

Notes to the financial statements

For the year ended 31 December

(1) ACCOUNTING POLICIES

Convention

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

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

Basis of consolidation

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

Turnover

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

Pensions

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

Goodwill

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

Retail pharmacy licences

The cost of retail pharmacy licences less any impairment in value and any amortisation are included in intangible fixed assets. Where they do not have a finite economic life they are not amortised; instead they are subjected to an annual impairment test. Where they do have a finite economic life they are amortised over that economic life.

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 cent per annum
- (b) Long and short leasehold properties – at 2 per cent 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 per cent to 33 per cent, 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.

(1) ACCOUNTING POLICIES (CONTINUED)

Foreign exchange

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

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

Investments

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

Derivatives and other financial instruments

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

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

Currency swaps linked with specific borrowings are used to redenominate the currency of those specific borrowings. Where currency swaps are used to redenominate general borrowings, they are marked to market.

(2) ANALYSIS OF TURNOVER AND OPERATING PROFIT

	Turnover 2001 £m	Operating profit		Turnover 2000 £m	Operating profit	
		Before goodwill 2001 £m	After goodwill 2001 £m		Before goodwill 2000 £m	After goodwill 2000 £m
Wholesale						
Northern Europe	2,433.7	71.0	65.3	1,803.0	50.7	50.2
Wholesale						
Southern Europe	4,727.0	70.2	67.9	4,252.3	67.3	65.4
Retail	719.7	56.4	55.9	548.4	42.6	42.5
Corporate	–	(16.3)	(16.3)	–	(5.5)	(5.5)
Intra-group	(566.3)	–	–	(412.5)	–	–
	7,314.1	181.3	172.8	6,191.2	155.1	152.6

(3) EXCEPTIONAL ITEMS

	2001 £m	2000 £m
Profit on disposal of IT businesses	–	16.3
Loss on investment in US online pharmacy	–	(26.0)
	–	(9.7)

The IT businesses formed part of the related healthcare operations in France and were sold to Cegecim S.A. for £29.4 million. The net book value of assets and the related costs of disposal totalled £13.1 million.

The loss on US online pharmacy operations represents the write-down of the Group's investment in Rx.com in anticipation of its disposal.

Notes to the financial statements (continued)

For the year ended 31 December

(4) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £m	2000 £m
Bank loans and overdrafts	(42.6)	(31.4)
Other loans	(5.2)	(6.2)
Finance charges payable on finance leases	(0.8)	(1.0)
Associate interest payable	(4.0)	(2.3)
Interest payable	(52.6)	(40.9)
Bank deposit interest receivable	5.8	4.7
Associate interest receivable	1.6	0.8
Other financial income	5.6	6.0
Net interest payable and similar charges	(39.6)	(29.4)

(5) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001 £m	2000 £m
Depreciation of owned assets	32.0	26.8
Depreciation of assets held under finance leases	2.1	1.8
Total depreciation of tangible fixed assets	34.1	28.6
Operating lease rentals – land and buildings	12.1	9.3
– plant and machinery	4.6	2.1
Audit fees – principal auditors	0.6	0.5
– other	0.3	0.3
Other fees paid to the auditors – principal auditors	0.4	0.2
– other	0.1	–

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

(6) DIRECTORS' EMOLUMENTS

The emoluments of the Directors, exclusive of pension contributions, for the financial year ended 31 December 2001 were £2.4 million (2000 £2.9 million). Further details on the Directors, including their emoluments, are given in the Report of the Directors on pages 39 to 41.

(7) EMPLOYEES

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

	2001	2000
Wholesale Northern Europe	4,659	3,909
Wholesale Southern Europe	6,645	6,684
Retail	8,017	6,773
Corporate	48	39
	19,369	17,405

The costs incurred in respect of these employees were:

	2001 £m	2000 £m
Wages and salaries	256.5	214.2
Social security costs	48.6	40.7
Other pension costs	8.2	5.8
	313.3	260.7

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £m	2000 £m
Corporation tax charge at 30 per cent (2000 30 per cent)	24.1	20.4
Deferred taxation	(2.2)	(2.2)
Double taxation relief	(3.3)	–
Under/(over) provision for earlier years	(0.2)	(0.2)
Overseas taxation	26.8	22.8
Associated undertakings	5.6	1.8
	50.8	42.6

(9) DIVIDENDS

	2001 £m	2000 £m
Interim paid, net 4.8 pence (2000 4.4 pence)	15.6	13.0
Final proposed, net 9.2 pence (2000 8.4 pence)	30.2	27.2
	45.8	40.2

(10) EARNINGS PER SHARE

Earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue during the year. The diluted earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue added to the dilutive potential shares assuming that they had converted to issued shares at the beginning of the period. Further details of the options are given in note 20.

	2001 £m	2000 £m
Profit for the financial year before goodwill amortisation and exceptional item	107.3	90.2
Goodwill amortisation	(11.3)	(3.5)
Exceptional item including minority interest (£0.3 million)	–	(10.0)
Profit for the financial year	96.0	76.7

	2001 m	2000 m
Weighted average number of shares		
Basic	319.4	294.9
Effect of dilutive potential shares	2.2	1.8
Diluted	321.6	296.7

(11) INTANGIBLE FIXED ASSETS

	2001 £m	2000 £m
Retail pharmacy licences	483.6	297.1
Goodwill	147.0	162.0
	630.6	459.1

Retail pharmacy licences

The Directors believe that the right to be reimbursed for dispensing UK NHS prescriptions, being the pharmacy licence which is attached to a particular pharmacy, has a continuing value. Such rights, conferred by the Department of Health as contracts to dispense prescriptions, are not generally granted to new pharmacies in the same locality. These retail pharmacy licences are not amortised as they do not have a finite economic life. They are subjected to an annual impairment test.

Notes to the financial statements (continued)

For the year ended 31 December

(11) INTANGIBLE FIXED ASSETS (CONTINUED)

In certain other territories the retail pharmacy licence has a finite economic life and accordingly these licences are amortised over that life. Where the life exceeds 20 years, the net book value of such retail pharmacy licences is subject to an annual impairment test. Previously, some retail pharmacy licences with finite lives have been disclosed as goodwill, and these have been reclassified during the year.

	2001 £m	2000 £m
At 1 January	297.1	243.1
Foreign exchange movement	(0.8)	–
Additions	91.9	21.5
Transfer from goodwill	17.4	–
Subsidiaries acquired	88.9	34.9
Disposals	(10.0)	(2.4)
At 31 December	484.5	297.1
Amortisation		
At 1 January	–	–
Transfer from goodwill	0.3	–
Charge for the year	0.6	–
At 31 December	0.9	–
Net book value at 31 December	483.6	297.1
	2001 £m	2000 £m
Goodwill		
Cost		
At 1 January	166.4	39.3
Foreign exchange movement	(4.0)	3.3
Transfer to pharmacy licences	(17.4)	–
Additions	13.9	125.9
Disposals	–	(2.1)
At 31 December	158.9	166.4
Amortisation		
At 1 January	4.4	1.9
Foreign exchange movement	(0.1)	–
Disposals	–	(0.1)
Transfer to pharmacy licences	(0.3)	–
Charge for the year	7.9	2.6
At 31 December	11.9	4.4
Net book value at 31 December	147.0	162.0

(12) TANGIBLE FIXED ASSETS

Group Cost	Freehold land and buildings £m	Long leaseholds £m	Short leaseholds £m	Furniture, fixtures and equipment £m	Motor vehicles £m	Total £m
At 1 January 2001	151.0	21.9	4.1	227.7	27.1	431.8
Foreign exchange movement	(2.8)	(0.3)	(0.1)	(3.5)	–	(6.7)
Additions	6.9	0.2	1.2	39.0	6.8	54.1
Subsidiaries acquired	1.7	–	–	1.5	0.2	3.4
Disposals	(10.9)	(1.0)	(0.3)	(24.3)	(8.2)	(44.7)
At 31 December 2001	145.9	20.8	4.9	240.4	25.9	437.9
Depreciation						
At 1 January 2001	30.0	2.9	1.8	127.4	12.3	174.4
Foreign exchange movement	(0.5)	–	–	(2.2)	(0.1)	(2.8)
Subsidiaries acquired	–	–	–	0.3	0.1	0.4
Disposals	(2.0)	–	(0.2)	(15.5)	(5.7)	(23.4)
Charge for the year	1.5	0.5	0.3	25.2	6.6	34.1
At 31 December 2001	29.0	3.4	1.9	135.2	13.2	182.7
Net book value						
At 31 December 2001	116.9	17.4	3.0	105.2	12.7	255.2
At 31 December 2000	121.0	19.0	2.3	100.3	14.8	257.4
Company Cost						
At 1 January 2001	–	–	0.6	0.6	0.6	1.8
Additions	–	–	–	0.1	0.3	0.4
Disposals	–	–	–	–	(0.1)	(0.1)
At 31 December 2001	–	–	0.6	0.7	0.8	2.1
Depreciation						
At 1 January 2001	–	–	0.1	0.1	0.3	0.5
Disposals	–	–	–	–	(0.1)	(0.1)
Charge for the year	–	–	–	0.1	0.2	0.3
At 31 December 2001	–	–	0.1	0.2	0.4	0.7
Net book value						
At 31 December 2001	–	–	0.5	0.5	0.4	1.4
At 31 December 2000	–	–	0.5	0.5	0.3	1.3

The Group cost of long leaseholds includes capitalised interest of £0.4 million (2000 £0.5 million).

Included within fixed assets are assets held under finance leases with the following net book values:

	The Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Leased assets				
Property	18.0	20.3	–	–
Furniture, fixtures and equipment	0.3	1.9	–	–
Motor vehicles	–	0.1	–	–
	18.3	22.3	–	–
Capital commitments				
Contracted for, but not provided for	23.7	3.9	–	–

The capital commitments include both tangible and intangible fixed assets.

Notes to the financial statements (continued)

For the year ended 31 December

(13) FIXED ASSET INVESTMENTS

	The Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Subsidiary undertakings	–	–	1,192.8	865.1
Associated undertakings	142.8	80.5	–	–
Other investments	92.9	75.1	14.5	25.9
	235.7	155.6	1,207.3	891.0

The Group	Goodwill on associated undertakings £m	Share of net assets of associated undertakings £m	Loans with associated undertakings £m	ESOP investment in own shares £m	Other listed investments £m	Other unlisted investments £m
At 1 January	23.7	56.8	1.0	15.2	48.8	10.1
Foreign exchange movement	(0.1)	(2.1)	–	–	(1.3)	(1.0)
Additions	42.2	25.6	24.3	–	–	3.3
Disposals	(0.3)	(7.7)	(0.5)	–	–	–
Amortisation	(2.8)	–	–	–	–	–
Profit for the year	–	9.4	–	–	–	–
Dividends	–	(1.9)	–	–	–	–
Provision	–	–	–	–	–	(5.7)
Transfer to employees	–	–	–	(1.3)	–	–
At 31 December	62.7	80.1	24.8	13.9	47.5	6.7

Company	Shares in subsidiary undertakings £m	Loans with subsidiary undertakings £m	Unlisted investments £m
At 1 January	629.1	236.0	25.9
Foreign exchange movement	–	(7.0)	–
Additions	78.1	256.6	–
Disposals	–	–	(11.4)
At 31 December	707.2	485.6	14.5

Other investments

- (i) The aggregate market value of the Group's listed investments on 31 December 2001 was £50.3 million (2000 £46.1 million).
- (ii) The UniChem PLC Employee Share Trust has an investment of £13.9 million (2000 £15.2 million) in 3.7 million (2000 4.0 million) of the Company's shares. The market value of the holding on 31 December 2001 was £19.0 million (2000 £22.0 million). 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.

(14) SECURITISED RECEIVABLES

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

(14) SECURITISED RECEIVABLES (CONTINUED)

During 2001, the Group has entered into a five year agreement to sell UK receivables up to Alliance No.1 PLC ("Alliance"). Alliance has issued £100 million secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £13.2 million (of which £12.6 million is subordinated), representing the excess of the face value of the receivables sold over the £100 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £13.2 million of finance provided by the Group.

The Group is not obliged to support any losses in respect of the securitised receivables other than to the extent of the subordinated loans and does not intend to do so. This is clearly stated in the agreements with the note holders.

The controlling interest in Alliance is held by a discretionary trust established for charitable purposes. The Group receives interest on the subordinated loans and is paid administration fees by Alliance.

Alliance is a quasi-subsiidiary of the Group. The summary results of Alliance are:

	2001 £m	2000 £m
Interest receivable	2.3	–
Interest payable	(2.3)	–
Net interest receivable	–	–
Administrative expenses	–	–
Profit for the financial period	–	–

The balance sheet of Alliance is:

	2001 £m	2000 £m
Current assets – investments	112.3	–
Current assets – cash at bank	1.0	–
Creditors due within one year	(0.6)	–
Creditors due in more than one year – debt securities	(112.6)	–
Net assets represented by equity shareholders' funds	0.1	–

(15) OTHER DEBTORS

	The Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year				
Other trade debtors	733.1	765.1	–	–
Other debtors	129.5	104.3	7.2	7.5
Prepayments (including pension)	27.7	24.4	2.4	2.4
Group relief receivable	–	–	3.4	4.3
	890.3	893.8	13.0	14.2
Amounts falling due after more than one year				
Trade debtors	7.8	7.0	–	–
Other debtors	1.9	2.6	–	–
	9.7	9.6	–	–
Total	900.0	903.4	13.0	14.2

Notes to the financial statements (continued)

For the year ended 31 December

(16) BORROWINGS

	The Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year				
Loan notes	63.3	17.2	63.2	10.9
Bank loans	25.5	20.7	12.7	9.2
Bank overdraft	257.7	264.8	28.7	32.5
Obligations under finance leases	2.0	3.0	–	–
	348.5	305.7	104.6	52.6
Amounts falling due after more than one year				
Loan notes	31.4	7.8	23.2	–
Bank loans	530.2	450.7	488.1	419.0
Obligations under finance leases	8.7	11.0	–	–
	570.3	469.5	511.3	419.0
Total borrowings	918.8	775.2	615.9	471.6
Cash at bank and in hand	(137.4)	(113.7)	(0.1)	(19.1)
Net borrowings/(cash)	781.4	661.5	615.8	452.5

The loan notes falling due within one year can be redeemed by the holders giving one month's notice before an interest payment date. However, if no notice is given, notes totalling £22.1 million will fall due at their maturity date, which for the most part will be 2012. At the year end they bore interest between 2.71 per cent and 3.56 per cent. The loan notes falling due after more than one year are repayable from 31 May 2003 to 31 May 2004. At the year end, they bore interest between 3.5 per cent and 6 per cent per annum.

	The Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans due after more than one year				
Aggregate bank loan instalments repayable				
between one and two years	15.9	10.2	–	–
between two and five years	273.2	333.9	259.3	324.7
in five years or more	241.1	106.6	228.8	94.3
	530.2	450.7	488.1	419.0

Interest on bank loans is at variable rates between 2.2 per cent and 7.3 per cent at the year end and is dependent on the currency borrowed.

	The Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Obligations under finance leases due after more than one year				
Due between one and two years	1.3	2.1	–	–
Due between two and five years	3.7	3.7	–	–
Due in five years or more	3.7	5.2	–	–
	8.7	11.0	–	–

(17) FINANCIAL INSTRUMENTS

The Group's approach to managing financial risk is described in the Financial Review on pages 33 and 34. Short-term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

Interest rate profile

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

	Fixed rate financial liabilities				Total £m
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £m	At floating interest rates £m	
2001 Financial liabilities					
Sterling	4.23	3	44.8	122.9	167.7
Euro	4.75	3	440.7	142.7	583.4
Other	4.75	3	25.6	142.1	167.7
			511.1	407.7	918.8

	Fixed rate financial liabilities				Total £m
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £m	At floating interest rates £m	
2000 Financial liabilities					
Sterling	7.26	3	9.7	14.3	24.0
Euro	4.90	3	373.0	311.5	684.5
Other	3.83	3	26.6	40.1	66.7
			409.3	365.9	775.2

The financial liabilities of the Group at 31 December comprised:

	2001 £m	2000 £m
Loan notes	94.7	25.0
Bank loan	555.7	471.4
Bank overdraft	257.7	264.8
Obligations under financial leases	10.7	14.0
	918.8	775.2

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

Notes to the financial statements (continued)

For the year ended 31 December

(17) FINANCIAL INSTRUMENTS (CONTINUED)

2001 Financial assets	Fixed rate financial assets			At floating interest rates £m	Non-interest bearing £m	Total £m
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £m			
Sterling	–	–	–	88.3	4.4	92.7
US\$	4.00	4	1.0	–	–	1.0
Euro	–	–	–	40.2	59.6	99.8
Other	–	–	–	32.6	–	32.6
			1.0	161.1	64.0	226.1

2000 Financial assets	Fixed rate financial assets			At floating interest rates £m	Non-interest bearing £m	Total £m
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £m			
Sterling	–	–	–	43.5	2.3	45.8
US\$	4.00	5	4.4	–	–	4.4
Euro	–	–	–	64.4	59.8	124.2
Other	–	–	–	4.8	–	4.8
			4.4	112.7	62.1	179.2

The financial assets of the Group at 31 December comprised:

	2001 £m	2000 £m
Cash at bank and in hand	137.4	113.7
Fixed asset investments (excluding associates and the ESOP)	79.0	55.9
Debtors due after one year	9.7	9.6
	226.1	179.2

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

Currency profile

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

(17) FINANCIAL INSTRUMENTS (CONTINUED)

Maturity profile of financial liabilities

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

	Loan notes £m	Bank loans £m	Bank overdraft £m	Obligations under finance leases £m	Total £m
2001					
Within one year	63.3	25.5	257.7	2.0	348.5
Between one and two years	8.2	15.9	–	1.3	25.4
Between two and five years	23.2	273.2	–	3.7	300.1
Over five years	–	241.1	–	3.7	244.8
	94.7	555.7	257.7	10.7	918.8

	Loan notes £m	Bank loans £m	Bank overdraft £m	Obligations under finance leases £m	Total £m
2000					
Within one year	17.2	20.7	264.8	3.0	305.7
Between one and two years	–	10.2	–	2.1	12.3
Between two and five years	7.8	333.9	–	3.7	345.4
Over five years	–	106.6	–	5.2	111.8
	25.0	471.4	264.8	14.0	775.2

Undrawn committed borrowing facilities

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

	2001 £m	2000 £m
Expiring within two years	88.6	86.4
Expiring beyond two years	21.7	1.8
	110.3	88.2

Notes to the financial statements (continued)

For the year ended 31 December

(17) FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments

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

2001	Book value £m	Fair value £m
Primary financial instruments held to finance the Group's operations:		
Cash at bank and in hand	137.4	137.4
Fixed asset investments (excluding associate and ESOP)	79.0	81.8
Debtors due after one year	9.7	9.7
Loan notes	(94.7)	(94.7)
Bank loans	(555.7)	(555.7)
Bank overdrafts	(257.7)	(257.7)
Obligations under finance leases	(10.7)	(10.7)
Derivative financial instruments held to manage the interest rate and currency profile		
Interest rate derivatives	–	(8.8)
Cross currency derivatives	0.8	0.8
	(691.9)	(697.9)

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair value of all other financial instruments is approximately equal to book value due to either their short-term nature or their being at variable interest rates.

2000	Book value £m	Fair value £m
Primary financial instruments held to finance the Group's operations:		
Cash at bank and in hand	113.7	113.7
Fixed asset investments (excluding associate and ESOP)	55.9	59.5
Debtors due after one year	9.6	9.6
Loan notes	(25.0)	(25.0)
Bank loans	(471.4)	(471.4)
Bank overdrafts	(264.8)	(264.8)
Obligations under finance leases	(14.0)	(14.0)
Derivative financial instruments held to manage the interest rate and currency profile		
Interest rate derivatives	–	(0.4)
	(596.0)	(592.8)

(17) FINANCIAL INSTRUMENTS (CONTINUED)

Hedging

As explained in the Financial Review the Group has entered into interest rate management contracts, both in sterling and Euro, to limit its exposure to floating interest rates. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on hedging instruments, and movements therein, are as follows:

	Gains £m	Losses £m	Total net £m
2001			
Unrecognised gains and losses at 1 January 2001	1.6	(2.0)	(0.4)
Gains and losses arising in previous years that were recognised in the year	(0.1)	–	(0.1)
Gains and losses arising before 1 January that were not recognised in the year	1.5	(2.0)	(0.5)
Gains and losses arising in the year that were not recognised in the year	(1.5)	(6.8)	(8.3)
Unrecognised gains and losses on hedges at 31 December 2001	–	(8.8)	(8.8)
Of which:			
Gains and losses to be recognised in the next financial year	–	(0.4)	(0.4)
Gains and losses expected to be recognised after the next financial year	–	(8.4)	(8.4)
	Gains £m	Losses £m	Total net £m
2000			
Unrecognised gains and losses at 1 January 2000	3.0	(1.2)	1.8
Gains and losses arising in previous years that were recognised in the year	(1.0)	0.4	(0.6)
Gains and losses arising before 1 January that were not recognised in the year	2.0	(0.8)	1.2
Gains and losses arising in the year that were not recognised in the year	(0.4)	(1.2)	(1.6)
Unrecognised gains and losses on hedges at 31 December 2000	1.6	(2.0)	(0.4)
Of which:			
Gains and losses to be recognised in the next financial year	0.1	–	0.1
Gains and losses expected to be recognised after the next financial year	1.5	(2.0)	(0.5)

(18) OTHER CREDITORS

	The Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year				
Trade creditors	958.1	841.2	–	–
Other creditors	85.4	128.6	137.5	24.5
Corporation tax	36.2	27.0	1.9	–
Other taxation and social security	62.4	66.0	–	–
Accruals and deferred income	38.6	30.8	–	–
Proposed dividend	31.5	28.0	31.5	28.0
	1,212.2	1,121.6	170.9	52.5

Notes to the financial statements (continued)

For the year ended 31 December

(19) PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Retirement benefits £m	Total £m
The Group			
At 1 January 2001	3.8	9.1	12.9
Transfer movement on deferred tax assets to debtors	3.4	–	3.4
Charge (release) for the year	(2.2)	(1.4)	(3.6)
At 31 December 2001	5.0	7.7	12.7
Company			
At 1 January 2001	0.4	–	0.4
Charge (release) for the year	(0.4)	–	(0.4)
At 31 December 2001	–	–	–

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

	Not dealt with in the accounts		Dealt with in the accounts	
	2001 £m	2000 £m	2001 £m	2000 £m
The Group				
Capital allowances	4.5	5.2	2.6	2.5
Pension accrual	–	–	–	0.6
Short-term timing differences	(1.5)	2.3	2.3	0.5
Chargeable gains deferred by roll-over relief	12.6	4.0	–	–
Property revaluation	4.6	0.5	0.1	0.2
Capital losses	(0.6)	(0.6)	–	–
	19.6	11.4	5.0	3.8
Company				
Short-term timing differences	–	–	–	0.4

(20) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Number	Called up share capital 10p ordinary shares £m	Share premium account £m
Issued and fully paid up			
At 1 January 2001	318,591,278	31.9	279.2
Shares issued during the year	7,467,765	0.7	40.5
At 31 December 2001	326,059,043	32.6	319.7

The authorised share capital is £43.3 million, represented by 432,926,000 ten pence ordinary shares.

(20) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (CONTINUED)

Details of the shares allotted during the year are:

Reason	Number	Price paid per share £	Consideration £m
share option exercises	994,416	2.54 – 5.89	4.8
scrip elections in lieu of:			
2000 final dividend	381,251	5.86	2.3
2001 interim dividend	989,384	4.97	4.9
acquisition of retail pharmacies	2,714	5.53	–
Hedef acquisition	5,100,000	5.71	29.2
Share capital and share premium movement	7,467,765		41.2

Details of the outstanding options at 31 December 2001 are:

	Price	Outstanding	Normally exercisable from
1990 Savings related scheme	208.00p	12,374	1 December 2001 – 30 May 2002
	213.00p	18,196	1 July 2002 – 30 December 2002
	216.00p	8,123	1 December 2002 – 30 May 2003
	192.00p	18,501	1 July 2001 – 30 December 2001
	192.00p	91,349	1 July 2003 – 30 December 2003
	214.00p	377,145	1 July 2002 – 30 December 2002
	214.00p	145,277	1 July 2004 – 30 December 2004
	324.00p	24,168	1 August 2001 – 30 January 2002
	324.00p	260,503	1 August 2003 – 30 January 2004
	324.00p	87,219	1 August 2005 – 30 January 2006
	384.00p	191,074	1 July 2002 – 30 December 2002
	384.00p	172,718	1 July 2004 – 30 December 2004
	384.00p	46,816	1 July 2006 – 30 December 2006
	291.00p	448,525	1 July 2003 – 30 December 2003
	291.00p	302,046	1 July 2005 – 30 December 2005
	291.00p	133,823	1 July 2007 – 30 December 2007
463.00p	376,026	1 July 2004 – 30 December 2004	
463.00p	289,068	1 July 2006 – 30 December 2006	
463.00p	77,346	1 July 2008 – 30 December 2008	
		3,080,297	
1990 Executive scheme	253.99p	59,890	1 November 1996 – 30 October 2003
	260.00p	75,000	21 October 1997 – 20 October 2004
	269.00p	372	18 October 1998 – 17 October 2005
		135,262	
1997 Discretionary scheme	268.50p	146,872	13 June 2000 – 12 June 2004
	429.50p	1,152,778	7 May 2001 – 6 May 2005
	442.00p	1,060,000	14 May 2002 – 13 May 2006
	435.00p	90,222	27 May 2002 – 26 May 2006
	379.00p	1,373,084	23 March 2003 – 22 March 2007
	592.00p	1,830,000	6 April 2004 – 5 April 2008
		5,652,956	

The Directors are aware of the following shareholdings at 19 March 2002 of 3 per cent or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of present issued Ordinary share capital
Stefano Pessina	105,113,714	32.22
Scottish Widows Investment Partnership Ltd	22,591,087	6.93

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

Notes to the financial statements (continued)

For the year ended 31 December

(21) OTHER RESERVES

The Group	Capital reserve £m	Profit and loss account £m
At 1 January 2001	0.5	289.6
Foreign exchange movement	–	(5.6)
Transfer from profit and loss to capital reserve	0.9	(0.9)
Retained profit for the year	–	50.2
Other	–	(2.5)
At 31 December 2001	1.4	330.8
Company		
At 1 January 2001	–	90.0
Retained profit/(loss) for the year	–	(7.3)
At 31 December 2001	–	82.7

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 £38.5 million (2000 loss £0.3 million).

During the year, the Group contributed £2.5 million (2000 £0.7 million) to the Qualifying Employee Share Ownership Trust ("QUEST").

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

(22) ACQUISITIONS

The Group has continued its development during the year through a number of acquisitions. The Retail acquisitions took the form of both asset and company acquisitions, the Company acquisitions are summarised below. There were a number of other small acquisitions which are included in the table below.

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

Assets acquired at book and fair value	Wholesale £m	Retail £m	Total £m
Fixed assets – intangible	–	88.9	88.9
Fixed assets – tangible	2.8	0.2	3.0
Fixed assets – investments	0.8	0.1	0.9
Stock	2.0	18.9	20.9
Debtors	3.8	0.7	4.5
Cash at bank and overdraft	0.4	1.4	1.8
Bank loans and other loans	(1.4)	–	(1.4)
Creditors	(3.6)	(11.5)	(15.1)
	4.8	98.7	103.5
Minority interests acquired	(2.8)	(2.8)	(5.6)
Assets acquired	2.0	95.9	97.9
Consideration paid			
Cash	5.1	14.6	19.7
Loan notes	–	78.1	78.1
Non cash payment	6.6	–	6.6
Accrued cash consideration – movement	4.2	3.2	7.4
	15.9	95.9	111.8
Purchased goodwill	13.9	–	13.9

Cumulative goodwill written off to reserves to 31 December 2001, net of that attributable to disposals, was £360.8 million (2000 £360.8 million).

(23) ANALYSIS OF NET ASSETS

	2001 £m	2000 £m
Wholesale Northern Europe	257.9	309.2
Wholesale Southern Europe	540.1	555.9
Retail	511.7	348.7
Corporate	172.3	58.9
Net assets before net borrowings	1,482.0	1,272.7
Net borrowings	(781.4)	(661.5)
	700.6	611.2

(24) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

	2001 £m	2000 £m
Operating profit	172.8	152.6
Depreciation	34.1	28.6
Amortisation of goodwill	7.9	2.6
Amortisation of pharmacy licences	0.6	–
(Profit)/loss on disposal of fixed assets	(5.5)	(3.0)
Decrease/(increase) in stocks	(27.3)	(13.2)
Decrease/(increase) in debtors	(15.9)	(26.9)
Increase/(decrease) in creditors	67.9	16.7
Net cash inflow/(outflow) from operating activities	234.6	157.4

(25) ANALYSIS OF NET CASH FLOW FROM FINANCING

	2001 £m	2000 £m
Issue of ordinary share capital	4.8	115.7
Issue of shares to minorities	–	0.6
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	82.9	113.3
Net cash inflow/(outflow) from increase/(decrease) in financing	87.7	229.6

(26) 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 2001	113.7	(305.7)	(469.5)	(661.5)
Increase/(decrease) in cash	24.9	(2.2)	7.2	29.9
Decrease/(increase) in debt	–	4.2	(87.1)	(82.9)
Debt acquired with subsidiaries	–	–	(1.4)	(1.4)
Other non cash movement	–	(54.9)	(23.2)	(78.1)
Exchange movement	(1.2)	10.1	3.7	12.6
At 31 December 2001	137.4	(348.5)	(570.3)	(781.4)

Notes to the financial statements (continued)

For the year ended 31 December

(27) MAJOR NON-CASH TRANSACTIONS

During the year there have been three main categories of non-cash transaction. Part of the purchase consideration for the acquisition of associated undertakings comprised shares. Some of the retail pharmacy acquisitions were financed through the issue of loan notes. A stake in a new subsidiary was acquired through the transfer to it of fixed assets. Further details are set out in notes 20 and 22.

(28) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost was £6.9 million (2000 £4.2 million). Included in the balance sheet is an amount totalling £1.9 million (2000 £1.5 million) representing the excess of the cumulative contributions paid over the accumulated pension cost.

The Group operates one main UK pension scheme which has two plans: the UK Benefit Plan which is a funded defined benefits arrangement, and the UK 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 Bacon & Woodrow, an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2000. The method for the valuation was the projected unit method and the main assumptions were:

	% per annum
Investment return post-retirement	4.9
Investment return pre-retirement for active members	6.9
Salary increases (excluding increases due to promotion)	3.9
Pension in payment increases for members who joined up to 31 December 1996	5.0
Pension in payment increases for members who joined from 1 January 1997	2.8

Following the valuation, it was agreed to adopt an employer contribution rate of 13.3 per cent of pensionable pay, effective from 1 January 2001.

At 1 January 2000, the actuarial value of the Benefit Plan's assets was £59.5 million. This represented 101 per cent 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.

The Group also sponsors a number of defined benefit plans in its non-UK operations. The costs of these plans have been recognised in the Group financial statements in accordance with the requirements of SSAP24. The material plans are in France and The Netherlands and the disclosures under FRS 17 are shown below.

The Group will adopt the new FRS 17 accounting standard by 2003. As required under transitional provisions, we disclose below certain information under FRS 17 as if it had applied for 2001.

At 31 December 2001, the value of the pension scheme assets and liabilities can be summarised:

	UK Benefit Plan £m	Other European £m
Equities and property	45.3	4.1
Bonds	14.0	9.8
Other	1.8	4.2
Total market value of assets	61.1	18.1
Present value of scheme liabilities	(67.3)	(26.8)
Surplus (deficit) in the schemes	(6.2)	(8.7)
Related deferred tax asset	1.9	3.0
Net pension asset (liability)	(4.3)	(5.7)

Had this deficit been recognised in the financial statements there would be a pension reserve of £10.0 million debited to the profit and loss reserve. One of the European schemes operates on a part-funded basis and the net liability is recognised in the balance sheet under the existing disclosure rules as £7.7 million (note 19) with an associated deferred tax asset of £2.3 million included in other debtors. The decrease in the profit and loss reserve caused by the adoption of FRS 17 would therefore be £4.6 million.

(28) PENSIONS (CONTINUED)

The market value of the assets at 31 December 2001 can be broken down into the following classes, shown with the expected rates of return for 2002:

	UK Benefit Plan		Other European	
	Expected return % pa	Value £m	Expected return % pa	Value £m
Equities	7.9	45.3	8.0	4.1
Bonds	5.0	14.0	5.0	9.8
Other	4.9	1.8	5.0	4.2

The main financial assumptions used to determine the liability value at 31 December 2001 (a more recent date than the last SSAP 24 valuation) were:

	UK Benefit Plan % pa	Other European % pa
Discount rate	5.9	5.5
Inflation rate	2.5	2.0
Salary increases (excluding increases due to promotion)	3.5	2.7
Pension in payment increases for members who joined up to 31 December 1996	5.0	2.5
Pension in payment increases for members who joined from 1 January 1997	2.5	2.5

(29) OTHER FINANCIAL COMMITMENTS

At 31 December 2001 the Group had the following commitments payable within one year under operating leases expiring:

	Land and buildings £m	Other £m
within one year	3.9	3.3
between one and two years	2.7	3.2
between two and five years	6.1	5.4
in five years or more	10.0	0.3
	22.7	12.2

(30) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings are:

Company	Interest	Country of operation	Country of incorporation	Main activity
Alleanza Salute Italia SpA	100%	Italy	Italy	holding company for a number of Italian pharmaceutical wholesalers
Alliance Santé S.A.	98.6%	France	France	pharmaceutical wholesaler
Alliance UniChem CZ Spo	89.0%	Czech Republic	Czech Republic	pharmaceutical wholesaler
Alliance UniChem Farmaceutica S.A.	100%	Portugal	Portugal	pharmaceutical wholesaler
Alliance UniChem Norge A.S.	100%	Norway	Norway	retail pharmacy operator
Interpharm B.V.	100%	Netherlands	Netherlands	pharmaceutical wholesaler
E. Moss Limited	100%	UK	England	retail pharmacy operator
Safa Galenica S.A.	95.6%	Spain	Spain	pharmaceutical wholesaler
UniChem Limited	100%	UK	England	pharmaceutical wholesaler

As permitted by section 231(5) of the Companies Act 1985, only principal undertakings are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

Notes to the financial statements (continued)

For the year ended 31 December

(31) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings are:

Company	Interest	Country of operation	Country of incorporation	Main activity
Galenica A.G.	22.4%	Switzerland	Switzerland	pharmaceutical wholesaler
Hedef – Alliance A.Ş.	25%	Turkey	Turkey	pharmaceutical wholesaler
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler
Alloga S.A.	50%	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A.	50%	Switzerland	Switzerland	retail pharmacy operator
Lavipharm Alliance Santé S.A.	40%	Greece	Greece	pharmaceutical wholesaler
Pharmapartners B.V.	40%	Netherlands	Netherlands	pharmaceutical software

(32) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £49.9 million (2000 £27.9 million) and other Group companies have guaranteed bank loans of £34.6 million (2000 £73.2 million) to third parties for the financing of pharmacy businesses.

(33) EXCHANGE RATES

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

	Euro €/£	Norwegian Kroner NOK/£	Swiss Franc CHF/£	Czech Koruna CZK/£
As at 1 January 2001	1.591	13.17	2.421	56.20
As at 31 December 2001	1.635	13.05	2.416	51.76
Average for the year	1.613	13.00	2.434	54.89