

Notes to the financial information

for the six months ended 30 June 2003

(1) BASIS OF PREPARATION

The interim financial information was approved by the Directors on 30 July 2003. It has been prepared on the same basis as that included in the 2002 Annual Report with the exception of the early adoption in full of FRS 17 "Retirement benefits". A prior period adjustment of £19.6 million is the cumulative prior period effect of this change of accounting policy and has been charged against reserves. Comparative figures have been restated accordingly.

The interim financial information is unaudited but has been reviewed by the Group's auditors, and does not constitute statutory accounts as defined in section 240 Companies Act 1985. The comparative figures for the year ended 31 December 2002 are not statutory financial statements for that financial year but have been extracted from them. The statutory financial statements for the year ended 31 December 2002, which received an unqualified report from the Group's auditors and did not include a statement under sections 237(2) or (3) of the Companies Act 1985, have been filed with the Registrar of Companies.

An unreviewed memorandum disclosure has been made on the face of the primary financial statements to show the Euro equivalents. In addition, profit on ordinary activities before taxation and amortisation of intangible assets has been disclosed on the face of the Group profit and loss account to assist understanding.

(2) EXCHANGE RATES

For the six months ended 30 June 2003, the average Sterling/Euro exchange rate was €1.462/£ compared to €1.610/£ in the first half of 2002 and €1.593/£ for the year to 31 December 2002. The Sterling/Euro exchange rate at 30 June 2003 was €1.437/£ compared to €1.543/£ at 30 June 2002 and €1.534/£ at 31 December 2002.

(3) SEGMENTAL ANALYSIS

	Turnover			Total operating profit		
	2003 Six months to 30 June £million	2002 Six months to 30 June £million	2002 Year to 31 Dec £million	2003 Six months to 30 June £million	2002 Six months to 30 June restated £million	2002 Year to 31 Dec restated £million
Analysis by activity						
Wholesale Northern Europe						
Before intangible amortisation	1,514.1	1,292.7	2,770.5	39.6	34.5	77.4
Amortisation of intangible assets	–	–	–	(3.1)	(3.1)	(5.9)
	1,514.1	1,292.7	2,770.5	36.5	31.4	71.5
Wholesale Southern Europe						
Before intangible amortisation	2,821.7	2,446.7	4,988.9	33.9	35.6	74.4
Amortisation of intangible assets	–	–	–	(1.7)	(1.1)	(2.6)
	2,821.7	2,446.7	4,988.9	32.2	34.5	71.8
Retail – Europe						
Before intangible amortisation	519.6	456.1	972.5	36.1	31.0	65.8
Amortisation of intangible assets	–	–	–	(0.3)	(0.3)	(0.4)
	519.6	456.1	972.5	35.8	30.7	65.4
Corporate	–	–	–	(4.0)	(4.8)	(11.7)
Intra-group	(418.4)	(300.3)	(708.4)	–	–	–
Group						
Before intangible amortisation	4,437.0	3,895.2	8,023.5	105.6	96.3	205.9
Amortisation of intangible assets	–	–	–	(5.1)	(4.5)	(8.9)
	4,437.0	3,895.2	8,023.5	100.5	91.8	197.0
Share of operating profit in associated undertakings						
Before intangible amortisation	–	–	–	16.9	9.7	21.5
Amortisation of intangible assets	–	–	–	(2.3)	(1.7)	(3.7)
	–	–	–	14.6	8.0	17.8
Total						
Before intangible amortisation	4,437.0	3,895.2	8,023.5	122.5	106.0	227.4
Amortisation of intangible assets	–	–	–	(7.4)	(6.2)	(12.6)
	4,437.0	3,895.2	8,023.5	115.1	99.8	214.8

The analysis of turnover by destination is not materially different from the analysis of turnover by origin.

Notes to the financial information (continued)

for the six months ended 30 June 2003

(4) TAXATION

	2003 Six months to 30 June £million	2002 Six months to 30 June restated £million	2002 Year to 31 Dec restated £million
UK Corporation tax	21.0	12.7	25.6
Overseas taxation	15.5	12.4	28.2
Double taxation relief	(12.4)	(1.9)	(5.8)
Associated undertakings	4.8	3.2	7.9
Deferred tax	1.5	0.5	2.1
	30.4	26.9	58.0

The Group's effective rate of tax, based on profit on ordinary activities before taxation and amortisation of intangible assets was 31.7% (2002 32.1%) which is broadly in line with the weighted average standard tax rate of 31.8% (2002 32.2%).

(5) EARNINGS PER SHARE

Earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue during the period. The diluted earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue added to the dilutive potential shares assuming that they had converted to issued shares at the beginning of the period.

Earnings per share are also calculated before amortisation of intangible assets and exceptional items, if any, since the Directors consider that this gives a useful additional indication of underlying performance.

The diluted earnings per share calculations are based on the assumption that shares that may be potentially issued to meet the deferred consideration for the acquisition of Hedef Alliance, were issued when the investment was made. The discount on this deferred acquisition consideration is therefore adjusted when computing the relevant profit for the financial year.

(5) EARNINGS PER SHARE (CONTINUED)

	2003 Profit for six months to 30 June £million	2002 Profit for six months to 30 June restated £million	2002 Profit for year to 31 Dec restated £million
Basic	58.0	50.1	109.5
Deferred acquisition consideration	0.4	–	0.2
Diluted	58.4	50.1	109.7
Basic	58.0	50.1	109.5
Amortisation of intangible assets	7.4	6.2	12.6
Basic, before amortisation of intangible assets	65.4	56.3	122.1
Deferred acquisition consideration	0.4	–	0.2
Diluted, before amortisation of intangible assets	65.8	56.3	122.3
	2003 30 June million	2002 30 June million	2002 31 Dec million
Weighted average number of shares			
Basic	338.9	323.4	328.9
Diluted	343.7	325.8	331.7

Notes to the financial information (continued)

for the six months ended 30 June 2003

(6) CASH FLOW STATEMENT

	2003 Six months to 30 June £million	2002 Six months to 30 June restated £million	2002 Year to 31 Dec restated £million
(a) Reconciliation of Group operating profit to net cash inflow from operating activities			
Group operating profit	100.5	91.8	197.0
Depreciation	20.4	18.8	37.1
Amortisation of goodwill	4.9	4.2	8.5
Amortisation of pharmacy licences	0.2	0.3	0.4
Profit on disposal of fixed assets	(7.3)	(1.5)	(8.0)
Decrease in stocks	80.0	85.5	50.1
(Increase)/decrease in debtors	(24.2)	29.9	(50.8)
Decrease in creditors	(36.1)	(72.1)	(33.2)
Decrease in net pensions liability	(0.3)	(0.2)	(0.5)
Net cash inflow from operating activities	138.1	156.7	200.6
(b) Returns on investments and servicing of finance			
Interest received	5.2	4.1	9.3
Interest paid	(31.7)	(26.1)	(57.0)
Dividends paid to minority shareholders	(0.1)	(0.1)	(0.4)
Interest element of finance lease payments	(0.3)	(0.2)	(0.5)
Net cash outflow from returns on investments and servicing of finance	(26.9)	(22.3)	(48.6)
(c) Capital expenditure and financial investment			
Purchase of fixed assets	(18.0)	(25.8)	(56.3)
Disposal of fixed assets	2.1	6.0	18.3
Loans to associated undertakings	(17.4)	(4.2)	(12.6)
Loans repaid by associated undertakings	0.1	–	0.8
Other investments (net)	(1.3)	3.7	(12.2)
Net cash outflow from capital expenditure and financial investment	(34.5)	(20.3)	(62.0)
(d) Acquisitions and disposals			
Purchase of businesses	(25.8)	(44.3)	(74.8)
Net cash/(overdrafts) of businesses acquired	0.3	(11.6)	(8.5)
Purchase of shares in associated undertakings	(1.2)	(0.9)	(35.9)
Disposal of businesses	–	2.4	4.0
Net cash of businesses sold	0.3	–	–
Disposal of investment in associated undertakings	6.6	–	1.7
Net cash outflow from acquisitions and disposals	(19.8)	(54.4)	(113.5)

(7) NET CASH FLOW FROM (DECREASE)/INCREASE IN DEBT AND LEASE FINANCING

	2003 Six months to 30 June £million	2002 Six months to 30 June £million	2002 Year to 31 Dec £million
Debt due within one year:			
Net movement in money market borrowings maturing within one week	(54.4)	(58.1)	39.5
Decrease in short-term borrowings	(13.2)	(27.5)	(67.3)
Borrowings due after one year:			
Increase in borrowings	2.5	278.5	267.0
Repayment of borrowings	(15.8)	(128.0)	(143.8)
Capital element of finance lease rental payments	(0.8)	(1.0)	(2.1)
Net cash (outflow)/inflow from (decrease)/increase in debt and lease financing	(81.7)	63.9	93.3

(8) PENSIONS

Financial Reporting Standard 17, 'Retirement benefits' (FRS 17) has been adopted with effect from 1 January 2003. The adoption of FRS 17 has required a change to the accounting treatment of defined benefit pension arrangements, such that the Group includes the assets and liabilities of these arrangements in the Group's balance sheet. Current service costs, curtailment and settlement gains and losses, and net financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Restatement of comparatives

Prior year results have been restated as follows:

	Group operating profit £million	Net interest payable £million	Tax on profit for ordinary activities £million	Profit for the period £million
Group profit and loss account				
Six months to 30 June 2002	91.2	(22.3)	(26.8)	49.6
Adoption of FRS 17	0.6	–	(0.1)	0.5
Six months to 30 June 2003 restated	91.8	(22.3)	(26.9)	50.1
Year to December 2002	196.0	(46.9)	(57.7)	108.8
Adoption of FRS 17	1.0	–	(0.3)	0.7
Year to 31 December 2002 restated	197.0	(46.9)	(58.0)	109.5

Notes to the financial information (continued)

for the six months ended 30 June 2003

(8) PENSIONS (CONTINUED)

Group balance sheet	Other debtors £million	Provisions for liabilities and charges £million	Net pension liabilities £million	Profit and loss account £million
30 June 2002	921.8	(16.0)	–	367.4
Adoption of FRS 17	(2.0)	6.2	(17.2)	(13.0)
30 June 2002 restated	919.8	(9.8)	(17.2)	354.4
31 December 2002	1,019.9	(18.6)	–	392.5
Adoption of FRS 17	(2.7)	6.9	(23.8)	(19.6)
31 December 2002 restated	1,017.2	(11.7)	(23.8)	372.9

Defined benefit pension schemes

The Group operates defined benefit arrangements in the UK, France, The Netherlands and Norway.

The market value of the assets and the present value of the liabilities in the Group's defined benefit schemes were:

	2003 30 June £million	2002 30 June £million	2002 31 Dec £million
Total market value of assets	89.9	81.4	80.3
Present value of scheme liabilities	(128.8)	(106.8)	(115.1)
Deficit in the schemes	(38.9)	(25.4)	(34.8)
Related deferred tax asset	12.1	8.2	11.0
Net pension liabilities	(26.8)	(17.2)	(23.8)

Movement in scheme deficits during the period	2003 30 June £million	2002 30 June £million	2002 31 Dec £million
At beginning of period	(34.8)	(14.9)	(14.9)
Current service costs	(3.9)	(3.2)	(6.4)
Contributions	4.2	3.4	6.9
Businesses acquired	–	–	0.1
Net interest payable	(0.6)	–	–
Actuarial loss	(3.2)	(10.2)	(19.9)
Currency translation differences	(0.6)	(0.5)	(0.6)
Deficit in the schemes	(38.9)	(25.4)	(34.8)