

## Chairman's statement

**“We have continued to make significant progress towards our goal of creating the leading pan-European healthcare company.”**



**Kenneth Clarke**  
Chairman

I am delighted to be able to report a very successful first year of business for Alliance UniChem following our merger at the end of 1997. With a sound strategy and careful planning we have successfully achieved the often difficult task of putting together two large independent groups, and integrating management teams, whilst sustaining the continued growth in our businesses. We have continued to make significant progress towards our goal of creating the leading pan-European healthcare company. Our strong executive team have all demonstrated their motivation and commitment to that ambition. To reflect the scope of our activities and aims, our financial statements this year include both Sterling and, as a pro-forma, Euro figures for comparative purposes.

### Performance

Alliance UniChem Group sales compared with UniChem PLC were up by 213 per cent to £5.3 billion / €7.9 billion (1997: £1.7 billion) and profits before tax were £110.1 million / €163.1 million (1997: £59.2 million), an increase of 86 per cent. This reported performance reflects the impact of our merger at the end of 1997. What is most impressive is that compared with pro-forma 1997 results for the combined Alliance UniChem Group, and using 1997 exchange rates for both years, turnover was up by 11 per cent, pre-tax profits were up by 15 per cent and attributable earnings were up by 16 per cent. This shows that the merger is already delivering results better than the previous sum of the two pre-merger businesses. The synergy benefits anticipated at the time of the merger are being delivered, with the largest contributions coming from buying benefits and reduced financing costs.

Diluted earnings per share grew by 10 per cent to 24.7 pence per share. Before goodwill amortisation and at constant currency levels, diluted earnings per share increased by 12 per cent. A final dividend of 7.00 pence per share is proposed, giving a full year cash dividend of 10.65 pence, an increase of 10 per cent over last year. The final dividend, payable to qualifying shareholders on the register at 12 April 1999, will be paid on 1 July 1999.

This is the 27th consecutive year our business has reported an increase in sales and pre-exceptional pre-tax profits and the Company has delivered higher underlying earnings per share and an increased dividend in each year since flotation.

## Group Expansion

The European markets for healthcare continue to expand, and the Group is well positioned to take advantage of these opportunities. Last year we spent a net £89 million (€132 million) on business development, with the most significant investments being made in the UK, Italy and Spain. Our retail division acquired 59 shops, which, together with 7 further acquisitions since the period end, brings the total number of shops trading up to 571 units. In May Alleanza Salute Italia ('ASI') announced a transaction whereby we acquired a 36 per cent shareholding in Unifarma Distribuzione srl, a wholesaler operating in the Piedmont region. In October ASI also acquired Galenitalia spa, the Italian wholesaling business of Gehe A.G., operating in the Rome area. ASI now accounts for 25 per cent of the Italian market, further extending our position as market leader in that country. In June we announced that we had reached agreement with Safa Galenica S.A., our associate company operating in Spain, to acquire substantially all the shares not already owned by us, consolidating our position in this important territory and giving us a platform for expansion through this highly regarded company. The Group now controls 86 per cent of Safa.

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## Pharmacists

Historically, pharmacists have been involved in the creation of all our wholesaling companies across Europe, and all our businesses fully appreciate the value of the continuing close relationships they have with pharmacists. We continue to explore new ways to develop those relationships further, through our consultative committees, annual business conventions, board representation in both an executive and non-executive capacity, and much more. In 1998 we created a pan-European representative forum for our pharmacist customers, which will be chaired in rotation by a pharmacy representative from each country. The members of the forum represent some of the most senior and well respected figures in the European pharmacy sector and include two executive directors from Alliance UniChem who ensure we receive the best possible advice about key issues. The forum is currently working on an agenda of important topics, including single European prescription systems and issues concerning the wider sale of OTC medicines.



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#### **Shareholders**

In total, 4 million new shares were issued, mostly in respect of the acceptance of scrip dividends by mainly private shareholders, but also the exercise of employee share options and for pharmacy acquisitions.

Pharmacist shareholders continue to be strongly represented on our share register, and in addition many pharmacists across Europe have an equity interest in the wider Group. We believe the Company is strengthened by the participation of its pharmacist shareholders, which reinforces the mutuality of interest between the Company and its customers. The successful listing of our shares on the Bourse in Paris in June now makes it easier for our pharmacy customers in countries in the Euro region to buy and own Alliance UniChem shares.

#### **People**

The job we do every working day, of delivering medicines and healthcare products to over 41,000 pharmacies providing medical support to millions of patients across Europe, is a vital link in the maintenance of a healthy quality of life for the European population. This could not be achieved without the dedication and hard work of all our staff in every one of our 170 depots and administrative support centres. I am also pleased to report that over 1,200 of our employees are shareholders in the Group through various share ownership schemes. On behalf of shareholders, I thank all my colleagues for their contribution.

#### **Directors**

Since the establishment of a new board at the time of the merger, there have been two changes in Board membership. Joaquin Garcia Vela, who was President of Safa Galenica S.A., our associate company in Spain, joined us as a non-executive director shortly after the merger although indicating his intention to reduce his business commitments after a short period. Following the rapid acceptance of our offer by a significant number of Safa shareholders, Joaquin brought forward his anticipated retirement from the Board. We wish him well for the future. In June Claude Beretti, recently retired as President of IFP, joined us as a non-executive director. Claude is one of the most experienced wholesaling executives in the European pharmaceutical distribution sector as well as having, of course, excellent knowledge of the French market.

#### **Outlook**

The Group continues to prosper by using its core strengths and developing strong positions in each of its markets. Although there has been a slight slowing in the underlying rates of growth in some of our markets in the year under review, the long term trends continue to be favourable. We have demonstrated our ability to find and capture opportunities to grow by acquisition, and successfully to integrate and merge companies into our Group, gaining synergies as we grow. We look forward to the future with confidence in our ability to build on our success.



*Kenneth Clarke*  
Chairman  
23 March 1999

*The Group's priority is to be the first choice for partners in the distribution chain by achieving excellence in everything we do.*

