Chairman's statement

We accelerated our rate as the year progressed

Overview and financial results

The Group performed strongly throughout 2004, accelerating our rate of earnings growth as the year progressed.
Profit before tax, amortisation of intangible assets and exceptional items increased year on year by 20.1% to £252.0 million (€371.7 million), extending our track record of delivering record results, year after year. Our key profit measure, diluted earnings per share before amortisation of intangible assets and exceptional items, increased by 17.0% to 48.2 pence (26.3% after amortisation of intangible assets and exceptional gains), the fastest annual rate of growth since the Company floated on the London Stock Exchange in 1990. Cash generation from operating activities was again strong, particularly in the second half of the year. Working capital efficiency gains totalled approximately £39 million over the course of the year.

This excellent financial performance has been largely achieved through organic growth, an ongoing focus on margin management, cost control, interest rate management and working capital efficiency, and the profitable reinvestment of free cash flow to expand the Group.

Our wholesale division performed well, both Northern and Southern European regions reporting higher operating margins and operating profits, despite regulatory changes in a number of markets. Trading performance in our retail division was excellent, with a significant increase in sales, operating margins and profits. The performance of our associates particularly benefited from the inclusion of Andreae-Noris Zahn AG ("ANZAG") in Germany, an associate since late January 2004.

Dividend

The Board is recommending a final dividend of 12.25 pence per share, making a total dividend for the year of 18.50 pence per share. The proposed final dividend is 11.4% higher than the 2003 final dividend, the total dividend for the year being up 10.8%. The proposed final dividend will be paid on 10 May 2005 to shareholders on the register at the close of business on 4 March 2005. The Board will, as in previous years, offer shareholders a share alternative.

Board and organisational changes

At the beginning of December, Ian Meakins joined the Group and Board as Chief Executive, having previously been President, European Major Markets and Global Supply for Diageo plc, the world's largest premium drinks business. Ian succeeded Stefano Pessina, who returned to his previous role as Executive Deputy Chairman with operational responsibility for strategic development, including acquisitions, a position he held prior to becoming Chief Executive.

I shall retire from the Board at the conclusion of the Annual General Meeting in April 2005, but will continue to oversee the Group's interests in ANZAG, our German associate. I am delighted that Paolo Scaroni, an independent non-executive Director since December 2002, has agreed to succeed me as Chairman and I wish him every success in his new role.

Geoff Cooper, Deputy Chief Executive, resigned from the Board in July, when the decision to appoint Ian Meakins was finalised and he left the Company at the end of the year. I would like to thank Geoff for his significant contribution to the development of the Group.

Jeff Harris
Chairman 24 February 2005

# of earnings growth

Our people

The key to our success is the skills and expertise of the people working throughout the Group. I continue to be impressed by their commitment, providing our customers with consistently high levels of service, while at the same time launching new commercial initiatives, increasing productivity and improving working capital efficiency. I take this opportunity to thank them all, on behalf of shareholders, for their work during 2004.

Strategy and corporate development

The overall strategy of the Group remains unchanged, the success of which is demonstrated by our long established track record of delivering strong earnings per share growth, which has accelerated during 2004.

In late January 2004, the Group purchased 19% of the equity of ANZAG, the third largest wholesaler in Germany, for a consideration of £41.7 million (€60.5 million), taking our shareholding to 29.99%. During the year, we disposed of a number of small businesses in the UK which were not part of our core wholesale activities for £43.6 million (€64.3 million).

In our retail division we added a net 90 pharmacies to our portfolio, of which six were in associates, bringing our retail portfolio to 1,182 pharmacies at the year end, including 107 operated by associates.

Since the year end, we have taken a number of significant steps to develop the Group.

In February 2005, we announced that we are to expand our Spanish wholesale business through the acquisition of Farmacen, a regional wholesaler with strong market positions in the Madrid and Seville regions. Farmacen had sales in 2003 of around £184 million (€272 million) and is being acquired at a cost of around £33 million (€48 million), including debt assumed as part of the acquisition. The transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April.

Also in February we announced that we are to restructure our relationship with Galenica, our 25.5% owned Swiss associate, to create greater focus on our respective areas of expertise. As a result, the Group will increase its direct ownership in Alloga, one of Europe's leading specialist healthcare logistics and prewholesaling providers, from 20% to 100%, with the exception of the Swiss part of the business which will be fully acquired by Galenica. Ownership of Alloga gives us an enhanced platform to accelerate the provision of services to healthcare manufacturers across Europe. In addition, we are to sell our 50% direct interest in the GaleniCare Swiss pharmacy chain to our partner, Galenica. This reflects our lessening involvement in GaleniCare's Swiss-based management, as the business has become fully established. This transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April and result in a net cash inflow of around £20 million (€29 million).

Outlook

Our 2004 results demonstrate that we have been able to step up our profit growth. The regulatory outlook for 2005 appears stable, although we forecast market growth overall to be slightly lower than in 2004 as a result of the UK price cuts announced in November. Current business performance, together with the steps that we continue to take to improve and develop the Group organically and by way of acquisition, make us confident about our commercial and financial prospects for 2005.