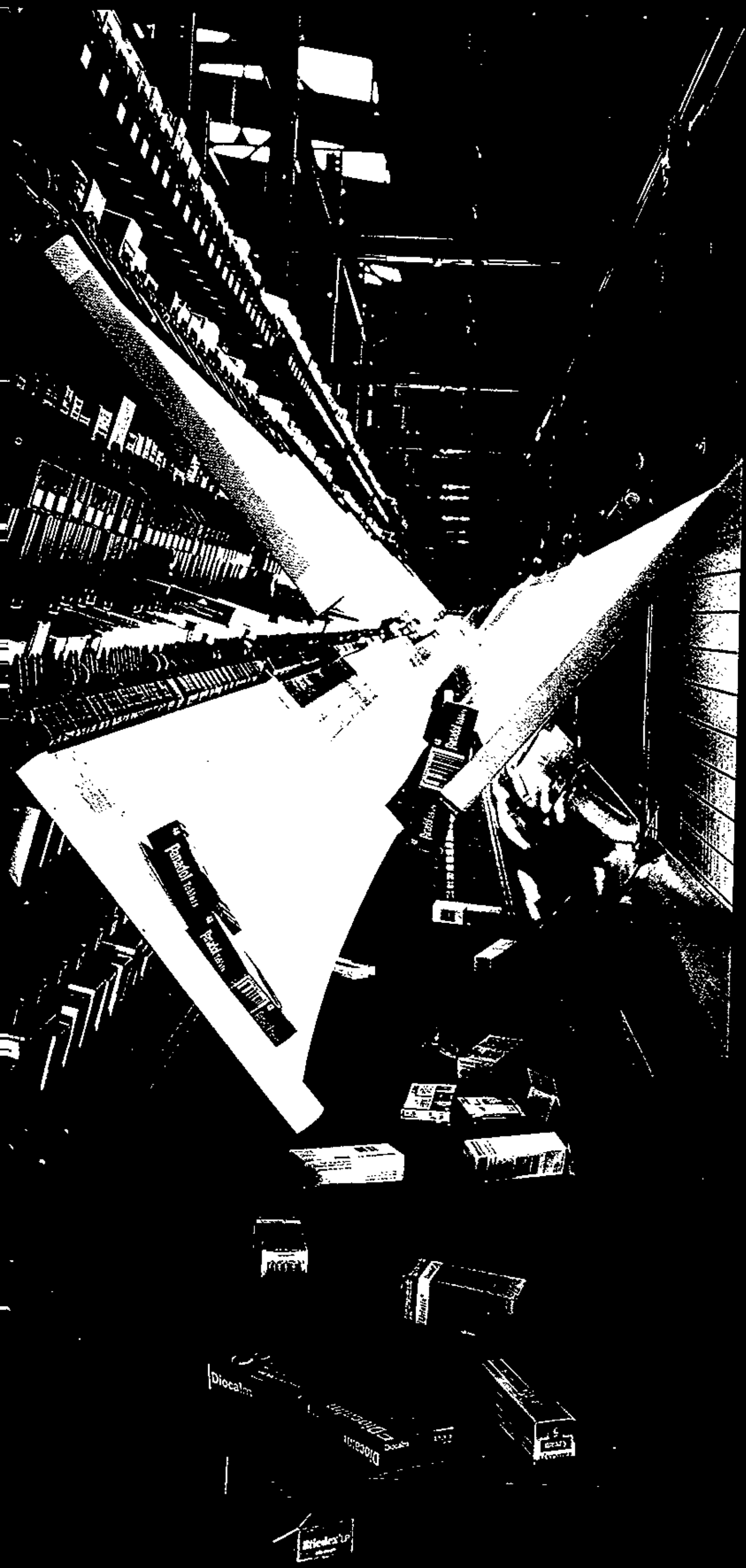
COMPANY NUMBER:
2517178

UniChem PLC
Annual Report 1996

Company profile



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

Moss Chemists, UniChem's Retail Pharmacy Division, owns 459 pharmacies in the UK providing a highly professional service to the patient whilst offering value for money.

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

Established for 58 years, UniChem has been a PLC for 6 years and has a market capitalisation in excess of £400 million. It has a highly motivated workforce of around 7,000.

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

Continued investment in automation maintains UniChem's position as the UK's most efficient national pharmaceutical wholesaler.

■ Further growth of turnover and operating profits, with increases contributed by all three divisions.

■ Continued positive trends in the Group's core markets, with new opportunities becoming available as a result of structural changes.

■ Wholesale Division cost ratios have benefited from improved efficiencies and have helped offset gross margin reductions caused by mix changes.

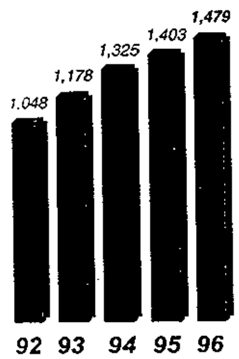
■ Retail Division again produced a very strong performance, with operating margins sharply increased.

■ Further market share gains and operating margin increases in Portugal, and the new joint venture operating from January 1997.

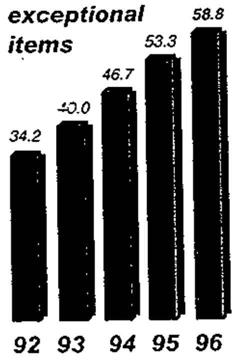
■ Pre-wholesaling joint venture launched, with immediate success in winning a large contract.

	1996 £m	1995 £m
Turnover	1,478.5	1,402.7
Operating profit before exceptional item	58.8	53.3
Profit on ordinary activities before taxation and exceptional item	53.5	49.4
Dividends per share	8.8p	8.0p
Earnings per share before exceptional item		
- Undiluted	20.5p	19.3p
- Fully diluted	20.2p	19.0p

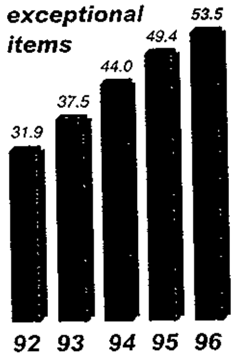
Turnover - £m continuing operations



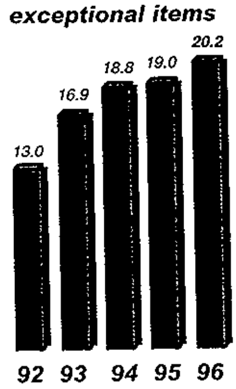
Operating profit - £m continuing operations pre exceptional items



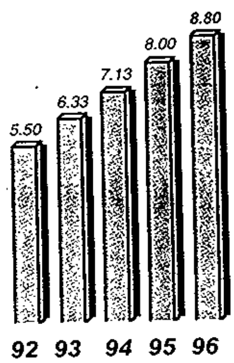
Pre-tax profits - £m continuing operations pre exceptional items



EPS - pence fully diluted pre exceptional items



Dividends per share - pence



Summary

Review of the Year

Management

Financial Statements

Shareholder Matters

David Mair
Acting Chairman

It is with great sadness that I find myself writing to you as Acting Chairman, following the death in January this year of Lord Rippon. Having worked closely on the Board with Lord Rippon, as his Deputy Chairman, his passing is a great loss to us all. The Company will miss his wise counsel and experienced guidance. Lord Rippon made a very significant contribution to UniChem's development, steering us through the flotation in 1990 and watching over our early development as a public company. The Board would like to extend its deepest condolences to Lady Rippon.

1996 proved to be an eventful year for UniChem. Substantial achievements were reached in the development of our core business as a result of a great deal of hard work by management and staff.

1996 proved to be an eventful year for UniChem. Although public attention was focused on our bid for Lloyds Chemists plc, substantial achievements were reached in the development of our core business as a result of a great deal of hard work by management and staff. Against this background, the advance of 5 per cent in group sales and the pre-exceptional item increases of 10 per cent in operating profits and 6 per cent in earnings per share were all the more impressive. This is the 25th consecutive year UniChem has reported an increase in sales and pre-exceptional pre-tax profits and the Group has grown earnings per share from its underlying operations in each year since flotation.

Group Development

In 1996 we continued with our successful strategy of developing a major healthcare company, with the achievement of several important objectives. Moss Chemists acquired 41 high quality retail pharmacies during the year, and is now operating 459 retail outlets. In June, we launched a pre-wholesaling joint venture with United Drug plc. This joint venture, UniDrug Distribution Group Limited, achieved immediate success, winning the tender for the largest pharmaceutical pre-wholesaling contract to be offered in the UK, with Bristol Myers Squibb. Abroad, we recently announced we had finalised negotiations for the merging of our business in Portugal with that of Alliance Sante and the new joint venture formally came into being on January 1, 1997.

These activities were matched by the rapid pace of developments in the UK Wholesale Division; during the year we launched a number of customer initiatives and played an active part in the Royal Pharmaceutical Society's "Pharmacy In A New Age" initiative and in the industry's lobbying efforts on the issue of resale price maintenance. All of these developments are there to support our independent pharmacy customers. As always, the close links with our pharmacy customers were nurtured under the guidance of our Regional Committees. I would like to thank them for continuing to give us their time, expertise and advice about many aspects of the Group's activities. I would also like to thank the Regional Committee Chairmen for their invaluable contributions to the undoubted success of these Regional Committees. This, in conjunction with the experienced views of the pharmacists who serve as non-executive directors, ensures that the interests of our independent customers remain paramount. A list of regional committee members for each of our branches is included on page 28 of this report.

Lloyds Chemists plc

Shareholders will be aware that following Gehe's increased offer, we lapsed our bid for Lloyds Chemists on January 17, 1997. Your Board concluded that, at a price of 525 pence per share, there was insufficient certainty of creating shareholder value from an acquisition of Lloyds Chemists. In reaching this conclusion, the Board took into account the considerable opportunities for growth available to us elsewhere.

The exercise of bidding for Lloyds Chemists has meant we incurred £13.2 million of exceptional costs at the pre-tax level, comprising fees, costs and underwriting commissions of £14.2 million, net financing costs in respect of our 9.9 per cent stake in Lloyds Chemists of £1.9 million and a net profit on the sale of that stake of £2.9 million.

Performance

All of our businesses contributed a rise in sales and operating profits and the Group achieved improved operating margins. Consolidated Group turnover rose by 5 per cent to £1.48 billion, operating profits before exceptional costs associated with the bid for Lloyds Chemists, increased 10 per cent to £58.8 million and pre-tax profits, on a similar basis, at £53.5 million were 8 per cent ahead of last year. Group operating margin grew from 3.8 per cent last year to 4.0 per cent in 1996. Earnings per share (fully diluted) before exceptional costs were 20.2 pence, an increase of 6 per cent. A final dividend of 5.8 pence is proposed, bringing the full year cash dividend per share up to 8.8 pence. This represents a 10 per cent increase over last year. The dividend is covered 2.3 times by pre-exceptional earnings. We again achieved strong cash generation from operations and used our free cashflow after tax and financing costs to purchase retail pharmacies and to replace assets in our core wholesaling infrastructure. A full financial review is contained on pages 22 to 23 of this report.

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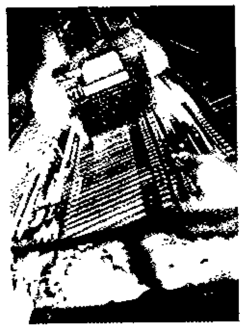
Shareholders



1.8 million new shares were issued in respect of pharmacy acquisitions, the acceptance of the scrip dividends by mainly private shareholders, and the exercise of employee share options.

Pharmacist shareholders continue to be strongly represented on our register. The Company values highly the participation of its pharmacist shareholders, which reinforces the mutuality of interest between the Company and so many of its customers. We have also welcomed to our register several major new institutions following the heightened interest in UniChem arising from our bid for Lloyds.

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

Since flotation, UniChem has successfully pursued a strategy of developing a major healthcare company, focused around our original core activity of pharmaceutical wholesaling.

People

The true strength of UniChem is the high level of commitment and enthusiasm of all our employees. It is through their efforts that we have developed the capabilities and activities of our Group, and continually improved our performance and customer services. It has been my privilege to observe at close quarters the very high professional standards maintained for the benefit of our business and our customers. Our people have been led, as always, by our very committed and capable executive team.

Directors

In July we were sorry to see Marianne Burton retire from the Board to have her second child. Marianne has served as a diligent and valued director since 1991, soon after our flotation. With her background in the City, Marianne was able to provide a constructive and objective viewpoint to Board discussions. To continue the availability of this perspective, we are fortunate that earlier this year, Dr. Neil Cross accepted our invitation to join the Board. Neil was an executive director of 3i Group plc with over 27 years' service and brings to us extensive experience of business financing and development both in the UK and abroad. Neil's experience of UniChem goes back to the 1970s when 3i was one of our first lenders as a co-operative.

We also welcomed Mike Smith, a community pharmacist and previously Chairman of a Regional Committee, on to the Board in October 1996. Mike has operated a successful pharmacy business in the west country for many years and is widely respected in the sector for his contribution as a member of the board of the National Pharmaceutical Association (NPA) and of many professional working parties and committees. We look forward to benefiting from his extensive experience.

Neil Cross and Mike Smith have joined the Board as Non-Executives

Barry Andrews, our Retail Director, has been a prominent figure in the pharmacy sector for some time and is highly regarded both inside UniChem and in the healthcare world at large. We are delighted that his contribution has been endorsed by the Royal Pharmaceutical Society's award of a Fellowship.

An important step for the future development of the Group was made with the appointment of a separate board of directors for the Wholesale Division. This new board of experienced senior executives will give the Wholesale Division a clearer focus on meeting the needs of independent community pharmacies. The new Board comprises Jeff Harris as Chairman; Chris Etherington - Deputy Managing Director; Keith Slater - Director of Management Services; Cliff Irwin - Director of Finance; Tony Jackson - Director of Operations; and Martyn Ward - Director of Sales & Marketing. In addition, Neil Chapman, a community pharmacist and non-executive director on the Group Board, has been appointed as a non-executive director of the Wholesale board.

Mike Chapman, a community pharmacist and previously a Chairman of a Regional Committee joined the Board of Moss Chemists. We are increasingly using Moss to test new products and services which add value to our independent customers' businesses and Mike will provide a valuable perspective to our executive team.

Outlook

Since flotation, UniChem has successfully pursued a strategy of developing a major healthcare company, focused around our original core activity of pharmaceutical wholesaling. This strategy has involved; the development of a chain of high quality retail pharmacies; the maintenance of our cost and service leadership in pharmaceutical wholesaling; our entry into related healthcare markets in the UK; and the positioning of UniChem to take advantage of the potential for European developments. In pursuit of this strategy, we have built, through Moss Chemists, one of the leading pharmacy chains in the UK. The MMC report confirmed that we are, by some distance, the most efficient national pharmaceutical wholesaler with the highest level of customer responsiveness.

We have successfully entered the pharmaceutical, medical and surgical hospital supply market, have launched a major new venture in pharmaceutical pre-wholesaling and now manufacture and supply pharmaceutical "specials" for our pharmacy customers as well as supplying occupational health requirements for corporate customers. Through our acquisitions and growth in Portugal we have built a successful wholesale business in a relatively high growth market in continental Europe and our joint venture, IPSO, with seven other European wholesalers has begun to deliver the benefits available from pan-European operations.

We have demonstrated our willingness to invest to achieve leading positions in our chosen markets and provide attractive returns to our shareholders. Our markets continue to show strong long-term growth prospects and changes in the structures of healthcare provision will give further opportunities for the profitable expansion of our Group. We look forward to the future with confidence.

David Mair

David Mair
Acting Chairman
18 March 1997

Jeff Harris, Chief Executive

Our success rests on a clear-sighted analysis of trends in healthcare markets, careful development of comprehensive strategies for deploying our capital and skills and tight financial and operational controls to drive performance. In this review, I outline our overall results and go on to describe, for each of our Divisions, the market developments experienced in 1996, the strategies executed and the performances achieved. Finally, I have reviewed developments in European markets and commented on our prospects for growth.

This year, the Group again showed growth in sales and pre-exceptional operating profits, with increases contributed by all three divisions.

Results

This year, the Group again showed growth in sales and pre-exceptional operating profits, with increases contributed by all three divisions. Operating margins in Retail and Portugal grew strongly and the Wholesale Division margin was level with last year.

In the Wholesale Division, we are continuing to see benefits from the improvements we have made to warehouse operations and systems. Our cost ratios showed an improvement during the year as managers began to use the new systems available to them. However, these gains were offset by a reduction in our gross margins, caused mainly by sales mix changes; the continuing very strong growth in our lower margin hospital sales and the relatively lower growth of higher margin OTC products were responsible.

We reported at the interim stage that growth in turnover had been slow in the first half of 1996. I am delighted to be able to report that our superior service levels are beginning to work in our favour and we are winning back market share. Second half like-for-like growth in medical business was 9 per cent, with growth accelerating towards the end of the year.

The strong growth shown by the Retail Division continues to endorse our strategy of retail expansion with an emphasis on healthcare. Sales and operating profits grew by 18 per cent and 27 per cent respectively and the operating margin grew from 5.90 per cent to 6.32 per cent this year. 1996 was a quiet year for pharmacy acquisitions, with 41 units added, mainly reflecting the uncertainty surrounding our bid for Lloyds.

For the third year running, our Portuguese business achieved like-for-like sales growth ahead of the market, which for 1996 we estimate at 9 per cent. This growth, together with our traditional tight cost controls, pushed operating margin further ahead to 2.55 per cent from 2.38 per cent last year. The relatively slower sales growth than seen in previous years was mainly the result of the Portuguese government's delay of the normal price increase expected in January each year. A small increase has now been approved and market growth picked up in the second half.

The Wholesale Division

Sales growth in the Wholesale Division has increased year on year by 5 per cent to £1,329 million. Like-for-like growth of medicines was 7 per cent, reflecting the calendar impact of the loss of business experienced during 1995 following the operational difficulties experienced at the start-up of our centralised OTC depot in early 1995. Having overcome those difficulties, the Division has achieved consistently high service levels on OTC and medical business and is winning back market share. Latest like-for-like performance for the first two months of 1997 shows growth of over 10 per cent. Operating profits for 1996 increased by 5per cent to £40.9 million for the year. Operating margin was level with 1995 at 3.08 per cent.

Pharmacy NHS Market

Market growth for the year has been an estimated 8 per cent, with the now usual pattern of erratic monthly growth. The winter influenza epidemic, seen in November 1995, occurred late this year and growth was sluggish at the start of the fourth quarter before recovering in the last few weeks of 1996. This higher rate of growth has continued into the first few weeks of 1997, although we anticipate the now usual dip in growth at the end of the Government's fiscal year as fundholders balance their budgets.

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

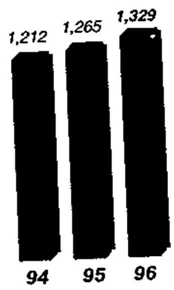
Pharmacy OTC Market

Whilst prescription medicines represent the overriding majority of our sales, we also have significant trade in the over-the-counter (OTC) market. That sector divides into OTC toiletries and OTC medicines and the two elements showed very different growth patterns during 1996.

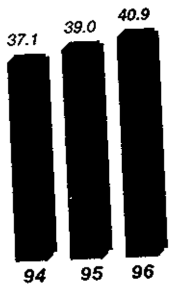
The market in OTC medicines, particularly 'P' medicines, i.e. those which may only be sold under the supervision of a pharmacist, has grown by an estimated 3 per cent, reflecting the launch of relatively few major 'P' products in 1996. The OTC toiletries market through pharmacy declined again this year as grocery superstores continued to take market share from pharmacies in the traditional OTC categories such as slimming aids, haircare and baby products.

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

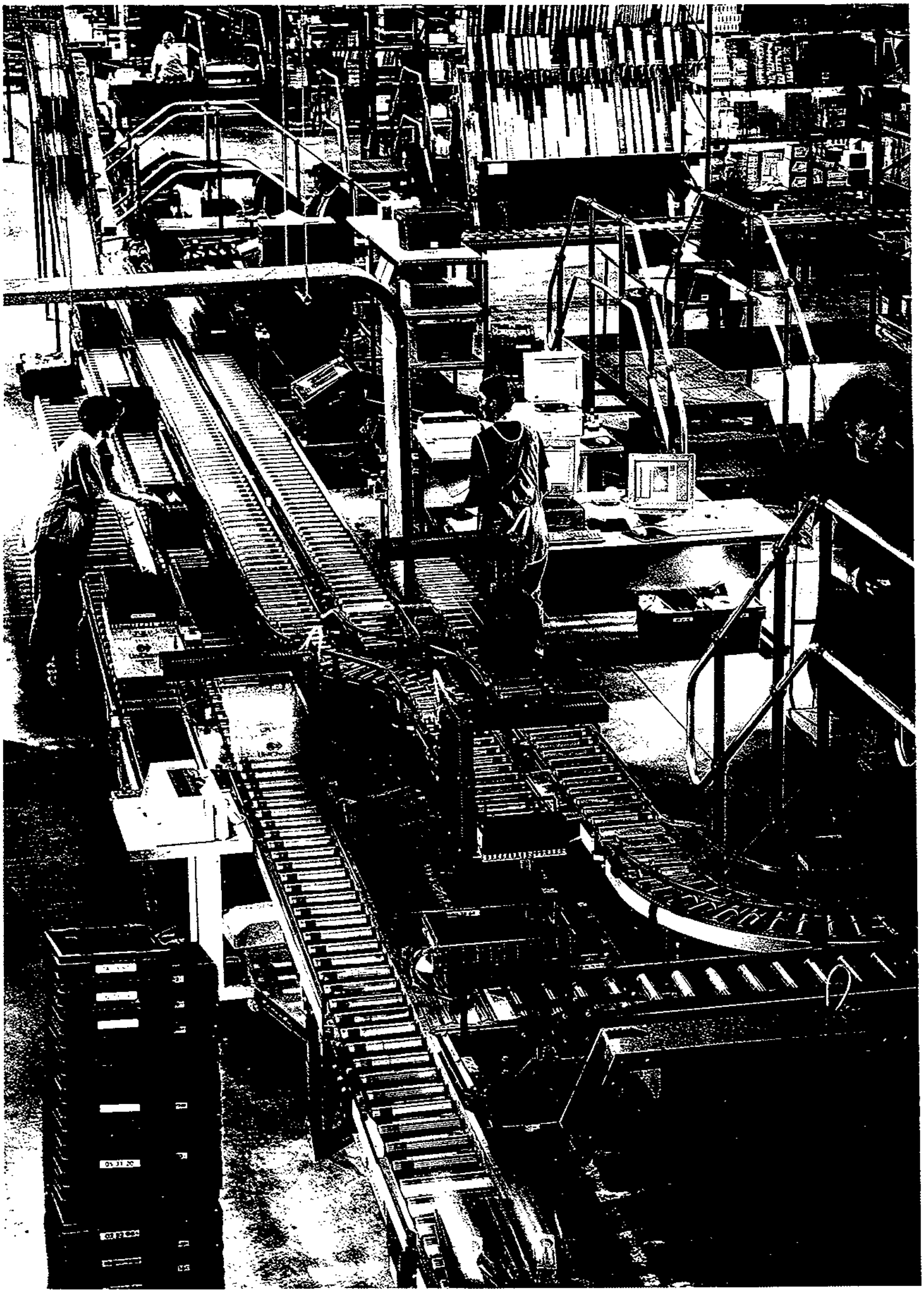
Despite a well-argued campaign by the Community Pharmacy Action Group, which appears to have won over public opinion, the Director General of the Office of Fair Trading decided to refer to the Restrictive Practices Court the resale price maintenance (RPM) of OTC medicines. The hearings are not now expected to be concluded until mid-1998. We remain strong advocates of RPM since its abolition would pose a serious threat to the accessibility of many patients to the community pharmacy service. There are few valid arguments in favour of encouraging the consumption of OTC medicines through price reductions and recent cases have highlighted the dangers of unsupervised sale of some OTC medicines through non-pharmacy outlets. These arguments appear to have gained increasing support from politicians. We remain confident that any decision on the removal of RPM would only affect a small proportion of OTC medicines.



Turnover for the wholesale division - £m



Operating profit for the wholesale division, pre exceptional item - £m



Several warehouses have been internally redesigned during the year to increase capacity and efficiency.

Competitors

As ever, competition between wholesalers in 1996 remained keen. More aggressive discount terms were offered in the market during the year by competitors anxious to avoid losing market share. We believe that the pressure of the Lloyds bid provided the background to these attempts and we are now seeing an absence of the more extreme deals.

The acquisition of Lloyds by Gehe will have an impact on competition; Lloyds' pharmaceutical wholesaling business will come under new ownership, with seven of their depots having to be sold on by Gehe to third parties approved by the Secretary of State for Trade and Industry. We believe the Lloyds pharmaceutical wholesaling business was incurring substantial losses and would expect the new owners to adopt a more sensible commercial policy on discounts. However, in the initial period after acquisition, the new owners may seek to resist opportunistic customer pressures by raising discounts. We, therefore, expect discount competition to remain keen in the short term, with a more realistic market emerging later.

Hospital Market

During the previous financial year, we concluded contracts giving us the ability to meet virtually all the pharmaceutical requirements of hospitals in the UK, and predicted that our rate of growth in this market would slow. In fact, our growth exceeded our expectations and accelerated to 25 per cent from 15 per cent last year as more hospitals took advantage of our comprehensive product coverage. Against a background of a flat market, this growth was all the more impressive and is a tribute to our consistently high service levels and our understanding of customers' needs.

The medical and surgical market showed little growth and prices remained keen as trust hospitals increasingly used their new-found commercial power. This is encouraging them to use commercial wholesalers where they can obtain an improved package of service and terms. Despite the low growth in the market, our business in this sector grew by 11 per cent, with particularly strong growth towards the end of the year.

Marketing Initiatives

During 1996 we began the process of orientating our product and service offer towards the healthcare aspects of our customers' businesses. Our efforts were based around the launch in November of our Community Pharmacy Initiative. This provides customers with a package of product and promotional support, including merchandising and business advice, aimed at increasing their share of healthcare products which utilise and emphasise the pharmacist's advisory role with patients. We are delighted that the initiative was launched by the Health Minister, Gerald Malone MP, at the first partner pharmacy in Lambourne. In its current trial phase, the initiative is running with 127 partners and we expect to admit more members to the scheme during 1997.

Our Community Pharmacy Initiative provides customers with a package of product and promotional support emphasising the pharmacist's advisory role with patients.

We also launched in 1996 a series of financial seminars using professional advisors to help our customers plan and manage their financial affairs. These covered a range of topics including self assessment, pension planning and managing bank relationships. The programme has proved very popular and is being extended in 1997. The seminar programme was accompanied by a further range of financial help and advice. This included low-cost car purchase and personal accident insurance schemes, the establishment of a free tax and finance helpline and publication of a budget analysis.

We recently re-launched our surgical products service, making our full range available on our twice-daily delivery service. This was supported by the establishment of a dedicated telephone surgical advice line staffed by qualified nursing staff. Research has shown this to be an increasingly complex product category where pharmacists need specialist advice to consult with their patients.

We also launched 'Connect', our new customer hand-held product ordering system, developed after extensive research among pharmacists. This innovative system sets new standards in the industry, and has received extensive coverage from both the pharmacy and computer press. Key features of the system include bar code scanning, portability for ease of use around the retail unit, and a directory of over 18,000 products and prices, updated electronically by UniChem on a daily basis. Many of these features can be customised to meet each pharmacy's particular requirements. The system is capable of two way communication, allowing messages to be sent to the terminal about product availability, new products and special offers. Importantly, the system will enhance the profitability of the independent pharmacy through improved stockholding and reduced administration.

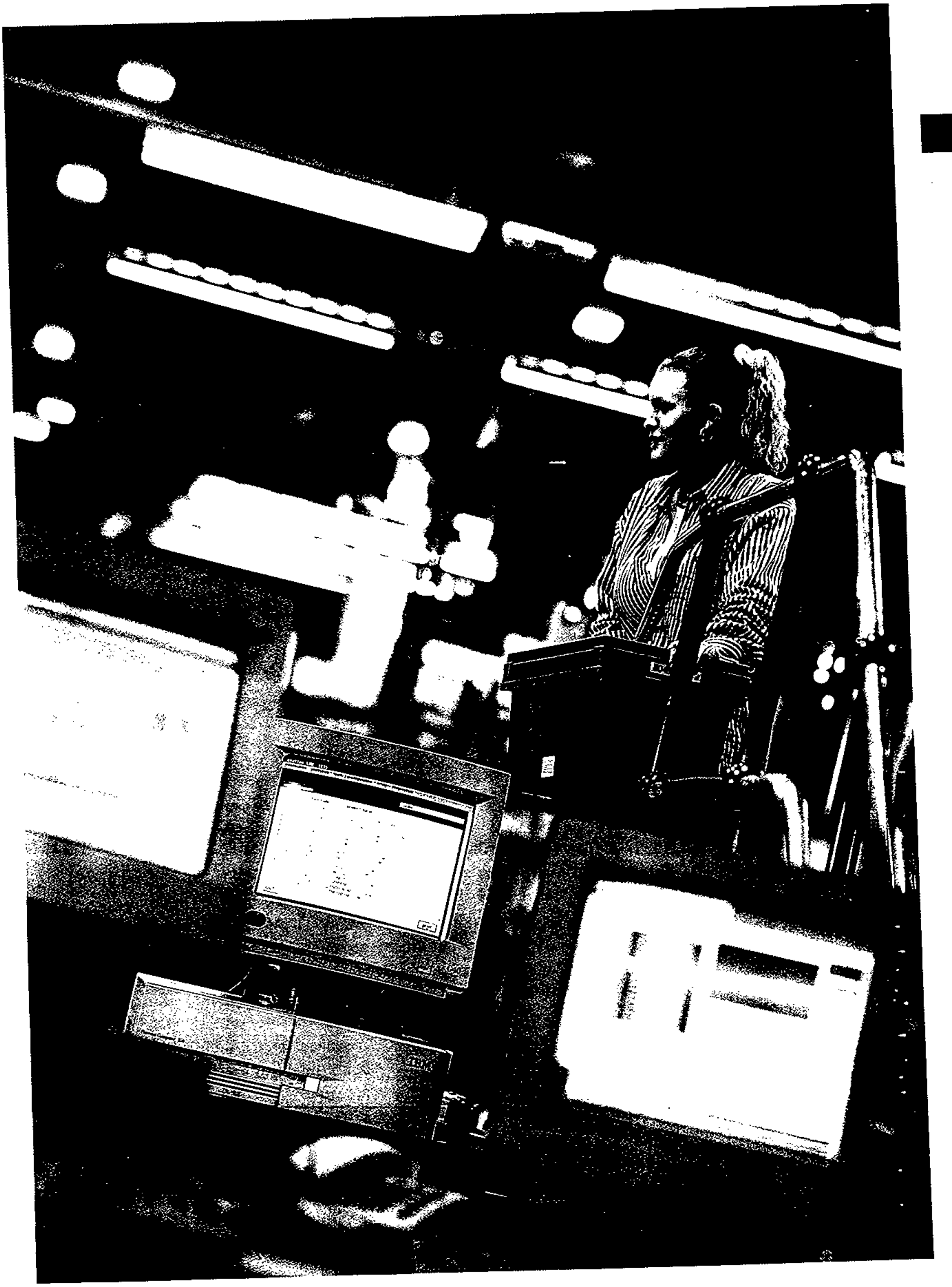
Customer Relations

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

Our communications programme, launched in 1995, has continued to provide a timely and effective channel of communication to our customers. In particular, the weekly newsletter has proved to be an effective tool for advising customers about supply and product availability issues.

The 1996 Annual Convention was held in Bermuda and, perhaps not surprisingly, proved to be one of our most popular. It was also one of the most significant events in the year in the Pharmacy sector. Adopting the Royal Pharmaceutical Society's project "Pharmacy In A New Age" (PIANA) as its theme, we were delighted to provide a platform to the industry's leaders: - Tim Astill, Director of the NPA; Chris Cairns, President of the Guild of Hospital Pharmacists; Wally Dove, Chairman of the Pharmaceutical Services Negotiating Committee; Brian Hartley, Chief Pharmacist at the Department of Health; and Anne Lewis, immediate past President of the Royal Pharmaceutical Society of Great Britain - whose presentations gave delegates the opportunity to debate the recently-published recommendations from the PIANA report.

The Loan Guarantee Scheme continues to provide a competitive and essential source of finance to our customers, allowing them to acquire new pharmacies or expand existing premises financed through high street bank lending, guaranteed by UniChem. In 1996, we supported nearly 200 acquisitions and expansions. Significantly, we helped 29 young pharmacists in setting up their first business, an important contribution to the long-term success of independent pharmacy. Our insurance and pension schemes have also been well supported during the year, offering competitive and innovative terms.

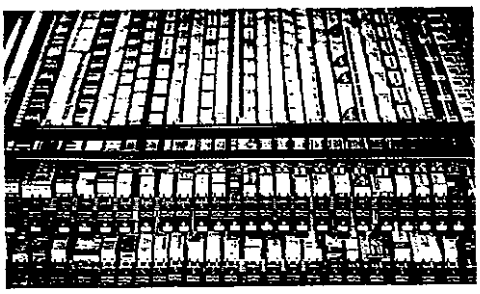


UniChem delivers twice a day to its customers with the shortest time between order receipt and delivery being 45 minutes.

Operations

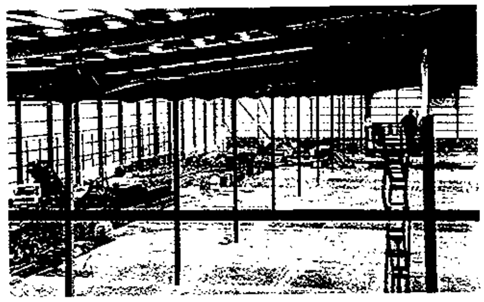
The Operations Division continued to work with the new systems and procedures introduced in the previous 2 years, improving cost and stockholding ratios. By reviewing detailed aspects of our operation and using new sources of management information, we are optimising performance across all key functions of our branch network. In most branches, this has entailed a physical relay of racking and shelving. In parallel with this effort, we planned and started the next phase of our automation programme. Phase II automation was installed successfully at our Leeds and Preston branches bringing the levels of automation to over 80 per cent. This involves introduction of new, cheaper technology for the automated picking of slower moving medical products, full integration of automated and manual picking lines and the introduction of bar code scanning for customer returns. Further automated components including automatic sorting of orders by van route during despatch, will be brought on-line during 1997. Phase II automation will further improve service levels, reduce costs and allow customers a later cut-off time for transmission of their orders.

Having completed the systems re-engineering programme at the end of 1995, our Information Technology staff have turned their attention to reviewing systems for reliability at Year 2000, in addition to routine systems maintenance tasks. New development projects were limited in order to support the roll-out of 'Connect' and the introduction of a document image processing system to improve customer service and query resolution. The very expensive but essential "Year 2000" Project will be completed by the end of 1997, ensuring all systems will remain operable well ahead of the end of the millennium.



Pre-Wholesale Business

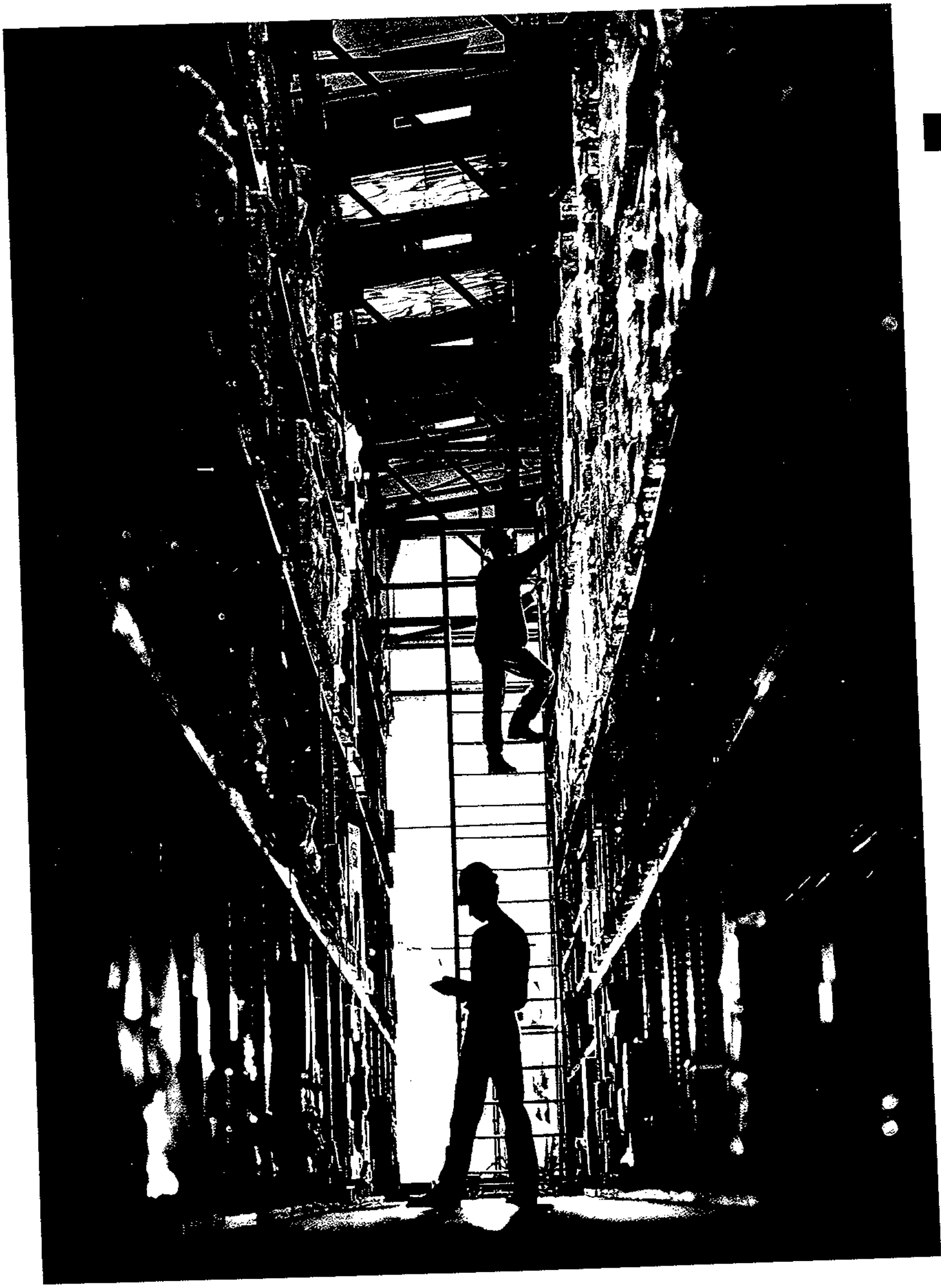
There is no market data available for the pre-wholesale sector; in any event, our activities through our joint venture, UDG, are creating a new market. Together with our partners, United Drug plc, we are in discussion with a number of manufacturers about the potential for pre-wholesaling and we have been encouraged by their response. Manufacturers are increasingly concentrating on their core skills of R&D, manufacturing and marketing and are looking for partners to take on a pre-wholesaling role. This market will become strategically significant as manufacturers seek closer working relationships with wholesalers and retailers across Europe. Following its initial success, UDG has won three further contracts and we expect to conclude more towards the end of 1997.



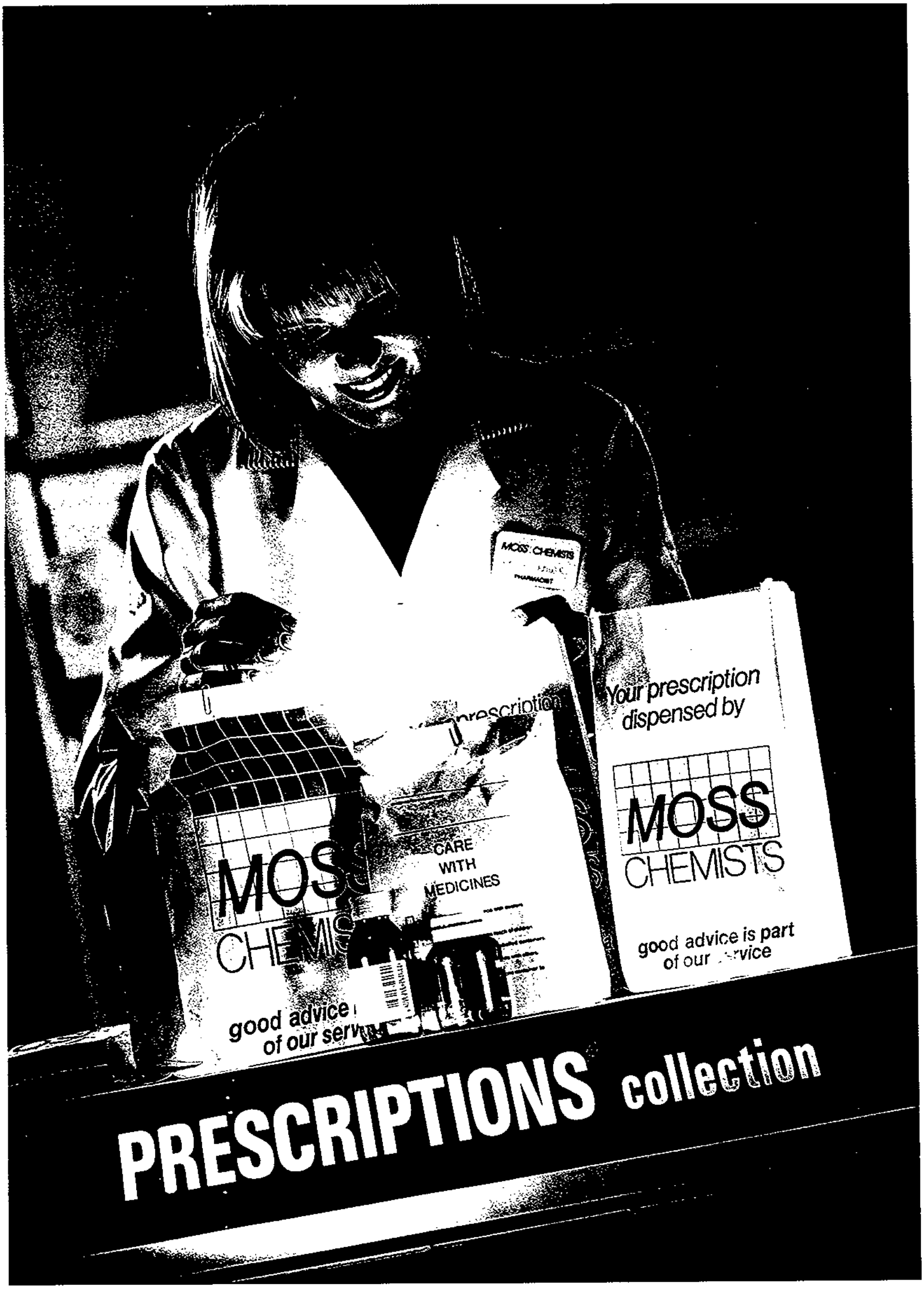
The initial contract, awarded by Bristol-Myers Squibb, is now operational and is being serviced using UniChem's distribution facilities pending the completion of UDG's own warehouse. This purpose-built, 207,000 square feet unit will come on stream at the beginning of the second quarter of 1997 and will have capacity to handle the storage and order assembly requirements of further contracts. UDG will sub-contract its delivery requirements from UniChem, using our established trunking and van delivery network.

Outlook

We expect to continue to achieve efficiency and market share gains which will enable us to continue our historical pattern of steady margin growth in the long term.



18,000 product lines are stored in computer located positions across the warehouse network.



The pharmacist gives advice with all medicines dispensed at Moss Chemists.

The Retail Division

Moss Chemists again produced a very strong performance. Total year on year sales grew by 18 per cent with strong like-for-like volume growth, ahead of the market, and continuing expansion of the pharmacy chain by acquisitions. Operating profits grew by 27 per cent, up by £3.3 million to £15.6 million. Operating margin increased sharply to 6.32 per cent demonstrating the benefits of strong divisional management, despite tight control by the Department of Health over increases in pharmacists' prescription fees.

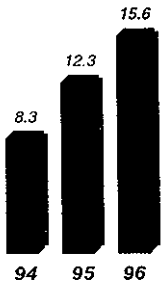
Primary Care

In 1996 we saw a number of encouraging developments aimed at enhancing the pharmacists' role in the primary healthcare team, including the Royal Pharmaceutical Society's "Pharmacy In A New Age" initiative (PIANA) and the recent publication of the Government's white paper on primary healthcare provision. We have long believed that pharmacists should be given a broader role to the benefit of patients and other healthcare professionals and we remain enthusiastic supporters of the PIANA initiative. We contributed a number of submissions to the PIANA debate, including responses from our five regional committees. We await with interest the outcome of the various working groups established by PIANA and look forward to the opportunity for our customers and our own Moss Chemists chain to develop extended services to patients such as medicine management and compliance support. The Government's white paper indicated that new sources of funding would be available for provision of services such as these. In addition, it seems likely that an increasing proportion of the existing funding of pharmaceutical services will be made available for new services. The white paper also made provision for pilot studies to examine the feasibility of new ways of providing general practitioner services, albeit with individual GPs holding

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

NHS contracts. Clearly, any bodies involved in the provision of GP services will need to be free of conflicts of interest and be capable of maintaining the very highest ethical standards. As an independent company with no interests in generic, proprietary or OTC manufacturing, we are ideally positioned. Our stance in placing the highest priority on the interests of patients is reflected in the high regard with which Moss Chemists is held by healthcare professionals. If appropriate legislation is enacted, we are keen to participate in pilot studies and hope to demonstrate the benefits of integrating medical and pharmaceutical services. Where appropriate, we would seek to involve our independent pharmacy customers in these pilot studies.

Turnover for the retail division - £m



Operating profit for the retail division, pre exceptional item - £m

Portfolio

In total, 41 pharmacies were acquired during the year, 2 new pharmacies were opened and 9 units were closed or sold, leaving 457 units trading at the year end. Since then a further 5 pharmacies have been acquired, 2 sold and 2 other units rationalised into one so that Moss Chemists is now trading from 459 outlets. On average, pharmacies acquired in 1996 were larger units, with average annualised turnover of £700,000 and a higher proportion of healthcare business. The scale and nature of acquisitions in 1996 reflected the outcome of the strategic review of Moss Chemists completed in 1995, which recommended targeting selective pharmacies particularly suited to Moss Chemists' approach to trading, which emphasises healthcare advice.

Many pharmacists planning to sell their business during 1996 postponed a decision pending the outcome of the bids for Lloyds. Following resolution of the battle for Lloyds, the number of pharmacies available for purchase has increased and we expect to be able to accelerate our acquisition programme in 1997. Early indications are that goodwill prices are falling, reflecting the more difficult conditions faced by independent pharmacies and a reduced level of competition amongst purchasers.

Marketing

There has been no let-up in commercial pressures faced by independent chemists; their remuneration has increased at 3.1 per cent - higher than general inflation, but lower than the rates of increases in drug expenditure - and OTC toiletry market share continues to be lost to grocery superstores. Multiple chemists have opportunities to offset these pressures and to continue to raise their margins. However, the announcement of an increased level of discount clawback by the Department of Health towards the end of the year will affect all retail pharmacies.

The market for NHS dispensing, which includes NHS fees and prescription pharmaceutical spending, grew by around 8 per cent in 1996. Like-for-like turnover of NHS dispensing at Moss Chemists grew in line with market growth, and total turnover growth of NHS dispensing was 21 per cent in this category. OTC like-for-like sales grew by 1 per cent, ahead of the pharmacy market for these products, which again showed a small decline. The strength of OTC medicines categories is now beginning to match the decline this year in the market for OTC toiletries. In 1996, the OTC medicines market grew by 3 per cent but OTC toiletries declined by 3 per cent. Moss outperformed in both these markets, with like-for-like growth of 7 per cent in pharmacy only medicines, 6 per cent in General Sales List medicines and a decline of 1 per cent in toiletries.

During the year, all Moss stores introduced a revised product layout, emphasising Pharmacy Only ('P') and General Sales List (GSL) medicines. Within these categories, extra space was given to the rapidly growing vitamins and supplement market. New promotional initiatives were also introduced to support specific 'P' medicines and we continue to work closely with manufacturers to promote and present those products more effectively. These initiatives and new product layouts helped to improve OTC gross margins.

Moss increased OTC sales ahead of the market helped by strong growth in 'P' medicines.

Own brand products continue to be an important source of high margin sales on both the wholesale and retail sides of the business.

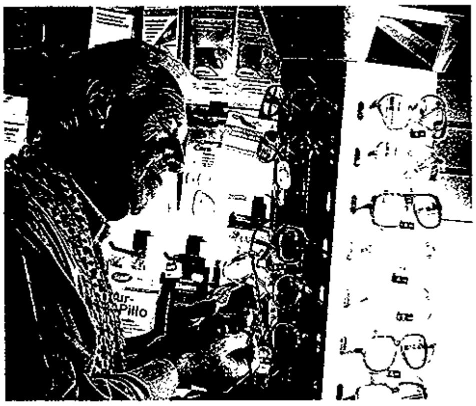
Moss Chemists also completed a highly successful trial to examine the feasibility of selling a limited range of high quality prescription spectacles at highly competitive retail prices. This service has now been extended to 250 of its branches and over 500 of our independent pharmacy customers are expected to participate in the project.

There continues to be a shift in the Government's reimbursement of pharmacists towards added value services. Moss Chemists is actively involved with the development of such services and has obtained new contracts with health authorities for asthma compliance, medication reviews, support for mental health patients and advice to a range of other patient groups. In conjunction with these new services, a patient charter was adopted at all Moss Chemists' branches specifying the quality and performance which patients can expect.

In support of the overall healthcare strategy, Moss Chemists completed a wide ranging and detailed statistical analysis of market drivers aimed at identifying the underlying potential in each store catchment for its healthcare-oriented services. This work has produced a retail model that is being successfully used in all stores to increase market share.

Operations

The Operations Division of Moss Chemists has been engaged during 1996 in implementing the recommendations of the strategic review. This has included initiatives to re-range stores, improve stock ratios, schedule labour utilisation and improve customer services. Although originally not planned to have significant impact until 1997, these initiatives have helped lift operating margins in 1996. The initiatives are also clearly aimed at supporting the healthcare strategy of Moss Chemists, expanding our role in the primary healthcare team.



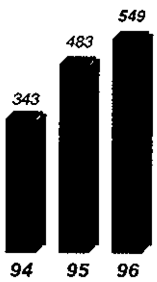
Outlook

This year's results clearly demonstrate the benefits of Moss Chemists' market positioning and the economies of scale now available. These factors have more than offset pressure on operating margin caused by low increases in Government remuneration. We expect this pattern to continue into 1997 and we are confident of raising operating margins yet further, although the rate of growth will be lower than in the recent year due to the increase in pharmacist discount clawback by the Department of Health.

We continue to see a significant number of acquisition opportunities, with our management team examining over 300 cases in 1996. This gives us the ability to utilise our managerial and financial capacity to expand by acquisition.

Moss Chemists is actively involved with the development of added value services in pharmacy.

Turnover for the Portuguese division - PTE bn



Operating profit for the Portuguese division - PTE m

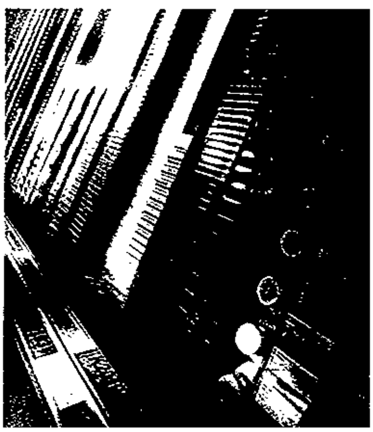
The Portugal Division

Our business in Portugal had another excellent year, with growth in sales, operating profits and operating margin. For the second year running, sales growth was ahead of market growth, with revenues up 10 per cent in a market up by 9 per cent. Market growth was held back in 1996 following the government's delay in the normal price rise seen in January each year. Prices were eventually increased in October, but only on low value products, giving an effective increase in drug spend of 1.5 per cent. Our sales increase was mainly as a result of achieving a higher share of customer spending due to our superior service levels.

Operating profits rose by 15 per cent to £2.3 million. The operating margin increased to 2.55 per cent from 2.38 per cent last year, reflecting continued benefits from our investment in new warehouse facilities in 1995.

Market

In common with many European countries, the recently-elected government has targeted a reduction in public sector borrowing to meet European Monetary Union entry criteria. This has meant that price increases in 1996 and 1997 have been restricted and delayed, reducing market growth which we estimate will continue at 9 per cent in 1997. The government is seeking to introduce new payments terms for pharmacists, delaying their reimbursement. This may add to our customers' working capital requirements and may be reflected in a slight deterioration of our 1997 working capital ratios.



Operations

Our new Porto warehouse continues to work well, delivering improved service levels and improvements in efficiency. The warehouse retains substantial capacity for expansion ahead of our impending merger.

Development

I am delighted that we launched, on January 1 1997, our joint venture in Portugal by combining our business with that of Alliance Sante, one of our IPSO partners. The joint venture becomes the largest wholesaler in Portugal, with a market share of over 20 per cent, and the only wholesaler with full national coverage. The joint venture, UniChem-Alliance Sante Portuguesa SGPS (UASP), is owned equally by ourselves and Alliance Sante, with UniChem retaining management control. We expect integration of these two businesses to take place over the next two years and look forward to working closely with our new colleagues from one of Europe's leading healthcare groups.

UASP operates with full national coverage through 10 depots. We plan to restructure carefully some aspects of the joint venture, rationalising some depots but retaining national coverage. This process is planned to take around 18 months to avoid disruption and undue rationalisation costs.

In January 1997 we concluded an agreement with Tagifar Medicamentos Lda, a Lisbon wholesaler, to establish Tagifar II Farmaceutica s.a., a company 60 per cent owned by UASP, which has acquired the goodwill, business and assets of Tagifar Medicamentos. In its last full year of operation, Tagifar Medicamentos had turnover of PTE 3.8 billion (£16 million). The new company gives UASP significant share in a region of south Lisbon where neither joint venture partner has significantly been represented.

Outlook

The fit between the businesses of the two joint venture partners is highly complementary; UniChem's business is the market leader in the North and Alliance Sante's operates mainly in the South. The restructuring and merger process will involve incurring some rationalisation costs and we expect operating margin growth to be held back in 1997. However, we are confident of continuing to increase operating margins in the medium term to levels approaching those enjoyed in the UK.

Our merged business is the clear market leader, with the opportunity to increase its market share by using its superior service levels and operating standards. Sales in the first few weeks of the joint venture's operation have started strongly and we look forward to further growth of our business.

Europe

Throughout Europe, wholesalers are having to cope with various challenges, including government price reductions in pharmaceuticals, agency trading and the growing penetration of generics. IPSO, our joint venture with seven other European wholesalers, is engaged in a number of projects aimed at analysing and adapting to these trends. In particular, the volume of cross-border deals through IPSO has now reached the point where the extra margin earned is funding the costs of all other projects. IPSO has also made progress in putting forward to manufacturers the case for pan-European pre-wholesaling.

During the year, UniChem increased to 8 per cent its holding in ANZAG, the third-largest wholesaler in Germany, and one of our IPSO partners.

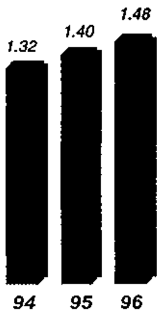
Our core markets continue to exhibit positive long term growth characteristics and we have positioned our businesses to expand within these markets.

Prospects

Our core markets continue to exhibit positive long term growth characteristics and we have positioned our businesses to expand within these markets. Our Retail Division continues to find a ready availability of pharmacy acquisitions. The investments made in our Wholesale Division are enabling us to increase market share. These opportunities should enable us to continue the long term growth of our business.

Jeff Harris
Chief Executive
18 March 1997

Geoff Cooper, Finance Director



Total turnover for all the divisions - £bn

Total operating profit for all divisions, pre exceptional item - £m

Group Results before Exceptional Item

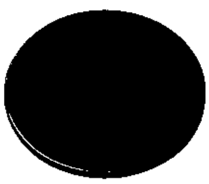
Group turnover in 1996 increased by 5.4 per cent, which together with an improvement in operating margin to 4.0 per cent has resulted in a 10.3 per cent increase in operating profit . Net interest costs were £5.2 million and were covered 11 times by operating profit. Average borrowings in the year, excluding those used to finance the 9.9 per cent stake in Lloyds Chemists, were £82 million against year end net borrowings of £14 million. Fully diluted earnings per share increased from 19.0 pence to 20.2 pence. The dividend increase for the year of 10.0 per cent to 8.8 pence gives dividend cover of 2.3 times.

Exceptional Item

The exceptional item arises from the costs associated with the bid for Lloyds Chemists plc which can be separated into three broad categories. First, there are the fees and costs associated with making the bid of some £14.2 million. Secondly, there are the interest costs arising from holding the 9.9 per cent stake in Lloyds from the acquisition date in February 1996 through to disposal in January 1997, net of the dividends received, which amount to £1.9 million. Finally, the profit on disposal of the shareholding of £2.9 million. In the 1996 accounts, we have charged fees and costs of £11.3 million, the remainder of the fees and costs will be covered by the profit on the sale of the shares arising in 1997.

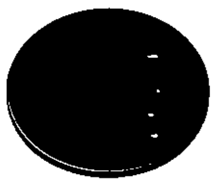
Cash flow

Cash generated from operations before the exceptional item is up 39 per cent at £80.7 million helped by a reduction in working capital of £12.7 million. This cash flow has been used to make payments to the providers of finance and to cover taxation, to maintain the retail acquisition programme, and to finance the purchase of the stake in Lloyds of £61.4 million, which was sold in January 1997 for £64.3 million. A loan of £41.4 million was taken out specifically to fund the purchase of the Lloyds shares with the balance coming from working capital facilities. Year end gearing is 59 per cent which falls to 11 per cent after funding of the Lloyds stake is excluded. Underlying gearing has only decreased slightly during the year as the majority of the pharmacies purchased have been for cash due to an unwillingness of vendors to take part of their consideration in shares arising from the uncertainty of the bid process.



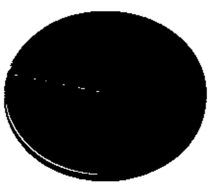
Turnover by division 1996

- *Wholesale 77%*
- *Retail 17%*
- *Portugal 6%*



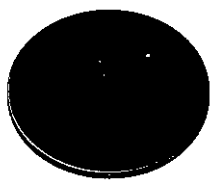
Operating profit by division (pre exceptional item) 1996

- *Wholesale 69%*
- *Retail 27%*
- *Portugal 4%*



Turnover by division 1995

- *Wholesale 79%*
- *Retail 15%*
- *Portugal 6%*



Operating profit by division (pre exceptional item) 1995

- *Wholesale 73%*
- *Retail 23%*
- *Portugal 4%*

Shareholders' funds

Shareholders' funds have decreased from £135.5 million to £129.0 million. The total pre-exceptional recognised gains and losses for the period of £35.5 million together with the shares issued of £3.5 million, are less than the £11.8 million after tax exceptional item, the dividend charge of £15.4 million and the net goodwill write off of £18.3 million. Total goodwill written off in the last five years amounts to £179.6 million of which £157.2 million relates to the acquisition of pharmacies. Given our accounting treatment of writing off goodwill to reserves, our shareholders' funds do not reflect the underlying value of our pharmacy licences.

Treasury

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

Internal Control Review

The systematic and structured review of the internal financial controls of the Group performed last year, involving Divisional management, Group Finance personnel and the Audit Committee, has been repeated this year. A report on this review is contained in the statement of directors' responsibilities on page 30.

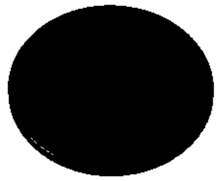
Accounting Policies

The accounting policies are unchanged from previous years. The stake in ANZAG which is partly funded by Deutchmark borrowings is retranslated from its historic Deutchmark cost at the year end rate and the net gain of £0.5 million has been credited to the revaluation reserve.

Although not yet mandatory we have adopted the revised cash flow standard, however, in our view, the inclusion of very short term money market borrowings as debt leads to an unclear cash movement which some users may find difficult to understand. The Treasury function use short term money market borrowings as the prime source of working capital funding and these are better viewed as cash rather than debt.

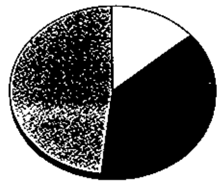
UDG, the pre-wholesaling joint venture, has been included in the accounts as an associated undertaking with our 50 per cent share of the pre-tax result included in the profit and loss account. Our share of the net assets of UDG is included within fixed asset investments.

UniChem merged its operations in Portugal with those of Alliance Sante with effect from 1 January, 1997, giving both parties a 50 per cent stake in the enlarged group, but UniChem has operational control. The joint venture will be accounted for as a subsidiary with a 50 per cent minority interest.



Sources of funding

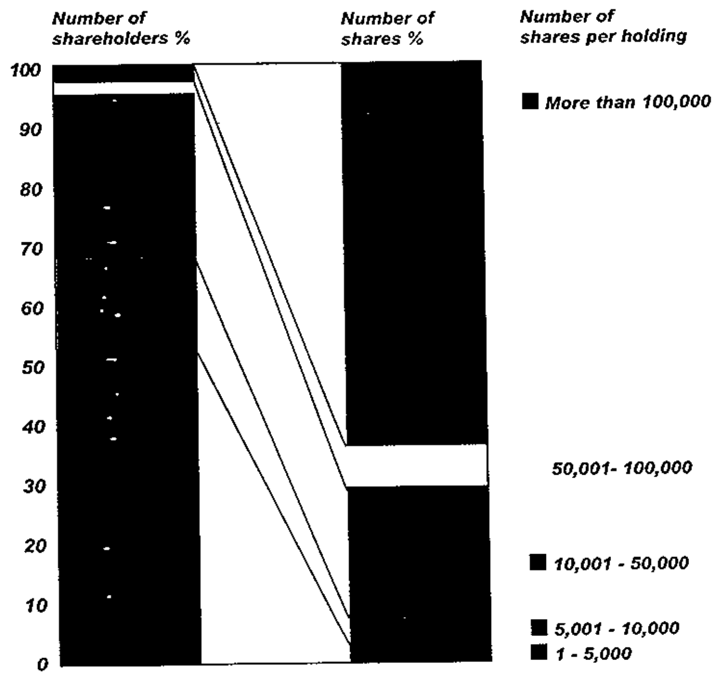
- *Operating activities 76%*
- *Increased share capital 0.5%*
- *Net increase in borrowings 23.5%*



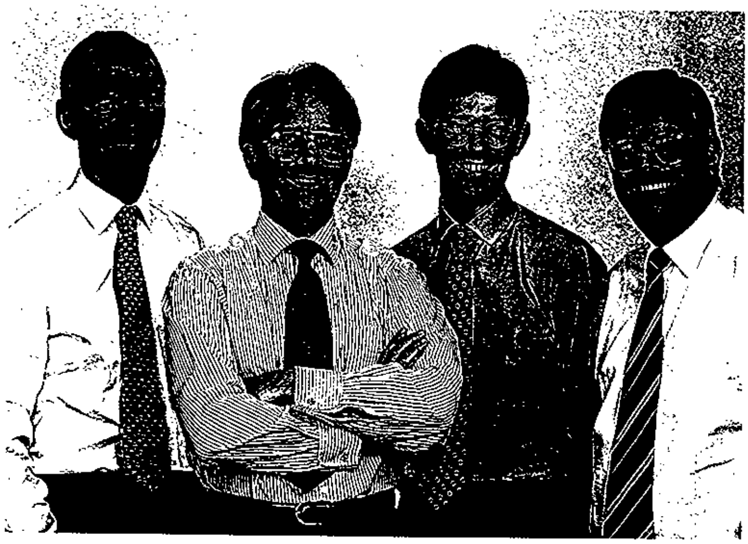
Application of funds

- *Acquisitions 14%*
- *Taxation 13%*
- *Capital expenditure 10%*
- *Dividends and interest 15%*
- *Investment in Lloyds Chemists 48%*

Analysis of shareholders at 31 December 1996.



Directors' biographies



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

B.M. Andrews, B. Pharm., F.R. Pharm.S.
Retail Director
Barry Michael Andrews (aged 52) is a Pharmacist. He is a member of the Pharmaceutical Services Negotiating Committee and a Director of the Company Chemists Association. He is Managing Director of Moss Chemists, a position he held in 1991 when the company was acquired by UniChem, and was appointed to the Board in 1992.

M.A. Bardsley, M.A.
Non-Executive Director
Michael Ambrose Bardsley (aged 67), after obtaining extensive North American experience in marketing, assumed European managerial responsibility for Dun & Bradstreet Inc. and subsequently I.T.T. World Directories Inc.. He was appointed to the Board in 1990.

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

G.I. Cooper, B.Sc., A.C.M.A.
Finance Director
Geoffrey Ian Cooper (aged 43) is a Cost and Management Accountant. He gained his qualification working in industry and then worked as a Management Consultant with two leading firms before joining the Gateway Group where he became Group Finance Director. He joined UniChem and the Board in 1994.

N.E. Cross, Ph.D., F.C.I.S.
Non-Executive Director
Neil Earl Cross (aged 52) worked for 3i where, prior to becoming a main board director with responsibility for international investment, he had extensive experience of investing in small and medium sized UK companies. He was appointed to the Board in 1997.

J.F. Harris, B.Sc., F.C.A.
Chief Executive
Jeffery Francis Harris (aged 48) is a Chartered Accountant. He worked for Turquands Barton Mayhew & Company and Spicer & Pegler for fourteen years. He joined UniChem as Chief Accountant in 1985, was appointed to the Board as Finance Director in 1986, was appointed Deputy Chief Executive in 1991 and was appointed Chief Executive in 1992.

K.S.S. Hide, B.A.
Commercial Director
Kelvin Stephen Saxby Hide (aged 49) worked as a Management Consultant before he joined UniChem in 1971. He was appointed to the Board, as Operations Director, in 1984 and assumed his current responsibilities in 1994.

D.C. Mair, M.R. Pharm.S.
Non-Executive Acting Chairman
David Campbell Mair (aged 61) is a Pharmacist and has run his own independent pharmacy business. He is a former Chairman of the Pharmaceutical General Council and a former Chairman of the National Pharmaceutical Consultative Committee. He was appointed to the Board in 1976 and was Chairman between 1985 and 1990.

M.H. Smith, B.Sc., M.R. Pharm.S.
Non-Executive Director
Michael Harold Smith (aged 51) is a Pharmacist with his own independent pharmacy business. He is a member of the Pharmaceutical Services Negotiating Committee and a Director of the National Pharmaceutical Association. He was an active member of UniChem's Southern Regional Committee, latterly as Chairman, and was re-appointed to the Board in 1996, having previously served between 1987 and 1990.

During 1996 UniChem complied with the **Code of Best Practice**, published by the Committee on the Financial Aspects of Corporate Governance.

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

The **Board of Directors** met formally on ten occasions during 1996 and the four standing **committees** of the Board met in accordance with their terms of reference, as detailed below. One other committee was established in 1996 to undertake a specific task, which has been completed. Where decisions of the committees are relevant they are detailed in the pertinent section of the 1996 annual report.

The **audit** committee met three times in 1996. Its main purposes are: to provide a conduit for the interface between UniChem and the auditors; to review the financial statements of UniChem focusing particularly on compliance with legal, regulatory and accounting standard requirements and the going concern assumptions; and to review the internal controls of UniChem.

The **executive** committee is constituted so that UniChem can function on a day to day basis taking care of routine matters not requiring the consideration of the Board as a whole. The terms of reference of this committee were expanded during the year to include the functions of the former sealing and share capital committees.

Under the terms of reference parameters have been established which limit its authority to act without consulting the Board as a whole.

The **nomination** committee met once in 1996. Its role is to recommend to the Board any appointment as a director and any re-appointment of a non-executive director at the end of their five year term of office.

The **remuneration** committee met twice in 1996 and is authorised to determine the remuneration of the directors and to grant options under the discretionary share option scheme. A report from this committee is on pages 26 and 27.

The audit committee, Michael Bardsley, Neil Cross and Neil Chapman with Company Secretary, Adrian Goodenough (second from left).

Committees of the Board of Directors	audit	executive	nomination	remuneration
Frequency of meetings				
weekly, if possible	-	x	-	-
minimum number of times per year	2	-	-	1
as required	-	-	x	-
Committee members:				
non-executive directors				
D.C. Mair - acting chairman	-	r	CM	CE
M.A. Bardsley	CE	r	-	-
W.N.P. Chapman	E	r	-	E
N.E. Cross	E	r	-	E
M.H. Smith	-	r	E	-
executive directors				
J.F. Harris - chief executive	-	CM	M	A
B.M. Andrews - retail director	-	M	-	-
G.I. Cooper - finance director	A	M	-	-
K.S.S. Hide - commercial director	-	M	E	-
company executives				
C. Etherington - wholesale deputy managing director	-	A	-	-
A.J. Goodenough - company secretary	A	A	A	A
S.D. Sampson - group financial controller	A	-	-	-
external				
auditor's representative	A	-	-	-

'A' indicates an attendee of the committee,

'C' indicates the chairman of the committee,

'E' indicates an elected member of the committee,

'M' indicates an automatic member of the committee, and

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

Report of the Remuneration Committee

UniChem complied with section A (remuneration committees) of the best practice provisions on directors' remuneration annexed to the listing rules of the London Stock Exchange throughout 1996.

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

During 1996, the committee asked Towers Perrin, acting as remuneration consultants, to review the remuneration arrangements of the executive directors and other senior executives. In preparing their report they looked at a relevant selection from all the participants in their own survey of top executive remuneration taking into account levels of responsibility and relative size and profitability. Their recommendations were reviewed by the committee and changes have been agreed to the remuneration arrangements of the executive directors. These changes will have an impact in 1997 and are commented upon in the following sections.

Emoluments

The emoluments of the directors' for the financial year ended 31 December 1996 were:	fees	salary and other cash benefits	non-cash benefits	bonus	pension contributions	total emoluments 1996	1995
director	£000	£000	£000	£000	£000	£000	£000
B.M. Andrews	-	180	13	18	25	236	192
M.A. Bardsley	15	-	-	-	-	15	15
Mrs M.F. Burton	9	-	-	-	-	9	15
W.N.P. Chapman	15	-	-	-	-	15	15
G.I. Cooper	-	186	13	-	35	234	214
J.F. Harris	-	255	18	-	36	309	284
K.S.S. Hide	-	180	12	-	26	218	200
D.C. Mair	30	-	-	-	-	30	30
S.P. May	-	29	2	-	4	35	-
Lord Rippon	60	-	-	-	-	60	60
M.H. Smith	3	-	-	-	-	3	-
Total	132	830	58	18	126	1,164	1,025

Each year, since flotation the basic salaries of the executive directors have either been frozen or increased broadly in line with the percentage increase given to the rest of the UniChem staff. This practice was continued for salaries paid in 1996. The Towers Perrin review, however, revealed that some of these salaries were below market level. Bearing in mind the policy stated above but not wishing to deviate significantly from past practice, the committee decided to increase salaries over a two year period to bring them closer to market levels.

The Towers Perrin review also revealed that the previous annual bonus policy was below market practice. As a result a new scheme has been introduced which will reward the executive directors and other senior executives 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. 25 per cent of basic salary will be the maximum amount any one individual will be paid in respect of 1997.

The pension figures above are based on the total amount paid by UniChem to the Trustees of the relevant pension schemes. Under the rules of the UniChem Pension and Assurance Scheme basic pay and the yearly average of performance related earnings paid and the value of taxable benefits on car and fuel over the previous three years are included in the definition of pensionable pay.

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 UniChem are detailed below:

director	1 January 1996	movements in the year bought	sold	31 December 1996	movements in the period bought	sold	18 March 1997
B.M. Andrews	113,991	1,236	-	115,227	-	-	115,227
M.A. Bardsley	6,338	217	-	6,555	-	-	6,555
W.N.P. Chapman	52,104	-	-	52,104	-	-	52,104
J.F. Harris	9,452	14,656	-	24,108	-	-	24,108
K.S.S. Hide	6,181	19,271	4,972	20,480	-	-	20,480
D.C. Mair	44,980	-	-	44,980	-	-	44,980
Lord Rippon	48,906	81	-	48,987	-	-	48,987
M.H. Smith *	19,492	230	-	19,722	-	-	19,722
Total	301,444	35,691	4,972	332,163	-	-	332,163

* Balance at and movements from date of appointment as a director not 1 January 1996.

The UniChem PLC Employee Share Trust held 1,033,333 shares at 31 December 1996. There was no change to this holding between 31 December 1996 and 18 March 1997. All employees and the executive directors are eligible to benefit from the trust.

No options lapsed or were granted during the financial year or between 1 January 1997 and 18 March 1997.

The mid-market price of UniChem shares ranged during 1996 between £2.35 on 15 March 1996 and £2.68 on 9 July 1996 and at 31 December 1996 was £2.465.

An initial grant of options under the UniChem PLC Executive Share Option Scheme was made prior to flotation and further options were granted in 1993, 1994 and 1995. The number granted to each executive director was in proportion to the number granted to other groups of employees, subject to individual limits under the rules of the scheme, with allowance being made for future grants within the overall limit of the scheme. The objective is that over a number of grants each executive director holds options valued at four times their basic salary. The Towers Perrin review suggested a number of alternative long term incentive schemes and the committee have decided to continue using share options as the vehicle for such incentives. A new scheme incorporating performance criteria is to be proposed for adoption at the annual general meeting and full details of the new scheme are included in the notes to the notice of the meeting. Initial grants under the scheme will only be exercisable if earnings per share growth year on year is better than the increase in the retail price index plus 2 per cent.

Further details of the savings related share option scheme and the existing executive share option scheme are given in note 17 to the financial statements.

Service contracts

B.M. Andrews, G.I. Cooper, J.F. Harris and K.S.S. Hide have service contracts that are terminable by UniChem on twelve months notice. No other director has a service contract with UniChem.

Interests in options over shares

The options granted to directors over ten pence ordinary shares of UniChem are detailed below:

option reference	1 Jan 1996	exercised in the year	31 Dec 1996	movements in the period	18 March 1997
B.M. Andrews					
S2	8,254	-	8,254	-	8,254
S3	3,312	-	3,312	-	3,312
E2	45,000	-	45,000	-	45,000
E3	45,000	-	45,000	-	45,000
E4	30,000	-	30,000	-	30,000
	131,566	-	131,566	-	131,566
G.I. Cooper					
S4	9,154	-	9,154	-	9,154
E3	248,076	-	248,076	-	248,076
E4	372	-	372	-	372
	257,602	-	257,602	-	257,602
J.F. Harris					
S1	13,902	13,902*	-	-	-
S3	3,312	-	3,312	-	3,312
S5	4,791	-	4,791	-	4,791
E1	300,000	-	300,000	-	300,000
E2	45,000	-	45,000	-	45,000
E3	45,000	-	45,000	-	45,000
E4	30,000	-	30,000	-	30,000
	442,005	13,902	428,103	-	428,103
K.S.S. Hide					
S1	13,902	13,902*	-	-	-
S3	3,312	-	3,312	-	3,312
S5	4,791	-	4,791	-	4,791
E1	300,000	-	300,000	-	300,000
E2	45,000	-	45,000	-	45,000
E3	45,000	-	45,000	-	45,000
E4	23,568	-	23,568	-	23,568
	435,573	13,902	421,671	-	421,671
Total	1,266,746	27,804	1,238,942	-	1,238,942

* The options exercised resulted in shares being allotted on 26 March 1996. On this date the mid-market price of UniChem shares was £2.45, resulting in an unrealised gain of £22,800 per director.

The details of the above options are:

option reference	scheme	exercise price	date first exercisable	normal expiry date
S1	savings related	£0.8092	1-Nov-95	30-Apr-96
S2	savings related	£1.6355	1-Jun-99	30-Nov-99
S3	savings related	£2.0833	1-Jan-99	30-Jun-99
S4	savings related	£2.1300	1-Jul-02	30-Dec-02
S5	savings related	£2.1600	1-Dec-00	30-May-01
E1	executive	£0.8897	3-Sep-93	02-Sep-00
E2	executive	£2.5399	1-Nov-96	30-Oct-03
E3	executive	£2.6000	21-Oct-97	20-Oct-04
E4	executive	£2.6900	18-Oct-98	17-Oct-05

Signed by D.C. Mair
and on behalf of the other committee members, W.N.P. Chapman and N.E. Cross

Regional committees
of UniChem PLC

Neil Chapman, David Mair and Mike Smith, all of whom are independent pharmacists and non-executive board members.

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

Mid East
Mr. B. Shooter (Chairman), Hainault, Essex
Tel. 0181 500 2099
Letchworth Branch
Ms. J. Lawson, Stamford, Lincolnshire
Tel. 01780 63197
Mr. H. Patel, London W13
Tel. 0181 576 0727
Mr. G. Phillips, St. Albans, Herts.
Tel. 01727 852012
Walthamstow Branch
Mr. P. Patel, London E1
Tel. 0171 480 6796
Mr. C. Shearer, Ipswich, Suffolk
Tel. 01473 728007
Mr. S. Patel, Enfield Lock, Middlesex
Tel. 01992 710749
Ms. C. Hadley, London E12
Tel. 0181 478 3669
Mr. M. Vroobel, Romford, Essex
Tel. 01708 740196

North East
Mr. P. Brown (Chairman), Boston, Lincs.
Tel. 01205 364506
Leeds Branch
Mr. I.R. Conquest, Bradford, W. York.
Tel. 01274 820515
Mr. A. Dobson, Meltham, Huddersfield
Tel. 01484 850413
Dr. P.S. Dwyer, Worksop, Notts.
Tel. 01909 472024
Mr. A. Penney, Barnoldswick, Lancs.
Tel. 01282 813766
Newcastle Branch
Mr. A. Cairns, Dumfries, Dumfrieshire
Tel. 01387 269183
Mr. M. Merriman, Corbridge, Northumberland. Tel. 01434 632046
Mr. U. Patel, Sunderland, Tyne & Wear
Tel. 0191 548 6364

North West & Scotland
Mr. J.H.H. Groat (Chairman), Edinburgh, Lothian. Tel. 0131 225 7770
Livingston Branch
Mr. G.E. Allan, Edinburgh, Lothian
Tel. 0131 669 3100
Mrs. D.A. Fisher, Dunfermline, Fife
Tel. 01383 723862
Dr. S. Kayne, Clarkston, Renfrewshire
Tel. 0141 644 4640
Mr. C. Sinclair, Forres, Morayshire
Tel. 01309 672262

Preston Branch
Mr. P. Barker, Wirral, Merseyside
Tel. 0161 608 5093
Mr. P. Benson, Manchester
Tel. 0161 881 1452
Mr. M. Mansour, St. Helens, Lancs.
Tel. 01744 814268
Mr. D. Speed, Mold, Clywyd
Tel. 01352 759030
Mr. S. Tanna, Lancaster, Lancs.
Tel. 01524 32618

South
Mr. P. Cattee (Chairman), Sheepbridge, Chesterfield. Tel. 01246 450470
Chessington Branch
Mr. L. Cunliffe, Bournemouth, Dorset
Tel. 01202 428181
Mr. M. Patel, East Molesey, Surrey
Tel. 0181 979 5168
Mr. R. Patel, Hayes, Middlesex
Tel. 0181 759 9658
Mrs. R.J. Thomas, Reading, Berkshire
Tel. 01734 428990
Croydon Branch
Mr. S. Amin, Purley, Surrey
Tel. 0181 660 0093
Mr. D. Bishop, Rochester, Kent
Tel. 01634 250882
Mr. W. Patterson, Norbury, London
Tel. 0181 764 1438
Mr. G. Williams, Worthing, East Sussex
Tel. 01903 209767
Exeter Branch
Mr. G. Douglas, Bristol, Avon
Tel. 01179 569450
Mr. J. Hincks, Taunton, Somerset
Tel. 01984 623284

South West & Wales
Mr. M.J.W. Chapman (Chairman), Taunton, Somerset. Tel. 01823 451917
Hinckley Branch
Mrs. P. Alesbury, Evesham, Worcs.
Tel. 01386 446244
Mr. M.F. Cox, Nuneaton, Warwickshire
Tel. 01203 384364
Mr. N. Sodha, Redditch, Worcs.
Tel. 01527 402146
Swansea Branch
Mr. P. Parry, Crymmych, Dyfed
Tel. 01239 831243
Mr. J.B. Shackleton, Abergavenny, Gwent
Tel. 01873 853219
Mr. J. Wall, Nr. Bridgend, Mid. Glam.
Tel. 01656 720467

The reviews, statements, reports, notes, information and notices constituting, or despatched with, the 1996 annual report are material to an appreciation of the business of UniChem and as such form part of this report of the directors.

Annual General Meeting
The notice convening the 1997 annual general meeting has been despatched with this annual report.

Directors
The current directors are shown on page 24. During the year Mr M.H. Smith joined the Board of Directors as a non-executive director, Mrs M.F. Burton retired as a non-executive director and Mr S.P. May joined the Board as Wholesale Director.

Since the year end it is with regret that the directors record the death of Lord Rippon. An appreciation of his contribution to the Company is on page 2.

Since the year end Dr N.E. Cross joined the Board of Directors as a non-executive director and Mr S.P. May resigned as a director.

Mr C. Etherington (aged 44) is being sponsored by UniChem to attend the advanced management programme at Harvard University in Spring 1997. He has worked in a number of distribution roles within industry. He joined the wholesale division of UniChem in 1991 and was appointed deputy managing director of the wholesale division in 1996.

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

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

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

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

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.

Political and charitable gifts
The sum of £20,000 inclusive of tax credit has been given to the Charities Aid Foundation. A further £4,300 has been given to various local charities. No political gifts were made during the financial year.

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

Approved by the Board of Directors and signed on their behalf

A J Goodenough
Company Secretary
18 March 1997

Statement of directors' responsibilities

Responsibilities in preparing the financial statements

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

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

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

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

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

Responsibilities on internal financial control

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

Key procedures that have been established include:

- authority limits - limits are placed on all employees either acting individually or as a group and some matters are reserved for the Board;
- financial reporting - each operating unit prepares monthly results with a comparison against budget, the latest forecast and the previous year for review by the Board;
- training of personnel - all personnel are trained at the time of joining UniChem and thereafter, on proper adherence to the control systems relevant to their role within UniChem; and
- risk assessment - controls over business risks are regularly assessed and contingency plans made against major failures.

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

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

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Review Report on Corporate Governance Matters to the Directors of UniChem PLC

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

We have also reviewed the statement of compliance with Section A of the Best Practice Provisions on remuneration committees and the report of the remuneration committee to the shareholders set out respectively on pages 26 to 27 to the extent that they provide the disclosures specified by the Listing Rules and the Best Practice Provisions annexed to the rules. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

Basis of opinion

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

Opinion

With respect to the directors' statements on internal financial control and going concern on page 30, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 25 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review. Also on this basis, in our opinion the directors' statement of compliance with Section A of the Best Practice Provisions on remuneration committees and the report of the remuneration committee appropriately provide the disclosures specified by the Listing Rules and the Best Practice Provisions and are not inconsistent with the information of which we have become aware from our audit work on the financial statements.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
and Registered Auditors
Hill House, 1 Little New Street, London
EC4A 3TR
18 March 1997

Group profit and loss account

for the year ended 31 December

	Note	Before cost of bid for Lloyds Chemists 1996 £m	Net cost of bid for Lloyds Chemists (Note 29) 1996 £m	1996 £m	1995 £m
Turnover	2	1,478.5	-	1,478.5	1,402.7
Cost of sales		(1,330.5)	-	(1,330.5)	(1,266.4)
Gross profit		148.0	-	148.0	136.3
Administrative expenses		(98.1)	(11.3)	(109.4)	(91.2)
		49.9	(11.3)	38.6	45.1
Other operating income		8.9	-	8.9	8.2
Operating profit	2	58.8	(11.3)	47.5	53.3
Net share of results of associated undertakings		(0.1)	-	(0.1)	-
Net interest payable and similar charges	3	(5.2)	(1.9)	(7.1)	(3.9)
Profit on ordinary activities before taxation	4	53.5	(13.2)	40.3	49.4
Tax on profit on ordinary activities	7	(17.5)	1.4	(16.1)	(16.1)
Profit on ordinary activities after taxation		36.0	(11.8)	24.2	33.3
Dividends (8.8p per share - 1995 8.0p)	8	(15.4)	-	(15.4)	(13.8)
Retained profit for the financial year		20.6	(11.8)	8.8	19.5
Earnings per share	9				
- Undiluted		20.5p		13.9p	19.3p
- Fully diluted		20.2p		13.7p	19.0p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	1996 £m	1995 £m
Profit for the financial year	24.2	33.3
Revaluation of foreign investments	0.5	-
Currency translation differences on foreign currency net investments	(1.0)	0.5
Total recognised gains and losses relating to the year	23.7	33.8

MOVEMENT IN SHAREHOLDERS' FUNDS	1996 £m	1995 £m
At 1 January	135.5	139.0
Total recognised gains and losses for the financial year	23.7	33.8
Dividends	(15.4)	(13.8)
Goodwill acquired and written off during the year	(18.7)	(28.1)
Goodwill previously written off now realised	0.4	0.2
Shares issued	3.5	4.4
At 31 December	129.0	135.5

Balance sheets

at 31 December

	Note	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Fixed assets					
Tangible assets	10	**71.0**	65.9	**40.6**	36.9
Investments	11	**12.5**	12.4	**113.3**	103.2
		83.5	78.3	**153.9**	140.1
Current assets					
Stocks		**132.4**	127.2	**93.0**	92.0
Investments	12	**61.4**	-	**61.4**	-
Debtors	13	**217.5**	223.7	**149.9**	158.7
Cash at bank and in hand		**28.5**	36.7	**26.7**	25.9
		439.8	387.6	**331.0**	276.6
Creditors: amounts falling due within one year					
Borrowings	14	**88.1**	40.2	**101.7**	30.5
Other creditors	15	**288.4**	274.3	**266.3**	253.4
		376.5	314.5	**368.0**	283.9
Net current assets/(liabilities)		**63.3**	73.1	**(37.0)**	(7.3)
Total assets less current liabilities		**146.8**	151.4	**116.9**	132.8
Creditors: amounts falling due after more than one year					
Borrowings	14	**16.0**	14.1	**16.0**	14.1
Provisions for liabilities and charges	16	**1.8**	1.8	**0.6**	0.6
		129.0	135.5	**100.3**	118.1
Capital and reserves					
Called up share capital	17	**17.6**	17.5	**17.6**	17.5
Share premium account	17	**6.7**	3.3	**6.7**	3.3
Revaluation reserve	18	**0.5**	-	**0.5**	-
Profit and loss account	18	**131.0**	122.8	**102.3**	105.4
Goodwill	18	**(26.8)**	(8.1)	**(26.8)**	(8.1)
Total equity shareholders' funds		**129.0**	135.5	**100.3**	118.1

The financial statements were approved by the Board of Directors of UniChem PLC on 18 March 1997 and are signed on its behalf by:

D C Mair
J F Harris Directors

Group cash flow statement

for the year ended 31 December

	Note	1996 £m	1995 £m
Net cash inflow from operating activities	21	**69.4**	58.1
Returns on investment and servicing of finance			
Interest received		**0.2**	0.5
Interest paid		**(5.0)**	(4.0)
Interest paid on financing investment in Lloyds Chemists		**(3.5)**	-
Interest element of finance lease rentals		**(0.3)**	(0.4)
Dividends received from investment in Lloyds Chemists		**1.6**	-
Net cash inflow/(outflow) for returns on investment and servicing of finance		**(7.0)**	(3.9)
Taxation		**(16.3)**	(13.0)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(13.6)**	(9.2)
Sale of tangible fixed assets		**1.5**	1.0
Net cash inflow/(outflow) for capital expenditure and financial investment		**(12.1)**	(8.2)
Acquisitions and disposals			
Purchase of subsidiary undertakings		**(5.7)**	(9.8)
Net cash/(overdrafts) acquired with subsidiaries		**0.2**	(0.1)
Purchase of goodwill on asset acquisitions		**(12.9)**	(8.5)
Sale of pharmacy goodwill		**0.4**	0.1
Cost of shares in Lloyds Chemists		**(61.4)**	-
Other investments		**(0.2)**	(4.9)
Purchase of interest in joint venture		**(0.2)**	-
Net cash inflow/(outflow) for acquisitions and disposals		**(79.8)**	(23.2)
Equity dividends paid		**(12.0)**	(10.5)
Cash inflow/(outflow) before financing		**(57.8)**	(0.7)

	Note	1996 £m	1995 £m
Net cash inflow/(outflow) before financing		(57.8)	(0.7)
Financing			
Issue of ordinary share capital	22	0.4	1.3
Debt due within one year			
Net movement in money market borrowings maturing within one week		77.6	12.5
Increase in short-term borrowings		41.4	-
Loan notes repaid		(21.2)	(0.4)
Debt due after one year			
Increase in borrowings		5.2	10.6
Repayment of borrowings		(0.3)	(11.4)
Capital element of finance lease rental payments		(3.8)	(3.2)
Net cash inflow/(outflow) from financing	22	99.3	9.4
Increase/(decrease) in cash in the period		41.5	8.7

Reconciliation of net cash flow to movement in net debt

	Note	1996 £m	1995 £m
Increase/(decrease) in cash in the period		41.5	8.7
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	22	(98.9)	(8.1)
Change in net debt resulting from cash flows		(57.4)	0.6
New finance leases		(2.2)	(2.5)
Other non cash movements		(0.7)	(14.1)
Translation difference		2.3	(0.5)
Movement in net debt for the period		(58.0)	(16.5)
Net debt at 1 January		(17.6)	(1.1)
Net debt at 31 December	23	(75.6)	(17.6)

Notes to the financial statements

for the year ended 31 December 1996

(1) Accounting policies

Convention

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

Basis of consolidation

The consolidated profit and loss account and balance sheets of the Group consolidate the financial statements of UniChem PLC, its subsidiary and associated undertakings. All undertakings within the Group, except UDG, make up their accounts to 31 December. UDG, an associated undertaking, prepares its accounts to 30 September.

Turnover

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

Pensions

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

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

Goodwill

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

Investments

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives at the following rates:
(a) Freehold buildings - at 2% per annum
(b) Long and short leasehold properties - at 2% per annum or over the period of the lease whichever is the shorter
(c) Furniture, fixtures, equipment and motor vehicles - at rates ranging from 10% to 33%, according to their nature.

Leased assets

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

Stocks

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

Deferred taxation

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

Foreign exchange

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

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

(2) Analysis of turnover and operating profit - continuing operations

	Turnover 1996 £m	Operating profit 1996 £m	Turnover 1995 £m	Operating profit 1995 £m
Wholesale UK	1,328.9	40.9	1,264.6	39.0
Retail UK	247.0	15.6	208.5	12.3
Wholesale Portugal	90.2	2.3	83.9	2.0
Net costs of bid for Lloyds Chemists	-	(11.3)	-	-
Intra-group sales	(187.6)	-	(154.3)	-
	1,478.5	47.5	1,402.7	53.3

(3) Net interest payable and similar charges

	1996 £m	1995 £m
Bank loans and overdrafts repayable within five years	(3.8)	(2.8)
Interest payable on financing investment in Lloyds Chemists	(3.5)	-
Other loans	(1.3)	(1.2)
Finance charges payable on finance leases	(0.3)	(0.4)
Interest payable	(8.9)	(4.4)
Bank deposit interest receivable	0.2	0.5
Dividends receivable from investment in Lloyds Chemists	1.6	-
Net interest payable and similar charges	(7.1)	(3.9)

(4) Profit on ordinary activities before taxation

	1996 £m	1995 £m
Depreciation of owned assets	5.5	5.8
Depreciation of assets held under finance leases	3.0	1.6
Total depreciation of tangible fixed assets	8.5	7.4
Operating lease rentals - land and buildings	5.3	5.0
- plant and machinery	0.1	0.1
Audit fees	0.2	0.2
Other fees paid to the auditors	0.6	-

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

(5) Directors' emoluments

The emoluments of the directors, exclusive of pension contributions, for the financial year ended 31 December 1996 were £1.0m (1995 £1.0m). Further details on the directors, including their emoluments, are given in the report of the remuneration committee.

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

(6) Employees

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

	1996	1995
Wholesale UK	3,246	3,101
Retail UK	3,619	3,099
Wholesale Portugal	176	176
	7,041	6,376

The costs incurred in respect of these employees were:	1996 £m	1995 £m
Wages and salaries	62.0	58.5
Social security costs	4.6	4.3
Other pension costs (note 25)	1.8	1.5
	68.4	64.3

(7) Tax on profit on ordinary activities

	1996 £m	1995 £m
Corporation tax charge at 33% (1995 33%)	14.8	15.6
Tax on franked investment income	0.3	-
Deferred taxation	1.0	1.0
Under/(over) provision for earlier years	-	(0.5)
	16.1	16.1

(8) Dividends

	1996 £m	1995 £m
Interim paid, net 3.0 pence (1995 2.7 pence)	5.2	4.5
Final proposed, net 5.8 pence (1995 5.3 pence)	10.2	9.3
	15.4	13.8

(9) Earnings per share

Earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue during the year. The fully diluted earnings per share were calculated by increasing the relevant earnings figures by the amount of interest that could have been earned assuming that the options had been exercised at the start of the relevant year. Further details of the options are given in note 17.

	1996 £m	1995 £m
Profit after taxation	24.2	33.3

Weighted average number of shares	1996 m	1995 m
Undiluted	175.3	172.8
Fully diluted	181.5	179.4

(10) Tangible fixed assets

	Freehold land & buildings £m	Long leaseholds £m	Short leaseholds £m	Furniture fixtures & equipment £m	Motor vehicles £m	Total £m
Group						
Cost						
At 1 January 1996	29.4	9.0	2.3	43.9	11.3	95.9
Foreign exchange movement	(0.4)	-	-	(0.2)	-	(0.6)
Additions	0.8	0.1	0.3	10.6	4.0	15.8
Subsidiaries acquired	0.5	-	-	-	-	0.5
Disposals	(0.5)	-	(0.1)	(1.1)	(3.1)	(4.8)
At 31 December 1996	29.8	9.1	2.5	53.2	12.2	106.8
Depreciation						
At 1 January 1996	2.6	1.1	1.1	20.6	4.6	30.0
Foreign exchange movement	-	-	-	(0.1)	-	(0.1)
Disposals	-	-	(0.1)	(0.4)	(2.1)	(2.6)
Charge for the year	0.5	0.2	0.1	5.6	2.1	8.5
At 31 December 1996	3.1	1.3	1.1	25.7	4.6	35.8
Net book value						
At 31 December 1996	**26.7**	**7.8**	**1.4**	**27.5**	**7.6**	**71.0**
At 31 December 1995	26.8	7.9	1.2	23.3	6.7	65.9
Company						
Cost						
At 1 January 1996	11.8	6.7	1.4	27.6	9.5	57.0
Additions	0.2	-	0.2	7.3	3.2	10.9
Disposals	-	-	-	(1.0)	(2.6)	(3.6)
At 31 December 1996	12.0	6.7	1.6	33.9	10.1	64.3
Depreciation						
At 1 January 1996	1.6	0.7	0.6	13.3	3.9	20.1
Disposals	-	-	-	(0.4)	(1.7)	(2.1)
Charge for the year	0.2	0.1	0.1	3.7	1.6	5.7
At 31 December 1996	1.8	0.8	0.7	16.6	3.8	23.7
Net book value						
At 31 December 1996	**10.2**	**5.9**	**0.9**	**17.3**	**6.3**	**40.6**
At 31 December 1995	10.2	6.0	0.8	14.3	5.6	36.9

The cost of long leaseholds includes capitalised interest of £0.5m (1995 £0.5m).

Leased assets Included within fixed assets are assets held under finance leases with the following net book values:	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Furniture, fixtures & equipment	**2.2**	3.6	**2.1**	3.5
Motor vehicles	**3.7**	3.8	**3.7**	3.8
	5.9	7.4	**5.8**	7.3

Capital commitments	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Contracted for, but not provided for	**0.4**	0.2	-	-
Authorised by the directors, but not contracted for	**13.2**	13.9	**8.7**	9.3

(11) Fixed asset investments

	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Subsidiary undertakings	-	-	110.6	90.8
Other investments	12.5	12.4	2.7	12.4
Total	12.5	12.4	113.3	103.2

Subsidiary undertakings	Shares* £m	Loans £m	Total £m
At 1 January 1996	26.3	64.5	90.8
Acquired / advanced	30.8	7.7	38.5
Repaid / provided	(18.7)	-	(18.7)
At 31 December 1996	38.4	72.2	110.6

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

Other investments

(i) The Group owns 82,550 (1995 82,550) ordinary bearer shares (representing approximately 8% of the issued equity (1995 8%)) in Andreae-Noris Zahn AG, which is incorporated in Germany, acquired at a cost of £9.9m (1995 £9.9m). The market value of this investment as quoted on the Frankfurt stock exchange on 31 December 1996 was £17.8m (1995 £15.9m).

(ii) The UniChem PLC Employee Share Trust has an investment of £2.5m (1995 £2.5m) in 1.0m (1995 1.0m) of the Company's shares. The market value of the holding on 31 December 1996 was £2.6m (1995 £2.8m). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options. Administrative costs in relation to the trust are absorbed by the Company.

(iii) The Company owns 17% (1995 17%) of the shares in International Pharmaceutical Services Organisation B.V. (IPSO). IPSO is registered in the Netherlands and is not listed.

(iv) The Company owns 50% of the shares in UniDrug Distribution Group Limited (UDG). UDG is registered in England. As at 31 December 1996, the net assets held within the Group balance sheet relating to UDG amounted to £0.1m (1995 Nil). The Group share of post acquisition losses of UDG as at 31 December 1996 amounted to £0.1m (1995 Nil).

(12) Current asset investments

The investment at 31 December 1996 represents the Group's shareholding in Lloyds Chemists, which was sold on 13 January 1997 realising a gain of £2.9m (see note 29). The investment was held by a subsidiary company.

(13) Debtors

Amounts falling due within one year	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Trade debtors	191.1	197.3	133.0	142.2
Amounts owed by associated undertakings	0.3	-	0.3	-
Other debtors	11.1	10.7	4.0	4.1
Prepayments	12.7	12.7	9.6	9.0
	215.2	220.7	146.9	155.3
Amounts falling due after more than one year				
ACT recoverable	0.6	1.0	1.3	1.4
Other debtors	0.2	0.2	0.2	0.2
Prepayments - Pension costs	1.5	1.8	1.5	1.8
	2.3	3.0	3.0	3.4
Total	217.5	223.7	149.9	158.7

(14) Borrowings

Amounts falling due within one year	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Loan notes	**6.8**	27.3	**6.8**	27.3
Bank loans	**41.4**	-	**41.4**	-
Bank overdraft	**36.6**	9.6	**50.2**	-
Obligations under finance leases	**3.3**	3.3	**3.3**	3.2
	88.1	40.2	**101.7**	30.5
Amounts falling due after more than one year				
Bank loan	**14.1**	10.6	**14.1**	10.6
Obligations under finance leases	**1.9**	3.5	**1.9**	3.5
	16.0	14.1	**16.0**	14.1
Total borrowings	**104.1**	54.3	**117.7**	44.6
Cash at bank and in hand	**(28.5)**	(36.7)	**(26.7)**	(25.9)
Net borrowings/(cash)	**75.6**	17.6	**91.0**	18.7

The loan notes can be redeemed by the holders giving notice during the year. At the year end they bore interest at between 4.8% and 4.9%.

Bank loans	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Aggregate bank loan instalments repayable between two and five years	**14.1**	10.6	**14.1**	10.6

Interest on bank loans is at variable rates between 4.2 % and 7.7% at the year end and is dependent on the currency borrowed. The loan facility is committed by the bank until May 2000.

The Company has entered into interest rate swap agreements over £10 million of its borrowings to fix its interest liabilities at 6.4% plus applicable margin for one year to 31 December 1997 and a further £10 million at 6.7% plus applicable margin for two years to 31 December 1998

Obligations under finance leases due after more than one year

	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Due between one and two years	**1.7**	2.3	**1.7**	2.3
Due between two and five years	**0.3**	1.6	**0.3**	1.6
	2.0	3.9	**2.0**	3.9
Less: finance charges allocated to future periods	**(0.1)**	(0.4)	**(0.1)**	(0.4)
	1.9	3.5	**1.9**	3.5

(15) Other creditors

	The Group 1996 £m	The Group 1995 £m	Company 1996 £m	Company 1995 £m
Trade creditors	**243.9**	232.7	**228.5**	221.1
Other creditors	**4.9**	5.3	**4.7**	4.9
Corporation tax	**15.9**	16.6	**10.6**	12.0
Other taxation and social security	**1.5**	2.0	**0.8**	0.8
Accruals and deferred income	**12.0**	8.4	**11.5**	5.3
Proposed dividend	**10.2**	9.3	**10.2**	9.3
	288.4	274.3	**266.3**	253.4

(16) Provisions for liabilities and charges

The Group	Provision for reorganisation	Deferred tax	Total
	£m	£m	£m
At 1 January 1996	0.6	1.2	1.8
Utilised	(0.3)	-	(0.3)
Charge for the year	-	1.0	1.0
ACT recoverable	-	(0.7)	(0.7)
At 31 December 1996	**0.3**	**1.5**	**1.8**

Company	Deferred tax	Total
	£m	£m
At 1 January 1996	0.6	0.6
Charge for the year	0.3	0.3
ACT recoverable	(0.3)	(0.3)
At 31 December 1996	**0.6**	**0.6**

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

The Group	Not dealt with in the accounts		Dealt with in the accounts	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Capital allowances	-	-	**2.2**	1.6
Short term timing differences	-	-	**1.1**	0.6
Chargeable gains deferred by roll-over relief	**0.4**	0.2	-	0.1
ACT recoverable	-	-	**(2.0)**	(1.3)
Property revaluation	**0.6**	0.7	**0.2**	0.2
	1.0	0.9	**1.5**	1.2

Company	**1996**	1995	**1996**	1995
	£m	£m	**£m**	£m
Capital allowances	-	-	**1.4**	1.0
Short term timing differences	-	-	**0.5**	0.6
Chargeable gains deferred by roll-over relief	-	-	-	-
ACT recoverable	-	-	**(1.3)**	(1.0)
	-	-	**0.6**	0.6

(17) 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 1996	174,535,590	17.5	3.3
Shares issued during the year:	1,800,291	0.1	3.4
At 31 December 1996	**176,335,881**	**17.6**	**6.7**

The authorised share capital was £23.872 million (238.72 million ten pence ordinary shares) throughout the year.

(17) Called up share capital and share premium account - continued

Details of the shares allotted are:

Reason	Number	Price paid per share	Consideration £m
share option exercise	466,604	80.92p	0.4
share option exercise	4,415	163.55p	-
share option exercise	2,041	208.00p	-
share option exercise	8,159	208.33p	-
share option exercise	33	216.00p	-
share option exercise	1,411	221.96p	-
scrip elections in lieu of:			
1995 final dividend	680,265	235.80p	1.6
1996 interim dividend	337,753	255.00p	0.8
acquisition of retail pharmacies	77,514	248.50p	0.2
acquisition of retail pharmacies	222,096	256.50p	0.6
	1,800,291		3.6
Costs associated with share issues			(0.1)
Share capital and share premium movement			3.5

Details of the outstanding options at 31 December 1996 are:

	Price	Outstanding	Normally exercisable between
1990 Savings related scheme	80.92p	463,731	1 November 1997 and 30 April 1998
	163.55p	513,413	1 June 1997 and 30 November 1997
	163.55p	147,961	1 June 1999 and 30 November 1999
	208.33p	507,770	1 January 1999 and 30 June 1999
	208.33p	122,769	1 January 2001 and 30 June 2001
	221.96p	58,174	1 July 1999 and 30 December 1999
	221.96p	5,443	1 July 2001 and 30 December 2001
	208.00p	168,173	1 December 1999 and 30 May 2000
	208.00p	69,074	1 December 2001 and 30 May 2002
	213.00p	130,663	1 July 2000 and 30 December 2000
	213.00p	29,546	1 July 2002 and 30 December 2002
	216.00p	244,737	1 December 2000 and 30 May 2001
	216.00p	22,204	1 December 2002 and 30 May 2003
	192.00p	607,543	1 July 2001 and 30 December 2001
	192.00p	155,524	1 July 2003 and 30 December 2003
		3,246,725	
1990 Executive scheme	88.97p	635,000	3 September 1993 and 2 September 2000
	205.60p	269,585	10 October 1995 and 9 October 2002
	253.99p	826,549	1 November 1996 and 30 October 2003
	260.00p	862,548	21 October 1997 and 20 October 2004
	266.00p	10,000	26 April 1998 and 25 April 2005
	269.00p	523,940	18 October 1998 and 17 October 2005
		3,127,622	

The directors are aware of the following shareholdings at 18 March 1997 of 3% or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of present issued ordinary share capital
Phillips & Drew Fund Management	18,226,384	10.33
Newton Investment Management Limited	8,193,464	4.65
HSBC/James Capel Limited	5,422,732	3.07

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

Notes to the financial statements
for the year ended 31 December 1996

(18) Other reserves

	Profit and loss account	Revaluation reserve	Goodwill
The Group	£m	£m	£m
At 1 January 1996	122.8	-	(8.1)
Foreign exchange movements	(1.0)	-	-
Revaluation in the year	-	0.5	-
Goodwill acquired during the year	-	-	(18.7)
Goodwill previously written off, now realised	0.4	-	-
Retained profit for the year	8.8	-	-
At 31 December 1996	**131.0**	**0.5**	**(26.8)**
Company			
At 1 January 1996	105.4	-	(8.1)
Revaluation in the year	-	0.5	-
Goodwill acquired during the year*	-	-	(18.7)
Retained profit for the year	(3.1)	-	-
At 31 December 1996	**102.3**	**0.5**	**(26.8)**

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

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 £12.3m (1995 £27.2m)

(19) Acquisitions

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

	£m
Company acquisitions	5.8
Asset acquisitions	12.9
	18.7

The most important acquisitions were the Waremoss acquisition, which was acquired for £5.0m (representing £4.5m goodwill) on 28 November 1996, and the D.J.T. Harrhy acquisition for £1.2m (representing £1.0m goodwill) on 1 July 1996. The assets acquired and consideration paid during the year for those acquisitions are shown together with the other small company acquisitions below:

Assets acquired	Book and fair value
	£m
Fixed assets	1.1
Stock	2.2
Debtors	0.9
Cash at bank and in hand	0.2
Creditors	(0.8)
	3.6
Consideration paid	
UniChem PLC 10p ordinary shares	0.8
Loan notes	0.7
Cash	20.8
	22.3
Purchased goodwill	18.7

(19) Acquisitions - continued

All company acquisitions have been accounted for by the acquisition accounting method. Cumulative goodwill written off to reserves to 31 December 1996, net of that attributable to disposals was £179.6m of which £157.2m related to pharmacy goodwill.

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

During the year, E. Moss Limited acquired the entire share capital of Pattricks (Consett) Limited which operates a pharmacy in Tyne & Wear. Mr W.N.P. Chapman, a non-executive director of UniChem PLC, owned 50% of the acquired company. He received total consideration of £0.3m which was derived from the normal Moss acquisition valuation model. Part of this consideration was in the form of £0.2m UniChem PLC loan notes which remained in issue at the year end.

(20) Analysis of net assets

	1996 £m	1995 £m
Wholesale UK	193.4	142.0
Retail UK	154.6	135.5
Wholesale Portugal	13.8	14.6
Retail pharmacy goodwill	(157.2)	(139.0)
Net assets before net borrowings	204.6	153.1
Net borrowings	(75.6)	(17.6)
	129.0	135.5

(21) Reconciliation of operating profit to operating cash flow

	1996 £m	1995 £m
Operating profit	58.8	53.3
Costs of bid for Lloyds' shares	(11.3)	-
Depreciation	8.5	7.4
(Profit)/loss on disposal of goodwill	-	0.1
(Profit)/loss on disposal of tangible fixed assets	0.7	0.5
Decrease/(increase) in stocks	(5.5)	(12.0)
Decrease/(increase) in debtors	3.5	(9.9)
Increase/(decrease) in creditors	14.7	18.7
Net cash inflow/(outflow) from operating activities	69.4	58.1

(22) Analysis of net cash flow from financing

	1996 £m	1995 £m
Issue of ordinary share capital	0.4	1.3
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	98.9	8.1
Net cash inflow/(outflow) from increase/(decrease) in financing	99.3	9.4

(23) Analysis of net debt

	Cash at bank and in hand £m	Borrowings due within one year £m	Borrowings due after one year £m	Net Borrowings £m
At 1 January 1996	36.7	(40.2)	(14.1)	(17.6)
Increase/(decrease) in cash	(8.2)	49.7	-	41.5
Decrease/(increase) in debt	-	(96.5)	(2.4)	(98.9)
Finance leases entered into	-	(1.2)	(1.0)	(2.2)
Exchange movement	-	0.8	1.5	2.3
Other non cash movements	-	(0.7)	-	(0.7)
At 31 December 1996	**28.5**	**(88.1)**	**(16.0)**	**(75.6)**

(24) Major non-cash transactions

(a) During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £2.2m.

(b) Part of the purchase consideration for the acquisition of subsidiary undertakings that occurred during the year comprised shares and other loans. Further details of the acquisitions are set out in note 19.

(25) Pensions

The Group operates several pension arrangements; the Group's total pension cost was £1.6m (1995 £1.5m). Included in the balance sheet is an amount totalling £1.6m (1995 £2.2m) representing the excess of the cumulative contributions paid over the accumulated pension cost.

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

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

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

At 1 January 1995, the market value of the Scheme's assets was £18.7m. At that date, the actuarial value of the assets represented 105% of the value of the benefits that had accrued to members after allowing, in the case of active members, for the future increases to salaries.

(26) Other financial commitments

	Land and buildings
At 31 December 1996 the Group had the following commitments payable within one year under operating leases expiring:	£m
within one year	0.2
between two and five years	0.7
in five years or more	3.6
	4.5

(27) Principal subsidiary undertakings

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

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

(28) Contingent liabilities

The Company has guaranteed bank loans of £140.8m (1995 £142.6 million) to third parties for the financing of pharmacy businesses and has given other guarantees on behalf of Group companies of £4.0m (1995 £5.4m). UniChem Farmaceutica has discounted bills receivable of £5.9m (1995 £5.0m) with banks who have recourse should the bill not be honoured by the customer.

(29) Post balance sheet events

Bid for Lloyds Chemists

On 13 January 1997, UniChem announced its intention to lapse its bid for Lloyds Chemists and sold its shareholding in the company. These accounts incorporate the full costs of the bid (including accruals for costs yet to be paid to the extent that these will not be offset by the profit on disposal of the investment), and the costs of funding the investment in Lloyds Chemists shares as an exceptional item. A separate column is included on the face of the profit and loss account to isolate these costs.

Portuguese Joint Venture

With effect from 1 January 1997, UniChem merged its Portuguese wholesaling interests with those of Alliance Sante. UniChem's interest in the Joint Venture is 50% and UniChem has operational control. The joint venture will be accounted for as a subsidiary with a 50% minority interest.

Five year summary

Group Profit and Loss Accounts - year ended 31 December	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m
Turnover					
Continuing operations	1,047.8	1,177.6	1,324.6	1,402.7	1,478.5
Discontinued operations	0.9	-	-	-	-
	1,048.7	1,177.6	1,324.6	1,402.7	1,478.5
Cost of sales	(964.5)	(1,077.8)	(1,206.3)	(1,266.4)	(1,330.5)
Gross profit	84.2	99.8	118.3	136.3	148.0
Administrative expenses	(58.4)	(67.8)	(79.9)	(91.2)	(98.1)
	25.8	32.0	38.4	45.1	49.9
Other operating income	8.3	8.0	8.3	8.2	8.9
Operating profit before exceptional item					
Continuing operations	34.2	40.0	46.7	53.3	58.8
Discontinued operations	(0.1)	-	-	-	-
	34.1	40.0	46.7	53.3	58.8
Net share of result of associated undertakings	-	-	-	-	(0.1)
Loss on disposal of discontinued operations	(2.4)	-	-	-	-
Costs of bid for Lloyds Chemists	-	-	-	-	(13.2)
Net interest payable	(2.3)	(2.5)	(2.7)	(3.9)	(5.2)
Profit on ordinary activities before taxation	29.4	37.5	44.0	49.4	40.3
Tax on profit on ordinary activities	(10.8)	(12.7)	(14.4)	(16.1)	(16.1)
Profit on ordinary activities after taxation	18.6	24.8	29.6	33.3	24.2
EPS fully diluted - before exceptional item	13.00p	16.87p	18.80p	18.96p	20.19p
Dividends per share	5.50p	6.33p	7.13p	8.00p	8.80p

Group Balance Sheets - 31 December	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m
Fixed assets					
Intangible assets	-	-	-	-	-
Tangible assets	33.8	39.0	59.8	65.9	71.0
Investments	5.1	6.2	7.6	12.4	12.5
	38.9	45.2	67.4	78.3	83.5
Working capital					
Stocks	81.9	96.0	112.5	127.2	132.4
Investments	-	-	-	-	61.4
Debtors	163.5	174.2	209.3	223.7	217.5
Creditors and provisions	(176.5)	(201.9)	(249.3)	(276.1)	(290.2)
	68.9	68.3	72.5	74.8	121.1
Net borrowings	(14.6)	(15.7)	(1.0)	(17.6)	(75.6)
	93.2	97.8	138.9	135.5	129.0
Capital and reserves					
Called up share capital	13.8	14.2	17.2	17.5	17.6
Share premium account	0.7	9.2	61.1	3.3	6.7
Shares to be issued	-	5.5	-	-	-
Special reserve	10.4	-	-	-	-
Other reserves	68.3	84.1	102.6	122.8	131.5
Goodwill	-	(15.2)	(42.0)	(8.1)	(26.8)
	93.2	97.8	138.9	135.5	129.0

1997 Financial Calendar

19 March	1996 final profit and proposed final dividend announced
19 May	Deadline for receipt of proxy forms
20 May	Deadline for receipt of elections to receive the 1996 final dividend in shares
21 May	Annual general meeting
1 July	1996 final dividend paid to shareholders registered on 7 April 1997
10 September*	1997 half year profit and interim dividend announced
24 September*	1997 interim report despatched
15 October*	Offer to take the 1997 interim dividend in shares despatched
12 November*	Deadline for receipt of elections to receive the 1997 interim dividend in shares (if offered)
31 December*	1997 interim dividend paid to shareholders registered on 26 September 1997 *

** Date subject to confirmation*

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

Share price
UniChem's "real-time" share price and a stock market summary is available by phoning 0891 500504. As at April 1997 calls are charged at 45 pence per minute cheap rate and 50 pence at all other times.

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

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

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

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

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

Annual general meeting
The notice convening the 1997 annual general meeting has been despatched with this annual report.

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to UniChem PLC

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100 Liverpool Street
London EC2M 2RH

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

Bankers
National Westminster Bank Plc
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London EC2R 8PH

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Cardinal Point
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The Royal Bank of Scotland plc
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Chartered Accountants
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