

## Chairman's statement

"Our results demonstrate that we have been able to step up the rate of growth from businesses in our portfolio" Jeff Harris, Chairman



## Overview and financial results

In the first half of 2004 the Group accelerated its rate of earnings growth, achieving a stronger financial performance than we expected at the time of the 2003 preliminary results announcement in February 2004. Our key measure, diluted earnings per share before amortisation of intangible assets, increased by 14.1% on the first half of last year, the fastest rate of increase we have seen for many years. This result builds upon the 11.7% year on year growth achieved in the full year 2003. Cash generation from operating activities was again strong.

This performance has been largely achieved through organic sales growth and an ongoing focus on margin management, cost control and working capital efficiency.

Our wholesale division performed well, all businesses increasing sales, operating margins and operating profits. France and The Netherlands responded to regulatory changes at the start of the year, actions taken including further initiatives to improve efficiencies. Trading performance in our retail division continues to be excellent with a significant increase in sales and operating profit, reflecting our efforts to increase revenue from enhanced patient and manufacturer services and improve efficiencies. As a result, overall operating margins increased, despite reductions in margins on medicines, particularly in the UK and The Netherlands. The performance of our associates was held back by high inflation and currency depreciation in Turkey, but benefited from the inclusion of five months' results from Andreae-Noris Zahn AG ("ANZAG") in Germany.

Group turnover was £4,480.4 million (€6,617.6 million) for the six months ended 30 June 2004, an increase of 4.6% on the first half of last year (up 6.0% on a constant currency basis), after restating the comparative figures for a change of accounting policy resulting from the amendment to the accounting standard FRS 5 in December 2003. Group operating margin before amortisation of intangible assets increased by 19 basis points to 2.66%. Total operating profit before amortisation of intangible assets increased by 12.2% to £137.4 million (€202.9 million). Profit before taxation and amortisation of intangible assets increased by 20.6%

to £115.5 million (€170.6 million) with interest costs down 18.0% due to lower interest rates and the benefits from the ongoing working capital efficiency programme. Diluted earnings per share before amortisation of intangible assets increased by 14.1% to 21.8 pence per share (32.2 cents), the effective tax rate increasing by 2.0 percentage points and the average number of shares on a diluted basis increasing by 2.4%.

Net cash inflow from operating activities at £88.5 million (€130.7 million) benefited from an estimated £25 million inflow from improved trade working capital ratios, building upon the efficiencies achieved last year. Year on year, on a balance sheet basis, the improvement in trade working capital efficiency was approximately £55 million.

## Dividend

The Board has declared an interim dividend of 6.25 pence per share (9.23 cents), an increase of 9.6% on the comparable dividend last year. The interim dividend will be paid on 11 October 2004 to shareholders on the register at the close of business on 6 August 2004. The Board will, as in previous years, offer shareholders a share alternative.

## Board and organisational changes

Ian Meakins is to join the Group and the Board later this year as Chief Executive. He succeeds Stefano Pessina, who will become Executive Deputy Chairman with responsibility for strategic development, including acquisitions. Ian is currently President, Major Markets and Global Supply for Diageo PLC, the world's largest premium drinks business. Geoff Cooper, Deputy Chief Executive, has resigned from the Board and will leave the Group in early 2005.

## Group development

In our retail division we acquired 35 pharmacies and opened a further four in the first half of 2004, including two in total in associate businesses. One pharmacy was sold. This brought our retail portfolio to 1,130 pharmacies at 30 June 2004, including 103 operated by associates.

In late January the Group completed the purchase of 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%. This transaction represents a significant step forward for the Group in Germany, the largest single pharmaceutical market in Europe. ANZAG has been accounted for as an associate from the beginning of February. During the period we also sold our interest in our Greek wholesale associate, whose performance had fallen short of our expectations.

In early July, agreement was reached to sell Eldon, a small UK producer of specialist pharmaceutical products, which is a non-core activity. This transaction, which is conditional upon regulatory approval, is expected to be completed shortly.

## Outlook

Our overall strategy for 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 for the first half of 2004.

We continue to drive enhanced financial performance from our core wholesale and retail businesses and seek opportunities to expand, both in countries in which we operate and beyond. As anticipated, we are seeing more opportunities to add to our pharmacy chains as the year progresses. Since the beginning of July we have acquired a further 20 pharmacies and expect the total number of acquisitions for the year to be significantly above the figure achieved in 2003.

Our results demonstrate that we have been able to step up the rate of growth from businesses in our portfolio. The regulatory outlook for the remainder of 2004 appears stable, and we expect to continue to enjoy a very strong rate of growth in the second half.



**Jeff Harris**  
Chairman  
29 July 2004