Directors' Report and Accounts 2003

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This document contains the Directors' Report and Accounts (which includes the Directors' Remuneration Report) and the Independent Auditors' Report for the year ended 31 December 2003. The Chairman's Statement, the Operating Review and the Financial Review are contained in a separate document – the Annual Review and *Summary Financial Statement*.

The Annual Review and Summary Financial Statement together with the Directors' Report and Accounts comprise the full Annual Report and Accounts for Bunzl plc for 2003 in accordance with the Companies Act 1985.

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Directors' report

The directors have pleasure in submitting their annual report and the audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2003.

Principal activities and developments
The principal activities of the Group are set out on the inside front cover of the Annual Review and Summary Financial Statement. The Chairman's Statement, the Operating Review and the Financial Review on pages 4 to 17 and 20 and 21 of the Annual Review and Summary Financial Statement give details of the Group's activities, developments and performance for the year and an indication of likely future developments.

Results
A summary of the Group's results is set out in the Chairman's Statement. Note 1 to the financial statements sets out a segmental analysis of operating results. A financial review of the year is set out on pages 20 and 21 of the Annual Review and Summary Financial Statement.

Going concern
The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Dividends
An interim dividend of 3.85p was paid in respect of the year and the directors recommend a final dividend of 8.25p per share, making a total for the year of 12.1p (2002: 11.2p). Dividend details are given in Note 5 to the financial statements. Subject to confirmation by the shareholders at the Annual General Meeting on 19 May 2004, the final dividend will be paid on 1 July 2004 to those shareholders on the register at the close of business on 7 May 2004. Shareholders will again be able to elect to receive additional shares in the Company in lieu of the cash dividend through the Company's dividend reinvestment plan. Further details will be circulated to shareholders with the notice of the Annual General Meeting.

Share capital
Details of the Company's share capital, including shares issued and purchased during the year, are set out in Note 17 to the financial statements.

Purchase of own shares
As at 23 February 2004 the Company had purchased 21,261,000 of its own shares pursuant to the existing authority which is due to expire at the conclusion of the forthcoming Annual General Meeting and the authority which expired at the Annual General Meeting in 2003. The directors again propose to seek a similar authority this year.

Directors
Mr M J Roney was appointed to the Board on 1 June 2003 and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting in accordance with the Articles of Association. Mr L C McQuade retired from the Board on 14 May 2003. All of the other directors, who are named on pages 18 and 19 of the Annual Review and Summary Financial Statement, served throughout the year.

Mr P G Lorenzini will retire from the Board on 31 July 2004. Mr A P Dyer and Mr J F Harris retire by rotation at the Annual General Meeting in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

Directors' interests in ordinary shares are shown in Note 21 to the financial statements.

Information relating to the directors' remuneration for the year and details of the directors' share options under the Company's share option schemes and awards under the Long Term Incentive Plan and Deferred Annual Share Bonus Scheme are set out in the Directors' Remuneration Report on pages 32 to 37.

Employment policies
The employment policies of the Group have been developed to meet the needs of its different business areas and the locations in which they operate worldwide, embodying the principles of equal opportunity. The Group has standards of business conduct with which it expects its employees to comply. Bunzl encourages involvement of its employees in the performance of the business in which they are employed and aims to achieve a sense of shared commitment. In addition to a quarterly magazine and the Company's intranet, which provide a variety of information on activities and developments within the Group and incorporate interim and annual financial reports, newsletters are periodically circulated to give details of corporate and staff matters together with a number of subsidiary or business area publications dealing with activities in specific parts of the Group.

It is the Group's policy that disabled applicants should be considered for employment and career development on the basis of their aptitudes and abilities. Employees who become disabled during their working life will be retained in employment wherever possible and given help with rehabilitation and training.

Substantial shareholdings
As at 23 February 2004 the directors had been notified by the following shareholders that they were each interested in 3% or more of the issued share capital of the Company. The notifications listed below are those which have been most recently received for the named shareholders.

Shareholder	Date of notification	% of issued share capital
Legal & General Investment Management Ltd	18.02.04	4.05
Scottish Widows Investment Partnership Ltd	16.02.04	3.99
Prudential plc	26.11.02	3.36

Creditor payment policy
Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that suppliers are made aware of these terms and that payments to suppliers are made in accordance with them, provided that suppliers also comply with all relevant terms and conditions.

The number of days billings from the Company's suppliers outstanding at the end of the financial year was 30 (2002: 30).

Donations
During 2003, amongst other worldwide charitable donations, the Group contributed £193,000 to UK charities (2002: £185,000). No contributions were made for political purposes.

Annual General Meeting
The Annual General Meeting will be held at the Hyatt Regency The Churchill Hotel, 30 Portman Square, London W1A 4ZX on Wednesday 19 May 2004 at 11.00 am. The notice convening the Meeting is set out in a separate letter from the Chairman to shareholders which explains the items of special business.

Auditors
A resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company at a rate of remuneration to be determined by the directors.

P N Hussey
Secretary
23 February 2004

Corporate governance

The Company is committed to high standards of corporate governance and supports and has complied throughout 2003 with the principles contained in the combined code on corporate governance ('the Code') applicable for the year ended 31 December 2003 and which are annexed to the Financial Services Authority's Listing Rules. Following the publication of the Higgs Report on non-executive directors and the Smith Report on audit committees the Code has been amended. The revised Code will be effective for the 2004 financial year. The Board will continue to review its policies and procedures in light of the revised Code.

The Board
The Board currently comprises three executive and six non-executive directors all of whom have wide experience and, apart from Mr A P Dyer, are considered by both the Board and the criteria set out in the Higgs Report to be independent. Brief biographical details of the directors are given on pages 18 and 19 of the Annual Review and Summary Financial Statement. The Board met nine times during 2003. Information relating to the conduct of Board meetings and the procedures implemented to ensure that the Board retains overall control and accountability for all strategic, financial, operational and compliance issues are set out in the internal control report below and in the Financial Review on pages 20 and 21 of the Annual Review and Summary Financial Statement. The Board has Audit, Remuneration and Nomination Committees which comply with the provisions of the Code. The Chairman, Mr A J Habgood, continues to act in the capacity of Chief Executive. The Board recognises the concerns, expressed in a general context, about the possible negative effects of a concentration of power through a combined Chairman and Chief Executive role but believes these do not presently apply to the Company for a variety of reasons. The Board has a majority of independent non-executive directors who constitute the entire membership of the Audit and Remuneration Committees and represent a majority of the Nomination Committee. None of the Company's non-executive directors had any previous connection with the Company or its executive directors on appointment to the Board. In addition, the Group's operations are devolved and the Group benefits from the presence of strong senior line management in those operations. The Deputy Chairman, Mr A P Dyer, is a former non-executive Chairman of the Company. Mr J F Harris has been designated as the senior independent non-executive director. The Board's firm view is that the Group does not suffer from a damaging concentration of power and is well protected from such a possibility. Furthermore, it believes that the current arrangements are in the best interests of the business and of shareholders.

The Company has instigated a formal Board evaluation process overseen by the Deputy Chairman, Mr A P Dyer. This includes completion of self-assessment forms by, and individual discussions with, each director.

Detailed information concerning directors' remuneration is given in the Directors' Remuneration Report on pages 32 to 37.

Remuneration Committee
The Remuneration Committee comprises all of the non-executive directors, with the exception of Mr A P Dyer, each of whom is independent, and is chaired by Mr C A Banks. The Committee met on five occasions during the year. Further details of the Remuneration Committee, the Company's remuneration policy and how it is applied are set out in the Directors' Remuneration Report on pages 32 to 37. The terms of reference of the Committee are available on the Company's website.

Audit Committee
The Audit Committee comprises all of the non-executive directors, with the exception of Mr A P Dyer, each of whom is independent, and is chaired by Mr J F Harris who is considered by the Board to have recent and relevant financial experience. The Committee met four times during 2003. It receives and considers reports from the external auditors and the internal audit function. The Committee also reviews and approves the level and type of non-audit work which the external auditors perform, including the fees paid for such work, thus ensuring that their objectivity and independence is not compromised. The Committee's terms of reference are available on the Company's website.

Nomination Committee
The Nomination Committee comprises Mr A J Habgood, who chairs the Committee, and Mr A P Dyer, Mr S G Williams, Mr J F Harris and Mr C A Banks. The Committee meets as necessary to enable it to make recommendations to the Board on new appointments of executive and non-executive directors. The Committee met once during the year. The terms of reference of the Committee are set out on the Company's website.

Relations with shareholders
The Chairman and Finance Director have regular meetings with representatives of institutional shareholders and report to the Board the views of major shareholders. Additional forms of communication include presentations of the interim and preliminary results. All shareholders are encouraged to participate in the Annual General Meeting, are invited to ask questions at the Meeting and are given the opportunity to meet the directors informally. Notice of the Annual General Meeting is sent to shareholders at least 20 working days before the Meeting.

Internal control
The directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In 1999 the Turnbull Committee published guidance on the wider aspects of internal control. In accordance with this guidance the Company established the procedures necessary to ensure that there is an ongoing process for identifying, evaluating and managing significant risks to the Group. The Board confirms that such procedures have been in place for the year ended 31 December 2003 and up to the date of approval of these financial statements and have been reviewed during the year.

The Board meets regularly throughout the year and has formally adopted a schedule of matters which are required to be brought to it for decision. This ensures that the directors maintain overall control over all significant strategic, financial, operational and compliance issues. The Board has delegated to management the responsibility for establishing a system of internal control appropriate to the business environments in which the Group operates.

The principal features of this system include:

- a procedure for monitoring the effectiveness of the internal control system through a tiered management structure with clearly defined lines of responsibility and delegation of authority to the appropriate level of management;
- clearly defined authorisation procedures for capital investment and acquisitions;
- strategic plans which are prepared annually by the business areas and approved by the Board;

- comprehensive budgets which are prepared annually by the business areas and approved by the Board;

- formal standards of business conduct (including a code of ethics) based on honesty, integrity and fair dealing;

- a well established consolidation and reporting system for the statutory accounts and monthly management accounts; and

- a detailed procedures manual covering treasury operations.

Some of the procedures carried out in order to monitor the effectiveness of the internal control system are listed below:

- central management holds regular meetings with business area management to discuss strategic, operational and financial issues including a review of the significant risks affecting each of the business areas and the policies and procedures by which these risks are managed;

- an Executive Committee, consisting of the Chairman and the Finance Director and other functional managers, meets twice per month and reviews the outcome of the discussions held at business area meetings on internal control issues;

- the Board in turn reviews the outcome of the Executive Committee discussions on internal control issues which ensures a documented and auditable trail of accountability;

- actual results are reviewed monthly against budget, forecasts and the previous year and explanations obtained for all significant variances;

- the Group's bank balances around the world are monitored on a weekly basis and significant movements are reviewed centrally;

- the internal audit department periodically reviews individual businesses and procedures, makes recommendations to improve controls and follows up to ensure that management implement the recommendations made. The internal audit department's work is determined on a risk assessment basis and their findings are reported to Group and business area management;

- the external auditors are engaged to express an opinion on the financial statements. They review and test the system of internal financial control and the data contained in the financial statements to the extent necessary for expressing their audit opinion on the truth and fairness of the financial statements;

- every six months the Audit Committee, which is chaired by Mr J F Harris, the senior independent non-executive director, reviews the findings of the external and internal auditors and approves the future work plans of the internal audit function;

- regular meetings are held with insurance and risk advisers to assess the risks throughout the Group;

- the Group Health and Safety Committee sets relevant policies on health and safety issues, based on the special advice of the Technical Sub-Committee, and monitors their implementation;

- risk assessments, safety audits and a regular review of progress against objectives established by each business area are periodically carried out;

- the Group Environment Committee periodically reviews environmental practices across the Group; and

- developments in tax, treasury and accounting are continually monitored by Group management in association with external advisers.

The directors confirm that they have reviewed the effectiveness of the system of internal control in operation during 2003.

Corporate social responsibility

The Board takes the area of social responsibility seriously and has for many years had policies with respect to business standards, the environment and health and safety. While we do not believe that we have a high risk profile with regard to the environment and health and safety, we believe that positive actions with respect to social responsibility are not only desirable in their own right but are also of potential economic and commercial benefit to the Group.

During 2003 we have reviewed Bunzl's stance on corporate social responsibility and developed an overall policy. This draws together existing Group policies, which in some cases have been updated, and new Group policies based either on policies used by certain subsidiaries or current practice. The objective of the Group's policy is to provide a reference point to guide stakeholders, including all employees, on the elements that drive the conduct of our business and relationships with the world in which we operate. The overall policy is made up of seven underlying policies covering the following areas: Standards of business conduct (Code of ethics), Health and safety, Employees, Customers, Environment, Suppliers and Community. Further details of our policies are available on the Company's website.

Standards of business conduct (Code of ethics)
The Group has a business standards policy that was established ten years ago and has been updated in the meantime, most recently in 2004. The policy sets out the standards of behaviour expected of each Bunzl employee and covers the areas of conflicts of interest, compliance with laws, rules and regulations, dealing in Bunzl shares, protection of confidential information, protection and proper use of company assets, relationships with customers, suppliers and employees, compliance with the Code and reporting of unethical behaviour.

Health and safety
The Group has a long-standing commitment to achieving continual improvement in health and safety performance. Bunzl seeks to identify and share best practice across its businesses. The Group Health and Safety Committee, established in 1993, comprises representatives from each business area and is responsible to the Board for reviewing the Group's health and safety policy and agreeing standards and objectives for the Group worldwide as well as auditing health and safety performance against those objectives. The Technical Sub-Committee comprises in-house health and safety experts who review a range of detailed safety issues and implement the health and safety programmes worldwide.

At the beginning of 2003 four Group level objectives were identified:

- improved data collection to facilitate the analysis of trends and to identify actions which would reduce the incidence and severity of accidents;
- implementation of a managed rehabilitation programme within the UK similar to those already operated in the US and Australia;
- improved understanding of line managers and individual employees of their role in improving safety;
- continued implementation of improvements in the workplace which encourage safe working.

Although the varying methods of recording data within the different countries in which the Group operates has meant that comparison and consolidation of data has proved difficult, overall businesses have reported a reduction in the number of days lost or restricted as the result of accidents or work-related ill health (severity rate).

Filtrona has introduced schemes within its major plants in the UK to encourage early return to work following sickness or injury. These schemes involve more robust attendance management programmes combined with occupational health advice on fitness for work and programmes of restricted duties. These programmes are also being extended to provide routine health screening on a voluntary basis.

Training courses have been held throughout the year both for management and employees to raise safety awareness. These have used a number of training methods including use of external consultants to provide management training, 'Toolbox talks' and an in-house designed CD-rom for driver training.

The Bunzl safety audit has continued to provide a useful vehicle both for management training and for identifying a programme of workplace improvements with the majority of sites now achieving overall scores well above 85%.

Employees
Bunzl remains committed to the recruitment of high quality staff and developing them within the businesses to provide excellent performance and take on more responsibility. This is achieved by a combination of structured Group management development programmes, specific skills training within respective businesses and the provision of challenging and responsible roles. The Group aims to provide opportunities to employees and strives to promote from within whenever appropriate. New graduates continue to be recruited into the business and, in the US and UK, participate in a successful structured training programme to enhance their development.

Appropriate and well timed communication to and from employees is essential in ensuring the effectiveness of the business. Set up in 1996, the European Information and Consultation Forums continue to meet to provide information to, and to consult with, elected employee representatives on Group and business area policies, strategy and performance. During 2003 a number of UK businesses have been developing and implementing more formalised information and consultation arrangements to supplement the European Forums and to ensure better employee involvement and feedback locally. For many years a Company magazine, 'Bunzl World', has been produced and distributed around the Group, notifying employees of major business successes, acquisitions and appointments. This is supplemented locally by a variety of newsletters, briefings and intranet communication giving more specific information related to the business or site where an employee is based.

Customers
The Group's business and livelihood depends upon its customers. Every employee is responsible for ensuring that any contact with customers and the public at large reflects professionalism, efficiency and honesty. During 2003, as has been the practice for some years, a number of businesses in Outsourcing Services and Filtrona undertook formal customer surveys to measure their customer service performance and rectify any issues identified. In addition, senior management meet key customers on an ad hoc basis to ensure understanding of their service requirements and gain their perceptions on how these requirements are being met. A series of specially tailored customer service programmes has been run in many of the Outsourcing Services businesses during the year.

Environment
Bunzl has continued its focus on the environmental aspects of its operations. There have been two major themes to the environmental programme during 2003. Firstly, a requirement for each business area to identify any significant environmental risks associated with their activities, products and

services. Secondly, continued implementation of environmental management systems compatible with ISO 14001 to include targets for environmental improvement, monitoring of performance and auditing.

ISO 14001 was attained by a further six manufacturing sites within Filtrona and three of the businesses of Outsourcing Services, covering more than 40 distribution sites. The following chart shows the significant progress made over the past few years in implementing environmental management systems.

Sites achieving ISO 14001

These sites, which are shown on a cumulative basis, employ some 54% of staff within the Group. Plans are in place for further sites to achieve accreditation in 2004.

The sites that are ISO 14001 accredited have, as part of that process, identified those areas in which they impact upon the environment. As a result of this work the following measures will be used to monitor environmental performance at Group level: energy usage, water consumption, raw material consumption and waste production.

A number of specific environmental initiatives are continuing which have a positive environmental benefit. For example, energy management remains important, particularly in manufacturing sites, and planned actions range from investment in new compressors/drive motors to reducing heat loss from processing units. Throughout Outsourcing Services there is focus on route planning and transport management as well as other measures to reduce fuel consumption and emissions to the air. The introduction of balers at many sites has already achieved a significant improvement in the amount of waste going to landfill. Wherever possible reusable packaging is purchased. The amount of packaging is reduced, wherever feasible, to the minimum necessary consistent with adequate product protection. In the UK, the Group is a member of Valpak who discharge the relevant obligations under the Producer Responsibility (Packaging Waste) Regulations. In Germany, the Group is a member of Duales System Deutschland who operate the 'Green Dot' recycling system. Bunzl is also a member of the FTSE4Good index.

Suppliers
Bunzl regards suppliers as partners and works with them to help achieve policy aspirations in the delivery of products and services. Specifically the Group is committed to working with its suppliers of products and services to ensure that the welfare of workers and labour conditions within the supply chain meet or exceed recognised standards. Within Outsourcing Services management regularly meet with suppliers to ensure mutual understanding and to give and receive feedback on services and goods received. In 2003 two Filtrona businesses, Globalpack in Brazil and ITC Filtrona in India, attained SA 8000:2001 certification. The certification process has led to more structured processes for improving standards, not only within the companies, but also within suppliers.

Community
Bunzl is a member of Business in the Community in the UK and at Group level has continued to support a cross section of projects within registered charities in the fields of healthcare, education, disability and children's welfare. In 2003 Bunzl sponsored three projects relating to cancer research and support: through Children with Leukaemia research into the development of a test for children being treated for leukaemia that will enable doctors to tailor further treatments to their precise and individual needs; research into prostate cancer treatment being undertaken by Imperial College London; and support of an internet based medical advice line run by Breast Cancer Care. Further support was provided to Queen Elizabeth's Training College to enhance the Computer Aided Design training department at the College with the aim of training disabled people to return to or start work. Finally, donations were made to several organisations providing support and advice to homeless people throughout the UK. In addition, Group companies and individual employees worldwide continue to support local charitable initiatives such as the Queen of Peace Center in St Louis that provides treatment, education, daycare and housing programs for women and their children.

Consolidated profit and loss account

for the year ended 31 December 2003

	Notes	2003 £m	2002 *Restated £m
Sales			
Existing businesses		**2,707.0**	2,673.6
Acquisitions		**21.2**	
Continuing operations		**2,728.2**	2,673.6
Discontinued operations		**–**	161.7
Total sales	1	**2,728.2**	2,835.3
Operating profit			
Existing businesses		**195.7**	189.0
Acquisitions		**0.7**	
Continuing operations		**196.4**	189.0
Discontinued operations		**–**	7.4
Total operating profit	1, 2	**196.4**	196.4
Profit on sale of discontinued operations		**–**	4.1
Profit on ordinary activities before interest		**196.4**	200.5
Net interest payable	3	**(1.8)**	(5.2)
Profit on ordinary activities before taxation		**194.6**	195.3
Profit before taxation, goodwill amortisation and exceptional items		**212.3**	207.3
Taxation on profit on ordinary activities	4	**(69.0)**	(70.0)
Profit on ordinary activities after taxation		**125.6**	125.3
Profit attributable to minorities		**(1.0)**	(0.5)
Profit for the financial year		**124.6**	124.8
Dividends paid and proposed	5	**(54.4)**	(52.3)
Retained profit for the financial year	18	**70.2**	72.5
Basic earnings per share	6	**27.4p**	27.1p
Adjusted earnings per share	6	**31.3p**	29.7p
Diluted basic earnings per share	6	**27.2p**	26.8p
Dividends per share	5	**12.1p**	11.2p

The Accounting Policies and Notes on pages 11 to 30 form part of these financial statements.

* Restated on adoption of FRS17 'Retirement Benefits'.

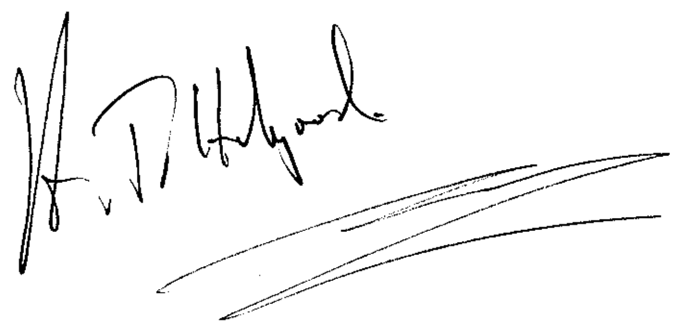
Consolidated balance sheet

at 31 December 2003

	Notes	2003 £m	2002 *Restated £m
Fixed assets			
Intangible assets – goodwill	7	290.9	289.5
Tangible fixed assets	8	196.5	199.6
Investments	9	33.3	34.3
		520.7	523.4
Current assets			
Stocks	10	215.6	217.5
Debtors	11	368.6	367.9
Investments	12	111.3	140.7
Cash at bank and in hand	26	47.5	51.5
		743.0	777.6
Current liabilities			
Creditors: amounts falling due within one year	13	(499.1)	(471.4)
Net current assets		243.9	306.2
Total assets less current liabilities		764.6	829.6
Creditors: amounts falling due after more than one year	14	(220.2)	(265.3)
Provisions for liabilities and charges	16	(41.6)	(43.1)
Net assets excluding pension liabilities		502.8	521.2
Pension liabilities		(40.8)	(43.7)
Net assets including pension liabilities		462.0	477.5
Capital and reserves			
Called up share capital	17	112.1	116.8
Share premium account	18	83.8	77.3
Capital redemption reserve	18	5.3	–
Revaluation reserve	18	1.3	1.5
Profit and loss account	18	256.7	279.6
Shareholders' funds: equity interests		459.2	475.2
Minority equity interests		2.8	2.3
		462.0	477.5

Approved by the Board of Directors of Bunzl plc on 23 February 2004 and signed on its behalf by Mr A J Habgood, Chairman and Mr D M Williams, *Finance Director.*

* Restated on adoption of FRS17 'Retirement Benefits'.



Consolidated cash flow statement

for the year ended 31 December 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	25	**250.4**	216.4
Returns on investments and servicing of finance			
Interest received		**5.9**	5.2
Interest paid		**(6.8)**	(11.6)
Dividends paid to minority shareholders		**(0.2)**	(0.1)
Other cash flows		**(3.6)**	(2.5)
Net cash outflow for returns on investments and servicing of finance		**(4.7)**	(9.0)
Tax paid		**(56.6)**	(64.3)
Capital expenditure			
Purchase of tangible fixed assets		**(37.8)**	(33.4)
Disposal of tangible fixed assets		**6.5**	2.4
Net cash outflow for capital expenditure		**(31.3)**	(31.0)
Acquisitions and disposals			
Acquisition of businesses	27	**(36.1)**	(77.0)
Disposal of businesses		**10.0**	111.3
Other acquisition and disposal cash flows		**–**	(0.7)
Net cash (outflow)/inflow for acquisitions and disposals		**(26.1)**	33.6
Equity dividends paid		**(51.8)**	(48.0)
Net cash inflow before use of liquid resources and financing		**79.9**	97.7
Net cash inflow/(outflow) from management of liquid resources		**57.4**	(128.7)
Financing			
Increase/(decrease) in short term loans		**8.3**	(37.0)
(Decrease)/increase in long term loans		**(21.1)**	37.4
Decrease in finance leases		**(0.1)**	(0.3)
Shares issued for cash		**7.0**	7.9
Purchase of own shares		**(92.2)**	–
Net cash (outflow)/inflow from financing		**(98.1)**	8.0
Increase/(decrease) in cash in the financial year		**39.2**	(23.0)

	Notes	2003 £m	2002 £m
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the financial year		**39.2**	(23.0)
(Increase)/decrease in debt due within one year		**(8.3)**	37.0
Decrease/(increase) in debt due after one year		**21.1**	(37.4)
(Decrease)/increase in current asset investments		**(57.4)**	128.7
Exchange and other movements		**14.9**	23.2
Movement in net debt in the year		**9.5**	128.5
Opening net debt		**(106.0)**	(234.5)
Closing net debt	26	**(96.5)**	(106.0)

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2003

	2003 £m	2002 *Restated £m
Profit for the financial year	**124.6**	124.8
Actuarial gain/(loss) on pension schemes	**0.9**	(64.3)
Deferred taxation on actuarial (gain)/loss on pension schemes	**(0.4)**	20.0
Currency translation differences on foreign currency net investments	**(1.5)**	(10.9)
Total recognised gains and losses for the year	**123.6**	69.6
Prior year adjustment (adoption of FRS17)	**(68.8)**	
Total recognised gains and losses since last directors' report and accounts	**54.8**	

Consolidated reconciliation of movements in shareholders' funds

for the year ended 31 December 2003

	2003 £m	2002 *Restated £m
Opening shareholders' funds as previously reported	**544.0**	456.5
Prior year adjustment (adoption of FRS17)	**(68.8)**	(25.9)
Opening shareholders' funds restated	**475.2**	430.6
Profit for the financial year	**124.6**	124.8
Dividends paid and proposed	**(54.4)**	(52.3)
Transfer of goodwill on disposals	**–**	19.4
Issue of share capital	**7.0**	7.9
Actuarial gain/(loss) net of deferred taxation on pension schemes	**0.5**	(44.3)
Purchase of own shares	**(92.2)**	–
Currency translation	**(1.5)**	(10.9)
Closing shareholders' funds	**459.2**	475.2

* Restated on adoption of FRS17 'Retirement Benefits'.

Company balance sheet
at 31 December 2003

	Notes	2003 £m	2002 *Restated £m
Fixed assets			
Tangible fixed assets	8	**1.0**	1.1
Investments	9	**234.0**	318.2
		235.0	319.3
Current assets			
Debtors	11	**405.1**	452.6
Cash at bank and in hand		**1.1**	2.6
		406.2	455.2
Current liabilities			
Creditors: amounts falling due within one year	13	**(95.7)**	(95.1)
Net current assets		**310.5**	360.1
Total assets less current liabilities		**545.5**	679.4
Creditors: amounts falling due after more than one year	14	**(1.0)**	(1.2)
Provisions for liabilities and charges	16	**(0.1)**	–
Net assets		**544.4**	678.2
Capital and reserves			
Called up share capital	17	**112.1**	116.8
Share premium account	18	**83.8**	77.3
Capital redemption reserve	18	**5.3**	–
Special reserve	18	**–**	90.9
Profit and loss account	18	**343.2**	393.2
Shareholders' funds: equity interests		**544.4**	678.2

Approved by the Board of Directors of Bunzl plc on 23 February 2004 and signed on its behalf by Mr A J Habgood, Chairman and Mr D M Williams, Finance Director.

The Accounting Policies and Notes on pages 11 to 30 form part of these financial statements.

* Restated on adoption of FRS17 'Retirement Benefits'.

Accounting policies

a Basis of preparation
The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and certain forward foreign exchange contracts and have been prepared in accordance with the Companies Act 1985 and applicable UK accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, except as noted in paragraph c below.

b Basis of consolidation
The consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiary undertakings at 31 December 2003 and their results for the periods during 2003 in which they were part of the Group. The acquisition method of accounting has been adopted.

c Change of accounting policy
On 1 January 2003 the Group fully adopted FRS17 'Retirement Benefits'. As a result, comparative figures have been restated. The impact on the consolidated profit for the year to 31 December 2003 was an increase of £0.3m (2002: £(0.4)m) and the impact on the consolidated shareholders' funds as at 31 December 2002 was a reduction of £68.8m. The impact on shareholders' funds of the Company as at 31 December 2002 was a reduction of £20.5m.

d Goodwill
Goodwill arising on acquisitions made after 31 December 1997 is capitalised and is amortised on a straight line basis through the profit and loss account over its estimated useful life, a period of up to 20 years. Goodwill arising on acquisitions made prior to 1 January 1998 remains eliminated against reserves. In determining the profit or loss on disposal of a business, any goodwill on acquisition, net of goodwill eliminated through the profit and loss account as a result of any impairment in value or by amortisation, is transferred to the profit and loss reserve through the profit and loss account.

e Investments in subsidiary undertakings
Investments in subsidiary undertakings are held at cost less any provision for impairment.

f Investment in own shares
Investment in own shares is to fulfil obligations of certain Group employee share plans. Where applicable the cost of these shares is amortised over three years.

g Foreign currencies
The results of overseas subsidiary undertakings have been translated into sterling at average exchange rates. Assets and liabilities denominated in foreign currencies have been translated at year end exchange rates, except where a forward foreign exchange contract has been arranged when the contracted rate is used.

Exchange differences on the retranslation of opening net worth in overseas subsidiary undertakings, net of related foreign currency borrowings and foreign currency hedging contracts together with differences arising from the use of average and year end exchange rates, have been taken to reserves. Other exchange differences are taken to the profit and loss account.

Forward foreign exchange contracts hedging transaction exposures are revalued at year end exchange rates with net unrealised gains and losses being taken to the profit and loss reserve.

h Tangible fixed assets
Until 31 December 1999 land and buildings were revalued periodically. As permitted under FRS15, the valuations of land and buildings have not been and will not be updated. All other assets are included at historical cost, less accumulated depreciation. The profit or loss on sale of tangible fixed assets is calculated by reference to the carrying values of the assets. The carrying values of tangible fixed assets are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

i Depreciation
Tangible fixed assets are depreciated over their estimated remaining useful lives at the following annual rates applied to book value less estimated residual value:

Buildings	2% or life of lease if shorter
Plant and machinery	10 – 20%
Fixtures, fittings and equipment	10 – 25%
Freehold land	0%

j Leases
Where the Group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Future instalments payable under finance leases, net of finance charges, are included in creditors with the corresponding asset value treated as a tangible fixed asset. All other leases are treated as operating leases and the rentals are charged to the profit and loss account on a straight line basis.

k Deferred taxation
The Group provides for deferred taxation assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred taxation assets are only recognised where it is more likely than not that they will be recovered.

l Sales
Sales are net sales invoiced to third parties for services provided and goods sold, excluding intercompany transactions and sales taxes. Income from the sale of goods and services is recognised when delivery has occurred and where the price is fixed or determinable and reflects the commercial substance of the transaction.

m Stocks
Stocks are valued at the lower of cost (on a first in, first out basis) and net realisable value. For work-in-progress and finished goods, cost includes an appropriate proportion of labour and overheads.

n Pension benefits
In accordance with FRS17, for defined contribution schemes, contributions are charged to the profit and loss account in the period in which they arise.

For defined benefit schemes the amounts charged to operating profit are the current service cost, past service cost and gains and losses on settlements and curtailments. An amount which represents the expected increase in the present value of scheme liabilities net of the expected return on scheme assets is included within net interest payable.

Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. These consist of differences between actual and expected returns on scheme assets during the year, experience losses on scheme liabilities and the impact of any changes in assumptions. Pension liabilities are recognised on the consolidated balance sheet and represent the difference between the market value of scheme assets and the present value of scheme liabilities at the balance sheet date, net of deferred taxation. Scheme liabilities are determined on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on AA rated corporate bonds.

Notes to the financial statements

for the year ended 31 December 2003

1 Segmental analysis	Sales 2003 £m	Sales 2002 £m	Operating profit 2003 £m	Operating profit 2002 *Restated £m	Net operating assets 2003 £m	Net operating assets 2002 *Restated £m
Continuing operations						
Outsourcing Services	**2,275.6**	2,231.2	**174.8**	168.1	**228.9**	242.4
Filtrona	**452.6**	442.4	**56.1**	52.7	**197.2**	199.9
Corporate activities			**(16.8)**	(16.0)	**(9.8)**	3.1
Goodwill†			**(17.7)**	(15.8)	**290.9**	289.5
	2,728.2	2,673.6	**196.4**	189.0	**707.2**	734.9
Discontinued operations	**–**	161.7	**–**	7.7	**–**	–
Goodwill			**–**	(0.3)	**–**	–
	2,728.2	2,835.3	**196.4**	196.4	**707.2**	734.9
Geographical origin						
Europe	**886.4**	970.8	**68.0**	64.6	**178.0**	184.3
North America	**1,698.3**	1,754.9	**144.4**	149.2	**205.0**	218.6
Rest of the world	**143.5**	109.6	**18.5**	14.7	**43.1**	39.4
Corporate activities			**(16.8)**	(16.0)	**(9.8)**	3.1
Goodwill††			**(17.7)**	(16.1)	**290.9**	289.5
	2,728.2	2,835.3	**196.4**	196.4	**707.2**	734.9
Geographical market supplied						
Europe	**857.1**	957.9				
North America	**1,684.4**	1,748.6				
Rest of the world	**186.7**	128.8				
	2,728.2	2,835.3				

Reconciliation to consolidated balance sheet	2003 £m	2002 *Restated £m
Net operating assets	**707.2**	734.9
Interest bearing cash, debt and investments	**(84.6)**	(102.0)
Dividends and corporate taxes (Notes 11 and 13)	**(101.6)**	(88.5)
Provisions for deferred taxation and discontinued operations (Note 16)	**(18.2)**	(23.2)
Pension liabilities (Note 22)	**(40.8)**	(43.7)
Total net assets including pension liabilities	**462.0**	477.5

† Goodwill amortisation comprised Outsourcing Services £14.5m (2002: £12.8m) and Filtrona £3.2m (2002: £3.0m). Unamortised goodwill at 31 December 2003 comprised Outsourcing Services £253.8m (2002: £250.7m) and Filtrona £37.1m (2002: £38.8m).

†† By geographical origin goodwill amortisation comprised Europe £11.6m (2002: £10.1m), North America £5.8m (2002: £6.0m) and rest of the world £0.3m (2002: £nil). Unamortised goodwill at 31 December 2003 comprised Europe £197.9m (2002: £189.0m), North America £88.0m (2002: £96.5m) and rest of the world £5.0m (2002: £4.0m).

* Restated on adoption of FRS17 'Retirement Benefits'.

2 Net operating charges	Existing businesses 2003 £m	Acquisitions 2003 £m	Total 2003 £m	Existing businesses *Restated 2002 £m	Discontinued operations *Restated 2002 £m	Total *Restated 2002 £m
Changes in stock of finished goods and work-in-progress	**1.4**	**(0.2)**	**1.2**	(5.8)	26.4	20.6
Raw materials and consumables	**1,900.6**	**15.1**	**1,915.7**	1,901.2	100.4	2,001.6
Employee costs (Note 23)	**317.0**	**3.2**	**320.2**	316.1	13.4	329.5
Depreciation and other amounts written off tangible and intangible fixed assets	**49.9**	**0.3**	**50.2**	48.3	1.2	49.5
Other operating charges	**242.4**	**2.1**	**244.5**	224.8	12.9	237.7
Net operating charges	**2,511.3**	**20.5**	**2,531.8**	2,484.6	154.3	2,638.9

Profit on ordinary activities is stated after charging:						
Auditors' remuneration:						
audit – statutory reporting	**1.4**	**0.1**	**1.5**	1.5	0.1	1.6
further assurance services	**1.5**	**–**	**1.5**	0.7	–	0.7
tax services	**0.9**	**–**	**0.9**	1.2	–	1.2
Depreciation and other amounts written off tangible and intangible fixed assets:						
owned and leased	**32.3**	**0.2**	**32.5**	32.5	0.9	33.4
amortisation of goodwill	**17.6**	**0.1**	**17.7**	15.8	0.3	16.1
Hire of plant and machinery – rentals payable under operating leases	**12.7**	**–**	**12.7**	14.8	2.0	16.8

Included within further assurance and tax services are fees for work performed by the Company's auditors of £1.8m (2002: £1.1m) for the Company and its UK subsidiaries and £0.6m (2002: £0.8m) for its non-UK subsidiary undertakings. Auditors' remuneration for the Company's statutory audit was £0.3m (2002: £0.3m). All of the fees for further assurance services related to due diligence and other duties carried out in respect of acquisitions and disposals of businesses. The Company believes that, given their detailed knowledge of the Group's operations, its structure and accounting policies and the importance of carrying out detailed due diligence as part of the acquisition process, it is appropriate for this additional work to be carried out by the Company's auditors rather than another firm of accountants. The Audit Committee, which consists entirely of independent non-executive directors, reviews and approves the level and type of non-audit work which the auditors perform, including the fees paid for such work, thus ensuring that their objectivity and independence is not compromised.

3 Net interest payable	2003 £m	2002 *Restated £m
Interest receivable		
Bank deposits	**7.7**	4.5
Expected return on pension scheme assets	**12.7**	15.0
Total interest receivable	**20.4**	19.5
Interest payable		
Bank loans and overdrafts	**(3.2)**	(4.5)
Other loans	**(4.2)**	(5.8)
Interest on pension scheme liabilities	**(14.8)**	(14.4)
Total interest payable	**(22.2)**	(24.7)
Net interest payable	**(1.8)**	(5.2)

* Restated on adoption of FRS17 'Retirement Benefits'.

Notes to the financial statements continued

4 Taxation on profit on ordinary activities	2003 £m	2002 *Restated £m
UK corporation tax		
current year	**12.7**	18.3
prior years	**0.1**	(0.2)
double tax relief	**(3.3)**	(6.5)
Total UK corporation tax at 30.0% (2002: 30.0%)	**9.5**	11.6
Overseas taxes		
current year	**60.4**	57.6
prior years	**(6.0)**	(1.0)
Total overseas taxes	**54.4**	56.6
Deferred taxation transfers		
origination and reversal of timing differences	**3.9**	2.1
Total taxation for year	**67.8**	70.3
Credited/(debited) to other reserves		
current taxation	**2.2**	(0.3)
deferred taxation	**(1.0)**	–
Taxation on profit on ordinary activities	**69.0**	70.0

Factors affecting taxation charge for the year
The taxation assessed for the year is higher than the standard rate of corporation tax in the UK of 30.0%.
The differences are as follows:

	2003 £m	2002 *Restated £m
Profit on ordinary activities before taxation	**194.6**	195.3
Taxation charge at UK corporation tax rate of 30.0% (2002: 30.0%)	**58.4**	58.6
Effects of:		
permanent differences (primarily goodwill amortisation)	**4.1**	3.1
capital allowances for period in excess of depreciation	**(1.0)**	(1.3)
other timing differences	**(4.2)**	(4.1)
unrelieved/(utilisation of) tax losses	**0.3**	(0.3)
higher tax rates on overseas earnings	**13.9**	12.4
adjustments to taxation charge in respect of previous periods	**(5.9)**	(1.2)
other items	**0.5**	0.7
Current taxation charge for the year	**66.1**	67.9

5 Dividends paid and proposed	Per share 2003	Per share 2002	Total 2003 £m	Total 2002 £m
Interim paid 2 January 2004	**3.85p**	3.65p	**17.4**	17.0
Proposed final payable 1 July 2004	**8.25p**	7.55p	**37.0**	35.3
	12.1p	11.2p	**54.4**	52.3

* Restated on adoption of FRS17 'Retirement Benefits'.

6 Earnings per share	2003 £m	2002 *Restated £m
Profit for the financial year	**124.6**	124.8
Adjustments†	**17.7**	12.3
Adjusted profit for the financial year	**142.3**	137.1
Basic weighted average ordinary shares in issue (million)	**455.2**	461.4
Dilutive effect of employee share plans (million)	**2.2**	3.9
Diluted weighted average ordinary shares (million)	**457.4**	465.3
Basic earnings per share	**27.4p**	27.1p
Adjustments	**3.9p**	2.6p
Adjusted earnings per share	**31.3p**	29.7p
Diluted basic earnings per share	**27.2p**	26.8p

Adjusted earnings per share is provided to reflect the underlying earnings performance of the Group.

† Adjustments comprise goodwill amortisation of £17.7m (2002: £16.1m) and profit on sale of discontinued operations, net of taxation, of £nil (2002: £(3.8)m*).

7 Intangible assets – goodwill	£m
Consolidated:	
Cost	
Beginning of year	326.4
Additions	23.5
Currency translation	(5.8)
End of year	344.1
Amortisation	
Beginning of year	36.9
Charge in year	17.7
Currency translation	(1.4)
End of year	53.2
Net book value at 31 December 2003	**290.9**
Net book value at 31 December 2002	289.5

* Restated on adoption of FRS17 'Retirement Benefits'.

8 Tangible fixed assets	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Consolidated:				
Cost or valuation				
Beginning of year	78.5	244.8	80.3	403.6
Acquisitions	2.0	2.2	1.0	5.2
Additions	3.3	26.8	7.7	37.8
Disposals	(5.0)	(6.0)	(6.2)	(17.2)
Currency translation	(3.5)	(10.9)	(2.7)	(17.1)
End of year	75.3	256.9	80.1	412.3
Depreciation				
Beginning of year	15.9	141.9	46.2	204.0
Charge in year	3.0	20.4	9.1	32.5
Disposals	(2.2)	(4.8)	(6.0)	(13.0)
Currency translation	(0.5)	(5.8)	(1.4)	(7.7)
End of year	16.2	151.7	47.9	215.8
Net book value at 31 December 2003	**59.1**	**105.2**	**32.2**	**196.5**
Net book value at 31 December 2002	62.6	102.9	34.1	199.6

The net book value of tangible fixed assets includes assets held under finance leases and hire purchase contracts totalling £0.1m (2002: £0.5m). Accumulated depreciation of these assets amounts to £0.5m (2002: £0.7m).

	Land £m	Freehold buildings £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
The net book value of tangible fixed assets at 31 December 2003 comprised:							
Consolidated:							
At cost	2.1	42.7	6.3	7.7	256.9	80.1	395.8
At valuation	8.1	5.8	2.6	–	–	–	16.5
Cost or valuation	10.2	48.5	8.9	7.7	256.9	80.1	412.3
Depreciation		(8.3)	(2.6)	(5.3)	(151.7)	(47.9)	(215.8)
Net book value at 31 December 2003	**10.2**	**40.2**	**6.3**	**2.4**	**105.2**	**32.2**	**196.5**
Net book value at 31 December 2002	10.2	42.6	5.6	4.2	102.9	34.1	199.6

8 Tangible fixed assets continued	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
The historical cost and the related depreciation of the tangible fixed assets are:				
Historical cost	74.0	256.9	80.1	411.0
Depreciation	(16.2)	(151.7)	(47.9)	(215.8)
Net book value at 31 December 2003	**57.8**	**105.2**	**32.2**	**195.2**
Net book value at 31 December 2002	61.1	102.9	34.1	198.1

Future capital expenditure at 31 December 2003 consisted of commitments not provided for of £1.3m (2002: £1.4m).

	Land £m	Freehold buildings £m	Short leasehold £m	Fixtures, fittings and equipment £m	Total £m
Bunzl plc:					
Cost or valuation					
At beginning and end of year	0.6	0.2	0.4	1.3	2.5
Depreciation					
Beginning of year		–	0.3	1.1	1.4
Charge in year		–	–	0.1	0.1
End of year		–	0.3	1.2	1.5
Net book value at 31 December 2003	**0.6**	**0.2**	**0.1**	**0.1**	**1.0**
Net book value at 31 December 2002	0.6	0.2	0.1	0.2	1.1

9 Investments held as fixed assets	Own shares £m	Unlisted £m	Total £m
Consolidated:			
Beginning of year	19.2	15.1	34.3
Additions	8.8	–	8.8
Amortisation	(0.8)	–	(0.8)
Transfer	–	(8.3)	(8.3)
Currency translation	–	(0.7)	(0.7)
End of year	**27.2**	**6.1**	**33.3**

Own shares are ordinary shares of the Company held by the Group in an employee benefit trust. The principal purpose of this trust is to hold shares in the Company for subsequent transfer to certain senior employees and executive directors under the Long Term Incentive Plan, the Deferred Annual Share Bonus Scheme and to satisfy options granted under the 1994 Executive Share Option Scheme in respect of market purchased shares. Full details of such Plan and Schemes are set out in the Directors' Remuneration Report on pages 32 to 37. The assets, liabilities and expenditure of the trust have been incorporated in the Group's financial statements. At 31 December 2003 the trust held 7,054,952 (2002: 5,454,213) shares, upon which dividends have been waived, with an aggregate nominal value of £1.8m (2002: £1.4m) and market value of £30.1m (2002: £20.7m).

9 Investments held as fixed assets continued	Own shares £m	Investments in subsidiary undertakings £m	Total £m
Bunzl plc:			
Beginning of year at cost less provisions	18.9	299.3	318.2
Additions	8.3	–	8.3
Amortisation	(0.4)	–	(0.4)
Transfer	–	(92.1)	(92.1)
End of year at cost less provisions	**26.8**	**207.2**	**234.0**

The investments in subsidiary undertakings at 31 December 2003 are stated net of provisions of £24.7m (2002: £24.7m). Principal subsidiary undertakings are listed in Note 28.

10 Stocks	Consolidated **2003** £m	Consolidated 2002 £m
Raw materials and consumables	**16.6**	17.5
Work-in-progress	**6.8**	2.7
Finished goods and goods for resale	**192.2**	197.3
	215.6	217.5

11 Debtors	Bunzl plc **2003** £m	Bunzl plc 2002 *Restated £m	Consolidated **2003** £m	Consolidated 2002 *Restated £m
Trade debtors	–	–	**296.8**	286.6
Amounts owed by subsidiary undertakings	**394.4**	434.1		
Other debtors	**9.1**	17.3	**46.8**	53.9
Prepayments and accrued income	**1.6**	1.2	**23.6**	23.4
Corporate taxes	–	–	**1.4**	4.0
	405.1	452.6	**368.6**	367.9

* Restated on adoption of FRS17 'Retirement Benefits'.

12 Investments held as current assets	Consolidated 2003 £m	2002 £m
Short term deposits repayable on demand	**32.0**	3.2
Short term deposits not repayable on demand	**79.3**	137.5
	111.3	140.7

13 Creditors	Bunzl plc 2003 £m	2002 £m	Consolidated 2003 £m	2002 £m
Amounts falling due within one year				
Loans	–	–	**17.4**	0.7
Overdrafts	–	–	**20.5**	35.5
Obligations under finance leases	–	–	**0.1**	0.2
Trade creditors	**0.6**	0.9	**246.5**	227.3
Amounts owed to subsidiary undertakings	**24.6**	25.0		
Dividends proposed	**54.4**	52.3	**54.4**	52.3
Corporate taxes	**8.4**	9.0	**48.6**	40.2
Other taxation and social security contributions	**0.4**	0.4	**6.4**	5.7
Other creditors	–	–	**29.1**	24.1
Accruals and deferred income	**7.3**	7.5	**76.1**	85.4
	95.7	95.1	**499.1**	471.4

14 Creditors	Bunzl plc 2003 £m	2002 £m	Consolidated 2003 £m	2002 £m
Amounts falling due after more than one year				
Loans	**1.0**	1.2	**217.2**	261.7
Obligations under finance leases	–	–	**0.1**	0.1
Accruals and deferred income	–	–	**2.9**	3.5
	1.0	1.2	**220.2**	265.3

15 Financial instruments

An explanation of the Group's treasury policies, controls and strategies is included in the Financial Review on pages 20 and 21 of the Annual Review and Summary Financial Statement. Short term debtors and creditors are excluded from the following disclosures, as permitted by FRS13 'Derivatives and Other Financial Instruments: Disclosures'.

Interest rate risk profile of financial assets and liabilities

The Group's financial assets consist of cash at bank and in hand, and short term cash deposits repayable and not repayable on demand, together with other unlisted investments. Interest rates on short term cash deposits not repayable on demand are mainly set with reference to LIBID for periods ranging from one day to three months. Financial assets at 31 December 2003 were £164.9m (2002: £207.3m) of which 69% (2002: 71%) were denominated in sterling, 14% (2002: 19%) were denominated in US dollars and 8% (2002: 6%) were denominated in euros.

The majority of the Group's financial liabilities are at floating rates of interest set with reference to LIBOR for periods ranging from one day to three months. During the year an average of 66% (2002: 82%) of forecast net debt was protected from adverse movements in interest rates with fixed rate debt and interest rate caps for an average period of 19 months (2002: 19 months).

Notes to the financial statements continued

15 Financial instruments continued

After taking into account interest rate swaps, the interest rate and currency profile of the Group's financial liabilities at 31 December was:

	Floating rate 2003 £m	Fixed rate 2003 £m	Total 2003 £m	Floating rate 2002 £m	Fixed rate 2002 £m	Total 2002 £m
Sterling	**15.1**	**–**	**15.1**	25.1	–	25.1
US dollar	**207.0**	**27.9**	**234.9**	235.5	31.1	266.6
Other	**5.3**	**–**	**5.3**	6.5	–	6.5
	227.4	**27.9**	**255.3**	267.1	31.1	298.2

Fixed rate financial liabilities have an interest rate of 6.4% (2002: 6.4%) and a period of 30 months (2002: 42 months) until maturity.

Fair values of financial assets and liabilities

The fair values of financial assets and liabilities at 31 December were:

	Book value 2003 £m	Fair value 2003 £m	Book value 2002 £m	Fair value 2002 £m
Primary financial instruments issued to finance the Group's operations:				
US dollar Bond	**(125.7)**	**(141.3)**	(139.8)	(160.2)
Derivative financial instruments held to manage the interest rate profile:				
Interest rate derivatives	**–**	**12.8**	–	16.7

Fair values have been calculated by discounting cash flows at the prevailing interest rates. Fair values of other financial assets and liabilities are not significantly different to book values. Details of the US dollar Bond can be found in the Financial Review on pages 20 and 21 of the Annual Review and Summary Financial Statement.

Maturity of financial liabilities

The maturity of financial liabilities at 31 December was:

	Bunzl plc 2003 £m	Bunzl plc 2002 £m	Consolidated 2003 £m	Consolidated 2002 £m
Within one year	**–**	–	**38.0**	36.4
After one year but within two years	**–**	–	**46.5**	15.5
After two years but within five years	**1.0**	1.2	**120.4**	152.9
After five years	**–**	–	**50.4**	93.4
	1.0	1.2	**255.3**	298.2

At 31 December loans amounting to £1.3m (2002: £1.5m) were secured by either fixed or floating charges on various assets of the relevant companies. The Group's available undrawn committed facilities at 31 December were:

	2003 £m	2002 £m
Expiring within one year	**53.3**	121.1
Expiring after one year but within two years	**29.1**	0.5
Expiring after two years	**135.2**	72.9
	217.6	194.5

16 Provisions for liabilities and charges	Bunzl plc 2003 £m	Bunzl plc 2002 *Restated £m	Consolidated 2003 £m	Consolidated 2002 *Restated £m
Discontinued operations	**1.4**	1.4	**1.4**	1.8
Deferred taxation (Note 19)	**(2.4)**	(3.6)	**16.8**	21.4
Other	**1.1**	2.2	**23.4**	19.9
	0.1	–	**41.6**	43.1

Consolidated	Discontinued operations £m	Deferred taxation £m	Other £m	Total £m
Movements				
Beginning of year as previously reported	1.8	32.6	19.9	54.3
Prior year adjustment (adoption of FRS17)		(11.2)		(11.2)
Beginning of year restated	1.8	21.4	19.9	43.1
Charge	–	3.9	4.3	8.2
Acquisitions	–	(0.3)	4.5	4.2
Utilised	(0.3)	–	(5.0)	(5.3)
Transfer		(7.1)		(7.1)
Currency translation	(0.1)	(1.1)	(0.3)	(1.5)
End of year	**1.4**	**16.8**	**23.4**	**41.6**

Other provisions relate primarily to vacant properties, workers' compensation claims, legal claims and environmental clean up costs and are expected to be utilised in the near future.

17 Share capital	2003 £m	2002 £m
Authorised: 680 million (2002: 680 million) ordinary shares of 25p each	**170.0**	170.0
Issued and fully paid ordinary shares of 25p each	**112.1**	116.8

Number of ordinary shares in issue		
Beginning of year	**467,024,892**	463,882,138
Issued during year following option exercises	**2,580,559**	3,142,754
Purchase of own shares	**(21,261,000)**	–
End of year	**448,344,451**	467,024,892

The number of shares in issue at 31 December 2003 reflects the cancellation of shares following the share buy back. During the year, 21.3m ordinary shares with a nominal value of £5.3m were purchased, at a cost of £92.2m (including expenses). These shares have been cancelled and the nominal value of the shares transferred to a capital redemption reserve (Note 18). This represents 4.6% of the number of ordinary shares in issue at the beginning of the year.

* Restated on adoption of FRS17 'Retirement Benefits'.

17 Share capital continued

Details of share options granted and exercised during 2003 and those outstanding at 31 December 2003, in each case in respect of options over new issue shares, under the Company's Sharesave Scheme (1991), Sharesave Scheme (2001), International Sharesave Plan, Executive Share Option Scheme (No.2) and 1994 Executive Share Option Scheme are set out in the following table:

	2003 Grants		2003 Exercises		Options outstanding at 31.12.03	
	Number	Price (p)	Number	Price (p)	Number	Price (p)
Sharesave Scheme (1991)			763,606	160 – 308	954,598	160 – 365
Sharesave Scheme (2001)	1,548,660	296 – 358	10,769	296 – 389	2,211,424	296 – 389
International Sharesave Plan	112,431	296	–		148,948	296 – 389
Executive Scheme (No.2)			171,970	126 – 169	119,278	144 – 169
1994 Executive Scheme	2,530,250	372 – 449	1,264,812	212 – 461	10,688,128	212 – 461
	4,191,341		**2,211,157**		**14,122,376**	

The outstanding options are exercisable at various dates up to October 2013. Although not reflected in these financial statements, for the year ended 31 December 2003 the fair value charge of share options issued by the Company on or prior to the year end would have been £3.4m (2002: £3.1m).

18 Movements on reserves	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account *Restated £m
Consolidated:				
Beginning of year as previously reported	77.3		1.5	348.4
Prior year adjustment (adoption of FRS17)				(68.8)
Beginning of year restated	77.3		1.5	279.6
Premium on exercise of options	6.5			(0.1)
Purchase of own shares		5.3		(92.2)
Currency translation			(0.2)	(1.3)
Actuarial gain on pension schemes				0.9
Deferred taxation on actuarial gain on pension schemes				(0.4)
Retained profit for the financial year				70.2
End of year	**83.8**	**5.3**	**1.3**	**256.7**

At 31 December 2003 the cumulative amount of goodwill written off to reserves in respect of acquisitions made prior to 1 January 1998, net of goodwill attributable to subsidiary undertakings disposed of, was £287.9m (2002: £287.9m). Currency gains of £2.8m (2002: £9.0m) relating to forward foreign currency exchange contracts and borrowings to finance investment overseas have been included within the currency translation movement in the profit and loss account reserve.

Included within the profit and loss reserve is £40.8m (2002: £43.7m) in respect of pension scheme deficits net of deferred taxation (Note 22).

* Restated on adoption of FRS17 'Retirement Benefits'.

18 Movements on reserves continued

	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account *Restated £m
Bunzl plc:				
Beginning of year as previously reported	77.3		90.9	413.7
Prior year adjustment (adoption of FRS17)				(20.5)
Beginning of year restated	77.3		90.9	393.2
Premium on exercise of options	6.5			
Purchase of own shares		5.3		(92.2)
Retained loss for the financial year				(48.7)
Transfer	–		(90.9)	90.9
End of year	**83.8**	**5.3**	**–**	**343.2**

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been separately presented in these financial statements. The profit attributable to shareholders included in the accounts of the Company is £5.7m (2002: £83.5m*).

The special reserve arose from the reduction and subsequent cancellation of the share premium account in 1987 and 1988 respectively. During 2003 the remaining balance of £90.9m was transferred to the profit and loss reserve.

	Bunzl plc		Consolidated	
19 Deferred taxation	**2003 £m**	2002 *Restated £m	**2003 £m**	2002 *Restated £m
Accelerated capital allowances	–	–	**11.9**	11.3
Other timing differences	(2.4)	(3.6)	**4.9**	10.1
	(2.4)	(3.6)	**16.8**	21.4
The potential liability for deferred taxation not provided above is:				
capital gains on disposal of properties	–	–	**1.3**	0.9
	–	–	**1.3**	0.9

Deferred taxation has been accounted for in respect of future remittances of the accumulated reserves of overseas subsidiary undertakings only to the extent that such distributions are accrued as receivable. No provision has been made for potential corporate taxation on the unrealised revaluation surpluses in respect of properties which are expected to be held for the foreseeable future. A deferred taxation asset of £33.9m (2002: £33.9m) has not been recognised in respect of capital losses as the realisation of this deferred taxation asset is not considered likely.

* Restated on adoption of FRS17 'Retirement Benefits'.

20 Contingent liabilities	Bunzl plc 2003 £m	Bunzl plc 2002 £m	Consolidated 2003 £m	Consolidated 2002 £m
Bank guarantees	**229.3**	261.9	**4.4**	1.3
Other items	**–**	–	**3.0**	8.6
	229.3	261.9	**7.4**	9.9

The bank guarantees of the Company are guarantees provided on behalf of subsidiary undertakings. Other items principally comprise trade and other guarantees.

21 Directors' ordinary share interests	Ordinary shares 31.12.03	Ordinary shares 1.1.03†
The interests of the directors at 31 December in the share capital of the Company according to the register of directors' interests were:		
Ordinary shares		
A J Habgood	**333,100**	253,630
A P Dyer	**47,774**	47,774
D M Williams	**118,597**	115,471
S G Williams	**5,862**	5,707
P Heiden	**3,000**	3,000
P G Lorenzini	**1,105,742**	1,093,858
J F Harris	**3,187**	3,103
C A Banks	**5,000**	5,000
M J Roney	**5,000**	–
	1,627,262	1,527,543

† Or date of appointment (if later).

The share interests shown above include the non-beneficial interests of Mr A J Habgood in 34,900 ordinary shares, Mr D M Williams in 15,334 ordinary shares, Mr P G Lorenzini in 200,000 ordinary shares and Mr P Heiden in 3,000 ordinary shares. Details of directors' options over ordinary shares and awards made under the Company's Long Term Incentive Plan and Deferred Annual Share Bonus Scheme are set out in the Directors' Remuneration Report on pages 32 to 37. Since 31 December 2003 Mr D M Williams, Mr S G Williams, Mr P G Lorenzini and Mr J F Harris have acquired interests in 1,060; 52; 3,919 and 28 ordinary shares respectively as a result of their electing to participate in the dividend reinvestment plan in respect of the interim dividend which was paid on 2 January 2004 and Mr P G Lorenzini has acquired an interest in 1,575 ordinary shares (in the form of 315 American Depositary Receipts) pursuant to the Company's US Stock Purchase Plan and dividend reinvestment plan. No other changes to the directors' ordinary share interests shown in this Note and the Directors' Remuneration Report on pages 32 to 37 have taken place between 31 December 2003 and 23 February 2004.

22 Pensions

The Group operates both defined benefit and defined contribution pension schemes. The funds of the principal schemes are administered by trustees and are held independently from the Group. Pension costs of defined benefit schemes are assessed in accordance with the advice of independent professionally qualified actuaries. Full triennial actuarial valuations were carried out on the principal European defined benefit schemes in April 2003 and annual actuarial valuations are performed on the principal US defined benefit schemes. Contributions to all schemes are determined in line with actuarial advice, local conditions and practices. The most recent actuarial valuations have incorporated the requirements of FRS17 'Retirement Benefits' in assessing scheme liabilities at 31 December. Scheme assets for the purpose of FRS17 are stated at their market value at 31 December.

The Group accounts for pension costs in accordance with FRS17. As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, the Company treats contributions to defined benefit schemes as if they were contributions to a defined contribution scheme in accordance with the exemption permitted by FRS17. The Group operates other schemes overseas in accordance with local practice and legislation. Some of these schemes are externally funded, while others are internally funded.

The amounts included in the financial statements are as follows:

Amounts charged to operating profit	**2003 £m**	2002 *Restated £m
Defined contribution schemes	**8.0**	7.4
Defined benefit schemes:		
Service cost – continuing operations	**7.0**	8.9
Service cost – discontinued operations	**–**	1.0
Past service cost	**–**	1.7
Settlement	**(1.3)**	–
Total operating charge	**13.7**	19.0
Amounts included as other finance costs/(income)		
Expected return on scheme assets	**(12.7)**	(15.0)
Interest on scheme liabilities	**14.8**	14.4
Net financial return	**2.1**	(0.6)
	15.8	18.4

Amounts recognised in the statement of total recognised gains and losses	**2003 £m**	2002 £m
Actual return less expected return on scheme assets	**24.8**	(42.2)
Experience loss on scheme liabilities	**(7.4)**	(6.7)
Impact of changes in assumptions relating to the present value of scheme liabilities	**(16.5)**	(15.4)
Actuarial gain/(loss)	**0.9**	(64.3)

* Restated on adoption of FRS17 'Retirement Benefits'.

22 Pensions continued

The principal assumptions used by the independent qualified actuaries for the purposes of FRS17 were:

	Europe			US		
	2003	2002	2001	**2003**	2002	2001
Rate of increase in salaries	**3.75%**	3.25%	3.5%	**5.0%**	4.0%	5.0%
Rate of increase in pensions	**2.75%**	2.25%	2.5%	**–**	–	–
Discount rate	**5.5%**	5.5%	6.0%	**6.25%**	6.75%	7.75%
Inflation rate	**2.75%**	2.25%	2.5%	**2.5%**	2.5%	3.5%

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The market value of the scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are:

		Europe 2003		**US 2003**	**Total 2003**
	Long term rate of return	Value £m	Long term rate of return	Value £m	Value £m
Equities	7.3%	**114.4**	9.7%	**42.1**	**156.5**
Bonds	5.2%	**48.8**	5.6%	**16.3**	**65.1**
Other	3.8%	**4.9**		**–**	**4.9**
Total market value		**168.1**		**58.4**	**226.5**
Present value of scheme liabilities		**(216.2)**		**(69.4)**	**(285.6)**
Deficit		**(48.1)**		**(11.0)**	**(59.1)**
Deferred taxation		**14.4**		**3.9**	**18.3**
Pension liabilities		**(33.7)**		**(7.1)**	**(40.8)**

		Europe 2002		US 2002	Total 2002
	Long term rate of return	Value £m	Long term rate of return	Value £m	Value £m
Equities	7.0%	94.4	9.7%	34.9	129.3
Bonds	4.5%	32.3	5.7%	15.9	48.2
Other	4.0%	15.7	4.3%	0.1	15.8
Total market value		142.4		50.9	193.3
Present value of scheme liabilities		(189.5)		(67.3)	(256.8)
Deficit		(47.1)		(16.4)	(63.5)
Deferred taxation		14.1		5.7	19.8
Pension liabilities		(33.0)		(10.7)	(43.7)

		Europe 2001		US 2001	Total 2001
	Long term rate of return	Value £m	Long term rate of return	Value £m	Value £m
Equities	7.5%	110.9	10.4%	37.1	148.0
Bonds	5.0%	33.1	6.4%	14.2	47.3
Other	4.0%	0.8	5.5%	1.6	2.4
Total market value		144.8		52.9	197.7
Present value of scheme liabilities		(161.6)		(61.7)	(223.3)
Deficit		(16.8)		(8.8)	(25.6)
Deferred taxation		5.0		3.1	8.1
Pension liabilities		(11.8)		(5.7)	(17.5)

22 **Pensions** continued

Movement in deficit during the year	2003 £m	2002 £m
Beginning of year	**(63.5)**	(25.6)
Current service cost	**(7.0)**	(9.9)
Contributions	**9.9**	32.1
Past service cost	**–**	(1.7)
Settlement	**1.3**	–
Curtailment	**–**	4.1
Net financial return	**(2.1)**	0.6
Actuarial gain/(loss)	**0.9**	(64.3)
Currency translation	**1.4**	1.2
End of year	**(59.1)**	(63.5)

Experience gains and losses	% of scheme assets/liabilities	2003 £m	% of scheme assets/liabilities	2002 £m
Difference between actual and expected return on scheme assets	**11**	**24.8**	(22)	(42.2)
Experience loss on scheme liabilities	**(3)**	**(7.4)**	(3)	(6.7)
Amount recognised in the statement of total recognised gains and losses	**0**	**0.9**	(25)	(64.3)

23 Directors and employees	2003 Year end	2003 Average	2002 Year end	2002 Average
The number of persons employed by the Group at 31 December and the average number employed during the year were:				
Continuing operations				
Outsourcing Services	**7,136**	**7,154**	7,064	6,803
Filtrona	**4,846**	**4,839**	4,722	4,792
Corporate activities	**61**	**62**	63	62
	12,043	**12,055**	11,849	11,657
Discontinued operations	**–**	**–**	–	501
	12,043	**12,055**	11,849	12,158

	Continuing operations and Total **2003 £m**	Continuing operations 2002 *Restated £m	Discontinued operations 2002 *Restated £m	Total 2002 *Restated £m
Consolidated:				
Employee costs				
Wages and salaries	**278.5**	275.1	11.4	286.5
Social security costs	**28.0**	23.0	1.0	24.0
Pension costs (Note 22)	**13.7**	18.0	1.0	19.0
	320.2	316.1	13.4	329.5

	2003 £m	2002 £m
Total emoluments of the directors of the Company were:		
Non-executive directors	**0.3**	0.3
Executive directors:		
remuneration excluding performance related elements	**2.3**	2.2
annual cash bonus	**0.9**	0.9
	3.5	3.4

More detailed information concerning directors' emoluments and long term incentives is set out in the Directors' Remuneration Report on pages 32 to 37. The aggregate amount of gains made by directors on the exercise of share options during the year was £260,744 (2002: £723,329).

* Restated on adoption of FRS17 'Retirement Benefits'.

24 Operating lease commitments	Land and buildings 2003 £m	Other 2003 £m	Land and buildings 2002 £m	Other 2002 £m
At 31 December the Group had the following annual commitments under non-cancellable operating leases:				
expiring within one year	**2.8**	**3.3**	5.5	3.8
expiring between one and five years	**11.9**	**8.1**	9.1	5.5
expiring after five years	**8.8**	**0.2**	10.1	0.3
	23.5	**11.6**	24.7	9.6

25 Reconciliation of operating profit to net cash inflow from operating activities	Consolidated 2003 £m	Consolidated 2002 *Restated £m
Operating profit	**196.4**	196.4
Adjustments for non-cash items:		
depreciation	**32.5**	33.4
goodwill amortisation	**17.7**	16.1
other	**1.0**	(1.4)
Working capital movement:		
stocks	**3.1**	(4.9)
debtors	**(4.6)**	(8.8)
creditors	**19.4**	14.5
Special pension contribution	**–**	(20.0)
Employee benefit trust shares	**(8.8)**	(6.3)
Other cash movements	**(6.3)**	(2.6)
Net cash inflow from operating activities	**250.4**	216.4

26 Analysis of net debt	1.1.03 £m	Cash flow £m	Exchange movements £m	31.12.03 £m
Cash at bank and in hand	51.5	(4.1)	0.1	**47.5**
Short term deposits repayable on demand	3.2	28.6	0.2	**32.0**
Overdrafts	(35.5)	14.7	0.3	**(20.5)**
Cash	19.2	39.2	0.6	**59.0**
Debt due within one year	(0.7)	(8.3)	(8.4)	**(17.4)**
Debt due after one year	(261.7)	21.1	23.4	**(217.2)**
Finance leases	(0.3)	0.1	–	**(0.2)**
	(262.7)	12.9	15.0	**(234.8)**
Short term deposits not repayable on demand	137.5	(57.4)	(0.8)	**79.3**
Net debt	**(106.0)**	**(5.3)**	**14.8**	**(96.5)**

* Restated on adoption of FRS17 'Retirement Benefits'.

27 Acquisitions

The principal acquisitions made during the year were Enterprise acquired in February, Fibertec and MultiLine both acquired in October and O'Mahony and Prolix both acquired in December.

Acquisitions have been accounted for under the acquisition method of accounting and contributed £0.7m to operating profit in 2003.

On acquisition the assets and liabilities of the businesses acquired were adjusted to reflect their fair values to the Group. The fair value adjustments are provisional and will be finalised in the 2004 financial statements.

		Provisional fair value adjustments			
	Book value at acquisition £m	Revaluation £m	Consistency of accounting policy £m	Other £m	Fair value of assets acquired £m
A summary of the effect of acquisitions is detailed below:					
Tangible fixed assets	6.3	(1.1)			5.2
Stocks	10.3	(1.1)			9.2
Debtors	12.5	(0.2)			12.3
Creditors	(9.1)	(0.5)			(9.6)
Net bank overdrafts	(1.1)				(1.1)
Provisions for liabilities and charges	–		(4.5)		(4.5)
Deferred taxation	–		0.3		0.3
Taxation	(0.1)			(0.1)	(0.2)
	18.8	(2.9)	(4.2)	(0.1)	11.6
Goodwill					23.5
Consideration					35.1
Satisfied by:					
Cash consideration					35.0
Deferred consideration					0.1
					35.1
The net cash outflow in the period in respect of acquisitions comprised:					
Cash consideration					35.0
Net bank overdrafts acquired					1.1
Net cash outflow in respect of acquisitions					36.1

The principal fair value adjustments are as follows:
The adjustments to tangible fixed assets, stocks, debtors and creditors reflect their estimated realisable value.
The adjustment to provisions for liabilities and charges includes amounts relating to the reassessment of potential liabilities that were not fully recognised on acquisition.
The adjustment to deferred taxation reflects the recognition of a deferred taxation asset for anticipated relief on fair value adjustments.

Notes to the financial statements continued

28 Principal subsidiary undertakings	Country of incorporation
Outsourcing Services	
Bunzl Outsourcing Services UK Ltd	
Bunzl Australia Ltd	Australia
Bunzl Distribution USA Inc	USA
Bunzl Outsourcing Services BV	Holland
Bunzl Verpackungen GmbH & Co KG	Germany
Filtrona	
Filtrona Filter GmbH	Germany
Filtrona International Ltd*	
Filtrona United Kingdom Ltd	
Filtrona Holdings Corp	USA
Filtrona Italia SpA	Italy
Bunzl Plastics Inc	USA
Bunzl Plastics Ltd*	
Globalpack Indústria e Comércio Ltda	Brazil
Corporate activities	
Bunzl Finance plc*	
Bunzl USA Holdings Corp	USA

The companies named above are the principal subsidiary undertakings of Bunzl plc at 31 December 2003 and are included in the consolidated financial statements of the Group. They are wholly owned and, unless otherwise stated, are incorporated in England and Wales. The investments in these companies, as shown above, relate to ordinary shares or common stock. The principal country in which each company operates is the country of incorporation. The principal activities of the business areas are reviewed on the inside front cover of the Annual Review and Summary Financial Statement.

* Direct subsidiary undertakings of Bunzl plc.

Statement of directors' responsibilities

Company law requires the directors 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 and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

Independent auditors' report to the members of Bunzl plc

We have audited the financial statements on pages 6 to 30. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the financial statements and the Directors' Remuneration Report. As described above, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

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

We review whether the statement on page 2 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the financial statements, including the corporate governance statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with 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 and the part of the Directors' Remuneration Report to be audited. 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 Group's circumstances, 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

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 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
23 February 2004

Directors' remuneration report

Terms of reference of the Remuneration Committee
The terms of reference of the Remuneration Committee ('the Committee'), as approved by the Board, embody the purpose of the Committee as ensuring that the Company's executive directors and senior executives are properly incentivised and fairly rewarded for their individual contributions to the Group's overall performance having due regard to the interests of the shareholders and to the financial and commercial health of the Group.

Membership
All members of the Committee, who are identified on pages 18 and 19 of the Annual Review and Summary Financial Statement, are independent non-executive directors. The Committee is chaired by Mr C A Banks. Members of the Committee do not have any personal financial interest (other than as shareholders) in matters decided by the Committee, nor do they have any potential conflict of interest arising from cross-directorships or day-to-day involvement in running the Group's business. The Committee meets at least three times during the year and at other times as may be required. While the Chairman of the Company, Mr A J Habgood, is not a member of the Committee, he normally attends meetings except when the Committee is considering matters concerning himself.

Audit
The directors' remuneration in 2003 and the details of the directors' interests in the Company's ordinary shares disclosed on pages 33 to 37 have been audited by the Company's independent external auditor.

Remuneration policy
The Company's current remuneration policy for 2004 and beyond is designed to help ensure the recruitment, retention and motivation of the executive directors by providing fair reward for the responsibilities they undertake and the performance they achieve on behalf of shareholders. In this context, the Committee's policy is to set the overall remuneration package at a competitive level and in a form that permits significant additional remuneration to be earned for high performance over a sustained period. This is normally achieved by benchmarking base pay against comparator companies and a range of factors, including performance (see below), and by providing, in addition, short and long term incentives geared to performance.

In assessing the balance of performance related and non-performance related elements of remuneration, base pay and benefits are treated as non-performance related, whereas annual bonus (including awards under the Deferred Annual Share Bonus Scheme) (the 'DASBS') and long term incentives are treated as performance related. For this purpose, share options are valued at one third of their face value on grant. On this basis, the Committee sets the remuneration package such that at least half the total target remuneration package is derived from the performance related elements.

Both the overall competitiveness of the remuneration package and the balance between performance and non-performance related elements are kept under regular review in the light of market practice and the needs of the Company. The Committee commissions reports and receives advice on directors' remuneration from independent remuneration and benefits consultants, namely Monks Partnership and New Bridge Street Consultants, who may from time to time also provide other services to the Company on remuneration and benefit matters that are not the subject of review by the Committee. New Bridge Street Consultants have been commissioned by the Committee to provide advice regarding the structure of a new executive long term incentive scheme to replace the 1994 Executive Share option Scheme (the '1994 Scheme') and the Long Term Incentive Plan (the 'LTIP'). Further details of the remuneration policy and how it is currently applied to the various aspects of remuneration is provided in the relevant sections below.

With regard to external pay survey data, the Committee reviews each year, prior to the annual review of base pay in January, information on remuneration and benefit levels based on an external survey conducted on its behalf by Monks Partnership. The Committee seeks to maintain, wherever possible, a consistent and appropriate basis for comparison year-on-year in terms of the survey methodology and, in particular, the use of comparator groups on which the survey is based. There are three comparator groups that the Committee uses. These are related to sales, profit before tax and market capitalisation. In each case the comparator group consists of 20 non-financial UK based companies that have substantial operations overseas. 10 of the companies in each comparator group are the next highest and 10 are the next lowest compared to Bunzl. The results from each of the comparator groups are blended by Monks Partnership to provide an overall assessed market position as at 1 January of the year of the review. Neither Monks Partnership nor New Bridge Street Consultants provide specific recommendations to the Committee on remuneration or benefit levels for the executive directors. The Committee does, however, review survey information provided by them in the light of its established remuneration policy before making its decisions. All decisions of the Committee were implemented in full.

Base pay
The base pay of each executive director is set to reflect the size and scope of that director's responsibilities undertaken on behalf of the Board, the level of overall performance achieved and experience in the post. As stated above, it is benchmarked against comparator companies and the actual pay level is set after taking account of performance, relevant external survey data and the general movement of base pay within the Group.

Annual bonus plan
The executive directors participate in an annual bonus plan intended to support the Company's overall remuneration policy. The bonus plan for each executive director contains meaningful targets that seek to focus attention on one or two key measures of short to medium term achievement. In 2003, the target for the annual bonus for the UK executive directors was linked to the Group's achievement of earnings per share after certain specified adjustments ('eps'). Detailed terms of the plan were determined by the Committee and provided for a bonus to be awarded if the Group achieved, in 2003, a threshold eps level. No bonus was to be awarded for eps achievement below the threshold level. The bonus plan provided for an increase in the bonus award pro rata for eps achievement above the threshold up to a target level of eps and for above target achievement. Half of this annual bonus is normally paid in cash to a maximum level of 65% of annual base pay and the balance (but with the total aggregate amount capped at 100% of base pay) is deferred under the rules of the DASBS, details of which are set out below. For Mr P G Lorenzini, the bonus plan was based on the profit and return on average capital employed achieved in the business for which he is directly responsible with a maximum of 70% of annual base pay. Bonus awards are not pensionable.

Under the DASBS, eligible executives, including the UK executive directors, receive the deferred element of their annual bonus as an award of ordinary shares. The ordinary shares are purchased in the market and deposited with the Bunzl Group General Employee Benefit Trust (the 'Trust') until 1 March in the third year after the year in which the award is made, following which they are transferred to the executive provided normally that the executive has remained in the employment of the Group throughout that period or until their normal retirement date. The DASBS forms a part of the annual bonus plan so as to provide, in total, an annual bonus opportunity linked to the overall performance of the Group, with a significant portion of any bonus award held in shares for a three year period. The Committee believes this supports the overall remuneration policy and contributes to the alignment of executives' and shareholders' interests. In 2003, an award of 59,703 shares was made in respect of 2002 to Mr A J Habgood (2002 in respect of 2001: 45,061 shares) and an award of 32,284 shares was made to Mr D M Williams (2002 in respect of 2001: 24,578 shares). In both cases the shares awarded in 2003 will transfer to Mr A J Habgood and Mr D M Williams respectively on 1 March 2006, subject to the rules of the DASBS.

The Committee also reviews and authorises the outline structure of annual bonus plans for other senior executives within the Group. These plans are based on performance targets relevant to individual businesses or areas of responsibility and are compatible with the principles of the bonus plans approved for the executive directors.

Share based incentives

The Committee believes that the long term performance of the Group is an important consideration for shareholders and that share based incentives are an important part of helping to align the interests of shareholders and those employed by the Group. The Committee welcomes the fact that each of the executive directors currently has a meaningful holding of Bunzl shares.

The Group operates an Executive Share Option Scheme under which the executive directors and other senior executives in the Group may be granted options over Bunzl shares.

The 1994 Scheme replaced the Executive Share Option Scheme (No.2) (the 'No.2 Scheme'), which expired in 1994, and was approved by shareholders at the 1994 Annual General Meeting. The 1994 Scheme is consistent with principles expressed in guidelines issued, at the time of its approval, by bodies representing institutional investors. In particular a Group performance condition, determined by the Committee, has to be satisfied before options may normally be exercised.

Options granted to date under the 1994 Scheme may normally only be exercised if, during any three consecutive financial years since the option was granted, the increase in the adjusted earnings per share of the Group is equal to or greater than the increase in the Retail Prices Index over that period, plus 6%. This condition, which was approved by shareholders at the time the 1994 Scheme was adopted, has been satisfied in respect of options granted prior to 2002 under the 1994 Scheme.

The grant of executive share options is made on a discretionary basis, taking account of each executive's performance and job responsibilities. In normal circumstances options granted are exercisable, subject to satisfaction of the relevant performance condition as referred to above, not earlier than three years and not later than 10 years after the date of grant. Options were granted to the UK executive directors in February and August 2003 in respect of market purchased shares that are held through the Trust.

As the 1994 Scheme is due to expire in 2004, the Committee is currently consulting shareholders regarding the adoption of a new executive long term incentive plan. Shareholders will be asked to approve this new Plan at the 2004 Annual General Meeting. The notice convening the Meeting is set out in a separate letter from the Chairman to shareholders which gives further details concerning the proposed executive long term incentive plan.

The Sharesave Scheme (2001) replaced the Sharesave Scheme (1991), which expired in 2001, (together the 'Sharesave Schemes') and was approved by shareholders at the 2001 Annual General Meeting.

The Sharesave Schemes are approved by the Inland Revenue and are open to all UK employees, including executive directors, who have completed at least one year of continuous service. They are linked to a contract for monthly savings of up to £250 per month over a period of either three or five years. Under the Sharesave Schemes options are granted to participating employees at a discount of up to 20% to the market price prevailing on the day immediately preceding the date of invitation to apply for the option. Options are normally exercisable either three or five years after they have been granted.

The Group introduced, with effect from 1 January 2000, the Bunzl Employee Stock Purchase Plan (US) following approval given at an Extraordinary General Meeting of shareholders held on 5 October 1999. This Plan provides an opportunity for Bunzl Group employees in the US, including Mr P G Lorenzini, to purchase Bunzl shares in the form of American Depositary Receipts ('ADRs') at a 15% discount to the market price, up to an annual maximum of 10% of remuneration or $25,000 worth of ADRs, whichever is lower. The purchase of the ADRs is funded by after-tax payroll deductions from the employee with the employing company contributing the 15% discount.

Based on the authority obtained at the 2001 Annual General Meeting, the Company introduced the International Sharesave Plan during 2002. This operates on a similar basis to the Sharesave Scheme (2001) except that options are normally exercisable three years after they have been granted. None of the executive directors are eligible to participate in this Plan.

The table below shows the number of options held by the directors at 31 December 2003, lapsed options and options granted to and exercised by the directors during 2003 under the No.2 Scheme, the 1994 Scheme and the Sharesave Schemes, all of which have been approved by shareholders. Mr P G Lorenzini currently has no options under the terms of any Company share option scheme.

	1.1.03	Granted during year	Exercised during year	31.12.03	Exercise price (p)	Market price at exercise (p)	Date from which exercisable	Expiry date
A J Habgood								
No.2 Scheme	47,490		47,490	–	151	470.25		
No.2 Scheme	31,980		31,980	–	129	470.25		
Sharesave Scheme	4,613		4,613*	–	356			
Sharesave Scheme		3,192	–	3,192	296		1.5.06	1.11.06
1994 Scheme	406,504		–	406,504	246		9.3.02	8.3.09
1994 Scheme	150,000		–	150,000	289		1.3.03	28.2.10
1994 Scheme	125,000		–	125,000	384		30.8.03	29.8.10
1994 Scheme	135,000		–	135,000	455.5		27.2.04	26.2.11
1994 Scheme	145,000		–	145,000	450		29.8.04	28.8.11
1994 Scheme	155,000		–	155,000	482		28.2.05	27.2.12
1994 Scheme	190,000		–	190,000	461		29.8.05	28.8.12
1994 Scheme		305,000	–	305,000	372.25		25.2.06	24.2.13
1994 Scheme		305,000	–	305,000	446.25		27.8.06	26.8.13

* Lapsed

	1.1.03	Granted during year	Exercised during year	31.12.03	Exercise price (p)	Market price at exercise (p)	Date from which exercisable	Expiry date
D M Williams								
No.2 Scheme	70,778		–	70,778	151		23.6.97	22.6.04
Sharesave Scheme	3,145		–	3,145	308		1.11.03	1.5.04
Sharesave Scheme		2,576	–	2,576	358		24.9.06	24.3.07
1994 Scheme	145,782		–	145,782	246		9.3.02	8.3.09
1994 Scheme	29,275		–	29,275	245		30.3.02	29.3.09
1994 Scheme	80,000		–	80,000	289		1.3.03	28.2.10
1994 Scheme	65,000		–	65,000	384		30.8.03	29.8.10
1994 Scheme	65,000		–	65,000	455.5		27.2.04	26.2.11
1994 Scheme	70,000		–	70,000	450		29.8.04	28.8.11
1994 Scheme	75,000		–	75,000	482		28.2.05	27.2.12
1994 Scheme	90,000		–	90,000	461		29.8.05	28.8.12
1994 Scheme		125,000	–	125,000	372.25		25.2.06	24.2.13
1994 Scheme		125,000	–	125,000	446.25		27.8.06	26.8.13

The exercise price of executive options under the No.2 Scheme is the mid-market price of an ordinary share on the date of grant of the option. The exercise price of executive options under the 1994 Scheme is the market price prevailing on the day immediately preceding the date of grant of the option or, if higher in the case of options granted prior to 2001, the price on the date of grant. For savings-related options under the Sharesave Schemes the exercise price is the mid-market price of an ordinary share on the day immediately preceding the date of invitation to apply for the option, less 20%.

The options granted under the No.2 Scheme and 1994 Scheme are normally capable of being exercised on or after the third anniversary of the date of grant of the relevant option. As permitted by the amendments to the rules of the No.2 Scheme, approved by shareholders at the 1992 Annual General Meeting, some options granted from 1992 to 1994 were also capable of being exercised at a price of 85% of the full exercise price, on or after the fifth anniversary of the date of grant for the relevant option, provided that, during any five consecutive financial years since the option was granted, the increase in the adjusted earnings per share of the Group was equal to, or greater than, the increase in the Retail Prices Index over that period, plus 10%. This condition was satisfied in respect of certain options granted at an exercise price of 129p in 1994 and the last of these were exercised in 2003.

The mid-market price of an ordinary share on 31 December 2003 was 426.75p and the range during 2003 was 345p to 482p.

The 1999 Directors' Remuneration Report recorded the Committee's decision not to grant any awards under the LTIP to the directors in 1999. This decision has also applied in 2000, 2001, 2002 and 2003. As previously noted the Committee is currently consulting with shareholders regarding the introduction of a new executive long term incentive plan, which will replace both the 1994 Scheme and the LTIP.

The status of the outstanding LTIP awards, as they affect the executive directors, other than Mr P G Lorenzini who does not participate in the LTIP, is as follows.

The awards granted in 1997 to Mr A J Habgood and Mr D M Williams of 139,887 and 89,326 ordinary shares respectively vested at the end of 1999 and these shares became exercisable on 1 January 2000. Mr D M Williams exercised his award on 3 September 2003 giving a total market value on exercise of £431,558. The market value of awards exercised by him in 2002 was £324,695. Mr A J Habgood exercised his award on 24 September 2003 giving a total market value on exercise of £658,595. The 1998 awards of 141,000 and 89,000 ordinary shares to Mr A J Habgood and Mr D M Williams respectively vested at the end of 2000. They became exercisable on 1 January 2001. Mr A J Habgood exercised his award on 24 September 2003 giving a total market value on exercise of £663,835. No awards were exercised by Mr A J Habgood in 2002. The outstanding 1998 award for Mr D M Williams will expire on 31 December 2004.

Any shares required to fulfil entitlements under the LTIP, the DASBS and the 1994 Scheme in respect of options over market purchased shares will be provided by the Trust. Mr A J Habgood and Mr D M Williams are deemed by virtue of the Companies Act 1985 to be interested in all the shares held by the Trust, which at 31 December 2003 amounted to 7,054,952 ordinary shares, because they are potential beneficiaries under the Trust together with all other directors and employees of the Group. These interests do not reflect the awards actually made to them individually through the Trust that are summarised above.

The Company's total shareholder return over the last five years compared to that of the FTSE Support Services Sector is shown in the graph on page 5 of the Annual Review and Summary Financial Statement.

Retirement benefits
As stated in the Accounting Policies section of the financial statements and elaborated upon in the relevant Note thereto, the Group utilises both defined benefit and defined contribution pension schemes throughout the world. All principal defined benefit schemes are now closed to new entrants who are now offered a defined contribution arrangement.

In the UK the Group has historically operated as its main contributory scheme for senior executives the Bunzl Senior Pension Scheme ('BSPS'). BSPS provides for members' contributions currently at the rate of 9% of pensionable salary (which is basic salary), which rose from 5% with effect from 1 April 2003, with the Group being responsible for the balance of the cost of providing the benefit as determined from time to time by the consulting actuaries to BSPS. Subject to Inland Revenue limits, BSPS members are eligible for a pension which accrues at a maximum rate of 3% per annum up to two thirds of pensionable salary, with a normal retirement age of 60 years. BSPS also provides for payment of certain benefits in the event of death or disability. The current UK executive directors may choose to be members of BSPS or to opt for a private pension scheme. In the event that a director opts for a private pension scheme the Company also contributes to lump sum life assurance cover equivalent to that provided under BSPS. Because of the cap on pensionable salary introduced in the Finance Act 1989, the amount of direct contribution by the Company to pension schemes for the UK executive directors is limited and arrangements have therefore been made to provide the executive directors with an allowance which permits them to make provision, of their choice, in respect of that part of their salary which exceeds the cap.

In the US the main scheme for employees is the non-contributory Bunzl USA, Inc Retirement Plan (the 'US Plan'). Subject to IRS limits, members of the US Plan earn a lifetime pension which accrues at the rate of 1.67% per annum, up to 50% of the five year average pensionable salary less the primary Social Security benefit, with a normal retirement age of 65 years. Pensionable salary in the US Plan is capped at $140,000. The US Plan also provides for certain benefits in the event of death or disability. Because of the cap on pensionable salary under the US Plan, the pensions of senior US executives are limited and arrangements have been made to provide certain executives with supplementary pensions through a Senior Executive Retirement Agreement ('SERA'). Mr P G Lorenzini's SERA provides for a lifetime pension of $370,000 per annum, payable upon retirement.

Executive directors' service contracts
It is the Company's policy that executive directors are normally employed on contracts that provide for 12 months' notice from the Company and six months' notice from the executive. Mr A J Habgood and Mr D M Williams each have service contracts dated 16 January 1996 that provide for these notice periods. The only circumstance in which there is predetermined compensation for termination of these contracts is where there is a change of control of the Company. There are no provisions for predetermined compensation in excess of one year's remuneration and benefits in kind. Mr P G Lorenzini has a fixed term service contract which runs to 31 July 2004. Early termination of this contract for reasons other than cause would require payment by the Company of the balance of Mr P G Lorenzini's entitlement under the contract.

Other principal benefits for executive directors
In common with many senior executives in the Group, the executive directors are eligible for certain benefits which include the provision of a company car and payment of its operating expenses including fuel, in line with prevailing Group policies, and, in the case of Mr A J Habgood and Mr D M Williams, private medical plan coverage under the Company's prevailing UK healthcare plan. Mr P G Lorenzini participates in welfare benefit plans made available to all US employees of the Group covering life insurance, medical, dental and disability cover.

Non-executive directors
The non-executive directors are paid an annual fee for their services plus a daily fee for attending meetings of the Board and Board Committees. In addition, where relevant, they are paid a fee for chairing a Board Committee. The non-executive directors do not have service contracts, are not eligible for pension scheme membership or other employee benefits and do not participate in any of the Group's bonus, share option or long term incentive plans. The non-executive directors' pay is reviewed annually, based on external market survey data, and is determined by the Board.

Directors' remuneration
The following table gives details of each director's remuneration for the year.

Directors' remuneration	Salary/fees **2003** **£000**	Annual cash bonus **2003** **£000**	Pension allowance **2003** **£000**	Benefits **2003** **£000**	Total **2003** **£000**	Total 2002 £000
Executive						
A J Habgood	750.0	260.2	169.8	25.6	**1,205.6**	1,107.6
D M Williams	400.0	138.8	90.4	23.0	**652.2**	597.1
P G Lorenzini	823.2	526.2	–	31.8	**1,381.2**	1,431.5
Non-executive						
A P Dyer	82.8	–	–	–	**82.8**	88.2
L C McQuade	15.4	–	–	–	**15.4**	45.3
S G Williams	32.7	–	–	–	**32.7**	32.0
P Heiden	35.5	–	–	–	**35.5**	32.0
J F Harris	51.3	–	–	–	**51.3**	35.4
C A Banks	38.0	–	–	–	**38.0**	20.3
M J Roney	21.8	–	–	–	**21.8**	

Notes

1 The remuneration for Mr P G Lorenzini, Mr A P Dyer and Mr L C McQuade is paid or determined in US dollars and has been translated at the average exchange rates for the year of £1: $1.64 in respect of 2003 and £1: $1.51 in respect of 2002.

2 The remuneration of Mr L C McQuade relates to the period from 1 January 2003 until 14 May 2003, the date of his retirement from the Board. The remuneration for Mr M J Roney relates to the period from 1 June 2003 (the date of his appointment to the Board) to 31 December 2003.

3 Benefits incorporate all taxable benefits arising from employment by the Company that principally relate to the provision of a company car.

4 The figures above represent remuneration earned as directors during the relevant financial year including, in the cases of Mr A J Habgood, Mr D M Williams and Mr P G Lorenzini, performance related elements which are paid in cash in the year following that in which they are earned.

5 The fees paid in respect of Mr S G Williams' services are paid to his employer, Unilever PLC, and not to Mr S G Williams personally.

6 As Mr A J Habgood is not a member of the Company pension scheme, the Company normally makes a direct pension contribution, at Mr A J Habgood's direction, to a personal pension scheme in his name. In 2003 this amounted to £34,493 (2002: £29,160). In accordance with Mr A J Habgood's contract of employment the relevant amount paid as a direct pension contribution has been deducted from the total pension allowance in 2003. The balance is shown in the table above as the pension allowance. The values of the pension benefits in the cases of Mr D M Williams and Mr P G Lorenzini are shown in the following table and are not included in the directors' remuneration table above. In addition the Company pays all necessary contributions, on actuarial advice, to a Senior Executive Retirement Agreement ('SERA') for Mr P G Lorenzini. For 2003 this amounted to £183,170 (2002: £208,791).

	Accrued benefits at 31.12.02 £	Accrued benefits at 31.12.03 £	Transfer value of accrued benefits at 31.12.02 £	Change in transfer value of accrued benefits during the year, after deducting contributions made by the director during the year £	Transfer value of accrued benefits at 31.12.03 £
D M Williams	32,653	36,383	574,665	48,764	631,327
P G Lorenzini*	25,154	24,237	208,952	17,217	226,169

* Excluding SERA entitlements

Notes

1 The changes in accrued benefits during the year exclude the effect of inflation on the accrued benefits as at the start of the year.

2 Accrued benefits are the annual amount that would be paid on retirement at the normal retirement age based on service to 31 December 2003.

3 The above figures do not take account of any Additional Voluntary Contributions that all members of BSPS have the option to make.

4 The transfer values of accrued benefits for Mr D M Williams and Mr P G Lorenzini have been calculated on the basis of actuarial advice in accordance with any relevant actuarial legislation and, in the case of Mr D M Williams, is net of his contributions.

5 In addition Mr P G Lorenzini participates in the Bunzl USA, Inc Deferred Savings (401k) Plan. The Company makes matching contributions to this Plan. During 2003 such contributions amounted to £5,488 (2002: £5,066).

US GAAP information

for the year ended 31 December 2003

The Group's financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Principles ('UK GAAP') which differ in certain significant respects from United States Generally Accepted Accounting Principles ('US GAAP'). Set out below is a summary of the significant differences, a reconciliation of profit from UK GAAP to US GAAP, earnings per share in accordance with US GAAP, a reconciliation of equity shareholders' funds from UK GAAP to US GAAP and a consolidated cash flow statement on a US GAAP basis.

a Goodwill and other intangible assets

Under UK GAAP goodwill arising on acquisitions made after 31 December 1997 is capitalised and is amortised through the profit and loss account over a period of up to 20 years. Goodwill arising on acquisitions made prior to 1 January 1998 remains eliminated against equity reserves.

Under US GAAP the excess of the fair value of the consideration paid over the fair value of the net assets acquired including identifiable intangible assets is assigned to goodwill. Under SFAS 142 'Goodwill and Other Intangible Assets', goodwill is capitalised and is subject to an annual impairment test to identify any impairment loss. In accordance with SFAS 141 'Business Combinations', identifiable intangible assets are capitalised and amortised over their useful economic life.

Under UK GAAP the profit or loss on disposal of a business acquired prior to 1 January 1998 is calculated after taking account of any goodwill written off to reserves. Under US GAAP an adjustment to the UK GAAP profit or loss is made in respect of goodwill previously amortised.

b Own shares

Under UK GAAP the Group recognises as an asset the cost of acquiring its own shares to satisfy the requirements of the Long Term Incentive Plan and the Deferred Annual Share Bonus Scheme and to satisfy options granted under the 1994 Executive Share Option Scheme in respect of market purchased shares. Under US GAAP this is presented as a reduction of equity shareholders' funds, as these shares are treated as treasury shares.

c Ordinary dividends

Under UK GAAP ordinary dividends are accounted for in the period to which they relate which may be earlier than the date of declaration. Under US GAAP ordinary dividends are accounted for in the period in which they are declared.

d Property revaluations

Under UK GAAP until 31 December 1999, land and buildings were revalued periodically and depreciation based on such revalued amounts. As permitted under FRS15 'Tangible Fixed Assets', the valuations of land and buildings have not been and will not be updated. Under US GAAP revaluations of fixed assets are not permitted and depreciation is calculated based on historic cost.

e Pension costs

Under UK GAAP pension schemes are accounted for in accordance with FRS17 'Retirement Benefits'. Under US GAAP they are accounted for under SFAS 87 and SFAS 88.

Under UK GAAP actuarial gains and losses are recognised in full in the year in which they arise. Under US GAAP, actuarial gains and losses which exceed 10% of the value of the assets or liabilities at the start of the accounting period are amortised over the remaining lives of scheme members. FRS17 requires that past service costs are recognised in full in the period in which they become vested whereas SFAS 87 requires that they be amortised over the remaining service lives of employees.

f Share schemes

Under UK GAAP the Group recognises a compensation cost for only the cost of its own shares acquired to satisfy the requirements of the Long Term Incentive Plan and the Deferred Annual Share Bonus Scheme. Under US GAAP APB Opinion 25 requires a compensation cost to be recorded for all of the Group's performance based executive share schemes and in respect of all-employee share schemes.

g Derivative instruments

Under UK GAAP changes in the fair value of interest rate derivatives are not recognised in the financial statements but are disclosed in Note 15. Furthermore, gains and losses on forward foreign exchange contracts used for hedging net investments have been taken to reserves. Under US GAAP derivative financial instruments are required to be recorded in the balance sheet as either an asset or liability at fair value. Changes in the fair value of these derivative instruments are recognised in the profit and loss account unless specific hedge accounting criteria are met. Certain of the Group's derivatives qualify for hedge accounting under US GAAP thereby reducing the effect on the profit and loss account from gains and losses arising from changes in their fair values.

h Deferred taxation

The adoption of FRS19 'Deferred Tax' on 1 January 2002 eliminated the significant differences between accounting for deferred taxation under UK GAAP and US GAAP. As a result, the adjustments for taxation now relate to the tax effect of other US GAAP adjustments.

i Discontinued operations

UK GAAP and US GAAP have different criteria for determining discontinued operations. Under US GAAP discontinued operations would exclude the exiting of the small machine building activity at Jarrow during 2002.

j Cash flows

The principal difference between UK GAAP and US GAAP is in respect of classification. Under UK GAAP the Group presents its cash flows from operating activities, returns on investments and servicing of finance, tax paid, capital expenditure, acquisitions and disposals, dividends paid, management of liquid resources and financing. US GAAP requires only three categories of cash flow activities which are operating, investing and financing. Cash flows arising from tax paid and returns on investments and servicing of finance under UK GAAP are, with the exception of dividends paid to minority shareholders, included as operating activities under US GAAP. Dividend payments are included as a financing activity under US GAAP. In addition capital expenditure and acquisitions and disposals under UK GAAP are presented as investing activities under US GAAP.

Under UK GAAP cash comprises cash in hand, deposits repayable on demand and overdrafts. Under US GAAP cash and cash equivalents include short term, highly liquid investments with original maturities of less than three months and excludes overdrafts.

k Exceptional items

Under UK GAAP profit on sale of discontinued operations in 2002 is disclosed as an exceptional item after operating profit. Under US GAAP this profit is not treated as exceptional.

	2003 £m	2002 *Restated £m
Profit for the financial year in accordance with UK GAAP	**124.6**	124.8
US GAAP adjustments:		
Amortisation of goodwill and other intangibles	**14.5**	13.4
Disposal of business	**–**	8.0
Pension costs	**3.6**	3.6
Share option expense	**(2.5)**	(0.5)
Capital instruments and derivatives	**(10.1)**	(1.2)
Taxation on above adjustments	**1.6**	(0.3)
Net income for the financial year in accordance with US GAAP	**131.7**	147.8
Continuing operations	**131.7**	126.5
Discontinued operations	**–**	21.3
Net income for the financial year in accordance with US GAAP	**131.7**	147.8
Earnings per share in accordance with US GAAP		
Continuing operations	**28.9p**	27.4p
Discontinued operations	**–**	4.6p
Earnings per share in accordance with US GAAP	**28.9p**	32.0p
Diluted earnings per share in accordance with US GAAP	**28.6p**	31.6p

	£m	£m *Restated
Equity shareholders' funds in accordance with UK GAAP	**459.2**	475.2
US GAAP adjustments:		
Goodwill and other intangibles	**229.3**	226.1
Own shares	**(27.2)**	(19.2)
Ordinary dividends	**37.0**	35.3
Disposal of business	**–**	8.0
Property revaluations	**(1.3)**	(1.5)
Pensions	**17.3**	20.6
Deferred taxation	**1.4**	1.6
Taxation on above adjustments	**(3.5)**	(4.3)
Equity shareholders' funds in accordance with US GAAP	**712.2**	741.8

Consolidated cash flow statement	£m	£m
Net cash inflow from operating activities	**189.9**	153.3
Net cash (outflow)/inflow from investing activities	**(57.5)**	2.6
Net cash outflow from financing activities	**(165.3)**	(30.2)
Net (decrease)/increase in cash and cash equivalents per US GAAP	**(32.9)**	125.7
Exchange movements	**(0.5)**	(4.0)
Cash and cash equivalents at beginning of year per US GAAP	**192.2**	70.5
Cash and cash equivalents at end of year per US GAAP	**158.8**	192.2

* Restated on adoption of FRS17 'Retirement Benefits'.

Five year review

	2003 £m	2002 £m*	2001 £m*	2000 £m*	1999 £m*
Sales					
Continuing operations	**2,728.2**	2,673.6	2,558.3	2,182.4	1,765.5
Discontinued operations	**–**	161.7	318.2	321.2	363.1
Total sales	**2,728.2**	2,835.3	2,876.5	2,503.6	2,128.6
Operating profit					
Continuing operations	**196.4**	189.0	186.6	165.1	133.3
Discontinued operations	**–**	7.4	14.9	19.7	23.8
Total operating profit	**196.4**	196.4	201.5	184.8	157.1
Profit on sale of discontinued operations	**–**	4.1	–	7.1	0.2
Loss on disposal of fixed assets	**–**	–	–	(4.8)	–
Profit on ordinary activities before interest	**196.4**	200.5	201.5	187.1	157.3
Net interest payable	**(1.8)**	(5.2)	(11.3)	(7.6)	(5.2)
Profit on ordinary activities before taxation	**194.6**	195.3	190.2	179.5	152.1
Profit before taxation, goodwill amortisation and exceptional items	**212.3**	207.3	203.0	184.3	155.1
Taxation on profit on ordinary activities	**(69.0)**	(70.0)	(71.3)	(66.8)	(60.6)
Profit on ordinary activities after taxation	**125.6**	125.3	118.9	112.7	91.5
Profit attributable to minorities	**(1.0)**	(0.5)	(0.4)	(0.6)	(0.6)
Profit for the financial year	**124.6**	124.8	118.5	112.1	90.9
Basic earnings per share	**27.4p**	27.1p	25.8p	24.6p	20.1p
Adjusted earnings per share	**31.3p**	29.7p	28.6p	26.0p	21.0p
Dividends per share	**12.1p**	11.2p	10.35p	9.4p	8.3p
Shareholders' funds per share	**102.4p**	101.8p	92.8p	83.0p	73.2p
Net assets employed					
Intangible assets – goodwill	**290.9**	289.5	258.8	203.6	82.9
Tangible fixed assets	**229.8**	233.9	255.6	243.0	199.8
Net current (liabilities)/assets	**(17.9)**	(2.2)	(64.2)	(67.7)	26.2
Net assets excluding pension liabilities/assets	**502.8**	521.2	450.2	378.9	308.9
Pension (liabilities)/assets	**(40.8)**	(43.7)	(17.5)	5.9	27.7
Net assets including pension liabilities/assets	**462.0**	477.5	432.7	384.8	336.6
Financed by					
Shareholders' funds: equity interests	**459.2**	475.2	430.6	382.5	334.7
Minority equity interests	**2.8**	2.3	2.1	2.3	1.9
	462.0	477.5	432.7	384.8	336.6

* Restated on adoption of FRS17 'Retirement Benefits'.

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Annual Review and Summary Financial Statement 2003

BUNZL

The Annual Review and Summary Financial Statement does not contain sufficient information to allow a full understanding of the results of the Group and state of affairs of the Company or the Group. For further information the Directors' Report and Accounts (which includes the full Directors' Remuneration Report) should be consulted. Copies of the Directors' Report and Accounts may be obtained, free of charge, from the Secretary, Bunzl plc, 110 Park Street, London W1K 6NX or from the Company's website www.bunzl.com. Shareholders may elect in writing to receive the Directors' Report and Accounts in addition to the Annual Review and Summary Financial Statement for all future years. The full accounts for 2002 have been filed at Companies House and the full accounts for 2003 will be filed after they have been approved at the Annual General Meeting.

Bunzl

Bunzl operates in two business areas; Outsourcing Services and Filtrona. From 270 locations in 25 countries our 12,000 employees provide an efficient service to our business customers.

As an international company Bunzl has developed sound partnerships with both suppliers and customers by providing outsourcing solutions and customer service oriented distribution and light manufacture, primarily of plastic and paper based products.

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Group at a glance

Outsourcing services

Operating across North America, Europe and Australasia, Bunzl is the leading supplier of a range of products including outsourced food packaging, disposable supplies and cleaning and safety products for supermarkets, redistributors, caterers, food processors, hotels, contract cleaners, non-food retail and other users.

Disposable cups
We supply an extensive range of plastic disposable supplies to a variety of users.

Sales	£2,275.6m
Operating profit†	£174.8m
Profit margin†	7.7%

Key events in 2003

Acquisition of Enterprise in the US
MultiLine in Denmark acquired
Pat Larmon appointed President of North American organisation

76% of Group operating profit
7,100 employees

Filtrona

Filtrona is a world leading supplier of outsourced cigarette filters, ink reservoirs and other bonded fibre products, protection and finishing products, self-adhesive tear tapes and certain security products. It is also a leading extruder of custom plastic profiles.

Triple granular filters
We continue to develop innovative low tar special filters, such as these made in Switzerland, to respond to the challenging requirements of the market.

Sales	£452.6m
Operating profit†	£56.1m
Profit margin†	12.4%

Key events in 2003

Establishment of worldwide fibres business
Protection and finishing organisation integrated
Acquisition of Fibertec in Switzerland

24% of Group operating profit
4,800 employees

Financial highlights

Sales of continuing operations +6% at constant exchange rates
Operating profit of continuing operations +10% at constant exchange rates
Adjusted earnings per share +11% at constant exchange rates

			Growth	
	2003	2002 *Restated	Actual exchange rates	Constant exchange rates
Sales £m	**2,728.2**	2,835.3	-4%	0%
Sales of continuing operations £m	**2,728.2**	2,673.6	+2%	+6%
Operating profit† £m	**214.1**	212.5	+1%	+6%
Operating profit of continuing operations† £m	**214.1**	204.8	+5%	+10%
Profit before tax £m	**194.6**	195.3	0%	+5%
Profit before tax and 2002 exceptionals† £m	**212.3**	207.3	+2%	+8%
Basic earnings per share p	**27.4**	27.1	+1%	+7%
Adjusted earnings per share p	**31.3**	29.7	+5%	+11%
Dividends per share p	**12.1**	11.2	+8%	
Gearing %	**21.0**	22.3		

† Before goodwill amortisation.

* Restated on adoption of FRS17 'Retirement Benefits'.

In this Annual Review, profits for each of the business areas have been stated before total goodwill amortisation of £17.7m (2002: £16.1m) and references to changes in the level of sales and profits at constant exchange rates have been calculated by retranslating the relevant results for the year ended 31 December 2002 at the average exchange rates used for the year ended 31 December 2003.

Sales by business area

Outsourcing Services 83%
Filtrona 17%

The markets we serve

Grocery/foodservice 61%
Health & hygiene 12%
FMCG 9%
Retail non-food 5%
Other 13%

Sales by geography

North America 62%
Europe 33%
Rest of the world 5%

Raw material of products we supply

Plastic resins 43%
Pulp 30%
Chemicals 5%
Other 22%

Management

1 2 3 4 5 6 7 8

1 David Williams
Finance Director

2 Celia Baxter
Director of Group
Human Resources

3 Christoph Sander
Managing Director,
Outsourcing Services
Europe and Australasia

4 Paul Lorenzini
Chief Executive,
Outsourcing Services
North America

5 Nancy Lester
Director of Corporate
Development

6 Mark Harper
Managing Director,
Filtrona

7 Anthony Habgood
Chairman

8 Pat Larmon
President,
Outsourcing Services
North America

Key managers from around the world meet regularly to review performance, discuss trends affecting our businesses and seek further opportunities for growth and competitive advantage.

During 2003 Arnold Wagner left Bunzl after nine years. We thank him for his valuable contribution and wish him all the very best in his new career as Director of Human Resources, Smiths Group PLC.

Chairman's statement
Strengthening our position and broadening our geographic coverage

Share price range p

Return on average capital %

Once again the Group has produced good results despite mixed economic conditions, unfavourable currency movements and price deflation.

Results

Against the backdrop of mixed economic conditions around the world, the Group again produced good results due to strong operating performance and underlying organic volume growth combined with acquisition activity. The movement in the dollar was unfavourable and, although the euro strengthened, overall currency movements reduced the reported growth rate of sales by about 4% and that of profits and earnings by 5 – 6%. Price deflation also had a negative impact on the growth of both sales and profits.

Sales of continuing operations were £2,728.2 million (2002: £2,673.6 million), up 6% at constant exchange rates, and operating profit of continuing operations was £196.4 million (2002: £189.0 million), a rise of 10% at constant exchange rates. Including discontinued operations, total sales were £2,728.2 million (2002: £2,835.3 million), flat at constant exchange rates, while total operating profit was £196.4 million (2002: £196.4 million), up 5% at constant exchange rates. Profit before tax, goodwill amortisation and 2002 exceptional items was £212.3 million (2002: £207.3 million), an increase of 8% at constant exchange rates. Profit before tax was £194.6 million (2002: £195.3 million), 5% ahead at constant exchange rates. Earnings per share were 27.4p (2002: 27.1p), up 7% at constant exchange rates, while adjusted earnings per share, after eliminating goodwill amortisation and 2002 exceptionals, were 31.3p (2002: 29.7p), a rise of 11% at constant exchange rates.

After a cash outflow for acquisitions of £36 million, a cash inflow from disposals of £10 million and a spend of £92 million on buying back shares on the market, net debt was reduced to £97 million (2002: £106 million). This was the result of the underlying businesses continuing to generate cash from operations and dollar denominated debt having a lower sterling value. Gearing fell to 21.0% from 22.3%.

Dividend

The Board has decided to increase the final dividend to 8.25p (2002: 7.55p). This brings the total dividend for the year to 12.1p (2002: 11.2p), an increase of 8%. Shareholders will again have the opportunity to participate in our dividend reinvestment plan.

Board and management

Bunzl further strengthened its independent Board with the appointment of Michael Roney as a non-executive director in June. Michael is President of Goodyear's operations in Europe and brings great experience of distribution, retail and manufacturing throughout Europe, Asia and Latin America. We welcome him to the Board.

Paul Lorenzini will be retiring as Chief Executive of Outsourcing Services in North America and from the Board in July 2004. Paul was one of the founders of PCI Mac-Pak in 1970 which Bunzl acquired in 1983.

Since 1986 Paul has served as President and then CEO of Bunzl Distribution USA along with being President of Bunzl USA. During his stewardship, the business has grown from 17 to 73 locations in North America and sales have increased from $400 million to approximately $2.5 billion in 2003. Profits during this same period increased over tenfold. We are now the largest and most successful supplier of supermarket and food service packaging materials in North America.

Paul will have completed 21 years of outstanding service with Bunzl and will continue to be involved as Chairman Emeritus of Bunzl USA in recognition of his extraordinary contribution to the development and success of Bunzl and his invaluable service over many years.

Paul Lorenzini's successor as Chief Executive of Outsourcing Services in North America will be Patrick Larmon. A CPA and an MBA, Pat is currently President and Chief Operating Officer of Outsourcing Services in North America. Over the past 14 years Pat has served with great success in many senior management positions including regional Vice President of the South West Region, Vice President of Finance and Administration, Executive Vice President of Procurement and President of the Western Division. We are extremely fortunate to have someone of Pat's ability and experience to take over in this important executive position.

Strategy and structure

Following the disposal of the last of Bunzl's paper interests in July 2002, the Company was reorganised into two business areas, Outsourcing Services and Filtrona, both of which are focused on areas where we have or can develop real competitive advantage on an international scale and which have some organic and acquisition growth opportunities. Both areas also fit with our focus on providing business to business consumables, often on an outsourced basis, and are becoming increasingly service oriented.

Total shareholder return

Bunzl relative to FTSE Paper, Packaging & Printing Sector

Total shareholder return

Bunzl relative to FTSE Support Services Sector

From 1994 to 1998 we greatly outperformed the Paper and Packaging Sector. In December 1998, we were moved to Support Services and from 1999 to 2003 we also greatly outperformed that Sector.

Source: Thomson Datastream

Chairman's statement continued

Filtrona constitutes a small number of international niche businesses in supply and light manufacture with a number of technical and market overlaps. Outsourcing Services is a more uniform business with international overlaps of customers, suppliers, technology and sourcing. As the Outsourcing Services business in Europe and Australasia has grown from virtually nothing ten years ago to about a third of our total Outsourcing Services business, we have decided that from our interim results in 2004 we will treat this business as a separate business segment.

Acquisitions

We spent £36 million on acquisitions during 2003. In February we strengthened our position supplying the North American food processor industry with the acquisition of Enterprise from ConAgra Foods. Based in Dallas, Enterprise had sales in the year to May 2002 of $24 million. It broadens the geographic coverage of our expanding food processor supplies business in North America and strengthens our position with major customers. In October we acquired the Fibertec business of Baumgartner. Fibertec, located in Switzerland, is engaged in the development, manufacture and sale of cigarette filters and capillary reservoirs. The business had sales in 2002 of CHF40 million and broadened our customer base while also enhancing our product offering. Also in October we purchased MultiLine, a distributor of a wide range of consumables to the Danish hotel, restaurant and catering industries. With sales in 2002 of DKK386 million, MultiLine is a logical extension of our Outsourcing Services business in Denmark, greatly strengthening our position there, particularly in hotel and catering supplies. In December we acquired Prolix Packaging in the US and O'Mahony in Ireland, both suppliers largely to the supermarket industry. Prolix had sales in 2002 of $11 million focused on the Chicago market and O'Mahony, based in Cork, had sales in 2002/3 of €11 million. In February 2004 we entered into an agreement to purchase Skiffy, a Dutch based company with particular expertise in the supply of small nylon parts for protection and finishing applications with sales in 2002/3 of €12 million.

Share buy back

In late February the Board instituted a share buy back programme. Shares have been bought on the market and have then been cancelled thus reducing the overall number of shares in issue. The cost of the buy back was £91.7 million resulting in the cancellation of 21.3 million shares at an average price of £4.31 per share. These purchases were consistent with the Board's continuing overall capital management strategy. This strategy seeks to maintain an appropriate balance sheet structure taking into account completed and prospective acquisitions and disposals.

Operating performance

Margin on continuing operations before goodwill amortisation rose from 7.7% to 7.8% while Group margin rose from 7.5% to 7.8% with the additional increase resulting from the disposal of the lower margin Paper Distribution business area in July 2002. Group return on average capital rose to 43.0%.

Outsourcing Services produced another excellent result with sales up 2%, or 7% at constant exchange rates, and operating profit up 4%, or 10% at constant exchange rates. In North America good underlying volume growth, supplemented by targeted acquisition activity, more than offset deflationary pressures. In Europe the successful execution and integration of acquisitions in particular drove the growth. Underlying volume increases continued to reflect our customers preference to buy their requirements from us, often on a totally outsourced basis. The results were negatively affected by deflation, particularly in North America, but we continued to win new customers and expand our offering to existing customers.

Filtrona also produced excellent results with operating profit up 6%, or 11% at constant exchange rates, on sales up 2%, or 6% at constant exchange rates. While the acquisition of Fibertec contributed to this growth, the majority was organic as demand generally for our specialised products and services continued to increase around the world.

Investment

We continued to invest substantial amounts in the capital base of the Group. New equipment has been purchased to maintain the quality of our assets and warehouses have been expanded and upgraded as volumes have continued to grow. Once again we have invested in computer systems both to improve them and to install them in newly acquired companies. These systems remain critical to our ability to serve our customers in the most efficient and appropriate way. We believe that up-to-date assets are an important source of our competitive advantage and maintaining them remains a priority.

Providing opportunities for employees

We remain committed to the recruitment of high quality staff and developing them within the businesses to provide excellent performance and take on more responsibility. This is achieved by a combination of structured Group management development programmes, specific skills training within respective businesses and the provision of challenging and responsible roles. A number of our UK operations continue to enjoy Investors in People accreditation.

The Group aims to provide opportunities to employees and strives to promote from within whenever appropriate. New graduates continue to be recruited into the business and, in the US and UK, participate in a successful structured training programme to enhance their development.

Appropriate and well timed communication to and from employees is essential in ensuring the effectiveness of the business. Set up in 1996, the European Information and Consultation Forums continue to meet to provide information to, and to consult with, elected employee representatives on Group and business area policies, strategy and performance. During 2003 a number of UK businesses have been developing and implementing more formalised information and consultation arrangements to supplement the European Forums and to ensure better employee involvement and feedback locally. For many years a company magazine, 'Bunzl World', has been produced and distributed around the Group, notifying employees of major business successes, acquisitions and appointments. This is supplemented locally by a variety of newsletters, briefings and intranet communication giving more specific information related to the business or site where an employee is based.

Worldwide, our employees continue to be in the forefront of providing excellent customer service and liaison with our suppliers. We rely on their continuing diligence and efforts to maintain Bunzl's reputation with all our business contacts. As ever, the loyalty and hard work of both individuals and their work teams are genuinely appreciated.

Corporate social responsibility

We have continued to progress our activities in the field of corporate social responsibility. Policies with respect to business standards, the environment and health and safety have been in place for many years. During 2003 we reviewed our stance on corporate social responsibility as a whole and developed an overall policy. This draws together existing Group policies, which in some cases have been updated, and new Group policies based either on policies used by certain subsidiaries or current practice. Further details of the new policy are given in the Corporate Social Responsibility section of the Directors' Report and Accounts and on our website.

During 2003, the Group Health and Safety Committee has improved data collection to facilitate the analysis of trends and to identify actions which would reduce the incidence and severity of accidents across the Group. Training courses have been held throughout the year both for management and employees to raise safety awareness. These have used a number of training methods including use of external consultants to provide management training, 'Toolbox talks' and an in-house designed CD-rom for driver training.

Bunzl has continued its focus on the environmental aspects of its operations. In 2003, ISO 14001 accreditation was attained by more of our locations. 75 sites are now accredited employing some 54% of staff within the Group. Plans are in place for further sites to achieve accreditation in 2004. The sites that are ISO 14001 accredited have, as part of that process, identified those areas in which they impact upon the environment. As a result of this work the following measures will be used to monitor environmental performance at Group level: energy usage, water consumption, raw material consumption and waste production. A number of specific environmental initiatives are continuing which have a positive environmental benefit.

The Group maintained its support of a cross section of projects within registered charities in the fields of healthcare, education, disability and children's welfare. In 2003 Bunzl sponsored three projects relating to cancer research and support. Further support was provided to Queen Elizabeth's Training College in Leatherhead to enhance the Computer Aided Design training department at the College with the aim of training disabled people to return to or start work. Group companies and individual employees worldwide continue to support local charitable initiatives such as the Queen of Peace Center in St Louis that provides treatment, education, daycare and housing programs for women and their children.

Prospects

Against a background of mixed economic conditions in 2003, our major businesses again showed their strength by producing good underlying volume growth which was supplemented by incremental acquisition activity. Overall Group progress year-on-year was impacted by the adverse movement of the dollar, deflation and the disposal of Paper Distribution.

Looking forward, we see volume growth continuing. The dilutionary effect of the sale of Paper Distribution will no longer be present in 2004 and year-on-year price deflation, which moderated through 2003, should fall further if the current announced price increases in plastic products in the US are fully implemented. On the other hand the sterling/dollar rate, which averaged $1.51 in 2002 and $1.64 in 2003, is currently $1.87. If this dollar weakness persists, it will negatively impact the Group's sterling results as dollar sales and profits are translated at the new rate.

The combination of volume growth in our major markets, our strong positions in those markets and our opportunities to make acquisitions gives us confidence that the underlying prospects of the Group are good and that, at constant exchange rates, the Group will continue to develop satisfactorily.

Anthony Habgood
Chairman
23 February 2004

Operating across North America, Europe and Australasia, Bunzl is the leading supplier of a range of products including outsourced food packaging, disposable supplies and cleaning and safety products for supermarkets, redistributors, caterers, food processors, hotels, contract cleaners, non-food retail and other users.

Disposable supplies
We supply plastic and paper disposable supplies that are ideal for ready to eat and ready to heat meal solutions.

10%

profit increase in Outsourcing Services at constant exchange rates.

1 Party products
Our extensive range of disposable products are ideal for catered events.

2 Supermarket products
We provide nearly all the supplies a supermarket needs to operate but does not actually sell, such as packaging, labels and signage.

3 Home meal replacement
Our microwaveable, freezer and/or oven proof packaging is used to carry ready to heat meals sold in supermarkets.

4 Ready to eat packaging
Ready to eat foods such as salads, cold meats, sandwiches and fruit are sold in supermarkets using our packaging.

1

Outsourcing services Utilising the size and strength of our extensive network

Volume growth and the successful integration of acquisitions saw Outsourcing Services progress well with sales increasing by 7% at constant exchange rates despite price deflation. Operating profits rose by 10% at constant exchange rates assisted by our focus on greater efficiencies and control of operating costs.

With trading conditions continuing to be challenging, our specialist knowledge and experience in providing cost effective outsourced solutions to our customers and our ability to integrate selective acquisitions have enabled us to extend the scope of our operations and continue to offer innovative supply programmes to add value for new and existing customers.

Outsourcing Services
North America

The North American business grew dollar sales and profits in a tough economic and competitive environment. Price deflation continued to have an impact due to manufacturers' overcapacity in several major product lines. Customer consolidation has also had an effect on our business particularly in the supermarket industry. The large national operators have penetrated the smaller markets, forcing the regional and local retailers to sell, consolidate or specialise.

Although the largest customer group for this business remains supermarkets, the majority of new business with new customers was a result of sales gains in the redistribution, processor and janitorial/sanitation (jan/san) businesses. Sales initiatives in the foodservice category resulted in expanded business at several national companies. We have been able to demonstrate our ability to provide disposable non-food items efficiently enabling these companies to use their space for higher dollar items. We have also secured additional business in non-food retail with the addition of several accounts during 2003. We plan to pursue more such accounts in 2004 as new opportunities become available.

We provide a wide range of disposable products to customers in all of our businesses that include plastic and paper packaging items, janitorial supplies, non-food retail products and operating plant supplies. Our focus is on finding packaging solutions for our customers that will generate additional sales for the redistribution and supermarket areas and operational efficiencies for the processor and jan/san markets. In an effort to increase our competitiveness and to find new innovative products, we have invested substantial time and effort into our import initiative. Through this program, we have been able to source quality products from reliable manufacturers that keep us on the leading edge of finding solutions for our customers. In 2003 our imports approximately doubled. In addition to imports, we have expanded our private label program, Prime Source, to many new product lines that has resulted in new sales opportunities and more operational efficiencies.

We remain the largest distributor of these products in North America, serving all 50 states, Canada, Mexico, and the Caribbean from 73 locations. Using a fleet of more than 350 trucks, we are able to deliver thousands of different items to customers located across the geographical area. With this coverage, we are able to provide product and logistics solutions to local, regional and national customers utilising a total program concept. Our sophisticated IT platform, which is identical in every one of our locations, allows us to provide a consistent and controlled program that our customers appreciate.

As the largest distributor of these products to supermarkets, we service national, regional and local chains. Our experience in this area, along with the product lines and customer relationships, give us the

Highlights

- **We continued to increase efficiencies and reduce costs**
- **Additional business has been won especially with redistributors, jan/san, food processors and non-food retailers**
- **Increased level of imports has led to heightened competitiveness**
- **Expansion of Prime Source lines has resulted in new sales opportunities**

60,000

different supply items are on offer to our customers throughout North America.

2

3

4

Outsourcing services continued

opportunity to develop true long term partnerships for the purpose of providing the most economical in-store packaging program that contributes to better product presentation and ultimately increased sales. During 2003 we were able to renew several long term contracts with chains and wholesalers committed to this concept. We also acquired Prolix, a specialised supplier in the Chicago region.

Redistribution, including jan/san products, continues to grow and present us with new opportunities. As the costs of transportation and warehousing rise for manufacturers, our value as a redistributor continues to increase. We provide an opportunity to the small distributor to reduce their capital investment, increase their inventory turns and provide more products to their customers while maximising their operational efficiencies. With the acquisition of Saxton in late 2002, we have expanded our jan/san program across our business with the addition of their product lines. This will continue to be an emphasis in the years ahead.

Food processors, including customers that process and package meat, poultry, produce, bakery and other items, continue to be our fastest growing area. We are the only national distributor able to provide the packaging products, plant operating supplies and janitorial and cleaning supplies through one order and delivery. This is an advantage as our customers grow, due to their space requirements and need for specialists who can provide them with an array of packaging solutions and safety and cleaning products needed to run their businesses. We further strengthened our position in this market in February 2003 with the purchase of Enterprise in Dallas.

Operating costs improved again in 2003. As the economic environment has made it difficult to achieve substantial increases in sales and gross margin dollars, we have continued to improve operations and increase our efficiencies. We have enhanced our internal IT system, improved our facilities and reduced and consolidated our delivery routes and further standardised procedures in warehousing, customer service and purchasing. We have also worked with our vendors and customers to eliminate extra costs in the supply chain. This will continue as we move forward into 2004.

Outsourcing Services
Europe and Australasia

In the seven countries that we operate in today, the UK, Ireland, Germany, the Netherlands, Denmark, Australia and New Zealand, as well as a number of countries that we export into, we continued to show good progress despite testing economic conditions. We provide our customers with a 'one-stop-shop' for all their purchasing, distribution and store or outlet service needs. We also provide management information to help our customers better control their expenditure on the broad range of consumable products that we typically supply. By outsourcing the management of this supply chain to Bunzl, customers are able to reduce their internal costs of operation and achieve efficiencies by concentrating on their own core businesses.

During 2003 growth has again come from acquisitions, new contract wins and the expansion of our product range offsetting the impact of deflation, particularly in the retail market.

In addition to acquisitions during the period, including MultiLine in Denmark and O'Mahony in Ireland, we achieved new contract wins across a broad spectrum of customers in our target markets: contract caterers, contract cleaners, facilities management groups, supermarket/retail chains and the healthcare sector. Moreover we have been successful

1

2

7,100

employees work across our network in 11 countries.

3

Highlights

- The acquisition of Enterprise in Dallas has expanded our position in the food processor market
- Prolix, a supermarket supplies business in Chicago, was acquired in December
- Redistribution has continued to present new opportunities
- MultiLine in Denmark and O'Mahony in Ireland have been acquired during the year

Sanitation products
We supply cleaning and hygiene products to supermarkets, caterers, food processors, hotels, contract cleaners and other users.

4

1 Food processor supplies
Many food processor customers require specialised personal protection equipment for their employees as well as packaging for their products.

2 Takeout foods
We supply packaging ideal for the attractive presentation of ready to eat food.

3 Disposable soup cups
Our range of plastic containers is ideal for takeout foods such as soup which can be consumed immediately or taken home and refrigerated or microwave heated.

4 Distribution
In the US we are the largest distributor of store supplies serving grocery chains both nationally and regionally.

Outsourcing services continued
Providing a 'one-stop-shop' solution at the lowest cost

in increasing our penetration with local customers in many of the markets that we serve. Of particular note was the fact that we were successful in gaining three new multi-year contracts, a longer time frame than usual in our industry, which demonstrates our customers' confidence in Bunzl as a reliable partner. The first such contract covers several countries in Northern Europe for the supply of all non-food consumables to an international catering group. The second covers the provision of all in-store consumables for a leading UK non-food retail chain reflecting our expertise in tailoring supply programmes to meet the specific requirements of retail customers. The third covers the provision of all light catering equipment for a catering group in the UK.

Focused expansion of our product range to capture more business with individual customers has been a feature of our development for several years. The range extension into light catering equipment, largely as a result of the acquisitions of Lockhart and McLaughlin in 2002, has proved beneficial with several customers in the UK, especially in hotel and catering supplies, and provides the base for potential future expansion into other countries where we are also strong with such customers.

As the leading independent vending operator in the UK, Vending Services has also been successful in generating organic sales growth from winning contracts in the financial services and retail sectors in the UK. Nevertheless 2003 has been a challenging environment with consumption in the City of London specifically, and industry in general, reduced due to staff cutbacks.

Adding new product categories to its core range helped our specialist healthcare supply business, Shermond, to show strong organic growth. It is pleasing also to report that the healthcare sector is a successful area of development in a number of countries including the Netherlands, Ireland and Australia.

Organic growth and the integration of recent acquisitions also drove the successful development of our cleaning and safety supplies businesses. We secured organic growth by winning new contracts and developing our product range with existing customers. A growing number of products are now sourced internationally and developed under our own brand names. A number of the key UK ranges have been successfully introduced into the Australian market following the creation of a dedicated Bunzl Safety sales resource in Australia. In the UK the Darenas business, acquired at the end of 2002, is in the process of being fully integrated with the core business in order to reduce our cost base and establish a common platform from which to grow in 2004.

Our activities during 2003 have been focused on integrating new acquisitions particularly in Australia, Denmark, Ireland and the UK, improving performance and enhancing returns. We have supplemented these activities with investment in new, more efficient warehouse operations and standardised IT systems. During the last two years we have opened new, state-of-the-art warehousing facilities in the Netherlands, Germany and the UK and in 2004 we will open new facilities in the UK, Denmark, Ireland, Australia and New Zealand. We are also implementing our standard IT systems into the acquisitions we have made and will continue to drive this process forward in 2004. Finally we have established a Group Purchasing function to enhance our leverage across countries and better co-ordinate our international sourcing activities. These initiatives provide the foundations for continued expansion and development from an efficient and effective cost base.

1

2

7 million

pieces of our own brand cutlery are sold a year to customers throughout the UK.

3

Highlights

- Lockhart and McLaughlin have strengthened our offering to catering and related trades
- The vending and healthcare supplies businesses have expanded through organic growth
- Cleaning and safety supplies products have been extended into Australia
- Investment in new warehouses and standardised IT systems is ongoing

Catering supplies
Our product range provides an outsourcing solution for hotels, restaurants and caterers and includes beverages, disposables and tableware.

4

1 Vending machines
We are a leading supplier and operator of vending machines supplying businesses throughout the UK with machines, ingredients and technical service.

2 Lockhart cutlery
Our own brand cutlery is stylish, durable and made from the highest quality materials.

3 Surgical face masks
We are a leading supplier of disposable hygiene products including face masks and examination gloves to the healthcare, food and pharmaceutical industries.

4 Safety supplies
A wide range of protective equipment is supplied to industrial customers throughout the UK.

Filtrona
Developing our operations on a worldwide basis

Medical diagnostic device
We manufacture bonded fibre components used in diagnostic medical devices such as home pregnancy testing kits.

11%

profit increase in Filtrona at constant exchange rates.

Filtrona is a world leading supplier of outsourced cigarette filters, ink reservoirs and other bonded fibre products, protection and finishing products, self-adhesive tear tapes and certain security products. It is also a leading extruder of custom plastic profiles.

1

2

38

production facilities across Europe, the US, Latin America and Asia.

3

At constant exchange rates, sales in Filtrona rose by 6% and operating profits increased by 11% despite the continuation of a challenging manufacturing environment which again was most noticeable in our North American businesses.

Filtrona now operates from 38 production facilities in 14 countries engaged in flexible light manufacture and service oriented supply of low unit value items to customers throughout the world. Filtrona occupies leadership positions in small focused international markets, or niche segments of larger markets, where the development of quality, differentiated positions is possible through consistent investment and dedication to delivering superior customer value and service.

The underlying performance of our outsourced filters businesses continued its robust trend, with volumes ahead in all regions and a particularly encouraging performance in Asia, although headline results were impacted by currency translation. The business continues to benefit from increased consumer demand for brands with low tar and special filters, often including charcoal, driven by changing consumer tastes and ever stricter legislative requirements. While it is now possible for manufacturers to self-manufacture some of the simpler carbon filters due to them becoming standard on more popular brands, the principal industry players continue to favour outsourcing for a major proportion of their requirements. There is also a growing interest in more complex and innovative filters, which can reduce particular constituents within cigarette smoke, and Filtrona is well placed to assist with our range of technologies, experience and know-how. Two such products were launched in November at the industry's leading exhibition, Tabexpo, in Barcelona. The acquisition of Baumgartner's Fibertec business was completed in October and this will have a positive impact on our filters and fibres businesses during 2004 as we capitalise on the additional customers, volumes and complementary technologies derived from this important strategic step. The changing dynamics of the market have led to the commencement of a consultation process with the local workforce regarding the future of our northern Italian production facility.

Our fibres business based in Richmond, Virginia and Reinbek, Germany sells reservoirs and wicking devices manufactured using bonded fibre technology for products including pens and printers, medical device components and household items. The continued focus on the development of new technologies, applications and geographic coverage has contributed to excellent growth this year. The business has been renamed Filtrona Fibertec, recognising both the applicability of the name to our fibres operations and the continuity from the Baumgartner Fibertec acquisition.

Our self-adhesive tear tape business continues to be the world's leading supplier and made particularly good progress in Asia, where supply to an important new customer in Japan began, and the Americas, assisted by the start up of film coating at our Richmond facility. Volumes of both standard self-adhesive tear tape and tear tape with value added features continued their strong growth trend. The use of tear tape as a medium for brand promotion and security purposes utilising various printing techniques to produce multicoloured images and text continued to develop. The application of extrusion coated films for security and industrial uses is also showing encouraging results. We continue to invest in this business and a new 10 station printer at our Nottingham site is allowing us to expand the range of specialist products and services we are able to offer our customers.

Highlights

- **Reorganisation of the business has resulted in reduced costs**
- **The acquisition of Fibertec will have a positive effect on our filters and fibres businesses**
- **Demand for more complex and innovative filters has continued to grow volumes of outsourced filters**
- **Development of new technologies, applications and geographic coverage has led to growth in the fibres business**

4

1 Cigarette filters
The share of speciality filtered products within the global cigarette market continues to grow.

2 High pressure hose protection
Our protective parts are used in a wide range of applications including caps and plugs and high pressure hose protection.

3 Nylon screws and fixings
Our new range of nylon parts will be enhanced by the acquisition of Skiffy in 2004.

4 Passport security
We are a leading supplier of coated film products for document security applications including British passports.

Filtrona continued
Delivering solutions through innovation

Our protection and finishing business continued to face weakness in many of its core industrial markets, especially in the US, and rising polymer prices were also a drag on performance. In spite of this, the business as a whole was ahead of last year as Europe and the oil sector *produced particularly strong* results. The policy of building the distribution network, strengthening the product range further with the addition of many new lines and increasing the sophistication of its marketing programmes continues to have a positive impact on the performance of the business. The addition of Skiffy in 2004 will further strengthen this business with its particular expertise in the supply of nylon parts.

The sales of our European *extrusion business picked up* strongly in the second half of the year after a slow start which reflected the continued difficulties in the European manufacturing sector. This business continues to build its position in export markets where many opportunities exist for further development and growth. The US business also experienced improved trading conditions in the second half of the year, although certain customer segments, such as aerospace, remain depressed. Other segments including medical, traffic control, lighting and refrigeration saw good growth reflecting the business's focus on proprietary products and differentiated process technologies. Measures continued to be taken to reduce unit costs and to grow our business in Mexico where future prospects remain positive.

Globalpack, our Brazilian operation which produces packaging for the South American toiletries and cosmetics industries, had another excellent year. Sales and profits were again well ahead with the company's rapidly developing expertise in roll-on deodorant packaging items proving especially beneficial.

Highlights

- **The use of tear tape for brand promotion and security purposes has led to an expansion of products and services**
- **The protection and finishing business has extended its network and product range**
- **Trading conditions in Extrusion improved during the second half**
- **Globalpack has had another excellent year**

1

34,000

customers supplied with protection and finishing products in Europe and the Americas.

Medical tubing
Our extruded plastic tubing is used throughout the medical industry in a wide range of devices.

2

3

1 Traffic safety products
We supply highly durable products to help improve traffic control and road safety including markers, posts and barricades.

2 Ink reservoirs
Writing instruments including pens, markers and highlighters, such as Sharpies® pens made by Sanford, rely on our reservoirs to retain ink and provide uniform release while writing.

3 Tear tapes
Our printed tear tape provides easy opening and the ability to incorporate branding and security features on a variety of products.

Directors

1 2 3 4 5 6 7 8 9

1 Michael Roney *†• (Age 49)
Non-executive director since June 2003. After holding a number of senior general management positions within Goodyear throughout Latin America and then Asia, he became President of Goodyear's Eastern European, African and Middle Eastern businesses and is presently President of Goodyear's European operations.

2 Anthony Habgood# (Age 57)
Chairman since 1996, having joined as Chief Executive in 1991, and Chairman of the Nomination Committee. A director of The Boston Consulting Group from 1977 to 1986, he was then appointed a director of Tootal Group PLC, subsequently becoming Chief Executive. He is a non-executive director of Schroder Ventures International Investment Trust plc.

3 Paul Lorenzini (Age 64)
Chief Executive, Outsourcing Services North America having joined Bunzl in 1983 with the acquisition of PCI Mac-Pak. He was appointed President of Bunzl Distribution USA in 1986 and joined the Board in 1999 with continuing responsibility for the Group's largest and most successful business. He will retire in July 2004.

4 Alexander (Pat) Dyer# (Age 71)
Deputy Chairman since 1996, having been Chairman from 1993. Previously a director of Air Products and Chemicals Inc, he joined The BOC Group plc in 1989 and subsequently became Chief Executive and Deputy Chairman until his retirement in 1996.

5 Paul Heiden*†• (Age 47)
Non-executive director since 1998. Previously with Hanson plc, he joined Rolls-Royce plc in 1992, becoming a director responsible for their Industrial Businesses in 1997 and Finance Director in 1999. He was appointed Chief Executive of FKI plc in 2003.

Bunzl's strong independent Board has continued to focus on overseeing the implementation of a consistent strategy which has successfully built the business and created shareholder value. Five non-executives, who control the relevant Committees, are independent as defined by the revised Combined Code.

6 Jeff Harris*†#• (Age 55)
Non-executive director since 2000, senior independent director and Chairman of the Audit Committee. Appointed Finance Director of UniChem Plc in 1986 and Chief Executive in 1992, he became Chief Executive of the enlarged Alliance Unichem Plc in 1997 and Chairman in 2001. He is a non-executive director of Anzag AG and Associated British Foods plc.

7 Stephen Williams*†#• (Age 56)
Non-executive director since 1994. After training as a lawyer and a period with Slaughter and May, he joined the legal department at Imperial Chemical Industries plc. In 1986 he joined Unilever as Joint Secretary and was also appointed General Counsel in 1993.

8 David Williams (Age 58)
Finance Director, having joined the Group in 1991 in that role. He was previously with Tootal Group PLC where he held a number of financial and operating positions including Group Finance Director. He is a non-executive director of George Wimpey PLC where he chairs the Audit Committee.

9 Charles Banks*†#• (Age 63)
Non-executive director since 2002 and Chairman of the Remuneration Committee. Previously Chief Executive of Ferguson Enterprises, the largest North American subsidiary of Wolseley plc, he joined the Board of Wolseley in 1992 and was appointed Group Chief Executive in 2001.

* Member of the Audit Committee
† Member of the Remuneration Committee
\# Member of the Nomination Committee
• Independent director

Financial review

Group performance
Sales of continuing operations increased by 2%, or 6% at constant exchange rates, to £2,728.2 million with businesses acquired during the year contributing 1% of this increase. This reflected good operating performance and underlying organic growth largely offset by price deflation and unfavourable currency translation movements. Group sales, which included discontinued operations in 2002, decreased by 4% to £2,728.2 million, but rose marginally at constant exchange rates.

Operating profit of continuing operations before goodwill amortisation increased by 5%, or 10% at constant exchange rates, to £214.1 million. A strong performance by both Outsourcing Services and Filtrona was partly offset by unfavourable exchange rates. Group operating profit before goodwill amortisation increased marginally to £214.1 million but rose by 6% at constant exchange rates.

There were no exceptional items in 2003. The exceptional item in 2002 of £4.1 million represents a profit on the disposal of Paper Distribution partly offset by the costs of exiting Filtrona's small machine building business. Including a £3.4 million lower interest charge, profit before tax fell marginally to £194.6 million but rose by 5% at constant exchange rates.

The net interest charge fell to £1.8 million from £5.2 million in 2002. Lower average borrowings due to strong cash generation from operations, a full year of the Paper Distribution disposal proceeds, lower interest rates and the full year benefit of discounting the Paper Distribution deferred payments, all reduced the charge. The adoption of FRS17 'Retirement Benefits' resulted in a charge in the year which partially offset these benefits. However the 2002 FRS17 restatement reduced the interest charge in that year. Interest cover increased substantially. Profit before tax excluding goodwill amortisation and the exceptional item in 2002 rose by 2%, or 8% at constant exchange rates, to £212.3 million.

Continuing operations' margin excluding goodwill amortisation increased to 7.8% from 7.7% in 2002. Outsourcing Services' margin increased to 7.7% from 7.5% and Filtrona's margin improved to 12.4% from 11.9%. Group margin rose to 7.8% from 7.5%, principally due to the disposal of Paper Distribution in 2002.

Currency had a net adverse impact in the year through translation primarily due to the weakening of the US dollar against sterling. This translation effect is the major way that currency impacts the Group although there is also a small transaction effect on certain parts of the business.

Tax
The tax charge of £69.0 million represents an effective rate of 32.5% (2002: 33.6%) on the profit on underlying operations. Including the impact of goodwill amortisation the overall rate was 35.5%. This compares to 35.8% in 2002 which included the impact of goodwill amortisation and the exceptional item. The effective rate is higher than the nominal UK rate of 30.0% principally because most of the Group's operations are in countries with higher tax rates.

Earnings and dividends
Earnings fell marginally but increased 5% at constant exchange rates to £124.6 million. The weighted average number of shares in issue reduced to 455.2 million from 461.4 million due to the share buy back. Earnings per share increased by 1%, or 7% at constant exchange rates, to 27.4p. After adjusting for goodwill amortisation, and the exceptional item in 2002, earnings per share increased by 5%, or 11% at constant exchange rates, to 31.3p.

An interim dividend of 3.85p per share and a final proposed dividend of 8.25p will deliver an increase of 8% for the year at a total cost of £54.4 million, with dividend cover, based on adjusted earnings per share, at 2.6 times. £70.2 million is to be transferred to reserves.

Balance sheet
Total assets less current liabilities decreased by £65.0 million to £764.6 million. This was largely accounted for by decreased short term deposits and lower working capital. Group return on average capital before goodwill amortisation increased to 43.0% from 39.5% principally due to the disposal of Paper Distribution in 2002. Net debt decreased by £9.5 million to £96.5 million due to strong operating cash flow more than offsetting an acquisition spend of £36.1 million and the share buy back of £91.7 million. Shareholders' funds decreased by £16.0 million to £459.2 million due to the impact of the share buy back more than offsetting the retained profit for the year. Gearing fell from 22.3% to 21.0%.

Goodwill
This increased by £1.4 million to £290.9 million reflecting goodwill arising in the year on acquisitions largely offset by an amortisation charge of £17.7 million and exchange movements.

Cash flow
Net cash inflow from operating activities was £250.4 million, a £34.0 million increase compared to 2002, of which £17.1 million was due to stronger working capital management. In 2002 there was a special pension contribution of £20.0 million which was not repeated in 2003. Gross capital expenditure of £37.8 million was used to expand and upgrade facilities and systems and enhance the quality and capacity of the asset base. Sales of fixed assets generated a cash inflow of £6.5 million resulting in a net capital expenditure of £31.3 million. An acquisition spend of £36.1 million and net disposal proceeds of £10.0 million, representing deferred consideration on the sale of Paper Distribution, resulted in a net cash outflow of £26.1 million on acquisitions and disposals. Net cash inflow before financing of £79.9 million, combined with a cash inflow from share issues relating to the exercise of share options of £7.0 million, a cash outflow of £92.2 million for the share buy back (including expenses) and a favourable exchange movement of £14.8 million, resulted in a £9.5 million reduction in net debt.

Pensions
On 1 January 2003, the Group fully adopted FRS17. As a result, comparative figures have been restated. The impact on the consolidated profit for the year to 31 December 2002 was a reduction of £0.4 million and the impact on the consolidated shareholders' funds as at 31 December 2002 was a reduction of £68.8 million.

At 31 December 2003, the Group's FRS17 pension liability was £40.8 million, a £2.9 million improvement compared to 2002 due to a stronger market performance more than offsetting increased liabilities.

Treasury policies and controls
Bunzl has a centralised treasury department to control external borrowings and manage exchange rate risk and interest rate risk. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of financial instruments that may be employed and the criteria for investing and borrowing cash. The Group only uses derivatives to manage its foreign currency and interest rate risks arising from underlying business activities. No transactions of a speculative nature are undertaken. The department is subject to periodic independent reviews by the internal audit department. Underlying policy assumptions and activities are reviewed by the executive directors. Controls over exposure

Exchange rates

Average	2003	2002
US$: £	**1.64**	1.51
€ : £	**1.44**	1.59

Year end		
US$: £	**1.79**	1.61
€ : £	**1.42**	1.53

Return on average capital %

	2003	2002
Outsourcing Services	**67.5**	65.8
Filtrona	**26.7**	24.4

changes and transaction authenticity are in place and dealings are restricted to those banks with the relevant combination of geographic presence and suitable credit rating. The Group continually monitors the credit ratings of its counterparties and credit to each counterparty.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group is funded by a US dollar Bond and multi-currency credit facilities from the Group's bankers. The US dollar Bond, issued in 2001, is in three tranches: five years, seven years and ten years for a total of $225 million at fixed rates of interest. The bank facilities have tenures ranging from one year to five years and mature between 2004 and 2009. At 31 December 2003, available bank facilities totalled £321.2 million of which £103.6 million was drawn down. In addition the Group maintains uncommitted and overdraft facilities to maintain short term flexibility.

Foreign currency risk

The majority of the Group's net assets are in currencies other than sterling. The Group's policy is to limit the translation exposure and resulting impact on shareholders' funds by borrowing in those currencies in which the Group has significant non-sterling net assets and by using forward foreign exchange contracts. At 31 December 2003 there were no material currency exposures after accounting for the effect of the hedging transactions. As the majority of non-sterling net operating assets are denominated in US dollars, borrowings are primarily held in US dollars. The Group does not hedge the translation effect of exchange rate movements on the profit and loss account.

The majority of the Group's transactions are carried out in the functional currency of the Group's local operations and so transaction exposures are limited. However, where they do occur, the Group's policy is to hedge exposures as soon as they are committed using forward foreign exchange contracts.

Interest rate risk

The Group's strategy is to ensure with a reasonable amount of certainty that the overall Group interest charge is protected against material adverse movements in interest rates. The majority of the US dollar Bond was swapped to floating rates when the Bond was issued in 2001. Interest rate caps are in place to reduce the Group's floating rate exposure to movements in US dollar LIBOR.

Financial reporting standards and accounting policies

FRS17 has been adopted in the 2003 financial statements. With the exception of FRS17 there have been no changes to the accounting policies of the Group from the previous year.

International Financial Reporting Standards

The Council of the European Union announced in June 2002 that all European listed companies will be required to adopt International Financial Reporting Standards (IFRS) from 1 January 2005. This will affect the Group's financial statements for the six months ending 30 June 2005 and the year ending 31 December 2005. Assessing the differences between current accounting policies and IFRS is a complex task, not least as many of the IFRS are themselves in the course of revision. However it is already evident that certain accounting policies and some presentational aspects of the financial statements will change. Work has commenced to ensure the Group will be ready to meet the conversion deadline and to present clearly the effects of convergence to IFRS.

Summary financial statement

Summary directors' report

Principal activities and developments

The principal activities of the Group are set out on the inside front cover. The Chairman's Statement, the Operating Review and the Financial Review on pages 4 to 17 and 20 to 21 give details of the Group's activities, developments and performance for the year and an indication of likely future developments.

Directors

Mr M J Roney was appointed to the Board on 1 June 2003 and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting in accordance with the Articles of Association. Mr L C McQuade retired from the Board on 14 May 2003. All of the other directors, who are named on pages 18 and 19, served throughout the year.

Mr P G Lorenzini will retire from the Board on 31 July 2004. Mr A P Dyer and Mr J F Harris retire by rotation at the Annual General Meeting in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

Directors' interests in ordinary shares are shown in Note 21 to the financial statements in the Directors' Report and Accounts. None of the directors was materially interested in any contract of significance with the Company or any of its subsidiary undertakings during or at the end of 2003.

Dividends

An interim dividend of 3.85p was paid in respect of the year and the directors recommend a final dividend of 8.25p, making a total for the year of 12.1p. This compares with 11.2p for the year ended 31 December 2002.

Corporate governance

The Company complied throughout the period under review in relation to all provisions of the combined code on corporate governance applicable for the year ended 31 December 2003.

The Chairman, Mr A J Habgood, continues to act in the capacity of Chief Executive. The Board recognises the concerns, expressed in a general context, about the possible negative effects of a concentration of power through a combined Chairman and Chief Executive role but believes these do not presently apply to the Company for a variety of reasons. The Board has a majority of independent non-executive directors who constitute the entire membership of the Audit and Remuneration Committees and represent a majority of the Nomination Committee. None of the Company's non-executive directors had any previous connection with the Company or its executive directors on appointment to the Board. In addition, the Group's operations are devolved and the Group benefits from the presence of strong senior line management in those operations. The Deputy Chairman, Mr A P Dyer, is a former non-executive Chairman of the Company. Mr J F Harris has been designated as the senior independent non-executive director.

The Board's firm view is that the Group does not suffer from a damaging concentration of power and is well protected from such a possibility. Furthermore, it believes that the current arrangements are in the best interests of the business and of shareholders.

Annual General Meeting

The Annual General Meeting will be held at the Hyatt Regency The Churchill Hotel, 30 Portman Square, London W1A 4ZX on Wednesday 19 May 2004 at 11.00 am. The notice convening the Meeting is set out in a separate letter from the Chairman to shareholders which explains the items of special business.

Auditors

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company at a rate of remuneration to be determined by the directors.

P N Hussey
Secretary
23 February 2004

Summary remuneration policy

The Company's current remuneration policy for 2004 and beyond is designed to help ensure the recruitment, retention and motivation of the executive directors by providing fair reward for the responsibilities they undertake and the performance they achieve on behalf of shareholders. In this context, the Remuneration Committee's policy is to set the overall remuneration package at a competitive level and in a form that permits significant additional remuneration to be earned for high performance over a sustained period. This is normally achieved by benchmarking base pay against comparator companies and a range of factors, including performance, and by providing, in addition, short and long term incentives geared to performance.

In assessing the balance of performance related and non-performance related elements of remuneration, base pay and benefits are treated as non-performance related, whereas annual bonus (including awards under the Deferred Annual Share Bonus Scheme – 'DASBS') and long term incentives are treated as performance related. For this purpose, share options are valued at one third of their face value on grant. On this basis, the Remuneration Committee sets the remuneration package such that at least half the total target remuneration package is derived from the performance related elements.

Base pay

The base pay of each executive director is set to reflect the size and scope of that director's responsibilities undertaken on behalf of the Board, the level of overall performance achieved and experience in the post. It is benchmarked against comparator companies and the actual pay level is set after taking account of performance, relevant external survey data and the general movement of base pay within the Group.

Annual bonus plan

The executive directors participate in an annual bonus plan intended to support the Company's overall remuneration policy. The bonus plan for each executive director contains meaningful targets that seek to focus attention on one or two key measures of short to medium term achievement. For the UK executive directors, half of this annual bonus is normally paid in cash and the balance (but with the total aggregate amount capped) is deferred under the rules of the DASBS.

Under the DASBS, eligible executives, including the UK executive directors, receive the deferred element of their annual bonus as an award of ordinary shares. The ordinary shares are transferred to the executive on 1 March in the third year after the year in which the award is made, provided normally the executive has remained in the employment of the Group throughout that period or until their normal retirement date.

Share based incentives

The Remuneration Committee believes that the long term performance of the Group is an important consideration for shareholders and that share based incentives are an important part of helping to align the interests of shareholders and those employed by the Group. The Remuneration Committee welcomes the fact that each of the executive directors currently has a meaningful holding of Bunzl shares.

The Group operates an Executive Share Option Scheme under which the executive directors and other senior executives in the Group may be granted options over Bunzl shares. The grant of executive share options is made on a discretionary basis, taking account of each executive's performance and job responsibilities. In normal circumstances options granted are exercisable, subject to satisfaction of a performance condition, not earlier than three years and not later than 10 years after the date of grant. The Committee is currently consulting shareholders regarding the adoption of a new Executive Long Term Incentive Plan. Shareholders will be asked to approve this Plan at the 2004 Annual General Meeting.

Retirement benefits

The Group utilises both defined benefit and defined contribution pension schemes throughout the world. All principal defined benefit schemes are closed to new entrants who are now offered a defined contribution arrangement. The executive directors are eligible to participate in the relevant pension scheme or may choose to participate in a private pension scheme.

Service contracts

It is the Company's policy that executive directors are normally employed on contracts that provide for 12 months' notice from the Company and six months' notice from the executive. Mr A J Habgood and Mr D M Williams each have service contracts that provide for these notice periods. Mr P G Lorenzini has a fixed term service contract which runs to 31 July 2004. The non-executive directors do not have service contracts.

Directors' emoluments for 2003

The directors' aggregate emoluments for 2003 were £3.5 million, the aggregate amount of gains made by directors on the exercise of share options during the year was £0.3 million, the aggregate market value of awards exercised by directors under long term incentive schemes during the year was £1.8 million and the aggregate amount of contributions paid by the Company to money purchase pension schemes in respect of the directors was £40,000. Two directors participate in defined benefit pension schemes, one of whom also participates in a money purchase pension scheme. A further director participates in a personal money purchase pension scheme to which the Company contributes.

Total shareholder return

Source: Thompson Datastream

The Company's total shareholder return over the last five years compared to that of the FTSE Support Services Sector is shown above. A fuller representation of the Company's total shareholder return relative to relevant Sectors can be found in the Chairman's Statement on page 5.

Summary financial statement continued

Consolidated profit and loss account

for the year ended 31 December 2003

	2003 £m	2002 *Restated £m
Sales		
Existing businesses	2,707.0	2,673.6
Acquisitions	21.2	
Continuing operations	2,728.2	2,673.6
Discontinued operations	–	161.7
Total sales	2,728.2	2,835.3
Operating profit		
Existing businesses	195.7	189.0
Acquisitions	0.7	
Continuing operations	196.4	189.0
Discontinued operations	–	7.4
Total operating profit	196.4	196.4
Profit on sale of discontinued operations	–	4.1
Profit on ordinary activities before interest	196.4	200.5
Net interest payable	(1.8)	(5.2)
Profit on ordinary activities before taxation	194.6	195.3
Profit before taxation, goodwill amortisation and exceptional items	212.3	207.3
Taxation on profit on ordinary activities	(69.0)	(70.0)
Profit on ordinary activities after taxation	125.6	125.3
Profit attributable to minorities	(1.0)	(0.5)
Profit for the financial year	124.6	124.8
Dividends paid and proposed	(54.4)	(52.3)
Retained profit for the financial year	70.2	72.5
Basic earnings per share	27.4p	27.1p
Adjusted earnings per share	31.3p	29.7p
Dividends per share	12.1p	11.2p

* Restated on adoption of FRS17 'Retirement Benefits'.

Summary consolidated balance sheet

at 31 December 2003

	2003 £m	2002 *Restated £m
Intangible assets – goodwill	290.9	289.5
Tangible assets	229.8	233.9
Fixed assets	520.7	523.4
Current assets	743.0	777.6
Creditors: amounts falling due within one year	(499.1)	(471.4)
Net current assets	243.9	306.2
Total assets less current liabilities	764.6	829.6
Creditors: amounts falling due after more than one year	(220.2)	(265.3)
Provisions for liabilities and charges	(41.6)	(43.1)
Net assets excluding pension liabilities	502.8	521.2
Pension liabilities	(40.8)	(43.7)
Net assets including pension liabilities	462.0	477.5
Capital and reserves		
Called up share capital	112.1	116.8
Share premium and other reserves	347.1	358.4
Shareholders' funds: equity interests	459.2	475.2
Minority equity interests	2.8	2.3
	462.0	477.5

Approved by the Board of Directors of Bunzl plc on 23 February 2004 and signed on its behalf by Mr A J Habgood, Chairman and Mr D M Williams, Finance Director.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2003

	2003 £m	2002 *Restated £m
Profit for the financial year	**124.6**	124.8
Actuarial gain/(loss) on pensions	**0.9**	(64.3)
Deferred taxation on (gain)/loss on pensions	**(0.4)**	20.0
Currency translation differences on foreign currency net investments	**(1.5)**	(10.9)
Total recognised gains and losses for the year	**123.6**	69.6
Prior year adjustment (adoption of FRS17)	**(68.8)**	
Total recognised gains and losses since last directors' report and accounts	**54.8**	

Summary consolidated cash flow statement

for the year ended 31 December 2003

	2003 £m	2002 *Restated £m
Operating profit	**196.4**	196.4
Adjustment for non-cash items	**51.2**	48.1
Working capital movements	**17.9**	0.8
Special pension contribution	**–**	(20.0)
Employee benefit trust shares	**(8.8)**	(6.3)
Other cash movements	**(6.3)**	(2.6)
Net cash inflow from operating activities	**250.4**	216.4
Net cash outflow for returns on investments and servicing of finance	**(4.7)**	(9.0)
Tax paid	**(56.6)**	(64.3)
Net cash outflow for capital expenditure	**(31.3)**	(31.0)
Net cash (outflow)/inflow for acquisitions and disposals	**(26.1)**	33.6
Equity dividends paid	**(51.8)**	(48.0)
Net cash inflow before use of liquid resources and financing	**79.9**	97.7
Net cash inflow/(outflow) from management of liquid resources	**57.4**	(128.7)
Net cash (outflow)/inflow from financing	**(98.1)**	8.0
Increase/(decrease) in cash in the financial year	**39.2**	(23.0)

* Restated on adoption of FRS17 'Retirement Benefits'.

Analysis of sales and operating profit

for the year ended 31 December 2003

	Sales		Operating profit	
	2003 £m	2002 £m	2003 £m	2002 *Restated £m
Continuing operations				
Outsourcing Services	**2,275.6**	2,231.2	**174.8**	168.1
Filtrona	**452.6**	442.4	**56.1**	52.7
Corporate activities			**(16.8)**	(16.0)
Goodwill			**(17.7)**	(15.8)
	2,728.2	2,673.6	**196.4**	189.0
Discontinued operations	**–**	161.7	**–**	7.7
Goodwill			**–**	(0.3)
Total	**2,728.2**	2,835.3	**196.4**	196.4

Summary US GAAP information

for the year ended 31 December 2003

	2003	2002
Net income for the financial year £m		
Continuing operations	**131.7**	126.5
Discontinued operations	**–**	21.3
	131.7	147.8
Earnings per share p		
Continuing operations	**28.9**	27.4
Discontinued operations	**–**	4.6
	28.9	32.0
Equity shareholders' funds £m	**712.2**	741.8

Statement of the independent auditors to the members of Bunzl plc

pursuant to Section 251 of the Companies Act 1985

We have examined the Summary Financial Statement on pages 22 to 25.

This statement is made solely to the Company's members, as a body, in accordance with Section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our work, for this statement or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the Annual Review and Summary Financial Statement with the full financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual Review and Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The Auditors' Statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's full financial statements describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the Summary Financial Statement is consistent with the full financial statements, the Directors' Report and the Directors' Remuneration Report of Bunzl plc for the year ended 31 December 2003 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
23 February 2004

The auditors have issued an unqualified report on the full financial statements containing no statement under Sections 237(2) or 237(3) of the Companies Act 1985.

Summary five year review

	2003 £m	2002 £m*	2001 £m*	2000 £m*	1999 £m*
Sales					
Continuing operations	**2,728.2**	2,673.6	2,558.3	2,182.4	1,765.5
Discontinued operations	**–**	161.7	318.2	321.2	363.1
Total sales	**2,728.2**	2,835.3	2,876.5	2,503.6	2,128.6
Operating profit					
Continuing operations	**196.4**	189.0	186.6	165.1	133.3
Discontinued operations	**–**	7.4	14.9	19.7	23.8
Total operating profit	**196.4**	196.4	201.5	184.8	157.1
Exceptional items	**–**	4.1	–	2.3	0.2
Profit on ordinary activities before interest	**196.4**	200.5	201.5	187.1	157.3
Profit on ordinary activities before taxation	**194.6**	195.3	190.2	179.5	152.1
Profit before taxation, goodwill amortisation and exceptional items	**212.3**	207.3	203.0	184.3	155.1
Profit on ordinary activities after taxation	**125.6**	125.3	118.9	112.7	91.5
Profit for the financial year	**124.6**	124.8	118.5	112.1	90.9
Basic earnings per share	**27.4p**	27.1p	25.8p	24.6p	20.1p
Adjusted earnings per share	**31.3p**	29.7p	28.6p	26.0p	21.0p
Dividends per share	**12.1p**	11.2p	10.35p	9.4p	8.3p

* Restated on adoption of FRS17 'Retirement Benefits'.

Shareholder information

Financial calendar	2004
Annual General Meeting	19 May
Results for the half year to 30 June 2004	31 August

	2005
Results for the year to 31 December 2004	February
Annual Report circulated	March

Dividend payments are normally made on these dates:

Ordinary shares (final)	1 July
Ordinary shares (interim)	2 January

Analysis of ordinary shareholders

As at 31 December 2003 the Company had 6,400 (2002: 6,199) shareholders who held 448.3 million (2002: 467.0 million) ordinary shares between them, analysed as follows:

Size of holding	Number of shareholders	% of issued share capital
0 – 10,000	5,626	2
10,001 – 100,000	454	3
100,001 – 500,000	189	10
500,001 – 1,000,000	55	9
1,000,001 and over	76	76
	6,400	100

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Stockbrokers
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Citigroup Smith Barney

Investment bankers
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