Company number 2517178

Alliance UniChem Plc

Annual Report 1997

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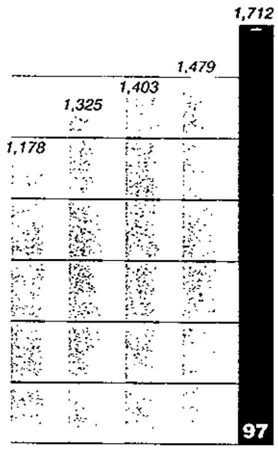
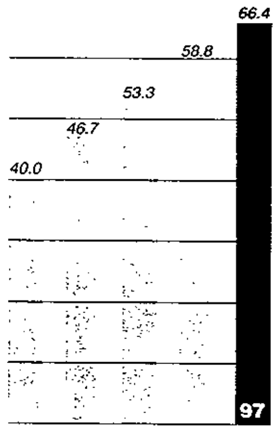
	1997 £m	1996 £m
Turnover	**1,712.3**	1,478.5
Operating profit before exceptional item	**66.4**	58.8
Profit on ordinary activities before taxation and exceptional item	**59.2**	53.5
Dividends per share	**9.7p**	8.8p
Earnings per share before exceptional item		
- Undiluted	**22.6p**	20.5p
- Fully diluted	**22.3p**	20.2p

The exceptional item arose in 1996.

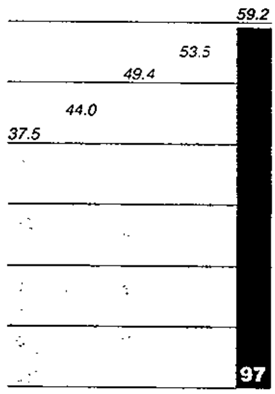
Turnover - £m



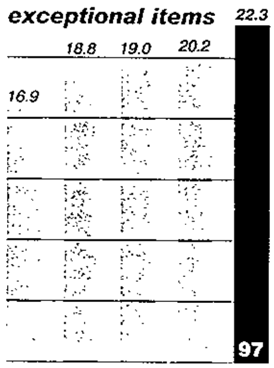
Operating profit - £m pre exceptional items



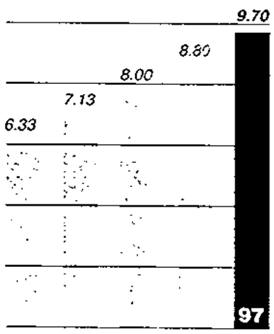
Pre-tax profits - £m pre exceptional items



EPS - pence fully diluted pre exceptional items



Dividends per share - pence



- **Conclusion of the merger of UniChem with Alliance Santé at the end of 1997 to create a major force in healthcare distribution in Europe.**

- **Both UniChem and Alliance Santé achieve financial results ahead of the forecasts made at the time the merger was announced.**

- **Further market share gains, sales increases and operating profit improvements achieved by all our core businesses .**

- **UK wholesale division has won new customers through superior service levels and has increased operating profits despite the adverse effect of a significant drug patent expiry.**

- **Retail division again produced a strong performance, with operating margins sharply increased and passed the 500 shop milestone in September.**

- **Successful year of trading for the merged business in Portugal, with sales growth well ahead of market.**

- **Further successes in winning pre-wholesaling contracts, with UDG on track to break even in 1998.**

Company Profile

Countries where Alliance UniChem has a major presence.

Countries where Alliance UniChem is represented by an associate.

■ Distribution centres.

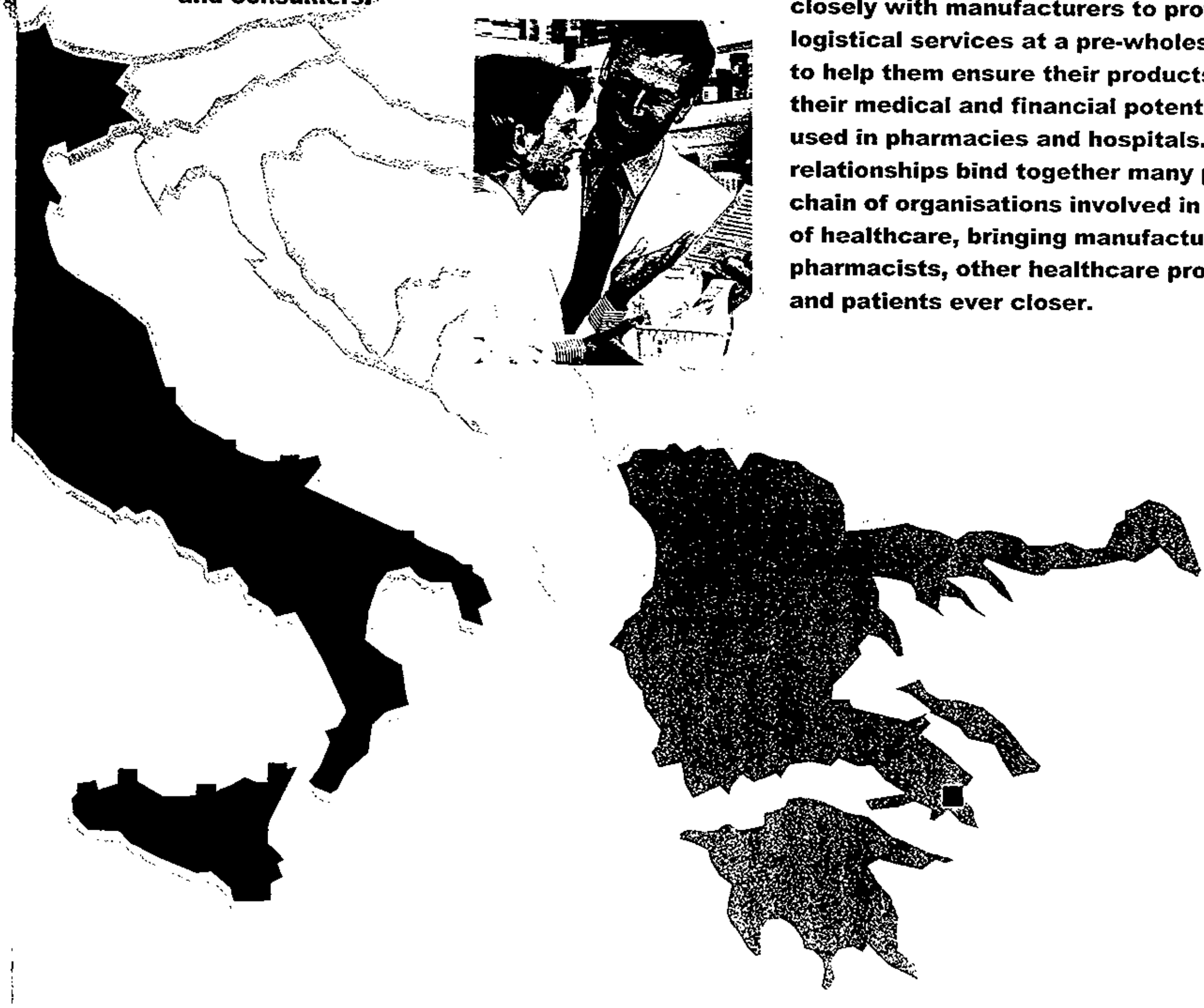
- Alliance UniChem is a leading European distributor, wholesaler and retailer of pharmaceutical, medical and healthcare products in Europe with a market share of 15 per cent, operating in 7 countries to provide a critical link in the delivery of healthcare to patients.

- Formed as a merger between UniChem PLC and Alliance Santé S.A. at the end of 1997, Alliance UniChem had 1997 pro-forma turnover of nearly £5 billion, and has a market capitalisation of over £1.1 billion.

- The Alliance UniChem group serves over 37,000 pharmacies from 153 warehouses and employs 13,000 people.

- Moss Chemists, Alliance UniChem's retail pharmacy division, owns 531 pharmacies in the UK providing a highly professional service to the patient.

- Alliance UniChem's aim is to create a leading company operating across Europe to improve the delivery of healthcare to patients and consumers.



Our wholesale network - the backbone of healthcare delivery

Through its operating companies and associates Alliance UniChem serves over 37,000 pharmacies and hospitals from 153 depots across France, Great Britain, Greece, Italy, Morocco, Portugal and Spain. Careful logistical and stock planning and close attention to clients' requirements ensures that very high product availability with a rapid response is maintained at all times. This means patients get medicines when they are needed. Our pharmacy customers and other healthcare professionals in hospitals can concentrate on providing the best medical care and advice, safe in the knowledge that our network will always deliver accurately, reliably and on time.

Relationships - an open channel to improve healthcare

Our extensive reach in distribution capability is strengthened by a range of schemes operated jointly with pharmacist clients to support the effective use of medicines and related healthcare products. We also work closely with manufacturers to provide logistical services at a pre-wholesale level and to help them ensure their products achieve their medical and financial potential when used in pharmacies and hospitals. These relationships bind together many parts of the chain of organisations involved in the provision of healthcare, bringing manufacturers, pharmacists, other healthcare professionals and patients ever closer.

Chairman's statement

"Our core businesses continued to perform well, with each of our divisions achieving increases in market share, sales, and operating profits."

Kenneth Clarke, Chairman

I am delighted to be writing to you as your new Chairman for what has been one of the most significant years in UniChem's long and proud history. The merger with Alliance Santé at the end of 1997 has transformed our business. The creation of Alliance UniChem heralds the beginning of our next phase of growth - expansion in Europe. Although the merger absorbed much management time during 1997, our core businesses continued to perform well, with each of our divisions achieving increases in market share, sales, and operating profits.

Performance

Overall Group sales increased by 16 per cent to £1,712.3 million, operating profits were up by 13 per cent to £66.4 million, and pre-exceptional pre-tax profits rose by 11 per cent to £59.2 million. Fully diluted earnings per share moved ahead by 10 per cent to 22.3 pence. A final dividend of 6.4 pence per share has been recommended by the Board, giving a total cash dividend of 9.7 pence for the year, an increase of 10 per cent compared with 1996.

Both UniChem and Alliance Santé performed a little ahead of the forecasts made at the time we announced our merger, with UniChem achieving pre-tax profits of £59.2 million, (forecast £59.0 million) and although not consolidated in the 1997 results, Alliance Santé achieved pre-tax and pre-exceptional profits of FFr436 million (forecast FFr423 million) and post-tax pre-exceptional profits of FFr274 million (forecast FFr 271 million).

These results mean that on a pro-forma basis (before consolidation adjustments in respect of the Portuguese joint venture and before the funding costs of purchasing minority shares in France and at constant exchange rates) the enlarged Group achieved pre-exceptional profits before tax of £103.9 million, ahead of the pro-forma forecast of £102.2 million made at the time the merger was announced. This is the 26th consecutive year UniChem has reported an increase in sales and pre-exceptional pre-tax profits and the Group has grown underlying earnings per share in each year since flotation.

The Merger

Leading up to our merger, Alliance Santé had been rapidly developed to become one of the leading forces in healthcare distribution in continental Europe. Our enlarged Group is now the second largest pharmaceutical wholesaler in Europe, with very significant market positions in France, Italy, Portugal and the United Kingdom and associates with strong positions in Greece, Morocco and Spain. UniChem's rigour and discipline applied to financial and management control and Alliance Santé's success in building businesses and exploiting new markets is, I believe, a winning combination.

Our management teams have already experienced success in achieving benefits from the merger and we expect to meet our targets for overall synergies. The Group has many exciting opportunities on two broad fronts; profitable organic development and expansion through acquisition. We aim to develop the capabilities of our wholesaling businesses so they become the most efficient operators in all our territories, offering our customers and suppliers the highest level of service and most innovative range of added value initiatives. Through the relationships developed by Alliance Santé and UniChem, working with IPSO and elsewhere in Europe, we have significant opportunities to grow in and beyond our current territories, and we shall continue to expand our retail pharmacy chain in the United Kingdom.

Shareholders

The major change in 1997 was the issue of 104.6 million new shares as a result of the merger. In addition, 5.2 million new shares were issued in respect of the acceptance of scrip dividends by mainly private shareholders, the exercise of employee share options and pharmacy acquisitions.

Pharmacist shareholders continue to be strongly represented on our share register. Over 3,500 pharmacists across Europe have an equity interest in the wider Group. The Company values highly the participation of its pharmacist shareholders, which reinforces the mutuality of interest between the Company and its customers. We are currently preparing a listing of our shares on the Bourse in Paris to make it easier for our pharmacy customers in countries which adopt the Euro to own Alliance UniChem shares.

We operate a number of schemes to encourage small individual investors in our Company. These include the single company PEP and general PEP schemes, the scrip dividend offers and employees' SAYE share option scheme. Approximately 1,200 of our employees have taken up options in the SAYE scheme.

People

Whilst employee commitment is vital to the success of all businesses, as a service industry we are critically dependent upon the dedication of our people. Alliance UniChem is fortunate in operating a business where employees readily identify with our essential role in the delivery of medicines and healthcare to patients. Our people perform their work with sustained attention to the very high professional standards demanded by our customers and our partners in the pharmaceutical sector. On behalf of shareholders, I thank all our people for their contribution.

Directors

The merger has brought about a significant change in Board membership and management structure. We welcome our new colleagues to the Board and pay tribute to those retiring.

Stefano Pessina joins us in an executive role as Deputy Chairman with responsibility for strategy and acquisitions, having been the driving force behind the growth of Alliance Santé. Ornella Barra, a pharmacist, joins with responsibility for the businesses in Italy, having been Chief Executive of Alliance Santé's very successful Italian operations since 1992. Antonin de Bono, also a pharmacist, takes responsibility for the businesses in France, where he has been Chief Executive since 1993 following a distinguished career in the French wholesaling operations. These are well respected and experienced leaders of our industry in Europe and will enhance greatly our senior management capabilities. Our executive team has also been strengthened with the promotion to the board this year of Chris Etherington, previously wholesale operations director, who is now responsible for the UK wholesale business.

> "The creation of Alliance UniChem heralds the beginning of our next phase of growth - expansion in Europe."

Chairman's statement

Joaquin Garcia Vela, President of SAFA Galenica S.A., our associate company in Spain, joins us as a non-executive director, as does Patrick Ponsolle, Executive Chairman of Eurotunnel Group. Joaquin Garcia Vela is a pharmacist who has contributed significantly to the development of one of Spain's leading wholesalers, becoming it's chairman in 1992. We welcome them both to the board and look forward to benefiting from their experience.

> "We have strong businesses performing well, excellent management led by a very capable executive team and significant opportunities for further growth."

Some of those stepping down from the board will continue to play a key role in our development. Kelvin Hide, Commercial Director, who is retiring from a full time role for health reasons, joins the board of our UK wholesaling business as a non-executive director and will assist in the management of some of our UK related healthcare businesses. Kelvin has given tremendous service and loyalty to UniChem in his 27 year career as a manager and director. Kelvin was previously responsible for much of the expansion and establishment of our UK branches and it is a tribute to his efforts that this network remains the most efficient in Europe. We wish him well in his partial retirement.

Our two community pharmacy representatives on the board, Neil Chapman and Mike Smith have also joined the UK wholesaling board, where their views on behalf of pharmacists can more directly represent our customers' interests. Both Mike and Neil have made a significant contribution to the development of UniChem as a co-operative and as a company. Mike rejoined the board relatively recently having previously served as a director from 1987 to 1990 and having been chairman of a Regional Committee. Neil also has been a Regional Committee chairman and served on the board from 1985 to 1990. Since rejoining the board in 1993 Neil has made an outstanding contribution to board decisions, always ensuring our activities add value to our community pharmacy customers.

Finally I must pay tribute to David Mair, who was our Acting Chairman prior to my appointment and a non executive director for over 20 years, including a period from 1985 to 1990 as Chairman. It is difficult to imagine the development of our Company without David's contribution and hard work or to overstate his influence on our business. David's wise counsel has been available to the company through a hostile take-over bid, two Monopolies and Mergers commission investigations, the flotation, bids for Lloyds Chemists and recently, the merger with Alliance Santé. He has also led the board as chairman during a period of rapid organic development and contributed greatly to board discussions on routine business matters. We wish David well in his retirement, it is well deserved.

Following these changes we continue to have four pharmacists as directors and have strengthened the influence of community pharmacists in our UK wholesale division. This, together with the representation of community pharmacists in share registers at Company and subsidiary level will ensure that our business retains its focus on serving our customers and keeping their interests paramount.

Outlook

We have strong businesses performing well, excellent management led by a very capable executive team and significant opportunities for further growth. The enlarged group has captured one of the very few meaningful positions as a pan-european healthcare distribution group. We look forward to the future with confidence.

Kenneth Clarke
Chairman
17 April 1998

Right: Automation reduces order turnaround times and improves picking accuracy.

Chief executive's review

"This year we have achieved a strong performance in our core businesses and, of course, have taken a major step forward in our goal of creating a major European healthcare company."

Jeff Harris,
Chief Executive

This year we have achieved a strong performance in our core businesses and, of course, have taken a major step forward in our goal of creating a major European healthcare company. In this review I comment on the major market trends we have seen across Europe, summarise our results and comment on our prospects.

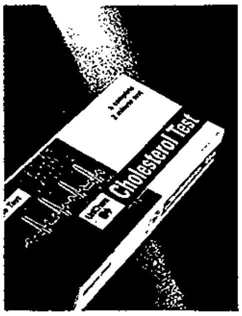
Although the results of the merged businesses, principally in France and Italy, do not form part of Alliance UniChem's 1997 results, a review of their performance is given by Stefano Pessina, our Deputy Chairman, later in this report.

European Markets

Two key trends dominate all European markets; increasing per capita drug spending, as a result of demographic changes and the introduction of better, but more costly treatments, and attempts by payors - predominately national governments - to alleviate the cost burden on taxpayers. We are also seeing the first steps towards the eventual creation of single European drug markets. Manufacturers are gradually harmonising product ranges and prices, the European Medicines Agency is facilitating standardised product formulations and packs and, of course, the introduction of EMU will underpin this process. This longer term beneficial effect of EMU is counterbalanced in the short term, by the requirement of some governments to cut spending to meet EMU limits, increasing the pressure on health budgets.

As the markets evolve, wholesalers and retail pharmacies react. Slowing market growth for pharmaceuticals in the major European markets is leading the wholesalers towards consolidation and to develop added value services for manufacturers and pharmacy customers. Continuing pressure on retail pharmacy margins is encouraging pharmacies to play a more active role in the choice of medication and in patient compliance and drug efficacy trials. In a review of each of our divisions, we describe how we are exploiting the opportunities offered by these changes.

All our businesses maintain and develop the close and highly valued relationships with pharmacists which have been at the core - and historically the creation of our wholesaling companies across Europe. These relationships include consultative committees, annual business conventions, board representation in both an executive and non-executive capacity and much more. We intend to expand these links by creating a pan-european representative forum for our pharmacist customers and one of the UK Wholesale Division's non-executive pharmacist directors, Mike Smith, has been asked to lead the development of this concept.



Results

In 1997 the Group again showed growth in sales, operating profits and pre-tax profits, with increases contributed by all three divisions.

Group sales grew by 16 per cent. The Wholesale Division increased its sales by 9 per cent, winning market share as a result of superior service levels. The Retail Division's sales grew by 20 per cent. with like-for-like ethical sales growth at 9 per cent, ahead of the market. Like-for-like sales growth in Portugal was 16 per cent in local currency, some 7 per cent ahead of market growth. In sterling terms, however, like-for-like Portuguese sales fell by 2.2 per cent due to the strengthening of sterling over the year.

Operating profit for the Group was £66.4 million, an increase of £7.6 million, or 13 per cent over last year. All divisions grew operating profits. The Wholesale Division operating profit was up by £1.3 million to £42.2 million in 1997, constrained by loss of agency fees caused by the earlier than expected introduction of a generic version of Zantac, one of the biggest selling drugs in the UK. This issue was fully disclosed at the time of the interim results announcement and its outcome was forecast then. Retail Division margin grew again, rising to 6.60 per cent from 6.32 per cent last year following the £4.0 million rise in operating profits to £19.6 million. In Portugal, operating profits were up by 138 per cent to Esc 1.3 billion. a like-for-like increase of 26 per cent. After currency translation, operating profits were £4.6 million, up 100 per cent compared with last year, reflecting the strengthening of sterling against the Escudo.

With Group operating profits ahead by 13 per cent, pre-tax profits grew by 11 per cent to £59.2 million after a net £1.7 million increase in financing charges to £6.9 million. An increase in interest costs of just over £1.8 million was experienced as a result of financing costs associated with the expenses of our bid for Lloyds Chemists in 1996 and to our taking on the more highly leveraged Alliance Santé businesses into our Portuguese Division. However these adverse factors were offset by strong cash generation. Excluding Portugal, average borrowings were broadly level with last year, even after spending £20.5 million of cash and issuing £1.0 million of loan notes for retail pharmacy acquisitions. This performance is, however, not reflected in our year end debt position, where the inherited Alliance Santé debt, together with special stock purchase programmes which temporarily increased stock levels and an unexpected delay in some health authorities' remuneration of pharmacists caused an increase in net working capital in the few days over our year end. Both stocks and debtor balances were quickly back to normal levels after the year end.

> "In 1997 the Group again showed growth in sales, operating profits and pre-tax profits, with increases contributed by all three divisions."

"In 1997 the Group again showed growth in sales, operating profits and pre-tax profits, with increases contributed by all three divisions."

Prospects

The long term characteristics of our markets remain positive, giving good prospects for further organic growth. In addition, we have many opportunities for profitable expansion by acquisition, investment or joint venturing, both in and beyond our existing markets. Our strategy of developing added value services to serve pharmacists, pharmaceutical manufacturers and payors responds directly to the needs of our partners in this vital sector of the healthcare industry, and is further strengthening our market position.

We look forward with confidence to the much wider prospects which are now open to the expanded group.

Business Profile

The UK pharmaceuticals market is the fourth largest in Europe and one of the most mature, with two dominant national wholesalers, and a high penetration of generics. Our wholesale division is the leading wholesaler to independent pharmacies in the UK and the most profitable national wholesaler. It offers a twice daily, highly reliable delivery service to all pharmacy customers and is 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.

> "Our wholesale division is the leading wholesaler to independent pharmacies in the UK and the most profitable national wholesaler."

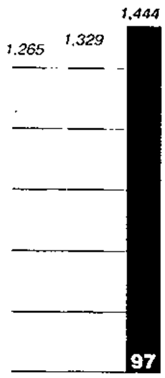
The division comprises six businesses :-

- UniChem - wholesaling of medicines and OTCs to retail and hospital pharmacies.
- 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 companies
- Eldon Laboratories - manufacturing of special pharmaceutical preparations.

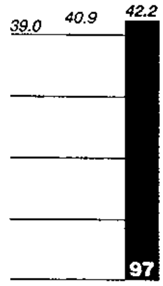
These businesses serve 5,500 retail pharmacies out of the total in the UK of 12,600. and all of the UK's 600 hospitals. UniChem operates through 11 warehouses throughout the UK and a complex of specialised warehouses at South Normanton which handle OTC toiletries, UDG pre-wholesaling activities and HM&S's medical and surgical goods. 3.300 of my colleagues work in these businesses.

Performance

Sales in the Division grew by 9 per cent to £1.4 billion, with the rate of like-for-like sales of prescription pharmaceuticals up by 7.2 per cent. A significant feature of the market in 1997 was the decline in agency business following the expiry of the patent for Zantac. The sales revenues from this product are not included in our sales, but agency incomes are included in operating profits. As we forecast at the time of our half year results, the reduction in this business constrained the growth in operating margins. which at 2.92 per cent were slightly lower than last year. Operating profit at £42.2 million was up by £1.3 million over 1996.



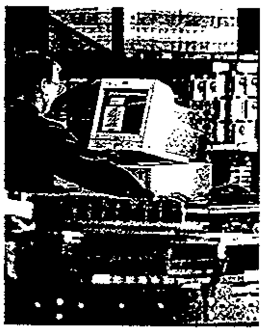
Turnover for the wholesale division - £m



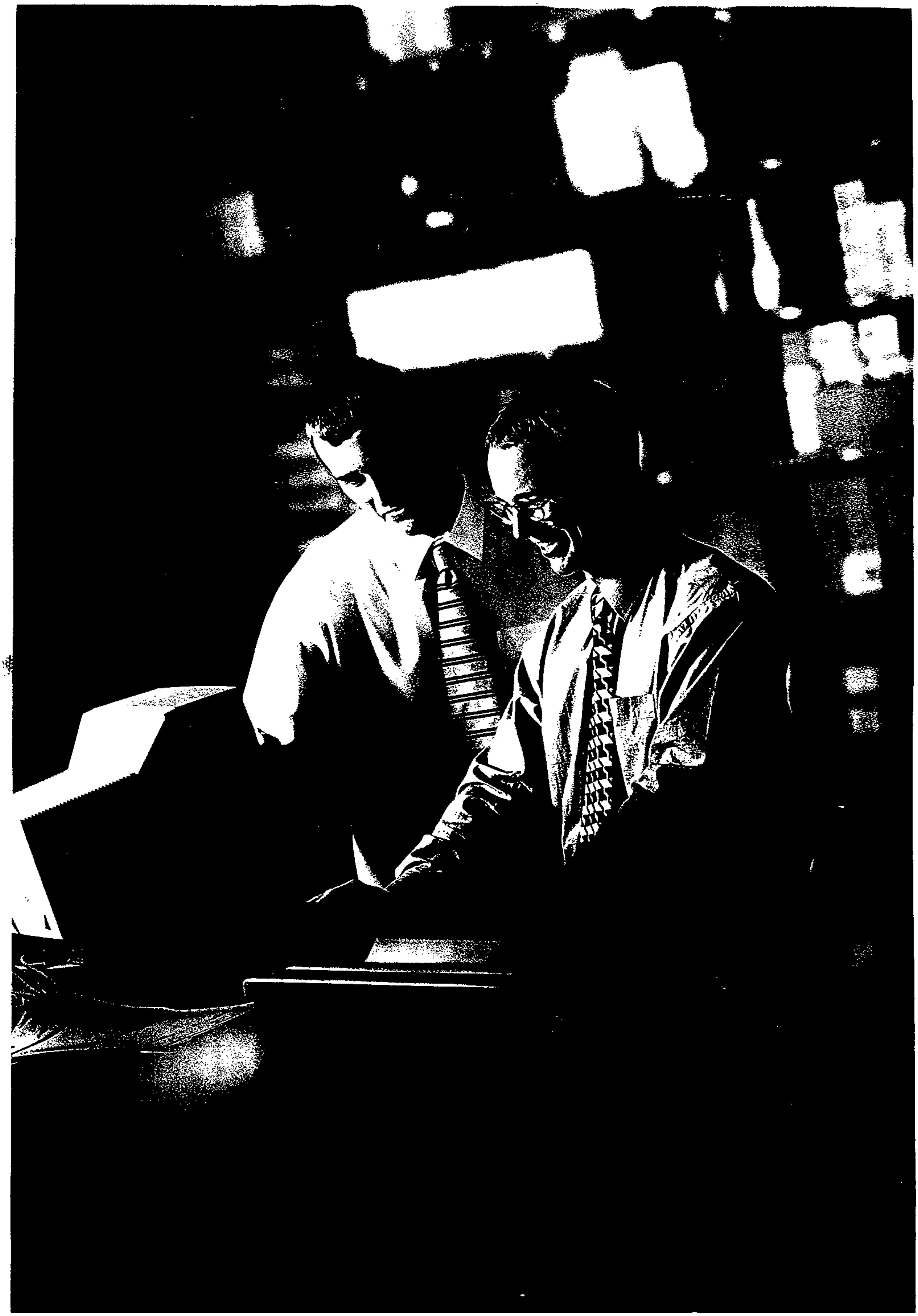
Operating profit for the wholesale division, pre exceptional item - £m

Markets

Although the wholesale prescription medicines market grew by an estimated 6.1 per cent for the year as a whole, month by month growth was erratic. The exceptionally warm weather and the absence of an influenza epidemic in the 97/98 winter reduced demand for medicines. This factor has also caused slower monthly growth rates in the first quarter of 1998 compared to early 1997 which had an influenza outbreak. In the OTC market, medicines again outperformed toiletries. The market for OTC medicines grew by around 2 per cent and our sales of this category were up by 7 per cent whilst our sales of toiletries were level with 1996 in a market that declined slightly. Competition in these markets serving retail pharmacies remained as keen as ever for individual accounts, but with no significant change in overall discount levels.



Right: Computer generated picking notes precisely and speedily identify the location of all our stock.



In the hospital market we significantly improved our market share, with sales up by 30 per cent. This continues the trend of last year, when hospital customers found our service increasingly attractive following the completion of a portfolio of contracts on behalf of manufacturers. In the medical and surgical consumable sector we also increased our share in a flat market, increasing our sales by 22 per cent as trust hospitals became increasingly aware of the benefits of using a commercial wholesaler who can offer improved services and better commercial terms.

We have continued to lead developments in the UK pre-wholesale market, with further contract gains in 1997 including Norgine, Knoll and Elan Pharma, bringing the total number of manufacturers whom we serve in the new South Normanton facility to 11. The annualised value of the healthcare products handled through our facilities now exceeds £400 million. The announcement of our merger and some operational difficulties at a competitor have added further impetus to our business in this market, where we are currently exploring potential contracts with a number of other manufacturers. Many of these partners are discussing the development of our service on a European scale, confirming our strategies in this market.

Customer Relations

The division maintained a full range of services and launched a series of initiatives in 1997 aimed at improving our customers' businesses, including financial seminars, low cost banking services and product support programmes. Our loan guarantee programme now covers 1,260 pharmacies with over 100 acquisitions and expansions supported during the year. We launched a major programme of marketing support through our Community Pharmacy Initiative during 1997, which included a consumer advertising campaign under the 'Walk This Way' theme. This has significantly increased consumer awareness of the services available from our pharmacy customers.

Operations

We have continued to raise our operational efficiencies and have achieved a further improvement in cost ratios in 1997. We achieved better stock and receivable ratios throughout the year although we took advantage of increased margins available on special and promotional buying deals available at the year end, and stock levels were temporarily increased by some £22 million. Stocks have now returned to their former levels as the products have sold through in the first quarter. Further developments in automated picking have also been progressed including barcode picking devices which are being trialled for the rump of products whose volumes are not sufficient to justify automation. This will bring the benefits of greater accuracy and productivity to the manual picking area.

Prospects

Despite continuously improving cost ratios, unusual market related factors have constrained the growth of operating margins this year. Despite a slow start to the market in 1998, long term market indicators remain positive, with growth forecast at 7 per cent. Later in 1998 the scheduled review of Pharmaceutical Price Regulation Scheme is expected to be concluded, which will define the future pricing structure for the industry. The PPRS has served the UK well over the last several years by encouraging the development of the lowest cost delivery system for pharmaceuticals in Europe. Because of the low costs of delivery, paired with great efficiency and responsiveness, we do not anticipate any worsening of the market conditions in the future. Within our businesses we have further plans to improve cost efficiency, linked with innovation in our marketing schemes, and we look forward to the future with optimism.

Left: Inventory management systems enable continuous tracking of our 18,000 product lines.

Chief executive's review

Retail Division

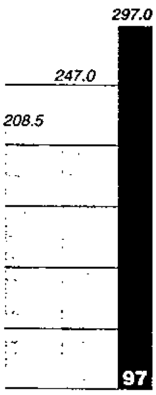
Business Profile

The UK is the only European country where significant chains of retail pharmacies have developed, which now own 37 per cent of all outlets, up from 27 per cent in 1990. Moss Chemists is the third largest chemists chain in the UK, operating 531 units and concentrating on community locations close to or situated in medical centres. Moss also has 65 units located in superstores. Moss Chemists trading strategy involves focusing on the development of pharmaceutical care and advice as part of the primary healthcare team, giving the highest standards of advice in the provision of both ethical and OTC medicines to patients.

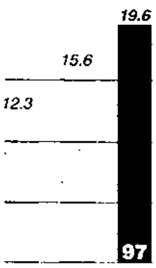
The head office of Moss Chemists is at Feltham, Middlesex although the vast majority of my 4,200 colleagues (2,120 full time equivalents) are located in the pharmacies. Moss' focus on pharmaceutical care means that some 76% of its sales are in prescription medicines.

Performance

Moss Chemists again produced a very strong performance, increasing market share, outperforming market growth, and expanding the chain by 57 units through acquisition. Total year on year sales grew by 20 per cent, with like-for-like NHS sales up by 9 per cent. Operating profits grew by 26 per cent to £19.6 million and operating margin was up to 6.60 per cent. The excellent Moss Chemists management team again produced a strong all round performance. This is the third successive year that Moss Chemists has succeeded in expanding its operating margins, against a background of declining margins for the retail pharmacy sector as a whole. This is being driven by pharmacists' remuneration rising more slowly than the growth in sales, together with the system of drug reimbursement that claws back discount obtained by pharmacists.



Turnover for the retail division - £m



Operating profit for the retail division, pre exceptional item - £m

Markets

The NHS market, including pharmacists' fees, grew by an estimated 6.9 per cent, although growth slowed considerably towards the end of the year following the exceptionally mild winter conditions experienced in the UK. For OTC products the retail pharmacy market showed some growth in contrast to the 1 to 2 per cent decline we have seen in the last few years. Again, OTC medicines were the strongest category, with growth of 2 per cent in Pharmacy only medicines - products which can only be sold in a retail pharmacy and which are the focus of our OTC retail offer. Our growth in this category was 10 per cent, assisted by joint development of OTC marketing strategies with key manufacturers and micro marketing analyses at branch level. This outperformance again emphasises our expertise in strategy selection and retail execution. Our skills in this area have been augmented by the appointment of Anna Hussey as Marketing Director. Anna joins us following a 9 year career in retail, including 6 years with a large retail pharmacy chain.

The new government has continued a policy of enhancing pharmacists' role in the delivery of primary care. A number of government funded studies are in progress, including a major review of pharmacists' prescribing and an examination of how pharmacists can improve the management of long term therapy. Moss, together with our independent pharmacy customers, are already taking up a new role as prescribing advisors to general practitioners around the country. The forthcoming introduction of GP-led, locality based primary care groups will provide further opportunities to expand their role.

Recent activity in Parliament has lent weight to the industry's view that there is no real case for the abolition of resale price maintenance on most OTC medicines, particularly Pharmacy only products. The intervention of the House of Lords in proposing an eight year moratorium on the review of RPM for OTC medicines, due to fears about its impact on the viability of many community pharmacies, echoes our own view. Abolition, which some suggest may be proposed for some categories of products such as vitamins, will tend to favour chains who 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 in all types of community in the UK.

Right: Good advice and friendly service are always on hand at Moss Chemists.


MOSS CHEMISTS

Portfolio

We acquired 66 pharmacies during the year, closed 10 units and won 1 new licence. This together with 20 acquisitions in the first three months of 1998 brings the total shops trading at the end of March up to 531, compared to 513 trading at the year end.

Prices for retail pharmacies have continued to decline gradually. In addition to the generally difficult trading conditions faced by independent pharmacies who lack the economies of the pharmacy chains, recent action by the Department of Health to increase sharply the level of discount recovered from pharmacy, is increasing pressure. We are seeing a greater number of potential acquisition candidates where pharmacists have decided to leave the profession before their normal expected retirement date.

Outlook

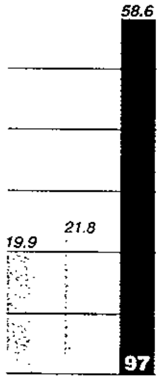
Our trading stance and operational strategies continue to enable us to win market share, further assisted by our ability to acquire good quality retail pharmacies at acceptable prices. The success of these strategies has flowed through into a steadily increasing operating margin. We are confident of further margin gains, despite margin pressure from the Department of Health. Competition for suitably qualified pharmacists is likely to intensify, with probable increases in salary costs. Our own actions to achieve scale economies and raise efficiency will offset these pressures.

Chief executive's review

Portugal Division

Business Profile

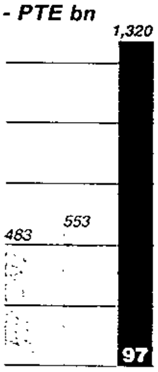
Our Portuguese business is the largest wholesaler in the country, with a market share of around 20 per cent. and the only one with full national coverage. Our administrative offices are based in Porto, with a small head office in Lisbon. We serve 1,200 of the 2,500 pharmacies from seven warehouses in which 400 of my colleagues are employed. The total pharmaceutical market amounts to just over £1 billion and has shown faster than average per capita growth since Portugal joined the European Union.



Turnover for the Portuguese division - PTE bn

Performance

In this first full year of operation in the new joint venture, the business got off to an excellent start, increasing its sales ahead of market growth, fusing the management team together quickly, and integrating the two operations smoothly. Formation of the joint venture resulted in reported sales for our Portuguese business, at Esc58.6 billion, increasing by 168 per cent and operating profits increasing by 138 per cent to Esc1.3 billion. After currency translation operating profits were £4.6 million; the strengthening of sterling from 1996 to 1997 reduced these operating profits by £0.8 million. On a like-for-like basis, operating profits in local currency were up by 26 per cent and like-for-like sales grew by 16 per cent.



Operating profit for the Portuguese division - PTE m

Markets and Operations

Market growth in 1997 was 8.8 per cent, despite the absence of the usual price increase on pharmaceuticals at the beginning of the year. New payment terms for pharmacists were introduced by the government at the beginning of the new year, delaying their reimbursement by 30 days. However, due to intervention by the National Association of Pharmacists. which is responsible for the processing of payments, there has been no adverse impact on pharmacists or wholesalers.

Outlook

The operating margin of 2.24 per cent for 1997, compared with 2.55 per cent for 1996 for just the UniChem half of the joint venture, reflects the different mix of business and costs in the two merged businesses. Limited rationalisation costs have been incurred in 1997, with no further significant costs expected in 1998. However, the merger is already producing gross margin gains as a result of synergies from procurement of goods and bought-in services. Further gains through operational cost reductions are expected following automation of the Porto warehouse, due in 1998. We expect to continue to increase our operating margins towards UK levels in 1998 and subsequent years.

Jeff Harris

Jeff Harris
Chief Executive
17 April 1998

Jeff Harris

Left: Local convenience and good value products at Moss Chemists.

> "Our pharmacist customers rely on us for an absolutely reliable service together with added value advice."
>
> ***Stefano Pessina***
> ***Deputy Chairman***

Following the very successful merger of Alliance Santé with UniChem, I am reviewing the 1997 results of the Alliance Santé businesses, although these profits are not consolidated into the 1997 results of Alliance UniChem Plc.

The businesses are organised under my two colleagues, Antonin De Bono, who has responsibility for France and the group businesses in Spain, Greece and Morocco, and Ornella Barra, who is responsible for Italy. These executive roles will continue in the future as will my own responsibility for Group strategy and development.

ALLEANZA SALUTE ITALIA

Business Profile

The Italian wholesale pharmaceutical market, the third largest in Europe, is in a phase of consolidation, with a few companies attempting to build strong positions. ASI is the largest wholesaler controlling 18 per cent market share through its subsidiaries and associates, and is the only operator with national coverage. Its network of 48 warehouses in 19 of the 20 Italian regions ensures a reliable and rapid service is available to its clients. ASI serves 8,500 pharmacies out of the total in Italy of 15,500. At the retail level, Italian pharmacies form a vital link in the healthcare chain, with a regulated density of 5,000 people per pharmacy in urban areas and an average of 3,500 per pharmacy overall. Pharmacists rely on ASI as their professional partner, ensuring reliable and regular supply of medicines, parapharmaceuticals and OTCs, and providing up to date help and advice.

The Alleanza Salute Italia group comprises companies involved in the wholesaling of medicines and OTCs to retail pharmacies together with service companies providing systems and database services to retail pharmacies. ASI employs 930 employees (full time equivalents) and has administrative offices in Lavagna, Rome, Catania and Naples. ASI has also commenced pre-wholesaling activities with a major contract to distribute Pharmacia & Upjohn products in Northern Italy.

Markets

The Italian government has been introducing measures to equalise medicine prices with those of other European states at the same time as raising the amounts and extent of co-payments required from patients, and bringing some medicines into the scope of value added taxes. Despite these pressures, the wholesale market, net of value added taxes, grew by 5 per cent in 1997, as a result of price changes; prescription volumes fell by 1 per cent. At the wholesale level, the government introduced a reduction of 0.35 per cent in wholesaler margins at the beginning of 1997.

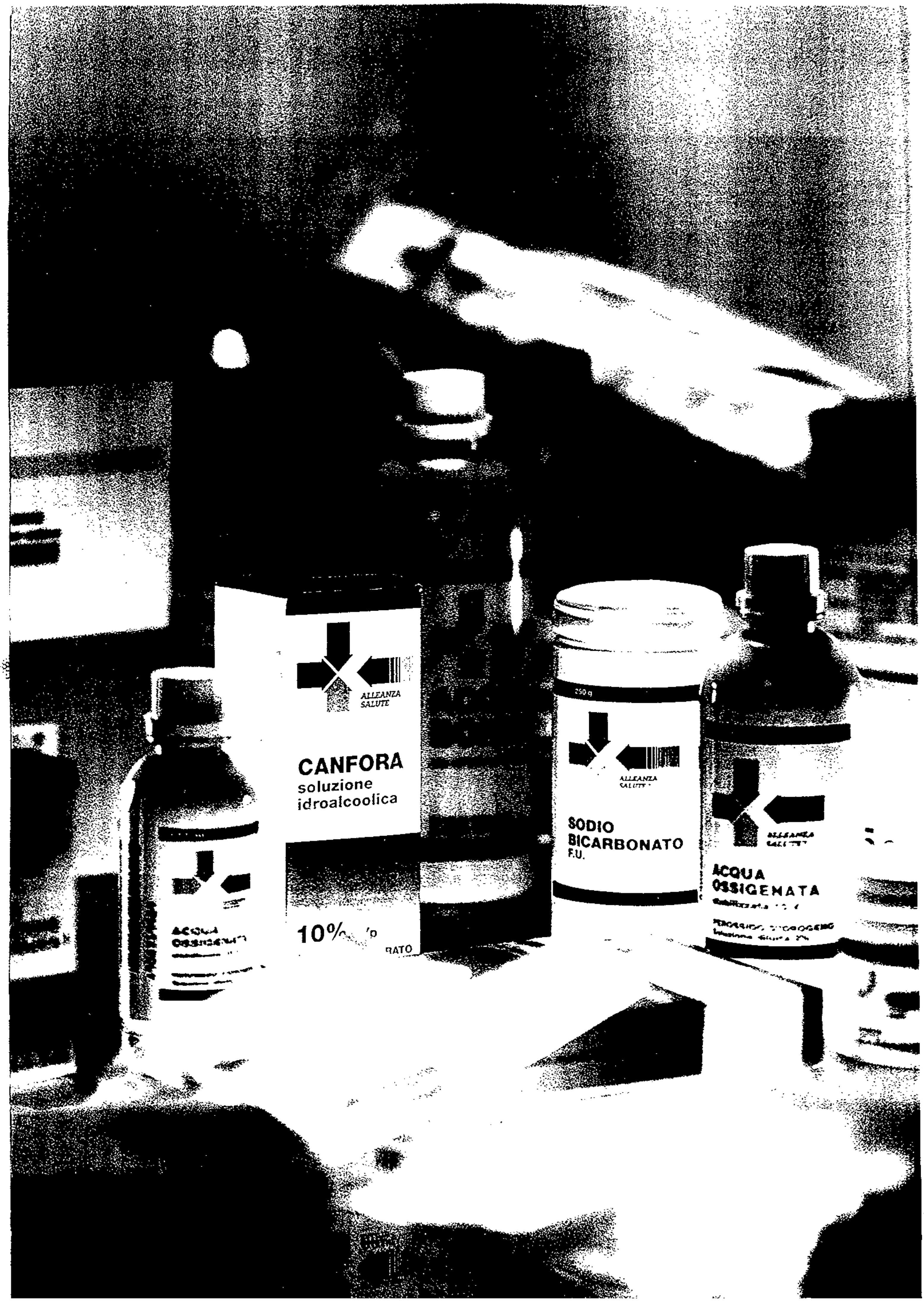
Customer Relations

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

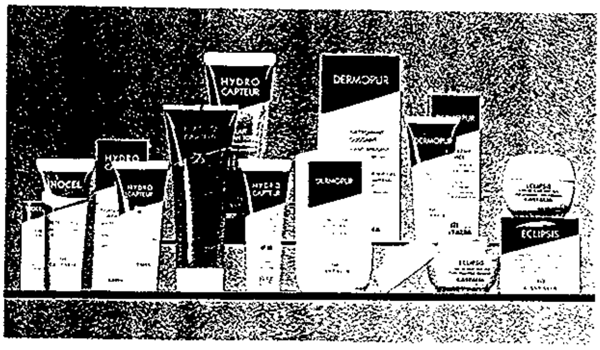
Performance

Results for 1997 for Alleanza Salute Italia are not consolidated in the Alliance UniChem Plc accounts because the merger did not complete until the very end of 1997. However, audited UK GAAP results show that ASI performed a little ahead of forecast for 1997, with consolidated sales of L1,807 billion, an increase of 5.5 per cent, operating profits of L57.8 billion, an increase of 12.5 per cent and pre-tax profits of L22.2 billion, an increase of 32 per cent. During the year ASI has continued its strategy of increasing its stake in associate companies to reach a controlling position. In 1997 we achieved a controlling position in five such important regional wholesalers, including 100 per cent of Astipharma S.p.a. and an additional 20 per cent of Safarm in Catania.

Right: Own brand products have been introduced within the Alliance Santé businesses.


ALLEANZA SALUTE
CANFORA
soluzione
idroalcoolica
10%
SODIO
BICARBONATO
F.U.
ACQUA
OSSIGENATA

Alliance Santé



Outlook

Growth in the market is expected to continue in 1998 at a rate of 5 per cent and ASI expects to continue to increase its market share. A programme which has been in place for several years to rationalise the depot numbers whilst maintaining the high quality of customer service will yield improvements in operating margins. The use of automated picking is currently confined to one warehouse at Poggibonsi but plans have been approved for further automation as warehouse expansion and refurbishment takes place.

ALLIANCE SANTÉ FRANCE

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 arose from the combination of two French wholesaling companies, IFP and ERPI, and is the second largest wholesaler in France, with a market share of 30 per cent. Alliance Santé provides a full line wholesaling service together with a comprehensive range of added value services from its warehouse network situated throughout France.

Through a branch network of 61 warehouses, Alliance Santé France serves 15,000 of France's 22,500 retail pharmacies with a two to five times daily delivery from a product range of 19,500 medicines and parapharmaceuticals. The principal administrative centres of the business are at Gennevilliers and Chateauroux and ASF employs 3,750 staff (full time equivalents) in France. Currently 25 warehouses operate automated picking facilities and 3 hold central stocks.

The French division comprises the following businesses :-

- ERPI Distribution - pharmaceutical wholesaling, southern France
- IFP Santé - pharmaceutical wholesaling, northern France
- Orpec - pharmaceutical wholesaling, Corsica
- Locapharm and subsidiaries - provision of home healthcare services through pharmacist clients
- RESIP and ASBI and subsidiaries - pharmacy systems and database services to pharmacies and physicians
- Elvetec and subsidiaries - chemical analysis and laboratory equipment
- Mayzaud - manufacture of orthopaedic footwear

Markets

The government of France is taking measures to constrain the growth in the drugs bill. Two aspects of policy are particularly relevant to wholesalers. Firstly, the prescribing of generic drugs, though a very small proportion of the market, is being encouraged. Secondly but of greater importance, pharmaceutical wholesalers are subject to a special tax ('ACOSS') linked to the growth in the size of the overall medicines market. Until the end of 1997 this tended to discriminate against wholesalers since ACOSS was not levied on direct sales of medicines by manufacturers. This category of direct sales grew rapidly, reducing wholesalers' market share and yet increasing their tax burden. From the beginning of 1998 ACOSS rates have been altered introducing a relatively higher ACOSS rate on direct sales. A shift of turnover back towards wholesalers has already been seen in the first quarter of 1998. Overall market growth in France is likely to remain low for the next few years while the country ensures its public finances perform in line with the requirements of the EMU system.

Performance

Results for 1997 for Alliance Santé France are not consolidated in Group accounts because the merger did not complete until the very end of 1997. However, audited UK GAAP results show that ASF performed a little ahead of forecast for 1997, with consolidated sales of FFr24,580 million, up by 2.4 per cent over 1996, operating profits of FFr405 million, increased by 3.1 per cent and pre-tax profits, including contributions at the pre-tax level from associates in Spain, Greece and Morocco, of FFr325 million, an increase of 2.2 per cent.

Following a gradual programme of warehouse rationalisation and streamlining the legal structure of our wholesaling and related healthcare businesses, the number of warehouses has been reduced in 1997 by four, with a further two closures in the first quarter of 1998. The costs of these warehouse closures have been charged against operating profit in 1997. The resulting savings in operating costs, together with other measures such as automation and a reduction in discount pressures, has meant operating margins have risen to 1.65 per cent in 1997.

Customer Relations

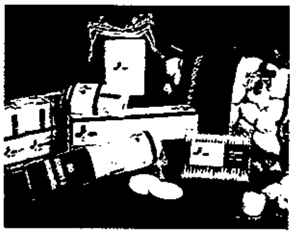
Alliance Santé France maintains a full range of value added services for its pharmacy customers. In 1997 a major launch of a new package of services was initiated under a new image - 'Alphega'. This includes an interactive terminal used by patients to obtain information about OTC medicines, pharmacy management systems, a loyalty programme and databases for information about pharmaceutical products.

Outlook

The outlook for market growth in pharmaceuticals remains in the range 2 to 4 per cent. Despite this relatively low market growth and the presence of special healthcare taxes, we expect to increase operating margins. The closer alignment of the operations of IFP and ERPI, involving the rationalisation of depots and administrative functions, will be carefully managed in sympathy with the needs of our employees. Resulting cost reductions and efficiency gains, together with expansion in added value services for our clients will improve operating margins.

SPAIN

Alliance UniChem's associate company, Safa Galenica is the second largest wholesaler in the fragmented but rapidly consolidating Spanish pharmaceutical distribution market which ranks fifth in Europe after the UK. The evolution of primary care is likely to promote the role of pharmacies in Spain and drug spending is likely to grow towards European averages. Safa enjoys a very strong image amongst healthcare professionals and is known not only for its reliable distribution activities but also for the development of services which help clients diversify their healthcare activities. Safa has 11 per cent market share serving 6,500 of the 18,300 pharmacies in Spain, operating with 18 warehouses throughout the country apart from the southern region.



Sales in 1997 were Ptas85 billion (£355 million), an increase of 13 per cent on 1996 in a market growing by 6 per cent. Operating profits were Ptas1,071 million (£4.5 million) giving an operating margin of 1.26 per cent and pre-tax profits were Ptas606 million (£2.5 million). Results for Safa are included in those for Alliance Santé France as an associate since we have a 36 per cent share of Safa's equity. These results are not, however, consolidated in the Group results for 1997 since the merger of Alliance Santé with UniChem did not complete until the end of the year.

GREECE

The Greek pharmaceutical distribution market is very fragmented, with 147 wholesalers serving 7,900 pharmacies. Our associate company, Lavipharm Alliance Santé, in which we have a 40 per cent stake, distributes and sells ethical and OTC medicines and provides logistical, scientific and information services to pharmacists, wholesalers and hospitals. This is a recently developed company, and is enjoying rapid sales growth, becoming the fourth largest wholesaler in 1997. With 600 clients and Dr13.8 billion (£26 million) turnover in 1997, LAS has 3.5 per cent of the market, operating from 1 warehouse. We anticipate further sales growth and market share gains from our joint venture with Lavipharm

MOROCCO

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

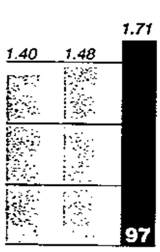
Stefano Pessina
Deputy Chairman
17 April 1998

Financial review

Geoff Cooper, Finance Director

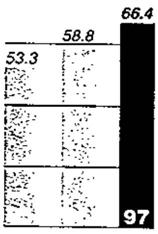
Group Results

The results for 1997 include 12 months trading for the former UniChem businesses and the combined balance sheet for the newly merged UniChem and Alliance Santé businesses. Since the merger completed 2 days before the 1997 year end, no trading results are included for the former Alliance Santé businesses.



Total turnover for all the divisions - £bn

Group turnover increased by 16 per cent and Group operating profits by 13 per cent, with the operating margin level at 3.9 per cent compared with last year. These figures include a full year of trading from the merged operation in Portugal and incorporate results from the Alliance Santé businesses operating in the south of the country which have a lower operating margin due to different cost structures in that region. Excluding the effects of the joint venture. Group operating margin grew from 3.98 per cent last year to 4.04 per cent in 1997. Interest costs increased by £1.7 million.

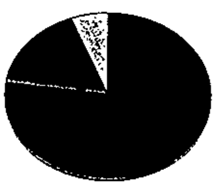


Total operating profit for all divisions, pre exceptional item - £m

With interest on the costs incurred in 1996 relating to our bid for Lloyds Chemists amounting to £0.9 million and an increase of £0.9 million in interest costs from the Alliance Santé side of the Portuguese joint venture, net interest charges for our remaining businesses fell by £0.1 million. This reflects average borrowings remaining broadly level with 1996. Actual average borrowings were £104 million. Profit before tax increased by 11 per cent and profits after tax grew by 15 per cent, reflecting a fall in the overall tax rate to 30.07 per cent from 32.71 per cent last year, mainly as a result of the corporation tax rate changes announced in May 1997. Fully diluted earnings per share increased by 10 per cent, and the 10 per cent increase in dividend to 9.7 pence per share gives dividend cover of 2.3 times, level with last year on a pre-exceptional basis.

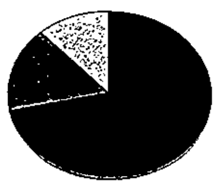
Cash Flow

With continuing strong cash flow from our core businesses, average borrowings excluding the impact of the Portuguese joint venture remained broadly level with 1996 despite spending £20.5 million on pharmacy acquisitions. However, this was not reflected in the borrowing position at the year end, or in our net cash inflow from operations, due to two main factors. The UK wholesale division took advantage of a number of special buying opportunities available and this, together with slower than anticipated December sales due to the lack of an influenza epidemic meant stock levels were some £22 million higher. Stocks have now returned to normal levels as a result of the routine sell through of products. Wholesale debtors were also higher than anticipated for a few days over the year end as a result of slower than normal payments by some health authorities and special extended credit offered to some customers to help their position. Borrowings were also pushed higher by the rapid sales growth in Portugal. Average net working capital investment is about 50 days of sales and the like-for-like sales growth of 16 per cent required around £5 million of extra working capital investment. These were the factors that reduced cash inflow from operations compared with last year. Cash generated from the core businesses continued to be invested in retail pharmacies, with £20.5 million spent during the year.



Turnover by division 1996

Wholesale 77%
Retail 17%
Portugal 6%

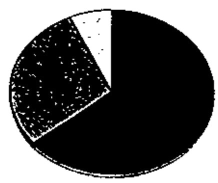


Turnover by division 1997

Wholesale 71%
Retail 17%
Portugal 12%

Operating profit by division (pre exceptional item) 1996

Wholesale 69%
Retail 27%
Portugal 4%



Operating profit by division (pre exceptional item) 1997

Wholesale 64%
Retail 29%
Portugal 7%

Receivables Securitisation

The wholesale markets in France and Italy require a higher level of working capital investment since pharmacists have traditionally used their wholesaler as a source of funds to counter the slow reimbursement by governments of prescription medicines. For this reason, debtor days in France and Italy are higher than experienced in the United Kingdom. However, these markets experience a similar record of very low bad debts, since cashflows are effectively underwritten by governments and pharmacy values are protected since pharmacy numbers are restricted by limitation of contract. 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 of approximately 10 per cent, means the receivables are sold on a non-recourse basis. At the year end, the non-recourse value of receivables outstanding amounted to FFr1,800 million (£181.9 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.

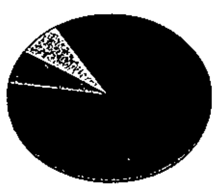
Funding

Net borrowings at £437 million were significantly higher than at the end of 1996, mainly reflecting the impact of our merger with Alliance Santé. As a result of the merger, we assumed £230 million of debt from the Alliance Santé businesses in France and Italy and borrowed £144 million from our main French lending banks to finance the offer made to minority shareholders in IFP and ASD, the two quoted holding companies in France. In the UniChem businesses, the only significant change was a refinancing of existing working capital facilities by a revolving credit facility of £55 million arranged through our core UK lenders.

The facilities in the Group were put in place to meet the needs of its component parts - UniChem, Alliance Santé France and Alleanza Salute Italia - and mainly comprise short term committed working capital facilities. A major review of treasury policies and funding requirements is in progress with the aim of simplifying present arrangements and ensuring that the longer term financing needs of the Group are met.

Sources of funding

- Operating activities 5%
- Share capital issued for cash 1%
- Sale of shares in Lloyds Chemists 30%
- Increase in net borrowings 64%



Application of funds

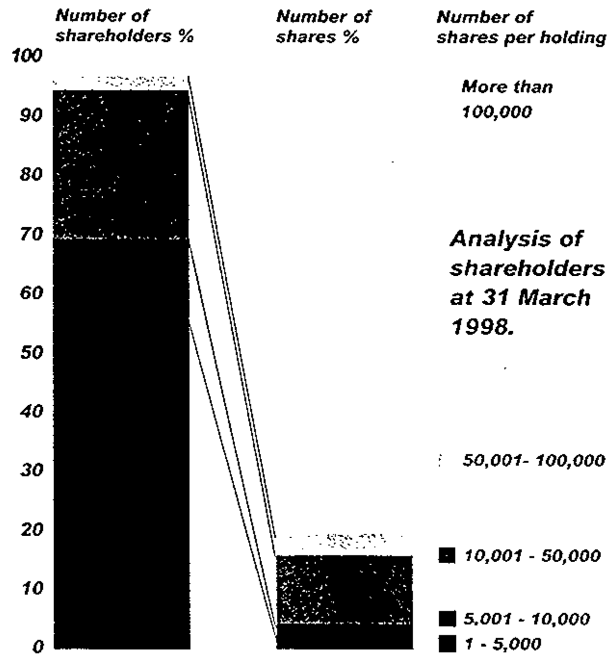
- Acquisitions 77%
- Taxation 7%
- Capital expenditure 7%
- Dividends and interest 9%

Financial Risk Management

The funding review will also address financial risk management issues. An initial review of these issues has already been completed. Currently, foreign denominated debts approximately match currency 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 Group currently has arrangements in place, including swaps, caps and fixed rate borrowings, giving protection against variations in interest rates. These measures cover 35 per cent of the 1997 average borrowings of the enlarged Group. The major review will make recommendations for further measures to be taken in this area. Until this review is completed, current treasury policies remain in place. These specify that financial risks are managed in relation to underlying business needs and any derivative financial instruments used in this context require board approval.

Accounting Policies

This year we have changed our accounting policy in respect of the value of pharmacy licences held by Moss Chemists. Previously, the intangible asset represented by the licence obtained on the acquisition of a retail pharmacy has not been recognised in the assets acquired and goodwill values have increased accordingly. We have now conducted a valuation, based on the expected cashflow from each pharmacy, and have concluded that the licences are worth not less than the consideration paid for each pharmacy. We have therefore capitalised licences at cost and the resulting figures are shown on the balance sheet as an intangible asset. At the year end these licences were capitalised at £182 million.



Analysis of shareholders at 31 March 1998.

Directors' biographies

From left to right: D.ssa O. Barra, G.I. Cooper, J.F. Harris, A. De Bono, S. Pessina, B.M. Andrews and C. Etherington.

B.M. Andrews, B.Pharm., F.R.Pharm.S.
UK Retail Director
Barry Michael Andrews (aged 53 / appointed 1992) is a Pharmacist. He is a member of the Pharmaceutical Services Negotiating Committee and a director of the Company Chemists Association. He is Managing Director of Moss Chemists, a position he held when the company was acquired in 1991.

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

D.ssa O. Barra, Italy Director
Ornella Barra (aged 44 / appointed 1997) 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.
Non-Executive Chairman
Kenneth Harry Clarke (aged 57 appointed 1997) is a Queens' Counsel and Member of Parliament. He has served in the Cabinet as Health Secretary and as Chancellor of the Exchequer.

G.I. Cooper, B.Sc., A.C.M.A. Finance Director
Geoffrey Ian Cooper (aged 44 / appointed 1994) 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.

N.E. Cross, Ph.D., F.C.I.S. Non-Executive Director
Neil Earl Cross (aged 53 / appointed 1997) was a main board director of 3i Group plc. At 3i he had extensive experience of investing in small and medium sized UK companies and latterly had responsibility for developing activities in continental Europe, the USA and the Far East.

A. De Bono, French Director
Antonin De Bono (aged 53 / appointed 1997) 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.

C. Etherington, UK Wholesale Director
Christopher Etherington (aged 45 / appointed 1997) worked in a number of distribution roles within industry before joining the Company in 1991. He was appointed to the Board as Managing Director of UniChem, having graduated from the advanced management programme at Harvard University.

J. Garcia Vela, Non-Executive Director
Joaquin Garcia Vela (aged 63 / appointed 1997) is a Pharmacist, an Optometrist and a graduate of management at Escuela de Alta Direccion y Administracion and at Instituto de Estudios Superiores de la Empresa. He joined SAFA Galenica S.A. in 1971 and was appointed chairman in 1992.

J.F. Harris, B.Sc., F.C.A. Chief Executive
Jeffery Francis Harris (aged 50 / appointed 1986) 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, Deputy Chairman
Stefano Pessina (aged 56 / appointed 1997) is an Engineer. After holding a number of academic posts and working as an independent business consultant he became involved in pharmaceutical wholesaling in 1976. From that date he built up his interests in a number of European countries to form the Alliance Santé Group which merged with the Company in 1997.

P. Ponsolle, Non-Executive Director
Patrick Ponsolle (aged 53 / appointed 1997) is executive chairman of Eurotunnel Plc/S.A. and a director of Société Générale de Belgique and of Moulinex S.A.

From left to right: M.A. Bardsley, P. Ponsolle, N.E. Cross, J. Garcia Vela and The Right Hon. K.H. Clarke.

During 1997 the Company complied with the **Code of Best Practice,** published by the Committee on the Financial Aspects of Corporate Governance.

Directors are entitled, through the Company Secretary 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 of Directors** met formally on eight occasions during 1997 and the four standing **committees** of the Board met in accordance with their terms of reference, as detailed below. One other committee was established in 1997 to undertake a specific task, which has been completed. Where decisions of the committees are relevant, they are detailed in the pertinent section of the 1997 annual report.

The **audit** committee met twice in 1997. Its main purposes are: to provide a conduit for the interface between the Company and the auditors; to review the financial statements of the Company, focusing particularly on compliance with legal, regulatory and accounting standard requirements and the going concern assumptions; and to review the internal controls of the Company.

The **executive** committee is constituted so that the Company can function day to day by taking care of routine matters not requiring the consideration of the Board as a whole. Under the terms of reference, parameters have been established which limit its authority to act without consulting the Board as a whole.

The **nomination** committee did not meet in 1997. Its role is to recommend to the Board any appointment as a director and any re-appointment of a non-executive director at the end of their five year term of office.

The **remuneration** committee met twice in 1997 and is authorised to determine the remuneration of the directors and to grant options under the discretionary share option schemes.

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

Report on Directors' remuneration and interests

Directors

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

appointed	17 February	N.E. Cross
	10 July	C. Etherington
	9 September	K.H. Clarke
	30 December	O. Barra, A. De Bono, J. Garcia Vela, S. Pessina and P. Ponsolle
ceased	28 January	Lord Rippon
	25 February	S.P. May
	30 December	W.N.P. Chapman, K.S.S. Hide, D.C. Mair and M.H. Smith.

In the rest of this report details given will be for the period that the individuals were directors. Where a director has been appointed during the year, details shown as being at 1 January 1997 will be the details at the date of appointment.

Remuneration policy

Decisions on executive directors' remuneration are taken by the remuneration committee, the current members of which are detailed in the corporate governance section of this annual report. Throughout 1997 the Company complied with section A (remuneration committees) of the best practice provisions on directors' remuneration annexed to the listing rules of the London Stock Exchange.

In reaching their conclusions. the remuneration committee took into consideration: the remuneration policy of the Group; the advice of Towers Perrin. acting as remuneration consultants; and, Section B (remuneration policy, service contracts and compensation) of the best practice provisions on directors' remuneration annexed to the listing rules of the London Stock Exchange.

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.

Towers Perrin gave advice on the remuneration arrangements of the executive directors during 1996. Following the merger of UniChem and Alliance Santé, Towers Perrin were asked to update their review and any changes arising out of this latest review may have an impact in 1998.

Emoluments

The emoluments of the directors for the financial year ended 31 December 1997 were:

	fees	salary and other cash	non-cash benefits	bonus payments	termination	total 1997	emoluments 1996
director	£000	£000	£000	£000	£000	£000	£000
B.M. Andrews	-	196	7	29	-	232	211
M.A. Bardsley	18	-	-	-	-	18	15
W.N.P. Chapman	20	-	-	-	-	20	15
K.H. Clarke	40	-	-	-	-	40	-
G.I. Cooper	-	203	13	10	-	226	199
N.E. Cross	15	-	-	-	-	15	-
C. Etherington	-	89	4	9	-	102	-
J.F. Harris	-	275	18	60	-	353	273
K.S.S. Hide	-	180	14	-	-	194	192
D.C. Mair	30	-	-	-	-	30	30
S.P. May	-	31	8	-	75	114	31
Lord Rippon	3	-	-	-	-	3	60
M.H. Smith	18	-	-	-	-	18	3
Total	144	974	64	108	75	1,365	1,029

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.

Pensions

The pension benefits earned by directors during 1997 were:

	age at year end	increase in accrued pension during the year	total accrued pension at year end	additional money purchase contribution
director		£000	£000	£000
B.M. Andrews	53	5	81	-
G.I. Cooper	43	3	11	10
C. Etherington	45	1	19	8
J.F. Harris	49	10	106	-
K.S.S. Hide	50	2	99	-

The accrued pension is a benefit of the Company's Pension and Assurance Scheme. The additional money purchase contribution is paid by the Company into a separate scheme and requires no additional contribution from the directors. Any additional voluntary contributions paid by the directors, and the benefit arising from such contributions, are excluded from the above table.

Under the arrangements of the Pension and Assurance Scheme: the normal retirement age of the directors is 60; J.F. Harris, on leaving service, is entitled to receive an unreduced pension from age 55; directors are required to pay a contribution of 5% of basic salary; the yearly average of performance related earnings paid over the previous three years is included in the definition of pensionable pay; 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.

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 1997	acquired in the year	disposed in the year	31 December 1997	acquired in the period	disposed in the period	15 April 1998
B.M. Andrews	115,227	1,275	-	116,502	90,000	90,000	116.502
M.A. Bardsley	6,555	224	-	6,779	-	-	6.779
G.I. Cooper	-	-	-	-	248,076	168,668	79.408
C. Etherington	6,478	-	-	6,478	-	-	6.478
J.F. Harris	24,108	195,622	37,529	182,201	48	-	182.249
S. Pessina	-	104,634,177	-	104,634,177	-	-	104,634.177
Total	152,368	104,831,298	37,529	104,946,137	338,124	258,668	105,025.593

The UniChem PLC Employee Share Trust held 1,033,333 shares at 31 December 1997. There was no change to this holding between 31 December 1997 and 15 April 1998. All employees and the executive directors are eligible to benefit from the trust.

The interests of S. Pessina are held by Alliance Santé Participations S.A.. The company, registered in Luxembourg, is indirectly wholly owned by S. Pessina and the directors include S. Pessina, A. De Bono and J.F. Harris.

Report on Directors' remuneration and interests

Interests in options over shares

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

	option	1 January 1997	granted / (exercised) in the year	31 December 1997	granted / (exercised) in the period	15 April 1998	exercise price (p)	mid-market price on exercise (p)	notional gain £000
B.M. Andrews	1	8,254	-	8,254	-	8,254	163.55		-
	2	3,312	-	3,312	-	3,312	208.33		-
	6	45,000	-	45,000	(45,000)	-	253.99	352.5	44
	7	45,000	-	45,000	(45,000)	-	260.00	352.5	42
	8	30.000	-	30,000	-	30,000	269.00		-
	9	-	45,000	45,000	-	45,000	268.50		-
		131,566	45,000	176,566	(90,000)	86,566			86
G.I. Cooper	3	9,154	-	9,154	-	9,154	213.00		-
	7	248,076	-	248,076	(248,076)	-	260.00	393.5	331
	8	372	-	372	-	372	269.00		-
	9	-	36,872	36,872	-	36,872	268.50		-
		257,602	36,872	294,474	-	46,398			331
C. Etherington	2	3,312	-	3,312	-	3,312	208.33		-
	6	30,000	-	30,000	-	30,000	253.99		-
	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		-
		93,312	45,000	138,312	-	138,312			-
J.F. Harris	2	3,312		3,312	-	3,312	208.33		-
	4	4,791		4,791	-	4,791	216.00		-
	5	300,000	(185,084)	114,916	-	114,916	88.97	267.0	191
	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		-
		428,103	45,000 (185,084)	288,019	-	288,019			191
Total		910,583	171,872 (185,084)	897,371	(338,076)	559,295			608

No options lapsed during the financial year or between 1 January 1998 and 15 April 1998. The mid-market price of shares of the Company ranged during 1997 between 246 pence on 2 January and 350 pence on 21 November and at 31 December was 318.5 pence. Further details of the share option schemes are given in note 18 to the financial statements.

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

The options granted during 1997 are only exercisable if, at any time during the exercise period, earnings per share growth of the Company in the period is greater than the increase in RPI-x plus 4% compound. Earnings per share is defined as the fully diluted pre-exceptional figure as reported for a full accounting year. RPI-x is the index of retail prices for all items excluding mortgage payments as published by the Government. The target parameters may be changed by the remuneration committee should circumstances warrant it.

Service contracts

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

Other interests

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

S. Pessina acquired 104,634.177 shares in the Company as a result of the merger between UniChem and Alliance Santé. Full details of the merger were set out in the circular to shareholders dated 5 December 1997.

A. De Bono and his close family sold their 100% holding in CLAJAC S.A. to Alliance Santé France S.A. on 29 December 1997 for Ffr 9,375,423. CLAJAC S.A. held shares in Alliance Santé Distribution S.A.

Financial Statements

Shareholder Matters

Report of the directors

for the Alliance UniChem Group and Alliance UniChem Plc

The reviews, statements, reports, notes, information and notices constituting, or despatched with, the 1997 annual report are material to an appreciation of the business of the Company and as such form part of this report of the directors.

Annual General Meeting
The notice convening the 1998 annual general meeting has been despatched with this annual report.

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 and publication of a staff newsletter. Employees with share options also receive a copy of this report. Subject to practical and commercial considerations, employees are consulted and involved in decisions that affect their employment or future prospects.

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. The number of days' purchases represented by period-end trade creditors is 38.

Political and charitable gifts
£1,250 has been given to various local charities. No political gifts were made during the financial year.

Animal testing
It is the policy of the UK businesses that only skin care products that have not been tested on animals will be introduced to the UniChem own brand range and that wherever possible the retail pharmacies will only stock other brands with the same policy.

Approved by the Board of Directors and signed on their behalf

A J Goodenough
Company Secretary
17 April 1998

Statement of directors' responsibilities

Responsibilities in preparing the financial statements
This statement, which should be read in conjunction with the Auditors' Report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements. The directors are required by the Companies Act 1985 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 32 to 46, 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 the Companies Act 1985.
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.

Responsibilities on internal financial control
The directors are responsible for the system of internal financial control within the Group. The system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately.
Key procedures that have been established include:

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

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

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

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

In accordance with their terms of reference the audit committee have reviewed the internal financial controls in place during the financial year and in the period to the date of approval of the financial statements. This has involved considering key points arising from a report dealing with the major business risks, the control environment and the results of the Group Finance department's consideration of the business against the criteria for assessing internal financial control set out in the internal control and financial reporting guidance for directors. Following completion of the merger, between UniChem and Alliance Santé on 30 December 1997, the operations of Alliance Santé have not been covered by the review; reliance has instead been placed on the pre-merger due diligence which was available to the Board on 19 November 1997.

We have audited the financial statements on pages 32 to 46 which have been prepared under the accounting policies set out on page 36 and the detailed information disclosed in respect of any directors' remuneration and share options set out in the report to shareholders by the remuneration committee on pages 26 to 28.

Respective responsibilities of directors and auditors

As described on page 30 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 adequacy of the 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 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 25 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v). We have also reviewed the statement of compliance with Section A of the Best Practice Provisions on remuneration committees and the report of the remuneration committee to the shareholders set out respectively on pages 26 to 28 to the extent that they provide the disclosures specified by the Listing Rules.

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures or on the appropriateness of the bases used in determining directors' remuneration or on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statement on internal financial control on page 30 and going concern on page 30, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 25 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43 (j). Also on this basis, in our opinion the directors' statement of compliance with Section A of the Best Practice Provisions on remuneration committees and the report of the remuneration committee appropriately provide the disclosures specified by the Listing Rules and are not inconsistent with the information of which we have become aware from our audit work on the financial statements.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
17 April 1998
Hill House, 1 Little New Street, London EC4A 3TR

Group profit and loss account

for the year ended 31 December

	Note	1997 £m	Before cost of bid for Lloyds Chemists 1996 £m	Net cost of bid for Lloyds Chemists 1996 £m	1996 £m
Turnover					
Continuing operations		**1,596.0**	1,478.5	-	1,478.5
Acquisitions		**116.3**	-	-	-
	2	**1,712.3**	1,478.5	-	1,478.5
Cost of sales		**(1,539.0)**	(1,330.5)	-	(1,330.5)
Gross profit		**173.3**	148.0	-	148.0
Administrative expenses		**(116.7)**	(98.1)	(11.3)	(109.4)
		56.6	49.9	(11.3)	38.6
Other operating income		**9.8**	8.9	-	8.9
Operating profit					
Continuing operations		**64.2**	58.8	(11.3)	47.5
Acquisitions		**2.2**	-	-	-
	2	**66.4**	58.8	(11.3)	47.5
Net share of results of associated undertakings		**(0.3)**	(0.1)	-	(0.1)
Net interest payable and similar charges	3	**(6.9)**	(5.2)	(1.9)	(7.1)
Profit on ordinary activities before taxation	4	**59.2**	53.5	(13.2)	40.3
Tax on profit on ordinary activities	7	**(17.8)**	(17.5)	1.4	(16.1)
Profit on ordinary activities after taxation		**41.4**	36.0	(11.8)	24.2
Equity minority interests		**(1.1)**	-	-	-
Profit for the financial year		**40.3**	36.0	(11.8)	24.2
Dividends (9.7p per share - 1996 8.8p)	8	**(17.5)**	(15.4)	-	(15.4)
Retained profit for the financial year		**22.8**	20.6	(11.8)	8.8
Earnings per share	9				
- Undiluted		**22.6p**	20.5p		13.9p
- Fully diluted		**22.3p**	20.2p		13.7p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1997 £m	1996 £m
Profit for the financial year	**40.3**	24.2
Revaluation of foreign investments	**(0.5)**	0.5
Currency translation differences on foreign currency net investments	**(1.1)**	(1.0)
Total recognised gains and losses relating to the year	**38.7**	23.7

MOVEMENT IN SHAREHOLDERS' FUNDS

	1997 £m	1996 as restated £m
At 1 January as previously stated	**129.0**	135.5
Prior period adjustment (note 30)	**157.2**	139.0
At 1 January as restated	**286.2**	274.5
Total recognised gains and losses for the financial year	**38.7**	23.7
Dividends	**(17.5)**	(15.4)
Goodwill acquired and written off during the year	**(338.6)**	-
Shares issued	**345.1**	3.4
Other	**(1.2)**	-
At 31 December	**312.7**	286.2

Balance sheets

as at 31 December

	Note		The Group		Company	
	Note 30		1997 £m	1996 as restated £m	1997 £m	1996 as restated £m
Fixed assets						
Intangible assets	10		**181.8**	157.2	**-**	-
Tangible assets	11		**197.7**	71.0	**38.5**	40.6
Investments	12		**22.6**	12.5	**288.9**	270.5
			402.1	240.7	**327.4**	311.1
Current assets						
Stocks			**417.0**	132.4	**109.1**	93.0
Investments	13		**33.4**	61.4	**-**	61.4
Gross debts discounted	14	**204.4**		-	**-**	-
Non-returnable receipts	14	**(181.9)**	**22.5**	-	**-**	-
Other debtors	14		**655.4**	223.4	**187.1**	149.9
Cash at bank and in hand			**135.6**	28.5	**34.9**	26.7
			1,263.9	445.7	**331.1**	331.0
Creditors: amounts falling due within one year						
Borrowings	15		**295.2**	88.1	**38.5**	101.7
Other creditors	16		**764.4**	294.3	**277.6**	266.3
			1,059.6	382.4	**316.1**	368.0
Net current assets/(liabilities)			**204.3**	63.3	**15.0**	(37.0)
Total assets less current liabilities			**606.4**	304.0	**342.4**	274.1
Creditors: amounts falling due after more than one year						
Borrowings	15		**277.3**	16.0	**70.0**	16.0
Provisions for liabilities and charges	17		**8.7**	1.8	**0.8**	0.6
			320.4	286.2	**271.6**	257.5
Capital and reserves						
Called up share capital	18		**28.6**	17.6	**28.6**	17.6
Share premium account	18		**340.8**	6.7	**340.8**	6.7
Special reserve	19		**-**	157.2	**-**	157.2
Revaluation reserve	19		**-**	0.5	**-**	0.5
Profit and loss account	19		**151.5**	131.0	**111.8**	102.3
Goodwill	19		**(208.2)**	(26.8)	**(209.6)**	(26.8)
Total equity shareholders' funds			**312.7**	286.2	**271.6**	257.5
Minority interests			**7.7**	-	**-**	-
Capital and reserves			**320.4**	286.2	**271.6**	257.5

The financial statements were approved by the Board of Directors of Alliance UniChem Plc on17 April 1998 and are signed on its behalf by:

K Clarke

J F Harris Directors

Group cash flow statement

for the year ended 31 December

	Note	1997	1996
		£m	£m
Net cash inflow from operating activities	22	10.7	69.4
Returns on investment and servicing of finance			
Interest received		0.5	0.2
Interest paid		(8.4)	(5.0)
Interest paid on financing investment in Lloyds Chemists		-	(3.5)
Interest element of finance lease rentals		(0.2)	(0.3)
Dividends received from investment in Lloyds Chemists		-	1.6
Net cash inflow/(outflow) for returns on investment and servicing of finance		(8.1)	(7.0)
Taxation		(14.8)	(16.3)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(11.8)	(13.6)
Sale of tangible fixed assets		2.0	1.5
Net cash inflow/(outflow) for capital expenditure and financial investment		(9.8)	(12.1)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(13.7)	(5.7)
Net cash/(overdrafts) acquired with subsidiaries		(147.0)	0.2
Purchase of pharmacy licences		(4.7)	(12.9)
Investment in associated undertakings		(1.3)	-
Sale of pharmacy licences		1.3	0.4
Sale/(purchase) of shares in Lloyds Chemists		64.3	(61.4)
Other investments		-	(0.2)
Purchase of interest in joint venture		-	(0.2)
Net cash inflow/(outflow) for acquisitions and disposals		(101.1)	(79.8)
Equity dividends paid		(10.9)	(12.0)
Cash inflow/(outflow) before financing		(134.0)	(57.8)

Group cash flow statement (continued)

for the year ended 31 December

	Note	1997 £m	1996 £m
Net cash inflow/(outflow) before financing		(134.0)	(57.8)
Financing			
Issue of ordinary share capital	23	2.5	0.4
Debt due within one year			
Net movement in money market borrowings maturing within one week		(87.6)	77.6
Increase/(decrease) in short-term borrowings		(41.4)	41.4
Loan notes repaid		(0.8)	(21.2)
Debt due after one year			
Increase in borrowings		61.9	5.2
Repayment of borrowings		(5.2)	(0.3)
Capital element of finance lease rental payments		(4.8)	(3.8)
Net cash inflow/(outflow) from financing	23	(75.4)	99.3
Increase/(decrease) in cash in the period		(209.4)	41.5

Reconciliation of net cash flow to movement in net debt	Note	1997 £m	1996 £m
Increase/(decrease) in cash in the period		(209.4)	41.5
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	23	77.9	(98.9)
Change in net debt resulting from cash flows		(131.5)	(57.4)
New finance leases		(1.4)	(2.2)
Debt acquired with subsidiaries		(230.1)	-
Other non cash movements		(1.1)	(0.7)
Translation difference		2.8	2.3
Movement in net debt for the period		(361.3)	(58.0)
Net debt at 1 January		(75.6)	(17.6)
Net debt at 31 December	24	(436.9)	(75.6)

Notes to the financial statements
for the year ended 31 December 1997

(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.

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 taken to reserves.

Intangible fixed assets

Intangible fixed assets represent the cost of retail pharmacy licences less any permanent diminution in value. These are not amortised as they do not have a finite economic life. They are, however, subjected to an annual impairment test. This is a change to the previous accounting policy and the comparative figures have been restated.

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

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

Investments

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

(2) Analysis of turnover and operating profit

	Turnover 1997 £m	Operating profit 1997 £m	Turnover 1996 £m	Operating profit 1996 £m
Wholesale UK	1,444.1	42.2	1,328.9	40.9
Retail UK	297.0	19.6	247.0	15.6
Wholesale Portugal	204.3	4.6	90.2	2.3
Net costs of bid for Lloyds Chemists	-	-	-	(11.3)
Intra-group	(233.1)	-	(187.6)	-
	1,712.3	66.4	1,478.5	47.5

On 1 January 1997 UniChem's Portuguese operations were merged with those of Alliance Santé. The Wholesale Portugal results for 1997 incorporate 100 per cent of the results of the new operation of which, during 1997, UniChem held a 50 per cent stake and exercised management control. Turnover of £116.3m and operating profit of £2.2m included in these results arises from the merger of Alliance Santé's Portuguese operations.

(3) Net interest payable and similar charges

	1997 £m	1996 £m
Bank loans and overdrafts repayable within five years	(6.8)	(3.8)
Interest payable on financing investment in Lloyds Chemists	-	(3.5)
Other loans	(0.4)	(1.3)
Finance charges payable on finance leases	(0.2)	(0.3)
Interest payable	(7.4)	(8.9)
Bank deposit interest receivable	0.5	0.2
Dividends receivable from investment in Lloyds Chemists	-	1.6
Net interest payable and similar charges	(6.9)	(7.1)

(4) Profit on ordinary activities before taxation

	1997 £m	1996 £m
Depreciation of owned assets	8.0	5.5
Depreciation of assets held under finance leases	2.3	3.0
Total depreciation of tangible fixed assets	10.3	8.5
Operating lease rentals - land and buildings	6.4	5.3
- plant and machinery	1.3	0.1
Audit fees	0.2	0.2
Other fees paid to the auditors	0.1	0.6

Further fees paid to the auditors of £1.1m in respect of work undertaken in relation to the merger with Alliance Santé, have been included in the cost of investment.

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 1997 were £1.4m (1996 £1.0m). Further details on the directors, including their emoluments, are given in the report of the remuneration committee on pages 26 and 28.

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:

	1997	1996
Wholesale UK	3,281	3,246
Retail UK	3,960	3,619
Wholesale Portugal	362	176
	7,603	7,041

The costs incurred in respect of these employees were:	1997 £m	1996 £m
Wages and salaries	65.8	62.0
Social security costs	5.4	4.6
Other pension costs	1.9	1.8
	73.1	68.4

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(7) Tax on profit on ordinary activities

	1997 £m	1996 £m
Corporation tax charge at 31.5% (1996 33%)	17.3	14.8
Tax on franked investment income	-	0.3
Deferred taxation	0.2	1.0
Under/(over) provision for earlier years	(0.2)	-
Overseas taxation	0.6	-
Associated undertakings	(0.1)	-
	17.8	16.1

(8) Dividends

	1997 £m	1996 £m
Interim paid, net 3.3 pence (1996 3.0 pence)	5.9	5.2
Final proposed, net 6.4 pence (1996 5.8 pence)	11.6	10.2
	17.5	15.4

(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 fully diluted earnings per share were calculated by increasing the relevant earnings figures by the amount of interest that could have been earned assuming that the options had been exercised at the start of the relevant year. Further details of the options are given in note 18.

	1997 £m	1996 £m
Profit for the financial year	40.3	24.2

Weighted average number of shares	1997 m	1996 m
Undiluted	178.3	175.3
Fully diluted	184.1	181.5

(10) Intangible fixed assets

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

In the light of recent examples demonstrating the separability of the retail pharmacy licence from the underlying business, the directors have valued these licences at cost.

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

	1997 £m
At 1 January 1997 as previously stated	-
Prior period adjustment (note 30)	157.2
At 1 January 1997 as restated	157.2
Acquired (note 20)	26.6
Disposals	(2.0)
At 31 December 1997	181.8

(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 1997	29.8	9.1	2.5	53.2	12.2	106.8
Foreign exchange movement	(0.4)	-	-	(0.2)	-	(0.6)
Additions	0.6	0.2	0.1	7.4	4.9	13.2
Subsidiaries acquired	71.3	29.0	-	96.4	9.0	205.7
Disposals	(0.4)	(0.1)	(0.1)	(5.1)	(4.2)	(9.9)
At 31 December 1997	100.9	38.2	2.5	151.7	21.9	315.2
Depreciation						
At 1 January 1997	3.1	1.3	1.1	25.7	4.6	35.8
Foreign exchange movement	-	-	-	(0.1)	-	(0.1)
Subsidiaries acquired	13.2	3.1	-	58.0	3.1	77.4
Disposals	-	-	-	(3.0)	(2.9)	(5.9)
Charge for the year	0.6	0.2	0.2	5.9	3.4	10.3
At 31 December 1997	16.9	4.6	1.3	86.5	8.2	117.5
Net book value						
At 31 December 1997	**84.0**	**33.6**	**1.2**	**65.2**	**13.7**	**197.7**
At 31 December 1996	26.7	7.8	1.4	27.5	7.6	71.0
Company						
Cost						
At 1 January 1997	12.0	6.7	1.6	33.9	10.1	64.3
Additions	0.2	-	-	4.1	3.5	7.8
Disposals	-	-	-	(4.7)	(3.3)	(8.0)
At 31 December 1997	12.2	6.7	1.6	33.3	10.3	64.1
Depreciation						
At 1 January 1997	1.8	0.8	0.7	16.6	3.8	23.7
Disposals	-	-	-	(2.8)	(2.3)	(5.1)
Charge for the year	0.2	0.1	0.2	3.8	2.7	7.0
At 31 December 1997	2.0	0.9	0.9	17.6	4.2	25.6
Net book value						
At 31 December 1997	**10.2**	**5.8**	**0.7**	**15.7**	**6.1**	**38.5**
At 31 December 1996	10.2	5.9	0.9	17.3	6.3	40.6

The cost of long leaseholds includes capitalised interest of £0.5m (1996 £0.5m).

Leased assets	The Group		Company	
Included within fixed assets are assets held under finance leases with the following net book values:	**1997** **£m**	1996 £m	**1997** **£m**	1996 £m
Furniture, fixtures & equipment	**0.1**	2.2	-	2.1
Motor vehicles	**2.6**	3.7	**2.6**	3.7
	2.7	5.9	**2.6**	5.8

Capital commitments	The Group		Company	
	1997 **£m**	1996 £m	**1997** **£m**	1996 £m
Contracted for, but not provided for	**4.2**	0.4	-	-
Authorised by the directors, but not contracted for	**0.4**	13.2	-	8.7

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(12) Fixed asset investments

	The Group		Company	
	1997	1996	1997	1996 as restated
	£m	£m	£m	£m
Subsidiary undertakings	-	-	284.9	267.8
Other investments	22.6	12.5	4.0	2.7
Total	22.6	12.5	288.9	270.5

Subsidiary undertakings	Shares* £m	Loans £m	Total £m
At 1 January 1997 as previously stated	38.4	72.2	110.6
Prior period adjustment (note 30)	157.2	-	157.2
At 1 January 1997 as restated	195.6	72.2	267.8
Acquired / advanced	345.6	13.0	358.6
Repaid / provided	(341.2)	(0.3)	(341.5)
At 31 December 1997	200.0	84.9	284.9

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

Other investments

(i) The Group owns 883,280 (1996 88,328) ordinary bearer shares (representing approximately 8% of the issued equity (1996 8%)) in Andreae-Noris Zahn AG, which is incorporated in Germany, acquired at a cost of £9.9m (1996 £9.9m). The market value of this investment as quoted on the Frankfurt stock exchange on 31 December 1997 was £23.8m (1996 £17.8m).

(ii) The UniChem PLC Employee Share Trust has an investment of £2.5m (1996 £2.5m) in 1.0m (1996 1.0m) of the Company's shares. The market value of the holding on 31 December 1997 was £3.3m (1996 £2.6m). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options. Administrative costs in relation to the trust are absorbed by the Company.

(iii) The Company owns 50% of the shares in UniDrug Distribution Group Limited (UDG). UDG is registered in England. As at 31 December 1997, the net liabilities held within the Group balance sheet relating to UDG amounted to £0.3m (1996 £0.1m). The Group share of post acquisition losses of UDG as at 31 December 1997 amounted to £0.3m (1996 £0.1m).

(iv) As part of the merger with Alliance Santé, the Group now has investments in Safa Galenica SA of Spain at £5.8m representing 36% of the issued equity, Lavipharm Alliance Santé SA of Greece at £1.1m representing 40% of the issued capital and a number of other smaller investments.

(13) Current asset investments
In 1997 these represent short-dated money market investments. In 1996 the Group had an investment in Lloyds Chemists.

(14) Debtors

	The Group		Company	
Amounts falling due within one year	1997 £m	1996 £m	1997 £m	1996 £m
Trade debtors subject to discounting arrangements	204.4	-	-	-
Non-returnable amounts received	(181.9)	-	-	-
	22.5	-	-	-
Other trade debtors	539.4	197.0	161.5	133.0
Amounts owed by associated undertakings	-	0.3	-	0.3
Other debtors	54.7	11.1	7.2	4.0
Prepayments	29.1	12.7	16.7	9.6
	645.7	221.1	185.4	146.9
Amounts falling due after more than one year				
Trade debtors	22.8	-	-	-
ACT recoverable	0.8	0.6	1.4	1.3
Other debtors	8.3	0.2	-	0.2
Prepayments - Pension costs	0.3	1.5	0.3	1.5
	32.2	2.3	1.7	3.0
Total	677.9	223.4	187.1	149.9

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

(15) Borrowings

Amounts falling due within one year	The Group 1997 £m	The Group 1996 £m	Company 1997 £m	Company 1996 £m
Loan notes	7.2	6.8	7.2	6.8
Bank loans	20.9	41.4	-	41.4
Bank overdraft	263.8	36.6	29.9	50.2
Obligations under finance leases	2.6	3.3	1.4	3.3
Other debt	0.7	-	-	-
	295.2	88.1	38.5	101.7
Amounts falling due after more than one year				
Loan notes	9.1	-	-	-
Bank loans	246.4	14.1	69.7	14.1
Obligations under finance leases	21.8	1.9	0.3	1.9
	277.3	16.0	70.0	16.0
Total borrowings	572.5	104.1	108.5	117.7
Cash at bank and in hand	(135.6)	(28.5)	(34.9)	(26.7)
Net borrowings/(cash)	436.9	75.6	73.6	91.0

The loan notes falling due within one year can be redeemed by the holders giving notice during the year. At the year end they bore interest at between 6.7% and 6.8%. The loan notes falling due after more than one year are repayable on 1 June 2003. At the year end they bore interest at 6%.

Bank loans due after more than one year

	The Group 1997 £m	The Group 1996 £m	Company 1997 £m	Company 1996 £m
Aggregate bank loan instalments repayable				
between one and two years	149.9	-	-	-
between two and five years	91.7	14.1	69.7	14.1
in five years or more	4.8	-	-	-
	246.4	14.1	69.7	14.1

Interest on bank loans is at variable rates between 4.2% and 7.7% 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 6.6% and 7.0%.

The Company has entered into interest rate management contracts to limit its exposure to floating interest rates. At 31 December 1997, these can be summarised:-

£10m interest rate swap maturing 30 September 1998	7.3%
£10m interest rate swap maturing 31 December 1998	6.7%
£10m interest rate swap maturing 30 September 1999	7.1%
£10m interest rate cap maturing 30 September 2000	7.5%

Obligations under finance leases due after more than one year	The Group 1997 £m	The Group 1996 £m	Company 1997 £m	Company 1996 £m
Due between one and two years	1.5	1.6	0.3	1.6
Due between two and five years	19.4	0.3	-	0.3
Due in five years or more	0.9	-	-	-
	21.8	1.9	0.3	1.9

(16) Other creditors

	The Group 1997 £m	The Group 1996 £m	Company 1997 £m	Company 1996 £m
Trade creditors	594.5	243.9	241.5	228.5
Other creditors	68.0	10.8	2.5	4.7
ACT payable	3.5	-	3.5	-
Corporation tax	26.8	15.9	7.6	10.6
Other taxation and social security	35.0	1.5	0.9	0.8
Accruals and deferred income	25.0	12.0	10.0	11.5
Proposed dividend	11.6	10.2	11.6	10.2
	764.4	294.3	277.6	266.3

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(17) Provisions for liabilities and charges

The Group	Provision for reorganisation £m	Deferred tax £m	Total £m
At 1 January 1997	0.3	1.5	1.8
Subsidiaries acquired	6.3	0.9	7.2
Charge for the year	-	0.2	0.2
Other movement	-	(0.5)	(0.5)
At 31 December 1997	**6.6**	**2.1**	**8.7**

Company	Deferred tax £m	Total £m
At 1 January 1997	0.6	0.6
Charge for the year	0.4	0.4
ACT recoverable	(0.2)	(0.2)
At 31 December 1997	**0.8**	**0.8**

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	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Capital allowances	-	-	**5.6**	2.2
Pension accrual	**(1.7)**	-	**(1.0)**	-
Short term timing differences	-	-	**(0.7)**	1.1
Chargeable gains deferred by roll-over relief	**0.4**	0.4	-	-
ACT recoverable	-	-	**(2.0)**	(2.0)
Property revaluation	**0.6**	0.6	**0.2**	0.2
	(0.7)	1.0	**2.1**	1.5

Company	**1997 £m**	1996 £m	**1997 £m**	1996 £m
Capital allowances	-	-	**1.6**	1.4
Short term timing differences	-	-	**0.7**	0.5
Chargeable gains deferred by roll-over relief	-	-	-	-
ACT recoverable	-	-	**(1.5)**	(1.3)
	-	-	**0.8**	0.6

(18) Called up share captial 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 1997	176,335,881	17.6	6.7
Shares issued during the year:	109,837,147	11.0	334.1
At 31 December 1997	**286,173,028**	**28.6**	**340.8**

The authorised share capital was increased from £23.872m (238.720m ten pence ordinary shares) to £37.935m (379.346m ten pence ordinary shares) with effect from 30 December 1997, following the passing of a resolution at an extraordinary general meeting of the Company held on 29 December 1997.

Details of the shares allotted are:

Reason	Number	Price paid per share	Consideration £m
share option exercises	1,762,678	253.50p - 350.00p	3.7
scrip elections in lieu of:			
1996 final dividend	567,247	266.80p	1.5
1997 interim dividend	1,345,984	270.60p	3.6
acquisition of retail pharmacies	1,527,061	254.21p - 286.36p	4.1
Merger with Alliance Santé	104,634,177	317.50p	332.2
Share capital and share premium movement			345.1

(18) Called up share captial and share premium account (continued)

Details of the outstanding options at 31 December 1997 are:

	Price	Outstanding	Normally exercisable between
1990 Savings related scheme	80.92p	65,170	1 November 1997 and 30 April 1998
	163.55p	5,043	1 June 1997 and 30 November 1997
	163.55p	123,249	1 June 1999 and 30 November 1999
	208.33p	413,882	1 January 1999 and 30 June 1999
	208.33p	108,778	1 January 2001 and 30 June 2001
	221.96p	36,202	1 July 1999 and 30 December 1999
	221.96p	3,687	1 July 2001 and 30 December 2001
	208.00p	144,036	1 December 1999 and 30 May 2000
	208.00p	58,011	1 December 2001 and 30 May 2002
	213.00p	79,329	1 July 2000 and 30 December 2000
	213.00p	28,082	1 July 2002 and 30 December 2002
	216.00p	176,721	1 December 2000 and 30 May 2001
	216.00p	20,399	1 December 2002 and 30 May 2003
	192.00p	458,052	1 July 2001 and 30 December 2001
	192.00p	119,781	1 July 2003 and 30 December 2003
	214.00p	582,300	1 July 2002 and 30 December 2002
	214.00p	210,382	1 July 2004 and 30 December 2004
		2,633,104	
1990 Executive scheme	88.97p	114,916	3 September 1993 and 2 September 2000
	253.99p	651,624	1 November 1996 and 30 October 2003
	260.00p	762,548	21 October 1997 and 20 October 2004
	269.00p	473,940	18 October 1998 and 17 October 2005
		2,003,028	
1997 Discretionary scheme	268.50p	1,023,304	13 June 2000 and 12 June 2004
	257.00p	20,000	1 July 2000 and 30 June 2004
		1,043,304	

The directors are aware of the following shareholdings at 13 April 1998 of 3% or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of present issued ordinary share capital
Alliance Santé Participation	104,634,177	36.42
Phillips & Drew Fund Management	19,479,429	6.78

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 (note 20).

(19) Other reserves

	Special reserve £m	Revaluation reserve £m	Profit and loss account £m	Goodwill reserve £m
The Group				
At 1 January 1997 as previously stated	-	0.5	131.0	(26.8)
Prior year adjustment (note 30)	157.2	-	-	-
At 1 January 1997 as restated	157.2	0.5	131.0	(26.8)
Foreign exchange movements	-	-	(1.1)	-
Revaluation in the year	-	(0.5)	-	-
Goodwill written off on subsidiaries acquired	-	-	-	(338.6)
Goodwill written off during the year	(157.2)	-	-	157.2
Retained profit for the year	-	-	22.8	-
Other	-	-	(1.2)	-
At 31 December 1997	**-**	**-**	**151.5**	**(208.2)**
Company				
At 1 January 1997 as previously stated	-	0.5	102.3	(26.8)
Prior period adjustment (note 30)	157.2	-	-	-
At 1 January 1997 as restated	157.2	0.5	102.3	(26.8)
Revaluation in the year	-	(0.5)	-	-
Goodwill written off on subsidiaries acquired	-	-	-	(340.0)
Goodwill written off during the year	(157.2)	-	-	157.2
Retained profit for the year	-	-	9.5	-
At 31 December 1997	**-**	**-**	**111.8**	**(209.6)**

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 £27.0m (1996 £12.3m). During the year, the Group contributed £1.2m to the Qualifying Employee Share Ownership Trust ("QUEST").

(20) Acquisitions

During the year, the Group developed significantly, starting with the combination of the Portuguese operations of both Alliance Santé and UniChem on 1 January; during the year there were a number of UK retail pharmacy acquisitions; and on 30 December the merger of Alliance Santé and UniChem on a European basis was completed.

The retail pharmacy acquisitions were effected by either acquiring companies which owned pharmacies or by acquiring pharmacy businesses direct. The intangible assets can be analysed as follows:

	£m
Asset acquisitions	7.0
Company acquisitions	19.6
	26.6

All company combinations have been accounted for by the acquisition accounting method and can be summarised:-

Assets acquired at book and fair value

	Portuguese Operations £m	Retail Pharmacies £m	Alliance Santé £m
Fixed assets - intangible	-	19.6	-
Fixed assets - tangible	2.4	1.4	124.5
Fixed assets - investments	-	-	10.1
Stock	6.5	2.9	248.6
Debtors	18.5	5.0	378.2
Current asset investments	-	-	33.4
Cash at bank and in hand	0.1	0.4	77.8
Bank loans and overdrafts	(11.7)	(7.2)	(403.4)
Other loans	-	-	(32.4)
Creditors	(9.5)	(5.5)	(416.8)
Provisions for reorganisation	-	-	(6.3)
	6.3	16.6	13.7
Minority interests	(3.2)	-	(0.3)
Assets acquired	3.1	16.6	13.4
Consideration paid			
Alliance UniChem Plc 10p ordinary shares	-	0.1	10.5
Share premium	-	1.8	321.8
Loan notes	-	1.0	-
Cash	-	13.7	-
Merger costs	-	-	19.4
Other	3.4	-	-
	3.4	16.6	351.7
Purchased goodwill	0.3	-	338.3

The acquisition of Alliance Santé S.A. was achieved by issuing share capital to Alliance Santé Participation S.A., a Luxembourg registered company, which is beneficially owned by Stefano Pessina who has been appointed deputy chairman of the Board.

Cumulative goodwill written off to reserves to 31 December 1997, net of that attributable to disposals was £360.8m (1996 as restated £22.4m).

The profit after tax and minority interest for the Alliance Santé Group for the year ended 31 December 1997 was £23.4m (1996 £13.0m).

(21) Analysis of net assets

	1997 £m	1996 £m
Wholesale France	**140.3**	-
Wholesale Italy	**212.4**	-
Wholesale UK	**186.1**	193.4
Retail UK	**168.6**	154.6
Wholesale Other	**49.9**	13.8
Net assets before net borrowings	**757.3**	361.8
Net borrowings	**(436.9)**	(75.6)
	320.4	286.2

(22) Reconciliation of operating profit to operating cash flow

	1997 £m	1996 £m
Operating profit	**66.4**	58.8
Costs of bid for Lloyds' Chemists	**-**	(11.3)
Depreciation	**10.3**	8.5
(Profit)/loss on disposal of goodwill	**0.5**	-
(Profit)/loss on disposal of tangible fixed assets	**2.0**	0.7
Decrease/(increase) in stocks	**(27.8)**	(5.5)
Decrease/(increase) in debtors	**(52.0)**	3.5
Increase/(decrease) in creditors	**11.3**	14.7
Net cash inflow/(outflow) from operating activities	**10.7**	69.4

(23) Analysis of net cash flow from financing

	1997 £m	1996 £m
Issue of ordinary share capital	**2.5**	0.4
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	**(77.9)**	98.9
Net cash inflow/(outflow) from increase/(decrease) in financing	**(75.4)**	99.3

(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 1997	28.5	(88.1)	(16.0)	(75.6)
Increase/(decrease) in cash	107.2	(316.6)	-	(209.4)
Decrease/(increase) in debt	-	132.7	(54.8)	77.9
Finance leases entered into	-	(1.2)	(0.2)	(1.4)
Debt acquired with subsidiaries	-	(22.5)	(207.6)	(230.1)
Exchange movement	(0.1)	1.6	1.3	2.8
Other non cash movements	-	(1.1)	-	(1.1)
At 31 December 1997	**135.6**	**(295.2)**	**(277.3)**	**(436.9)**

(25) Major non-cash transactions

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

(26) Pensions

The Group operates several pension arrangements; the Group's total pension cost was £1.9m (1996 £1.6m). Included in the balance sheet is an amount totalling £2.3m (1996 £1.6m) 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

At 31 December 1997 the Group had the following commitments payable within one year under operating leases expiring:	Land and buildings
	£m
within one year	0.3
between two and five years	0.6
in five years or more	3.3
Total	4.2

(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
E. Moss Limited	U.K.	England	retail pharmacy operator and franchisor
ERPI Santé SA (96.7%)	France	France	pharmaceutical wholesaler
IFP Santé SA (96.7%)	France	France	pharmaceutical wholesaler
UniChem Alliance Santé Farmaceutica, S.A. (98.4%)	Portugal	Portugal	pharmaceutical wholesaler

(29) Contingent liabilities

The Company has guaranteed bank loans of £154.2m (1996 £140.8m) to third parties for the financing of pharmacy businesses and has given other guarantees on behalf of Group companies of £nil (1996 £4.0m).

(30) Prior period adjustments

Group

As stated in note 10 the retail pharmacy licences owned by the Group have been included in the balance sheet at cost. The special reserve has been re-instated as the cost of these licences had previously been deducted from reserves. The prior year figures have been adjusted by £157.2m.

Company

Following the recognition of the intangible asset relating to pharmacy licences referred to above the provision against the investment in E. Moss Ltd has been released to the extent that it represents pharmacy licences at the beginning of the year. The special reserve has been re-instated with an equivalent amount.

(31) Exchange rates

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

	Portuguese Escudos PTE/£	French Francs FF/£	Italian Lire ITL/£	Dutch Guilders NLG/£
As at 1 January 1997	266.0	n/a	n/a	2.96
As at 31 December 1997	302.5	9.899	2909	3.34
Average for the year	287.0	9.593	2821	3.19

Group Profit and Loss Accounts - year ended 31 December	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m
Turnover					
Continuing operations	1,177.6	1,324.6	1,402.7	1,478.5	1,596.0
Acquisitions	-	-	-	-	116.3
	1,177.6	1,324.6	1,402.7	1,478.5	1,712.3
Cost of sales	(1,077.8)	(1,206.3)	(1,266.4)	(1,330.5)	(1,539.0)
Gross profit	99.8	118.3	136.3	148.0	173.3
Administrative expenses	(67.8)	(79.9)	(91.2)	(98.1)	(116.7)
	32.0	38.4	45.1	49.9	56.6
Other operating income	8.0	8.3	8.2	8.9	9.8
Operating profit before exceptional item					
Continuing operations	40.0	46.7	53.3	58.8	64.2
Acquisitions	-	-	-	-	2.2
	40.0	46.7	53.3	58.8	66.4
Net share of result of associated undertakings	-	-	-	(0.1)	(0.3)
Costs of bid for Lloyds Chemists	-	-	-	(13.2)	-
Net interest payable	(2.5)	(2.7)	(3.9)	(5.2)	(6.9)
Profit on ordinary activities before taxation	37.5	44.0	49.4	40.3	59.2
Tax on profit on ordinary activities	(12.7)	(14.4)	(16.1)	(16.1)	(17.8)
Profit on ordinary activities after taxation	24.8	29.6	33.3	24.2	41.4
EPS fully diluted - before exceptional item	16.87p	18.80p	18.96p	20.19p	22.27p
Dividends per share	6.33p	7.13p	8.00p	8.80p	9.70p

Group Balance Sheets as restated - 31 December	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m
Fixed assets					
Intangible assets	77.6	111.3	139.0	157.2	181.8
Tangible assets	39.0	59.8	65.9	71.0	197.7
Investments	6.2	7.6	12.4	12.5	22.6
	122.8	178.7	217.3	240.7	402.1
Working capital					
Stocks	96.0	112.5	127.2	132.4	417.0
Investments	-	-	-	61.4	33.4
Debtors	174.2	209.3	223.7	223.4	677.9
Creditors and provisions	(201.9)	(249.2)	(276.1)	(296.1)	(773.1)
	68.3	72.6	74.8	121.1	355.2
Net borrowings	(15.7)	(1.0)	(17.6)	(75.6)	(436.9)
	175.4	250.3	274.5	286.2	320.4
Capital and reserves					
Called up share capital	14.2	17.2	17.5	17.6	28.6
Share premium account	9.2	61.2	3.3	6.7	340.8
Shares to be issued	5.5	-	-	-	-
Special reserve	77.6	111.3	139.0	157.2	-
Other reserves	84.1	102.6	122.8	131.5	151.5
Goodwill	(15.2)	(42.0)	(8.1)	(26.8)	(208.2)
	175.4	250.3	274.5	286.2	312.7
Minority interests	-	-	-	-	7.7
	175.4	250.3	274.5	286.2	320.4

Shareholder information

1998 Financial Calendar

10 June	Deadline for receipt of proxy forms
10 June	Deadline for receipt of elections to receive the 1997 final dividend in shares
12 June	Annual general meeting
1 July	1997 final dividend paid to shareholders registered on 1 May 1998
16 September*	1998 half year profit and interim dividend announced
13 November*	Deadline for receipt of elections to receive the 1998 interim dividend in shares (if offered)
31 December*	1998 interim dividend paid to shareholders registered on 2 October 1998 *

** Date subject to confirmation*

Shareholding enquiries

Enquiries relating to existing shareholdings should be directed to the registrars, Lloyds Bank Registrars, who may be contacted by phoning 01903 502541 or by writing to their address which is printed on the back cover.

Share price

UniChem's "real-time" share price and a stock market summary is available by phoning 0891 500504. As at March 1998 calls are charged at 42.553 pence per minute.

Capital gains tax

On 2 July 1990 UniChem shares were converted from shares in an industrial and provident society to shares in a public company limited by shares. For capital gains tax purposes shares acquired before this date will be deemed to have been acquired on 2 July 1990 at ten pence each because by virtue of Section 111(b) of the Taxation of Chargeable Gains Act 1992 (as derived from Section 113(1) of the Finance Act 1988) the capital gains indexation provisions do not apply and it is believed that the conversion is regarded by the Inland Revenue as a reorganisation of share capital.

Amalgamation of your shareholdings

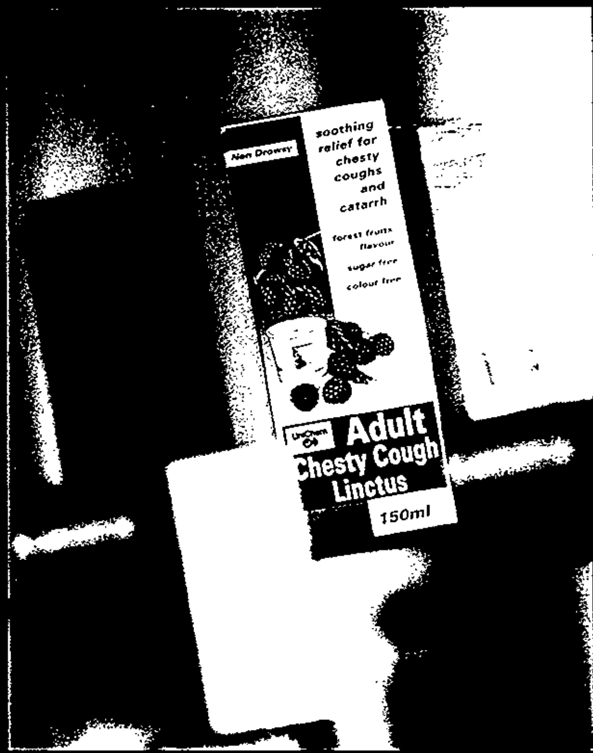
If you have received more than one copy of this annual report your shareholding may be registered in more than one account. To amalgamate your accounts please write to Lloyds Bank Registrars giving details of the accounts concerned.

Share dealing service

A simple postal share dealing service is available to individuals wishing to buy or sell shares in the Company. An explanatory leaflet, which includes the requisite forms, may be obtained from the broker, NatWest Investments, by phoning 0171 895 5448.

Annual general meeting

The notice convening the 1998 annual general meeting has been despatched with this annual report.



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