

Chairman's statement

"The 2003 results demonstrate the Group's ability to continue to deliver strong financial performance"

Jeff Harris, Chairman



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Overview and financial results

The 2003 results demonstrate the Group's ability to continue to deliver strong financial performance in what has been a year of comparatively low acquisition activity. This has been achieved through organic sales growth, an ongoing focus on margin management and cost control and increasing contributions from associates. In our wholesale division, businesses in Northern Europe continued to perform strongly. Southern Europe remained more challenging, with government action to reduce drug expenditure impacting trading performance, most notably in France, although in Italy our underlying performance improved. Our retail division delivered strong organic profit growth, acquisition expansion being relatively slow, as potential vendors awaited the outcome of various regulatory reviews.

Group turnover was £8,799.3 million (€12,697.4 million), a year on year increase of 13.2% on a comparable basis, the 2002 figures having been restated for a change in accounting policy resulting from the amendment in December to the accounting standard FRS 5. The principal impact of this is that all customer discounts are now offset against turnover, rather than forming part of cost of sales. On the previous accounting basis, Group turnover in 2003 would have been £9,111.7 million (€13,148.2 million).

Gross margins improved in each division, in part due to an increase in generic penetration in certain markets. Total operating profit before amortisation of intangible assets increased by 15.8% to £263.4 million (€380.1 million) on a comparable basis, the 2002 figures having been restated for FRS 17, the accounting standard on retirement benefits, which the Group has chosen to adopt early in full. Profit before taxation and amortisation of intangible assets increased by 16.3% to £209.9 million (€302.9 million). Diluted earnings per share before amortisation of intangible assets increased by 11.7% to 41.2 pence per share (59.5 cents). Currency translation benefits from the stronger Euro were largely offset by its negative impact on margins on certain UK product segments.

Net cash inflow from operating activities was particularly strong at £322.3 million (€465.1 million), a year on year increase of £121.7 million. Working capital reduced over the course of the year by £68.6 million (€97.3 million) in cash terms, with stock, debtor and creditor days all improving. Reductions were achieved in all wholesale businesses, reflecting the success of our programme to improve working capital efficiency.

Chairman's statement (continued)

“Since the beginning of 2004 business performance has been in line with our expectations”

Dividend

The Board is recommending a final dividend of 11.0 pence per share, making a total dividend for the year of 16.7 pence per share (24.1 cents). The proposed final dividend is 8.9% higher than the 2002 final dividend, the total dividend for the year being up 9.2%. The proposed final dividend will be paid on 11 May 2004 to shareholders on the register at the close of business on 5 March 2004. The Board will, as in previous years, offer shareholders a share alternative.

Board and organisational changes

In April 2003, I retired as a full-time executive, continuing as Chairman in a non-executive capacity.

Steve Duncan, Managing Director of our retail division, was appointed to the Board as Retail Director in January 2003 and in September Per Utnegaard joined the Group and Board as Wholesale Director, responsible for all our wholesale businesses. Coinciding with Per's appointment, Ornella Barra, previously the Director responsible for Southern Europe wholesale, became Group Services Director. Chris Etherington, the Director formerly responsible for Northern Europe wholesale, left the Board and Group in March 2003 to take up a senior position in another business sector.

In the second half of the year we further strengthened the Board through the appointment of two new independent non-executive Directors, Adrian Loader and Manfred Stach, senior executives with Shell and Unilever respectively. Both Directors bring to the Board extensive multinational skills in European consumer markets. Claude Berretti will retire as a non-executive Director at the conclusion of the Annual General Meeting in April. I would like to thank Claude for his services over many years in both an executive and non-executive capacity.

Group development

In our retail division we acquired 61 pharmacies and opened a further ten during 2003, of which ten in total were in associate businesses. This brought our retail portfolio to 1,092 pharmacies at the year end, including 101 operated by associate businesses.

In June, the Group reduced its direct investment in Alloga, our prewholesaling associate, from 50% to 20%, the shares being sold to our partner, Galenica, which is in turn 25.5% owned by us. Galenica has managed Alloga since its inception and the revised ownership structure more closely reflects the preference of manufacturer clients to use prewholesalers who are independent of the wholesale sector.

Early in the second half of 2003, Hedef Alliance, our Turkish associate, acquired 40% of UCP, the joint market leader in the Egyptian pharmaceutical wholesaling market, and has a three year option over an additional 11% of the equity. This investment is a first step in our strategy to use Hedef Alliance as a platform for growth in similar markets.

On 28 January 2004, the Group completed the purchase of 19% of the equity of Andreae-Noris Zahn ("ANZAG"), the third largest pharmaceutical wholesaler in Germany, at a cost before expenses of £41.7 million (€60.5 million), taking our shareholding to 29.99%. We intend to account for ANZAG as an associate from that date. This transaction represents a significant step forward for the Group in Germany, the largest single pharmaceutical market in Europe.

People

I continue to be impressed by the dedication of the people who work in our businesses, providing customers and patients with consistently high levels of service, while at the same time increasing productivity and the financial performance of our Group. I take this opportunity to thank them, on behalf of shareholders, for their continued success, innovation and hard work.

Outlook

Our 2003 financial performance has once again demonstrated the strength of the Group. Despite the background of market growth rates at the lower end of the range we have seen in recent years and comparatively low acquisition activity, we have delivered strong earnings per share growth and significantly increased the generation of cash from operating activities. As ever, our markets are subject to commercial and regulatory pressures, which remain manageable. Our track record of consistent success since the Company floated on the London Stock Exchange in 1990 clearly shows our ability to meet such challenges year after year.

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. Following the review last year of the system of awarding new pharmacy contracts in the UK, we expect more opportunities to add to our pharmacy chain in 2004. Since the beginning of 2004, business performance has been in line with our expectations, and we remain confident of continuing our strong financial track record.



Jeff Harris
Chairman
24 February 2004

“We remain confident of being able to continue our strong financial record”