both of which showed significant growth in both turnover and profit, comfortably ahead of the growth in their respective markets.

Competition remained relatively stable in each of the three markets covered by the division. Government action was mainly confined to the UK where Resale Price Maintenance on medicines classified for general sale was abolished in June. While there was some concern among market commentators about the implications of this for the UK pharmacy sector, its effect was minimal for Alliance UniChem's businesses which focus on the sale of prescription and 'pharmacy only' products, so limiting the impact to a small percentage of our business.

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

Parallel importing continues to increase in several markets across Europe, despite manufacturers' efforts to curtail it through the implementation of quota systems on products and the restriction of product supply in certain markets. These actions are subject to ongoing legal challenges by industry associations across Europe, as they are aimed at restricting free trade within the European Union. However, the overall trade in parallel imports is limited, whilst we have seen more of this business returning to us and the other full-line wholesalers during the year.

1 Over 98 per cent of our wholesale orders are placed by our customers electronically using Electronic Data Input.

Operations
Once again, the division has focused on improving efficiencies and reducing costs. In the UK we rationalised further our already efficient distribution network with the closure of our Walthamstow branch in the first half of the year. It is a tribute to the UK team that this was achieved with no deterioration to the quality of our service, and no significant loss of customers. The closure of this depot reduces the number of pharmaceutical warehouses in the UK to 10, in addition to a single bulk distribution facility for 'over-the-counter' products.

During the year we acquired the wholesale interests of Crest Medical Limited to increase our market share of the specialist →

1 The integration of Interpharm in The Netherlands has proved highly successful, to a great extent as a result of the efforts and dedication of all the employees there.

2 Healthcare technology networks are a well established part of the Dutch healthcare system, with dispensaries linked by local area networks to other healthcare professionals.

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occupational health product market. The integration of Crest with our existing distribution chain is largely complete. We have also invested in the expansion of Eldon Laboratories, our special preparation laboratory in Newcastle, which has increased our share of this small but profitable market.

In The Netherlands the integration of Interpharm has proved highly successful, and we are sharing best practice procedures with Interpharm to the benefit of the entire division. Work is under way to build two new warehouses to replace two existing warehouses in Interpharm, adding capacity and a new head office, and freeing up the existing highly valuable site. Further efficiency initiatives are under way across The Netherlands to realise additional benefits from the integration.

The investment and work on further improving efficiency at Interpharm has complemented its efforts to expand its business, and our market share in The Netherlands has continued to rise, increasing by a further 2 per cent during the year to 23 per cent.

In the Czech Republic we have seen significant growth in sales and profitability, against a backdrop of consolidation of the retail sector and significant discounting in the market.

Customer relations

A continued focus on customer support and loyalty programmes in all territories in Northern Europe has helped address the impact of competition and assist our customers in developing their own businesses. During the year these programmes, coupled with our focus on service and efficiency, have not only helped us improve our relationships with our independent pharmacy customers but also won recognition from both the industry and community.

During the year Interpharm had the International Standards Organisation (ISO) reconfirm the accreditation of its business and service levels, and awarded a further ISO accreditation for the Kring formula virtual pharmacy chain programme.

This year we received an award from the National Assembly for Wales Practice Development Fund for our work to further develop in the UK medicines management programmes in bone health in our Pharmacy Alliance virtual chain. This award added to the number of accreditations and awards already held by UniChem Limited for its service and efficiency.

The potential for our customer support programmes to add commercial benefit for our business can be seen in the performance of both our Counter Attack initiative and the One Stop Shop concept in the UK. The Counter Attack programme was launched in response to the need for →

A continued focus on customer support and loyalty programmes in all territories has helped us address the impact of competition and assist our customers in developing their own businesses.

3 While robot picking for slower moving items may be economic in some markets, in others the practicalities and complexities of the business favour the human touch.

4 Hand picking does not, however, mean less efficiency or accuracy. Wireless scanners mounted on pickers' wrists allow them to track orders and product as accurately as the automatic pickers.

pharmacists to buy over-the-counter products in bulk, in order to obtain competitive prices. This allows the pharmacist to compete with high street prices. In offering a single daily delivery of these products at extremely competitive prices we have helped the pharmacist compete without the need to invest in bulk purchasing or cope with bulk storage, and we have reversed the industry trend of declining over-the-counter sales in independent pharmacies.

The One Stop Shop concept offered by OTC Direct, our shortline wholesale business, is aimed at increasing our market share of generic and parallel import products in the UK. We have enjoyed considerable success in increasing this business with a 33 per cent rise recorded for the year.

Prospects

Market growth across the Northern European division continues to be reliably consistent and predictable. While some areas of regulation remain under review by governments, we see nothing to cause us to believe this market growth will not continue.

In the UK there is a review under way into the reimbursement systems for generic products and a separate review on the legislation governing the issuing of pharmacy contracts by the health authorities, which we are closely monitoring.

Our drive on efficiency across the division, our ability to remain at the forefront of service development in the industry, and our focus on offering our customers the best service and best value available, gives us confidence that we will be able to maintain the growth of the division during 2002 and beyond.

Market growth across the Northern European division continues to be reliably consistent and predictable.

Wholesale: Southern Europe

Performance

Sales growth in the Southern European division has been strong during the year, and the profit reported by the division reflects a good performance during a time when we have experienced pressure on margins.

Competition in the region has been tough as the markets continue to consolidate with local and national wholesaler competitors struggling to maintain their positions. This has been coupled with various government actions to constrain growth within acceptable limits in each market.

These factors have impacted on our operating margins in all but one of our markets in Southern Europe, and has seen the operating margin for the division as a whole fall some nine basis points to 1.49 per cent.

In France our business experienced three factors that contributed to a dilution of margins, in a period when we were still working to recover the 45 basis point increase in ACOSS, the specialist healthcare tax implemented in October 2000. As a result of strong market growth in the French healthcare market ACOSS remained at its maximum level throughout 2001.

The French competition authorities levied fines on the main pharmaceutical wholesalers during the year as a legacy of discounting policies operated by some wholesalers in the early 1990s. One of these companies was absorbed by Alliance Santé as part of the merger between UniChem and Alliance Santé in 1997 and Alliance Santé has been held liable for these actions by the competition authorities. Whilst we are currently appealing against these fines we have made a provision of →

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1 We continue to work on improving efficiencies in Southern Europe, maintaining excellent service levels while reducing costs across the divisions.

2 The dynamics of some markets in Southern Europe mean certain additional costs are required by regulation, such as high volumes of drugs requiring refrigerated handling.

£1.4 million for the fine, which we believe reflects the possible liability to the Group should the fines be upheld.

Like-for-like comparisons were affected by the loss of contribution from the technology businesses disposed of in 2000 in return for 10 per cent of Cegedim, the French listed technology and data group. These businesses contributed some £2.4 million of operating profits to the division in the year prior to their disposal.

Our ongoing work on improving efficiencies in France has resulted in a number of one-off reorganisation costs during the year, the benefits of which will be seen in coming years. These costs contributed to the margin dilution in our French division. The core wholesaling business, excluding the impact of these three factors, grew its operating profits by 12 per cent on a turnover up by 6 per cent.

Whilst these factors combined to result in a margin reduction of 10 basis points in the year, they are all one-off events that should have no detrimental impact on the performance of the business going forward.

Turnover in France continued to grow, despite a further round of price cuts in reimbursement prices for 20 leading high-volume and 850 low-volume drugs being implemented in September 2001. The reimbursement price cuts cost Alliance UniChem some €3 million of operating profits in the year, and will continue to impact on the business in 2002.

Italy saw two major regulatory changes in the year. In January the Italian Government reduced reimbursement prices for off-patent pharmaceuticals by 5 per cent, whilst cutting reimbursement prices for some medicine classes by 50 per cent and excluding some classes of drug from reimbursement. The Government also delegated management of healthcare expenditure to regional authorities, devolving the central healthcare budget and at the same time capping the percentage of healthcare expenditure permitted to be spent on drug therapy to 13 per cent. These regulatory changes have had a significant impact on the market.

Italy also saw a continuation of the high levels of competitive discounting experienced for some time as the market has been consolidating. We have mitigated this by withdrawing from heavily discounted and unprofitable supply contracts with a number of municipal pharmacy chains, and the benefit of this action is already being seen by the division.

Spain introduced a new reference-pricing scheme on certain medicines during 2001 which is expected to lead to some reduction of market growth rates in 2002, although its impact in 2001 was limited. Our management in Spain achieved an outstanding performance in 2001, significantly improving their margins and expanding their business, and they have developed an extremely strong platform to build on in 2002.

In Portugal, whilst there was no new direct government action on drug pricing or reimbursement, there was a change in the administration of the industry regulator INFARMED, which resulted in a more stringent approach to the monitoring and application of administrative regulations. These actions, aimed at preventing the abuse of prescription drugs, caused a period of disruption to some wholesalers and, for a period, we were unable to distribute our full product →

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3 Concentrating volume in larger and more efficient depots helps reduce costs where it is possible.

4 Across the Group our people are working together in benchmarking and best practice exercises to identify and share the most efficient and cost effective working practices.

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The significant achievements in cost control and efficiency during 2001 have both fuelled growth and helped offset some of the pressures that our businesses have experienced during the year, positioning us well for future growth.

range to customers. This action impacted significantly on operating margins during the year, although conditions have now stabilised and we have returned to a full service from our operating depots.

Operations

Our businesses in Southern Europe have been effective in reducing costs to mitigate the governmental and competitive pressures which they have faced. Wholesaling capacity in Italy, Spain and Portugal is still consolidating, so that our businesses are balancing warehouse rationalisation and cost reduction programmes with the need to protect and build their market position.

During 2001 we rationalised our distribution facilities in every country, with the closure of two depots in both France and Spain, and a depot each in Italy and Portugal. It is our policy to expense the costs of closing a depot in the year of closure, whilst we see the benefit of these closures in terms of cost savings in subsequent years.

Customer relations

As the markets in Southern Europe evolve we are developing customer loyalty and relationship schemes which have proved successful in other markets. In France we are trialling a 'virtual' pharmacy chain programme, called Alphega, which is similar in concept to those operated with great success in the UK and The Netherlands.

In addition, we continued to develop the programme of customer forums rolled out from the UK over recent years. The customer forums, known as 'pharmacy councils', bring us closer to our customers and assist in the development of customer services.

Prospects

The significant achievements in cost control and efficiency made during 2001, which have both fuelled growth in the division and helped offset some of the margin pressures that our businesses have experienced, position us well for future growth.

In the Southern Europe marketplace there are indications that both competitor and government actions are stabilising whilst market growth is continuing. The division was affected by a number of one-off influences during the year which, had they not occurred, would have seen us growing margins and profits far more strongly in a number of countries. As elsewhere, we have adapted well to changes in our markets over the year and expect to be equally responsive looking forward. We are confident that our underlying businesses will continue to be robust and perform well, and that we will continue to work to improve our efficiency across this region. →

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Retail

Performance

The retail division continues its long-established trend of strong commercial and financial performance, both on a current and like-for-like basis.

In the UK our commercial performance has been as strong as our financial performance, with our like-for-like growth in National Health Service prescriptions running at 6.9 per cent, once again ahead of the market growth of 6.5 per cent, reflecting the continued success of our pharmacy model which focuses on healthcare advice and a heavily medicine-orientated retail offering.

Operations

August 2001 saw the opening in the UK of our new Total Health pharmacy concept, designed specifically to offer wide-ranging healthcare advice and added services such as health diagnostics and screening. Total Health offers information on, and sales of, alternative and complementary treatments alongside traditional medicines in a store specially designed to make available advice to the patient or customer. These early Total Health outlets are performing outstandingly well and generating considerable interest from both customers and trade alike. Verdict Research, the independent retail analysis company, cited Total Health as an example of Moss "showing the way forward for pharmacy in the UK".

Retail is a key area of development for the Group, and we are enjoying success in both expanding our retail network and improving the performance of the individual businesses within it.

In addition to the development of the Total Health concept we have continued to develop the delivery of professional services across the UK chain of pharmacies. This has been supported by the opportunity to secure Health Authority and Trust funding for pharmacies to provide private counselling areas. We currently have some 50 pharmacies developing counselling areas under this scheme, in addition to the considerable number of outlets that already have consulting rooms in the store.

A number of those pharmacies with counselling areas are involved in the first wave of PSNC National Medical pilot schemes aimed at offering advanced healthcare services in the community, including emergency hormonal contraception programmes, supervised methadone programmes, and needle exchange services for drug addicts.

Across the entire chain we have continued our programmes aimed at general health and wellbeing, including participation in smoking cessation programmes and clinics, heart health programmes, and blood pressure monitoring programmes.

Our focus on clinical governance and professional development, very much in line with the UK Government's agenda for pharmacy, has increased markedly during 2001, and we have increased the resources of our Superintendent Pharmacists' Office. Ongoing reviews and a full audit process for all our procedures have been implemented, leading to the start of a roll-out of Standard Operating Procedures well ahead of the Government's deadline of 2005. At the same time we have developed a strategy for the continuing professional development of our pharmacists to support them all in achieving their now mandatory 30 hours of professional development work a year.

This drive towards professional excellence is not limited to the UK, it is spread across all of our retail operations. We were delighted that during the year one of our new Norwegian pharmacists was awarded the Norwegian Pharmaceutical Society's national award for outstanding →

1 Across Europe we work to ensure that the pharmacists themselves are at the heart of their pharmacy, open and available to the patient not shut away in a hidden dispensary.
2 Our pharmacies place the need to provide the information that patients want as highly as they place the need to provide accurate and timely dispensing.
3 Within the regulatory framework we seek to make products as accessible to our patients as possible – to help them make informed choices about their own treatment.

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contribution to the profession for her work in promoting clinical pharmacy in Norway. Our drive towards professional excellence is also not limited to the working pharmacists in the organisation, evidenced by the Human Resources department achieving the Investors in People standard.

As a result of changes in the pharmacy degree syllabus, which added an additional year of study to create a four year course, no pharmacists graduated in England and Wales in 2001. Moss, along with all other pharmacy operators, experienced an acute shortage of new pharmacists. However, whilst others in the industry had to close pharmacies we were able to maintain normal opening in most of our outlets, thanks to our pharmacist area managers who served in our pharmacies as locums when such needs arose. As a longer-term solution to the shortage of UK pharmacists we have continued our programme of international recruitment across Europe, and have had particular success in recruiting highly qualified pharmacists.

Portfolio

At the end of the year our retail network encompassed some 1,008 outlets, comprising 767 pharmacies in the UK, 66 in Norway, 51 in Switzerland, 27 in The Netherlands, 18 in Italy, 67 non-pharmacy outlets in the UK, and four Co-op Vitality stores and eight other outlets in Switzerland.

The year opened with 38 UK pharmacies being transferred to Asda to complete the deal announced in 2000 following Wal-Mart's acquisition of Asda. This deal, along with 12 other stores sold as part of our routine portfolio management process, was balanced by the acquisition in December of 59 pharmacies in prime locations in the Midlands and South West of the country from the Taylor Group. This meant that the total of 114 outlets acquired during the year resulted in a net increase in our UK portfolio of 64 outlets.

The most marked trend in the portfolio was, however, the significant increase in pharmacies acquired as part of our international retail development, with 127 outlets acquired outside the UK: 66 in Norway; 38 in Switzerland through GaleniCare, our joint venture with Galenica A.G.; 13 in The Netherlands; and 10 in Italy. Pharmacy prices remain high in many of those countries where pharmacy chains are permitted; however, we are continuing to acquire pharmacies where national regulation permits, and where we can achieve our targeted investment returns which will deliver increased shareholder value.

Prospects

Retail is a key area of development for the Group, and we are enjoying success in both expanding our retail network and improving the performance of the individual businesses within it. As we become more established in recently entered markets we will see the returns from these businesses improve once the one-off costs of entering the new markets have been absorbed and as new opportunities to invest in these markets continue to present themselves.

Deregulation in Norway occurred quickly, and we were able to establish a strong chain there. The indications are that deregulation in some other markets may take longer, but the issue of deregulation is beginning to appear on the agenda of regulators in a number of countries across Europe where ownership is currently restricted. Such moves would clearly offer us even more opportunities to expand our retail business, and we intend to →

1 With many medicines open to abuse we take our obligations to society very seriously, complementing constant vigilance with state of the art security procedures and technology.

2 Our employees are extremely diligent and ensure that many of our Controlled Drug facilities are among the most secure in Europe.

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continue to take these opportunities on a measured basis.

We continue to develop our business in line with, or ahead of, market growth, and see no reason why any proposed regulatory or competitive changes should cause our future growth and development to slow down. We are confident that we will be able to maintain our acquisition programme, adding more high quality pharmacies to our chain and further enhancing the performance of the division.

We continue to develop our business in line with, or ahead of, market growth, and see no reason why any proposed regulatory or competitive changes should cause our future growth and development to slow down.

Associates and corporate activities

We saw a significant increase in financial contribution from the Group's associate businesses during 2001.

Galenica of Switzerland has continued to perform well, and our investment in that business has consequently grown in value. We have not only seen the benefit from the strength of Galenica's share price, but also in our excellent trading partnerships with them.

Alloga, our pre-wholesaling joint venture with Galenica, which encompasses our UK pre-wholesale partnership with United Drug plc of Ireland, continued its steady growth during the year. We expanded our European network by the acquisition of Atrapharm, the French nationwide distributor, and in The Netherlands and Belgium through the acquisition of ESL Logistics. We believe that the demand we are already seeing for the services offered by Alloga will increase and, while we do not expect that pre-wholesale will ever match the economic importance of our other divisions, the business is developing well.

Our investment in Hedef of Turkey has performed in line with our projections at the time of our investment, which represents an outstanding achievement bearing in mind that the Turkish Government devalued its currency very shortly after that investment was made. This shows both the robust nature of Hedef's business and its market positioning, and the quality of its management when tested under such circumstances. As the Turkish economy continues to improve we remain confident that Hedef will continue to perform well, and we are currently in discussions with Hedef over the exercise of our option to acquire a further 25 per cent interest in that business.

We have had a mixed year with our technology investments. Pharmology.com has continued its roll-out, launching in Spain during the year and continuing to grow its user base in France and Italy. Plans are already under way for its introduction into The Netherlands in 2002. As pharmology.com has developed, so the demands on it from different markets have increased as we have striven to maintain our objective of it being not merely a simple information system, but a tool to assist pharmacists in their daily work and provide real advantage to their business.

The market value of our investment in Cegedim, which was acquired through the transfer of our technology businesses in France into Cegedim in return for an equity stake in the business, has continued to improve, reflecting the businesses' continued strong performance. The businesses that we transferred to them have contributed to their success, and through our holding in Cegedim we will continue to benefit from the work that they are doing to develop these systems.

Included in corporate costs in 2001 is the concluding write-down of our investment in Rx.com in the US, following the disposal of the last of the assets of that business. Our involvement with that business is now finished, although there are certain legal procedures relating to our investment in the business that remain to be finalised. →

1 Many of our depots operate 24 hours a day, picking and restocking by rotation to ensure a constant service to our customers.

2 As we continue to drive efficiency and service levels in our business we remain focused on also delivering consistent growth going forward.

Our corporate costs have also increased following the establishment of a number of new functions to support the development of the operating businesses. With the expansion and integration of the Group there has been a need to further strengthen our central operations, so we have established certain new Group functions to support future growth and development.

Outlook

2001 has once again demonstrated the strength and resilience of our Group, and that of the individual businesses within it. The pressures affecting the growth of our markets remain relatively consistent, despite some high profile actions taken by governments across Europe. There is nothing to indicate that this growth rate will materially change going forward.

Competition remains strong in all our markets, with the main competitive factors being a combination of discounting by competing full-line wholesalers on a national basis in many markets, and localised competitive action by short-line wholesalers in certain markets. Increasingly we are winning business back from shortliners with specific initiatives and services aimed at attracting customers away from a purely price offering. Competition among full-line wholesalers tends to focus more on service levels, whilst heavy discounting tends to be a comparatively short-term trend that stabilises over time.

Our growth and investment strategy is delivering strong returns, and the increasing percentage of our income coming from retail activities will continue to improve overall Group margin and improve returns in our wholesale businesses as we share expertise and development opportunities.

We continue to enjoy considerable success in addressing the commercial and regulatory trends in our markets, through diligent cost control and continuous improvements in efficiency in all our businesses.

Our growth and investment strategy is delivering strong returns, and the increasing percentage of our income coming from retail activities will continue to improve overall Group margin and improve returns in our wholesale businesses as we share expertise and development opportunities.

Looking forward, we see every indication that the combination of market growth across our business, scope for organic and strategic development, and the opportunities in retail and wholesale that have driven our business forward in 2001 will continue. These factors give us confidence that we will be able to continue our consistent track record of reliable growth going forward.

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Financial review

The Group this year has delivered improved financial performance with growth in sales, earnings per share and operational cash flow in a period when we have continued our expansion.

Overview

Our businesses operate in a relatively stable, and growing, part of the economy which is subject to periodic governmental action as countries attempt to control their growing healthcare expenditure. We have continued to deliver growth from our operating businesses whilst expanding the Group, achieving growth beyond that of our markets. This has resulted in further enhancements to shareholder returns with the maintenance of strong cashflows.

The Group prudently manages its financial activities with a number of Board committees having responsibility for the review and approval of proposals for acquisitions, allocation of capital, determination of treasury policies and risk management together with the approval of significant debt facilities and control over the financial structure of the Group.

Sales

The Group's turnover grew by 18.1 per cent to £7,314 million (€11,798 million), including £150 million (€242 million) from acquisitions. Excluding acquisitions and currency movements, Group turnover was 9.1 per cent higher than last year.

Operating profit

Group operating profit before amortisation of goodwill and exceptional items increased by 21.8 per cent to £198.7 million (€320.5 million). After goodwill amortisation, total operating profit grew by 17.5 per cent to £187.4 million (€302.3 million). The growth has been achieved by a focus on our core businesses together with acquisitions both on an in-fill basis and into new territories. The total goodwill amortisation charge increased to £11.3 million (€18.2 million) from £3.5 million (€5.7 million) as a result of the acquisitions during the year and the full year effect of acquisitions in the prior year.

Interest

During the year we spent over £271 million (€437 million) on acquiring new businesses, almost £188 million (€304 million) of which was invested in the expansion of our retail businesses across Europe. This has resulted in the Group's interest charge increasing by £10.2 million (€15.7 million) to £39.6 million (€63.9 million) for 2001, offset by a small fall in the average interest rate paid by the Group. This gives us interest cover on a pre-goodwill basis of 5.0 times. Clearly, the level of interest cover is a function of the level of borrowings and it is the Group's policy to utilise the most efficient capital structure so as to optimise shareholder returns, whilst at the same time maintaining a secure risk profile. Although not officially rated the Board believes these objectives will be best met by maintaining a debt profile that, if rated, would be investment grade.

Taxation

The Group's effective tax rate for the year, based on profit before amortisation of goodwill, was 31.9 per cent. This is higher than the UK standard corporate tax rate, due to the higher tax rates suffered by the Group's non-UK operations but broadly in line with the weighted average nominal tax rate of 32.0 per cent for 2001.

Shareholder return and dividends

Diluted earnings per share before goodwill amortisation were 33.4 pence, up from 30.4 pence in the prior year. The Board has proposed a total dividend of 14.0 pence per share, a rise of 9.4 per cent over last year. Over the last ten years we have maintained compound annual growth rates of 10.8 per cent in diluted earnings per share and 11.3 per cent in dividends. The total dividend for the year is →

covered 2.1 times by earnings after goodwill amortisation.

Shareholders' funds

Shareholders' funds have increased by £83.3 million (€162.7 million) to £684.5 million (€1,119.2 million) through £50.2 million (€81.0 million) of retained profits and £41.2 million (€66.5 million) of shares issued to fund acquisitions.

Cash flow and investment in the business

Operational cash flow (i.e. cash flow after working capital movements) amounted to £234.6 million (€378.4 million) compared to £157.4 million (€258.3 million) in the previous year as a result of higher operating profits, the UK debtor securitisation and good working capital control.

Treasury and risk management

The objectives of the Group's treasury function are to ensure that there is sufficient liquidity to meet foreseeable needs, to invest cash assets safely and profitably and to reduce or eliminate financial risk. Group Treasury operates policies and procedures that are periodically reviewed and approved by the Board and which are subject to Group Internal Audit reviews. It transacts in relation to underlying business requirements and is expected to contribute to the profitability of the Group, through efficient management of all treasury activities. It does not operate as a profit centre in its own right.

One of the key financial ratios on which the Group is most focused is maintaining levels of interest cover that are commensurate with an implied investment grade debt rating. The Board policy is to maintain long-term interest cover of around five times on a pre-goodwill basis. This level may temporarily fall where the Group has undertaken a strategically important investment in any year. The Group has the advantage of operating in a business environment that is not subject to the same degree of swings in demand that are experienced in other sectors of the economy. Together with a prudent policy on interest rate hedging, this enables the Group to predict interest cover to a high level of accuracy. The Board's policy is to hedge against adverse movements in interest rates by requiring that the interest cost on about 60 per cent of average projected borrowings over a three-year horizon is fixed or capped.

Liquidity and funding

We have continued to pursue our policy of prudent financing from →

a portfolio of sources. During the year we maintained the stringent management of our debt portfolio, while using our equity to meet part of the consideration of the investment in Hedef, and loan notes to fund an element of our retail development in the UK. All sources of funding and indebtedness are included in the Group's financial statements.

At 31 December 2001, the Group had net borrowings of £781.4 million (€1,277.6 million), and securitised loans of £267.8 million (€437.9 million). This shows an increase of £119.9 million (€225.2 million) in our net borrowings and £95.3 million (€163.5 million) in securitised loans. This was primarily caused by debt funded acquisitions being greater than the cash generated by the business after financing costs. To help minimise refinancing risk, the debt strategy adopted by the Group is to increase, whenever possible, the maturity profile of its borrowings. At the year-end, 34 per cent of borrowings fall to be repaid between two years and five years and 27 per cent in more than five years. In addition we have the flexibility to use undrawn committed facilities to cover another 12 per cent of borrowings. This has been achieved through the diversification of funding sources into debt capital markets. In November 2001, the Group successfully placed a second series of notes into the US Private Placement market, raising €224 million on a swapped basis in 10 year committed funds.

In August 2001, the Group further diversified its liquidity sources through a debut issue of £100 million of secured floating rate notes, due August 2006. These AAA-rated notes are listed on the Luxembourg Stock Exchange and are backed by UK wholesale and retail (prescription) receivables. The notes are shown on the balance sheet in accordance with accounting standards through the adoption of linked presentation. Further details may be found in note 14 to the financial statements.

Interest rate management

The Group's interest rate exposure is managed by the use of fixed and floating facilities and by the use of interest rate swaps and caps to hedge the exposure of floating rate facilities to interest rate movements.

Currency risk management

The Group manages its balance sheet exposure to the impact of foreign exchange fluctuations by hedging its foreign currency net assets with borrowings denominated in the same currency and the use of cross currency swaps.

Approximately 32 per cent of the Group's earnings after goodwill amortisation generated in 2001 was earned in currencies other than sterling of which 94 per cent was in Euro and consequently the Group's reported profit can be affected by currency movements. The Group does not transact specific financial instruments to hedge this translation risk. The borrowings to finance the relatively higher working capital requirements in certain Euro-denominated markets gives rise to higher interest expenses, which provide a natural hedge against translation exposure.

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

The Group prudently manages its financial activities with a number of Board committees having responsibility for the review and approval of proposals for acquisitions, allocation of capital, determination of treasury policies and risk management together with the approval of significant debt facilities and control over the financial structure of the Group.

Share price

The Alliance UniChem share price ranged from a low of 478 pence to a high of 594 pence during the financial year. On 31 December 2001, the mid-market price was 518 pence, giving a market capitalisation of £1.7 billion on that date. →

We have continued to deliver growth from our operating businesses whilst expanding the Group, achieving growth beyond that of our markets.

Accounting policies and standards

The principal accounting policies used by the Group are shown in note 1 to the financial statements. This year the Group has made additional disclosures in respect of the defined benefit pension schemes operated in the UK, The Netherlands and France, in line with the developing practice. There is an aggregate deficit of £10 million or 1.4 per cent of the Group's net assets.

The Euro

Those Group companies affected by the launch of European Economic and Monetary Union have successfully addressed its operations and financial impact and were fully prepared for the introduction of Euro-denominated notes and coins in January 2002. The total costs of this project amounted to about £1 million (€1.6 million).

Acquisitions

The Group operates strict procedures for the evaluation of acquisitions. All acquisitions are subject to detailed pre-acquisition appraisal to ensure they fit with the Group's strategy and required levels of expected financial return. All investments are reviewed in a post-investment audit process culminating in a presentation to the audit committee. The majority of acquisitions achieve the targets set in the pre-acquisition appraisal; those few that do not are subject to more detailed review with the management team concerned to find corrective measures and improve the approval process.

Auditors

The Group has a policy of not awarding management consultancy assignments to its auditors except where they have specific knowledge not available to others. The Group has a preference to use its auditors for due diligence assignments on potential acquisitions where their knowledge of the industry can provide insights useful in assessing the target company. Tax-related work is shared between a small number of selected firms including the auditors of the Group.

Board of Directors

1. C. Berretti (67). Appointed 1998. Last elected 2001.
Claude Berretti is a chartered accountant. He joined Ile de France Pharmaceutique S.A. in 1957 and, prior to his retirement at the end of 1997, was chief executive and chairman.

2. E. Jornod (49). Appointed and elected 2000.
Etienne Jornod is chairman and managing director of Galenica Limited. He has worked at Galenica since 1975 and has been chairman since 1996. He is also a non-executive director of Bon Appetit Group and of Bonnard & Gardel Ingénieursconseils.

3. G.R. Fairweather B.Com., C.A. (44). Appointed 2002. To be elected 2002.
George Rollo Fairweather is a chartered accountant. He trained as an accountant with Thomson McLintock (now part of KPMG) before working for Dixons Group plc, Dawson International PLC and latterly Elementis plc, where he was group finance director. He is due to join the Company on 2 April 2002.

4. Right Hon. K.H. Clarke Q.C., M.P. (61). Appointed 1997. Last elected 2001.
Kenneth Harry Clarke is a Queen's Counsel and Member of Parliament. He has served in the Cabinet as Health Secretary and as Chancellor of the Exchequer. He is chairman of Savoy Asset Management and of British American Racing, deputy chairman of British American Tobacco and a non-executive director of Foreign and Colonial Investment Trust and of Independent News and Media (UK).

5. J.F. Harris B.Sc., F.C.A. (53). Appointed 1986. Last elected 2001.
Jeffery Francis Harris is a chartered accountant. He worked in the accounting profession for two major London auditing firms for fourteen years. He joined the Company as chief accountant in 1985 and was appointed to the Board as finance director in 1986. He is also a non-executive director of Bunzl and Anzag.

6. S. Pessina (60). Appointed 1997. Last elected 1999.
Stefano Pessina is an engineer. After holding a number of academic posts and working as an independent business consultant he became involved in pharmaceutical wholesaling in 1976. From that date he built up his interests in a number of European countries to form the Alliance Santé Group, which merged with the Company in 1997.

7. G.I. Cooper B.Sc., A.C.M.A. (48). Appointed 1994. Last elected 1999.
Geoffrey Ian Cooper is a cost and management accountant. He gained his qualification working in industry and then worked as a management consultant before joining the Gateway Group where he became group finance director. He joined the Company in 1994.

8. N.E. Cross Ph.D., F.C.I.S. (57). Appointed 1997. Last elected 1999.
Neil Earl Cross was an executive director of 3i Group plc from 1989 to December 1996. He is chairman of Close Technology and General VCT and a non-executive director of Dawson Holdings, Taylor Nelson Sofres, The Babraham Institute, The Bayard Fund and British Maritime Technology. He is also chairman of The Royal Society for the encouragement of Arts, Manufacturing and Commerce (the RSA).

9. P. Ponsolle (57). Appointed 1997. Last elected 2000.
Patrick Ponsolle is vice chairman of Morgan Stanley International and chairman of Morgan Stanley France.

10. C. Etherington (49). Appointed 1997. Last elected 2001.
Christopher Etherington worked in a number of distribution roles within industry before joining the Company in 1991. He was appointed to the Board as managing director of UniChem, having graduated from the advanced management programme at Harvard University.

11. D.ssa O. Barra (48). Appointed 1997. Last elected 2000.
Ornella Barra is a pharmacist. Having gained her qualification she bought her own pharmacy before founding a distribution company, which was subsequently acquired by Alleanza Salute Italia in 1986. She was appointed president of Alleanza Salute Italia in 1994.

Report of the Directors

The information constituting or despatched with the 2001 Annual Report is material to an appreciation of the business of the Company and of the Group and as such forms part of this report of the Directors.

Corporate governance
Principles and provisions of good governance for companies are set out in the Combined Code as published in June 1998 by the Committee on Corporate Governance. The way the Company has applied the principles of the Combined Code is explained in this report. Other than where detailed in this report, the Company has throughout the financial year complied with the code provisions set out in section 1 of the Combined Code.

Directors
The Company is led and controlled by the Board, currently consisting of the following directors:

executive directors	
Ornella Barra	southern Europe
Geoff Cooper	deputy chief executive
Chris Etherington	northern Europe
Jeff Harris	executive chairman
Stefano Pessina	chief executive

non-executive directors	
Claude Berretti	
Ken Clarke	independent and senior non-executive
Neil Cross	independent
Etienne Jornod	
Patrick Ponsolle	independent

On 31 January 2002, the Company announced that George Fairweather will be joining the Board as Finance Director with effect from 2 April 2002.

During the year the following individuals were appointed as, or ceased to be, directors:

appointed	none	
ceased	Barry Andrews	23 May 2001
	Antonin De Bono	18 September 2001

In the rest of this report details given on Barry Andrews and Antonin De Bono will be for the period that they were a director.

Each of the Directors is subject to retirement by rotation at least every three years.

All directors have access to the advice and services of Adrian Goodenough, the Company Secretary, and are entitled, through him and at the expense of the Company, to obtain independent professional advice of their choice, where they believe it is essential to the effective discharge of their corporate duties.

The Board met formally on seven occasions during 2001 and the five standing committees of the Board met in accordance with their terms of reference, as detailed below. Three other committees were established in 2001 to undertake specific tasks, which have been completed. Members of the Board and committees receive appropriate notice of each meeting, accompanied by an agenda and relevant papers, so that the members may discharge their duty effectively. Where decisions of the Board or committees are relevant, they are detailed in the pertinent section of the 2001 Annual Report.

The audit committee met four times in 2001. Its main purposes are: to provide a conduit for the interface between the Company and the auditors; to review the financial statements of the Company, focusing particularly on compliance with legal, regulatory and accounting standard requirements and the going concern assumption; and to review the Group's system of internal controls.

The executive committee is constituted so that the Company can function day to day by taking care of routine matters not requiring the consideration of the Board as a whole. Under the terms of reference, parameters have been established which limit its authority to act without consulting the Board as a whole. The executive committee has delegated some of its authority to a number of sub-committees in order to facilitate the decision making process. These sub-committees cover consideration of acquisitions and treasury matters and have their own terms of reference with relevant parameters to their authority.

The management board has the responsibility to plan, implement and deliver the internal strategy of the Group and is accountable to the Board for the achievement of financial performance. While each business unit has its own board of directors with responsibility for their business, individual members of the management board have line responsibility for the financial performance of all business units, Group functions, associates and synergy activities.

The nomination committee met once in 2001. Its role is to recommend to the Board any appointment as a director and to review whether non-executive directors should be proposed for re-election upon their retirement by rotation.

The remuneration committee met five times in 2001 and is authorised by the Board to determine the remuneration of the executive directors and to grant options under the discretionary share option schemes. The Board determines the fees of the non-executive directors.

Membership of the main committees of the Board

		Audit	Executive	Management board	Nomination	Remuneration
Frequency of meetings						
monthly and as required		–	–	*	–	–
minimum number of times per year		2	–	–	–	1
as required		–	*	–	*	–
Committee members:						
non-executive directors						
Claude Berretti		M	–	–	–	–
Ken Clarke		–	–	–	C	C
Neil Cross		C	–	–	M	M
Patrick Ponsolle		M	–	–	M	M
executive directors						
Ornella Barra		–	M	M	–	–
Geoff Cooper		–	M	C	–	–
Chris Etherington		–	M	M	–	–
George Fairweather (upon his appointment)		A	M	M	–	–
Jeff Harris		–	M	–	M	A
Stefano Pessina		–	C	M	M	A
company executives						
Gerhard Aalders	managing director, Interpharm	–	–	M	–	–
Manuel Deleers	internal auditor Europe	A	–	–	–	–
Steve Duncan	managing director, Moss Pharmacy	–	–	M	–	–
Adrian Goodenough	company secretary	A	A	A	A	A
Jean-Louis Méry	president, Alliance Santé	–	–	M	–	–
Steve Sampson	director of financial structuring	A	–	–	–	–
external						
auditor's representative		A	–	–	–	–

'A' indicates an attendee of the committee
'C' indicates the chairman of the committee and
'M' indicates a member of the committee.

Directors' remuneration

The remuneration committee, the current members of which are detailed above, takes decisions on executive directors' remuneration.

In reaching conclusions on remuneration, the remuneration committee took into consideration the remuneration policy of the Group, a number of comparative remuneration surveys and increases in salary given to employees of the Group.

The remuneration policy of the Group is structured to recruit, motivate and retain personnel of the highest calibre so that the position of the Group in the European healthcare sector is maximised. This is achieved by a combination of fixed and variable payments, benefits, incentive plans and share option schemes. These are detailed below.

Report of the Directors (continued)

Emoluments

The emoluments of the Directors for the financial year ended 31 December 2001 were:

Director	Fees £000	Salary and other cash £000	Non-cash benefits £000	Bonus payments £000	Total emoluments 2001 £000	Total emoluments 2000 £000
B.M. Andrews	–	109	7	–	116	367
O. Barra	–	230	–	35	265	270
C. Berretti	25	–	–	–	25	25
K.H. Clarke	125	–	–	–	125	125
G.I. Cooper	–	284	19	58	361	406
N.E. Cross	30	–	–	–	30	30
A. De Bono	–	220	–	–	220	303
C. Etherington	–	230	15	81	326	295
J.F. Harris	–	450	17	93	560	623
S. Pessina	–	294	–	61	355	393
P. Ponsolle	25	–	–	–	25	25
Total	205	1,817	58	328	2,408	2,862

Etienne Jornod waived his entitlement to a director's fee of £25,000.

Executive directors are rewarded with bonus payments if the Group and/or their Division achieves the annual budgeted performance, after allowing for the cost of the bonuses, and/or the relevant executive has achieved a satisfactory personal performance. The maximum bonus payable in respect of 2001 was 50 per cent of an individual's salary.

Long-term incentive plan

The Share Incentive Plan is a discretionary scheme under which allocations are made to directors. 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 Directors' allocations under the Scheme are:

Director	Allocation 1	Allocation 2	Allocation 3	Allocation 4
O. Barra	100,000	143,333	153,333	160,666
G.I. Cooper	120,000	176,667	189,000	206,666
C. Etherington	100,000	143,333	153,333	160,666
J.F. Harris	192,500	280,000	299,667	308,666
S. Pessina	125,000	183,333	196,167	216,666

The performance periods for the allocations are:

Allocation	Period start	Period end
1	1 January 1999	31 December 2001
2	1 January 2000	31 December 2002
3	1 January 2001	31 December 2003
4	1 January 2002	31 December 2004

The amount of the award will depend on achieving certain performance measures during the performance period:

Performance measure	Achievement		% awarded
Total shareholder return	below median		–
	median	50%	12.5%
		+1%	+1.5%
	upper quartile	75%	50.0%
Earnings per share	RPI-x	<+3%	–
		+3%	5.0%
		+0.1%	+4.5%
		>+4%	50.0%

Total shareholder return measures the total return to shareholders in terms of share price growth and dividends reinvested in the shares of the Company over the performance period. The performance will be compared with the same measure of performance for companies in the FTSE 250. Earnings per share are defined as the diluted pre-exceptional figure 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 award takes the form of a right to acquire ordinary shares in the Company for a nominal sum within a period of ten years from the date of the award. The number of shares will be determined by the market price of the Company's shares at the date of the award. The remuneration committee has the discretion to withhold or reduce awards to any extent it considers appropriate, having regard to the Company's underlying financial performance and irrespective of the level of attainment of the performance targets.

During 2001, awards were made on allocations with the performance period 1 January 1998 to 31 December 2000. During the performance period, the Company was in the 87.9th percentile of the comparator group on total shareholder return and the increase in earnings per share was in excess of RPI-x +4 per cent. On this basis, awards equivalent to 100 per cent of the allocations were made:

Director	Allocation	Award
O. Barra	66,667	11,261
G.I. Cooper	80,000	13,513
C. Etherington	66,667	11,261
J.F. Harris	108,333	18,299
S. Pessina	83,333	14,076

The awards are further detailed in the table of interests in options over shares below.

Following the end of the performance period for allocation 1 detailed above, the remuneration committee has recommended to the Employee Share Trust that awards equivalent to 50 per cent of the allocation are made.

Pensions

The pension benefits earned by the Directors during 2001 were:

Director	Age at year end	Increase in accrued pension during the year £000	Total accrued pension at year end £000	Salary supplement paid during the year £000	Additional money purchase contributions 2001 £000	2000 £000
B.M. Andrews	57	19	164	–	–	–
O. Barra	48	–	–	–	69	34
G.I. Cooper	47	3	25	10	62	14
C. Etherington	49	3	34	26	56	34
J.F. Harris	53	55	273	–	–	–

The accrued pension is a benefit of the defined benefit plan of the Company's Pension Scheme. The increase in accrued pension during the year is net of the increase resulting from inflation. For Barry Andrews, who retired on 1 June 2001, the accrued pension is at the date of his retirement. The accrued pension at the end of 2000 for Jeff Harris, the highest paid director, was £211,000. The Company pays the additional money purchase contributions into separate schemes with no additional contributions from the Directors. Any additional voluntary contributions paid by the Directors, and the benefit arising from such contributions, are excluded from the above table.

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

Report of the Directors (continued)

Directors' interests

Interests in fully paid shares

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

Director	1 January 2001	Acquired in the year	Disposed in the year	31 December 2001	Acquired in the period	Disposed in the period	19 March 2002
O.Barra	–	11,261	–	11,261	–	–	11,261
K.H. Clarke	3,878	38	–	3,916	–	–	3,916
G.I. Cooper	68,466	4,645	3,886	69,225	13,513	–	82,738
N.E. Cross	5,000	–	–	5,000	–	–	5,000
C. Etherington	12,678	41,624	39,361	14,941	–	–	14,941
J.F. Harris	339,135	8,223	–	347,358	–	–	347,358
S. Pessina	105,099,503	14,211	–	105,113,714	–	–	105,113,714
P. Ponsolle	500	–	–	500	–	–	500
Total	105,529,160	80,002	43,247	105,565,915	13,513	–	105,579,428

The Employee Share Trust held 3,678,348 shares at 31 December 2001. The Trust transferred 339,985 shares during the year and a further 13,513 shares during the period 1 January 2002 and 19 March 2002 to option holders exercising their options. There were no other changes to this holding between 1 January 2001 and 19 March 2002. All employees and the executive directors are eligible to benefit from the Trust.

105,099,503 shares of the interest of Stefano Pessina are held by Alliance Santé Participations S.A.. Stefano Pessina indirectly wholly owns the Company, registered in Luxembourg, and the Directors include Stefano Pessina and Ornella Barra. Ornella Barra holds no other interests in the fully paid shares of the Company except as detailed above.

Interests in options over shares

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

Director	Option	1 January 2001	Granted/ (exercised) in the year	31 December 2001	Granted/ (exercised) in the period	19 March 2002	Exercise price (p)	Mid-market price on exercise (p)	Notional gain £000
O. Barra	6	186,263	–	186,263	–	186,263	429.50	–	–
	7	63,737	–	63,737	–	63,737	435.00	–	–
	11	–	11,261						
			(11,261)	–	–	–	100.00	540.0	61
		250,000	–	250,000	–	250,000			61
G.I. Cooper	3	372	–	372	–	372	269.00	–	–
	4	36,872	–	36,872	–	36,872	268.50	–	–
	6	45,000	–	45,000	–	45,000	429.50	–	–
	8	9,154	–	9,154	–	9,154	213.00	–	–
	11	–	13,513	13,513	(13,513)	–	100.00	530.0	72
		91,398	13,513	104,911	(13,513)	91,398			72
C. Etherington	2	30,000	(30,000)	–	–	–	260.00	556.0	89
	6	45,000	–	45,000	–	45,000	429.50	–	–
	9	3,194	–	3,194	–	3,194	324.00	–	–
	10	1,757	–	1,757	–	1,757	384.00	–	–
	11	–	11,261						
			(11,261)	–	–	–	100.00	534.0	60
		79,951	(30,000)	49,951	–	49,951			149

Director	Option	1 January 2001	Granted/ (exercised) in the year	31 December 2001	Granted/ (exercised) in the period	19 March 2002	Exercise price (p)	Mid-market price on exercise (p)	Notional gain £000
J.F. Harris	1	45,000	–	45,000	–	45,000	253.99	–	–
	2	45,000	–	45,000	–	45,000	260.00	–	–
	5	4,791	(4,791)	–	–	–	216.00	541.5	16
	6	45,000	–	45,000	–	45,000	429.50	–	–
	10	1,757	–	1,757	–	1,757	384.00	–	–
	11	–	18,299	18,299	–	18,299	100.00	–	–
		141,548	13,508	155,056	–	155,056			16
S. Pessina	11	–	14,076						
			(14,076)	–	–	–	100.00	568.0	80
Total		562,897	(2,979)	559,918	(13,513)	546,405			377

No options lapsed during the financial year or between 1 January 2001 and 19 March 2002. The mid-market price of shares of the Company ranged during 2001 between 478 pence on 19 September and 594 pence on 21 August and at 31 December was 518 pence. The exercise price for options with an exercise price of 100 pence is the exercise price for the whole option and not for each share.

The options above may be exercised:

Option	Type	First exercisable	Exercisable until	Performance criteria
1	discretionary	1 November 1996	30 October 2003	–
2	discretionary	21 October 1997	20 October 2004	–
3	discretionary	18 October 1998	17 October 2005	–
4	discretionary	13 June 2000	12 June 2004	yes
5	savings related	1 December 2000	30 May 2001	–
6	discretionary	7 May 2001	6 May 2005	yes
7	discretionary	27 May 2002	26 May 2006	yes
8	savings related	1 July 2002	30 December 2002	–
9	savings related	1 August 2003	30 January 2004	–
10	savings related	1 July 2004	30 December 2004	–
11	long-term incentive	6 April 2001	5 April 2011	–

The discretionary options granted to O. Barra formed part of the arrangements of the merger with Alliance Santé S.A.

The options shown above as requiring performance criteria are exercisable 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 per cent compound. Earnings per share are defined as the diluted pre-exceptional figure 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 remuneration committee may change the target parameters should circumstances warrant it. The performance criteria in respect of all of the above options have been passed.

Employment agreements

Geoff Cooper and Chris Etherington have employment agreements that can be terminated by either party on twelve months' notice. George Fairweather has entered into a similar agreement effective from when he joins the Company. Jeff Harris has an employment agreement that can be terminated by the Company on twelve months' notice or by him on six months' notice. There are provisions in the service agreements for pay in lieu of current salary for the unexpired period of appointment or to cover the required notice period. No other director has a service contract with the Company.

Other interests

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

Report of the Directors (continued)

Shareholders
The chairman and finance director of the Company have regular meetings with institutional shareholders to discuss the overall strategy of the Group.

The notice convening the 2002 annual general meeting has been despatched with this Annual Report. Shareholders, whether they can attend the meeting or not, are encouraged to ask questions of the Board. It is the intention of all of the Directors to be present at the annual general meeting.

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

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

The Company communicates with all employees through regular staff briefings. All Group employees will be receiving a summary of the Annual Report, which will include comments on their individual business units. Subject to practical and commercial considerations, employees are consulted and involved in decisions that affect their employment or future prospects. The constitution of a European works council has been agreed and it is expected that this will meet for the first time in 2002.

Other matters
Health and safety
It is the policy of the Group that each business maintains the high standards necessary to safeguard the health, safety and welfare of its employees, customers and the public.

Creditors
It is the policy of the Group to abide 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. Alliance UniChem is a holding company and has no trade creditors.

Political and charitable gifts
Charitable donations of £21,500 were made during 2001. No political gifts were made during the financial year.

Animal testing
It is the policy of the Group that only skin care products that have not been tested on animals will be introduced to the Group's own brand ranges and that wherever possible the pharmacies owned by the Group will only stock other brands with the same policy.

Environment
Each business unit is responsible for maintaining the delivery of healthcare to its market. In maintaining this responsibility, each business is mindful of the impact their operation has on the local environment and works to ensure that such impact is kept to a minimum. In addition, the Group insists that all local regulations and laws are adhered to. Costs or savings associated with this work and compliance have not been separately identified by the operating businesses and are absorbed within internal operating expenses.

Internal controls
Guidance for companies on compliance with the internal control requirements of the Combined Code is set out in the publication Internal Control: Guidance for Directors on the Combined Code. The Company has throughout the financial year and up to the date of approval of the financial statements complied with this guidance.

The Board is responsible for the Group's internal control system. This system can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has a continuous process for identifying, evaluating and managing key risks faced by the Group and the Board has regularly reviewed this process.

The Board has also reviewed the effectiveness of the Group's internal control system. The audit committee has reported to the Board its review of summaries of the effectiveness of the Group's internal control system. The review covered all controls, including financial, operational and compliance controls and risk management. The review also considered reports by the Group internal audit function on material internal risks in three of the business units and on post investment audits that were carried out to evaluate the performance in the first full year of major investments made in 2000.

The Group's internal control system is designed to regulate the processing of transactions, preserve related data on files and safeguard assets from inappropriate use or from fraud. This system is described under the following four headings.

(1) Risk management – Risk management is a continuous process whereby market, regulatory and operational risks that the Group may face over a three-year period are identified, evaluated and managed. Controls over financial risks are regularly assessed and contingency plans are made against major failures.
(2) Processing transactions and safeguarding assets – Where the Board has not reserved matters for its sole consideration, limits are placed on transactions and activities that employees either acting individually or as a group can undertake. There is also a division between those who authorise, process, record and handle the related assets of any transaction or activity.
(3) Adherence to managerial policies – All personnel are trained on joining the Group and thereafter on proper adherence to the control systems relevant to their role within the Group.
(4) Financial reporting – Each operating unit prepares monthly results, with a comparison against the budget, the latest forecast and the previous year, which the Board reviews for the Group as a whole and on which it determines appropriate action.

Directors' responsibility statement

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

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

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore have continued to adopt the going concern basis in preparing the financial statements.

The Directors also consider that, in preparing the financial statements on pages 48 to 73, appropriate accounting policies have been used, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

The Directors also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Approved by the Board of Directors and signed on their behalf

A J Goodenough
Company Secretary
19 March 2002

Group profit and loss account

For the year ended 31 December

Unaudited proforma 2001 €m		Note	2001 £m	2000 £m
	Turnover			
11,556.1	Continuing operations		7,164.4	6,191.2
241.6	Acquisitions		149.7	–
11,797.7		2	7,314.1	6,191.2
(10,829.4)	Cost of sales		(6,713.8)	(5,677.9)
968.3	**Gross profit**		600.3	513.3
(741.7)	Administrative expenses		(459.8)	(393.6)
226.6			140.5	119.7
52.1	Other operating income		32.3	32.9
	Group operating profit			
269.0	Continuing operations		166.8	152.6
9.7	Acquisitions		6.0	–
278.7		2	172.8	152.6
23.6	Income from associated undertakings		14.6	6.9
302.3	**Total operating profit**		187.4	159.5
–	Exceptional items	3	–	(9.7)
(63.9)	Net interest payable and similar charges	4	(39.6)	(29.4)
256.6	*Profit on ordinary activities before taxation, goodwill amortisation and exceptional items*		*159.1*	*133.6*
238.4	**Profit on ordinary activities before taxation**	5	147.8	120.4
(81.9)	Tax on profit on ordinary activities	8	(50.8)	(42.6)
156.5	Profit on ordinary activities after taxation		97.0	77.8
(1.6)	Equity minority interests		(1.0)	(1.1)
154.9	**Profit for the financial year**		96.0	76.7
(73.9)	Dividends (14.0p per share – 2000 12.8p)	9	(45.8)	(40.2)
81.0	Retained profit for the financial year		50.2	36.5
	Earnings per share, before goodwill amortisation and exceptional items	10		
	– Basic		33.6p	30.6p
	– Diluted		33.4p	30.4p
	Earnings per share, after goodwill amortisation and exceptional items	10		
	– Basic		30.1p	26.0p
	– Diluted		29.8p	25.9p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	2001 £m	2000 £m
Profit for the financial year	96.0	76.7
Currency translation differences on foreign currency net investments	(5.6)	(0.2)
Total recognised gains and losses relating to the year	90.4	76.5

MOVEMENT IN SHAREHOLDERS' FUNDS	Note	2001 £m	2000 £m
At 1 January		601.2	439.1
Total recognised gains and losses for the financial year		90.4	76.5
Dividends		(45.8)	(40.2)
Shares issued		41.2	126.5
Other	21	(2.5)	(0.7)
At 31 December		684.5	601.2

Balance sheets

As at 31 December

Unaudited proforma 2001 €m		Note	The Group 2001 £m	The Group 2000 £m	Company 2001 £m	Company 2000 £m
	Fixed assets					
1,031.0	Intangible assets	11	**630.6**	459.1	**–**	–
417.3	Tangible assets	12	**255.2**	257.4	**1.4**	1.3
385.4	Investments	13	**235.7**	155.6	**1,207.3**	891.0
1,833.7			**1,121.5**	872.1	**1,208.7**	892.3
	Current assets					
1,057.9	Stocks		**647.0**	609.5	**–**	–
500.6	Securitised receivables	14	**306.2**	194.7	**–**	–
(437.9)	Non-recourse receipts	14	**(267.8)**	(172.5)	**–**	–
1,471.5	Other debtors	15	**900.0**	903.4	**13.0**	14.2
224.6	Cash at bank and in hand		**137.4**	113.7	**0.1**	19.1
2,816.7			**1,722.8**	1,648.8	**13.1**	33.3
	Creditors: amounts falling due within one year					
569.8	Borrowings	16	**348.5**	305.7	**104.6**	52.6
1,982.0	Other creditors	18	**1,212.2**	1,121.6	**170.9**	52.5
2,551.8			**1,560.7**	1,427.3	**275.5**	105.1
264.9	**Net current assets/(liabilities)**		**162.1**	221.5	**(262.4)**	(71.8)
2,098.6	**Total assets less current liabilities**		**1,283.6**	1,093.6	**946.3**	820.5
	Creditors: amounts falling due after more than one year					
932.4	Borrowings	16	**570.3**	469.5	**511.3**	419.0
20.7	**Provisions for liabilities and charges**	19	**12.7**	12.9	**–**	0.4
1,145.5			**700.6**	611.2	**435.0**	401.1
	Capital and reserves					
53.3	Called up share capital	20	**32.6**	31.9	**32.6**	31.9
522.7	Share premium account	20	**319.7**	279.2	**319.7**	279.2
2.3	Capital reserve	21	**1.4**	0.5	**–**	–
540.9	Profit and loss account	21	**330.8**	289.6	**82.7**	90.0
1,119.2	**Total equity shareholders' funds**		**684.5**	601.2	**435.0**	401.1
26.3	Minority interests		**16.1**	10.0	**–**	–
1,145.5	**Capital and reserves**		**700.6**	611.2	**435.0**	401.1

The financial statements were approved by the Board of Directors of Alliance UniChem Plc on 19 March 2002 and are signed on its behalf by:

J F Harris
S Pessina
Directors

Group cash flow statement

For the year ended 31 December

Unaudited proforma 2001 €m		Note	2001 £m	2000 £m
378.4	Net cash inflow from operating activities	24	234.6	157.4
3.1	Dividends from associates		1.9	0.5
	Returns on investment and servicing of finance			
18.2	Interest received		11.3	10.6
(78.0)	Interest paid		(48.4)	(37.8)
(0.2)	Dividends paid to minority shareholders in subsidiary undertakings		(0.1)	(0.1)
(1.3)	Interest element of finance lease rentals		(0.8)	(1.0)
(61.3)	Net cash inflow/(outflow) for returns on investment and servicing of finance		(38.0)	(28.3)
(61.8)	Taxation		(38.3)	(51.2)
	Capital expenditure and financial investment			
(87.3)	Purchase of tangible fixed assets		(54.1)	(49.6)
62.1	*Sale of fixed assets*		38.5	7.5
(25.2)	Net cash inflow/(outflow) for capital expenditure and financial investment		(15.6)	(42.1)
	Acquisitions and disposals			
(40.9)	Purchase of subsidiary undertakings		(25.3)	(161.7)
2.9	Net cash/(overdrafts) acquired with subsidiaries		1.8	(5.1)
(147.4)	Purchase of intangible assets		(91.4)	(28.6)
(62.3)	Investment in associated undertakings		(38.6)	(30.9)
–	*Disposal of subsidiary undertakings*		–	0.2
17.9	Disposal of investment in associated undertakings		11.1	–
(0.1)	Net (cash)/overdrafts of subsidiaries sold		(0.1)	(0.7)
(40.0)	Other investments		(24.8)	(19.3)
(269.9)	Net cash inflow/(outflow) for acquisitions and disposals		(167.3)	(246.1)
(56.5)	Equity dividends paid		(35.1)	(18.5)
(93.2)	Cash inflow/(outflow) before financing		(57.8)	(228.3)

Group cash flow statement (continued)

For the year ended 31 December

Unaudited proforma 2001 €m		Note	2001 £m	2000 £m
(93.2)	Net cash inflow/(outflow) before financing		**(57.8)**	(228.3)
	Financing			
7.7	Issue of ordinary share capital	25	**4.8**	115.7
–	Issue of shares to minorities		**–**	0.6
	Debt due within one year			
11.9	Net movement in money market borrowings maturing within one week		**7.4**	(7.3)
(15.5)	Increase/(decrease) in short-term borrowings		**(9.6)**	(33.4)
	Debt due after one year			
254.5	Increase in borrowings		**157.8**	168.1
(112.4)	Repayment of borrowings		**(69.7)**	(11.3)
(4.8)	Capital element of finance lease rental payments		**(3.0)**	(2.8)
141.4	Net cash inflow/(outflow) from financing	25	**87.7**	229.6
48.2	**Increase/(decrease) in cash in the period**		**29.9**	1.3

	Note	2001 £m	2000 £m
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the period		**29.9**	1.3
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	25	**(82.9)**	(113.3)
Change in net debt resulting from cash flows		**(53.0)**	(112.0)
Debt acquired with subsidiaries		**(1.4)**	(11.4)
Loan notes issued for non cash consideration	22	**(78.1)**	–
Other non cash movements		**–**	(1.6)
Translation difference		**12.6**	(3.7)
Movement in net debt for the period		**(119.9)**	(128.7)
Net debt at 1 January		**(661.5)**	(532.8)
Net debt at 31 December	26	**(781.4)**	(661.5)

Notes to the financial statements

For the year ended 31 December

(1) ACCOUNTING POLICIES

Convention

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

An unaudited memorandum disclosure has been made on the face of the financial statements to show the Euro equivalents.

Basis of consolidation

The consolidated profit and loss account and balance sheets of the Group consolidate the financial statements of Alliance UniChem Plc, its subsidiary and associated undertakings. All material undertakings within the Group make up their accounts to 31 December.

Turnover

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

Pensions

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

Goodwill

The excess of the purchase price over the fair value of the net assets of businesses acquired in the year is capitalised and amortised over the shorter of its useful economic life and 20 years. Goodwill acquired prior to 1998 was written off against reserves.

Retail pharmacy licences

The cost of retail pharmacy licences less any impairment in value and any amortisation are included in intangible fixed assets. Where they do not have a finite economic life they are not amortised; instead they are subjected to an annual impairment test. Where they do have a finite economic life they are amortised over that economic life.

Tangible fixed assets and depreciation

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

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

Leased assets

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

Stocks

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

Deferred taxation

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

(1) ACCOUNTING POLICIES (CONTINUED)

Foreign exchange

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

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

Investments

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

Derivatives and other financial instruments

The premium or discount on interest rate instruments is recognised as part of net interest payable over the period of the contract.

Interest rate swaps, caps and collars, and forward foreign currency contracts are not revalued to fair value or shown in the Group balance sheet at the year end as all transactions derive from hedging activities.

Currency swaps linked with specific borrowings are used to redenominate the currency of those specific borrowings. Where currency swaps are used to redenominate general borrowings, they are marked to market.

(2) ANALYSIS OF TURNOVER AND OPERATING PROFIT

		Operating profit			Operating profit	
	Turnover 2001 £m	Before goodwill 2001 £m	After goodwill 2001 £m	Turnover 2000 £m	Before goodwill 2000 £m	After goodwill 2000 £m
Wholesale Northern Europe	2,433.7	71.0	65.3	1,803.0	50.7	50.2
Wholesale Southern Europe	4,727.0	70.2	67.9	4,252.3	67.3	65.4
Retail	719.7	56.4	55.9	548.4	42.6	42.5
Corporate	–	(16.3)	(16.3)	–	(5.5)	(5.5)
Intra-group	(566.3)	–	–	(412.5)	–	–
	7,314.1	181.3	172.8	6,191.2	155.1	152.6

(3) EXCEPTIONAL ITEMS

	2001 £m	2000 £m
Profit on disposal of IT businesses	–	16.3
Loss on investment in US online pharmacy	–	(26.0)
	–	(9.7)

The IT businesses formed part of the related healthcare operations in France and were sold to Cegedim S.A. for £29.4 million. The net book value of assets and the related costs of disposal totalled £13.1 million.

The loss on US online pharmacy operations represents the write-down of the Group's investment in Rx.com in anticipation of its disposal.

Notes to the financial statements (continued)

For the year ended 31 December

(4) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £m	2000 £m
Bank loans and overdrafts	(42.6)	(31.4)
Other loans	(5.2)	(6.2)
Finance charges payable on finance leases	(0.8)	(1.0)
Associate interest payable	(4.0)	(2.3)
Interest payable	(52.6)	(40.9)
Bank deposit interest receivable	5.8	4.7
Associate interest receivable	1.6	0.8
Other financial income	5.6	6.0
Net interest payable and similar charges	(39.6)	(29.4)

(5) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001 £m	2000 £m
Depreciation of owned assets	32.0	26.8
Depreciation of assets held under finance leases	2.1	1.8
Total depreciation of tangible fixed assets	34.1	28.6
Operating lease rentals – land and buildings	12.1	9.3
– plant and machinery	4.6	2.1
Audit fees – principal auditors	0.6	0.5
– other	0.3	0.3
Other fees paid to the auditors – principal auditors	0.4	0.2
– other	0.1	–

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

(6) DIRECTORS' EMOLUMENTS

The emoluments of the Directors, exclusive of pension contributions, for the financial year ended 31 December 2001 were £2.4 million (2000 £2.9 million). Further details on the Directors, including their emoluments, are given in the Report of the Directors on pages 39 to 41.

(7) EMPLOYEES

The monthly average number of staff employed by the Group, which includes directors, was:

	2001	2000
Wholesale Northern Europe	4,659	3,909
Wholesale Southern Europe	6,645	6,684
Retail	8,017	6,773
Corporate	48	39
	19,369	17,405

The costs incurred in respect of these employees were:

	2001 £m	2000 £m
Wages and salaries	256.5	214.2
Social security costs	48.6	40.7
Other pension costs	8.2	5.8
	313.3	260.7

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £m	2000 £m
Corporation tax charge at 30 per cent (2000 30 per cent)	24.1	20.4
Deferred taxation	(2.2)	(2.2)
Double taxation relief	(3.3)	–
Under/(over) provision for earlier years	(0.2)	(0.2)
Overseas taxation	26.8	22.8
Associated undertakings	5.6	1.8
	50.8	42.6

(9) DIVIDENDS

	2001 £m	2000 £m
Interim paid, net 4.8 pence (2000 4.4 pence)	15.6	13.0
Final proposed, net 9.2 pence (2000 8.4 pence)	30.2	27.2
	45.8	40.2

(10) EARNINGS PER SHARE

Earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue during the year. The diluted earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue added to the dilutive potential shares assuming that they had converted to issued shares at the beginning of the period. Further details of the options are given in note 20.

	2001 £m	2000 £m
Profit for the financial year before goodwill amortisation and exceptional item	107.3	90.2
Goodwill amortisation	(11.3)	(3.5)
Exceptional item including minority interest (£0.3 million)	–	(10.0)
Profit for the financial year	96.0	76.7

Weighted average number of shares	2001 m	2000 m
Basic	319.4	294.9
Effect of dilutive potential shares	2.2	1.8
Diluted	321.6	296.7

(11) INTANGIBLE FIXED ASSETS

	2001 £m	2000 £m
Retail pharmacy licences	483.6	297.1
Goodwill	147.0	162.0
	630.6	459.1

Retail pharmacy licences

The Directors believe that the right to be reimbursed for dispensing UK NHS prescriptions, being the pharmacy licence which is attached to a particular pharmacy, has a continuing value. Such rights, conferred by the Department of Health as contracts to dispense prescriptions, are not generally granted to new pharmacies in the same locality. These retail pharmacy licences are not amortised as they do not have a finite economic life. They are subjected to an annual impairment test.

Notes to the financial statements (continued)

For the year ended 31 December

(11) INTANGIBLE FIXED ASSETS (CONTINUED)

In certain other territories the retail pharmacy licence has a finite economic life and accordingly these licences are amortised over that life. Where the life exceeds 20 years, the net book value of such retail pharmacy licences is subject to an annual impairment test. Previously, some retail pharmacy licences with finite lives have been disclosed as goodwill, and these have been reclassified during the year.

	2001 £m	2000 £m
At 1 January	297.1	243.1
Foreign exchange movement	(0.8)	–
Additions	91.9	21.5
Transfer from goodwill	17.4	–
Subsidiaries acquired	88.9	34.9
Disposals	(10.0)	(2.4)
At 31 December	484.5	297.1
Amortisation		
At 1 January	–	–
Transfer from goodwill	0.3	–
Charge for the year	0.6	–
At 31 December	0.9	–
Net book value at 31 December	483.6	297.1

Goodwill	2001 £m	2000 £m
Cost		
At 1 January	166.4	39.3
Foreign exchange movement	(4.0)	3.3
Transfer to pharmacy licences	(17.4)	–
Additions	13.9	125.9
Disposals	–	(2.1)
At 31 December	158.9	166.4
Amortisation		
At 1 January	4.4	1.9
Foreign exchange movement	(0.1)	–
Disposals	–	(0.1)
Transfer to pharmacy licences	(0.3)	–
Charge for the year	7.9	2.6
At 31 December	11.9	4.4
Net book value at 31 December	147.0	162.0

(12) TANGIBLE FIXED ASSETS

Group Cost	Freehold land and buildings £m	Long leaseholds £m	Short leaseholds £m	Furniture, fixtures and equipment £m	Motor vehicles £m	Total £m
At 1 January 2001	151.0	21.9	4.1	227.7	27.1	431.8
Foreign exchange movement	(2.8)	(0.3)	(0.1)	(3.5)	–	(6.7)
Additions	6.9	0.2	1.2	39.0	6.8	54.1
Subsidiaries acquired	1.7	–	–	1.5	0.2	3.4
Disposals	(10.9)	(1.0)	(0.3)	(24.3)	(8.2)	(44.7)
At 31 December 2001	145.9	20.8	4.9	240.4	25.9	437.9
Depreciation						
At 1 January 2001	30.0	2.9	1.8	127.4	12.3	174.4
Foreign exchange movement	(0.5)	–	–	(2.2)	(0.1)	(2.8)
Subsidiaries acquired	–	–	–	0.3	0.1	0.4
Disposals	(2.0)	–	(0.2)	(15.5)	(5.7)	(23.4)
Charge for the year	1.5	0.5	0.3	25.2	6.6	34.1
At 31 December 2001	29.0	3.4	1.9	135.2	13.2	182.7
Net book value						
At 31 December 2001	**116.9**	**17.4**	**3.0**	**105.2**	**12.7**	**255.2**
At 31 December 2000	121.0	19.0	2.3	100.3	14.8	257.4
Company						
Cost						
At 1 January 2001	–	–	0.6	0.6	0.6	1.8
Additions	–	–	–	0.1	0.3	0.4
Disposals	–	–	–	–	(0.1)	(0.1)
At 31 December 2001	–	–	0.6	0.7	0.8	2.1
Depreciation						
At 1 January 2001	–	–	0.1	0.1	0.3	0.5
Disposals	–	–	–	–	(0.1)	(0.1)
Charge for the year	–	–	–	0.1	0.2	0.3
At 31 December 2001	–	–	0.1	0.2	0.4	0.7
Net book value						
At 31 December 2001	–	–	**0.5**	**0.5**	**0.4**	**1.4**
At 31 December 2000	–	–	0.5	0.5	0.3	1.3

The Group cost of long leaseholds includes capitalised interest of £0.4 million (2000 £0.5 million).

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

	The Group		Company	
Leased assets	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Property	**18.0**	20.3	–	–
Furniture, fixtures and equipment	**0.3**	1.9	–	–
Motor vehicles	–	0.1	–	–
	18.3	22.3	–	–
Capital commitments				
Contracted for, but not provided for	**23.7**	3.9	–	–

The capital commitments include both tangible and intangible fixed assets.

Notes to the financial statements (continued)

For the year ended 31 December

(13) FIXED ASSET INVESTMENTS

	The Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Subsidiary undertakings	–	–	1,192.8	865.1
Associated undertakings	142.8	80.5	–	–
Other investments	92.9	75.1	14.5	25.9
	235.7	155.6	1,207.3	891.0

The Group	Goodwill on associated undertakings £m	Share of net assets of associated undertakings £m	Loans with associated undertakings £m	ESOP investment in own shares £m	Other listed investments £m	Other unlisted investments £m
At 1 January	23.7	56.8	1.0	15.2	48.8	10.1
Foreign exchange movement	(0.1)	(2.1)	–	–	(1.3)	(1.0)
Additions	42.2	25.6	24.3	–	–	3.3
Disposals	(0.3)	(7.7)	(0.5)	–	–	–
Amortisation	(2.8)	–	–	–	–	–
Profit for the year	–	9.4	–	–	–	–
Dividends	–	(1.9)	–	–	–	–
Provision	–	–	–	–	–	(5.7)
Transfer to employees	–	–	–	(1.3)	–	–
At 31 December	62.7	80.1	24.8	13.9	47.5	6.7

Company	Shares in subsidiary undertakings £m	Loans with subsidiary undertakings £m	Unlisted investments £m
At 1 January	629.1	236.0	25.9
Foreign exchange movement	–	(7.0)	–
Additions	78.1	256.6	–
Disposals	–	–	(11.4)
At 31 December	707.2	485.6	14.5

Other investments

(i) The aggregate market value of the Group's listed investments on 31 December 2001 was £50.3 million (2000 £46.1 million).

(ii) The UniChem PLC Employee Share Trust has an investment of £13.9 million (2000 £15.2 million) in 3.7 million (2000 4.0 million) of the Company's shares. The market value of the holding on 31 December 2001 was £19.0 million (2000 £22.0 million). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options. Administrative costs in relation to the trust are absorbed by the Company.

(14) SECURITISED RECEIVABLES

Certain amounts receivable from French pharmacies have been discounted on a non-recourse basis, under a five year facility entered into in 1997. The Group is not obliged to support any losses in respect of the amounts advanced under the discounting arrangement, 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.

(14) SECURITISED RECEIVABLES (CONTINUED)

During 2001, the Group has entered into a five year agreement to sell UK receivables up 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 £13.2 million (of which £12.6 million is subordinated), representing the excess of the face value of the receivables sold over the £100 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £13.2 million of finance provided by the Group.

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. This is clearly stated in the agreements with the note holders.

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 administration fees by Alliance.

Alliance is a quasi-subsidiary of the Group. The summary results of Alliance are:

	2001 £m	2000 £m
Interest receivable	2.3	–
Interest payable	(2.3)	–
Net interest receivable	–	–
Administrative expenses	–	–
Profit for the financial period	–	–

The balance sheet of Alliance is:

	2001 £m	2000 £m
Current assets – investments	112.3	–
Current assets – cash at bank	1.0	–
Creditors due within one year	(0.6)	–
Creditors due in more than one year – debt securities	(112.6)	–
Net assets represented by equity shareholders' funds	0.1	–

(15) OTHER DEBTORS

	The Group		Company	
Amounts falling due within one year	2001 £m	2000 £m	2001 £m	2000 £m
Other trade debtors	733.1	765.1	–	–
Other debtors	129.5	104.3	7.2	7.5
Prepayments (including pension)	27.7	24.4	2.4	2.4
Group relief receivable	–	–	3.4	4.3
	890.3	893.8	13.0	14.2
Amounts falling due after more than one year				
Trade debtors	7.8	7.0	–	–
Other debtors	1.9	2.6	–	–
	9.7	9.6	–	–
Total	900.0	903.4	13.0	14.2

Notes to the financial statements (continued)

For the year ended 31 December

(16) BORROWINGS

	The Group		Company	
Amounts falling due within one year	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Loan notes	**63.3**	17.2	**63.2**	10.9
Bank loans	**25.5**	20.7	**12.7**	9.2
Bank overdraft	**257.7**	264.8	**28.7**	32.5
Obligations under finance leases	**2.0**	3.0	–	–
	348.5	305.7	**104.6**	52.6
Amounts falling due after more than one year				
Loan notes	**31.4**	7.8	**23.2**	–
Bank loans	**530.2**	450.7	**488.1**	419.0
Obligations under finance leases	**8.7**	11.0	–	–
	570.3	469.5	**511.3**	419.0
Total borrowings	**918.8**	775.2	**615.9**	471.6
Cash at bank and in hand	**(137.4)**	(113.7)	**(0.1)**	(19.1)
Net borrowings/(cash)	**781.4**	661.5	**615.8**	452.5

The loan notes 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, notes totalling £22.1 million will fall due at their maturity date, which for the most part will be 2012. At the year end they bore interest between 2.71 per cent and 3.56 per cent. The loan notes falling due after more than one year are repayable from 31 May 2003 to 31 May 2004. At the year end, they bore interest between 3.5 per cent and 6 per cent per annum.

	The Group		Company	
Bank loans due after more than one year	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Aggregate bank loan instalments repayable				
between one and two years	**15.9**	10.2	–	–
between two and five years	**273.2**	333.9	**259.3**	324.7
in five years or more	**241.1**	106.6	**228.8**	94.3
	530.2	450.7	**488.1**	419.0

Interest on bank loans is at variable rates between 2.2 per cent and 7.3 per cent at the year end and is dependent on the currency borrowed.

	The Group		Company	
Obligations under finance leases due after more than one year	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Due between one and two years	**1.3**	2.1	–	–
Due between two and five years	**3.7**	3.7	–	–
Due in five years or more	**3.7**	5.2	–	–
	8.7	11.0	–	–

(17) FINANCIAL INSTRUMENTS

The Group's approach to managing financial risk is described in the Financial Review on pages 33 and 34. Short-term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

Interest rate profile

After taking into account the various interest rate derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities was as follows:

	Fixed rate financial liabilities				
2001 Financial liabilities	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £m	At floating interest rates £m	Total £m
Sterling	4.23	3	44.8	122.9	167.7
Euro	4.75	3	440.7	142.7	583.4
Other	4.75	3	25.6	142.1	167.7
			511.1	407.7	918.8

	Fixed rate financial liabilities				
2000 Financial liabilities	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £m	At floating interest rates £m	Total £m
Sterling	7.26	3	9.7	14.3	24.0
Euro	4.90	3	373.0	311.5	684.5
Other	3.83	3	26.6	40.1	66.7
			409.3	365.9	775.2

The financial liabilities of the Group at 31 December comprised:

	2001 £m	2000 £m
Loan notes	94.7	25.0
Bank loan	555.7	471.4
Bank overdraft	257.7	264.8
Obligations under financial leases	10.7	14.0
	918.8	775.2

Floating rate financial liabilities comprise bank borrowings, loan notes and overdrafts bearing interest at a margin over commercial reference rates.

Notes to the financial statements (continued)

For the year ended 31 December

(17) FINANCIAL INSTRUMENTS (CONTINUED)

	Fixed rate financial assets					
2001 Financial assets	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	–	–	–	88.3	4.4	92.7
US$	4.00	4	1.0	–	–	1.0
Euro	–	–	–	40.2	59.6	99.8
Other	–	–	–	32.6	–	32.6
			1.0	161.1	64.0	226.1

	Fixed rate financial assets					
2000 Financial assets	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £m	At floating interest rates £m	Non-interest bearing £m	Total £m
Sterling	–	–	–	43.5	2.3	45.8
US$	4.00	5	4.4	–	–	4.4
Euro	–	–	–	64.4	59.8	124.2
Other	–	–	–	4.8	–	4.8
			4.4	112.7	62.1	179.2

The financial assets of the Group at 31 December comprised:

	2001 £m	2000 £m
Cash at bank and in hand	137.4	113.7
Fixed asset investments (excluding associates and the ESOP)	79.0	55.9
Debtors due after one year	9.7	9.6
	226.1	179.2

Floating rate financial assets comprise bank deposits bearing interest based on commercial reference rates.

Currency profile

After taking into account the effects of currency swaps and forward exchange contracts the Group does not have any significant unmatched currency exposures on monetary assets and liabilities.

(17) FINANCIAL INSTRUMENTS (CONTINUED)

Maturity profile of financial liabilities

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

2001	Loan notes £m	Bank loans £m	Bank overdraft £m	Obligations under finance leases £m	Total £m
Within one year	63.3	25.5	257.7	2.0	348.5
Between one and two years	8.2	15.9	–	1.3	25.4
Between two and five years	23.2	273.2	–	3.7	300.1
Over five years	–	241.1	–	3.7	244.8
	94.7	555.7	257.7	10.7	918.8

2000	Loan notes £m	Bank loans £m	Bank overdraft £m	Obligations under finance leases £m	Total £m
Within one year	17.2	20.7	264.8	3.0	305.7
Between one and two years	–	10.2	–	2.1	12.3
Between two and five years	7.8	333.9	–	3.7	345.4
Over five years	–	106.6	–	5.2	111.8
	25.0	471.4	264.8	14.0	775.2

Undrawn committed borrowing facilities

The Group had the following undrawn committed facilities at 31 December:

	2001 £m	2000 £m
Expiring within two years	88.6	86.4
Expiring beyond two years	21.7	1.8
	110.3	88.2

Notes to the financial statements (continued)

For the year ended 31 December

(17) FINANCIAL INSTRUMENTS (CONTINUED)

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:

2001	Book value £m	Fair value £m
Primary financial instruments held to finance the Group's operations:		
Cash at bank and in hand	137.4	137.4
Fixed asset investments (excluding associate and ESOP)	79.0	81.8
Debtors due after one year	9.7	9.7
Loan notes	(94.7)	(94.7)
Bank loans	(555.7)	(555.7)
Bank overdrafts	(257.7)	(257.7)
Obligations under finance leases	(10.7)	(10.7)
Derivative financial instruments held to manage the interest rate and currency profile		
Interest rate derivatives	–	(8.8)
Cross currency derivatives	0.8	0.8
	(691.9)	(697.9)

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.

2000	Book value £m	Fair value £m
Primary financial instruments held to finance the Group's operations:		
Cash at bank and in hand	113.7	113.7
Fixed asset investments (excluding associate and ESOP)	55.9	59.5
Debtors due after one year	9.6	9.6
Loan notes	(25.0)	(25.0)
Bank loans	(471.4)	(471.4)
Bank overdrafts	(264.8)	(264.8)
Obligations under finance leases	(14.0)	(14.0)
Derivative financial instruments held to manage the interest rate and currency profile		
Interest rate derivatives	–	(0.4)
	(596.0)	(592.8)

(17) FINANCIAL INSTRUMENTS (CONTINUED)

Hedging

As explained in the Financial Review the Group has entered into interest rate management contracts, both in sterling and Euro, to limit its exposure to floating interest rates. 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, are as follows:

2001	Gains £m	Losses £m	Total net £m
Unrecognised gains and losses at 1 January 2001	1.6	(2.0)	(0.4)
Gains and losses arising in previous years that were recognised in the year	(0.1)	–	(0.1)
Gains and losses arising before 1 January that were not recognised in the year	1.5	(2.0)	(0.5)
Gains and losses arising in the year that were not recognised in the year	(1.5)	(6.8)	(8.3)
Unrecognised gains and losses on hedges at 31 December 2001	–	(8.8)	(8.8)
Of which:			
Gains and losses to be recognised in the next financial year	–	(0.4)	(0.4)
Gains and losses expected to be recognised after the next financial year	–	(8.4)	(8.4)

2000	Gains £m	Losses £m	Total net £m
Unrecognised gains and losses at 1 January 2000	3.0	(1.2)	1.8
Gains and losses arising in previous years that were recognised in the year	(1.0)	0.4	(0.6)
Gains and losses arising before 1 January that were not recognised in the year	2.0	(0.8)	1.2
Gains and losses arising in the year that were not recognised in the year	(0.4)	(1.2)	(1.6)
Unrecognised gains and losses on hedges at 31 December 2000	1.6	(2.0)	(0.4)
Of which:			
Gains and losses to be recognised in the next financial year	0.1	–	0.1
Gains and losses expected to be recognised after the next financial year	1.5	(2.0)	(0.5)

(18) OTHER CREDITORS

	The Group		Company	
Amounts falling due within one year	2001 £m	2000 £m	2001 £m	2000 £m
Trade creditors	958.1	841.2	–	–
Other creditors	85.4	128.6	137.5	24.5
Corporation tax	36.2	27.0	1.9	–
Other taxation and social security	62.4	66.0	–	–
Accruals and deferred income	38.6	30.8	–	–
Proposed dividend	31.5	28.0	31.5	28.0
	1,212.2	1,121.6	170.9	52.5

Notes to the financial statements (continued)

For the year ended 31 December

(19) PROVISIONS FOR LIABILITIES AND CHARGES

The Group	Deferred tax £m	Retirement benefits £m	Total £m
At 1 January 2001	3.8	9.1	12.9
Transfer movement on deferred tax assets to debtors	3.4	–	3.4
Charge (release) for the year	(2.2)	(1.4)	(3.6)
At 31 December 2001	**5.0**	**7.7**	**12.7**

Company	Deferred tax £m	Total £m
At 1 January 2001	0.4	0.4
Charge (release) for the year	(0.4)	(0.4)
At 31 December 2001	–	–

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

	Not dealt with in the accounts		Dealt with in the accounts	
The Group	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Capital allowances	**4.5**	5.2	**2.6**	2.5
Pension accrual	–	–	–	0.6
Short-term timing differences	**(1.5)**	2.3	**2.3**	0.5
Chargeable gains deferred by roll-over relief	**12.6**	4.0	–	–
Property revaluation	**4.6**	0.5	**0.1**	0.2
Capital losses	**(0.6)**	(0.6)	–	–
	19.6	11.4	**5.0**	3.8

Company	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Short-term timing differences	–	–	–	0.4

(20) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

Issued and fully paid up	Number	Called up share capital 10p ordinary shares £m	Share premium account £m
At 1 January 2001	318,591,278	31.9	279.2
Shares issued during the year	7,467,765	0.7	40.5
At 31 December 2001	**326,059,043**	**32.6**	**319.7**

The authorised share capital is £43.3 million, represented by 432,926,000 ten pence ordinary shares.

(20) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (CONTINUED)
Details of the shares allotted during the year are:

Reason	Number	Price paid per share £	Consideration £m
share option exercises	994,416	2.54 – 5.89	4.8
scrip elections in lieu of:			
2000 final dividend	381,251	5.86	2.3
2001 interim dividend	989,384	4.97	4.9
acquisition of retail pharmacies	2,714	5.53	–
Hedef acquisition	5,100,000	5.71	29.2
Share capital and share premium movement	7,467,765		41.2

Details of the outstanding options at 31 December 2001 are:

	Price	Outstanding	Normally exercisable from
1990 Savings related scheme	208.00p	12,374	1 December 2001 – 30 May 2002
	213.00p	18,196	1 July 2002 – 30 December 2002
	216.00p	8,123	1 December 2002 – 30 May 2003
	192.00p	18,501	1 July 2001 – 30 December 2001
	192.00p	91,349	1 July 2003 – 30 December 2003
	214.00p	377,145	1 July 2002 – 30 December 2002
	214.00p	145,277	1 July 2004 – 30 December 2004
	324.00p	24,168	1 August 2001 – 30 January 2002
	324.00p	260,503	1 August 2003 – 30 January 2004
	324.00p	87,219	1 August 2005 – 30 January 2006
	384.00p	191,074	1 July 2002 – 30 December 2002
	384.00p	172,718	1 July 2004 – 30 December 2004
	384.00p	46,816	1 July 2006 – 30 December 2006
	291.00p	448,525	1 July 2003 – 30 December 2003
	291.00p	302,046	1 July 2005 – 30 December 2005
	291.00p	133,823	1 July 2007 – 30 December 2007
	463.00p	376,026	1 July 2004 – 30 December 2004
	463.00p	289,068	1 July 2006 – 30 December 2006
	463.00p	77,346	1 July 2008 – 30 December 2008
		3,080,297	
1990 Executive scheme	253.99p	59,890	1 November 1996 – 30 October 2003
	260.00p	75,000	21 October 1997 – 20 October 2004
	269.00p	372	18 October 1998 – 17 October 2005
		135,262	
1997 Discretionary scheme	268.50p	146,872	13 June 2000 – 12 June 2004
	429.50p	1,152,778	7 May 2001 – 6 May 2005
	442.00p	1,060,000	14 May 2002 – 13 May 2006
	435.00p	90,222	27 May 2002 – 26 May 2006
	379.00p	1,373,084	23 March 2003 – 22 March 2007
	592.00p	1,830,000	6 April 2004 – 5 April 2008
		5,652,956	

The Directors are aware of the following shareholdings at 19 March 2002 of 3 per cent or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of present issued Ordinary share capital
Stefano Pessina	105,113,714	32.22
Scottish Widows Investment Partnership Ltd	22,591,087	6.93

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

Notes to the financial statements (continued)

For the year ended 31 December

(21) OTHER RESERVES

The Group	Capital reserve £m	Profit and loss account £m
At 1 January 2001	0.5	289.6
Foreign exchange movement	–	(5.6)
Transfer from profit and loss to capital reserve	0.9	(0.9)
Retained profit for the year	–	50.2
Other	–	(2.5)
At 31 December 2001	**1.4**	**330.8**
Company		
At 1 January 2001	–	90.0
Retained profit/(loss) for the year	–	(7.3)
At 31 December 2001	**–**	**82.7**

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The profit after taxation dealt with in the accounts of the parent company was £38.5 million (2000 loss £0.3 million).

During the year, the Group contributed £2.5 million (2000 £0.7 million) to the Qualifying Employee Share Ownership Trust ('QUEST').

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

(22) ACQUISITIONS

The Group has continued its development during the year through a number of acquisitions. The Retail acquisitions took the form of both asset and company acquisitions, the Company acquisitions are summarised below. There were a number of other small acquisitions which are included in the table below.

All subsidiary acquisitions have been accounted for by the acquisition accounting method and can be summarised:

Assets acquired at book and fair value	Wholesale £m	Retail £m	Total £m
Fixed assets – intangible	–	88.9	88.9
Fixed assets – tangible	2.8	0.2	3.0
Fixed assets – investments	0.8	0.1	0.9
Stock	2.0	18.9	20.9
Debtors	3.8	0.7	4.5
Cash at bank and overdraft	0.4	1.4	1.8
Bank loans and other loans	(1.4)	–	(1.4)
Creditors	(3.6)	(11.5)	(15.1)
	4.8	98.7	103.5
Minority interests acquired	(2.8)	(2.8)	(5.6)
Assets acquired	2.0	95.9	97.9
Consideration paid			
Cash	5.1	14.6	19.7
Loan notes	–	78.1	78.1
Non cash payment	6.6	–	6.6
Accrued cash consideration – movement	4.2	3.2	7.4
	15.9	95.9	111.8
Purchased goodwill	**13.9**	**–**	**13.9**

Cumulative goodwill written off to reserves to 31 December 2001, net of that attributable to disposals, was £360.8 million (2000 £360.8 million).

(23) ANALYSIS OF NET ASSETS

	2001 £m	2000 £m
Wholesale Northern Europe	257.9	309.2
Wholesale Southern Europe	540.1	555.9
Retail	511.7	348.7
Corporate	172.3	58.9
Net assets before net borrowings	1,482.0	1,272.7
Net borrowings	(781.4)	(661.5)
	700.6	611.2

(24) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

	2001 £m	2000 £m
Operating profit	172.8	152.6
Depreciation	34.1	28.6
Amortisation of goodwill	7.9	2.6
Amortisation of pharmacy licences	0.6	–
(Profit)/loss on disposal of fixed assets	(5.5)	(3.0)
Decrease/(increase) in stocks	(27.3)	(13.2)
Decrease/(increase) in debtors	(15.9)	(26.9)
Increase/(decrease) in creditors	67.9	16.7
Net cash inflow/(outflow) from operating activities	234.6	157.4

(25) ANALYSIS OF NET CASH FLOW FROM FINANCING

	2001 £m	2000 £m
Issue of ordinary share capital	4.8	115.7
Issue of shares to minorities	–	0.6
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	82.9	113.3
Net cash inflow/(outflow) from increase/(decrease) in financing	87.7	229.6

(26) ANALYSIS OF NET DEBT

	Cash at bank and in hand £m	Borrowings due within one year £m	Borrowings due after more than one year £m	Net borrowings £m
At 1 January 2001	113.7	(305.7)	(469.5)	(661.5)
Increase/(decrease) in cash	24.9	(2.2)	7.2	29.9
Decrease/(increase) in debt	–	4.2	(87.1)	(82.9)
Debt acquired with subsidiaries	–	–	(1.4)	(1.4)
Other non cash movement	–	(54.9)	(23.2)	(78.1)
Exchange movement	(1.2)	10.1	3.7	12.6
At 31 December 2001	137.4	(348.5)	(570.3)	(781.4)

Notes to the financial statements (continued)

For the year ended 31 December

(27) MAJOR NON-CASH TRANSACTIONS

During the year there have been three main categories of non-cash transaction. Part of the purchase consideration for the acquisition of associated undertakings comprised shares. Some of the retail pharmacy acquisitions were financed through the issue of loan notes. A stake in a new subsidiary was acquired through the transfer to it of fixed assets. Further details are set out in notes 20 and 22.

(28) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost was £6.9 million (2000 £4.2 million). Included in the balance sheet is an amount totalling £1.9 million (2000 £1.5 million) representing the excess of the cumulative contributions paid over the accumulated pension cost.

The Group operates one main UK pension scheme which has two plans: the UK Benefit Plan which is a funded defined benefits arrangement, and the UK Contribution Plan, which is a funded defined contribution arrangement. Both plans are administered by an independent company and their assets are held under trust separately from those of the Group.

The pension costs (and balance sheet prepayments) in respect of the Benefit Plan are assessed in accordance with the advice of Bacon & Woodrow, an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2000. The method for the valuation was the projected unit method and the main assumptions were:

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

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

At 1 January 2000, the actuarial value of the Benefit Plan's assets was £59.5 million. This represented 101 per cent of the value of the benefits that had accrued to members after allowing, in the case of active members, for the future increases to salaries.

The Group also sponsors a number of defined benefit plans in its non-UK operations. The costs of these plans have been recognised in the Group financial statements in accordance with the requirements of SSAP24. The material plans are in France and The Netherlands and the disclosures under FRS 17 are shown below.

The Group will adopt the new FRS 17 accounting standard by 2003. As required under transitional provisions, we disclose below certain information under FRS 17 as if it had applied for 2001.

At 31 December 2001, the value of the pension scheme assets and liabilities can be summarised:

	UK Benefit Plan £m	Other European £m
Equities and property	45.3	4.1
Bonds	14.0	9.8
Other	1.8	4.2
Total market value of assets	61.1	18.1
Present value of scheme liabilities	(67.3)	(26.8)
Surplus (deficit) in the schemes	(6.2)	(8.7)
Related deferred tax asset	1.9	3.0
Net pension asset (liability)	(4.3)	(5.7)

Had this deficit been recognised in the financial statements there would be a pension reserve of £10.0 million debited to the profit and loss reserve. One of the European schemes operates on a part-funded basis and the net liability is recognised in the balance sheet under the existing disclosure rules as £7.7 million (note 19) with an associated deferred tax asset of £2.3 million included in other debtors. The decrease in the profit and loss reserve caused by the adoption of FRS 17 would therefore be £4.6 million.

(28) PENSIONS (CONTINUED)

The market value of the assets at 31 December 2001 can be broken down into the following classes, shown with the expected rates of return for 2002:

	UK Benefit Plan		Other European	
	Expected return % pa	Value £m	Expected return % pa	Value £m
Equities	7.9	45.3	8.0	4.1
Bonds	5.0	14.0	5.0	9.8
Other	4.9	1.8	5.0	4.2

The main financial assumptions used to determine the liability value at 31 December 2001 (a more recent date than the last SSAP 24 valuation) were:

	UK Benefit Plan % pa	Other European % pa
Discount rate	5.9	5.5
Inflation rate	2.5	2.0
Salary increases (excluding increases due to promotion)	3.5	2.7
Pension in payment increases for members who joined up to 31 December 1996	5.0	2.5
Pension in payment increases for members who joined from 1 January 1997	2.5	2.5

(29) OTHER FINANCIAL COMMITMENTS

At 31 December 2001 the Group had the following commitments payable within one year under operating leases expiring:

	Land and buildings £m	Other £m
within one year	3.9	3.3
between one and two years	2.7	3.2
between two and five years	6.1	5.4
in five years or more	10.0	0.3
	22.7	**12.2**

(30) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings are:

Company	Interest	Country of operation	Country of incorporation	Main activity
Alleanza Salute Italia SpA	100%	Italy	Italy	holding company for a number of Italian pharmaceutical wholesalers
Alliance Santé S.A.	98.6%	France	France	pharmaceutical wholesaler
Alliance UniChem CZ Spo	89.0%	Czech Republic	Czech Republic	pharmaceutical wholesaler
Alliance UniChem Farmaceutica S.A.	100%	Portugal	Portugal	pharmaceutical wholesaler
Alliance UniChem Norge A.S.	100%	Norway	Norway	retail pharmacy operator
Interpharm B.V.	100%	Netherlands	Netherlands	pharmaceutical wholesaler
E. Moss Limited	100%	UK	England	retail pharmacy operator
Safa Galenica S.A.	95.6%	Spain	Spain	pharmaceutical wholesaler
UniChem Limited	100%	UK	England	pharmaceutical wholesaler

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.

Notes to the financial statements (continued)

For the year ended 31 December

(31) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings are:

Company	Interest	Country of operation	Country of incorporation	Main activity
Galenica A.G.	22.4%	Switzerland	Switzerland	pharmaceutical wholesaler
Hedef – Alliance A.Ş.	25%	Turkey	Turkey	pharmaceutical wholesaler
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler
Alloga S.A.	50%	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A.	50%	Switzerland	Switzerland	retail pharmacy operator
Lavipharm Alliance Santé S.A.	40%	Greece	Greece	pharmaceutical wholesaler
Pharmapartners B.V.	40%	Netherlands	Netherlands	pharmaceutical software

(32) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £49.9 million (2000 £27.9 million) and other Group companies have guaranteed bank loans of £34.6 million (2000 £73.2 million) to third parties for the financing of pharmacy businesses.

(33) EXCHANGE RATES

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

	Euro €/£	Norwegian Kroner NOK/£	Swiss Franc CHF/£	Czech Koruna CZK/£
As at 1 January 2001	1.591	13.17	2.421	56.20
As at 31 December 2001	1.635	13.05	2.416	51.76
Average for the year	1.613	13.00	2.434	54.89

Independent auditors' report

To the members of Alliance UniChem Plc

We have audited the financial statements of Alliance UniChem Plc for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of recognised gains and losses and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

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

19 March 2002

Five year summary

Group profit and loss accounts – year ended 31 December	1997 £m	1998 £m	1999 £m	2000 £m	**2001 £m**
Turnover	1,712.3	5,353.4	6,094.0	6,191.2	**7,314.1**
Cost of sales	(1,539.0)	(4,948.7)	(5,632.0)	(5,677.9)	**(6,713.8)**
Gross profit	173.3	404.7	462.0	513.3	**600.3**
Administrative expenses	(116.7)	(309.5)	(347.4)	(393.6)	**(459.8)**
	56.6	95.2	114.6	119.7	**140.5**
Other operating income	9.8	37.6	28.8	32.9	**32.3**
Operating profit	66.4	132.8	143.4	152.6	**172.8**
Income from associated undertakings	(0.2)	2.1	3.3	6.9	**14.6**
Exceptional items	–	–	–	(9.7)	**–**
Net interest payable	(7.0)	(24.8)	(25.2)	(29.4)	**(39.6)**
Profit on ordinary activities before taxation	59.2	110.1	121.5	120.4	**147.8**
Tax on profit on ordinary activities	(17.8)	(37.2)	(41.6)	(42.6)	**(50.8)**
Profit on ordinary activities after taxation	41.4	72.9	79.9	77.8	**97.0**
Equity minority interests	(1.1)	(1.2)	(1.2)	(1.1)	**(1.0)**
Profit for the financial year	40.3	71.7	78.7	76.7	**96.0**
EPS diluted – before exceptional items and goodwill amortisation	22.47p	24.81p	27.63p	30.42p	**33.36p**
Dividends per share	9.70p	10.65p	11.70p	12.80p	**14.00p**

Group balance sheets as restated – 31 December	1997 £m	1998 £m	1999 £m	2000 £m	**2001 £m**
Fixed assets					
Intangible assets	181.8	231.0	280.5	459.1	**630.6**
Tangible assets	197.7	231.6	232.7	257.4	**255.2**
Investments	22.6	25.8	81.7	155.6	**235.7**
	402.1	488.4	594.9	872.1	**1,121.5**
Working capital					
Stocks	417.0	529.7	556.4	609.5	**647.0**
Investments	33.4	0.5	–	–	**–**
Debtors	677.9	839.5	835.0	925.6	**938.4**
Creditors and provisions	(773.1)	(974.3)	(1,007.1)	(1,134.5)	**(1,224.9)**
	355.2	395.4	384.3	400.6	**360.5**
Net borrowings	(436.9)	(493.0)	(532.8)	(661.5)	**(781.4)**
	320.4	390.8	446.4	611.2	**700.6**
Capital and reserves					
Called up share capital	28.6	29.0	29.2	31.9	**32.6**
Share premium account	340.8	145.7	155.4	279.2	**319.7**
Other reserves	151.5	207.0	254.5	290.1	**332.2**
Goodwill	(208.2)	–	–	–	**–**
	312.7	381.7	439.1	601.2	**684.5**
Minority interests	7.7	9.1	7.3	10.0	**16.1**
	320.4	390.8	446.4	611.2	**700.6**

Shareholder information

2002 Financial calendar

20 May	Deadline for receipt of proxy forms.
20 May	Deadline for receipt of elections to receive the 2001 final dividend in shares.
22 May	Annual general meeting.
10 June	2001 final dividend paid to shareholders registered on 5 April 2002.
12 September*	2002 half year profit and interim dividend announced.
19 November*	Deadline for receipt of elections to receive the 2002 interim dividend in shares (if offered).
10 December*	2002 interim dividend paid to shareholders registered on 27 September 2002*.

*Date subject to confirmation.

Shareholding enquiries

Enquiries relating to existing shareholdings should be directed to the registrars, Lloyds TSB Registrars, who may be contacted by phoning 0870 600 3970, by writing to The Causeway, Worthing, West Sussex BN99 6DA or through the website http://www.shareview.co.uk.

Amalgamation of your shareholdings

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

Website

Alliance UniChem press releases, 'real-time' share price and other information is available on the website http://www.alliance-unichem.com.

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