

Financial review

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

Accounting policies

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

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

Results for the year

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

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

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

Taxation

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

Shareholders' return and dividends

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



Cash flow and investment in the business

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

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

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

About the team

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

01
Steve Sampson
Director of Financial Structuring

02
David Mallac
Group Treasurer

03
Jason Grover
Group Financial Controller

04
George Fairweather
Group Finance Director

05
Stefano Pessina
Chief Executive

06
Geoff Cooper
Deputy Chief Executive



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



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

Financial review (continued)

Shareholders' funds

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

Financial position

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

Treasury policy

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

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

Liquidity and funding

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

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

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

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

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



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

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

Interest rate risk management

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

Currency risk management

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

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

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

Counterparty risk

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

Pensions

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

FRS 17 will be adopted in full in 2003.

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

Share price

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