

Chairman's statement

We continue to seek opportunities to expand the Group, both in countries in which we operate and beyond, and to drive enhanced financial performance from our core businesses.

Overview and financial results

The 2002 results demonstrate the Group's ability to continue to deliver strong and stable growth in financial performance, reflecting the inherent quality of our businesses and the benefits of a diverse geographical and commercial portfolio. In our wholesale division, all businesses performed well, although in Italy trading conditions continue to be difficult. Our retail division again delivered strong sales and profit growth, both organically and through its continuing acquisition programme, and we now have over 1,000 retail pharmacies, including those operated by associated businesses.

Group turnover was £8,023.5 million (€12,781.4 million), a year on year increase of 9.7%.

Group operating profit before amortisation of intangible assets increased by 13.0% to £204.9 million (€326.4 million). Profit before taxation and amortisation of intangible assets increased by 12.8% to £179.5 million (€285.9 million). Diluted earnings per share before amortisation of intangible assets increased by 11.6% on a comparable basis to 36.7 pence per share (58.5 cents), last year's figure having been restated for FRS19, the new accounting standard on deferred taxation, which was adopted in full in the year.

Dividend

The Board is recommending a final dividend of 10.1 pence per share, making a total dividend for the year of 15.3 pence per share (24.4 cents). The proposed final dividend is 9.8% higher than for the final dividend in 2001, the total dividend for the year being up 9.3%. The proposed final dividend will be paid on 9 June 2003 to shareholders on the register at the close of business on 21 March 2003. The Board will, as in previous years, offer shareholders a share alternative.

Board and organisational changes

In September 2001, when I became Executive Chairman as part of a number of Board and management changes, it was announced that I intended to retire as an executive of the Group in 2003. This will happen in early April 2003, after which I will chair the Group in a non-executive capacity.

As part of these changes, George Fairweather joined in April 2002 as Group Finance Director, succeeding Geoff Cooper who became Deputy Chief Executive.

In January 2003, Steve Duncan, Managing Director of our retail division, was appointed to the Board as Retail Director. This coincided with the announcement that Chris Etherington, the Director responsible for Northern Europe wholesale, is to leave the Board and Group at the end of March to take up a senior position in another business sector. We wish Chris every success in his future career. The Group is recruiting a Wholesale Director to the Board who will be responsible for all wholesale businesses. Once this appointment has been made, Ornella Barra, currently the Director responsible for Southern Europe wholesale, will become Group Services Director.

Paolo Scaroni, previously Chief Executive of Pilkington Plc and now Chief Executive of Enel SpA, Italy's leading electricity company, joined our Board in December 2002 as an independent non-executive Director. We are currently in the process of appointing a further two independent non-executive Directors.

Group development

We continue to develop the Group in accordance with our long-established strategic objectives.

In our retail division we acquired 94 pharmacies during 2002, including 37 in associate businesses. This brings our retail portfolio to 1,021 pharmacies, including 91 operated by associate businesses. For the first time, the majority of pharmacy acquisitions were in mainland Europe, reflecting our continuing investment in new markets, particularly The Netherlands and



Jeff Harris, Chairman



"I continue to be impressed by the dedication and professionalism of the people who work in our businesses."
Jeff Harris

Norway and through our associate business in Switzerland. Uncertainty in the UK, caused by the Office of Fair Trading inquiry into the National Health Service ("NHS") contract arrangements for pharmacies, led us to slow down UK pharmacy acquisitions until any changes in pharmacy licensing regulations are known.

In June we completed the acquisition of Holtung, the third largest Norwegian pharmaceutical wholesaler; this follows our successful entry into the Norwegian retail market in 2001. The transfer of most of our retail supply business into Holtung took place shortly thereafter, significantly improving sales, market share and the underlying performance of Holtung.

In September we completed the exercise of an option to acquire a further 25% of Hedef-Alliance, the largest pharmaceutical wholesaler in Turkey, taking our interest to 50%. Hedef-Alliance continues to perform well compared to our initial forecasts, despite the economic difficulties in Turkey.

During the year a number of steps were taken to strengthen the Group's capital structure, diversifying its sources of capital and lengthening the maturity profile of its borrowings. In September we successfully placed 16.3 million new shares, raising £88.1 million (€140.3 million) to provide the Group with additional financial flexibility to take advantage of future expansion opportunities. Earlier in the year, a placing of fixed rate unsecured Senior Notes and a securitisation of Italian receivables were completed, totalling approximately £345 million (€530 million), the proceeds being used to repay existing short-term bank borrowings.

People

I continue to be impressed by the dedication and professionalism of the people who work in our businesses, in particular their contribution to ensuring consistently high levels of service for our customers, while at the same time continuing to improve productivity and the financial performance of our Group. I take this opportunity to thank them, on behalf of all our shareholders, for their continued hard work.

Outlook

In 2002, our financial results once again demonstrated the strength of the Group, our markets continuing to grow overall at close to the robust growth trends that we have seen in recent years. Today there is further economic and political uncertainty, with the resulting regulatory and commercial pressures, but our track record demonstrates our consistent ability to meet these challenges and to deliver strong financial performance.

We continue to seek opportunities to expand the Group, both in countries in which we operate and beyond, and to drive enhanced financial performance from our core businesses. In particular, we are having to wait to see what action the UK government will take on pharmacy licencing, following the recent Office of Fair Trading review. We have comprehensive plans to deal with the various scenarios that may be finally implemented and remain confident that our focused retail community pharmacy chain can continue its strong growth and financial performance. When the Government decides on its course of action we will swiftly resume the expansion of our UK retail pharmacy chain through acquisition, and if regulation permits, through the opening of new pharmacies ourselves.

Early indications are that 2003 business performance has started in line with our expectations, and we remain confident of being able to continue our strong performance.

Jeff Harris
Chairman
10 March 2003

Part 1

- 02 The importance of delivery
- 04 Continuing to deliver

Part 2 Annual Report

- 12 Chairman's statement
- 14 Operating review
- 22 Financial review
- 26 Board of Directors
- 28 Report of the Directors
- 30 Board report on corporate governance
- 33 Corporate and social responsibility
- 35 Board report on remuneration
- 42 Directors' responsibilities statement
- 43 Independent auditors' report
- 44 Group profit and loss account
- 45 Balance sheets
- 46 Group cash flow statement
- 47 Other primary statements
- 48 Notes to the financial statements
- 75 Five year summary
- 76 Shareholder information