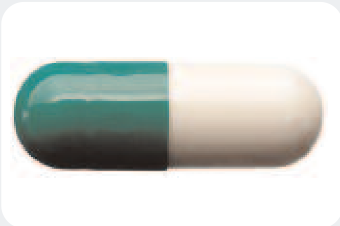
Wholesale

Our wholesale division performed well in 2005 in relatively difficult market conditions which led to slower market growth, our underlying performance improving as the year progressed.

We acquired two well-positioned regional wholesalers in Spain.



Generics now account for over 40% of the UK volume of prescription medicines.

Our warehouse best practice programme continued during the year, the central distribution centre in South Normanton being completed at the end of the year.

Total Alloga revenue in 2005 since acquisition was £16.1 million.

Revenue totalled £8,687.3 million, an increase of 1.8% on the previous year, operating profits increasing by 1.9% to £169.6 million. Overall operating margins were unchanged year on year at 1.95%. Adjusting for acquisitions and disposals (including Portugal which has been accounted for as an associate in the second half of the year), on a constant currency basis, like for like sales increased by 1.6%, like for like operating profits increased by 4.6% and like for like operating margins increased by six basis points.

Second half operating profits were £89.7 million, an increase of 4.2% on the second half of 2004, on revenue up 1.5% to £4,286.5 million. On a constant currency basis, like for like second half operating profits increased by 9.0% on the second half of 2004 and second half like for like sales by 2.0%.

During 2005 we further strengthened our portfolio of wholesale businesses in line with our well established strategy. This included increasing our direct ownership of Alloga in April 2005, one of Europe's leading specialist healthcare logistics and pre-wholesaling providers and acquiring two well-positioned regional wholesalers in Spain, substantially increasing our market position. We also acquired businesses in France and Italy providing contract sales forces and other services to pharmaceutical manufacturers.

Alloga's financial performance is included within the respective countries' wholesale figures from the date it was acquired. Total Alloga revenue in 2005 since acquisition was £16.1 million. Alloga made an operating loss during this period partly due to integration costs and operational issues in France.

New bulk warehouse capacity was brought on stream in France in the fourth quarter of the year to expand the business and replace three smaller facilities. Progress is being made to further develop the business within our wholesale division.

Northern Europe

Operating profit in the Northern Europe geographical area of our wholesale division totalled £92.2 million, an increase of 3.1% on the previous year, on revenue up 0.5% to £2,913.1 million, four non-core businesses having been sold in the UK in the second half of 2004. Operating margins increased by eight basis points to 3.17%. Adjusting for disposals and the acquisition of Alloga, on a constant currency basis, like for like sales increased by 0.9%, like for like operating profits increased by 3.8% and like for like operating margins increased by nine basis points. Second half operating profits in Northern Europe were £47.2 million, an increase of 0.6% on the second half of 2004 on revenue up 4.6% to £1,488.6 million.

UK

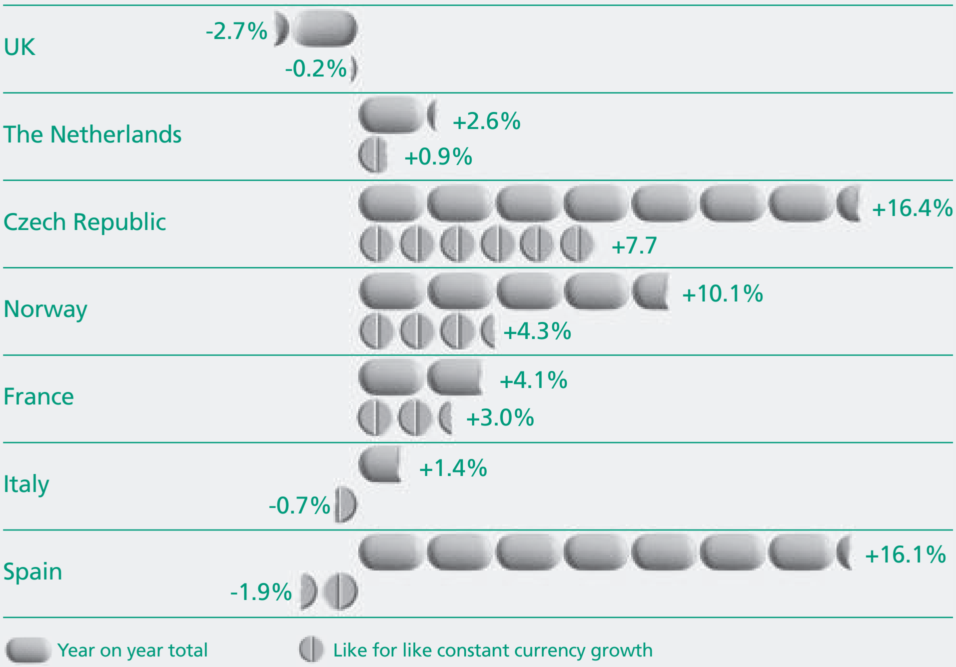
In the UK total revenue decreased by 2.7% to £1,821.9 million, like for like sales decreasing by 0.2% compared to a market which we estimate declined in value by around 1.5%. The decline in the market was due to the implementation of the PPRS price cuts at the beginning of January 2005 (which reduced the price of branded pharmaceutical products by an average of 7%), further price reductions by certain manufacturers and a new lower drug tariff for generics from the beginning of April (which we estimate reduced the price of generic pharmaceutical products by an average of 16%) and branded drug patent expiries in the second half of the year. In volume terms we estimate that the market grew by around 4% which was stronger than we have seen in other countries in 2005, generics now accounting for over 40% of the UK volume of prescription medicines. In the early part of the year the PPRS price cuts resulted in temporary disruption in the market place, first through parallel traders discounting unsold stock and later by some manufacturers being out of stock of the equivalent branded product which adversely impacted service levels to our customers and our own pharmacies. Overall, these changes and related disruption made 2005 a relatively difficult year for our UK wholesale business, resulting in lower like for like operating margins and profits.

The warehouse best practice programme continued during the year, the central distribution centre in South Normanton being completed at the end of the year. The expertise gained from the programme now forms part of our normal working practices across the Group. The investment in best practice, together with our work with manufacturers and other operating initiatives, is supporting the drive to improve both customer service and efficiency levels.

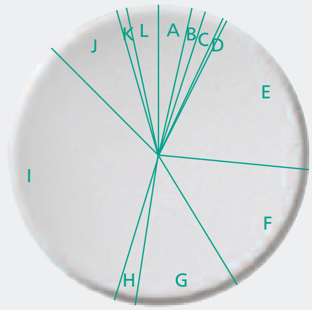
The programme established at the end of 2004 to drive greater synergies from the UK wholesale and retail businesses, with a particular focus on manufacturer services and operations, and the process of realigning our commercial terms, has progressed well. This programme is already beginning to deliver benefits for our UK businesses and will continue in 2006. The wholesale and retail buying functions for non prescription medicines were successfully combined at the beginning of the year. Since the year end, a minor restructuring has been carried out, principally in the UK wholesale head office at Chessington where headcount has been reduced by 14%. This is expected to lead to greater efficiencies, functional best practice and an even greater focus on our core activities.

The continued growth of "Almus", the Group's exclusive range of generic drugs, is providing sourcing benefits aimed at offsetting the impact of patent expiries. Sales volumes almost doubled year on year, the Almus range in the UK comprising 146 products at 31 December 2005. Progress continues to be made towards

Wholesale revenue growth



Wholesale depots at 31 December 2005



A. UK	11
B. The Netherlands	4
C. Czech Republic	6
D. Norway	1
E. France	57
F. Italy (including associates)	45
G. Spain	33
H. Portugal*	7
I. Turkey*	99
J. Germany*	24
K. Switzerland*	3
L. Pre-wholesale (including associates)	10
Total	**300**

*Associate interest.

extending the range in the UK and launching Almus in a number of other European countries, starting with a phased launch in France in the second quarter of 2006 and Italy in the final quarter of 2006.

The new pharmacy contract in England and Wales, which took effect from the beginning of April, has created significant changes for retail pharmacies in terms of the growing focus on the services they offer patients and the resulting change in funding. In response, our UK wholesale business developed step by step guidance for independent pharmacy customers to follow, as well as 'your portfolio', a comprehensive package of retail, healthcare, information technology and business services for independent retail pharmacies.

Our current forecast for market growth in the UK in value terms in 2006 is around 1%. This reflects a combination of lower generic prices from April 2005, patent expiries due in 2006 and our estimate of the impact of the surgical product pricing review scheduled for implementation in the second half of 2006. In January 2006 the UK Government published its "Our health" White Paper exploring options for increasing the provision of primary care in local community settings. This White Paper is currently in its consultation stage; we welcome the continuing drive towards community based provision of healthcare.

The Netherlands

In The Netherlands revenue increased by 2.6% to £659.9 million, sales increasing by 0.9% on a like for like constant currency basis. This compares to a market which we estimate grew in value by around 3.5%, market share reducing after a number of years of significant share gains mainly due to the loss of a multiple pharmacy account, part of which was replaced with new business, and an increase in deliveries direct to patients in their homes of specialist high value products. Operating margins and profits increased year on year, due to enhanced trading activities.

During the year Kring, our virtual chain of pharmacies in The Netherlands, entered into agreements with the two largest Dutch health insurers to provide health check programmes for their patients.

Our current forecast for market growth in The Netherlands in value terms in 2006 is around 6% which assumes continuing growth in deliveries direct to patients in their homes and the introduction, from the beginning of 2006, of the Covenant III schedule. Covenant III continues the Covenant II pricing regime introduced by The Netherlands Government in 2005, and introduces additional price reductions with the aim of cutting the national pharmaceutical spend by around a further £55 million in 2006.

Czech Republic

In the Czech Republic revenue increased by 16.4% to £212.4 million, sales increasing by 7.7% on a constant currency basis compared to a market which we estimate grew by around 7%. Market growth was lower than we had previously expected due to action by the Ministry of Health to curtail healthcare expenditure which largely offset anticipated gains from the certification of certain ethical products.

We continue to place considerable focus on growing our sales and market share in the independent retail pharmacy sector in the Czech Republic, our market share in the hospital sector reducing due to our unwillingness to supply certain hospitals experiencing financial constraints which impact their ability to adhere to payment terms. Operating margins and profits increased year on year, gross margins increasing due to an improved product mix and an increase in pre-wholesaling. Our current forecast for market growth in the Czech Republic in value terms in 2006 is around 5%.

Norway

In Norway revenue increased by 10.1% to £218.9 million, sales increasing by 4.3% on a constant currency basis compared to a market which we estimate grew in value by around 2.5%. Increasing synergies from running the Norwegian retail and wholesale businesses more closely resulted in higher gross margins and lower costs. These factors led to increased operating margins and profits. In January 2005, we acquired the 49% we did not previously own of Farmaka, the leading central dispensing facility in Norway for unit dose dispensing packs. Since then, the facility has been relocated to larger premises and production capacity increased to meet rising demand for these specialist packs. Our current forecast for market growth in Norway in value terms in 2006 is around 4%.

75%

In July we accelerated development of services we offer manufacturers through the acquisition of a 75% interest in Développement et Promotion Pharmaceutique in France.

Good progress continues to be made in establishing our virtual chain of pharmacies in Italy, bringing the total to 107 at the year end with a further 53 signed up to join shortly.

In the second quarter of 2006 we plan to launch 'Almus', the Group's exclusive range of generic drugs, in France.

Southern Europe

Operating profit in the Southern Europe geographical area of our wholesale division totalled £77.4 million, an increase of 0.4% on the previous year on revenue up 2.4% to £5,821.0 million. Operating margins reduced by three basis points to 1.33%. Adjusting for acquisitions and the disposal of Portugal (which has been accounted for as an associate in the second half of the year), on a constant currency basis, like for like sales increased by 2.0%, like for like operating profit increased by 5.6% and like for like margins increased by five basis points. Second half operating profits in Southern Europe were £42.5 million, an increase of 8.4% on the second half of 2004 on revenue down 0.1% to £2,824.6 million, due to the disposal of our Portuguese business.

France

In France revenue increased by 4.1% to £3,790.7 million. Sales growth was 3.0% on a like for like constant currency basis which was in line with our estimate of market growth in the wholesaling sector. We estimate that the total market grew in value by around 5%, the proportion of products which manufacturers sell and distribute direct to pharmacies continuing to increase as in previous years. We estimate that direct sales now account for close to 20% of the French market in value terms.

To counter the increase in direct sales in France we are realigning our commercial terms which we will implement progressively in the first half of 2006, and we are continuing to develop our offering and work closely with a number of generic manufacturers to increase our market share in this category. As a result we increased our generic sales by over 35%, which was double our estimate of total market growth for this category. Commencing in the second quarter of 2006 we plan a phased launch of 'Almus', the Group's exclusive range of generic drugs. We continue to promote participation of our pharmacy customers in collective buying arrangements with tailored service offerings for these groups. We are also extending the range of services offered to manufacturers, such as pre-wholesale and contract logistics, transfer orders, contract sales forces, and direct to patient delivery. Overall like for like operating margin was slightly up year on year as a result of a strong margin performance in the second half of the year. Operating profit increased year on year as a result of the sales and margin improvement.

In July we accelerated development of services we offer manufacturers through the acquisition of a 75% shareholding in Développement et Promotion Pharmaceutique ("Pharma Dep"), a French company specialising in the promotion and distribution of healthcare products to pharmacists on behalf of pharmaceutical manufacturers. The total consideration was around £8 million, including debt acquired. This acquisition complements our existing service offering including that of Alloga.

By the year end Pharma Dep had agreements in place with 12 regional and national pharmacy buying groups and provided commercial services for around 30 pharmaceutical manufacturers, utilising its sales force of 95 representatives.

In July we completed the disposal of Elvetec, a small loss-making French business supplying products to medical laboratories. This was in line with our strategy of selling businesses which we do not consider part of our core activities. Elvetec's revenue in the period up until its sale was £13.4 million.

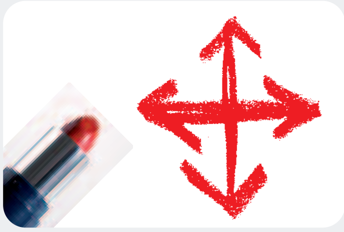
Since the year end the French parliament has approved a target reduction in overall healthcare expenditure of approximately £3.7 billion over a three year forward period on a cumulative basis. Measures announced which will impact the pharmaceutical wholesaling market are: a 15 - 18% reduction in the price of all generics and branded pharmaceuticals for which a generic exists, the delisting of products, lower reimbursement rates for certain products and larger pack sizes with lower percentage margins. These measures are in the process of being implemented. As a result we are currently forecasting that the French market will grow in value terms in 2006 by around 2%.

In addition, in January 2006 the French government has implemented a new law which limits the amount of discounts that any business can give to its customers. The effect of this general law on the pharmaceutical industry will be to cap unofficial discounts manufacturers give to pharmacies on direct sales at a maximum of 20% of the invoice net price. As the impact of these regulatory changes becomes clearer, we will review the services we offer to ensure that we appropriately meet the changing requirements of this market.

Italy

In Italy revenue increased by 1.4% to £921.6 million, sales decreasing by 0.7% on a like for like constant currency basis. This compares with a market which we estimate declined by around 1.5% in value due to temporary price cuts made by the government in June 2004 (which were in operation until the end of October 2005) and lower levels of consumption. Despite this decrease our operating margins and profits increased year on year due to a strong contribution from trading activities.

Good progress continues to be made in establishing our virtual chain of pharmacies in Italy. By the year end 107 pharmacies had joined, with a further 53 signed up to join shortly. During 2005, one depot was closed, the business being successfully transferred to two existing depots in the same region, and one depot was relocated to larger premises



In July we acquired 60% of a small business selling and distributing pharmaceutical and cosmetic products in Italy.

In May we expanded our Spanish wholesaling business, strengthening our market position through the acquisition of Farmaceutica Central, S.A. ("Farmacen"), the sixth largest pharmaceutical wholesaler in Spain.

The integration of Farmacen and CERFC with our existing business is well underway and will deliver significant improvements in efficiency and enhanced customer service.

enabling it to stock an extended product range. These changes are part of an ongoing programme to improve efficiency which will continue in 2006. In July we acquired 60% of a small business selling and distributing pharmaceutical and cosmetic products to pharmacies and wholesalers on behalf of manufacturers on an exclusive agency basis using a contract sales force.

Our current forecast for market growth in Italy in value terms in 2006 is around 2.5%. This forecast takes into account a price reduction of 4.4% on branded ethical pharmaceutical products introduced in mid January 2006, which largely reversed the price increase at the end of October 2005 when the temporary price cuts came to an end.

Spain

In Spain total revenue increased by 16.1% to £917.7 million, a decrease of 1.9% on a like for like constant currency basis, like for like constant currency domestic sales growing by 0.5%. This compares with a domestic market which we estimate grew by around 5.5% in value, our growth being lower due to increased domestic competition resulting from a much tougher export market, an increasing proportion of direct sales and also lower growth in geographic regions where we have strong market positions. Our export sales were significantly lower than in 2004, mainly due to manufacturers' quotas restricting product availability. Overall, our operating margins and profits decreased year on year on a like for like basis, mainly as a result of lower domestic gross margins and fewer trading opportunities.

In May we expanded our Spanish wholesaling business, strengthening our market position through the acquisition of Farmaceutica Central, S.A. ("Farmacen"), the sixth largest pharmaceutical wholesaler in Spain and the largest independent wholesaler not under co-operative ownership. Farmacen has strong market positions in the Madrid and Seville regions, its sales totalling around £190 million in 2004. It was acquired at a cost of £32.2 million, including debt assumed as part of the acquisition, of which around half is payable in instalments over the next four years.

In November we also acquired a 99.8% controlling stake in Centro Europeo de Reparto Farmaceutico de Cataluna, S.A. ("CERFC") the 20th largest pharmaceutical wholesaler in Spain, along with a 21.4% investment in Centro Farmaceutico, S.A., a wholesaler in Valencia. CERFC has strong market positions in the Barcelona area and in the Balearic Islands, its sales totalling around £81 million in 2004. The total consideration was £12.4 million, including debt assumed.

The integration of Farmacen and CERFC with our existing business is well underway and will deliver significant improvements in efficiency and enhanced customer service. During 2005, we closed three small depots in Spain as part of our ongoing efficiency programme, one depot in Seville being no longer required following the acquisition of Farmacen.

Manufacturers continue to explore ways to restrict product availability for export, including the introduction by one manufacturer of a dual net pricing system in June. We continue to work closely with a number of major manufacturers to develop a range of specific services in Spain designed to meet our respective objectives.

Our current forecast for market growth in Spain in value terms in 2006 is around 2.5%. This is lower than in 2005 due to an expected price reduction in ethical products and the introduction of a new "Medicine Act" which is currently going through the Spanish parliament. This comprehensive act contains many measures relating to the distribution and pricing of medicines, including a requirement that medicines can only be supplied to pharmacies direct by manufacturers or through licensed wholesalers who meet stringent quality, service and reporting requirements. The act also prohibits product discounting and contains measures to promote the use of generics and reduce the pricing of branded pharmaceutical products automatically by 20% after they have been sold for over ten years.

Portugal

Just before the end of the half year we entered into a strategic partnership with Associação Nacional das Farmácias, Portugal's national association of pharmacies, and an independent investment company with interests in the Portuguese healthcare industry. This was done to accelerate the development of our Portuguese wholesale business. Under the terms of the agreement we sold 49% of our business to the association and 2% to the investment company, resulting in a net cash inflow of £91.5 million, including inter-group loan repayments and the deconsolidation of local bank debt.

For the six months of the year leading up to the transaction total revenue in Portugal was £189.2 million, sales increasing by 10.5% on a like for like constant currency basis which was well ahead of the market which we estimate grew in value by around 4%. Operating margins increased, mainly due to improved gross margins which, together with higher sales, resulted in increased operating profits. Our remaining 49% interest in Portugal has been accounted for as an associate from the date of the transaction. Since then the business has continued to increase its sales at a rate well ahead of the market while substantially reducing its trade debtor days, resulting in increased profitability.

Wholesale revenue of £1.8 million in Portugal in the second half of the year was from the Group's wholly owned Portuguese Alloga business.