Annual Report 1998

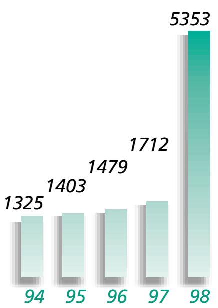
Alliance UniChem

UNITED KINGDOM
FRANCE
ITALY
SPAIN
PORTUGAL
GREECE
MOROCCO

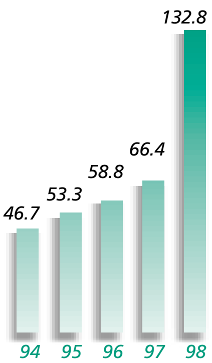
Highlights of the year

	1998	1997
	£m	£m
Turnover	**5,353.4**	1,712.3
Operating profit	**132.8**	66.4
Profit on ordinary activities before taxation and exceptional item	**110.1**	59.2
Dividends per share	**10.65p**	9.7p
Earnings per share		
- Undiluted	**24.9p**	22.6p
- Diluted	**24.7p**	22.5p

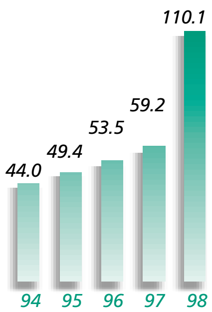
- Integration completed following the merger of UniChem with Alliance Santé and planned synergy benefits being delivered.
- Continued development of the Group, with further expansion of the retail pharmacy chain, acquisition of a controlling interest in Safa Galenica, our Spanish associate and further expansion of Alleanza Salute Italia through two transactions to extend its leading position in the Italian market.
- Strong market growth in France and Italy offsetting slower than expected growth in the United Kingdom.
- Continued strong management focus on efficiency with improvements in cost ratios in all core businesses and the rationalisation of depot networks in France, Italy, Portugal and Spain.
- Further sales increases and operating profit improvements achieved by all our core businesses.
- Continued success in winning pre-wholesaling contracts, with services now provided to our manufacturer partners in the United Kingdom, Republic of Ireland, Italy, Spain and Portugal.



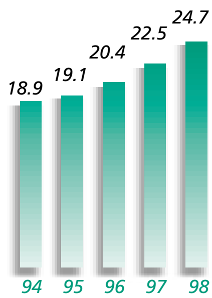
Turnover - £m



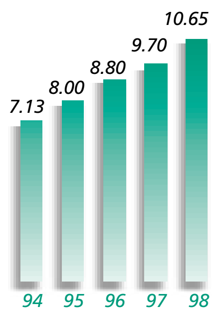
Operating profit - £m pre exceptional items



Pre-tax profits - £m pre exceptional items



EPS - pence diluted pre exceptional items



Dividends per share - pence

Alliance UniChem is a leading European distributor, wholesaler and retailer of pharmaceutical, medical and healthcare products.

- The Company was formed in 1997, through the merger of UniChem PLC and Alliance Santé S.A. , with the aim of improving the delivery of healthcare to pharmacists and patients across Europe.
- The Company has a market share of 16 per cent in the European Union. In 1998 Alliance UniChem's turnover reached £5.3 billion (€7.9 billion).
- Quoted in London and Paris, at the end of the first quarter 1999 its market capitalisation was £1.4 billion (€2.1 billion).
- The Alliance UniChem Group serves over 41,000 pharmacies from 170 warehouses and employs over 14,000 people.
- Moss Chemists, Alliance UniChem's retail pharmacy division, owns 571 pharmacies in the UK providing a highly professional service to the patient.

Our business philosophy is founded on four principles:

Service – we offer high levels of service to our pharmacy customers and manufacturer suppliers, and to the patients we serve in our pharmacies. We deliver reliably, consistently and on schedule with rapid order turnaround times. Service levels are monitored hourly in every one of our 170 branches and are regularly surveyed in our retail outlets.

Excellence – our Group's priority is simple, to be the first choice for pharmacists and patients and the leader in our market by achieving excellence in everything we do.

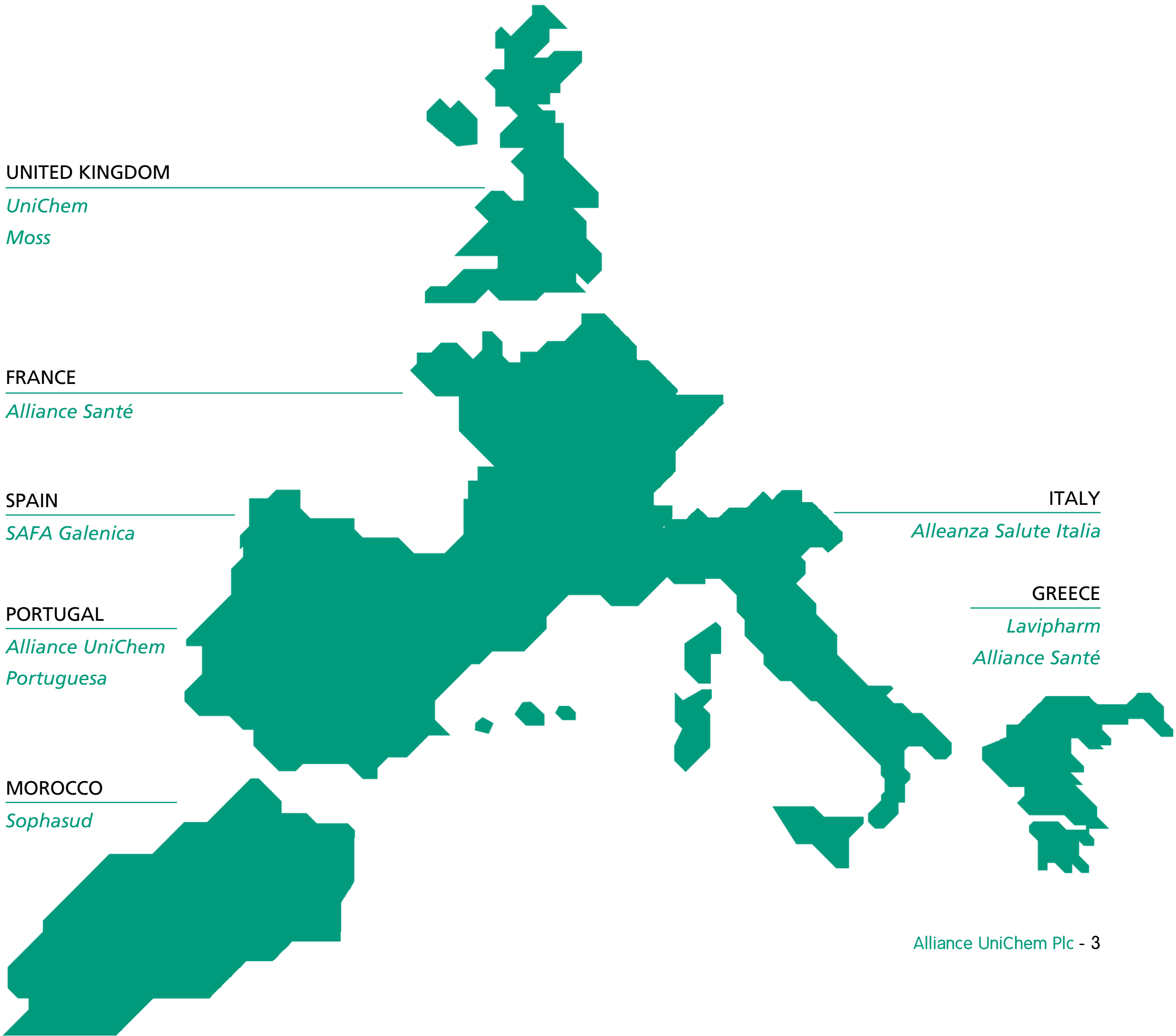
Partnership – working together with our customers and suppliers we can derive mutual added value and improve the health of the millions of patients who depend on us.

Innovation – as a European leader we realise the importance of looking to the future. Our vision can be seen not only through the development of state-of-the-art systems, offering a more efficient service to pharmacies, but also in our unique support and service solutions to our customers. Such innovative thinking keeps us one step ahead in the pan-European market.

Our wholesale network
- the backbone of healthcare delivery

Through its operating companies and associates Alliance UniChem serves over 41,000 pharmacies and hospitals from 170 depots across France, Great Britain, Greece, Italy, Morocco, Portugal and Spain.

Thanks to its integrated distribution and technically advanced networks, millions of European citizens can promptly receive the healthcare products they need to preserve and restore their health and wellbeing. However, Alliance UniChem's operational efficiency does not rest solely upon a sound organisational and managerial structure; it is above all the outcome of a business philosophy, shared by every one of the Group's operating units, which gives absolute primacy to the quality of service to pharmacists and manufacturers.



Chairman's statement

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

Kenneth Clarke
Chairman

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

Performance

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

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

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

Group Expansion

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

"The merger is already delivering results better than the previous sum of the two pre-merger businesses."

Pharmacists

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

"The Group continues to prosper by using its core strengths and developing strong positions in each of its markets."

Shareholders

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

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

People

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

Directors

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

Outlook

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

Kenneth Clarke
Chairman
23 March 1999

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

Chief executive's review

Jeff Harris
Chief Executive

In this, the first year of trading for the newly merged Alliance UniChem, we have integrated our management, continued driving forward the performance of our core business, and significantly developed the Group to implement our strategy. In this review I describe the performance of each of our businesses and show how they are taking advantage of changing market conditions. Firstly, however, I review our overall performance and strategy.

Results

Reported turnover at £5.3 billion / €7.9 billion (1997: £1.7 billion) and pre-tax profits at £110.1 million / €163.1 million (1997: £59.2 million) clearly reflect the impact of the merger. Compared with 1997 pro-forma results for the combined Group and using 1997 exchange rates for both years, our businesses increased their turnover by 11 per cent and their comparable operating profits were up by 8 per cent. Pre-tax profits for the Group compared with 1997 pro-forma results on the same basis were up by 15 per cent. These results are in line with our expectations at the time our merger was announced and mean that we are delivering anticipated synergy benefits. That this performance has been achieved at the same time as significant programmes to integrate our management teams and standardise our management processes, is a tribute to the hard work of the executives in all our businesses.

Reported diluted earnings per share increased by 10 per cent to 24.7 pence despite the adverse impact of a strengthening of sterling over the course of 1998 compared to the previous year. Before goodwill amortisation and at constant currency rates, our pre-tax profits increased by 89 per cent and our diluted earnings per share by 12 per cent. With market growth in our core markets averaging 6 per cent in 1998, we have again demonstrated our ability to build turnover ahead of market growth by increasing market share, and to grow earnings ahead of turnover.

"These results are in line with our expectations at the time our merger was announced and mean that we are delivering anticipated synergy benefits."

“Despite tough conditions in some of our markets, all our divisions have increased their profits whilst we have increased our share of the EU healthcare distribution market to 16 per cent.”

In 1998 we pursued two main priorities: driving the expected performance from our underlying business units and expanding and developing the Group. We have enjoyed success on both fronts. Despite tough conditions in some of our markets, all our divisions have increased their profits whilst we have increased our share of the EU healthcare distribution market to 16 per cent. The maintenance and increase of operating margins is the main target of our businesses, although we respond tactically to local market conditions where this is required to maintain our customer base. However, wholesaling operating margins are inherently exposed to the actions which governments take to constrain the steady long-term growth in the cost of drug therapy. To offset this pressure on operating margins, we seek to raise our efficiencies by the relentless pursuit of lower costs and the increased use of logistics expertise, and to increase our market share through the provision of innovative services.

In 1998 we grew comparable operating margins in UK Retailing and in France, held margins level in Portugal and in UK Wholesaling under very difficult market conditions. In Italy our operating margin at 2.60 per cent compared with 3.20 per cent in 1997 reflected both a Government cut in the wholesalers’ allowable gross margin and a deliberate policy by us to trade off higher discounts against lower debtor days. This showed through as a 15 per cent increase in net earnings for ASI.

Overall, we maintained the comparable Group operating margin broadly level at 2.6 per cent despite the pressures in Italy. In all our businesses we achieved a further improvement in cost ratios in 1998. We aim to be the lowest cost full line wholesaler in each of our markets, offering the most attractive range of value added services.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Chief executive's review

Group Development

We have made significant progress in developing the Group. Our excellent Moss Chemists management team, led by Barry Andrews, has continued to find and acquire high quality retail pharmacies and now operates a chain of 571 outlets. Our two wholesale acquisitions in Italy mean that we now distribute 25 per cent of that market, considerably extending our leading position. Ornella Barra and her colleagues in Italy have also bought in almost all of the minorities in the operating companies, improving the potential for further rationalisation of warehouses. In France, Antonin De Bono has rapidly merged the management structures of the two operating companies previously working as separate entities, and has begun to rationalise the warehouse network, closing 5 sites in 1998. Our successful offer for Safa Galenica, in Spain, has given us 86 per cent of that company, which is an excellent platform for growth in Europe's fifth largest pharmaceutical market. In the UK, Chris Etherington and his team have launched a ground-breaking initiative to help our pharmacy customers develop added value services in conjunction with a wider role in healthcare provision. We have pushed ahead our pre-wholesaling efforts, winning new contracts in all territories, except France where we are planning our entry. In Portugal, which was the first joint business between the two merger partners, we have grown our market share by 2.5 per cent. These activities, together with smaller acquisitions in France, Portugal and Spain, mean that all our operating subsidiaries have expanded and developed their businesses in 1998. We intend to identify further niche acquisitions to add to our existing businesses in 1999.

Outlook

We will continue to expand in 1999 and beyond, particularly in territories with a fragmented wholesale sector. We also aim to continue to drive forward our operational efficiencies. This remains a priority. In France, we expect to make further significant progress following the merger of our two operating companies. ASI in Italy has pursued the continuous rationalisation of its network, recently closing two warehouses; and in Spain and Portugal, both our businesses are rationalising as they expand warehouse networks. At the beginning of 1999 we made a change to our executive management structure to align it with our priorities. Ornella Barra has taken over responsibility for Spain and Portugal, whilst continuing as President of ASI. Patrizio d'Ambrogi, previously Logistics Director, has been promoted to Amministratore Delegato of ASI. Antonin De Bono will be concentrating on the critical task of integrating our two French wholesaling businesses and improving operating margins, whilst retaining responsibility for our associated companies in Greece and Morocco. Our senior executive team and business unit teams settled down remarkably quickly and in 1998 we suffered no losses amongst our top group of managers, numbering some 80 executives across the Group. With sound and stable management and growing markets, we have an excellent base from which to expand further across Europe.

"We aim to be the lowest cost full line wholesaler in each of our markets, offering the most attractive range of value added services."

Alliance UniChem understand the reliance placed on us by the pharmaceutical industry to deliver a fast, efficient service. This is demonstrated by consistent availability of product and deliveries that arrive on schedule.

Business Profile

The wholesale pharmaceutical market in France is the second largest in the European Union and is dominated by two main national wholesalers. Although the per capita consumption of pharmaceuticals is the highest in Europe, average medicine prices are low, with a relatively low penetration of generics. Alliance Santé France was formed by the combination of two French wholesaling companies, IFP and ERPI, and is the second largest wholesaler in France, with a market share of about 30 per cent. ASF provides a full line wholesaling service, together with a comprehensive range of added value services, from its warehouse network throughout France.

Through a branch network of 61 warehouses, ASF serves 15,000 of France's 22,500 retail pharmacies with two to five daily deliveries from a product range of 25,000 medicines and parapharmaceuticals. The principal administrative centres of the business are at Gennevilliers and Châteauroux and ASF employs 3,590 staff (full time equivalents). Currently 25 warehouses operate automated picking facilities and 3 hold central stocks.

The French division comprises the following businesses:-

** Alliance Santé - pharmaceutical wholesaling, France and Corsica*

** Paramedimat, Locapharm and subsidiaries - provision of home healthcare services through pharmacist clients*

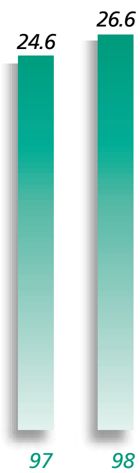
** RESIP, ASBI and subsidiaries - pharmacy systems and database services to pharmacists and physicians*

** Elvetec and subsidiaries - chemical analysis and laboratory equipment*

** Optipharm – purchasing company jointly owned with pharmacy customers*

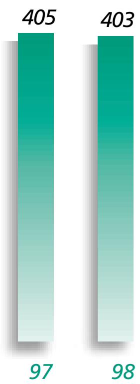
Performance

ASF achieved strong sales performance, with an 8.3 per cent increase in total turnover to FFr 26.6 billion (£2.7 billion / €4.0 billion), including a 7.9 per cent increase in like-for-like turnover of prescription medicines, partly reflecting the return of a proportion of direct sales through the wholesale channel. This compares with a stronger than anticipated increase of 7.8 per cent in the French market fuelled by a higher incidence of illness and an increase in the average price of medicines. Because of the special healthcare tax, 'ACOSS', wholesalers pay escalating rates of tax as market growth rates increase. This removes any profit contribution from higher market growth and has a dilutive effect on operating margins when strong market growth is experienced. In 1998 the maximum rate of ACOSS was payable in three of the four quarters of the year. On a net basis, the rise in ACOSS costs in 1998 has exceeded the profit contribution from extra volume. The French Government is therefore now penalising wholesalers for market growth which is beyond their control.



Turnover for the French division - FFr bn.

Compared to 1997, we have also incurred securitisation charges in respect of our debt factoring programme. This, together with the rise in the average ACOSS rate would have accounted for a reduction in operating margins of 0.58 per cent. However, this margin dilution has been largely offset by a reduction in operating costs and by synergy benefits. As a result, the operating margin only fell to 1.51 per cent from 1.65 per cent last year, and operating profits were broadly level at FFr 403 million (£41.1 million / €60.9 million).



Operating profit for the French division - FFr m.

Our reputation within the industry for innovation in the delivery of support and service solutions for pharmacy is one of which we can feel proud.


PHARMACIE
PARA
Alliance Santé


Sherwood
Sherwood

The pressure on healthcare costs from the French authorities is likely to be maintained, however ASF will continue to develop its commercial network while controlling costs and improving productivity.

Markets

Following the stronger than expected growth experienced in 1998, the government of France is attempting to take further measures to constrain the escalating costs of the drugs bill. These measures include initiatives to increase the penetration of generics, by allowing generic substitution by pharmacists; a requirement for the single registration of patients with doctors' and pharmacists' practices; and the incentivisation of doctors to constrain spending. The latest proposals are under discussion between the various interested parties, including the doctors' professional bodies, and the precise impact such initiatives will have on the market remains unclear.

Customer Relations

ASF maintains a full range of value added services for its pharmacy customers, many offered as part of the 'Alphega' programme. The recruitment of customers into this scheme continued in 1998, providing pharmacists with access to point of sale technology, interactive 'touch screen' terminals for patients enquiring about medicines, a medicines helpline and a range of own label products. These services give valuable opportunities to our pharmacy customers to expand their role in providing healthcare to their local communities and to improve their profitability. The development and expansion of Alphega is a major priority for our French business. ASF also expanded its homecare activities, which delivers superior services to patients by working closely with our pharmacy customers.

Operations

1998 was a year of significant change for ASF, with the merging of the two previously separate management teams of IFP and ERPI and an acceleration in our restructuring programme. In 1998 this involved closing 5 depots, opening one new large automated site, automating two existing depots and putting in place the necessary preparations for further rationalisation in 1999 and 2000. There was also considerable change in ASF's related healthcare businesses. We disposed of Mayzaud, our orthopaedic footwear manufacturer, towards the end of the year, bought out the minority shareholders in our scientific instruments distribution business and made some small acquisitions in our homecare division and our information services division. We are already the leading provider of pharmacy software and medical databases in France and see significant opportunities for further growth in this sector to benefit customers throughout the Group.

Outlook

Given the measures being considered by the Government in France, we believe the outlook for market growth in pharmaceuticals is in the range 2 to 4 per cent. Despite this relatively low market growth and the presence of special healthcare taxes, we expect to increase operating margins. The merger of the operations of IFP and ERPI, involving the rationalisation of depots and administrative functions, will be carefully managed with consideration for the needs of our employees. Resulting cost reductions and efficiency gains, together with expansion in added value services for our clients will allow us to improve operating margins.

The Group's strategy has always been oriented to building strong relations with our partners along the distribution chain; both manufacturers and pharmacies.


HELPS YOU
STOP SMOKING
Beechams
Flu-Plus
Caplets
24
L30723
2529014
BEECHAMS FLU PLUS CAPLETS
Maxolon SR
15 mg

Business Profile

The UK pharmaceuticals market is the fourth largest in Europe and one of the most mature, with two leading national wholesalers, and a high penetration of generics. UniChem is the leading wholesaler to independent pharmacies in the UK and the most profitable national wholesaler. It offers a high level of service, with a twice daily, extremely reliable delivery service to our pharmacy customers. It is also leading the development of added value services to pharmacies, including a range of financial support services, product and merchandising programmes, and ethical compliance and data services.

The division comprises eight businesses:-

** Alliance UniChem Plc – wholesale (until July 1998) and holding company thereafter.*

** UniChem - wholesaling of medicines and OTCs to retail and hospital pharmacies.*

** Pharmacy Alliance – a virtual pharmacy chain for medicines management.*

** UDG (associate company) - pre-wholesaling services for healthcare manufacturers.*

** OTC Direct - pharmaceutical trading.*

** Hospital Management & Supplies - wholesaling of medical and surgical consumables to hospitals.*

** Selles Medical - provision of occupational health supplies to industry.*

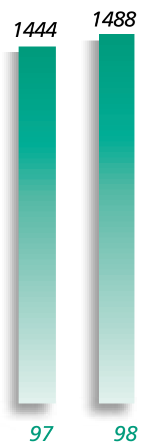
** Eldon Laboratories - manufacturing of special pharmaceutical preparations.*

** UniVision – mail order prescription spectacles for pharmacy customers.*

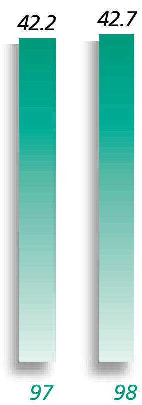
These businesses serve 5,500 retail pharmacies out of a total in the UK of 12,600, and all of the UK's 600 hospitals. UniChem operates through 11 warehouses throughout the UK and a complex of specialised facilities at South Normanton which handle OTC toiletries, UDG pre-wholesaling activities and HM&S's medical and surgical goods. A total of 3,100 people work in these UK businesses.

Performance

The division has continued to win new customer accounts due to its superior service levels, recording a net gain in accounts served and increasing its turnover to £1,488.4 million / €2,204.3 million. However, its like-for-like growth in medical sales of 3.0 per cent was behind estimated wholesale market growth of 4.5 per cent, reflecting the rapid growth of the parallel import ('PI') sector of the market. This sector has traditionally been dominated by short line wholesalers, who also trade generics and a limited range of branded ethicals, usually from 'grey' market sources. The strength of sterling has given these operators an opportunity to expand, using exceptionally high PI margins and additional product availability, to grow market share across all product categories. This growth of the shortliners' market share has been at the expense of the full line wholesalers. UniChem, with a third of the full line market, has seen a corresponding reduction in market share.



Turnover for UK Wholesale division - £m.



Operating profit for UK Wholesale division - £m.

Innovation in supply chain systems is a vital element in enhancing customer service.

The fall of sterling towards the end of 1998 began to dampen the PI market a little, and the division launched a number of initiatives which have begun to increase its share of the PI sector and win back turnover in the related product categories traded by shortliners. Our commitment, however, is to remain a high quality, full line wholesaler.

The division absorbed a net charge of £0.3 million, representing the increased costs of running the larger Alliance UniChem Group, less its share of synergy benefits. Other divisions benefitted from a net gain. Despite these costs, operating profits, at £42.7 million, were ahead of last year. A rigorous programme of cost reductions initiated by divisional management helped to offset the impact on operating margin of this net charge and of the slower sales growth, which remained broadly level at 2.87 per cent compared to 2.92 per cent last year.

Markets

The main feature of the UK wholesale market for prescription pharmaceuticals in 1998 was much slower market growth. This was caused by price deflation at the wholesale level due to growth of the parallel import sector, price reductions on branded products under threat from parallel imports, and further penetration of generics. In the OTC market, medicines again outperformed toiletries, despite poor influenza and hay fever seasons in 1998. The market for OTC medicines grew by 2 per cent, and our sales of this category were up by 5 per cent. There are some signs that the high level of competition in our markets is affecting other wholesalers, with the sale of two regional wholesalers to a German wholesaler towards the end of 1998.

In the hospital pharmaceutical sector our turnover grew by 9 per cent in a market growing at an estimated 3 per cent. We expect that our growth rates in this market will return to more normal levels now that we have won distribution contracts with all the important manufacturers. In the medical and surgical market our turnover fell slightly as one large manufacturer switched into direct distribution, although we increased our operating profits.

Our pre-wholesale business continues to lead the UK market, and we now have 28 contracts with a value of product handled at £750 million, 14 per cent of the UK market. The facility at South Normanton still has 20 per cent spare capacity, and we are working towards further contract gains in 1999.

Customer Relations

The division maintained a full range of services and launched a series of marketing initiatives in 1998 aimed at improving our customers' businesses, including financial seminars, low cost banking services and utility supplies, and product support programmes. Our loan guarantee programme now covers 1,285 pharmacies, with over 200 acquisitions and expansions supported during the year.

Our annual customer survey carried out by Taylor Nelson confirmed that UniChem has improved its image in all areas of customer service. This has been enhanced during 1998 through a number of initiatives including the launch of an intranet service which allows customers to view the latest product offers and to place orders.

Pharmacy Alliance was launched in June 1998. This is a joint venture between UniChem's independent customers and Moss Chemists, designed to produce a range of patient-focussed medicine management services in conjunction with manufacturers and healthcare purchasers. By the end of 1998 Pharmacy Alliance comprised 702 pharmacies making it the largest network of specialist pharmaceutical service providers in the UK.

Operations

We have continued to raise our operational efficiencies and have achieved a further improvement in cost ratios in 1998 through measures such as additional automation and bar code picking, which have improved the speed and accuracy of order assembly.

Prospects

Despite continuously improving cost ratios in our UK wholesaling business, the growth of operating margins this year was constrained by the unexpected price deflation caused mainly by the strength of sterling. The long term drivers of market growth remain positive, with some prospect of a reduction in the PI market improving the overall growth rates we expect to see for 1999.

We await the outcome of the review of the Pharmaceutical Price Regulation Scheme, which will define the future pricing structure for the industry. The PPRS has served the UK well over the last several years by encouraging the development of the lowest cost delivery system for pharmaceuticals in Europe. The low costs of this system to payors, paired with greater efficiency and responsiveness, mean that we do not anticipate any worsening of the market conditions in the future for wholesalers, although we may see some downward pressure on drug prices from the UK Government. Within our businesses we have further plans to improve cost efficiency, linked with innovation in our marketing schemes. We believe that this remains our best strategy for achieving our long term trend of improving operating margins.

"Within our businesses we have further plans to improve cost efficiency, linked with innovation in our marketing schemes."

"Moss Chemists is the third largest chemists chain in the UK, operating 571 units with a strong focus on community locations close to, or situated in, medical centres."

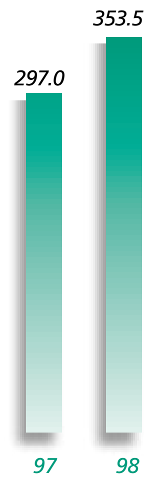
Business Profile

The UK is the only European country where significant chains of retail pharmacies have developed. In the UK, multiples now own 37 per cent of all outlets, up from 27 per cent in 1990. Moss Chemists is the third largest chemists chain in the UK, operating 571 units with a strong focus on community locations close to, or situated in, medical centres. Moss also has 66 units located in superstores. Moss Chemists' trading strategy involves concentrating on the development of healthcare, giving the highest standards of advice, as part of the Primary Healthcare Team, providing both prescription and OTC medicines to patients.

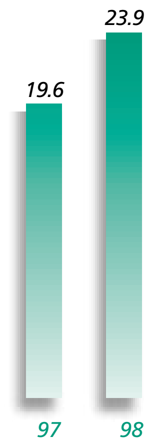
Moss' focus on healthcare, and the development of the pharmacist as the medicines advisor, means that some 87 per cent of its sales are in prescription and OTC medicines. The head office of Moss Chemists is at Feltham, Middlesex although the vast majority of our 4,730 employees (2,860 full time equivalents) are located in the pharmacies.

Performance

The division again achieved strong all round performance. Total sales, at £353.5 million (€523.5 million), were up by 19 per cent over last year with like-for-like sales for NHS business up by 6.5 per cent, just ahead of estimated market growth. Growth from pharmacies acquired last year, and the acquisition of 59 pharmacies in 1998 contributed 13.2 per cent of sales growth. Operating margins were under pressure from an increase of 0.7 per cent in the discount recovery scale by the UK Government, and the impact of high wage inflation for pharmacists. This latter factor is due to an increasing shortage of pharmacists which is likely to worsen in 2001 following the change in pharmacy degree courses in England from three years to four. Despite these pressures on costs and margins, Moss Chemists was able to lift its operating margins to 6.76 per cent from 6.60 per cent in 1997. This meant that on sales up by 19 per cent, operating profits grew by 22 per cent to £23.9 million (€35.4 million).



Turnover for the Retail division - £m.



Operating profit for the Retail division - £m.

Markets

The NHS market, including pharmacists' fees, grew by an estimated 6.4 per cent, with the sales impact of the recent influenza epidemic falling into 1999. For OTC products the retail pharmacy market again showed some small growth despite a poor summer.

We value our customers and believe this, together with teamwork, holds the key to the Group's success and continued progress.


ARTHRITIS
MOSS
CHEMISTS
good advice is

Again, OTC medicines were the strongest category, with growth of 2 per cent in Pharmacy only medicines - products which can only be sold in a retail pharmacy and which are the focus of our OTC retail offer. Our growth in this category was 4 per cent, boosted by new point of sale material, window displays and micro marketing analyses at branch level.

The abolition of the NHS internal market, and the introduction of Primary Care Groups with responsibility for devolved budgets for some services, will provide further opportunities for pharmacists to expand their role. We continue to expand our range of healthcare services provided to the community, including prescription collection and delivery, needle exchange schemes and specialist training services to residential homes.

The issue of Resale Price Maintenance on medicines remains unresolved and is unlikely to be decided by the courts until 2000. Were RPM to be abolished for any categories of products, this would be likely to favour chains which can exercise buying and brand power.

However, as firm supporters of community pharmacy we remain committed to the maintenance of RPM in its present form to prevent any degradation of the provision of pharmaceutical services to the public throughout the UK.

Portfolio

We acquired 59 pharmacies during the year, sold 7 units and closed 1 shop. This together with 7 acquisitions and 2 closures since the end of 1998 brings the total shops trading at the end of March up to 571, compared to 566 trading at the year end.

The long term trend of prices for acquisition of retail pharmacies remains downwards, although we withdrew from some transactions towards the end of 1998 where uneconomic prices were being bid by other operators. We expect to maintain our expansion programme since we are seeing a greater number of instances where pharmacists have decided to leave the profession before their normal expected retirement date.

Outlook

Our trading stance and operational strategies continue to allow us to win market share in the UK, further assisted by our ability to acquire good quality retail pharmacies at acceptable prices. The success of these strategies has flowed through into a steadily increasing operating margin. We are confident of further margin gains; however, margin pressure from the UK Department of Health is likely to mean that our rate of growth in operating margin will reduce. The discount clawback for 1999 is set to rise by a further 2 per cent, further increasing the pressure on independent pharmacies. Our own actions to achieve scale economies and raise efficiency will offset these pressures. We are actively exploring opportunities to utilise the skills and experience built up in the successful Moss Chemists format in other European countries where we can bring benefits to our pharmacy customers and develop our retail business.

Business Profile

The Italian wholesale pharmaceutical market, the third largest in Europe, is in a phase of consolidation, with a few companies attempting to build strong positions. The market currently comprises 295 depots operated by 194 companies, with only 4 of these developing a multi-regional network. ASI is the largest wholesaler controlling 25 per cent market share through its subsidiaries and associates, and is the only operator with national coverage. This provides a network of 58 warehouses, ensuring a reliable and rapid service is available to its clients. ASI serves 10,500 pharmacies out of the total in Italy of 15,500. At the retail level, Italian pharmacies form a vital link in the healthcare chain, with a regulated density of 5,000 people per pharmacy in urban areas and an average of 3,500 per pharmacy overall. Pharmacists rely on ASI as their professional partner, ensuring reliable and regular supply of medicines, parapharmaceuticals and OTCs, and providing up to date help and advice.

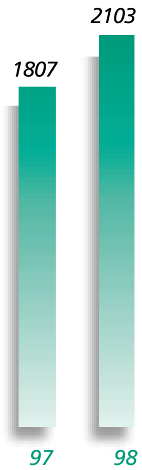
The Alleanza Salute Italia group comprises companies involved in the wholesaling of medicines and OTCs to retail pharmacies together with service companies providing systems and database services to retail pharmacies. ASI employs 955 employees (full time equivalents) and has offices in Lavagna, Rome and Naples. ASI has also begun pre-wholesaling activities with a major distribution contract for Pharmacia & Upjohn products in Italy.

Performance

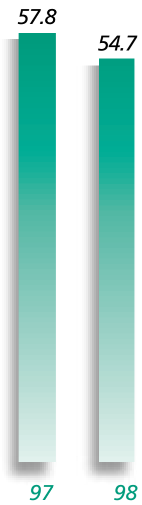
ASI outperformed the market, achieving consolidated turnover of L.2,103.3 billion (£729.3 million / €1,080.1 million), up by 16.4 per cent compared with last year. Like-for-like sales growth was 14.9 per cent, mainly as a result of new marketing campaigns leading to account gains.

Continuing strong competition, together with the impact of the marketing campaigns, has caused a small rise in discount rates, compensated by a reduction in trade credit extended to customers. Cost ratios have also improved as a result of continuous management action to raise efficiencies. However, changes to wholesalers' allowable gross margins introduced in 1997 have, as expected, introduced a structural reduction in operating margins. Taken together, these factors have resulted in ASI achieving an operating margin of 2.60 per cent compared with 3.20 per cent for 1997, giving operating profits of L.54.7 billion (£18.9 million / €28.0 million). Also, the strategy to trade off discounts with trade credit has reduced working capital by a net 10 days.

This, together with gains in other financial income and improved borrowing rates and margins, has improved net interest costs, and as a result net earnings were up by 15 per cent.



Turnover for the Italian division - ITL bn.



Operating profit for the Italian division - ITL bn.

"Alleanza Salute Italia is the largest Italian wholesaler controlling 25 per cent market share through its subsidiaries and associates, and is the only operator with national coverage."

Markets

The wholesale market in Italy in 1998 grew by an estimated 8.5 per cent, some 3.5 per cent ahead of our forecasts at the start of the year. Only a small element of this increase comes from growth in volumes, with the remainder attributable to price rises and the introduction of higher priced products, including the impact of an agreement reached with the European Commission under which the Italian authorities will bring their prices up to average European prices over a six year period. If repeated in 1999, this rate of market growth is likely to result in an overspend of the Italian Health Ministry's drug budget. Such overspends occur frequently and the authorities are currently examining a range of options to reduce costs. These include price cuts on certain products, changes to the patient prescription charge, and a possible industry clawback mechanism. This could involve the whole healthcare industry, including distributors, being expected to fund a part of these overspends, although precise arrangements will not be considered until the second half of 1999.

Customer Relations

In support of our continuing objective to increase market share, ASI provides a wide range of additional services and assistance to our customers. This includes advanced pharmacy systems, telecommunications and technology consulting services, a strong range of own label OTC products and pharmaceutical databases. The presence of many of our pharmacy clients among the shareholder base of our operating companies ensures a strong and close relationship with our customers.

Operations

As part of the Unifarma transaction, three ASI warehouses were transferred to our new associate company in a phased programme in the second half year, with a further warehouse to be transferred in 1999. The acquisition of Galenitalia has enabled ASI to absorb a new warehouse into the depot structure in the Rome area and we have recently closed an existing Rome depot. The purchase of minority interests has given ASI full ownership of 9 of its warehouses where previously there had been an element of external ownership. This will facilitate the introduction of twinning and other logistics best practice, improving the prospects for further improvements in cost ratios.

Outlook

Growth in the market in 1999 is expected to reduce slightly to about 5 per cent and ASI expects to continue to increase its market share. A programme which has been in place for several years to rationalise the depot numbers, whilst maintaining the high quality of customer service, will yield improvements in profits. The use of automated picking is currently confined to one warehouse at Poggibonsi and two in Unifarma, but plans have been approved for further automation as warehouse expansion and refurbishment takes place.

Alliance UniChem Portuguesa

Chief executive's review

Business Profile

Our Portuguese business is the largest wholesaler in the country with a market share of 21 per cent, and the only one with full national coverage. AUP's head office is in Lisbon, with an administrative office based in Porto. We serve 1,700 of the 2,500 pharmacies from 11 warehouses in which 430 people are employed. The total pharmaceutical market amounts to just over £1 billion and has shown faster than average per capita growth since Portugal joined the European Union.

Performance

Market growth in 1998 at 6.0 per cent was in line with our expectations, with our own sales growing in total by 16.2 per cent to Esc.68.1 billion (£227.9 million / €337.5 million). Acquisitions of small regional wholesalers contributed 4.7 per cent growth, and like-for-like turnover increased by 11.5 per cent, mainly as a result of superior service levels. Despite incurring some limited set-up costs for automation projects, the operating margin in Portugal remained broadly level at 2.21 per cent. We expect that greater business volume and merger synergies will continue the long term trend of improving operating margins. Operating profits in Portugal grew by 14 per cent to Esc.1,503 million (£5.0 million / €7.4 million).

Markets

Increased prescription volumes contributed 4 per cent to the total market growth, with 2 per cent coming from a price rise allowed by the Portuguese authorities following the previous two year freeze on prices. The Portuguese government has introduced legislation to establish a new reference pricing system for 1999 which would limit product prices to a maximum of 20 per cent above the lowest priced product in any therapeutic category having a market share of 10 per cent or greater.

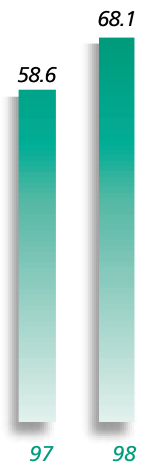
However, manufacturers are resisting this new system, referring to the current agreement on pharmaceutical prices which does not expire until the end of 1999.

Operations

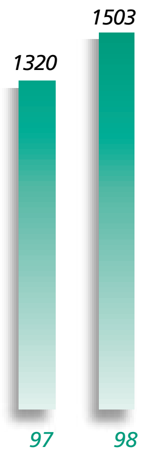
Our main Porto warehouse was automated in August 1998, enabling the closure of two smaller warehouses in the Porto area in early 1999. Currently 65 per cent of the Porto volumes are processed using the new automation. We plan to repeat this strategy in the Lisbon area, having recently purchased sufficient extra space adjacent to our main Lisbon warehouse to accommodate automation equipment. In 1998 we also acquired a new warehouse in Faro, in the Algarve, to replace the existing inadequate depot.

Outlook

Investments in automation will help continue the improvement in cost ratios, together with the gearing effect of increased sales volumes. This will be further boosted by our recent entry into the hospital distribution sector. Until now, entry into this sector has been difficult because of the lengthy payment delays normally experienced. Our contracts with manufacturers are on an agency basis, avoiding this problem. We expect that these initiatives will enable us to continue the long term growth of our operating margins. However, in 1999 the rationalisation of our activities in the Lisbon and Porto areas will mean that we will incur some reorganisation costs and we expect a temporary slight reduction in operating margins as a result.



Turnover for the Portuguese division - PTE bn.



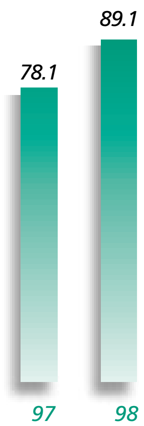
Operating profit for the Portuguese division - PTE m.

Business Profile

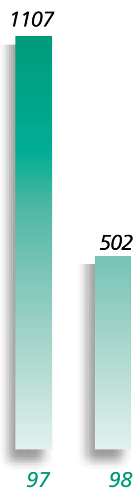
Safa Galenica, in which we now control 86 per cent of equity, is the second largest wholesaler in the fragmented but rapidly evolving Spanish pharmaceutical distribution market which ranks fifth in Europe after the UK. The evolution of primary care is likely to promote the role of pharmacies in Spain and drug spending is likely to grow towards European averages. Safa enjoys a very strong image amongst healthcare professionals and is known not only for its reliable distribution activities but also for the development of services which help clients diversify their own healthcare activities. Safa has 11 per cent market share serving 7,200 of the 18,300 pharmacies in Spain, operating, at the end of 1998, with 20 warehouses throughout central and northern Spain.

Performance

Sales for Safa in 1998 were Ptas 89.1 billion (£358.8 million / €531.4 million), an increase of 14.1 per cent on 1997 in a market growing by 8.8 per cent. Operating profits were Ptas 502 million (£2.0 million / €3.0 million), after charging restructuring costs associated with Safa's rapid expansion programme, giving an operating margin of 0.56 per cent. Results for Safa up to the end of August are included as an associate since we had a 36 per cent share of Safa's equity. However, following the success of our offer to Safa shareholders, results for Safa are fully consolidated for the last four months of the year.



Turnover for the Spanish division - PTA bn.



Operating profit for the Spanish division - PTA m.

Markets

The price and reimbursement regime in Spain has not changed in 1998. However, market growth increased to 8.8 per cent in 1998 from 5.0 per cent in the previous year. This has prompted the Spanish authorities to initiate a reference pricing project, with the aim of stimulating the use of generics. Competition in the market remains tough and is likely to increase the consolidation of the distribution sector. Further market pressures were caused by the introduction by Glaxo of a dual pricing structure for domestic and export volumes. Although successfully challenged in the European courts towards the end of the year, supply shortages were experienced for part of the year.

Operations

Safa continued its rapid expansion and development programme in 1998, with three warehouse relocations, one new warehouse opening and one acquisition of a small regional wholesaler. In addition, a minority interest has been purchased in a wholesaler operating in the Canary Islands and two new warehouses are under construction. These developments have enabled us to close three small warehouses in early 1999 and to pursue our plan to establish an efficient network covering all of Spain.

Outlook

We expect to invest further in Spain to achieve full national coverage. The wholesale sector is consolidating, giving significant opportunities to grow by acquisition in addition to our options for opening new warehouses. We also plan to invest in restructuring the business. This strategy is likely to mean that operating profits in Safa are unlikely to grow significantly in the next two years.

Greece

The Greek pharmaceutical distribution market is very fragmented, with 147 wholesalers serving 7,900 pharmacies. Our associate company, Lavipharm Alliance Santé, in which we have a 40 per cent stake, distributes and sells ethical and OTC medicines and provides logistical, scientific and information services to pharmacists, wholesalers and hospitals. This is a young company, enjoying rapid sales growth, and is now the largest privately owned wholesaler, with only one co-operative grouping having a larger market share. With 950 clients and Dr.18.9 billion (£38.6 million / €57.2 million) turnover in 1998, LAS has 6.2 per cent of the market. This represents a turnover increase of 62 per cent, in a market for prescription pharmaceuticals which fell by 7 per cent. In 1998 LAS expanded, acquiring majority holdings in two regional wholesalers and opening one new depot. We anticipate further sales growth and market share gains from our joint venture with Lavipharm.

Morocco

Although currently low, per capita spend on healthcare in Morocco is growing fast and is potentially high since the government plans to raise reimbursement levels for medicines to 50 per cent through its plans for health insurance. Our associate, Sophasud in which we have a 35 per cent share, is the largest wholesaler in the south of the country and the third largest in the country as a whole. It also has minority stakes in three other Moroccan wholesalers.

"With sound and stable management and growing markets, we have an excellent base from which to expand further across Europe."

Jeff Harris

Jeff Harris
Chief Executive
23 March 1999

European Markets

Stefano Pessina
Deputy Chairman

Alliance UniChem already has a major presence in European healthcare markets. Our ability to maintain and develop our business depends on our skill in understanding the policies and requirements of pharmacists, governments, manufacturers and regulators, all of whom are our natural partners. In this review I comment on the major market trends we have seen across Europe, and discuss our position in a rapidly consolidating and vital sector.

"Alliance UniChem's spread of interests in different markets gives us improved resilience to the actions of any individual European government."

Wholesalers in Europe are well used to managing two opposing forces in their markets; increasing per capita drug spending and attempts by national governments to alleviate the cost burden on taxpayers. Although we are some time away from a single European drug market, we are already seeing common trends in each of our markets. Manufacturers are gradually harmonising product ranges and prices, the European Medicines Agency is facilitating standardised products and packs, and the launch of the Euro has underpinned this process. Most Governments are now using mechanisms to reclaim monies directly from companies in the healthcare sector so as partially to protect themselves against the ever rising costs of drug usage. In the UK and Italy, for example, this takes the form of a discount or margin clawback on retail pharmacy, whereas in France distributors pay the ACOSS tax which is linked to market growth of drugs. Whatever the mechanism, wholesalers have always needed to manage their businesses so as to achieve satisfactory performance regardless of these actions by Governments.

The common actions by different national governments will probably continue to produce a convergence of market growth rates. Average growth for all our markets was 6 per cent, with the Spanish market the highest at 8.8 per cent and the UK wholesale market the lowest at 4.5 per cent. Even this low rate of growth in the UK market is something of an exception – the rate of growth in the UK retail pharmacy sector was 6.4 per cent, with unprecedented price deflation at the wholesale level causing the dislocation. Alliance UniChem's spread of interests in different markets gives us improved resilience to the actions of any individual European government.

"We believe it is our role to search for and develop new services that are of value to our manufacturer and pharmacy partners."

A further common trend is the gradual liberalisation of pharmacy ownership. Multiple chains are currently permitted in the UK, Republic of Ireland, Switzerland and Holland. Regulatory changes permitting such chains are under consideration, or have been formally proposed, in a number of other European countries including Portugal and Scandinavia. Our Group's extensive skills and experience in the management of multiple pharmacy make us well positioned to exploit this development, whilst allowing us to share some of those management skills with our independent pharmacy customers.

The European Commission has established working groups, comprising industry and governmental representatives, to examine the issues involved in the creation of a single European market for pharmaceuticals. We are represented on these groups through GIRP, the European wholesalers' federation.

Consolidation of the distribution sector is an inevitable consequence of the drive towards more homogeneous pharmaceutical markets. More efficient and lower cost distribution, at both a national and a European level, will be a natural result of this consolidation. We believe that groups, like ourselves, with pre-wholesaling, wholesaling and pharmacy retailing expertise, will be the most attractive partners for unaligned national wholesalers. This has been demonstrated in 1998 by our expansion in Spain, Italy and Portugal. Pan-European groups with this spread of skills will be better able to meet the demands of the manufacturers in this integrated market, to continue to add value to pharmacists' businesses and to benefit patients.

To strengthen this positioning, we believe it is our role to search for and develop new services that are of value to our manufacturer and pharmacy partners. This has involved us developing businesses in related healthcare sectors such as information services, homecare and pre-wholesaling. We intend to pursue further developments in this direction. We also aim to continue our geographic expansion, both within and beyond our current territories. We are studying carefully the rapid development of markets in eastern Europe and would be prepared to invest if market conditions and risk levels are satisfactory.

We are confident that we have the right strategies, competences and resources to continue the development of the Alliance UniChem Group.

Stefano Pessina
Deputy Chairman
23 March 1999

Financial review

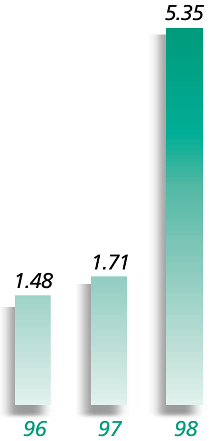
Geoff Cooper
Finance Director

Group Results

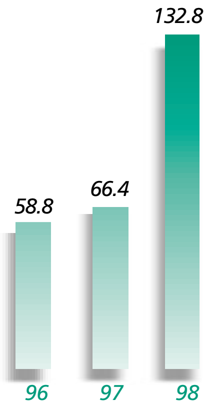
The results for 1998 represent the first year of trading for the combined UniChem and Alliance Santé businesses. Comparisons in the text with 1997 are, unless stated, made using pro-forma figures for the merged Group published with the 1997 UniChem results and use 1997 exchange rates for both years.

Group turnover increased by 11 per cent and comparable Group operating profits by 8 per cent. After allowing for securitisation charges, the reclassification of associates' interest costs and at actual average exchange rates, net interest costs decreased by £4.3 million and interest cover was 5.4 times (1997 pro-forma: 3.9 times). This reduction in interest costs reflects a fall in base rates across Europe, financing synergies in the form of better borrowing margins, and lower average borrowings from improved working capital management, less the financing of working capital in acquired businesses. Profit before tax increased by 15 per cent and profits after tax grew by 16 per cent. The overall tax rate for 1998 was 33.8 per cent. Diluted earnings per share increased by 10 per cent, and the 10 per cent increase in the full year dividend to 10.65 pence per share gives dividend cover of 2.3 times, level with last year on a per share basis.

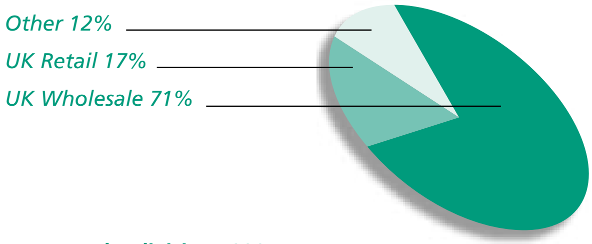
Total turnover for all the divisions - £bn.



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



Turnover by division 1997



Turnover by division 1998

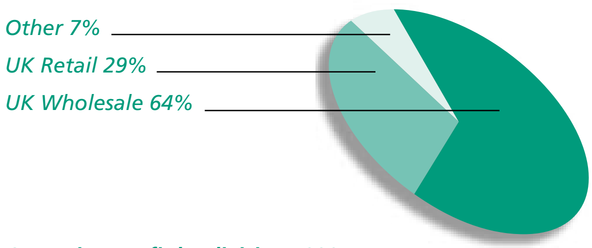
Cash Flow

With continuing strong cash flow from our core businesses, average borrowings remained broadly level with 1997 through most of 1998, but increased during the fourth quarter to end the year with net debt of £493 million (€730 million), mainly due to acquisitions and the full consolidation of Safa. Average net working capital investment is about 11 per cent of sales and organic sales growth would have required around £35 million of extra working capital investment. However, the growth in working capital only consumed £23 million (€34 million). The net cash outflow from tax and interest payments and dividends was in line with our expectations, giving free cash flow of £57 million (€84 million). We spent a net £33 million (€49 million) on capital expenditure, of which £14 million (€21 million) relates to expansion of our warehouse network across Europe. Expenditure on acquisitions in the year was £89 million (€132 million). The majority of this outflow fell into the second half-year, and as a result year end gearing was 126 per cent, level with 1997.

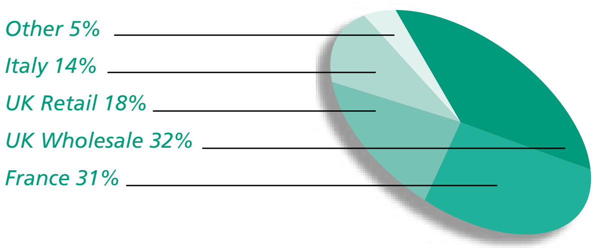
Receivables Securitisation

The wholesale market in France requires a higher level of working capital investment since pharmacists have traditionally used their wholesaler as a source of funds. However, ASF experiences low bad debt levels, since cashflows are effectively underwritten by the French Government and pharmacy values are protected since pharmacy numbers are generally controlled. The high quality of pharmacy receivables has enabled Alliance Santé France to set up a securitisation programme through an A1 / P1 rated conduit which, subject to a retention, means the receivables are sold on a non-recourse basis. At the year end, the non-recourse value of receivables outstanding amounted to FFr 1,800 million (£193.8 million / €287.0 million). The effect of the securitisation programme is to reduce debtors and borrowings by the non-recourse amount and to reduce interest charges and increase operating costs by an equal amount. The retention amount is included within trade debtors.

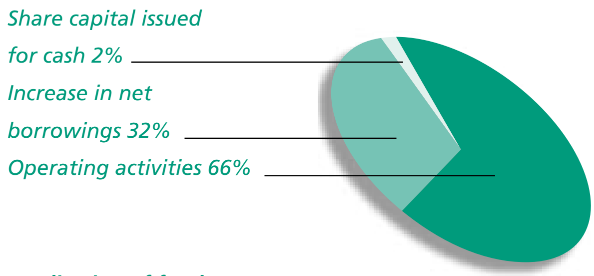
Operating profit by division 1997



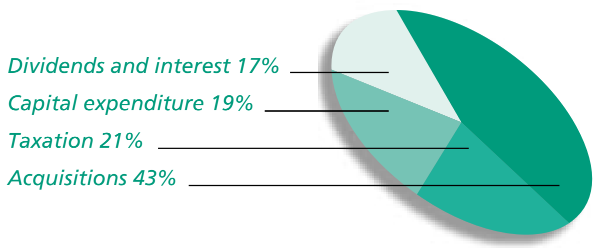
Operating profit by division 1998



Sources of funding



Application of funds



Financial review

Funding

A major review of treasury policies and funding requirements was completed in 1998 which recommended actions to ensure the longer term financing needs of the Group are met. So far, two significant recommendations have been implemented.

We have established some £290 million (€429 million) of both short and medium term committed facilities with a "club" of nine banks, representing those with whom we have key relationships in all but one of our major operating territories.

We also successfully issued US$170 million of 9 and 10 year loan notes to private investors in March 1999. This was a significant achievement as it demonstrates the Group's ability to access funding from different financial markets, whereas historically the Group has relied exclusively on the banking market to meet its needs. All of the principal and interest due under this financing were swapped into Euros. These arrangements, together with the receivables securitisation conduit, give us a sound financial platform for the future, with committed facilities expected to remain at 70 per cent of average borrowings and 40 per cent of total facilities.

Analysis of shareholders at 31 March 1998.

Financial Risk Management

The treasury review also set out to address financial risk management issues. This largely reaffirmed the Group's policy to date, that financial risks are to be managed in relation to underlying business needs and that any derivative financial instruments used in this context require Board approval. However, the preferred degree of protection against financial risk is to be increased, in view of higher gearing post-merger, to a target level of about 60 per cent of average borrowings, having regard to the prevailing interest rate environment.

The Group currently has arrangements in place, including swaps, caps and fixed rate borrowings that give protection against volatility in interest rates. These measures cover over 50 per cent of the current average borrowings of the enlarged Group. The extent of protection diminishes gradually to about 30 per cent of average borrowings by the end of 2001, but this will be managed in line with Group policy as opportunities allow.

"A major review of treasury policies and funding requirements was completed in 1998."

Currently, non-sterling denominated debts approximately match non-sterling denominated assets, minimising any balance sheet translation exposure. Transaction exposure is also minimal since the values of cross border trade outside the Group are very small and in these cases appropriate foreign currency contracts are taken out.

Accounting Policies

During the year the Group has adapted its accounting policies to reflect changing best practice. New guidance has been issued and adopted in respect of the treatment of goodwill, associates and earnings per share calculations.

Goodwill arising on acquisitions is now capitalised in the balance sheet and amortised over the shorter of its useful economic life and 20 years. The effect of this change, which has been implemented from the beginning of 1998, is to depress profits for the year by £0.4m.

Until this year's results, the share of profit before tax for associates has been shown in the profit & loss account. This year, the share of results from associates disclosed in the profit & loss account shows separately the share of operating profit, and the share of interest that has been included in the interest charge and identified in the appropriate note. The comparatives and five year summary have been amended accordingly.

Diluted earnings per share are now calculated by making allowance for the potential number of bonus shares that could be issued in respect of the various options outstanding over the Company's shares. Past best practice required the calculation of notional earnings after adding interest on the proceeds from the options to earnings and adding the total outstanding options to the number of shares. The effect of this change is to show a diluted earnings per share figure for 1997 which is 0.2 pence higher than the previously published fully diluted figure. The comparatives and the numbers incorporated in the five year summary have been adjusted accordingly.

As a Company dedicated to building a strong pan-European business, we have published in our financial statements comparable Euro figures in addition to the usual sterling presentation. The Euro figures have been prepared using published ECU rates for each month for the Profit and Loss Account and the fixed 31 December Euro rate for the Balance Sheet.

Alliance UniChem Plc

On 1 July 1998 Alliance UniChem transferred its UK wholesaling business to UniChem Limited, a newly incorporated company. The effect of this is to remove all but the holding company activities from the Alliance UniChem Plc balance sheet and explains the large movements in the parent company balance sheet included on page 45.

Report of the Directors

The information constituting or despatched with the 1998 annual report is material to an appreciation of the business of the Company and of the Group and as such form part of this report of the directors.

Corporate Governance

The Combined Code was published in June 1998 by the Committee on Corporate Governance and sets out principles and provisions of good governance for companies. The Company has applied the principles of the Combined Code as explained below. The Company has complied with the code provisions set out in section 1 of the Combined Code throughout the year, other than where detailed below.

Directors

The Company is led and controlled by the Board, currently consisting of the following directors:

executive directors

J.F. Harris	Chief Executive
S. Pessina	Deputy Chairman
B.M. Andrews	Retail Director
O. Barra	Director of Italy, Portugal & Spain
G.I. Cooper	Finance Director
A. De Bono	Director of France, Greece & Morocco
C. Etherington	UK Wholesale Director

non-executive directors

K.H. Clarke	independent Chairman
M.A. Bardsley	independent
C. Berretti	
N.E. Cross	independent
P. Ponsolle	independent

The biographies of these directors are given opposite.

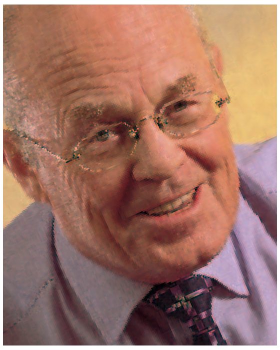
During the year the following individuals were appointed as, or ceased to be, directors:

appointed	12 June	C. Berretti
ceased	3 November	J. Garcia Vela

In the rest of this report details given will be for the period that the individuals were directors. Where a director has been appointed during the year, details shown as being at 1 January 1998 will be the details at the date of appointment.

B.M. Andrews B.Pharm., F.R.Pharm.S. (aged 54/ appointed 1992/last elected 1998). *Barry Michael Andrews is a Pharmacist. He is a member of the Pharmaceutical Services Negotiating Committee and a director of the Company Chemists Association. He is Managing Director of Moss Chemists, a position he held when the company was acquired in 1991.*

M.A. Bardsley M.A. (aged 69/appointed 1990/last elected 1998). *Michael Ambrose Bardsley after obtaining extensive North American experience in marketing, assumed European managerial responsibility for Dun & Bradstreet Inc. and subsequently I.T.T. World Directories Inc..*



D.ssa O. Barra (aged 45/ appointed and elected 1997). *Ornella Barra is a Pharmacist. Having gained her qualification she bought her own pharmacy before founding a distribution company, which was subsequently acquired by Alleanza Salute Italia in 1986. She was appointed President of Alleanza Salute Italia in 1994.*

C. Berretti (aged 64/ appointed 1998/to be elected). *Claude Berretti is a Chartered Accountant. He joined Ile de France Pharmaceutique S.A. in 1957 and, prior to his retirement at the end of 1997, was Chief Executive and Chairman.*

Right Hon. K.H. Clarke Q.C., M.P. (aged 58/appointed 1997/elected 1998). Kenneth Harry Clarke is a Queen's Counsel and Member of Parliament. He has served in the Cabinet as Health Secretary and as Chancellor of the Exchequer. He is Deputy Chairman of British American Tobacco and a non-executive director of Foreign and Colonial Investment Trust.

G.I. Cooper B.Sc., A.C.M.A. (aged 45/appointed 1994/last elected 1997). Geoffrey Ian Cooper is a Cost and Management Accountant. He gained his qualification working in industry and then worked as a management consultant before joining the Gateway Group where he became group finance director. He joined the Company in 1994.

C. Etherington (aged 46/appointed 1997/elected 1998). Christopher Etherington worked in a number of distribution roles within industry before joining the Company in 1991. He was appointed to the Board as Managing Director of UniChem, having graduated from the advanced management programme at Harvard University.

J.F. Harris (aged 50/appointed 1986/last elected 1998). Jeffery Francis Harris is a Chartered Accountant. He worked in the accounting profession for two major London auditing firms for fourteen years. He joined the Company as Chief Accountant in 1985, was appointed to the Board as Finance Director in 1986 and appointed Chief Executive in 1992.

N.E. Cross Ph.D., F.C.I.S. (aged 54/appointed and elected 1997). Neil Earl Cross was a main board director of 3i Group plc. At 3i he had extensive experience of investing in small and medium sized UK companies and latterly had responsibility for developing activities in continental Europe, the USA and the Far East. He is a non-executive director of Dawson Holdings PLC, Perkins Foods PLC, Taylor Nelson Sofres plc and a number of private companies.

A. De Bono (aged 54/appointed and elected 1997). Antonin De Bono is a Pharmacist and a graduate of management training programmes at Institut Français de Gestion and Cégos. He started his career with Alliance Santé France in 1974 and, having held several management positions, was appointed President in 1997.

S. Pessina (aged 57/appointed and elected 1997). Stefano Pessina is an Engineer. After holding a number of academic posts and working as an independent business consultant he became involved in pharmaceutical wholesaling in 1976. From that date he built up his interests in a number of European countries to form the Alliance Santé Group which merged with the Company in 1997.

P. Ponsolle (aged 54/appointed and elected 1997). Patrick Ponsolle is executive chairman of Eurotunnel Plc/S.A.. He is also a director of Société Générale de Belgique and of Moulinex S.A..

Report of the Directors

The articles of association of the Company currently provide for the retirement of one-third of the directors each year. This may result in a director not being submitted for re-election for four years, rather than the three years required by the Combined Code. The year of the last election for each of the current directors is included in their biographies above. The requirements of the Combined Code have been met in respect of the current Board. A change to the articles of association will be considered by the Board at an appropriate time.

All directors have access to the advice and services of Adrian Goodenough, the Company Secretary, and in addition, are entitled, through him and at the expense of the Company, to obtain independent professional advice of their choice, where they believe it is essential to the effective discharge of their corporate duties.

The **Board** met formally on seven occasions during 1998 and the four main standing committees of the Board met in accordance with their terms of reference, as detailed below. One other committee was established in 1998 to undertake a specific task, which has been completed. Members of the Board and committees receive appropriate notice of each meeting and this is accompanied by an agenda and relevant papers so that the members may discharge their duty effectively. Where decisions of the Board or committees are relevant, they are detailed in the pertinent section of the 1998 annual report.

The **audit committee** met twice in 1998. Its main purposes are: to provide a conduit for the interface between the Company and the auditors; to review the financial statements of the Company, focusing particularly on compliance with legal, regulatory and accounting standard requirements and the going concern assumptions; and to review the internal controls of the Company.

The **executive committee** is constituted so that the Company can function day to day by taking care of routine matters not requiring the consideration of the Board as a whole. Under the terms of reference, parameters have been established which limit its authority to act without consulting the Board as a whole. The executive committee has delegated some of its authority to a number of sub-committees in order to facilitate the decision making process. These sub-committees cover consideration of acquisitions, treasury matters and operational matters and have their own terms of reference with relevant parameters to their authority.

The **nomination committee** did not meet in 1998. Its role is to recommend to the Board any appointment as a director. Non-executive directors are normally appointed for a five year term and another role of the committee is to consider whether a non-executive director should continue for a second five year term of office. The appointment of C. Berretti to the Board formed part of the arrangements of the merger with Alliance Santé S.A..

The membership of this committee does not comply with the provisions of the Combined Code as the directors believe that, while it is imperative to ensure that new directors are of sufficient calibre to make a contribution to the deliberations of the Board, it is also important that they can work effectively with the members constituting the nomination committee.

The **remuneration committee** met four times in 1998 and is authorised by the Board to determine the remuneration of the executive directors and to grant options under the discretionary share option schemes. The fees of the non-executive directors are determined by the Board.

Membership of the main committees of the Board	audit	executive	nomination	remuneration
Frequency of meetings				
monthly and as required	-	*	-	-
minimum number of times per year	2	-	-	1
as required	-	-	*	-
Committee members:				
non-executive directors				
M.A. Bardsley	CE	-	-	-
K.H. Clarke	-	-	CM	CE
N.E. Cross	E	-	-	E
P. Ponsolle	E	-	-	E
executive directors				
B.M. Andrews	-	M	-	-
O. Barra	-	M	-	-
G.I. Cooper	A	M	-	-
A. De Bono	-	M	-	-
C. Etherington	-	M	-	-
J.F. Harris	-	CM	M	A
S. Pessina	-	M	M	A
company executives				
A.J. Goodenough - company secretary	A	A	A	A
S.D. Sampson - group financial controller	A	-	-	-
external				
auditors' representative	A	-	-	-

'A' indicates an attendee of the committee,
'C' indicates the chairman of the committee,
'E' indicates an elected member of the committee, and
'M' indicates an automatic member of the committee.

Directors' Remuneration

Decisions on executive directors' remuneration are taken by the remuneration committee, the current members of which are detailed above.

In reaching conclusions on remuneration, the remuneration committee took into consideration the remuneration policy of the Group and the advice of Towers Perrin, acting as remuneration consultants.

The remuneration policy of the Group is structured to recruit, motivate and retain personnel of the highest calibre so that the position of the Group in the European healthcare sector is maximised. This is achieved by a combination of fixed and variable payments, benefits, incentive plans and share option schemes. These are detailed below. The Board consider it unnecessary to seek shareholder approval of this policy.

Emoluments

The emoluments of the directors for the financial year ended 31 December 1998 were:

director	fees £000	salary and other cash £000	non-cash benefits £000	bonus payments £000	total 1998 £000	emoluments 1997 £000
B.M. Andrews	-	220	14	64	298	232
M.A. Bardsley	20	-	-	-	20	18
O. Barra	-	200	-	43	243	-
C. Berretti	11	-	-	-	11	-
K.H. Clarke	120	-	-	-	120	40
G.I. Cooper	-	247	16	29	292	226
N.E. Cross	20	-	-	-	20	15
A De Bono	-	249	23	37	309	-
C. Etherington	-	209	9	8	226	102
J. Garcia-Vela	17	-	-	-	17	-
J.F. Harris	-	325	11	16	352	353
S. Pessina	-	250	-	13	263	-
P. Ponsolle	20	-	-	-	20	-
Total	208	1,700	73	210	2,191	986

Executive directors are rewarded with bonus payments if the Group and/or their Division achieves the annual budgeted performance, after allowing for the cost of the bonuses, and/or the relevant executive has achieved a satisfactory personal performance. The maximum bonus payable is 40% of an individual's salary.

Long term incentive plan

The Alliance UniChem Share Incentive Plan is a discretionary scheme under which allocations are made to selected individuals. Each allocation takes the form of a non-binding statement of intent to make an award of a stated maximum amount following the end of a specified performance period. The directors' allocations under the Scheme are:

director	allocation	performance period start	period end
B.M. Andrews	73,333	1 January 1998	31 December 2000
O. Barra	66,667	1 January 1998	31 December 2000
G.I. Cooper	80,000	1 January 1998	31 December 2000
A. De Bono	80,000	1 January 1998	31 December 2000
C. Etherington	66,667	1 January 1998	31 December 2000
J.F. Harris	108,333	1 January 1998	31 December 2000
S. Pessina	83,333	1 January 1998	31 December 2000

The amount of the award will depend on achieving certain performance measures during the performance period:

performance measure	achievement and value		% awarded
total shareholder return	below median	<50%	-
	median	50%	12.5%
		+ 1%	+ 1.5%
	upper quartile	75%	50.0%
earnings per share	RPI-x	<+ 3%	-
		+ 3%	5.0%
		++0.1%	+ 4.5%
		>+ 4%	50.0%

Total shareholder return measures the total return to shareholders in terms of share price growth and dividends reinvested in the shares of the Company over the performance period. The performance will be compared with the same measure of performance for companies in the FTSE 250. Earnings per share is defined as the diluted pre-exceptional figure as reported for a full accounting year. RPI-x is the index of retail prices for all items excluding mortgage payments as published by the Government.

The award will take the form of a right to acquire ordinary shares in the Company for a nominal sum within a period of 10 years from the date of the award. The number of shares will be determined by the market price of the Company's shares at the date of the award. The remuneration committee have the discretion to withhold or reduce awards to any extent it considers appropriate, having regard to the Company's underlying financial performance and irrespective of the level of attainment of the performance targets.

Pensions

The pension benefits earned by four directors during 1998 (five directors in 1997) were:

director	age at year end	increase in accrued pension during the year £000	total accrued pension at year end £000	additional money purchase contribution 1998 £000	1997 £000
B.M. Andrews	54	9	93	-	-
G.I. Cooper	44	3	14	13	10
C. Etherington	46	3	23	17	8
J.F. Harris	50	15	124	-	-

The accrued pension is a benefit of the defined benefit plan of the Company's Pension and Assurance Scheme. The increase in accrued pension during the year is net of the increase as a result of the revaluation of the deferred pension. The accrued pension at the end of 1997 for Mr Harris, the highest paid director, was £106,000. The additional money purchase contribution is paid by the Company into a separate scheme and requires no additional contribution from the directors. Any additional voluntary contributions paid by the directors, and the benefit arising from such contributions, are excluded from the above table.

Under the arrangements of the Pension and Assurance Scheme:

the normal retirement age of the directors is 60; J.F. Harris, on leaving service, is entitled to receive an unreduced pension from age 55; directors are required to pay a contribution of 5% of basic salary; the yearly average of performance related earnings paid over the previous three years is included in the definition of pensionable pay (this has currently been retained as the accrual rate of 1/45ths for each year of pensionable service is below market practice of 1/30ths for each year of pensionable service); a spouse's pension of one half of the director's pension is payable on death after retirement; a statutory minimum pension for the legal widow and the director's accumulated contributions are payable on death after leaving service but before retirement; directors' pensions are automatically increased each year after retirement in line with inflation; additional increases may be payable at the discretion of the Trustee of the scheme, subject to the approval of the Company; and, no allowance is made for discretionary benefits within transfer values.

Directors' Interests

Interests in fully paid shares

The interests of the directors and their immediate families, all of which are beneficial, in the ten pence ordinary shares of the Company are detailed below:

director	1 January 1998	acquired in the year	disposed in the year	31 December 1998	acquired in the period	disposed in the period	23 March 1999
B.M. Andrews	116,502	90,922	90,000	117,424	3,312	3,312	117,424
M.A. Bardsley	6,779	162	-	6,941	-	-	6,941
K.H. Clarke	-	1,587	-	1,587	-	-	1,587
G.I. Cooper	-	248,622	183,028	65,594	-	-	65,594
N.E. Cross	-	5,000	-	5,000	-	-	5,000
C. Etherington	6,478	30,081	24,800	11,759	3,312	-	15,071
J.F. Harris	182,201	6,549	2,200	186,550	3,341	-	189,891
S. Pessina	104,634,177	-	-	104,634,177	-	-	104,634,177
P. Ponsolle	-	500	-	500	-	-	500
Total	104,946,137	383,423	300,028	105,029,532	9,965	3,312	105,036,185

The UniChem PLC Employee Share Trust held 1,033,333 shares at 31 December 1998. There was no change to this holding between 31 December 1998 and 23 March 1999. All employees and the executive directors are eligible to benefit from the trust.

The interests of S. Pessina are held by Alliance Santé Participation S.A.. The company, registered in Luxembourg, is indirectly wholly owned by S. Pessina, and the directors include S. Pessina, O. Barra, C. Berretti and A. De Bono. O. Barra, C. Berretti and A. De Bono hold no other interests in the fully paid shares of the Company.

Interests in options over shares

The directors' options over ten pence ordinary shares of the Company are detailed below:

director	option	1 January 1998	granted/ (exercised) in the year	31 December 1998	granted/ (exercised) in the period	23 March 1999	exercise price (p)	mid-market price on exercise (p)	notional gain £000
B.M. Andrews	1	8,254	-	8,254	-	8,254	163.55		-
	2	3,312	-	3,312	(3,312)	-	208.33	559.5	12
	6	45,000	(45,000)	-	-	-	253.99	352.5	44
	7	45,000	(45,000)	-	-	-	260.00	352.5	42
	8	30,000	-	30,000	-	30,000	269.00		-
	9	45,000	-	45,000	-	45,000	268.50		-
	10	-	45,000	45,000	-	45,000	429.50		-
		176,566	45,000	131,566	-	128,254			98
			(90,000)		(3,312)				
O. Barra	10	-	186,263	186,263	-	186,263	429.50		-
		-	186,263	186,263	-	186,263			-
G.I. Cooper	3	9,154	-	9,154	-	9,154	213.00		-
	7	248,076	(248,076)	-	-	-	260.00	393.5	331
	8	372	-	372	-	372	269.00		-
	9	36,872	-	36,872	-	36,872	268.50		-
	10	-	45,000	45,000	-	45,000	429.50		-
		294,474	45,000	91,398	-	91,398			331
			(248,076)		-				
A. De Bono	10	-	223,515	223,515	-	223,515	429.50		-
		-	223,515	223,515	-	223,515			-

C. Etherington	2	3,312	-	3,312	(3,312)	-	208.33	522.5	10
	6	30,000	(30,000)	-	-	-	253.99	429.5	53
	7	30,000	-	30,000	-	30,000	260.00		-
	8	30,000	-	30,000	-	30,000	269.00		-
	9	45,000	-	45,000	-	45,000	268.50		-
	10	-	45,000	45,000	-	45,000	429.50		-
		138,312	45,000	153,312	-	150,000			63
			(30,000)		(3,312)				
J.F. Harris	2	3,312	-	3,312	(3,312)	-	208.33	522.5	10
	4	4,791	-	4,791	-	4,791	216.00		-
	5	114,916	-	114,916	-	114,916	88.97		-
	6	45,000	-	45,000	-	45,000	253.99		-
	7	45,000	-	45,000	-	45,000	260.00		-
	8	30,000	-	30,000	-	30,000	269.00		-
	9	45,000	-	45,000	-	45,000	268.50		-
	10	-	45,000	45,000	-	45,000	429.50		-
		288,019	45,000	333,019	-	329,707			10
					(3,312)				
Total		897,371	589,778	1,119,073	-	1,109,137			502
			(368,076)		(9,936)				

No options lapsed during the financial year or between 1 January 1999 and 23 March 1999. The mid-market price of shares of the Company ranged during 1998 between 318.5 pence on 1 January and 602.5 pence on 4 August and at 31 December was 565.5 pence.

The options above may be exercised:

option	type	first exercisable	exercisable until	performance criteria
1	savings related	1 June 1999	30 November 1999	-
2	savings related	1 January 1999	30 June 1999	-
3	savings related	1 July 2002	30 December 2002	-
4	savings related	1 December 2000	30 May 2001	-
5	discretionary	3 September 1993	2 September 2000	-
6	discretionary	1 November 1996	30 October 2003	-
7	discretionary	21 October 1997	20 October 2004	-
8	discretionary	18 October 1998	17 October 2005	-
9	discretionary	13 June 2000	12 June 2004	yes
10	discretionary	7 May 2001	6 May 2005	yes

The options granted to O. Barra and A. De Bono formed part of the arrangements of the merger with Alliance Santé S.A.. The number of options granted to the other executive directors under the executive share option schemes of the Company have been in proportion to the number granted to other groups of employees, subject to individual limits under the rules of the schemes, with allowance being made for future grants within the overall limit of the schemes. The objective is that over a number of grants each executive director holds options valued at four times their basic salary.

The options shown above as requiring a performance criteria are only exercisable if, at any time during the exercise period, earnings per share growth of the Company in the period from the grant of the option is greater than the increase in RPI-x plus 4% compound. Earnings per share is defined as the diluted pre-exceptional figure as reported for a full accounting year. RPI-x is the index of retail prices for all items excluding mortgage payments as published by the Government. The target parameters may be changed by the remuneration committee should circumstances warrant it.

Service contracts

B.M. Andrews, G.I. Cooper, C. Etherington and J.F. Harris have service contracts that are terminable by the Company on twelve months notice. No other director has a service contract with the Company.

Other interests

Save for the interests mentioned below no director was materially interested in any contract during the financial year which is or was significant to the business of the Company or subsidiary undertakings.

On 3 December 1998, being after he had left the Board, J. Garcia Vela, through a company controlled by him, purchased Apotheka, a Spanish subsidiary company specialising in shop fitting, for a consideration of Ptas 550 million (£2.3 million).

Shareholders

In view of the obvious independence of the Chairman, Kenneth Clarke, the directors have not felt it necessary to appoint any other specific director to the role of senior independent director. The Chairman will receive the concerns that any shareholder may have on the Company.

The chief executive and finance director of the Company have regular meetings with institutional shareholders to discuss the overall strategy of the Group.

The notice convening the 1999 annual general meeting has been despatched with this annual report. As in previous years, shareholders, whether they can attend the meeting or not, are encouraged to ask questions of the Board. Space has been provided on the appointment form despatched with the notice for this purpose. It is the intention of all of the directors to be present at the annual general meeting.

Employees

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

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

The Company communicates with all employees through regular staff briefings. All Group employees will be receiving a summary of the annual report which will include comments on their individual business units. Subject to practical and commercial considerations, employees are consulted and involved in decisions that affect their employment or future prospects.

Other matters

Creditors

It is the policy of the Group to abide by the payment terms negotiated with each of its suppliers whenever it is satisfied that the invoiced goods or services have been ordered and have been supplied in accordance with agreed terms and conditions. Alliance UniChem is a holding company and has no trade creditors, the number of days' purchases represented by period-end trade creditors for the UK wholesale business is 47.

Political and charitable gifts

£20,000, inclusive of tax credit, has been given to the Charities Aid Foundation. No political gifts were made during the financial year.

Animal testing

It is the policy of the Group that only skin care products that have not been tested on animals will be introduced to the Group's own brand ranges and that wherever possible the pharmacies owned by the Group will only stock other brands with the same policy.

Environment

Each operating business is responsible for maintaining the delivery of healthcare to its market. In maintaining this responsibility each operating business is mindful of the impact their operation has on the local environment and works to ensure that such impact is minimised. In addition, the Group insists that all local regulations and laws are adhered to. Costs or savings associated with this work and compliance have not been separately identified by the operating businesses and are absorbed within internal operating expenses.

Year 2000

Throughout the Group there have been, for some time, project teams to manage the risks associated with the Year 2000 issue, under the supervision of a senior executive. Considerable work has already been carried out to date, examining our own systems infrastructures and their links with the systems of suppliers and customers. Where appropriate, rectification work to ensure systems are Year 2000 compliant has either been completed or is scheduled to be completed by mid-1999. Costs associated with this work have not been separately identified by the operating businesses and are absorbed within internal operating expenses.

Financial Reporting

Responsibilities on internal control

As permitted by the London Stock Exchange, the Company has complied with the provision in the Combined Code on internal control by reporting below on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

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

Key procedures that have been established include:

• authority limits - limits are placed on all employees either acting individually or as a group and some matters are reserved for the Board;

• financial reporting - each operating unit prepares monthly results with a comparison against budget, the latest forecast and the previous year;

• training of personnel - all personnel are trained on joining the Group and thereafter on proper adherence to the control systems relevant to their role within the Group; and

• risk management - controls over business risks are regularly assessed and contingency plans made against major failures.

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

Responsibilities in preparing the financial statements

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

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

The directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore have continued to adopt the going concern basis in preparing the financial statements.

The directors also consider that, in preparing the financial statements on pages 44 to 58, appropriate accounting policies have been used, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

The directors also 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.

Approved by the Board of Directors
and signed on their behalf

A J Goodenough
Company Secretary
23 March 1999

Auditors' Report

to the members of Alliance UniChem Plc

We have audited the financial statements on pages 44 to 58 which have been prepared under the accounting policies set out on page 48.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 42 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, 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 are 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 or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the statement on page 34 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the group's internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

23 March 1999

Group profit and loss account

for the year ended 31 December

Unaudited proforma 1998 €m		Note	1998 £m	1997 £m
	Turnover			
7,700.9	Continuing operations		**5,199.8**	1,712.3
227.5	Acquisitions		**153.6**	-
7,928.4		2	**5,353.4**	1,712.3
(7,329.0)	Cost of sales		**(4,948.7)**	(1,539.0)
599.4	**Gross profit**		**404.7**	173.3
(458.4)	Administrative expenses		**(309.5)**	(116.7)
141.0			**95.2**	56.6
55.7	Other operating income		**37.6**	9.8
	Operating profit			
194.0	Continuing operations		**131.0**	66.4
2.7	Acquisitions		**1.8**	-
196.7		2	**132.8**	66.4
3.1	Income from associated undertakings		**2.1**	(0.2)
(36.7)	Net interest payable and similar charges	3	**(24.8)**	(7.0)
163.1	**Profit on ordinary activities before taxation**	4	**110.1**	59.2
(55.1)	Tax on profit on ordinary activities	7	**(37.2)**	(17.8)
108.0	Profit on ordinary activities after taxation		**72.9**	41.4
(1.8)	Equity minority interests		**(1.2)**	(1.1)
106.2	**Profit for the financial year**		**71.7**	40.3
(30.8)	Dividends (10.65p per share - 1997 9.7p)	8	**(20.8)**	(17.5)
75.4	**Retained profit for the financial year**		**50.9**	22.8
	Earnings per share	9		
	- Undiluted		**24.9p**	22.6p
	- Diluted		**24.7p**	22.5p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1998 £m	1997 £m
Profit for the financial year	**71.7**	40.3
Revaluation of foreign investments	**-**	(0.5)
Currency translation differences on foreign currency net investments	**3.3**	(1.1)
Total recognised gains and losses relating to the year	**75.0**	38.7

MOVEMENT IN SHAREHOLDERS' FUNDS

	1998 £m	1997 £m
At 1 January	**312.7**	286.2
Total recognised gains and losses for the financial year	**75.0**	38.7
Dividends	**(20.8)**	(17.5)
Goodwill acquired and written off during the year	**-**	(338.6)
Shares issued	**14.9**	345.1
Other	**(0.1)**	(1.2)
At 31 December	**381.7**	312.7

Balance sheets

as at 31 December

Unaudited proforma 1998 €m		Note	The Group 1998 £m	The Group 1997 £m	Company 1998 £m	Company 1997 £m
	Fixed assets					
327.3	Intangible assets	10	**231.0**	181.8	**-**	-
328.2	Tangible assets	11	**231.6**	197.7	**0.2**	38.5
36.6	Investments	12	**25.8**	22.6	**500.7**	288.9
692.1			**488.4**	402.1	**500.9**	327.4
	Current assets					
750.6	Stocks		**529.7**	417.0	**-**	109.1
0.7	Investments	13	**0.5**	33.4	**-**	-
318.5	Gross debts discounted	14	**224.8**	204.4	**-**	-
(274.5)	Non-returnable receipts	14	**(193.8)**	(181.9)	**-**	-
1,145.6	Other debtors	14	**808.5**	655.4	**4.3**	187.1
184.6	Cash at bank and in hand		**130.3**	135.6	**12.5**	34.9
2,125.5			**1,500.0**	1,263.9	**16.8**	331.1
	Creditors: amounts falling due within one year					
638.9	Borrowings	15	**450.9**	295.2	**93.0**	38.5
1,346.6	Other creditors	16	**950.3**	764.4	**17.9**	277.6
1,985.5			**1,401.2**	1,059.6	**110.9**	316.1
140.0	**Net current assets/(liabilities)**		**98.8**	204.3	**(94.1)**	15.0
832.1	**Total assets less current liabilities**		**587.2**	606.4	**406.8**	342.4
	Creditors: amounts falling due after more than one year					
244.3	Borrowings	15	**172.4**	277.3	**106.1**	70.0
14.6	Other creditors	16	**10.3**	-	**-**	-
19.4	**Provisions for liabilities and charges**	17	**13.7**	8.7	**0.4**	0.8
553.8			**390.8**	320.4	**300.3**	271.6
	Capital and reserves					
41.1	Called up share capital	18	**29.0**	28.6	**29.0**	28.6
206.4	Share premium account	18	**145.7**	340.8	**145.7**	340.8
-	Special reserve	19	**-**	(208.2)	**-**	(209.6)
293.3	Profit and loss account	19	**207.0**	151.5	**125.6**	111.8
540.8	**Total equity shareholders' funds**		**381.7**	312.7	**300.3**	271.6
13.0	Minority interests		**9.1**	7.7	**-**	-
553.8	**Capital and reserves**		**390.8**	320.4	**300.3**	271.6

The financial statements were approved by the Board of Directors of Alliance UniChem Plc on 23 March 1999 and are signed on its behalf by:

K Clarke

J F Harris Directors

Group cash flow statement

for the year ended 31 December

Unaudited proforma 1998 €m		Note	1998 £m	1997 £m
200.7	**Net cash inflow from operating activities**	22	**135.5**	10.7
	Returns on investment and servicing of finance			
14.4	Interest received		**9.7**	0.5
(51.8)	Interest paid		**(35.0)**	(8.4)
(1.6)	Interest element of finance lease rentals		**(1.1)**	(0.2)
(39.0)	Net cash inflow/(outflow) for returns on investment and servicing of finance		**(26.4)**	(8.1)
(64.0)	**Taxation**		**(43.1)**	(14.8)
	Capital expenditure and financial investment			
(52.9)	Purchase of tangible fixed assets		**(35.7)**	(11.8)
3.9	Sale of tangible fixed assets		**2.6**	2.0
(49.0)	Net cash inflow/(outflow) for capital expenditure and financial investment		**(33.1)**	(9.8)
	Acquisitions and disposals			
(44.0)	Purchase of subsidiary undertakings		**(29.7)**	(13.7)
(53.3)	Net cash/(overdrafts) acquired with subsidiaries		**(36.0)**	(147.0)
(22.7)	Purchase of pharmacy licences		**(15.3)**	(4.7)
(15.0)	Investment in associated undertakings		**(10.2)**	(1.3)
3.5	Sale of pharmacy licences		**2.3**	1.3
-	Sale of shares in Lloyds Chemists		**-**	64.3
(131.5)	Net cash inflow/(outflow) for acquisitions and disposals		**(88.9)**	(101.1)
(12.7)	**Equity dividends paid**		**(8.5)**	(10.9)
	Management of liquid resources			
49.3	Other		**33.3**	-
(46.2)	Cash inflow/(outflow) before financing		**(31.2)**	(134.0)

Group cash flow statement (continued)

for the year ended 31 December

Unaudited proforma 1998 €m		Note	**1998 £m**	1997 £m
(46.2)	Net cash inflow/(outflow) before financing		**(31.2)**	(134.0)
	Financing			
5.0	Issue of ordinary share capital	23	**3.4**	2.5
	Debt due within one year			
	Net movement in money market			
8.0	borrowings maturing within one week		**5.4**	(87.6)
130.2	Increase/(decrease) in short-term borrowings		**87.9**	(41.4)
(1.1)	Loan notes repaid		**(0.8)**	(0.8)
	Debt due after one year			
197.6	Increase in borrowings		**133.4**	61.9
(355.0)	Repayment of borrowings		**(239.7)**	(5.2)
(8.4)	Capital element of finance lease rental payments		**(5.7)**	(4.8)
(23.7)	Net cash inflow/(outflow) from financing	23	**(16.1)**	(75.4)
(69.9)	**Increase/(decrease) in cash in the period**		**(47.3)**	(209.4)
	Reconciliation of net cash flow to movement in net debt			
	Increase/(decrease) in cash in the period		**(47.3)**	(209.4)
	Cash (inflow)/outflow from (increase)/decrease in debt			
	and lease financing	23	**19.5**	77.9
	Change in net debt resulting from cash flows		**(27.8)**	(131.5)
	New finance leases		**-**	(1.4)
	Debt acquired with subsidiaries		**(7.5)**	(230.1)
	Other non cash movements		**(0.7)**	(1.1)
	Translation difference		**(20.1)**	2.8
	Movement in net debt for the period		**(56.1)**	(361.3)
	Net debt at 1 January		**(436.9)**	(75.6)
	Net debt at 31 December	24	**(493.0)**	(436.9)

Notes to the financial statements

for the year ended 31 December 1998

(1) ACCOUNTING POLICIES

Convention

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

An unaudited memorandum disclosure has been made on the face of the financial statements to show the Euro equivalents.

Basis of consolidation

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

Turnover

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

Pensions

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

Goodwill

The excess of the purchase price over the fair value of the net assets of businesses acquired in the year is capitalised and amortised over the shorter of its useful economic life and 20 years. Goodwill acquired prior to 1998 was written off against reserves.

Retail pharmacy licences

The cost of retail pharmacy licences less any permanent diminution in value are included in intangible fixed assets. These are not amortised as they do not have a finite economic life. They are, however, subjected to an annual impairment test.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives at the following rates:

(a) Freehold buildings - at 2% per annum
(b) Long and short leasehold properties - at 2% per annum or over the period of the lease whichever is the shorter
(c) Furniture, fixtures, equipment and motor vehicles - at rates ranging from 10% to 33%, according to their nature.

Leased assets

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

Stocks

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

Deferred taxation

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

Foreign exchange

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

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

Investments

Investments are stated at cost less an amount equal to goodwill written off to reserves and provisions for permanent diminution in value.

(2) ANALYSIS OF TURNOVER AND OPERATING PROFIT

	Turnover 1998 £m	**Operating profit 1998 £m**	Turnover 1997 £m	Operating profit 1997 £m
Wholesale France	**2,716.4**	**41.1**	-	-
Wholesale Italy	**729.3**	**18.9**	-	-
Wholesale UK	**1,488.4**	**42.7**	1,444.1	42.2
Retail UK	**353.5**	**23.9**	297.0	19.6
Other	**354.3**	**6.2**	204.3	4.6
Intra-group	**(288.5)**	**-**	(233.1)	-
	5,353.4	**132.8**	1,712.3	66.4

(3) NET INTEREST PAYABLE AND SIMILAR CHARGES

	1998	1997
	£m	£m
Bank loans and overdrafts	(32.1)	(6.8)
Other loans	(3.6)	(0.4)
Finance charges payable on finance leases	(1.1)	(0.2)
Associates	(1.4)	(0.1)
Interest payable	(38.2)	(7.5)
Bank deposit interest receivable	9.6	0.5
Other financial income	3.8	-
Net interest payable and similar charges	(24.8)	(7.0)

(4) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1998	1997
	£m	£m
Depreciation of owned assets	23.1	8.0
Depreciation of assets held under finance leases	3.6	2.3
Total depreciation of tangible fixed assets	26.7	10.3
Operating lease rentals - land and buildings	6.7	6.4
- plant and machinery	3.9	1.3
Audit fees	0.6	0.2
Other fees paid to the auditors	0.2	0.1

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

(5) DIRECTORS' EMOLUMENTS

The emoluments of the directors, exclusive of pension contributions, for the financial year ended 31 December 1998 were £2.2m (1997 £1.4m). Further details on the directors, including their emoluments, are given in the report of the directors on pages 37 and 38.

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

(6) EMPLOYEES

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

	1998	1997
Wholesale France	4,259	-
Wholesale Italy	950	-
Wholesale UK	3,302	3,281
Retail UK	4,485	3,960
Other	621	362
	13,617	7,603

	1998	1997
The costs incurred in respect of these employees were:	£m	£m
Wages and salaries	156.7	65.8
Social security costs	40.3	5.4
Other pension costs	3.8	1.9
	200.8	73.1

(7) TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998	1997
	£m	£m
Corporation tax charge at 31% (1997 31.5%)	19.2	17.3
Deferred taxation	0.8	0.2
Under/(over) provision for earlier years	(0.5)	(0.2)
Overseas taxation	17.6	0.6
Associated undertakings	0.1	(0.1)
	37.2	17.8

Notes to the financial statements

for the year ended 31 December 1998

(8) DIVIDENDS

	1998	1997
	£m	£m
Interim paid, net 3.65 pence (1997 3.3 pence)	**7.1**	5.9
Final proposed, net 7.0 pence (1997 6.4 pence)	**13.7**	11.6
	20.8	17.5

The dividend payable on the shares owned by Alliance Santé Participation (note 18) is restricted to FFr10m p.a. for 1998 and 1999.

(9) EARNINGS PER SHARE

Earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue during the year. The diluted earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue added to the dilutive potential shares assuming that they had converted to issued shares at the beginning of the period. Further details of the options are given in note 18.

	1998	1997
	£m	£m
Profit for the financial year	**71.7**	40.3

Weighted average number of shares	**1998**	1997
	m	m
Undiluted	**288.2**	178.3
Effect of dilutive potential shares	**2.4**	1.2
Diluted	**290.6**	179.5

(10) INTANGIBLE FIXED ASSETS

	1998	1997
	£m	£m
Retail pharmacy licences	**205.3**	181.8
Goodwill	**25.7**	-
Total	**231.0**	181.8

Retail pharmacy licences

The directors believe that the right to be reimbursed for dispensing NHS prescriptions, being the pharmacy licence which is attached to a particular pharmacy, has a continuing value. Such rights, conferred by the Department of Health as contracts to dispense prescriptions, are not generally granted to new pharmacies in the same locality.

The retail pharmacy licences are not amortised as they do not have a finite economic life. They are subjected to an annual impairment test.

	1998	1997
	£m	£m
At 1 January 1998	**181.8**	157.2
Additions	**15.5**	7.0
Subsidiaries acquired	**9.3**	19.6
Disposals	**(1.3)**	(2.0)
At 31 December 1998	**205.3**	181.8

Goodwill	£m
Cost	
At 1 January 1998	-
Additions	26.2
Disposals	(0.2)
At 31 December 1998	26.0
Amortisation	
At 1 January 1998	-
Disposals	-
Charge for the year	0.3
At 31 December 1998	0.3
Net book value	
At 31 December 1998	**25.7**
At 31 December 1997	-

(11) TANGIBLE FIXED ASSETS

Group	Freehold land & buildings	Long leaseholds	Short leaseholds	Furniture fixtures & equipment	Motor vehicles	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January 1998	100.9	38.2	2.5	151.7	21.9	315.2
Foreign exchange movement	6.0	0.6	-	6.4	0.4	13.4
Additions	13.5	-	0.2	17.5	5.5	36.7
Subsidiaries acquired	17.7	-	-	14.5	0.3	32.5
Disposals	(4.1)	-	(0.1)	(6.6)	(4.3)	(15.1)
At 31 December 1998	134.0	38.8	2.6	183.5	23.8	382.7
Depreciation						
At 1 January 1998	16.9	4.6	1.3	86.5	8.2	117.5
Foreign exchange movement	1.1	0.1	-	3.7	0.2	5.1
Subsidiaries acquired	2.3	-	-	8.0	0.1	10.4
Disposals	(0.9)	-	(0.1)	(4.6)	(3.0)	(8.6)
Charge for the year	6.0	0.4	0.3	15.1	4.9	26.7
At 31 December 1998	25.4	5.1	1.5	108.7	10.4	151.1
Net book value						
At 31 December 1998	**108.6**	**33.7**	**1.1**	**74.8**	**13.4**	**231.6**
At 31 December 1997	84.0	33.6	1.2	65.2	13.7	197.7
Company						
Cost						
At 1 January 1998	12.2	6.7	1.6	33.3	10.3	64.1
Additions	-	-	-	1.2	1.4	2.6
Transfer to subsidiary	(12.2)	(6.7)	(1.6)	(34.5)	(10.3)	(65.3)
Disposals	-	-	-	-	(1.0)	(1.0)
At 31 December 1998	-	-	-	-	0.4	0.4
Depreciation						
At 1 January 1998	2.0	0.9	0.9	17.6	4.2	25.6
Disposals	-	-	-	-	(0.6)	(0.6)
Transfer to subsidiary	(2.1)	(0.9)	(0.9)	(19.6)	(4.7)	(28.2)
Charge for the year	0.1	-	-	2.0	1.3	3.4
At 31 December 1998	-	-	-	-	0.2	0.2
Net book value						
At 31 December 1998	**-**	**-**	**-**	**-**	**0.2**	**0.2**
At 31 December 1997	10.2	5.8	0.7	15.7	6.1	38.5

The cost of long leaseholds includes capitalised interest of £0.5m (1997 £0.5m).

Leased assets	The Group		Company	
Included within fixed assets are assets held under finance	**1998**	1997	**1998**	1997
leases with the following net book values:	**£m**	£m	**£m**	£m
Furniture, fixtures & equipment	**5.7**	0.1	**-**	-
Motor vehicles	**1.4**	2.6	**-**	2.6
	7.1	2.7	**-**	2.6

Capital commitments	The Group		Company	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Contracted for, but not provided for	**9.9**	4.2	**-**	-

Notes to the financial statements

for the year ended 31 December 1998

(12) FIXED ASSET INVESTMENTS

	The Group		Company	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Subsidiary undertakings	**-**	-	**496.7**	284.9
Other investments	**25.8**	22.6	**4.0**	4.0
Total	**25.8**	22.6	**500.7**	288.9

	Shares*	Loans	Total
Subsidiary undertakings	£m	£m	£m
At 1 January 1998	200.0	84.9	284.9
Acquired / advanced	122.8	182.6	305.4
Repaid / provided	-	(93.6)	(93.6)
At 31 December 1998	**322.8**	**173.9**	**496.7**

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

During the year Alliance UniChem Plc transferred the UK Wholesale business to a newly incorporated subsidiary, UniChem Ltd, in return for an issue of shares by UniChem Ltd of £119.8m.

Other investments

(i) The Group owns 883,280 (1997 883,280) ordinary bearer shares (representing approximately 8% of the issued equity (1997 8%)) in Andreae-Noris Zahn AG, which is incorporated in Germany, acquired at a cost of £9.9m (1997 £9.9m). The market value of this investment as quoted on the Frankfurt stock exchange on 31 December 1998 was £16.3m (1997 £23.8m).

(ii) The UniChem PLC Employee Share Trust has an investment of £2.5m (1997 £2.5m) in 1.0m (1997 1.0m) of the Company's shares. The market value of the holding on 31 December 1998 was £5.7m (1997 £3.3m). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options. Administrative costs in relation to the trust are absorbed by the Company.

(iii) The Company owns 50% of the shares in UniDrug Distribution Group Limited (UDG). UDG is registered in England. As at 31 December 1998, the net liabilities held within the Group balance sheet relating to UDG amounted to £0.4m (1997 £0.3m). The Group share of post acquisition losses of UDG as at 31 December 1998 amounted to £0.4m (1997 £0.3m).

(iv) The Group has investments in Unifarma Distribuzione S.r.l. of Italy of £7.6m representing 36% of the issued equity, Lavipharm Alliance Santé SA of Greece of £1.1m representing 40% of the issued capital, and a number of other smaller investments.

(13) CURRENT ASSET INVESTMENTS

These represent short-dated money market investments.

(14) DEBTORS

	The Group		Company	
Amounts falling due within one year	**1998**	1997	**1998**	1997
	£m	£m	**£m**	£m
Trade debtors subject to discounting arrangements	**224.8**	204.4	**-**	-
Non-returnable amounts received	**(193.8)**	(181.9)	**-**	-
	31.0	22.5	**-**	-
Other trade debtors	**700.5**	539.4	**-**	161.5
Other debtors	**50.2**	54.7	**2.1**	7.2
Prepayments	**23.9**	29.1	**2.2**	16.7
	805.6	645.7	**4.3**	185.4
Amounts falling due after more than one year				
Trade debtors	**21.1**	22.8	**-**	-
ACT recoverable	**-**	0.8	**-**	1.4
Other debtors	**12.7**	8.3	**-**	-
Prepayments - Pension costs	**0.1**	0.3	**-**	0.3
	33.9	32.2	**-**	1.7
Total	**839.5**	677.9	**4.3**	187.1

Certain amounts receivable from French pharmacies have been discounted on a non-recourse basis, under a five year facility entered into in 1997. The Group is not obliged to support any losses in respect of the amounts advanced under the discounting arrangement, nor does it intend to do so. The provider of these arrangements has agreed in writing that it will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

(15) BORROWINGS

	The Group		Company	
Amounts falling due within one year	**1998**	1997	**1998**	1997
	£m	£m	**£m**	£m
Loan notes	**7.3**	7.2	**7.3**	7.2
Bank loans	**115.6**	20.9	**85.7**	-
Bank overdraft	**324.2**	263.8	**-**	29.9
Obligations under finance leases	**3.8**	2.6	**-**	1.4
Other debt	**-**	0.7	**-**	-
	450.9	295.2	**93.0**	38.5
Amounts falling due after more than one year				
Loan notes	**9.3**	9.1	**-**	-
Bank loans	**146.0**	246.4	**106.1**	69.7
Obligations under finance leases	**17.1**	21.8	**-**	0.3
	172.4	277.3	**106.1**	70.0
Total borrowings	**623.3**	572.5	**199.1**	108.5
Cash at bank and in hand	**(130.3)**	(135.6)	**(12.5)**	(34.9)
Net borrowings/(cash)	**493.0**	436.9	**186.6**	73.6

The loan notes falling due within one year can be redeemed by the holders giving notice during the year. At the year end they bore interest at between 6.1% and 6.9%. The loan notes falling due after more than one year are repayable on 1 June 2003. At the year end they bore interest at 6%.

	The Group		Company	
Bank loans due after more than one year	**1998**	1997	**1998**	1997
	£m	£m	**£m**	£m
Aggregate bank loan instalments repayable				
between one and two years	**11.3**	149.9	**-**	-
between two and five years	**120.9**	91.7	**106.1**	69.7
in five years or more	**13.8**	4.8	**-**	-
	146.0	246.4	**106.1**	69.7

Interest on bank loans is at variable rates between 3.48% and 6.75% at the year end and is dependent on the currency borrowed. Bank loans repayable in more than five years relate to a number of small Italian facilities which bear interest at variable rates which at the year end were between 3.89% and 5.30%.

The Group has entered into interest rate management contracts, both in sterling and Euro, to limit its exposure to floating interest rates. At 31 December 1998, these can be summarised:-

			Average cover in place during			
			1999	2000	2001	2002
Interest rate swaps	(a)	£m	7.5	-	-	-
		Average fixed rate	7.14%	-	-	-
	and (b)	€m	40.0	197.4	155.0	36.7
		Average fixed rate	3.63%	3.60%	3.65%	3.64%
Interest rate caps	(a)	£m	23.8	22.5	15.0	1.3
		Average maximum rate	7.50%	7.50%	7.50%	7.50%
	and (b)	€m	294.9	51.7	-	-
		Average maximum rate	4.22%	4.09%	-	-
Total nominal cover	(a)	£m	31.3	22.5	15.0	1.3
	and (b)	€m	334.9	249.1	155.0	36.7

At 31 December 1998, unrecognised losses deferred to future periods relating to the above interest rate management contracts amounted to £1.3m.

Obligations under finance leases due after more than one year

	The Group		Company	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Due between one and two years	**3.2**	1.5	**-**	0.3
Due between two and five years	**7.0**	19.4	**-**	-
Due in five years or more	**6.9**	0.9	**-**	-
	17.1	21.8	**-**	0.3

Notes to the financial statements

for the year ended 31 December 1998

(16) OTHER CREDITORS

	The Group		Company	
Amounts falling due within one year	**1998**	1997	**1998**	1997
	£m	£m	**£m**	£m
Trade creditors	**758.4**	594.5	**-**	241.5
Other creditors	**70.4**	68.0	**-**	2.5
ACT payable	**0.8**	3.5	**0.8**	3.5
Corporation tax	**21.6**	26.8	**0.6**	7.6
Other taxation and social security	**43.6**	35.0	**-**	0.9
Accruals and deferred income	**41.4**	25.0	**2.4**	10.0
Proposed dividend	**14.1**	11.6	**14.1**	11.6
	950.3	764.4	**17.9**	277.6
Amounts falling due after more than one year				
Other creditors	**10.3**	-	**-**	-
Total	**960.6**	764.4	**17.9**	277.6

(17) PROVISIONS FOR LIABILITIES AND CHARGES

The Group	Provision for reorganisation	Deferred tax	Retirement benefits	Total
	£m	£m	£m	£m
At 1 January 1998	6.6	2.1	-	8.7
Subsidiaries acquired	-	-	0.3	0.3
Charge (release) for the year	(6.2)	0.8	-	(5.4)
Other movement / reclassification	(0.2)	2.3	8.0	10.1
At 31 December 1998	**0.2**	**5.2**	**8.3**	**13.7**

Company	Deferred tax	Total
	£m	£m
At 1 January 1998	0.8	0.8
Charge for the year	(0.3)	(0.3)
Transfer to subsidiary	(1.6)	(1.6)
ACT recoverable	1.5	1.5
At 31 December 1998	**0.4**	**0.4**

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

The Group	Not dealt with in the accounts		Dealt with in the accounts	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Capital allowances	**7.3**	-	**2.3**	5.6
Pension accrual	**(1.6)**	(1.7)	**0.6**	(1.0)
Short term timing differences	**-**	-	**1.5**	(0.7)
Chargeable gains deferred by roll-over relief	**-**	0.4	**0.8**	-
ACT recoverable	**-**	-	**-**	(2.0)
Property revaluation	**1.5**	0.6	**-**	0.2
	7.2	(0.7)	**5.2**	2.1

Company	**1998**	1997	**1998**	1997
	£m	£m	**£m**	£m
Capital allowances	**-**	-	**(0.2)**	1.6
Short term timing differences	**-**	-	**0.6**	0.7
Chargeable gains deferred by roll-over relief	**-**	-	**-**	-
ACT recoverable	**-**	-	**-**	(1.5)
	-	-	**0.4**	0.8

(18) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

Issued and fully paid up	Number	Called up share capital 10p ordinary shares £m	Share premium account £m
At 1 January 1998	286,173,028	28.6	340.8
Shares issued during the year:	4,025,875	0.4	14.5
Transfer to special reserve	-	-	(209.6)
At 31 December 1998	**290,198,903**	**29.0**	**145.7**

The authorised share capital is £37.935m (1997 £37.935m) represented by 379.346m (1997 379.346m) ten pence ordinary shares.

As in earlier years and following a resolution passed at the last Annual General Meeting on 12 June 1998, the approval of the High Court was granted to cancel £209.6m of the balance on the share premium account and create a special reserve against which to absorb the goodwill created on acquisitions in prior periods. This brings to £360.8m the total amount of goodwill charged against special reserve.

Details of the shares allotted are:

Reason	Number	Price paid per share	Consideration £m
share option exercises	1,365,962	253.99p - 573.5p	3.7
scrip elections in lieu of:			
1997 final dividend	1,548,905	416.00p	6.4
1998 interim dividend	767,217	432.40p	3.3
acquisition of retail pharmacies	343,791	388.14p - 583.36p	1.5
Share capital and share premium movement			14.9

Details of the outstanding options at 31 December 1998 are:

	Price	Outstanding	Normally exercisable between
1990 Savings	163.55p	109,493	1 June 1999 and 30 November 1999
related scheme	208.33p	392,889	1 January 1999 and 30 June 1999
	208.33p	100,917	1 January 2001 and 30 June 2001
	221.96p	32,473	1 July 1999 and 30 December 1999
	221.96p	3,687	1 July 2001 and 30 December 2001
	208.00p	127,525	1 December 1999 and 30 May 2000
	208.00p	53,511	1 December 2001 and 30 May 2002
	213.00p	79,329	1 July 2000 and 30 December 2000
	213.00p	18,928	1 July 2002 and 30 December 2002
	216.00p	162,994	1 December 2000 and 30 May 2001
	216.00p	9,567	1 December 2002 and 30 May 2003
	192.00p	428,415	1 July 2001 and 30 December 2001
	192.00p	117,142	1 July 2003 and 30 December 2003
	214.00p	521,751	1 July 2002 and 30 December 2002
	214.00p	194,534	1 July 2004 and 30 December 2004
	324.00p	395,054	1 August 2001 to 30 January 2002
	324.00p	365,079	1 August 2003 to 30 January 2004
	324.00p	140,689	1 August 2005 to 30 January 2006
		3,253,977	
1990 Executive scheme	88.97p	114,916	3 September 1993 and 2 September 2000
	253.99p	189,890	1 November 1996 and 30 October 2003
	260.00p	205,000	21 October 1997 and 20 October 2004
	269.00p	240,372	18 October 1998 and 17 October 2005
		750,178	
1997 Discretionary scheme	268.50p	1,003,304	13 June 2000 and 12 June 2004
	429.50p	1,558,778	7 May 2001 and 6 May 2005
		2,562,082	

The directors are aware of the following shareholdings at 23 March 1999 of 3% or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of present issued ordinary share capital
Alliance Santé Participation	104,634,177	36.06
Phillips & Drew	12,938,132	4.45
Scottish Widows Investment Mgmt Ltd	12,486,994	4.30

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

Alliance Santé Participation is beneficially owned by Stefano Pessina.

Notes to the financial statements

for the year ended 31 December 1998

(19) OTHER RESERVES

	Special reserve	Profit and loss account	Goodwill reserve
The Group	£m	£m	£m
At 1 January 1998	-	151.5	(208.2)
Transfer to special reserve	(208.2)	-	208.2
At 1 January 1998 as adjusted	(208.2)	151.5	-
Foreign exchange movements	-	3.3	-
Transfer from share premium	209.6	-	-
Retained profit for the year	-	50.9	-
Other	(1.4)	1.3	-
At 31 December 1998	**-**	**207.0**	**-**
Company			
At 1 January 1998	-	111.8	(209.6)
Transfer to special reserve	(209.6)	-	209.6
At 1 January 1998 as adjusted	(209.6)	111.8	-
Transfer from share premium	209.6	-	-
Retained profit for the year	-	14.0	-
Other	-	(0.2)	-
At 31 December 1998	**-**	**125.6**	**-**

As detailed in note 18 the goodwill reserve has been transferred to a special reserve and share premium has been cancelled to absorb this balance.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The profit after taxation dealt with in the accounts of the parent company was £34.1m (1997 £27.0m).

During the year, the Group contributed £0.2m (1997 £1.2m) to the Qualifying Employee Share Ownership Trust ("QUEST").

(20) ACQUISITIONS

The Group has continued its development during the year through a number of acquisitions. The Retail acquisitions took the form of both asset and company acquisitions, the company acquisitions are summarised below. The Group has offered Pta. 3,000 per share to acquire up to 96% of the equity of Safa Galenica S.A. of Spain. At the year end the Group had lifted its stake from 36% to 83%. Shareholders of Safa Galenica can continue to accept the offer until 30 January 2000. In Italy, the Group acquired the entire share capital of Galenitalia, a 36% stake in Unifarma Distribuzione which gave rise to goodwill of £2.9m, and acquired the outstanding minorities in some of its subsidiaries with a £3.6m goodwill effect. There were a number of other small acquisitions which are not separately reported.

All subsidiary acquisitions have been accounted for by the acquisition accounting method and the major ones can be summarised:-

Assets acquired at book and fair value	Galenitalia	Safa	Retail Pharmacies	Other
	£m	£m	£m	£m
Fixed assets - intangible	-	-	9.3	-
Fixed assets - tangible	2.9	18.7	0.2	0.3
Fixed assets - investments	-	0.2	-	0.8
Stock	2.9	29.2	1.3	1.8
Debtors	17.0	46.7	4.0	6.7
Cash at bank and in hand	-	1.1	0.8	4.8
Bank loans and overdrafts	(16.5)	(34.3)	(1.1)	(0.7)
Creditors	(6.1)	(46.3)	(3.4)	(11.2)
Other	-	-	-	0.6
	0.2	15.3	11.1	3.1
Minority interests	-	(2.9)	-	-
Carrying value of associate	-	(5.9)	-	-
Assets acquired	0.2	6.5	11.1	3.1
Consideration paid				
Alliance UniChem Plc ordinary shares	-	-	1.4	-
Loan notes	-	-	0.9	-
Cash	4.9	13.8	8.8	6.2
Accrued cash consideration	-	4.9	-	3.3
	4.9	18.7	11.1	9.5
Purchased goodwill	4.7	12.2	-	6.4

(21) ANALYSIS OF NET ASSETS

	1998 £m	1997 £m
Wholesale France	**150.2**	140.3
Wholesale Italy	**262.2**	212.4
Wholesale UK	**180.3**	186.1
Retail UK	**172.6**	168.6
Wholesale Other	**118.5**	49.9
Net assets before net borrowings	**883.8**	757.3
Net borrowings	**(493.0)**	(436.9)
	390.8	320.4

(22) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

	1998 £m	1997 £m
Operating profit	**132.8**	66.4
Depreciation	**26.7**	10.3
Amortisation of goodwill	**0.3**	-
(Profit)/loss on disposal of fixed assets	**(1.1)**	2.5
Decrease/(increase) in stocks	**(58.4)**	(27.8)
Decrease/(increase) in debtors	**(69.0)**	(52.0)
Increase/(decrease) in creditors	**104.2**	11.3
Net cash inflow/(outflow) from operating activities	**135.5**	10.7

(23) ANALYSIS OF NET CASH FLOW FROM FINANCING

	1998 £m	1997 £m
Issue of ordinary share capital	**3.4**	2.5
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	**(19.5)**	(77.9)
Net cash inflow/(outflow) from increase/(decrease) in financing	**(16.1)**	(75.4)

(24) ANALYSIS OF NET DEBT

	Cash at bank and in hand £m	Borrowings due within one year £m	Borrowings due after more than one year £m	Net borrowings £m
At 1 January 1998	135.6	(295.2)	(277.3)	(436.9)
Increase/(decrease) in cash	(9.1)	(38.2)	-	(47.3)
Decrease/(increase) in debt	-	(92.2)	111.7	19.5
Debt acquired with subsidiaries	-	(5.9)	(1.6)	(7.5)
Exchange movement	3.8	(18.7)	(5.2)	(20.1)
Other non cash movements	-	(0.7)	-	(0.7)
At 31 December 1998	**130.3**	**(450.9)**	**(172.4)**	**(493.0)**

(25) MAJOR NON-CASH TRANSACTIONS

Part of the purchase consideration for the acquisition of subsidiary undertakings that occurred during the year comprised shares and other loans. Further details of the acquisitions are set out in note 20.

(26) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost was £3.8m (1997 £1.9m). Included in the balance sheet is an amount totalling £2.1m (1997 £2.3m) representing the excess of the cumulative contributions paid over the accumulated pension cost.

The Group operates one main pension scheme which has two plans: the Benefit Plan which is a funded defined benefits arrangement, and the Contribution Plan, which is a funded defined contribution arrangement. Both plans are administered by an independent company and their assets are held under trust separately from those of the Group.

The pension costs (and balance sheet prepayments) in respect of the Benefit Plan are assessed in accordance with the advice of an independent qualified actuary. The most recent actuarial valuation used for this purpose was carried out as at 1 January 1997. The actuarial method adopted for the valuation was the projected unit method and the main assumptions were:

	% per annum
Investment return	8.0
Salary increases (excluding increases due to promotion)	5.5
Equity dividend increases	3.75
Pension increases	5.0

At 1 January 1997, the market value of the Benefit Plan's assets was £30.7m. At that date, the actuarial value of the assets represented 105% of the value of the benefits that had accrued to members after allowing, in the case of active members, for the future increases to salaries.

(27) OTHER FINANCIAL COMMITMENTS

	Land and buildings	Other
At 31 December 1998 the Group had the following commitments		
payable within one year under operating leases expiring:	£m	£m
within one year	1.6	2.6
between two and five years	5.8	5.2
in five years or more	4.8	-
Total	**12.2**	**7.8**

(28) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings, in which the Group has a 100% interest (except as shown), are:

Company	Country of operation	Country of incorporation	Main activity
Alleanza Salute Italia SpA	Italy	Italy	holding company for a number of Italian pharmaceutical wholesalers
Alliance Santé S.A. (97.5%)	France	France	pharmaceutical wholesaler
Alliance UniChem Farmaceutica, S.A. (98.8%)	Portugal	Portugal	pharmaceutical wholesaler
E. Moss Limited	U.K.	England	retail pharmacy operator
ERPI Santé SA (97.5%)	France	France	pharmaceutical wholesaler
IFP Santé SA (97.5%)	France	France	pharmaceutical wholesaler
Safa Galenica S.A. (82.6%)	Spain	Spain	pharmaceutical wholesaler
UniChem Limited	U.K.	England	pharmaceutical wholesaler

(29) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £157.5m (1997 £154.2m) to third parties for the financing of pharmacy businesses.

(30) EXCHANGE RATES

The following exchange rates have been used in the preparation of the financial statements.

	Portuguese Escudos	French Francs	Italian Lire	Dutch Guilders	Spanish Pesetas	Euro
	PTE/£	FF/£	ITL/£	NLG/£	PTA/£	€/£
As at 1 January 1998	302.5	9.899	2909	3.34	253.4	1.499
As at 31 December 1998	284.1	9.29	2743	3.12	235.7	1.417
Average for the year	299	9.80	2884	3.29	248.3	1.481

The Euro exchange rates have been synthesised using the ECU/£ rate.

(31) RELATED PARTY TRANSACTIONS

J. Garcia Vela, formerly a director , through a company controlled by him, acquired Apotheka, a Spanish subsidiary for a consideration of Pta550m (£2.3m). Of this consideration Pta100m was paid in 1998, Pta120m is payable in 2000, and Pta330m in 2003.

Five year summary

Group Profit and Loss Accounts - year ended 31 December	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Turnover					
Continuing operations	1,324.6	1,402.7	1,478.5	1,712.3	5,199.8
Acquisitions	-	-	-	-	153.6
	1,324.6	1,402.7	1,478.5	1,712.3	5,353.4
Cost of sales	(1,206.3)	(1,266.4)	(1,330.5)	(1,539.0)	(4,948.7)
Gross profit	118.3	136.3	148.0	173.3	404.7
Administrative expenses	(79.9)	(91.2)	(98.1)	(116.7)	(309.5)
	38.4	45.1	49.9	56.6	95.2
Other operating income	8.3	8.2	8.9	9.8	37.6
Operating profit before exceptional item					
Continuing operations	46.7	53.3	58.8	66.4	131.0
Acquisitions	-	-	-	-	1.8
	46.7	53.3	58.8	66.4	132.8
Income from associated undertakings	-	-	(0.1)	(0.2)	2.1
Costs of bid for Lloyds Chemists	-	-	(13.2)	-	-
Net interest payable	(2.7)	(3.9)	(5.2)	(7.0)	(24.8)
Profit on ordinary activities before taxation	44.0	49.4	40.3	59.2	110.1
Tax on profit on ordinary activities	(14.4)	(16.1)	(16.1)	(17.8)	(37.2)
Profit on ordinary activities after taxation	29.6	33.3	24.2	41.4	72.9
EPS diluted - before exceptional item	18.93p	19.06p	20.39p	22.47p	24.67p
Dividends per share	7.13p	8.00p	8.80p	9.70p	10.65p

Group Balance Sheets - 31 December	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Fixed assets					
Intangible assets	111.3	139.0	157.2	181.8	231.0
Tangible assets	59.8	65.9	71.0	197.7	231.6
Investments	7.6	12.4	12.5	22.6	25.8
	178.7	217.3	240.7	402.1	488.4
Working capital					
Stocks	112.5	127.2	132.4	417.0	529.7
Investments	-	-	61.4	33.4	0.5
Debtors	209.3	223.7	223.4	677.9	839.5
Creditors and provisions	(249.2)	(276.1)	(296.1)	(773.1)	(974.3)
	72.6	74.8	121.1	355.2	395.4
Net borrowings	(1.0)	(17.6)	(75.6)	(436.9)	(493.0)
	250.3	274.5	286.2	320.4	390.8
Capital and reserves					
Called up share capital	17.2	17.5	17.6	28.6	29.0
Share premium account	61.2	3.3	6.7	340.8	145.7
Shares to be issued	-	-	-	-	-
Special reserve	111.3	139.0	157.2	-	-
Other reserves	102.6	122.8	131.5	151.5	207.0
Goodwill	(42.0)	(8.1)	(26.8)	(208.2)	-
	250.3	274.5	286.2	312.7	381.7
Minority interests	-	-	-	7.7	9.1
	250.3	274.5	286.2	320.4	390.8

Shareholder information

1999 Financial Calendar

25 May	Deadline for receipt of proxy forms
25 May	Deadline for receipt of elections to receive the 1998 final dividend in shares
27 May	Annual general meeting
1 July	1997 final dividend paid to shareholders registered on 12 April 1999
22 September*	1998 half year profit and interim dividend announced
15 November*	Deadline for receipt of elections to receive the 1999 interim dividend in shares (if offered)
31 December*	1999 interim dividend paid to shareholders registered on 8 October 1999 *

** Date subject to confirmation*

Shareholding enquiries

Enquiries relating to existing shareholdings should be directed to the registrars, Lloyds TSB Registrars, who may be contacted by phoning 01903 502541 or by writing to

The Causeway, Worthing,
West Sussex BN99 6DA.

Share price

Alliance UniChem's "real-time" share price and a stock market summary is available by phoning 0891 500504. As at March 1999 calls are charged at 50 pence per minute.

Web site

Alliance UniChem press releases, "real-time" share price and other information is available on the web site

http://www.alliance-unichem.com

Amalgamation of your shareholdings

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