

# Financial review



*Geoff Cooper* Finance Director

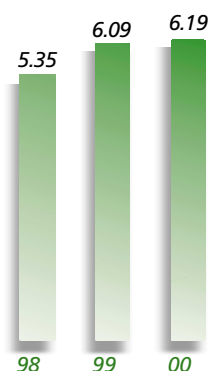
## Group Results

The notable features of 2000 were: continued strong operating performance and cashflow; additional contributions from our investments in new businesses and associates; the effects of a harsher interest rate environment; and the weakening of the Euro against Sterling.

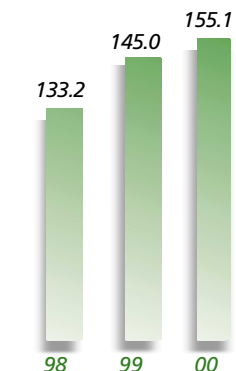
This result included, for the first time, a full year's contribution from our investment in Galenica and from the retail and pre-wholesaling joint ventures that we established with them in 2000. These contributed to a rise in associate income before goodwill amortisation from £3.3 million / €5.0 million in 1999 to £8.0 million / €13.1 million this year. We also consolidated one month of profits from Interpharm in Holland, following our acquisition of that business at the end of 2000.

Our net interest costs increased by £4.2 million / €9.9 million to a total of £29.4 million / €48.2 million (1999: £25.2 million / €38.3 million), giving us interest cover on a pre-goodwill and exceptional items basis of 5.5 times (1999: 5.9 times). This performance was achieved despite average Euro interest rates rising by 150 basis points, almost half as much again compared with 1999. We have also continued our expenditure on Group development, with the acquisition of Interpharm and other expansion which saw us invest £295.9 million / €485.6 million during the year, of which £126.5 million / €207.6 million was financed through the issue of shares.

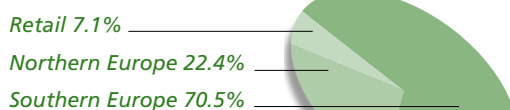
*Total turnover for all the divisions - £bn.*



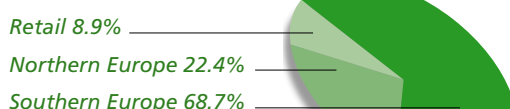
*Total operating profit for all divisions, pre exceptional item and goodwill amortisation - £m.*



*Turnover by division 1999*



*Turnover by division 2000*



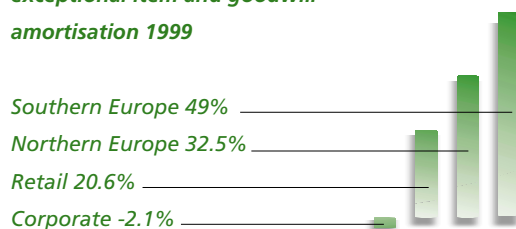
The pre-exceptional Group tax rate for the year was 32.7 per cent (1999: 34.2 per cent). This fall was mainly due to the change in mix of our income across the Group, with a stronger performance in those territories such as the UK, where we experience lower rates. We also experienced a small benefit from falling corporate tax rates in a number of European countries, including France and Portugal.

The Euro weakened against Sterling by an average of 7.5 per cent compared to 1999. The only significant impact of this on the Group is on the translation of our financial statements. We are currently re-cycling our Euro denominated cashflows into new investments and acquisitions in the Euro zone to finance our expansion programme. We are not, therefore, significantly exposed to currency risk in our transactions, either within our Group or with our suppliers and customers. The Group's dividend payments have been financed from Sterling cash generation. Longer term forecasts are for a strengthening of the Euro relative to Sterling; if this occurs it will benefit the Group, since the value of Euro denominated cashflows will increase.

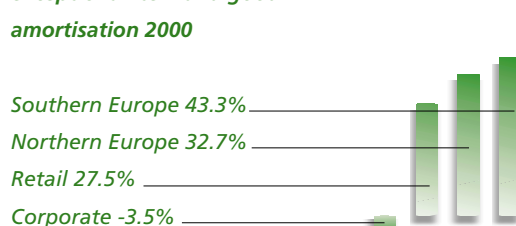
## Cash Flow and Funding

Net cash inflow from operations, at £157.4 million / €258.3 million, remained strong, with a net absorption of cost for working capital of only £23.3 million / €38.2 million despite a real turnover increase of nearly £450 million / €683 million. Tax payments rose to £51.2 million / €84.0 million compared with £30.2 million / €45.8 million in 1999, mainly reflecting the acceleration of tax payments in the UK following the introduction of the payment on account system. After equity dividends, net interest and dividends from joint ventures and associates, this left £59.9 million / €98.3 million to invest in developing the business. Also, as part of the funding for the acquisition of Interpharm, we issued 22 million new shares in a placing to institutional investors to raise £111 million / €182 million. This meant that despite the heavy expansion programme, net debt increased by £128.7 million / €195.7 million to £661.5 million / €1,052.4 million at the end of 2000, giving balance sheet gearing of 108 per cent compared to 120 per cent at the end of 1999.

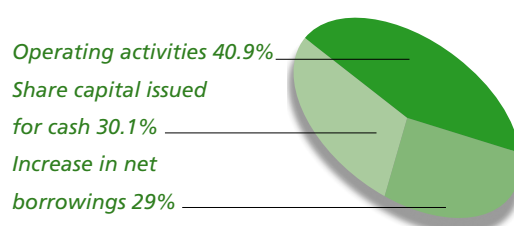
### Operating profit by division pre exceptional item and goodwill amortisation 1999



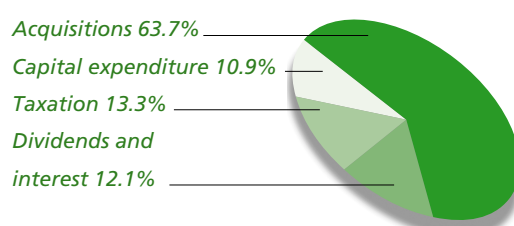
### Operating profit by division pre exceptional item and goodwill amortisation 2000



### Sources of funding 2000



### Application of funds 2000



# Financial review

## Financial Risk Management

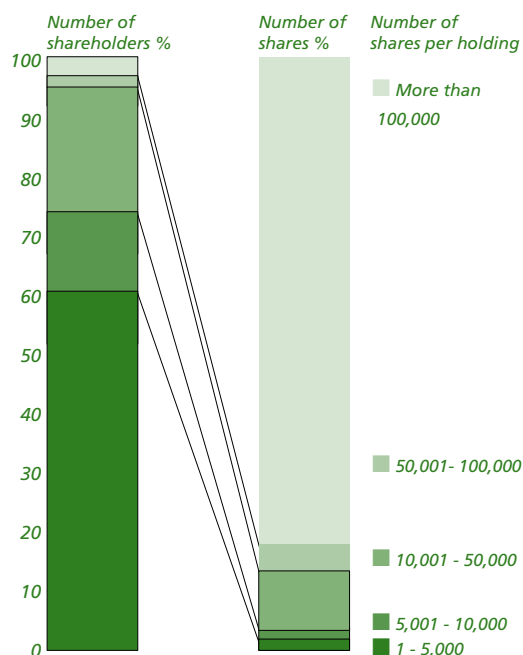
We have continued our policy of prudently limiting our exposure to interest rate fluctuations through a combination of financial instruments including interest rate swaps, caps, and collars. These arrangements can be summarised as follows:

	Average cover in place during:		
	2001	2002	2003
Interest Rate Swaps and Fixed Rate Borrowings			
(a) £ millions	0.0	0.0	0.0
Ave. Fixed Rate			
and (b) Euro millions	580.7	512.3	330.0
Ave. Fixed Rate	4.46%	4.90%	4.83%
and (c) CHF millions	50.0	50.0	33.3
Ave. Fixed Rate	3.77%	3.77%	3.77%
Interest Rate Caps			
(a) £ millions	25.0	4.2	0.0
Ave. Maximum Rate	7.30%	7.00%	
and (b) Euro millions	165.0	165.0	27.5
Ave. Maximum Rate	5.58%	5.75%	5.75%
and (c) CHF millions	20.0	20.0	20.0
Ave. Maximum Rate	3.95%	3.95%	3.95%
Total Nominal Cover			
(a) £ millions	25.0	4.2	0.0
Ave. Fixed Rate	7.30%	7.00%	
and (b) Euro millions	745.7	677.3	357.5
Ave. Fixed Rate	4.71%	5.11%	4.90%
and (c) CHF millions	70.0	70.0	53.3
Ave. Fixed Rate	3.82%	3.82%	3.84%



Our policy to limit our exposure to currency fluctuations is based predominantly on spreading our debt position across our markets of operation. This policy allows us to repay our borrowings in their own local currencies and to secure our debts against assets of the same currency denomination. This action limits almost all of our routine balance sheet currency exposure.

### Analysis of shareholders at 22 March 2001.



The highly successful securitisation of our loan guarantee portfolio for pharmacies in the United Kingdom has significantly reduced the contingent liabilities reported in our financial statements, and continued to provide substantial commercial benefits for our pharmacy clients.

Geoff Cooper  
Finance Director  
20 March 2001

*Right: Each national marketplace dictates individual service levels for our businesses and therefore the required infrastructure.*