

Chairman's statement

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

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

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

The beneficial effect of our retail expansion this year, together with continued work to improve

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

Board structure

A number of changes to the Board and management structure were announced with the interim results in September 2001. I was appointed Executive Chairman of the Board, whilst Kenneth Clarke, as Non-Executive Deputy Chairman, remains

Total turnover for all the divisions £bn



Total operating profit for all divisions, pre goodwill amortisation £m



the senior non-executive director on the Board. These changes were made to ensure a smooth transition of management in the lead-up to my retirement as an executive of the Group in 2003.

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

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

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

- 1 Technology is no replacement for a dedicated team focused on delivering for their customers.
- 2 Many medicines require special handling, such as refrigerated storage and handling or special security arrangements, making them unsuited for automatic picking.



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

corporate governance.

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

Group development

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

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

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

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

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



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

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

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

Shareholders

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

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

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

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

People

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

Outlook

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

The diversity of our geographical and commercial operations, our expertise within our core wholesaling and retailing businesses, and our strong market positions provide us with commercial and competitive advantages. These have delivered excellent growth

and profitability despite the turbulence we encounter from time to time in our individual markets as governments struggle to contain the growth in healthcare costs.

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

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

Jeff Harris, Chairman
19 March 2002