

Notes to the financial statements

for the year ended 31 December 1998

(1) ACCOUNTING POLICIES

Convention

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

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

Basis of consolidation

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

Turnover

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

Pensions

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

Goodwill

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

Retail pharmacy licences

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

Tangible fixed assets and depreciation

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

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

Leased assets

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

Stocks

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

Deferred taxation

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

Foreign exchange

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

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

Investments

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

(2) ANALYSIS OF TURNOVER AND OPERATING PROFIT

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

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(3) NET INTEREST PAYABLE AND SIMILAR CHARGES

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

(4) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

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

(5) DIRECTORS' EMOLUMENTS

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

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

(6) EMPLOYEES

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

	1998	1997
Wholesale France	4,259	-
Wholesale Italy	950	-
Wholesale UK	3,302	3,281
Retail UK	4,485	3,960
Other	621	362
	13,617	7,603
	1998	1997
	£m	£m
The costs incurred in respect of these employees were:		
Wages and salaries	156.7	65.8
Social security costs	40.3	5.4
Other pension costs	3.8	1.9
	200.8	73.1

(7) TAX ON PROFIT ON ORDINARY ACTIVITIES

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

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(8) DIVIDENDS

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

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

(9) EARNINGS PER SHARE

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

	1998	1997
	£m	£m
Profit for the financial year	71.7	40.3
Weighted average number of shares	1998	1997
	m	m
Undiluted	288.2	178.3
Effect of dilutive potential shares	2.4	1.2
Diluted	290.6	179.5

(10) INTANGIBLE FIXED ASSETS

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

Retail pharmacy licences

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

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

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

Goodwill

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

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(11) TANGIBLE FIXED ASSETS

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

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

Leased assets

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

Capital commitments

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

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(12) FIXED ASSET INVESTMENTS

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

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

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

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

Other investments

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

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

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

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

(13) CURRENT ASSET INVESTMENTS

These represent short-dated money market investments.

(14) DEBTORS

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

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

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(15) BORROWINGS

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

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

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

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

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

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

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

Obligations under finance leases due after more than one year

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

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(16) OTHER CREDITORS

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

(17) PROVISIONS FOR LIABILITIES AND CHARGES

The Group	Provision for reorganisation £m	Deferred tax £m	Retirement benefits £m	Total £m
At 1 January 1998	6.6	2.1	-	8.7
Subsidiaries acquired	-	-	0.3	0.3
Charge (release) for the year	(6.2)	0.8	-	(5.4)
Other movement / reclassification	(0.2)	2.3	8.0	10.1
At 31 December 1998	0.2	5.2	8.3	13.7
Company		Deferred tax £m		Total £m
At 1 January 1998		0.8		0.8
Charge for the year		(0.3)		(0.3)
Transfer to subsidiary		(1.6)		(1.6)
ACT recoverable		1.5		1.5
At 31 December 1998		0.4		0.4

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

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

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(18) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

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

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

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

Details of the shares allotted are:

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

Details of the outstanding options at 31 December 1998 are:

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

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

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

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

Alliance Santé Participation is beneficially owned by Stefano Pessina.

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(19) OTHER RESERVES

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

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

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

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

(20) ACQUISITIONS

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

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

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

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for the year ended 31 December 1998

(21) ANALYSIS OF NET ASSETS

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

(22) RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

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

(23) ANALYSIS OF NET CASH FLOW FROM FINANCING

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

(24) ANALYSIS OF NET DEBT

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

(25) MAJOR NON-CASH TRANSACTIONS

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

(26) PENSIONS

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

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

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for the year ended 31 December 1998

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

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

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

(27) OTHER FINANCIAL COMMITMENTS

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

(28) PRINCIPAL SUBSIDIARY UNDERTAKINGS

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

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

(29) CONTINGENT LIABILITIES

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

(30) EXCHANGE RATES

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

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

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

(31) RELATED PARTY TRANSACTIONS

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