Company number 2517178

Alliance UniChem Plc

Annual Report 1999

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Highlights of the year

	1999 £m	1998 £m
Turnover	**6,094.0**	5,353.4
Operating profit	**143.4**	132.8
Profit on ordinary activities before taxation and exceptional item	**121.5**	110.1
Dividends per share	**11.70p**	10.65p
Earnings per share, before goodwill amortisation		
- Undiluted	**27.8p**	25.0p
- Diluted	**27.6p**	24.8p

- Continued strong progress in existing businesses, with growth in sales, market share and profits in all main territories and further acquisitions in the UK, France and Spain.

- Expansion into new markets in Switzerland through a strategic partnership with Galenica, and into the Czech Republic by acquisition and consolidation of three regional wholesalers.

- Significant advance in Group strategy, with the development of e-business activities incorporating investments in internet and technology business across Europe.

- Continued strong management focus on efficiency with improvements in cost ratios in all core businesses and the ongoing rationalisation of depot networks in France, Italy, Portugal and Spain.

- Establishment of the first pan-European structure in the pre-wholesaling market, with services now provided to manufacturer partners in the United Kingdom, Switzerland, Republic of Ireland, Italy, Spain, Portugal and the Czech Republic.

Company Profile

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 products and services to pharmacists and patients across Europe.
- The Company has a market share of 17 per cent in the European Union. In 1999 Alliance UniChem's turnover reached £6.1 billion (€9.3 billion).
- Quoted in London and Paris, at the end of 1999 its market capitalisation was £1.2 billion (€1.9 billion).
- The Alliance UniChem Group serves over 53,000 pharmacies and other healthcare clients from 184 warehouses and employs 17,000 people.
- The Company integrates state-of-the-art logistics techniques, e-business and related technology tools, and innovative commercial arrangements to deliver its services to customers and suppliers.
- Moss Pharmacy, Alliance UniChem's retail pharmacy division, owns 676 pharmacies in the UK and now operates in Italy and Switzerland.

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 184 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 53,000 pharmacies, hospitals and other healthcare sites from 184 depots across the Czech Republic, France, Great Britain, Greece, Italy, Morocco, Portugal, Spain and Switzerland.

Alliance UniChem's integrated distribution and technically advanced networks provides millions of European citizens with 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 customers, pharmacists and manufacturers.

Chairman's statement

This has been an excellent year for Alliance UniChem, with strong sales growth, further advances in profits and earnings and significant business developments, both geographically and in our e-business activities.

Overall Group sales were up by 14 per cent to £6.1 billion / €9.3 billion (1998: £5.4 billion / €7.9 billion). Before goodwill amortisation, profits before tax were £123.1 million / €186.9 million, an increase of 11 per cent, and diluted Group earnings per share grew by 11 per cent to 27.6 pence per share. These results have been adversely affected by the strengthening of sterling in the latter half of 1999 and before goodwill amortisation and at constant currency rates, profits before tax were up by 12.4 per cent and earnings were up by 10.6 per cent. In Euro terms these increases, in profits before tax and in earnings, were 14 per cent. A final dividend of 7.7 pence per share is proposed, giving a full year cash dividend of 11.7 pence, an increase of 10 per cent over last year. The final dividend, payable to qualifying shareholders on the register at 7 April 2000, will be paid on 6 June 2000.

The rapid pace of our expansion has not slackened, with further significant acquisitions in 1999. The widening of the geographical coverage of our wholesaling businesses has included our strategic alliance with Galenica, the leading wholesaler in Switzerland, which has a 50 per cent market share; and our acquisition of three wholesalers in the Czech Republic and a major Spanish wholesaler in Andalusia. We have also agreed terms with a further 33 pharmacies in the United Kingdom, which, together with the pharmacies managed by AURI, takes our total portfolio to over 700 units.

Our retail division acquired 74 shops in the period, which, together with 42 further acquisitions since the period end, brings the total number of shops trading in the UK up to 676 units. The division also began operations outside the UK with the acquisition of pharmacies in Italy, and now also operates in Switzerland following our corporate development activities which have taken us into those countries for the first time.

We have also advanced our Group's strategy and strengthened our position in healthcare markets by significant developments in our e-business activities. A new company with an independent management team has been formed to coordinate our investments and development of internet and technology businesses. In 1999 we added to our existing portfolio of technology businesses, comprising the market leaders in the provision of software for pharmacies in Italy, France and Spain, and of pharmaceutical databases in France, through the acquisition of businesses, providing front-end surgery systems for doctors in France, and the market leading pharmacy system in the UK. Our new division will pursue a three pronged strategy, which will enable us to take the leading position in on-line business-to-business in the healthcare sector; establish a comprehensive healthcare knowledge website for consumers, linked to a platform for our pharmacist customers; and provide on-line healthcare community to network the key professionals involved in healthcare provision, including doctors, pharmacists and manufacturers.

Pharmacists

The concerns and needs of pharmacists are at the centre of our business activities across Europe. All our businesses are built upon the value of the continuing close relationships we have with pharmacists. We continue to explore new ways to develop those relationships further, through a pan-European representative forum for our pharmacist customers, our national consultative committees, annual business conventions, board representation in both an executive and non-executive capacity, and much more. The Pharmacists' Forum met on three occasions in 1999 and is currently working on an agenda of topics, including e-commerce, single European prescription systems, and issues concerning the wider sale of OTC medicines.

Shareholders

In total, 2.24 million new shares were issued in respect of the acceptance of scrip dividends by mainly private shareholders, and also the exercise of employee share options and for pharmacy acquisitions.

Pharmacist shareholders continue to be strongly represented on our share register through our listings in London and Paris, and in addition many pharmacists across Europe have an equity interest in the wider Group. We believe the Company is strengthened significantly by the participation of its pharmacist shareholders, which reinforces the mutuality of interest between the Company and its customers. Our associate company, Galenica, is quoted on the Swiss Exchange and enjoys the support of 1,665 pharmacist shareholders.

People

The job we do every working day, of delivering medicines and healthcare products to over 53,000 pharmacies, hospitals and other healthcare sites 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 business units.

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

During 1999 Michael Bardsley, a non-executive director from the time of our flotation as a public company in 1990, retired from the Board having reached the maximum permitted age for directors. Michael made an exceptional contribution to the Company over his ten year tenure on the Board, both as a director and as chairman of the audit committee. We wish him well on his retirement. Following our strategic alliance with Galenica we welcome Etienne Jornod, chairman and managing director of Galenica, onto our Board as a non-executive director. Etienne has been the driving force behind the strong performance of Galenica since his appointment in 1996 and we look forward to his contribution to the Board.

Outlook

The Group continues to prosper by building on its strengths in existing markets and expanding into new territories. Long term trends in our markets continue to be favourable and whilst all governments will continue to control healthcare costs tightly, we are demonstrating continuing success in increasing our profits and our returns. We have also demonstrated our ability to find and capture opportunities to grow by acquisition, and successfully to integrate and merge companies in to our Group, gaining synergies as we grow. We look forward to the future with confidence.

Kenneth Clarke
Chairman
21 March 1999

Results

Reported turnover at £6.1 billion / €9.3 billion (1998: £5.4 billion / €7.9 billion) and pre-tax profits at £121.5 million / €184.4 million (1998: £110.1 million / €163.1 million) demonstrate strong performance from our Group. The impact of the continued strengthening of Sterling during the course of the year has adversely impacted our results. Comparing with 1998, using constant exchange rates for both years, our businesses increased their turnover by 15 per cent and their pre-tax profits by 11 per cent. Pre-tax profits for the Group, before the amortisation of goodwill, compared with 1998 results on the same basis were up by 12 per cent. In Euro terms our performance is even more impressive, with turnover increasing by 17 per cent, our operating profits before goodwill amortisation by 11 per cent and our profits before tax and goodwill amortisation by 14 per cent.

"This is the 28th consecutive year our business has reported an increase in sales and pre-exceptional pre-tax profits."

We have made significant advances in Alliance UniChem in 1999, continuing to drive forward the performance of our core business, expanding into new territories and creating the optimum platform for our e-business 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.

Reported diluted earnings per share increased by 10 per cent to 27.1 pence despite the impact of adverse currency movements. At constant currency rates, and before goodwill amortisation, diluted earnings per share grew by 12 per cent, and in Euro terms by an impressive 14 per cent. With market growth in our core markets averaging 8 per cent in 1999, we have again demonstrated our ability to build turnover ahead of market growth by increasing market share, and to grow earnings ahead of turnover. This is the 28th consecutive year our business has reported an increase in sales and pre-exceptional pre-tax profits, and the Group has delivered higher underlying earnings per share and an increased dividend in each year since flotation.

The delivery of healthcare is the foundation of our business.

Chief executive's review

In 1999 we continued to pursue initiatives to raise the expected performance from our underlying business units. We also pursued two key strategic goals: first, continued geographic expansion, and second, enhancement of our strategic position through development of e-business activities. We have enjoyed success on all three fronts. Despite tough conditions in some of our markets, all our divisions have increased their profits whilst at the same time we have increased our share of the European Union healthcare distribution market to 17 per cent.

The generation of improved shareholder value is the main target of our businesses. In mature and consolidated markets our main opportunities to achieve this are through the maintenance and increase of operating margins and the reduction of working capital. In less developed markets we also pursue our aims through growth in market share. In all our wholesaling businesses operating margins are inevitably exposed to the actions which governments take to constrain the steady long-term growth in the cost of drug therapy. To offset government constraints we are increasing the use of technology to raise efficiencies and lower costs. Our performance over many years demonstrates our skill in employing these techniques to achieve our targets. In 1999, as in previous years, the operating margins of our businesses benefited from reductions in cost ratios. The proportion of lower margin wholesaling businesses in the Group has grown following the acquisitions in the Czech Republic and the full year effect of the consolidation of the Spanish business. This is reflected in the Group operating margin before goodwill amortisation of 2.4 per cent for 1999. Our forecasts are to improve operating margins in this year and in future.

These results have been achieved with no perceptible contribution from the effects of concerns over the millennium date change ('Y2K'). Indeed, we co-operated with manufacturers and regulatory authorities to guarantee continuity of supply of medicines, and this involved us carrying aggregate additional stocks of approximately £45 million / €68 million over the year end and into the first weeks of 2000. The financing costs of this exercise have been absorbed in interest expenses. All our computer systems ran smoothly over the year-end with no single reported instance of any failure, which demonstrated the success of our Y2K business assurance and continuity projects. No further costs are anticipated.

Group Development

We have made significant progress in developing the Group. Our Moss Pharmacy division has continued to find and acquire high quality retail pharmacies and now operates a chain of 676 outlets. Our retail division has been reorganised to create a separate business unit, Alliance UniChem Retail International ('AURI'), to manage the development of our pharmacy business outside the UK. This unit is managing our interest in pharmacy businesses acquired in 1999 in Italy and in Switzerland, where our recent acquisitions give us a platform for expansion in those markets. In markets where pharmacy ownership remains with independent pharmacists, we concentrate on developing value added partnership schemes aimed at improving our customers' patient services and profitability. AURI is also instrumental in transferring retail best practice to our wholesaling businesses responsible for implementing our value added schemes. The team at AURI is also examining opportunities to enter other markets where chains and vertically integrated groups are already trading.

"Despite tough conditions in some of our markets, all our divisions have increased their profits whilst at the same time we have increased our share of the European Union healthcare distribution market."

Our strategic alliance with Galenica, completed just before the close of the year, represents a significant step by us into a new country. Galenica is one of the most highly regarded European healthcare companies, with a wholesaling market share of 50 per cent, a strong track record and excellent prospects. We have also further expanded geographically our wholesaling activities through acquisitions in the Czech Republic, and into a new region in Spain via the acquisition of a wholesaler in Andalusia. In our related healthcare businesses, we acquired the 50 per cent of our homecare subsidiary, Vitalliance, not already owned by us.

Strategy for e-business

We have advanced our Group's strategy and strengthened our position in healthcare markets by significant developments in our e-business activities. A new company has been formed with independent management to coordinate our investments and the development of internet businesses. In 1999 we added to our existing portfolio of technology businesses, comprising the market leaders in the provision of software for pharmacies in Italy, France and Spain, and pharmaceutical databases in France, through the acquisition of businesses providing front-end surgery systems for doctors in France, and of Mediphase, the leading pharmacy system in the UK. Our new division will pursue a three pronged strategy.

"Our Group has significant differentiating advantages to exploit in e-business through our existing strong relationships with pharmacists and manufacturers."

Firstly, we are developing an internet capability to enable us to take the leading position in on-line business-to-business in the healthcare sector, which will enhance considerably our existing strong position in the healthcare distribution chain. This development is a direct continuation of our existing approach where, amongst pan-European healthcare companies, we are the preferred provider of, for example, pre-wholesaling services to manufacturers; we achieve the most widespread take-up by pharmacists of our added value schemes; and we are the leading provider of patient compliance programmes and market data.

Secondly, we are developing a comprehensive business-to-consumer healthcare website, linked to a platform for our pharmacist customers. We believe that the winning combination for on-line healthcare businesses will involve existing community pharmacies which have developed relationships with patients, consumers and healthcare professionals. This so-called 'clicks and mortar' business model is emerging in the USA as the likely winning combination, having the considerable advantage that the costs of maintaining a strong brand are much reduced by using the high street presence of a retail chain. In Europe, over 10 million people every day visit pharmacies served by Alliance UniChem. This model allows consumer access to on-line advice.

Thirdly, we are developing an on-line healthcare community to network the key professionals involved in healthcare provision, including doctors, pharmacists and manufacturers.

Our Group has significant differentiating advantages to exploit in e-business through our existing strong relationships with pharmacists and manufacturers, and from our market-leading logistics skills. Our strategy is directed towards the early exploitation of these assets. We are already the most efficient wholesaler and this activity is ideally suited to e-commerce fulfilment. Our businesses have long been major providers of market data and analyses to manufacturers, both at wholesale and retail levels. However, we also have access to healthcare professionals through our front-end systems, high technology capability through our existing EDI links with pharmacists and manufacturers, and extensive on-line content in our pharmaceutical databases and information systems. It is no accident that many of the start-up businesses who are seeking to create, so far unsuccessfully, an on-line market for over-the-counter products in Europe have approached us as potential strategic partners.

Our e-business activities have been organised into a new division, aggregating our existing technology assets and revenue streams, which is currently being managed by a specialist e-business venture capital company. We have engaged an i-builder who is rapidly transforming the technology base of our existing businesses and a management team is being recruited. We anticipate offering equity in this division to strategic partners, including providers of healthcare information and software components. However, this division will remain a subsidiary of the Group. Across our Group we have substantial and well established activities in technology which, when aggregated together, create a robust platform for future development. These businesses currently employ over 300 technology specialists and, on an annualised basis, earn current revenues of £25 million / €38 million. Development costs, incurred mainly to web-enable our existing technology assets, a part of which may be funded by equity contributions from strategic partners, are expected to be £20 million / €30 million over the next two years.

Outlook

We will continue to expand in 2000 and beyond, to develop our wholesale, retail and other healthcare businesses. We will also maintain our priority of continuously improving our operational efficiencies. At the beginning of 2000 we made changes to our executive management structure to align it with our priorities. Antonin De Bono, whilst remaining President of our French business, will spearhead our expanding related healthcare activities, including our portfolio of internet businesses. Our business operations will now be managed by two regional groups chaired by Ornella Barra and Barry Andrews. Chris Etherington will continue to manage our UK Wholesaling businesses within the northern region, whilst directing our expansion programme in Eastern Europe. With sound and stable management and growing markets, we have an excellent base from which to expand further across Europe.

"We will continue to expand in 2000 and beyond, to develop our wholesale, retail and other healthcare businesses."

The new logo is being used to brand an increasing number of products.

Alliance Santé France

Chief executive's review

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 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 to its pharmacy and other customers, and operates a range of related healthcare businesses including the provision of home healthcare to patients.

Through a branch network of 60 warehouses, ASF serves 15,000 of France's 22,600 retail pharmacies with two to five daily deliveries from a product range of 28,000 medicines and parapharmaceuticals. The principal administrative centres of the business are at Gennevilliers and Châteauroux and ASF employs 4,440 staff (full time equivalents). Currently 25 warehouses operate automated picking facilities and four hold central stocks.

The French division comprises the following businesses:

- *Alliance Santé – pharmaceutical wholesaling, France*
- *Locapharm, Paramedimat and subsidiaries – provision of home healthcare services through pharmacist clients*
- *ASBI, ASE, RESIP and subsidiaries – pharmacy and doctors' systems and database services*
- *Elvetec and subsidiaries – chemical analysis and laboratory equipment*
- *Serex – export of pharmaceuticals outside the European Union.*

Performance

ASF achieved strong sales performance, with a 7.5 per cent increase in total turnover to FFr 28.6 billion (£2.9 billion / €4.4 billion), including a 6.8 per cent increase in like-for-like turnover of prescription medicines. This compares with a stronger than anticipated increase of 6.1 per cent in the French wholesaling market despite action taken to increase generic prescribing and price cuts on some products. Some of the extra growth was driven by the transfer of drug spending budgets from hospitals to pharmacies; however, most of the growth was derived from higher drug prices. 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 1999 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 1999 has exceeded the profit contribution from extra volume for the second consecutive year. ASF further improved its cost efficiencies through rationalisation and excellent control of operating costs. Despite incurring rationalisation costs of FFr 26 million and the increased ACOSS costs, ASF's operating margin before goodwill amortisation increased strongly to 1.66 per cent from 1.51 per cent last year. Operating profits, before goodwill amortisation, at FFr 475 million / £47.7 million / €72.4 million) were up by 18 per cent compared with last year.

The pressure on healthcare costs from the French authorities is likely to be maintained; however, ASF has demonstrated its ability to grow its operating margins despite these pressures and we intend to continue to develop our commercial network while controlling costs and improving productivity.

Markets

Following the stronger than expected growth experienced in 1999, the Government in France is attempting to take further measures to constrain the escalating costs of the drugs bill, following its initiatives on generics and a reduced rate of wholesaling margin on products priced over FFr 150. These mainly involve examining the efficiency of drugs in each therapeutic category. The latest proposals are under discussion between the various interested parties, including the manufacturers, and the precise impact such initiatives will have on the market remains unclear.

Customer Relations

ASF has added in 1999 to its full range of additional services for pharmacists, introducing in June a successful generics programme, working closely with major manufacturers. ASF has also introduced a merchandising service and a series of attractive themed and seasonal promotions. The membership of our various added value schemes has grown strongly in 1999 and our talented ASF commercial team continues to lead the sector in the French market.

Operations

On the operational front, 1999 was a year of enormous change and significant achievement with the merger in January of the two former wholesaling operating companies owned by ASF. The management team successfully implemented the new 35 hour working week regulations, consolidated all central services at Gennevilliers and Châteauroux, closed two administrative centres and two warehouses and outsourced core information technology operations. That all this was achieved without any loss of service to our pharmacy customers is a tribute to the very high skill and professionalism of the ASF management team.

Outlook

The outlook for market growth in pharmaceuticals is in the range 2 to 4 per cent, taking account of the market constraints described above. Within this steadily expanding market we expect to increase operating margins. 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.

"Cost reductions and efficiency gains, together with expansion in added value services for our clients, will allow us to improve operating margins."

UniChem

Chief executive's review

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, full line 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:

- *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 – suppliers of prescription spectacles for pharmacy and other retail customers.*

These businesses serve 5,900 retail pharmacies out of a total in the UK of 12,600, and all of the UK's 500 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 3,290 people work in these UK businesses.

Performance

For the second consecutive year, the division has gained new customer accounts due to its superior service levels and, significantly, has won a contract for second line supply to Boots. These factors contributed to an 11 per cent increase in total turnover to £1,654 million / €2,511 million. Including like-for-like growth in medical sales of 12.5 per cent, ahead of estimated wholesale market growth of 10 per cent, UniChem's outperformance was driven by the increase in net accounts served and the success of the nationwide launch of our shortline trading operation, OTC Direct.

Start-up costs in the first half year for the Boots contract and the shortline operation, together with the impact of the lower margin shortline turnover, depressed operating margin for the full year, at 2.78 per cent. However, after a reduction in operating margin of 33 basis points in the first half, UniChem recorded a gain of 16 basis points in the second half.

Markets

In October 1999, the Government announced a 4.5 per cent price reduction on prescription pharmaceuticals under the Pharmaceutical Price Regulation Scheme ('PPRS'), affecting sales growth and gross margin from the end of the third quarter. Through agreements with our manufacturer partners, we avoided any stock loss associated with the price reductions and have successfully recovered the gross margin reduction in improving performance elsewhere in the division.

Our 184 branches supply a high quality service with rapid turnaround times.

In 2000, actions contemplated by the division on costs, discounts and manufacturer revenues are expected to ameliorate substantially the potential impact of the price cut on operating profits. The PPRS price cuts are in some cases being applied selectively by manufacturers so as to reduce the penetration of parallel imports, where we have low volumes of business. Although this could in the short term reduce gross margins from our turnover of this product category, in the long term we expect this to boost our revenues and market share and help us to continue the long term growth of operating profits.

In the OTC market, medicines again outperformed toiletries, boosted by the high incidence of influenza towards the end of the year. The market for OTC medicines grew by 2 per cent, and our sales of this category were up by 5 per cent.

In the hospital sector we achieved further success, with pharmaceutical turnover up by 10.5 per cent in a market growing at an estimated 8.1 per cent, and medical and surgical turnover up by 12.8 per cent. This growth contributed to increased operating profits from this sector, boosted further by the successful acquisition and integration of a smaller medical/ surgical competitor, Surgicon.

Customer Relations

The division maintained a full range of services and launched a series of marketing initiatives in 1999 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 1,248 pharmacies, with over 170 acquisitions and expansions supported during the year. In September we launched a new securitised structure for the provision of loans by banks to pharmacists, reducing costs for our pharmacy customers and improving our cost efficiency. Take-up of loans under the new structure has been enthusiastic, with some 113 pharmacies representing £15 million of loans now included.

Pharmacy Alliance, our scheme designed to produce a range of patient-focussed medicine management services in conjunction with 27 manufacturers and healthcare purchasers, continued to attract clients. By the end of 1999 Pharmacy Alliance comprised 1,231 pharmacies making it the largest network of specialist pharmaceutical service providers in Europe.

Operations

We have continued to raise our operational efficiencies and have achieved a further improvement in costs ratios in 1999. We have successfully automated our central depot for over-the-counter products, providing improved service levels and later cut-off times for our customers, and putting in place a highly efficient platform for e-commerce fulfilment.

Prospects

The 4.5 per cent PPRS price cut will slow our development in 2000 and will counteract the growth in the operating margins we would expect to achieve by improved efficiency. Gains in market share and the attraction of our superior added value services are expected to lead to further growth in operating profits in 2000.

The Group's priority is to be the first choice for pharmacists and patients.

Moss Pharmacy

Chief executive's review

Business Profile

The UK is the most developed European country in respect of retail pharmacy chains. In the UK, multiples now own 43 per cent of all outlets, up from 28 per cent in 1990. Moss Pharmacy is the third largest chemists chain in the UK, operating 676 units with a strong focus on community locations close to, or situated in, medical centres. Moss also has 72 units located in superstores. Moss Pharmacy's 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 also manages our interests in pharmacy businesses in Italy and Switzerland, through its division, Alliance UniChem Retail International ('AURI').

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 Pharmacy is at Feltham, Middlesex, although the majority of our 5,586 employees (3,352 full time equivalents) are located in the pharmacies.

Performance

For the fifth consecutive year, the division again achieved strong all round performance. Total sales, at £432 million (€656 million), were up by 22.3 per cent over last year with like-for-like sales for NHS business up by 13.2 per cent, ahead of estimated market growth of 12.5 per cent. Growth from pharmacies acquired last year, and the acquisition of 74 pharmacies in 1999 contributed the remainder of the sales growth. Operating margins were under pressure from an increase of 1.0 per cent in 'clawback', the discount recovery mechanism of the UK Government, and from the impact of high wage inflation for pharmacists. Moss has not been affected by the introduction of the minimum wage legislation by the UK Government. There will, however, be 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 Pharmacy was able to lift its operating margins before goodwill amortisation to 6.91 per cent from 6.76 per cent in 1998. This meant that on sales up by 22.3 per cent, operating profits, after goodwill amortisation in respect of the pharmacies acquired in Italy, grew by 24.7 per cent to £29.8 million (€45.2 million).

Markets

The NHS market, including pharmacists' fees, grew by an estimated 12.5 percent. This was largely fuelled by a shortage of some key generics, which led to significant price rises toward the year-end. These prices are settling down considerably in 2000 and this factor, together with the PPRS price cuts, means that market growth in 2000 will be more in line with previous years.

As predicted last year, the introduction of Primary Care Groups to the NHS provided new opportunities for pharmacists to develop their role, providing advice and support to prescribers. Moss has been at the forefront of these developments, supporting pharmacists in these new roles on a sessional basis, and building enhanced local relationships. The devolution of budgets within the NHS to these local bodies has also created opportunities for service development. To develop these new services Moss appointed a number of professional services pharmacists to work on projects locally with representative and health service bodies. Moss has increased its participation in health promotion and advisory activities, and has won a number of contracts to supply carer training to social services departments.

Moss Pharmacy take care of patients from 676 units.

The division was also successful in a tender process to provide pharmaceutical services to the Scottish Prison Service. The service was established in November with roll-out to all prisons continuing into 2000.

OTC products performed well in 1999, supported by the introduction of branch-specific business plans founded on geo-demographic analysis, and also by high incidences of hay fever and coughs and colds later in the year. OTC medicines were the strongest performing category with a like-for-like growth of 15 per cent in pharmacy only lines – products which can only be sold in retail pharmacies and which is the focus of our OTC retail offer. Toiletry products had an excellent year, with like-for-like growth of 5 per cent in an extremely competitive market. Stronger customer promotions, the addition of customer loyalty schemes, and a number of staff incentives contributed to this performance.

The issue of Resale Price Maintenance on medicines remains unresolved and is unlikely to come before the courts until October 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.

Far right: Good advice is part of the Moss Pharmacy service.

Portfolio

We acquired 74 pharmacies during the year and sold three units. This, together with 42 acquisitions since the end of 1999, brings the total shops trading in the United Kingdom at the end of March up to 676, compared to 634 trading at the year end. We have also agreed terms with a further 33 pharmacies in the United Kingdom, which, together with the pharmacies managed by AURI, takes our total portfolio to over 700 units.

The prices offered for retail pharmacies hardened during 1999 as multiple operators sought to expand, and a few shops were bought by competitors at goodwill to sales ratios over 100 per cent. However, by more specific targeting and maintenance of its reputation as a highly ethical and responsible pharmacy chain and employer, Moss was able to reach its acquisition targets and maintain its targeted returns. We expect to maintain our rate of expansion.

Part of the branch-specific business plan involves identification of the major market groups in a pharmacy's catchment area. All pharmacies will be refitted in a three year rolling programme to optimise the attractiveness of the stores to our customers in these market groups. This will include adoption of the new Moss Pharmacy retail brand image.

Internationally, Moss took its first step outside the UK market with the acquisition of eight former municipal pharmacies in Rimini, Italy, in June 1999 and the Swiss market following our strategic alliance with Galenica. We are actively pursuing other opportunities in Italy and elsewhere, and an international team has been established within Moss, drawing on the skills of our highly experienced UK development team.

Outlook

Our trading stance and operational strategies continue 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 is demonstrated by an increasing operating margin. We are confident of further margin gains.

Other Wholesaling Businesses

Chief executive's review

Our businesses comprise wholesaling subsidiaries and associates in Italy, Portugal, Spain, Czech Republic, Greece and Morocco.

Italy

The Italian wholesale pharmaceutical market, the third largest in Europe, is in a phase of consolidation. The market currently comprises 271 depots operated by 166 companies. Alleanza Salute Italia ('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 comprises a network of 53 warehouses, ensuring a reliable and rapid service is available to 10,500 client pharmacies out of the total in Italy of 16,500.

The ASI 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 982 employees (953 full time equivalents) and has offices in Lavagna, Rome and Naples. In 1999, we progressed our rationalisation programme in Italy, closing four warehouses and two administrative centres and opening two new regional distribution centres to improve cost efficiency. ASI has centralised the purchasing of over-the-counter products, giving the opportunity for gross margin improvements in 2000 and beyond.

ASI performed in line with the wholesale market, achieving consolidated turnover of L. 2,257 billion (£767.6 million / €1,165.2 million), up by 7.3 per cent compared with last year. Like-for-like sales growth was 8.5 per cent despite the continuation of our depot rationalisation programme. Operating profits before goodwill amortisation and reorganisation costs were L. 46.2 billion (£15.7 million / € 23.8 million), an operating margin of 2.05 per cent.

Portugal

Alliance UniChem Portuguesa ('AUP') is the largest wholesaler in the country with a market share of 20 per cent, and the only one with full national coverage. We serve 1,900 of the 2,600 pharmacies from 9 warehouses in which 429 people are employed. The total pharmaceutical market amounts to Esc. 336 billion (£1.1 billion / €1.7 billion).

Estimated market growth in Portugal in 1999 at 13 per cent was ahead of our expectations, with our own sales growing in total by 6.45 per cent to Esc. 72.5 billion (£238.6 million / €362.2 million). As expected, because of depot rationalisation, our like-for-like turnover growth at 7.0 per cent was behind the market. We successfully rationalised warehouses in the Porto area in early 1999, bringing our branch numbers in Portugal down to 9. We plan to repeat this strategy in the Lisbon area, having recently purchased extra space in Lisbon to accommodate automation equipment. After reorganisation costs, operating profits were Esc. 1.5 billion (£4.9 million / €7.4 million), an operating margin of 2.1 per cent.

Spain

Safa Galenica, in which we now control 97 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 has 11 per cent market share serving 6,200 of the 19,200 pharmacies in Spain, operating, at the end of 1999, with 23 warehouses throughout central and northern Spain.

Sales for Safa in 1999 were Ptas 104.7 billion (£414.7 million / €629.5 million), an increase of 18 per cent on 1998 in a market growing by 10 per cent. Operating profits were Ptas 830.0 million (£3.3 million / €5.0 million), after charging restructuring costs associated with Safa's rapid expansion programme, giving an operating margin of 0.80 per cent. Safa continued its rapid expansion and development programme in 1999, four new warehouse openings, eight warehouse closures and the acquisition of a regional wholesaler in Andalusia with six warehouses. These developments are part of our plan to establish an efficient network covering all of Spain.

Czech Republic

We entered the Czech market in 1999 via the acquisition of three regional wholesalers. The market is £0.5 billion / €0.8 billion in value and is going through a period of consolidation, with ourselves and other pan-European wholesalers taking positions in the recent period. It is currently served by eight main wholesalers with 39 depots. Our business contributed consolidated turnover of CZK 3.4 billion (£60.1 million / €91.2 million) and operating profit before goodwill amortisation of CZK 63 million (£1.1 million / €1.7 million), and is the third largest operator with a market share of 20 per cent.

Greece

The Greek pharmaceutical distribution market is very fragmented, with 138 wholesalers serving 8,200 pharmacies. Our associate company, Lavipharm Alliance Santé ('LAS'), 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. With 1,150 clients and Dr.25.9 billion (£48.8 million / €74.0 million) turnover in 1999, LAS has 12 per cent of the market. LAS achieved a turnover increase of 39 per cent, in a market for prescription pharmaceuticals which grew by 19 per cent. In 1999 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.

Other Wholesaling Businesses

Chief executive's review

Morocco

Healthcare spending in Morocco is low but has high potential 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 33 per cent share, is the third largest and has minority stakes in three other Moroccan wholesalers.

These businesses contributed in aggregate operating profits, before goodwill amortisation and reorganisation costs, of £25.5 million / €38.7 million, (1998: £25.5 million / €37.8 million). Reorganisation costs, reflecting our strategy to build efficient depot networks serving all of each national market, were £1.1 million / €1.7 million (1998: zero). We expect to take advantage of the above average growth experienced in these markets and of opportunities created by sector consolidation to increase our turnover, market share and profits. This is expected to lead in the medium term to increasing operating margins; however, in the next year or two, margins are likely to remain level while we establish our market position and create our depot networks.

Pre-wholesaling

Having developed pre-wholesaling services to our manufacturer partners on a national market basis, we took a significant step forward in 1999. As part of our transaction with Galenica, all our pre-wholesaling businesses across Europe have now been organised into a single division together with the pre-wholesaling business of Galenica, under the management of that company's highly experienced pre-wholesaling management team. This new division will develop our activities so that we can offer a seamless pan-European service to our manufacturer partners, and it is already the market leader in Europe. This arrangement brings in Galenica's already well established pre-wholesale business, which serves 28 manufacturers and distributes 15 per cent by value of the Swiss pharmaceuticals market. Our largest pre-wholesale business is UDG, which continues to lead the UK market, and we now have 31 contracts with a value of product handled at £760 million, 14 per cent of the UK market. In 1999 we won a large contract with Warner Lambert, which began in the third quarter. The facility at South Normanton is now reporting profits and yet has spare capacity to take on additional contracts. We are working towards further contract gains in 2000.

Jeff Harris.

Jeff Harris
Chief Executive
21 March 1999

The development of state-of-the art systems enables efficient service to be offered to phamacy.

European Markets

Alliance UniChem is a major presence in European healthcare markets. Our major strength is 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.

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. Wholesalers have always needed to manage their businesses within this environment so as to achieve improving performance regardless of these actions by governments. Although we are some time away from a single European drug market, we have seen further evidence of common trends emerging in 1999. These trends are generally helpful since they increase the opportunities we have for capturing synergy benefits from our span of pan-European businesses.

Market growth in the territories in which we operate has exceeded our earlier forecasts for 1999. Average growth for all our markets was 8 per cent, with the Portuguese market the highest at 13 per cent and the Czech market the lowest at 3 per cent. Alliance UniChem's spread of interests in different markets gives us improved resilience to the actions of any individual European government.

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 and in many countries in Eastern Europe. Regulatory changes permitting such chains are under consideration, or have been formally proposed, in a number of other European countries including in 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.

Over the last two years we conducted a comprehensive review of the potential impact of the internet on European healthcare markets. The increased penetration of internet access in Western Europe and the long-term trend towards deregulation of our markets mean that we are now presented with significant opportunities, which could in the longer term lead to a radical transformation of our Group. However, the promotion and advancement of the role of pharmacists and our pharmacy customers is necessarily at the core of our e-business strategies. Pharmacists play a crucial role in the provision of healthcare to citizens and we believe it is neither safe nor commercially viable to operate a healthcare delivery business without their involvement. None of our e-business proposals compromise or undermine this role, and we are currently engaged in a widespread consultation exercise with our customers across Europe to finalise operational plans in a number of specific areas. We intend to announce further initiatives in e-business following that consultation exercise.

The review considered five distinct business sectors: services to manufacturers, services to pharmacists; the prescription medicines market; the over-the-counter market and our related healthcare businesses. E-commerce will have a limited and gradual impact on our sector due to the unique constraints imposed by the regulatory regimes applying to the supply of medicines. Currently, the remote dispensing and mail order supply of prescription medicines is not permitted anywhere in Europe and some over-the-counter medicines face similar restrictions, leaving only the relatively smaller market for other over-the-counter products. Due to the disadvantageous value to weight relationship of these products, it is unlikely that a pure e-commerce operation could survive by relying only on that category of merchandise. The Achilles heel of the e-commerce business models in prescription medicines is the ability to obtain reimbursement. This has meant that mail order and internet distribution businesses have not developed in our sector, and hence threats to our existing revenue streams and asset base by the emergence of alternative channels are low. Electronic prescriptions and electronic reimbursement will require significant capital investment by both governments and industry players alike. It is likely that co-operation, to devise and implement rigorous standards and safety procedures, between authorities, pharmacists, wholesalers and manufacturers will be the route to establishing the feasibility of e-commerce for prescription medicines. Highly efficient, low cost distributors of medicines will be best placed to contribute to that development. We intend, where cross-industry consultation structures are established, to play a full part in establishing those standards and procedures, always safeguarding the interests of pharmacists. We do not intend to promote, support or lobby for liberalisation which is likely to compromise the role of our pharmacy customers and expose patients to danger. Until such changes to existing regulations are introduced with the broad support of healthcare professionals, we see no requirement or opportunity to develop e-commerce structures for prescription pharmaceuticals involving patients. However, implementation of our plans in other business sectors will position us well, to protect our customers' interests and exploit our own capabilities, should these regulations change.

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 those national wholesalers who are presently independent. This has been demonstrated in 1999 by our expansion in Switzerland, Spain and the Czech Republic. 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 including significant e-business activities. We also aim to continue our geographic expansion, both within and beyond our current territories. Following our very successful entry into the Czech market, we are studying carefully the rapid development of other 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
21 March 1999

"Underlying cash generation from our core businesses remained strong."

Group Results

Group turnover increased by 14 per cent and comparable Group operating profits by 9 per cent before goodwill amortisation. After allowing for securitisation charges and the reclassification of associates' interest costs, net interest costs increased by £0.4 million / €0.6 million and interest cover was 5.8 times (1998: 5.4 times). Despite spending some £74.6 million / €113.1 million on Group expansion and development, interest costs increased only marginally, reflecting a fall in base rates across Europe and better working capital management in our operating divisions. Associate income increased from £2.1 million / €3.1 million in 1998 to £3.3 million / €5.0 million in 1999, with the main improvements coming from profits at UDG, our UK pre-wholesaling associate, and improved performance in our French related healthcare businesses. Profit before and after tax increased by 10 per cent. The overall tax rate for 1999 was 34.24 per cent (1998: 33.79 per cent), with changes to the mix of profits in different regimes responsible for the small rise. Diluted earnings per share increased by 10 per cent, and the 10 per cent increase in the full year dividend to 11.7 pence per share gives dividend cover of 3.4 times, level with last year on a per share basis.

Cash Flow

Underlying cash generation from our core businesses remained strong, with the rise in average borrowings reflecting the heavy investment programme. Average net working capital investment is about 11 per cent of sales and organic sales growth would have required around £80 million of extra working capital investment. However, the growth in working capital only consumed £11 million (€16.7 million) despite stock investments of £45 million /€68 million associated with the Y2K issue. This contributed to a strong rise of 21 per cent in net cash inflow from operations. The net cash outflow from tax and interest payments and dividends was in line with our expectations, giving free cash flow of £81 million (€123 million). We spent a net £36 million (€55 million) on capital expenditure, of which £23 million (€35 million) relates to expansion of our warehouse network across Europe. Expenditure on acquisitions in the year, net of disposal receipts, was £133 million (€202 million). The majority of this outflow fell into the second half-year, and as a result year end gearing was 120 per cent, compared with 126 per cent at the end of 1998.

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 1,741 million (£165.0 million / €265.4 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.

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 £390 million (€626 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.

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% 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 can be summarised:

	Average cover in place during			
	2000	2001	2002	2003
Interest rate swaps				
(a) £m	-	-	-	-
Average fixed rate	-	-	-	-
and				
(b) €m	339.1	325.0	206.7	28.3
Average fixed rate	3.80%	4.19%	5.04%	5.45%
Interest rate caps				
(a) £m	22.5	15.0	1.3	-
Average maximum rate	7.50%	7.50%	7.50%	-
and				
(b) €m	175.4	169.3	165.0	41.3
Average maximum rate	4.53%	5.46%	5.94%	6.00%
Total nominal cover				
(a) £m	22.5	15.0	1.3	-
and				
(b) €m	514.5	494.3	371.7	69.6

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.

The very successful securitisation of our loan guarantee portfolio for pharmacies in the United Kingdom will significantly reduce the contingent liability reported in our financial statements. In addition it provides substantial commercial benefits for our pharmacy clients.

The quality of service to customers, pharmacists and manufacturers is paramount.

Report of the Directors

The information constituting or despatched with the 1999 annual report are 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

Jeff Harris	Chief Executive
Stefano Pessina	Deputy Chairman
Barry Andrews	Retail Director
Ornella Barra	Director of Italy, Portugal & Spain
Geoff Cooper	Finance Director
Antonin De Bono	Director of France, Greece & Morocco
Chris Etherington	UK Wholesale Director

non-executive directors

Ken Clarke	independent Chairman
Claude Berretti	
Neil Cross	independent
Etienne Jornod	
Patrick 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		none
ceased	27 May	M.A. Bardsley

In the rest of this report details given will be for the period that Michael Bardsley was a director. Etienne Jornod was appointed a director since the end of the year.

B.M. Andrews B.Pharm., F.R.Pharm.S. (aged 55 / appointed 1992 / last elected 1998). *Barry Michael Andrews is a Pharmacist and Managing Director of Moss Pharmacy. He is a member of the Pharmaceutical Services Negotiating Committee, a director of the Company Chemists Association and a member of the Standing Pharmaceutical Advisory Committee.*

C. Berretti (aged 65 / appointed 1998 / elected 1999). *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.*

D.ssa O. Barra (aged 46 / 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.*

Right Hon. K.H. Clarke Q.C., M.P. (aged 59 / appointed 1997 / elected 1998). *Kenneth Harry Clarke is a Queens' 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 and of Independent News and Media (UK) Ltd.*

G.I. Cooper B.Sc., A.C.M.A. (aged 46 / appointed 1994 / last elected 1999). *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.*

A. De Bono (aged 55 / 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.*

J.F. Harris (aged 51 / 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.*

S. Pessina (aged 58 / appointed 1997 / last elected 1999). *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 Sante Group which merged with the Company in 1997.*

N.E. Cross Ph.D., F.C.I.S. (aged 55 / appointed 1997 / last elected 1999). *Neil Earl Cross was an executive director of 3i Group plc from 1989 to December 1996. He is a non-executive director of Dawson Holdings PLC, Perkins Foods PLC, Taylor Nelson Sofres plc, The Babraham Institute, The Bayard Fund and British Maritime Technology Limited.*

C. Etherington (aged 47 / 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.*

E. Jornod (aged 47 / appointed 2000 / to be elected). *Etienne Jornod is Chairman and Managing Director of Galenica Holding. He has worked at Galenica since 1975 and has been Chairman since 1996. He is also a director of Bon Appetit Group and of Bonnard & Gardel Ingénieursconseils and a member of the foundation board of the International Red Cross Committee in Geneva.*

P. Ponsolle (aged 55 / appointed and elected 1997). *Patrick Ponsolle is executive chairman of Eurotunnel Plc/S.A.. He is also a director of Société Générale de Belgiqué and of Moulinex S.A. and a member of Morgan Stanley Dean Witter's board of senior european advisors.*

Report of the Directors

The articles of association of the Company currently provide for the retirement of one-third of the directors each year. A change to the articles of association is to be proposed at the annual general meeting whereby directors will be required to retire every three years. This change is in line with one of the provisions of the Combined Code. The year of the last election for each of the current directors is included in their biographies above. The provisions of the Combined Code have been met in respect of the current Board.

All directors have access to the advice and services of Adrian Goodenough, the Company Secretary and 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 1999 and the four main standing committees of the Board met in accordance with their terms of reference, as detailed below. Members of the Board and committees receive appropriate notice of each meeting, 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 1999 annual report.

The **audit** committee met three times in 1999. 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.

One of the provisions of the Combined Code is that the membership of this committee should consist of at least three non-executive directors. Following the retirement of Michael Bardsley in May 1999, this committee met twice in 1999 when it did not comply with this provision. The committee does now comply with this provision.

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.

Each business unit has its own board of directors with responsibility for their business. Every quarter, members of the executive committee review in detail each business and their findings are reported to the Board.

The **nomination** committee did not meet in 1999. 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.

One of the provisions of the Combined Code is that a majority of the members of this committee should be non-executive directors. This committee does not comply with this provision. 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 individuals constituting this committee.

The **remuneration** committee met four times in 1999 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 Board determines the fees of the non-executive directors.

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				
C. Berretti	E	-	-	-
K.H. Clarke	-	-	CM	CE
N.E. Cross	CE	-	-	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				
M. Deleers - group internal auditor	A	-	-	-
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, a number of comparative remuneration surveys and increases in salary given to employees of the Group.

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 considers it unnecessary to seek shareholder approval of this policy.

Emoluments

The emoluments of the directors for the financial year ended 31 December 1999 were:

	fees	*salary and* other cash	*non-cash* benefits	*bonus* payments	*total* 1999	*emoluments* 1998
director	£000	£000	£000	£000	£000	£000
B.M. Andrews	-	220	15	66	301	298
M.A. Bardsley	8	-	-	-	8	20
O. Barra	-	200	-	58	258	243
C. Berretti	20	-	-	-	20	11
K.H. Clarke	120	-	-	-	120	120
G.I. Cooper	-	248	16	63	327	292
N.E. Cross	20	-	-	-	20	20
A.De Bono	-	245	1	55	301	309
C. Etherington	-	211	9	56	276	226
J.F. Harris	-	385	11	100	496	352
S. Pessina	-	250	-	65	315	263
P. Ponsolle	20	-	-	-	20	20
Total	188	1,759	52	463	2,462	2,174

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. In respect of 1999, the maximum bonus payable was 40% of an individual's salary. In respect of 2000, the maximum bonus payable will be 50% of an individual's salary.

Long term incentive plan

The 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 1	allocation 2
B.M. Andrews	73,333	110,000
O. Barra	66,667	100,000
G.I. Cooper	80,000	120,000
A. De Bono	80,000	120,000
C. Etherington	66,667	100,000
J.F. Harris	108,333	192,500
S. Pessina	83,333	125,000

The performance period for allocation 1 is 1 January 1998 to 31 December 2000 and for allocation 2 is 1 January 1999 to 31 December 2001.

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

performance measure	achievement		% awarded
total shareholder return	below median		-
	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 the diluted figure before exceptional items and goodwill amortisation 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 UK 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 the directors during 1999 were:

director	age at year end	increase in accrued pension during the year £000	total accrued pension at year end £000	additional money purchase contributions 1999 £000	1998 £000
B.M. Andrews	54	19	120	-	-
O. Barra	46	-	-	32	-
G.I. Cooper	44	3	17	13	13
C. Etherington	46	3	27	17	17
J.F. Harris	50	49	181	-	-

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 1998 for Jeff Harris, the highest paid director, was £124,000. The additional money purchase contributions are paid by the Company into separate schemes with no additional contributions 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; Jeff 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 1999	acquired in the year	disposed in the year	31 December 1999	acquired in the period	disposed in the period	21 March 2000
B.M. Andrews	117,662	12,510	3,312	126,860	-	-	126,860
K.H. Clarke	1,600	2,169	-	3,769	-	-	3,769
G.I. Cooper	65,594	949	-	66,543	-	-	66,543
N.E. Cross	5,000	-	-	5,000	-	-	5,000
C. Etherington	9,759	3,528	9,678	3,609	6	-	3,615
J.F. Harris	186,550	7,822	-	194,372	47	-	194,419
S. Pessina	104,634,177	208,408	-	104,842,585	-	-	104,842,585
P. Ponsolle	500	-	-	500	-	-	500
Total	105,020,842	235,386	12,990	105,243,128	53	-	105,243,291

The Employee Share Trust held 3,033,333 shares at 31 December 1999. The Trust acquired 2 million shares during the period 3 June 1999 to 6 July 1999 at prices ranging between 429.5 pence and 450.0 pence. There were no other changes to this holding between 31 December 1998 and 21 March 2000. All employees and the executive directors are eligible to benefit from the trust.

The interests of Stefano Pessina are held by Alliance Santé Participations S.A.. The company, registered in Luxembourg, is indirectly wholly owned by Stefano Pessina, and the directors include Stefano Pessina, Ornella Barra, Claude Berretti and Antonin De Bono. No other interests in the fully paid shares of the Company are held by Ornella Barra, Claude Berretti and Antonin DeBono.

Interests in options over shares

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

director	option	1 January 1999	granted / (exercised) in the year	31 December 1999	granted / (exercised) in the period	21 March 2000	exercise price (p)	mid-market price on exercise (p)	notional gain £000
B.M. Andrews	1	8,254	(8,254)	-	-	-	163.55	425.00	22
	2	3,312	(3,312)	-	-	-	208.33	559.50	12
	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		-
	12	3,194	-	3,194	-	3,194	324.00		-
		134,760	(11,566)	123,194	-	123,194			34
O. Barra	10	186,263	-	186,263	-	186,263	429.50		-
	11	-	63,737	63,737	-	63,737	435.00		-
		186,263	63,737	250,000	-	250,000			-
G.I. Cooper	3	9,154	-	9,154	-	9,154	213.00		-
	8	372	-	372	-	372	269.00		-
	9	36,872	-	36,872	-	36,872	268.50		-
	10	45,000	-	45,000	-	45,000	429.50		-
		91,398	-	91,398	-	91,398			-
A. De Bono	10	223,515	-	223,515	-	223,515	429.50		-
	11	-	26,485	26,485	-	26,485	435.00		-
		223,215	26,485	250,000	-	250,000			-

C. Etherington	2	3,312	(3,312)	-	-	-	208.33	522.50	10
	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		-
	12	3,194	-	3,194	-	3,194	324.00		-
	13	-	1,757	1,757	-	1,757	384.00		-
		156,506	(3,312)	154,951	-	154,951			10
			1,757						
J.F. Harris	2	3,312	(3,312)	-	-	-	208.33	522.50	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		-
	13	-	1,757	1,757	-	1,757	384.00		-
		333,019	1,757	331,464	-	331,464			10
Total		1,125,461	(18,190)	1,201,007	-	1,201,007			54
			93,736						

No options lapsed during the financial year or between 1 January 2000 and 21 March 2000. The mid-market price of shares of the Company ranged during 1999 between 386.5 pence on 17 August and 568.5 pence on 8 January and at 31 December was 414.0 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
11	discretionary	27 May 2002	26 May 2006	yes
12	savings related	1 August 2003	30 January 2004	-
13	savings related	1 July 2004	30 December 2004	-

The options granted to O. Barra and A. De Bono formed part of the arrangements of the merger with Alliance Santé S.A..

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 the diluted figure before exceptional items and goodwill amortisation 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 UK Government. The target parameters may be changed by the remuneration committee should circumstances warrant it.

Employment agreements

Barry Andrews, Geoff Cooper and Chris Etherington have employment agreements that can be terminated by either party on twelve month's notice. Jeff Harris has an employment agreement that can be terminated by the Company on 12 month's notice or by him on 6 month's notice. There are provisions in the service agreements for pay in lieu on current salary for the unexpired period of appointment or to cover the required notice period. 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.

Shareholders

In view of the obvious independence of the Chairman, Ken 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 2000 annual general meeting has been despatched with this annual report. Shareholders, whether they can attend the meeting or not, are encouraged to ask questions of the Board and 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 40.

Political and charitable gifts

£20,000, exclusive 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.

Internal controls

The Group has adopted the transitional approach for the internal control aspects of the Combined Code as set out in the letter from the London Stock Exchange to listed companies dated 27 September 1999.

The Board confirms that it has established the procedures necessary to implement the guidance 'Internal Control: Guidance for Directors on the Combined Code'

The Board has considered the need for an internal audit function and has appointed an Internal Auditor at Group level to complement the existing divisional functions. The scope of the Group Internal Auditor encompasses the examination and evaluation of the adequacy and effectiveness of the Group systems of internal control and the quality of performance in carrying out assigned responsibilities.

The Board is responsible for the Group's system of internal financial control and for reviewing its effectiveness. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss. Key procedures are described under the following four headings:

• 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 – the Group has a comprehensive system for reporting financial results to the Board whereby each operating unit prepares monthly results, with a comparison against the budget, the latest forecast and the previous year, and the Board reviews these for the Group as a whole and determines appropriate action;

• 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 are made against major failures.

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.

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 Internal Auditor'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, 'Internal Control and Financial Reporting' issued in December 1994.

Directors' responsibility statement

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 42 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
21 March 2000

We have audited the financial statements on pages 42 to 58 which have been prepared under the accounting policies set out on page 46.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 40 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 corporate governance statement on page 32 reflects the company's compliance with the seven 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 consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the 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 1999 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

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

21 March 2000

Group profit and loss account

for the year ended 31 December

Unaudited Proforma 1999 €m		Note	1999 £m	1998 £m
	Turnover			
9,094.5	Continuing operations		**5,991.2**	5,353.4
156.1	Acquisitions		**102.8**	-
9,250.6		2	**6,094.0**	5,353.4
(8,549.2)	Cost of sales		**(5,632.0)**	(4,948.7)
701.4	**Gross profit**		**462.0**	404.7
(527.4)	Administrative expenses		**(347.4)**	(309.5)
174.0			**114.6**	95.2
43.7	Other operating income		**28.8**	37.6
	Operating profit			
217.3	Continuing operations		**143.1**	132.8
0.4	Acquisitions		**0.3**	-
217.7		2	**143.4**	132.8
5.1	Income from associated undertakings		**3.3**	2.1
(38.4)	Net interest payable and similar charges	3	**(25.2)**	(24.8)
184.4	**Profit on ordinary activities before taxation**	4	**121.5**	110.1
(63.1)	Tax on profit on ordinary activities	7	**(41.6)**	(37.2)
121.3	Profit on ordinary activities after taxation		**79.9**	72.9
(1.8)	Equity minority interests		**(1.2)**	(1.2)
119.5	**Profit for the financial year**		**78.7**	71.7
(34.8)	Dividends (11.7p per share - 1998 10.65p)	8	**(22.9)**	(20.8)
84.7	Retained profit for the financial year		**55.8**	50.9
	Earnings per share, before goodwill amortisation	9		
	- Undiluted		**27.8p**	25.0p
	- Diluted		**27.6p**	24.8p
	Earnings per share, after goodwill amortisation	9		
	- Undiluted		**27.2p**	24.9p
	- Diluted		**27.1p**	24.7p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	1999 £m	1998 £m
Profit for the financial year	**78.7**	71.7
Currency translation differences on foreign currency net investments	**(6.7)**	3.3
Total recognised gains and losses relating to the year	**72.0**	75.0

MOVEMENT IN SHAREHOLDERS' FUNDS		1999 £m	1998 £m
At 1 January		**381.7**	312.7
Total recognised gains and losses for the financial year		**72.0**	75.0
Dividends		**(22.9)**	(20.8)
Shares issued		**9.9**	14.9
Other	19	**(1.6)**	(0.1)
At 31 December		**439.1**	381.7

Balance sheets

as at 31 December

Unaudited proforma 1999 €m	Fixed assets	Note	The Group 1999 £m	The Group 1998 £m	Company 1999 £m	Company 1998 £m
451.1	Intangible assets	10	**280.5**	231.0	**-**	-
374.1	Tangible assets	11	**232.7**	231.6	**0.6**	0.2
131.6	Investments	12	**81.7**	25.8	**651.2**	500.7
956.8			**594.9**	488.4	**651.8**	500.9
	Current assets					
894.6	Stocks		**556.4**	529.7	**-**	-
-	Investments		**-**	0.5	**-**	-
307.3	Gross debts discounted	13	**191.1**	224.8	**-**	-
(265.3)	Non-returnable receipts	13	**(165.0)**	(193.8)	**-**	-
1,300.6	Other debtors	13	**808.9**	808.5	**5.2**	4.3
158.0	Cash at bank and in hand		**98.2**	130.3	**8.4**	12.5
2,395.2			**1,489.6**	1,500.0	**13.6**	16.8
	Creditors: amounts falling due within one year					
516.5	Borrowings	14	**321.2**	450.9	**76.0**	93.0
1,598.8	Other creditors	16	**994.3**	950.3	**19.3**	17.9
2,115.3			**1,315.5**	1,401.2	**95.3**	110.9
279.9	**Net current assets/(liabilities)**		**174.1**	98.8	**(81.7)**	(94.1)
1,236.7	**Total assets less current liabilities**		**769.0**	587.2	**570.1**	406.8
	Creditors: amounts falling due after more than one year					
498.2	Borrowings	14	**309.8**	172.4	**252.8**	106.1
-	Other creditors	16	**-**	10.3	**-**	-
20.7	**Provisions for liabilities and charges**	17	**12.8**	13.7	**0.4**	0.4
717.8			**446.4**	390.8	**316.9**	300.3
	Capital and reserves					
47.0	Called up share capital	18	**29.2**	29.0	**29.2**	29.0
249.9	Share premium account	18	**155.4**	145.7	**155.4**	145.7
0.6	Capital reserve	19	**0.4**	-	**-**	-
408.6	Profit and loss account	19	**254.1**	207.0	**132.3**	125.6
706.1	**Total equity shareholders' funds**		**439.1**	381.7	**316.9**	300.3
11.7	Minority interests		**7.3**	9.1	**-**	-
717.8	**Capital and reserves**		**446.4**	390.8	**316.9**	300.3

The financial statements were approved by the Board of Directors of Alliance UniChem Plc on 21 March 2000 *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 1999 €m		Note	1999 £m	1998 £m
249.1	**Net cash inflow from operating activities**	22	**164.1**	135.5
0.5	**Dividends from joint ventures and associates**		**0.4**	-
	Returns on investment and servicing of finance			
13.4	Interest received		**8.8**	9.7
(46.4)	Interest paid		**(30.5)**	(35.0)
(1.9)	Interest element of finance lease rentals		**(1.3)**	(1.1)
(34.9)	Net cash inflow/(outflow) for returns on investment and servicing of finance		**(23.0)**	(26.4)
(45.8)	**Taxation**		**(30.2)**	(43.1)
	Capital expenditure and financial investment			
(66.8)	Purchase of tangible fixed assets		**(44.0)**	(35.7)
11.9	Sale of tangible fixed assets		**7.8**	2.6
(54.9)	Net cash inflow/(outflow) for capital expenditure and financial investment		**(36.2)**	(33.1)
	Acquisitions and disposals			
(62.1)	Purchase of subsidiary undertakings		**(40.9)**	(29.7)
(26.1)	Net cash/(overdrafts) acquired with subsidiaries		**(17.2)**	(36.0)
(31.8)	*Purchase of intangible assets*		**(20.9)**	(15.3)
(0.3)	Investment in associated undertakings		**(0.2)**	(10.2)
(83.8)	Other investments		**(55.2)**	-
2.3	Sale of pharmacy licences		**1.5**	2.3
(201.8)	Net cash inflow/(outflow) for acquisitions and disposals		**(132.9)**	(88.9)
(27.0)	**Equity dividends paid**		**(17.8)**	(8.5)
	Management of liquid resources			
0.6	Other		**0.4**	33.3
(114.2)	Cash inflow/(outflow) before financing		**(75.2)**	(31.2)

Group cash flow statement (continued)

for the year ended 31 December

Unaudited proforma 1999 €m		Note	1999 £m	1998 £m
(114.2)	Net cash inflow/(outflow) before financing		**(75.2)**	(31.2)
	Financing			
4.2	Issue of ordinary share capital	23	**2.7**	3.4
	Debt due within one year			
1.5	Net movement in money market borrowings maturing within one week		**1.0**	5.4
(49.4)	Increase/(decrease) in short-term borrowings		**(32.5)**	87.1
	Debt due after one year			
208.2	Increase in borrowings		**137.2**	133.4
-	Repayment of borrowings		**-**	(239.7)
(8.4)	Capital element of finance lease rental payments		**(5.6)**	(5.7)
156.1	Net cash inflow/(outflow) from financing	23	**102.8**	(16.1)
41.9	**Increase/(decrease) in cash in the period**		**27.6**	(47.3)

	Note	1999 £m	1998 £m
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the period		**27.6**	(47.3)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	23	**(100.1)**	19.5
Change in net debt resulting from cash flows		**(72.5)**	(27.8)
New finance leases		**(3.6)**	-
Debt acquired with subsidiaries		**(1.5)**	(7.5)
Other non cash movements		**-**	(0.7)
Translation difference		**37.8**	(20.1)
Movement in net debt for the period		**(39.8)**	(56.1)
Net debt at 1 January		**(493.0)**	(436.9)
Net debt at 31 December	24	**(532.8)**	(493.0)

Notes to the financial statements

for the year ended 31 December 1999

(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 impairment 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 provisions for impairment, and for the Company's investments, an amount equal to the goodwill written off to reserves.

Derivatives and other financial instruments

The premium or discount on interest rate instruments is recognised as part of net interest payable over the period of the contract.

Interest rate swaps, caps and collars, currency swaps and forward foreign currency contracts are not revalued to fair value or shown in the Group balance sheet at the year end as all transactions derive from hedging activities.

(2) ANALYSIS OF TURNOVER AND OPERATING PROFIT

	Turnover 1999 £m	**Operating profit 1999 £m**	Turnover 1998 £m	Operating profit 1998 £m
Wholesale France	**2,873.0**	**47.5**	2,716.4	41.1
Wholesale Italy	**767.6**	**14.7**	729.3	18.9
Wholesale UK	**1,653.8**	**46.0**	1,488.4	45.3
Retail UK	**432.4**	**29.8**	353.5	23.9
Wholesale Other	**713.4**	**8.4**	354.3	6.2
Corporate	**-**	**(3.0)**	-	(2.6)
Intra-group	**(346.2)**	**-**	(288.5)	-
	6,094.0	**143.4**	5,353.4	132.8

(3) NET INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £m	1998 £m
Bank loans and overdrafts	**(21.8)**	(32.1)
Other loans	**(9.4)**	(3.6)
Finance charges payable on finance leases	**(1.3)**	(1.1)
Associates	**(1.6)**	(1.4)
Interest payable	**(34.1)**	(38.2)
Bank deposit interest receivable	**5.2**	9.6
Other financial income	**3.7**	3.8
Net interest payable and similar charges	**(25.2)**	(24.8)

(4) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £m	1998 £m
Depreciation of owned assets	**19.0**	23.1
Depreciation of assets held under finance leases	**9.7**	3.6
Total depreciation of tangible fixed assets	**28.7**	26.7
Operating lease rentals - land and buildings	**8.3**	6.7
- plant and machinery	**3.4**	3.9
Audit fees - principal auditors	**0.4**	0.3
- other	**0.3**	0.3
Other fees paid to the auditors - principal auditors	**0.3**	0.1
- other	**0.1**	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 1999 were £2.5m (1998 £2.2m). Further details on the directors, including their emoluments, are given in the report of the directors on pages 35 to 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:

	1999	1998
Wholesale France	**4,200**	4,259
Wholesale Italy	**982**	950
Wholesale UK	**3,290**	3,302
Retail UK	**4,861**	4,485
Other	**1,130**	621
	14,463	13,617

The costs incurred in respect of these employees were:	**1999 £m**	1998 £m
Wages and salaries	**186.5**	156.7
Social security costs	**44.3**	40.3
Other pension costs	**3.9**	3.8
	234.7	200.8

(7) TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £m	1998 £m
Corporation tax charge at 30.25% (1998 31%)	**20.0**	19.2
Deferred taxation	**1.7**	0.8
Under/(over) provision for earlier years	**(1.2)**	(0.5)
Overseas taxation	**20.2**	17.6
Associated undertakings	**0.9**	0.1
	41.6	37.2

Notes to the financial statements

for the year ended 31 December 1999

(8) DIVIDENDS

	1999	1998
	£m	£m
Interim paid, net 4.0 pence (1998 3.65 pence)	**7.8**	7.1
Final proposed, net 7.7 pence (1998 7.0 pence)	**15.1**	13.7
	22.9	20.8

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.

	1999	1998
	£m	£m
Profit for the financial year before goodwill amortisation	**80.3**	72.0
Goodwill amortisation	**(1.6)**	(0.3)
Profit for the financial year	**78.7**	71.7

Weighted average number of shares	**1999**	1998
	m	m
Undiluted	**289.0**	288.2
Effect of dilutive potential shares	**1.9**	2.4
Diluted	**290.9**	290.6

(10) INTANGIBLE FIXED ASSETS

	1999	1998
	£m	£m
Retail pharmacy licences	**243.1**	205.3
Goodwill	**37.4**	25.7
Total	**280.5**	231.0

Retail pharmacy licences

The directors believe that the right to be reimbursed for dispensing UK 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.

	1999	1998
	£m	£m
At 1 January	**205.3**	181.8
Additions	**20.4**	15.5
Subsidiaries acquired	**18.8**	9.3
Disposals	**(1.4)**	(1.3)
At 31 December	**243.1**	205.3

Goodwill	**1999**	1998
	£m	*£m*
Cost		
At 1 January	**26.0**	-
Foreign exchange movement	**(1.8)**	-
Additions	**17.7**	26.2
Disposals	**(2.6)**	(0.2)
At 31 December	**39.3**	26.0
Amortisation		
At 1 January	**0.3**	-
Foreign exchange movement	**-**	-
Disposals	**-**	-
Charge for the year	**1.6**	0.3
At 31 December	**1.9**	0.3
Net book value		
At 31 December	**37.4**	25.7

(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 1999	134.0	38.8	2.6	183.5	23.8	382.7
Reclassification	15.8	(17.3)	1.5	-	-	-
Foreign exchange movement	(14.6)	(1.0)	-	(14.5)	(0.9)	(31.0)
Additions	14.8	2.6	0.3	21.0	7.2	45.9
Subsidiaries acquired	2.2	-	0.1	10.0	1.3	13.6
Disposals	(11.1)	(0.3)	-	(3.9)	(6.2)	(21.5)
At 31 December 1999	141.1	22.8	4.5	196.1	25.2	389.7
Depreciation						
At 1 January 1999	25.4	5.1	1.5	108.7	10.4	151.1
Reclassification	3.0	(2.9)	(0.1)	-	-	-
Foreign exchange movement	(2.9)	(0.1)	-	(9.8)	(0.4)	(13.2)
Subsidiaries acquired	0.5	-	-	1.9	0.5	2.9
Disposals	(3.0)	(0.3)	-	(3.8)	(5.4)	(12.5)
Charge for the year	4.7	0.3	0.3	17.1	6.3	28.7
At 31 December 1999	27.7	2.1	1.7	114.1	11.4	157.0
Net book value						
At 31 December 1999	**113.4**	**20.7**	**2.8**	**82.0**	**13.8**	**232.7**
At 31 December 1998	108.6	33.7	1.1	74.8	13.4	231.6
Company						
Cost						
At 1 January 1999	-	-	-	-	0.4	0.4
Additions	-	-	0.2	0.1	0.2	0.5
Disposals	-	-	-	-	(0.1)	(0.1)
At 31 December 1999	-	-	0.2	0.1	0.5	0.8
Depreciation						
At 1 January 1999	-	-	-	-	0.2	0.2
Disposals	-	-	-	-	(0.1)	(0.1)
Charge for the year	-	-	-	-	0.1	0.1
At 31 December 1999	-	-	-	-	0.2	0.2
Net book value						
At 31 December 1999	-	-	**0.2**	**0.1**	**0.3**	**0.6**
At 31 December 1998	-	-	-	-	0.2	0.2

The cost of long leaseholds includes capitalised interest of £0.5m (1998 £0.5m)

Leased assets	**The Group**		**Company**	
Included within fixed assets are assets held under finance leases with the following net book values:	**1999** **£m**	1998 £m	**1999** **£m**	1998 £m
Property	**22.9**	17.3	-	-
Furniture, fixtures & equipment	**2.0**	2.6	-	-
Motor vehicles	**0.2**	-	-	-
	25.1	19.9	-	-

Capital commitments	**The Group**		**Company**	
	1999 **£m**	1998 £m	**1999** **£m**	1998 £m
Contracted for, but not provided for	**4.4**	9.9	-	-

Notes to the financial statements
for the year ended 31 December 1999

(12) FIXED ASSET INVESTMENTS

	The Group		Company	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Subsidiary undertakings	**-**	-	**596.9**	496.7
Other investments	**81.7**	25.8	**54.3**	4.0
Total	**81.7**	25.8	**651.2**	500.7

	Shares*	Loans	Total
Subsidiary undertakings	£m	£m	£m
At 1 January 1999	322.8	173.9	496.7
Acquired / advanced	176.7	62.8	239.5
Repaid / provided	-	(139.3)	(139.3)
At 31 December 1999	**499.5**	**97.4**	**596.9**

*Shares are stated at cost less provisions for impairment, and for the Company's investments, an amount equal to the goodwill written off to reserves.

Other investments

(i) The Group owns 1,069,280 (1998 883,280) ordinary bearer shares (representing approximately 10% of the issued equity (1998 8%)) in Andreae-Noris Zahn AG, which is incorporated in Germany, acquired at a cost of £13.2m (1998 £9.9m). The market value of this investment as quoted on the Frankfurt stock exchange on 31 December 1999 was £17.6m (1998 £16.3m).

(ii) The UniChem PLC Employee Share Trust has an investment of £11.4m (1998 £2.5m) in 3.0m (1998 1.0m) of the Company's shares. The market value of the holding on 31 December 1999 was £12.3m (1998 £5.7m). 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 150,725 shares (representing approximately 10.4%) of the issued equity in Galenica Holding SA, which is incorporated in Switzerland, acquired at a cost of £30.3m. Stefano Pessina, Deputy Chairman of the Group, will be appointed to the Board of Galenica Holding on 25 May 2000, subject to shareholder approval.

(iv) The Group owns 50% of the shares in UniDrug Distribution Group Limited (UDG). UDG is registered in England. As at 31 December 1999, the net liabilities held within the Group balance sheet relating to UDG amounted to £0.1m (1998 £0.4m). The Group share of post acquisition losses of UDG as at 31 December 1999 amounted to £0.1m (1998 £0.4m).

(v) The Group has investments in Unifarma Distribuzione S.r.l. of Italy of £9.3m (1998 £7.6m) representing 36% of the issued equity, Lavipharm Alliance Santé SA of Greece of £1.4m (1998 £1.1m) representing 40% of the issued capital, and a number of other smaller investments.

(vi) The Company owns a US$15m 4% convertible loan note in Rx.com, due for conversion in 2005. Rx.com is a business venture set up to develop internet healthcare portals in the US.

(13) DEBTORS

	The Group		Company	
Amounts falling due within one year	**1999**	1998	**1999**	1998
	£m	£m	**£m**	£m
Trade debtors subject to discounting arrangements	**191.1**	224.8	-	-
Non-returnable amounts received	**(165.0)**	(193.8)	-	-
	26.1	31.0	-	-
Other trade debtors	**678.4**	700.5	-	-
Other debtors	**78.8**	50.2	**3.1**	2.1
Prepayments (including pension)	**36.2**	23.9	**2.1**	2.2
	819.5	805.6	**5.2**	4.3
Amounts falling due after more than one year				
Trade debtors	**8.8**	21.1	-	-
Other debtors	**6.7**	12.7	-	-
Prepayments - Pension costs	**-**	0.1	-	-
	15.5	33.9	-	-
Total	**835.0**	839.5	**5.2**	4.3

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.

(14) BORROWINGS

	The Group		Company	
Amounts falling due within one year	**1999**	1998	**1999**	1998
	£m	£m	**£m**	£m
Loan notes	**7.4**	7.3	**7.5**	7.3
Bank loans	**71.4**	115.6	**45.5**	85.7
Bank overdraft	**239.5**	324.2	**23.0**	-
Obligations under finance leases	**2.9**	3.8	**-**	-
	321.2	450.9	**76.0**	93.0
Amounts falling due after more than one year				
Loan notes	**8.1**	9.3	**-**	-
Bank loans	**287.7**	146.0	**252.8**	106.1
Obligations under finance leases	**14.0**	17.1	**-**	-
	309.8	172.4	**252.8**	106.1
Total borrowings	**631.0**	623.3	**328.8**	199.1
Cash at bank and in hand	**(98.2)**	(130.3)	**(8.4)**	(12.5)
Net borrowings/(cash)	**532.8**	493.0	**320.4**	186.6

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 4.9% and 5.2%. The loan notes falling due after more than one year are repayable on 1 June 2003. At the year end they bore interest at 4.8%.

	The Group		Company	
Bank loans due after more than one year	**1999**	1998	**1999**	1998
	£m	£m	**£m**	£m
Aggregate bank loan instalments repayable				
between one and two years	**8.5**	11.3	**-**	-
between two and five years	**176.0**	120.9	**159.5**	106.1
in five years or more	**103.2**	13.8	**93.3**	-
	287.7	146.0	**252.8**	106.1

Interest on bank loans is at variable rates between 2.3% and 6.2% 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 4% and 4.5%.

Obligations under finance leases due after more than one year

	The Group		Company	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Due between one and two years	**2.9**	3.2	-	-
Due between two and five years	**5.3**	7.0	-	-
Due in five years or more	**5.8**	6.9	-	-
Total	**14.0**	17.1	-	

(15) FINANCIAL INSTRUMENTS

The Group's approach to managing financial risk is described in the Financial Review on page 27. As permitted by FRS13, comparative figures for the year ended 31 December 1998 have not been provided since it is impractical to do so. Short term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

Interest rate profile
After taking into account the various interest rate derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities was as follows:

Financial Liabilities	Fixed rate financial liabilities				
	Weighted average interest rate	Weighted average period for which rate is fixed	At fixed interest rates	At floating interest rates	Total
	%	Years	£m	£m	£m
Sterling	7.5	3.0	15.6	44.0	59.6
Euro	5.1	2.9	107.7	417.6	525.3
Other	5.6	0.7	0.3	45.8	46.1
Total			123.6	507.4	631.0

The financial liabilities of the Group at 31 December 1999 comprised:

	£m
Loan notes	15.5
Bank loan	359.1
Bank overdraft	239.5
Obligations under financial leases	16.9
Total	631.0

Floating rate financial liabilities comprise bank borrowings, loan notes and overdrafts bearing interest at a margin over commercial reference rates.

Financial Assets	Fixed rate financial assets					
	Weighted Average interest rate	Weighted average period for which rate is fixed	At fixed interest rates	At floating interest rates	Non-interest bearing	Total
	%	Years	£m	£m	£m	£m
Sterling			-	66.5	2.0	68.5
US$	4.0	5	9.3	-	-	9.3
Euro			-	30.0	29.6	59.6
Other			-	1.2	30.9	32.1
Total			9.3	97.2	62.5	169.5

The financial assets of the Group at 31 December 1999 comprised:

	£m
Cash at bank and in hand	98.2
Fixed asset investments (excluding associates and the ESOP)	55.8
Debtors due after one year	15.5
Total	169.5

Floating rate financial assets comprise bank deposits bearing interest based on commercial reference rates.

Currency profile
After taking into account the effects of currency swaps and forward exchange contracts the Group does not have any significant unmatched currency exposures on monetary assets and liabilities.

Maturity profile of financial liabilities

Maturity of borrowings

An analysis of financial liabilities by due date of repayment is as follows:

	Loan notes	*Bank loans*	Bank overdraft	Obligations under finance leases	Total
	£m	£m	£m	£m	£m
Within one year	7.4	71.4	239.5	2.9	321.2
Between one and two years	-	8.5	-	2.9	11.4
Between two and five years	8.1	176.0	-	5.3	189.4
Over five years	-	103.2	-	5.8	109.0
Total	15.5	359.1	239.5	16.9	631.0

Undrawn committed borrowing facilities

The Group had the following undrawn committed facilities at 31 December:

	Total
	£m
Expiring within two years	-
Expiring beyond two years	206.0
Total	206.0

Fair value of financial instruments

A comparison of book values and fair values of the Group's financial assets and liabilities is set out below:

	Book value	Fair value
	£m	£m
Primary financial instruments held to finance the Group's operations:		
Cash at bank and in hand	98.2	98.2
Fixed asset investments	55.8	69.0
Debtors due after one year	15.5	15.5
Loan notes	(15.5)	(15.5)
Bank loans	(359.1)	(359.1)
Bank overdrafts	(239.5)	(239.5)
Obligations under finance leases	(16.9)	(16.9)
Derivative financial instruments held to manage the interest rate and currency profile		
Interest rate derivatives	-	1.8
Total	(461.5)	(446.5)

The fair value of fixed asset investments and interest rate derivatives are based on market value. The fair value of all other financial instruments is approximately equal to book value due to their short term nature.

Hedging

As explained in the Financial Review the Group has entered into interest rate management contracts, both in sterling and Euro, to limit its exposure to floating interest rates

	Gains gains/(losses)	Losses	Total net
	£m	£m	£m
Unrecognised gains and losses at 1 January 1999	-	(1.3)	(1.3)
Gains and losses arising in previous years that were recognised in the year	-	0.1	0.1
Gains and losses arising before 1 January that were not recognised in the year	-	(1.2)	(1.2)
Gains and losses arising in the year that were not recognised in the year	3.0	-	3.0
Unrecognised gains and losses on hedges at 31 December 1999	3.0	(1.2)	1.8
Of which:			
Gains and losses to be recognised in the next financial year	1.0	(0.4)	0.6
Gains and losses expected to be recognised after the next financial year	2.0	(0.8)	1.2

(16) OTHER CREDITORS

Amounts falling due within one year	**The Group**		**Company**	
for the year ended 31 December	**1999**	1998	**1999**	1998
	£m	£m	**£m**	£m
Trade creditors	**787.8**	758.4	-	-
Other creditors	**68.3**	70.4	-	-
ACT payable	-	0.8	-	0.8
Corporation tax	**32.6**	21.6	-	0.6
Other taxation and social security	**47.8**	43.6	-	-
Accruals and deferred income	**42.1**	41.4	**3.5**	2.4
Proposed dividend	**15.7**	14.1	**15.8**	14.1
	994.3	950.3	**19.3**	17.9
Amounts falling due after more than one year				
Other creditors	-	10.3	-	-
Total	**994.3**	960.6	**19.3**	17.9

(17) PROVISIONS FOR LIABILITIES AND CHARGES

The Group	Provision for reorganisation	Deferred tax	Retirement benefits	Total
	£m	£m	£m	£m
At 1 January 1999	0.2	5.2	8.3	13.7
Foreign exchange movement	-	(0.5)	(1.0)	(1.5)
Subsidiaries acquired	-	-	-	-
Charge (release) for the year	(0.2)	1.7	(0.4)	1.1
Other movement / reclassification	-	(0.4)	(0.1)	(0.5)
At 31 December 1999	-	**6.0**	**6.8**	**12.8**

Company	Deferred tax	Total
	£m	£m
At 1 January 1999	0.4	0.4
Charge for the year	-	-
At 31 December 1999	**0.4**	**0.4**

The retirement benefits represent the accrued rights of existing employees of the French division which become payable on their retirement.

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**	
	1999	1998	**1999**	1998
	£m	*£m*	***£m***	*£m*
Capital allowances and other short term timing differences	**5.5**	7.3	**5.6**	3.8
Pension accrual	-	(1.6)	**0.2**	0.6
Chargeable gains deferred by roll-over relief	**1.1**	-	-	0.8
Property revaluation	**0.5**	1.5	**0.2**	-
Capital losses	**(0.5)**	-	-	-
	6.6	7.2	**6.0**	5.2

Company	**1999**	1998	**1999**	1998
	£m	£m	**£m**	£m
Capital allowances and other short term timing differences	-	-	**0.4**	0.4
	-	-	**0.4**	0.4

(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 1999	290,198,903	29.0	145.7
Shares issued during the year:	2,241,766	0.2	9.7
At 31 December 1999	**292,440,669**	**29.2**	**155.4**

The authorised share capital is £37.9m represented by 379,346,000 ten pence ordinary shares.

Details of the shares allotted are:

Reason	Number	Price paid per share	Consideration £m
share option exercises	608,533	£2.54 - £5.66	2.7
scrip elections in lieu of:			
1998 final dividend	539,586	£4.83	2.7
1999 interim dividend	206,803	£4.32	0.9
acquisition of retail pharmacies	886,844	£3.95 - £4.41	3.6
Share capital and share premium movement	2,241,766		9.9

Details of the outstanding options at 31 December 1999 are:

	Price	Outstanding	Normally exercisable between
1990 Savings related scheme	163.55p	550	1 June 1999 and 30 November 1999
	208.33p	90,061	1 January 2001 and 30 June 2001
	221.96p	13,211	1 July 1999 and 30 December 1999
	221.96p	3,687	1 July 2001 and 30 December 2001
	208.00p	47,217	1 December 1999 and 30 May 2000
	208.00p	49,311	1 December 2001 and 30 May 2002
	213.00p	75,769	1 July 2000 and 30 December 2000
	213.00p	18,928	1 July 2002 and 30 December 2002
	216.00p	150,380	1 December 2000 and 30 May 2001
	216.00p	8,123	1 December 2002 and 30 May 2003
	192.00p	405,749	1 July 2001 and 30 December 2001
	192.00p	113,690	1 July 2003 and 30 December 2003
	214.00p	461,742	1 July 2002 and 30 December 2002
	214.00p	172,602	1 July 2004 and 30 December 2004
	324.00p	329,863	1 August 2001 to 30 January 2002
	324.00p	329,966	1 August 2003 to 30 January 2004
	324.00p	118,379	1 August 2005 to 30 January 2006
	384.00p	333,759	1 July 2002 to 30 December 2002
	384.00p	265,982	1 July 2004 to 30 December 2004
	384.00p	77,814	1 July 2006 to 30 December 2006
		3,066,783	
1990 Executive scheme	88.97p	114,916	3 September 1993 and 2 September 2000
	253.99p	169,890	1 November 1996 and 30 October 2003
	260.00p	205,000	21 October 1997 and 20 October 2004
	269.00p	200,372	18 October 1998 and 17 October 2005
		690,178	
1997 Discretionary scheme	268.50p	943,304	13 June 2000 and 12 June 2004
	429.50p	1,464,778	7 May 2001 and 6 May 2005
	442.00p	1,145,000	14 May 2002 to 13 May 2006
	435.00p	90,222	27 May 2002 to 26 May 2006
		3,643,304	

The directors are aware of the following shareholdings at 21 March 2000 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	104,842,585	35.81
Scottish Widows Fund and Life Assurance Society	11,688,463	3.99

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 1999

(19) OTHER RESERVES

	Capital reserve £m	Profit and loss account £m
The Group		
At 1 January 1999	-	207.0
Foreign exchange movements	-	(6.7)
Transfer from profit and loss to capital reserve	0.4	(0.4)
Retained profit for the year	-	55.8
Other	-	(1.6)
At 31 December 1999	**0.4**	**254.1**
Company		
At 1 January 1999	-	125.6
Retained profit for the year	-	5.8
Other	-	0.9
At 31 December 1999	**-**	**132.3**

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 £28.7m (1998 £34.1m).

During the year, the Group contributed £1.6m (1998 £0.2m) to the Qualifying Employee Share Ownership Trust ("QUEST").

The capital reserve represents non-distributable reserves arising in some territories.

(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 the equity outstanding of Safa Galenica S.A. of Spain. At the year end the Group had lifted its stake from 83% to 97%. Shareholders of Safa Galenica can continue to accept the offer until 30 January 2000. In the Czech Republic, the Group acquired the entire share capital of Pragopharm, together with a 55.9% interest in Plus. 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 can be summarised:-

	Wholesale £m	Retail £m	Total £m
Assets acquired at book and fair value			
Fixed assets – intangible	-	18.8	18.8
Fixed assets – tangible	4.2	6.7	10.9
Stock	11.1	3.5	14.6
Debtors	22.9	4.3	27.2
Cash at bank and in hand	0.4	0.3	0.7
Bank loans and overdrafts	(17.6)	(1.2)	(18.8)
Creditors	(21.0)	(5.4)	(26.4)
	-	27.0	27.0
Minority interests remaining	(0.6)	(1.7)	(2.3)
Minority interests acquired	5.4	-	5.4
Assets acquired	4.8	25.3	30.1
Consideration paid			
Alliance UniChem Plc ordinary shares	-	3.6	3.6
Loan notes	-	1.0	1.0
Cash	21.7	19.2	40.9
Accrued cash consideration – movement	(2.5)	4.2	1.7
	19.2	28.0	47.2
Purchased goodwill	**14.4**	**2.7**	**17.1**

Goodwill arising on asset acquisitions in the year amounted to £0.6m (1998 £3.0m).

Cumulative goodwill written off to reserves to 31 December 1999, net of that attributable to disposals was £360.8m (1998 £360.8m).

(21) ANALYSIS OF NET ASSETS

	1999 £m	1998 £m
Wholesale France	**129.0**	150.2
Wholesale Italy	**251.1**	262.2
Wholesale UK	**138.2**	167.9
Retail UK	**260.3**	172.6
Wholesale Other	**142.9**	118.5
Corporate	**57.7**	12.4
Net assets before net borrowings	**979.2**	883.8
Net borrowings	**(532.8)**	(493.0)
	446.4	390.8

(22) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

	1999 £m	1998 £m
Operating profit	**143.4**	132.8
Depreciation	**28.7**	26.7
Amortisation of goodwill	**1.6**	0.3
(Profit)/loss on disposal of fixed assets	**1.2**	(1.1)
Decrease/(increase) in stocks	**(58.4)**	(58.4)
Decrease/(increase) in debtors	**(37.4)**	(69.0)
Increase/(decrease) in creditors	**85.0**	104.2
Net cash inflow/(outflow) from operating activities	**164.1**	135.5

(23) ANALYSIS OF NET CASH FLOW FROM FINANCING

	1999 £m	1998 £m
Issue of ordinary share capital	**2.7**	3.4
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	**100.1**	(19.5)
Net cash inflow/(outflow) from increase/(decrease) in financing	**102.8**	(16.1)

(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 1999	130.3	(450.9)	(172.4)	(493.0)
Increase/(decrease) in cash in the period	(26.3)	53.9	-	27.6
Decrease/(increase) in debt	-	31.5	(137.2)	(105.7)
Finance leases entered into	-	(0.3)	(3.3)	(3.6)
Capital element of finance lease repayments	-	5.6	-	5.6
Debt acquired with subsidiaries	-	(0.7)	(0.8)	(1.5)
Exchange movement	(5.8)	39.7	3.9	37.8
At 31 December 1999	**98.2**	**(321.2)**	**(309.8)**	**(532.8)**

(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.

Notes to the financial statements
for the year ended 31 December 1999

(26) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost was £3.3m (1998 £3.8m). Included in the balance sheet is an amount totaling £2.0m (1998 £2.1m) 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 1999 the Group had the following commitments payable within one year under operating leases expiring:	**£m**	**£m**
within one year	1.2	1.8
between two and five years	2.7	2.2
in five years or more	6.8	0.1
Total	**10.7**	**4.1**

(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. (98.0%)	France	France	pharmaceutical wholesaler
Alliance UniChem Farmaceutica, S.A.	Portugal	Portugal	pharmaceutical wholesaler
E. Moss Limited	*U.K.*	*England*	*retail pharmacy operator*
Plus Spol. Sro (55.9%)	Czech Republic	Czech Republic	pharmaceutical wholesaler
Pragopharm Spol. Sro	Czech Republic	Czech Republic	pharmaceutical wholesaler
Safa Galenica S.A. (96.9%)	Spain	Spain	pharmaceutical wholesaler
UniChem Limited	U.K.	England	pharmaceutical wholesaler

(29) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £103.1m (1998 £157.5m) and other Group companies have guaranteed bank loans of £61.8m (1998 nil) 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.

	Czech Koruna CZK/£	Portuguese Escudos PTE/£	French Francs FF/£	Italian Lire ITL/£	Spanish Pesetas ESP/£	Euro €/£
As at 1 January 1999	n.a.	284.1	9.29	2743	235.7	1.417
As at 31 December 1999	57.88	322.4	10.55	3113	267.5	1.608
Average for the year	56.31	304.0	9.96	2940	252.6	1.518

Five year summary

Group Profit and Loss Accounts - year ended 31 December	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Turnover	1,402.7	1,478.5	1,712.3	5,353.4	6,094.0
Cost of sales	(1,266.4)	(1,330.5)	(1,539.0)	(4,948.7)	(5,632.0)
Gross profit	136.3	148.0	173.3	404.7	462.0
Administrative expenses	(91.2)	(98.1)	(116.7)	(309.5)	(347.4)
	45.1	49.9	56.6	95.2	114.6
Other operating income	8.2	8.9	9.8	37.6	28.8
Operating profit before exceptional item	53.3	58.8	66.4	132.8	143.4
Income from associated undertakings	-	(0.1)	(0.2)	2.1	3.3
Costs of bid for Lloyds Chemists	-	(13.2)	-	-	-
Net interest payable	(3.9)	(5.2)	(7.0)	(24.8)	(25.2)
Profit on ordinary activities before taxation	49.4	40.3	59.2	110.1	121.5
Tax on profit on ordinary activities	(16.1)	(16.1)	(17.8)	(37.2)	(41.6)
Profit on ordinary activities after taxation	33.3	24.2	41.4	72.9	79.9
EPS diluted - before exceptional item and goodwill amortisation	19.06p	20.39p	22.47p	24.81p	27.63p
Dividends per share	8.00p	8.80p	9.70p	10.65p	11.70p

Group Balance Sheets as restated - 31 December	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Fixed assets					
Intangible assets	139.0	157.2	181.8	231.0	280.5
Tangible assets	65.9	71.0	197.7	231.6	232.7
Investments	12.4	12.5	22.6	25.8	81.7
	217.3	240.7	402.1	488.4	594.9
Working capital					
Stocks	127.2	132.4	417.0	529.7	556.4
Investments	-	61.4	33.4	0.5	-
Debtors	223.7	223.4	677.9	839.5	835.0
Creditors and provisions	(276.1)	(296.1)	(773.1)	(974.3)	(1,007.1)
	74.8	121.1	355.2	395.4	384.3
Net borrowings	(17.6)	(75.6)	(436.9)	(493.0)	(532.8)
	274.5	286.2	320.4	390.8	446.4
Capital and reserves					
Called up share capital	17.5	17.6	28.6	29.0	29.2
Share premium account	3.3	6.7	340.8	145.7	155.4
Special reserve	139.0	157.2	-	-	-
Other reserves	122.8	131.5	151.5	207.0	254.5
Goodwill	(8.1)	(26.8)	(208.2)	-	-
	274.5	286.2	312.7	381.7	439.1
Minority interests	-	-	7.7	9.1	7.3
	274.5	286.2	320.4	390.8	446.4

Shareholder information

2000 Financial Calendar

16 May	Deadline for receipt of proxy forms
16 May	Deadline for receipt of elections to receive the 1999 final dividend in shares
18 May	Annual general meeting
6 June	1999 final dividend paid to shareholders registered on 7 April 2000
20 September*	2000 half year profit and interim dividend announced
17 November*	Deadline for receipt of elections to receive the 2000 interim dividend in shares (if offered)
8 December*	2000 interim dividend paid to shareholders registered on 6 October 2000 *

** 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 0870 600 3970 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 2000 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.

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