

Chairman's statement

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Jeff Harris, Chairman

Overview and financial results

The results for the first half of 2003 continue to demonstrate the Group's ability 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, businesses in Northern Europe performed strongly, although in Southern Europe, markets continue to prove challenging. Our retail division again delivered strong organic profit growth, acquisition expansion being relatively slow, as potential vendors await the outcome of various regulatory reviews.

Group turnover was £4,437.0 million (€6,486.9 million) for the six months ended 30 June 2003, an increase of 13.9% on the first half of last year. Total operating profit before amortisation of intangible assets increased by 15.6% to £122.5 million (€179.1 million) on a comparable basis, last year's 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 14.5% on a comparable basis to £95.8 million (€140.1 million). Diluted earnings per share before amortisation of intangible assets increased by 10.4% on a comparable basis to 19.1 pence per share (27.9 cents).

Dividend

The Board has declared an interim dividend of 5.7 pence per share (8.3 cents), an increase of 9.6% on the comparable dividend last year. The interim dividend will be paid on 17 November 2003 to shareholders on the register at the close of business on 15 August 2003. The Board will, as in previous years, offer shareholders a share alternative.

Board changes

In April, 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, and recently we announced that Per Utnegaard is to join the Group and Board in September as Wholesale Director, responsible for all our wholesale businesses. Coinciding with Per's appointment, Ornella Barra, currently the Director responsible for Southern Europe wholesale, becomes Group Services Director, as previously announced. Chris Etherington, the Director formerly responsible for Northern Europe wholesale, left the Board and Group at the end of March to take up a senior position in another business sector.

We are currently in the process of appointing further independent non-executive directors.



Group development

The Group continues to develop in accordance with our long-established strategic objectives.

In our retail division we acquired 29 pharmacies and opened a further three in the first half of 2003, including six in associate businesses. This brings our retail portfolio to 1,053 pharmacies, including 97 operated by associate businesses. Retail expansion in the UK and The Netherlands was relatively slow, as potential vendors awaited the finalisation of the review of pharmacy regulation in the UK and a review of discount clawback rates in The Netherlands.

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, the revised ownership structure more closely reflecting the preference of manufacturer clients to use prewholesalers who are independent of the wholesale sector.

In July, Hedef Alliance, our Turkish associate, acquired 30% of UCP, the joint market leader in the Egyptian pharmaceutical wholesaling market. Hedef Alliance has agreed to acquire a further 10% and has a three year option over an additional 11% of the equity, making a total potential equity interest of 51%.

Outlook

In the first six months of the year, our financial results have shown the continued strength of the Group, despite market growth rates being towards the lower end of the range we have seen in recent years. The period has seen continued economic and political uncertainty, with a resulting consistent level of regulatory and commercial pressures. Our performance demonstrates our ability to meet these challenges and to deliver strong financial performance.

Since the end of the half year, the UK Department of Trade and Industry, in response to the Office of Fair Trading inquiry into the NHS contract arrangement for pharmacies, has announced proposed changes to pharmacy regulation in England. These plans recognise the vital role that community pharmacies, such as those operated and served by Alliance UniChem, play in providing primary care and patient services.

Elsewhere, regulatory developments are likely to impact the Group broadly in line with our expectations. We expect to see some market volatility in France in the fourth quarter following the introduction of a new pricing scheme for branded pharmaceuticals which compete with generics, whilst in The Netherlands the anticipated rise in clawback rates has been delayed. The precise impact of both these developments cannot yet be determined,

however, we are confident of our ability to manage our businesses to continue our financial progress.

We anticipate that the Group's overall performance for the year will be in line with expectations, and remain confident of being able to continue our track record of strong performance in the future.

Jeff Harris
Chairman
30 July 2003