

Annual Report 2000

Cardinal Health Growth Through Healthcare Innovation

Cardinal Health (NYSE: CAH) provides innovative products and services to tens of thousands of customers in the healthcare industry. We maintain market-leading positions in pharmaceutical formulation, manufacturing, packaging and distribution; medical-surgical product manufacturing and distribution; and automation and information services by partnering with our customers to address challenges they face in the fast changing healthcare environment. Cardinal is a Fortune 60 company, with annual revenues of more than \$25 billion produced by 42,000 associates on five continents.

Some of the information in this report (including information incorporated by reference) includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “anticipate,” “project,” and similar expressions, among others, identify “forward-looking statements,” which speak only as of the date the statement was made. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to materially differ from those projected, anticipated, or implied. The most significant of such risks, uncertainties and other factors are described in Cardinal’s Forms 10-K, 10-Q, and 8-K reports and exhibits to those reports filed with the Securities and Exchange Commission. Cardinal undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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Cardinal Health at a Glance

Business Segments

Principal Businesses



Pharmaceutical Distribution and Provider Services

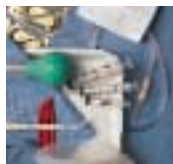
Cardinal Distribution – a leading distributor of pharmaceuticals in the United States, delivering to the pharmacies of more than 20,000 retail, hospital and other care sites nationwide.

Specialty Distribution – market-leading specialized distribution services for healthcare providers and manufacturers including distribution of drugs and medical supplies to physicians' offices and therapeutic blood products to hospitals; repackaging bulk pharmaceuticals into smaller, more efficient package sizes for use by retail pharmacies; and providing third-party logistics services for pharmaceutical manufacturers and biotechnology companies.

Medicine Shoppe International – the world's largest franchiser of apothecary-style retail pharmacies with nearly 1,300 locations in the United States and abroad.

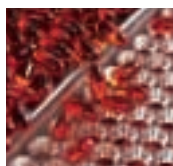
Owen Healthcare – America's largest provider of management services for hospital pharmacy and materials management departments.

Cardinal Health Staffing Network – a leading staffing network supplying pharmacy professionals to the nation's hospitals and retail pharmacies.



Medical-Surgical Products and Services

Allegiance Corporation – a leading manufacturer and distributor of medical, surgical and laboratory products designed for hospitals and other points of care. The company produces many highly regarded product lines, all of which hold leading market positions, including: Converters® surgical drapes and gowns, Custom Sterile™ procedure kits, Medi-Vac® fluid collection systems, V. Mueller® surgical instruments, Airlife™ respiratory-care products and a broad line of surgical and examination gloves. Additionally, Allegiance offers consulting and other services that help healthcare providers reduce costs and improve quality of care.



Pharmaceutical Technologies and Services

R.P. Scherer Corporation – a leading international developer and manufacturer of drug-delivery technologies including soft-gelatin capsules, rapid dissolving tablets and topical formulations.

PCI Services – the world's leading provider of integrated contract packaging services from bottle-filling and blister packaging to folding cartons and printing inserts/outserts and labels. The company also performs analytical-testing services for pharmaceutical and biotechnology products.

Automatic Liquid Packaging – a leading producer of sterile liquid pharmaceuticals in topical, inhaled and ophthalmic formulations.

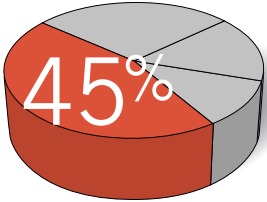
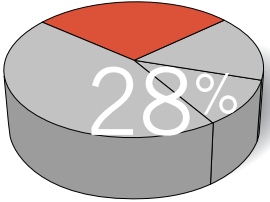
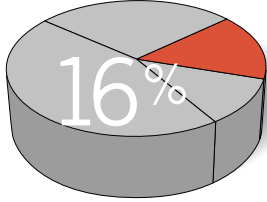
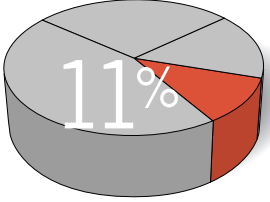
Cardinal Health Sales and Marketing Services – a provider of contract sales and marketing services for pharmaceutical companies.



Automation and Information Services

Pyxis Corporation – the leading provider of automated pharmaceutical and medical-supply dispensing systems to hospitals and other sites of care.

Cardinal Information Companies – a developer of clinical information systems used by hospitals and pharmaceutical manufacturers. The company also provides pre- and post-adjudication claims services for retail pharmacies.

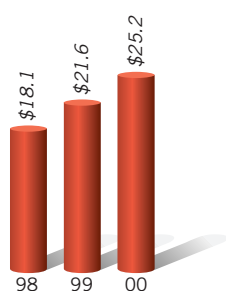
Customers	Employees	Fiscal 2000		
		Operating Revenue	Operating Earnings	Operating Earnings as a Percent of Total
Retail Pharmacies, Hospitals, Surgery Centers, Physicians' Offices, Long-term Care Centers, Pharmaceutical Manufacturers, Biotechnology Companies	8,000	\$18.8B	\$589 mm	
Hospitals, Surgery Centers, Physicians' Offices, Long-term Care Centers	25,000	\$5.0B	\$368 mm	
Pharmaceutical Manufacturers, Biotechnology Companies	7,700	\$1.1B	\$201 mm	
Hospitals, Clinics, Long-term Care Centers, Retail Pharmacies	1,500	\$0.4B	\$138 mm	
Totals	42,200	\$25.2B	\$1.2B	

Financial Highlights

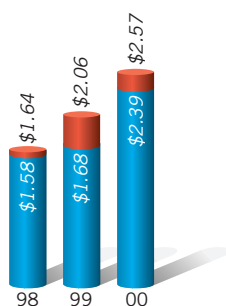
(In millions, except percentages and per share amounts)

Operating Revenues

In billions

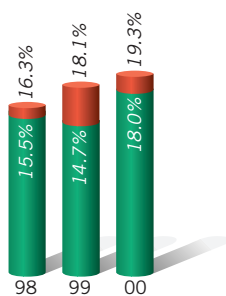


Diluted Net Earnings per Share



As reported
Excluding special charges

Return on Average Shareholders' Equity



As reported
Excluding special charges

Summary of Operations

	2000	Percent Change	1999	1998
Operating Revenues	\$ 25,246.9 ✓	17%	\$ 21,558.5	\$ 18,084.6
Special Charges, total ⁽¹⁾	(64.7)	N.M.	(146.6)	(57.8)
Operating Earnings	1,195.0 ✓	33%	899.5	800.3
Operating Earnings, excluding special charges ⁽¹⁾	1,259.7 ✓	20%	1,046.1	858.1
Net Earnings	679.7 ✓	41%	481.0	448.5
Net Earnings, excluding special charges and other ^{(1) (2)}	\$ 729.5 ✓	24%	\$ 589.3	\$ 468.0

Performance Measures

Operating Earnings as a % of operating revenue	4.7% ✓	4.2%	4.4%	
Operating Earnings as a % of operating revenue, excluding special charges ⁽¹⁾	5.0% ✓	4.9%	4.7%	
Return on Average Equity	18.0% ✓	14.7%	15.5%	
Return on Average Equity, excluding special charges ⁽¹⁾	19.3% ✓	18.1%	16.3%	
Operating Cash Flow	\$ 638.2 ✓	69%	\$ 377.6	\$ 572.0

Per Share Results

Diluted Net Earnings	\$ 2.39 ✓	42%	\$ 1.68	\$ 1.58
Diluted Net Earnings, excluding special charges and other ^{(1) (2)}	\$ 2.57 ✓	25%	\$ 2.06	\$ 1.64
Dividends Declared	\$ 0.105 ✓	5%	\$ 0.100	\$ 0.073

Weighted Average Shares Outstanding (Number)

Diluted	284.4	285.2	284.6
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Balance Sheet

Working Capital	\$ 2,609.1	\$ 2,273.5	\$ 2,136.0
Total Assets	\$ 10,264.9	\$ 8,404.5	\$ 7,596.6
Long-Term Obligations	\$ 1,485.8	\$ 1,223.9	\$ 1,330.0
Shareholders' Equity	\$ 3,981.2	\$ 3,569.6	\$ 3,055.1

✓ CARDINAL HEALTH RECORD

N.M. – Not Meaningful

See Note 1 of "Notes to Consolidated Financial Statements" regarding "Basis of Presentation."

⁽¹⁾ Special charges include total merger-related costs, which have been recorded in connection with various business combinations, and facilities rationalization charges, the impact of which is excluded in the referenced amounts summarized above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of "Notes to Consolidated Financial Statements" for further analysis of special charges.

⁽²⁾ Amounts referenced above, for fiscal years ended June 30, 1999 and 1998, include the impact of pro forma adjustments related to the taxes for Automatic Liquid Packaging, Inc. (referred to as "other"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of "Notes to Consolidated Financial Statements" for further analysis of pro forma adjustments.

To Our Fellow Shareholders

Our strategy is straightforward: to offer the broadest array of solutions to the challenges our healthcare customers face.

We had a terrific year, setting many new performance records in a very challenging environment. We continued to effectively execute our strategy, despite ongoing pressure on the healthcare system, the conversion to Y2K and other factors that affected the perception of healthcare industry stocks. Cardinal's sound business model and the dedicated efforts of our more than 42,000 associates resulted in outstanding financial and operating performance for Cardinal Health in fiscal 2000.

A Successful Strategy

Our strategy is straightforward: to offer the broadest array of solutions to the challenges our healthcare customers face. To accomplish this, we have assembled the broadest array of resources, adding many new capabilities to our strong foundation in healthcare product distribution. Today, we provide an extensive portfolio of complementary businesses, each of which has market-leading products and services, proprietary technologies, a focus on service quality and low cost structures. These businesses each operate in markets with very favorable growth outlooks.

The breadth of our product and service offering, our continued development of important new products and services, and our ability to integrate our offering in unique and innovative ways to help customers achieve their goals are what differentiate us. Utilizing our comprehensive offering, we can create customized solutions that help our customers make meaningful improvements in their operations and in the delivery of quality healthcare. Our continued innovation in healthcare is key to our future growth.

Record Financial Results

Across the board, our financial results in fiscal 2000 were record-setting. We delivered solid top-line growth of 17%, achieving

Robert D. Walter
Chairman and
Chief Executive Officer



operating revenues of more than \$25 billion, an all-time high. Our net earnings grew even faster, marking the 13th consecutive year that we have exceeded our stated objective of achieving 20% growth in earnings, before special charges. Net earnings in fiscal 2000 grew 24% to \$730 million, and earnings per diluted share improved 25% to \$2.57, excluding the impact of these charges.

These record earnings, combined with effective asset management, produced record operating cash flow of \$638 million, an increase of \$260 million from last year. Our profitability, as measured by operating return on sales (5.0%), return on committed capital (30.3%) and return on shareholders' equity (19.3%), also reached new highs. Finally, we increased shareholders' equity to \$4 billion and total capital to \$5 billion, providing substantial balance sheet flexibility for future growth.

Operational Accomplishments

We had many noteworthy achievements that contributed to our success in fiscal 2000 and helped set the stage for continued momentum in 2001. As you will see in the pages that follow, we:

- Enhanced the operations of virtually every business:
 - ✓ Improved our market position,
 - ✓ Increased productivity,
- Continued to implement our focused acquisition strategy:
 - ✓ Successfully integrated Allegiance Corporation, our largest-ever merger,
 - ✓ Completed the acquisition and integration of Automatic Liquid Packaging,
 - ✓ Completed and integrated six additional fill-in acquisitions,
 - ✓ Announced the acquisition of Bergen Brunswig's medical supply distribution business which was completed in August 2000,
- Successfully met the special challenges of Y2K:
 - ✓ Ensured systems readiness,
 - ✓ Managed manufacturing and distribution volumes effectively,
- Increased cross-selling to customers for incremental annual revenues well over \$500 million:
 - ✓ Added 30+ agreements for integrated services with healthcare providers,
 - ✓ Implemented integrated services for 20+ pharmaceutical products,
- Established a two-pronged Internet strategy:
 - ✓ Launched cardinal.com, a comprehensive, web-enabled site for healthcare product procurement, fulfillment, support and information,
 - ✓ Helped form an independent, Internet-based, business-to-business electronic healthcare exchange,
- Invested for our future:
 - ✓ Spent more than \$300 million on systems and infrastructure improvements,
 - ✓ Invested over \$30 million on research and development,
 - ✓ Broke ground on an \$80 million Product Development Center to provide product developers with access to Cardinal's drug manufacturing technologies and integrated services.

Our outstanding financial and operational results don't just happen by chance. They are the outcome of the dedication and hard work of our associates, who now number more than 42,000 worldwide. It makes me proud to hear our customers say that the biggest factor setting Cardinal apart from its competition is the quality of our people. To help us manage our rapid growth, we continue to train and educate our associates, reward them with appropriate incentives and recruit new talent. Our associates are highly motivated and have maintained an entrepreneurial spirit that truly distinguishes Cardinal from its peers.

Performance for Shareholders

During the year, we witnessed the largest swing in our stock price since 1987. While the market experiences short-term aberrations from time-to-time, eventually, a company's financial performance must be reflected in its stock price. Fortunately, the large gap between our solid financial performance and the low value investors placed on our shares was short-lived, and in the second half of the fiscal year, our stock price began a steady recovery. In fact, *The Wall Street Journal* cited Cardinal as the third best performing large cap stock in the United States for the quarter ended June 30, 2000 with appreciation of 61%. For the full fiscal year, our stock price appreciated 15%. Our long-term performance remains impressive. For the 10 years ended June 30, 2000, Cardinal delivered a total return to shareholders of 1,132%, or 29% compounded annually, well in excess of the S&P 500.

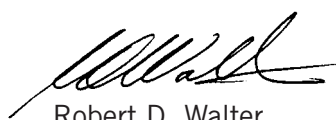
Looking Ahead

The healthcare industry is subject to constant change due to product innovation, cost pressures, competitive influences and new legislation. At the same time, it is ripe with opportunity. Healthcare is an enormous industry, representing about 13% of the U.S. Gross Domestic Product. With an aging population, there is solid long-term demand for everything that we do. For example, during the next five years, more than \$34 billion of branded pharmaceuticals face patent expiration. Our Pharmaceutical Distribution and Provider Services businesses should benefit from this trend because sales of generic products tend to be more profitable for us than sales of equivalent branded products. On the other end of the spectrum, our Pharmaceutical Technologies and Services businesses are well positioned to assist branded manufacturers in the development of new or reformulated pharmaceutical products to help replace sales of products losing patent protection. In addition, the government appears poised to pass some form of Medicare drug benefit for seniors that should encourage greater consumption of pharmaceuticals, especially generics.

Entering Our Fourth Decade

I find it remarkable to think that in January 2001, we will celebrate the 30th anniversary of Cardinal's founding. While the company is much larger and more multi-faceted today, we remain dedicated to preserving the spirit that has been so important to our success. What we have accomplished in this phase of Cardinal's evolution is the establishment of a broad and powerful platform to support our future growth. Today, we are in an enviable position of having market leadership positions in a wide range of healthcare businesses, the ability to combine our services in unique and innovative ways to help our customers meet their challenges, the financial resources to fund substantial strategic investments for future growth and the people to execute our strategy. With this combination, I believe the best is yet to come.

Sincerely,



Robert D. Walter
Chairman and Chief Executive Officer

Our goal of attaining and maintaining Cardinal's market leadership positions is based on these guiding principles:

- Listen closely to our customers
- Be innovative problem-solvers
- Exert financial discipline
- Deliver high service with a low cost operating structure
- Invest for the long-term
- Act entrepreneurially
- Decentralize operational decision-making
- Treat our associates well

Q&A

Chairman and Chief Executive Officer, Robert D. Walter, and Vice Chairman, President and Chief Operating Officer, John C. Kane, share their perspectives on some of the most frequently asked questions about Cardinal Health.

Q: Now that Cardinal has become a large, \$25 billion healthcare services company, what are your prospects for future growth?



Robert D. Walter

Walter – Although we are a much larger company today, in my view, we are better positioned than at any time in our history to continue our impressive record of growth. First, the healthcare industry is large and continues to show strong growth due to demographic trends. Second, Cardinal offers a broad portfolio of market-leading healthcare products and services, many of which are proprietary, focused on helping healthcare manufacturers and providers improve their efficiency and the quality of care for patients. Third, we have superior financial and management resources, providing us with the ability to invest for the future and manage our growth. And finally, we see substantial opportunity to expand our products and services into new customer and geographic markets. Our Medical-Surgical Products and Services and our Automation and Information Services businesses are broadening their exposure to non-hospital customers and most of our businesses have substantial opportunity to expand internationally.

Q: Acquisitions have been important to Cardinal's strategy in the past. Will this continue going forward? If so, what areas would be of greatest strategic interest?



John C. Kane

Walter – We continue to seek opportunities to further enhance the company's capabilities through both internal growth and acquisition. Our acquisition approach is disciplined – we only pursue businesses that complement and further enhance our strategic position. The areas of greatest strategic interest to us at this time would be:

- new medical-surgical product lines for self-manufacture,
- additional pharmaceutical manufacturing or marketing services,
- select information opportunities that could help us translate the vast amounts of data we collect into useful information products for our customers.

Q: Cardinal's business model has changed dramatically over the last five years with more than half of the company's earnings now coming from areas outside of pharmaceutical distribution. Can you describe the company's business model currently?

Kane – Cardinal operates a family of businesses offering many complementary products and services to our healthcare manufacturer and provider customers. We define the company through four primary business segments that reflect the products they provide and the customers they serve:

Pharmaceutical Distribution and Provider Services (45% of fiscal 2000 operating earnings) offers pharmaceutical and specialty product distribution, repackaging, retail pharmacy franchising, hospital pharmacy management and other services to healthcare providers.

Medical-Surgical Products and Services (28% of fiscal 2000 operating earnings) manufactures and distributes a comprehensive array of medical-surgical and lab products used by hospitals, surgery centers, physicians' offices and long-term care facilities.

Pharmaceutical Technologies and Services (16% of fiscal 2000 operating earnings) provides comprehensive services to pharmaceutical manufacturers and biotechnology companies including: proprietary drug delivery technologies and contract manufacturing processes, integrated packaging services, and sales and marketing.

Automation and Information Services (11% of fiscal 2000 operating earnings) develops automated systems for dispensing pharmaceuticals and medical-surgical supplies and a variety of information systems utilized by healthcare providers and manufacturers.

Q: What is the growth outlook for Cardinal as a whole? For each of its segments?

Walter – Over the next three years, we anticipate that Cardinal will grow its revenues in the mid- to high teens with net earnings growth of at least 20%. Pharmaceutical Distribution and Provider Services is expected to grow revenues nearly 20% with slightly

higher earnings growth driven by continued share and efficiency gains. We believe that Medical-Surgical Products and Services should grow its revenues in the mid-single digits, but grow its net earnings at least 20% as it continues to increase its mix of Best Value Products as a percent of total sales and benefit from investment-driven efficiencies, strong cash flows and tax initiatives. Pharmaceutical Technologies and Services should grow its top line in the mid- to high teens and its earnings in excess of 20% as higher margin pharmaceutical products comprise a greater portion of this segment's product mix. Finally, Automation and Information Services should grow its top line in excess of 20% annually and its earnings at a faster rate due to new product introductions, improvements in business mix and operating efficiencies.

Q: Cash flow has been increasing at Cardinal in recent years. What are the company's priorities for investing these funds?

Kane – Our annual cash flow has continued to strengthen. In fiscal 2000, Cardinal's operating cash flow was a record \$638 million. We expect operating cash flow to increase further in fiscal 2001 with a goal of approximately \$700 million. We used our strong cash flow in 2000 to invest for our future – we spent more than \$300 million on capital expenditures and \$67 million for acquisitions. In addition, we invested \$303 million to repurchase shares of Cardinal common stock. We intend to continue to reinvest our strong cash flow to support our future growth, focusing on those opportunities that we believe will generate the best long-term returns for our shareholders.

Q: Cardinal has mentioned that many of its services are complementary. How do Cardinal's businesses work together? Why is this important?

Kane – Cardinal has many products and services that are market leaders in their own right, but even more appealing when combined with other company offerings. We have established two corporate sales teams internally – one to support the needs of pharmaceutical and biotechnology companies, and the other, healthcare providers. For pharmaceutical companies, we efficiently provide integrated drug delivery, manufacturing, packaging, distribution, and sales and marketing services that can improve a product's effectiveness, extend its life cycle, reduce production cost and speed time to market. These services will be showcased in Cardinal's 265,000 square foot Product Development Center currently being constructed in New Jersey. For healthcare providers, we offer the broadest array of pharmaceutical, medical-surgical and lab products available anywhere, complemented by additional services including repackaging, automated dispensing, information, and management and consulting services to help customers improve their utilization of healthcare products and improve overall quality of patient care. For Cardinal, our ability to provide such a broad range of products and services strengthens our relationships with healthcare providers and manufacturers, making us a more important, longer-term partner.

Q: Can you talk about Cardinal's Internet strategy? What are the company's goals for e-commerce?

Walter – E-commerce is not new to Cardinal. For many years now, more than 90% of our transactions with customers and suppliers have been conducted electronically. During 2000, we took a significant step forward by rolling out a two-pronged Internet strategy that will enable Cardinal and its customers to benefit from improved efficiency and customer service. The first step was the establishment of cardinal.com, one of the largest online catalogs in healthcare with more than half a million pharmaceutical, medical-surgical and laboratory products available over the Internet. Cardinal.com also enables our customers to benefit from access to the same technologies and information that Cardinal uses for procurement, fulfillment and customer support. In addition, we established a commercially neutral healthcare information exchange along with three other healthcare companies representing combined revenues of about \$70 billion. This exchange is focused on streamlining the processes involved in identifying, purchasing and distributing pharmaceutical products, medical-surgical products, devices and other laboratory products and services. These efforts provide our customers with convenient, comprehensive, online access to healthcare products and services 24 hours a day.



Cardinal Health has complemented its \$19 billion presence in drug distribution (above) with other market-leading services for healthcare providers such as retail pharmacy franchising through Medicine Shoppe International (below), which has nearly 1,300 locations in the United States and abroad.



Pharmaceutical Distribution and Provider Services

About one out of every six pharmaceutical products dispensed to U.S. patients has traveled through Cardinal's highly efficient, nationwide network.

U.S. PHARMACEUTICAL SALES HAVE GROWN AT A COMPOUND ANNUAL RATE OF
OVER THE PAST DECADE, CURRENTLY APPROACHING \$135 BILLION

13%

Every day, Cardinal Health distributes about one million pharmaceutical products to independent and retail chain pharmacies, hospitals, surgery centers, physicians' offices and long-term care centers nationwide. In fact, about one out of every six pharmaceutical products dispensed to U.S. patients has traveled through Cardinal's highly efficient, nationwide network of 25 distribution centers.

The market for pharmaceuticals is large and growing rapidly. U.S. pharmaceutical sales have grown at a compound annual rate of 13% over the past decade, currently approaching \$135 billion. An aging population, development of new drug therapies and increased coverage of pharmaceuticals by health plans all contribute to a favorable outlook for continued strong pharmaceutical growth. Estimates for the year 2005 show the U.S. pharmaceutical market nearly doubling to approximately \$260 billion.

Cardinal Health provides manufacturers with highly efficient and economical distribution services essential for these important products. Cardinal handles all of the logistics, inventory and receivables management, and administrative activities involved in delivering pharmaceutical products to more than 26,000 pharmacy locations every day. For its pharmacy customers, Cardinal consolidates orders for products, potentially from hundreds of manufacturers, into pharmacy-specific deliveries of the right products to the right place at the right time. Cardinal also provides a broad range of marketing, merchandising and information support

services for its manufacturer and provider customers.

Cardinal's operations include full-line drug distribution as well as several specialty pharmaceutical distribution businesses that address specific customer or manufacturer requirements. These businesses include the nation's leading pharmaceutical repackaging operation (currently utilized by six of the 10 largest retail chains in the country); a leading blood plasma and specialty drug distributor; and a company that provides full-service, third-party logistics to manufacturers.

This group includes three additional businesses, complementary to distribution, for pharmacy-providers. **Medicine Shoppe International** is the country's leading franchiser of independent retail pharmacies with nearly 1,300 of these apothecary-style pharmacies in the United States and nine other countries. Medicine Shoppe offers a successful, alternative business format to retail pharmacists who desire to own their own store. For hospitals, **Owen Healthcare** offers pharmacy and materials-management services that help customers control costs while enhancing the quality of patient care. The recently formed **Cardinal Health Staffing Network** assists Cardinal's retail and hospital pharmacy customers with their staffing needs as they face a growing shortage of pharmacy professionals. Through these businesses, Cardinal Health has become one of the largest employers of pharmacists in the nation with more than 2,200 pharmacists on staff.

How we will grow our Pharmaceutical Distribution and Provider Services business:



Jim Millar,
Group President,
Pharmaceutical Distribution
and Provider Services

We continued our record of strong performance with an exceptionally good year in fiscal 2000. Some of our

noteworthy accomplishments included:

- Growing our top line 22% (all internal),
- Reducing our costs through improved efficiencies,
- Achieving industry-leading returns on sales and capital,
- Maintaining excellent customer service levels,
- Making significant infrastructure investments to support future growth,
- Expanding our e-commerce capabilities through cardinal.com.

I am very pleased with the efforts of our 8,000 associates that enabled us to achieve these outstanding results. Looking forward, I remain very optimistic about our growth prospects for several reasons:

#1 Market Growth – U.S. pharmaceutical sales have experienced impressive 13% annual growth over the past decade due largely to demographics and new product introductions. In the United States today, about 42% of all drugs sold annually are consumed by individuals age 65 and older, and persons over the age of 50 consume about 74% of all pharmaceuticals sold. With the baby boom generation just entering its 50s, and the generation of its children not far behind, the demographics driving this business remain very compelling.

#2 Vital Role – Distributors play an important role as a link between pharmaceutical manufacturers and care providers. Both manufacturers and care providers utilize the distribution system as it affords immediate access to products in a highly cost effective manner with significant economies of scale. Cardinal has continually invested in its infrastructure and today has more than \$4 billion of assets invested in its business. As a result, we have achieved sufficient scale and an appropriate structure to accommodate current demand as well as substantial future growth. Even the largest of pharmaceutical manufacturers could not match Cardinal's efficiency, as the company's annual distribution volume is considerably larger than any drug manufacturer's yearly U.S. sales.

#3 Customized, Integrated Solutions – By offering complementary services that are responsive to the needs of drug makers and pharmacists, we can develop innovative programs that are customized to

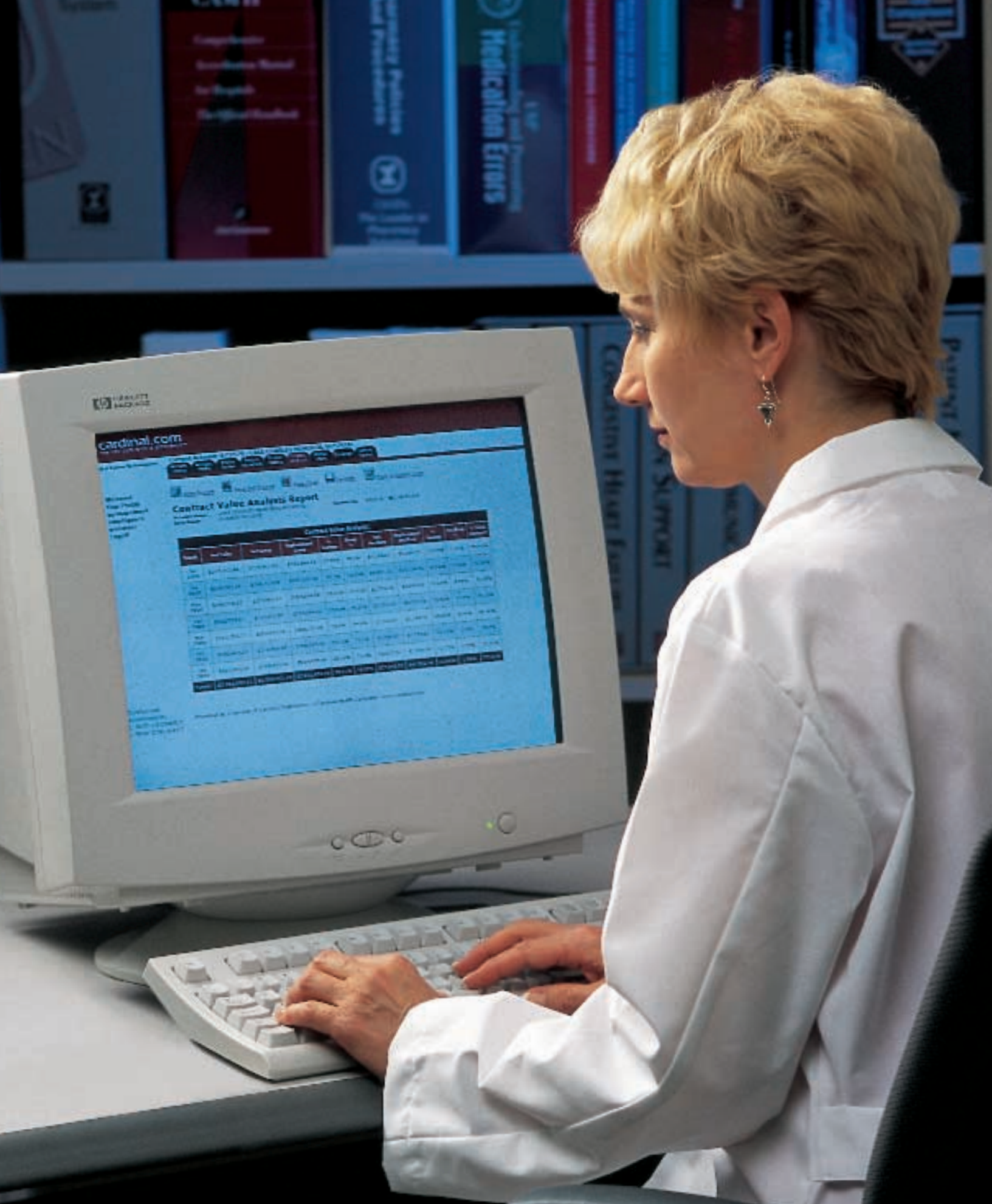


Select investments in warehouse automation have helped Cardinal Distribution maintain the lowest cost structure in the industry.

address the issues most important to our customers. Many of Cardinal's market-leading products and services work well with one another, providing the company with a unique opportunity to meaningfully improve the healthcare system. Whether the issue is cost containment, quality of care, labor shortages or need for innovation – no company is better positioned today than Cardinal Health to help customers develop integrated, timely solutions.

Contributing to the group's efficiency is the fact that we've conducted virtually all of our transactions with customers and suppliers electronically for many years. During 2000, we went a step further with the development and introduction of cardinal.com in conjunction with other Cardinal businesses. This new system enables customers to order from one of the largest online catalogs in healthcare with more than half a million pharmaceutical, medical-surgical and laboratory products available over the Internet. In addition, cardinal.com provides our customers with critical information about their purchasing practices.

Our distribution businesses have historically grown about 50% faster than the pharmaceutical industry due to the breadth of our offering and superior customer service. Our growth, however, has been disciplined. We provide substantial value to our customers while focusing on earning an appropriate return for our shareholders. We do this by continuing to realize greater operational efficiencies in order to maintain the lowest cost structure in the industry. At the same time, we are extremely customer-focused. By listening intently to our customers' needs, we are able to help them by developing customized solutions utilizing a variety of services from Cardinal's broad portfolio. This disciplined approach has enabled us to provide very real benefits to our customers, while realizing returns on revenues and committed capital that lead the industry.



Thousands of pharmacy customers, including Cardinal's Owen Healthcare, are benefiting from the ability to access Cardinal's own technologies for secure and efficient online procurement, fulfillment and customer support through cardinal.com.



Alligance's Data Center (above) manages every product order the company receives, connecting Alligance to tens of thousands of customers, including growing numbers of physician practices (below).



Medical-Surgical Products and Services

Allegiance maintains market-leading positions in every category of product that it manufactures.

THE \$20 BILLION MEDICAL-SURGICAL PRODUCTS MARKET IS GROWING AT MORE THAN

800

MILLION DOLLARS ANNUALLY.

Cardinal Health significantly broadened its service offering for healthcare providers with its February 1999 merger with **Allegiance Corporation**. Allegiance is a leading manufacturer of medical-surgical supplies, operating 30 manufacturing plants (all ISO 9000 quality certified) in 10 countries with more than 14,000 manufacturing associates worldwide. Allegiance develops and manufactures items such as surgical drapes and gowns, surgical and exam gloves, suction tubing and canisters, precision surgical instruments and surgical kits customized for specific procedures. Allegiance maintains leading positions in every category of product that it manufactures.

Allegiance distributes its own manufactured products as well as those produced by 2,600 other medical-surgical and laboratory product companies, making Allegiance the largest distributor of medical-surgical and lab products in the country. The company's Best Value Products program emphasizes lines that offer the best value and service for customers as well as attractive returns for Allegiance and its supplier partners. Allegiance serves its customers through 48 technologically advanced distribution facilities nationwide. Additionally, the company's entire procurement, fulfillment and support systems are available to customers over the Internet at cardinal.com, creating convenient, efficient access to information about

more than 500,000 health-care products 24 hours a day.

Today, total U.S. sales of medical-surgical products exceed \$20 billion, growing about 4-7% annually. While Allegiance's focus has traditionally been on hospital customers, the company has been increasing its sales efforts to more rapidly growing customer segments including: surgery centers, physicians' offices and other points of patient care. The company's recent acquisition of Bergen Brunswig Corporation's medical-supply distribution business greatly enhances Allegiance's presence in these faster-growing customer segments.

Allegiance's complementary consulting and equipment service businesses are focused on helping hospitals and other care providers achieve their goal of providing better patient care while controlling costs. For example, the company provides consulting services for operating room efficiency, enabling its customers to apply current best practices for optimal results. Allegiance also employs labor productivity consultants who help hospitals make the most of their most precious resource – people. The company's fast-growing mobile equipment service business saves hospitals time and money by providing prompt, cost-effective, on-site repairs for equipment used in surgical procedures.

How we will grow our Medical-Surgical Products and Services business:



Joe Damico,
Group President,
Medical-Surgical Products
and Services

Having completed our first full year as part of Cardinal Health, I am happy to say that the benefits from this combination have

exceeded our expectations. Cardinal now offers customers the most comprehensive portfolio of healthcare resources available anywhere, and our associates are focused on utilizing these resources to help our customers address the challenges they face. The most significant accomplishments for our group in fiscal 2000 included:

- Successfully integrating our operations with Cardinal Health and meeting our synergy commitments,
- Achieving revenue growth ahead of expectations (due to the realization of cross-selling opportunities and sales beyond the hospital market),
- Attaining the highest service levels in our history,
- Realizing significant improvements in efficiency (expense dollars actually declined year-over-year),
- Achieving record profitability as well as cash flow,
- Building three new, highly efficient manufacturing facilities,
- Significantly expanding our e-commerce capabilities through cardinal.com.

More important, though, is how these accomplishments have positioned us for growth in the years to come. There are three principal areas where we are focusing our efforts:

#1 Strengthen Distribution – In fiscal 2000, our distribution business experienced solid revenue growth – especially in our preferred Best Value Product lines – balanced by very good expense control. Our top line is benefiting from the success of our service initiatives, ongoing efforts to advance Allegiance's value proposition with customers and the successful cross-selling of our distribution services with other Cardinal products and services, most notably drug distribution and automated supply dispensing (Pyxis). We have expanded our sales focus into the rapidly growing non-hospital customer segment through internal development and the August 2000 acquisition of Bergen Brunswig Corporation's medical supply distribution business.

#2 Grow Self-Manufactured Products – Allegiance's strength in distribution has driven solid growth of its higher-margin self-manufactured products. These are well-established, leading products that are attractive to customers. We continued to invest in R&D,



Allegiance's innovative NetQuoteSM system, accessed through cardinal.com, enables healthcare providers to design custom-sterile kits for surgical procedures.

product line acquisitions and additional capacity. In 2000, we built new, state-of-the-art plants in South Carolina for the assembly of custom-sterile kits, in Thailand for surgical gloves and in the Dominican Republic for surgical drapes and gowns. Sales through our distribution network and significant international opportunities should continue to drive growth of our self-manufactured products.

#3 Build Services – While smaller than the other two areas of our company, the service businesses have experienced solid growth. These businesses are very well positioned to grow in the future as providers continue to seek ways to improve patient care while controlling costs.

During the past year, Allegiance worked closely with other Cardinal businesses to develop cardinal.com, one of the most comprehensive and powerful order entry and information management web sites in healthcare today. Cardinal.com enables customers to use the Internet to order from an online catalog offering more than half a million pharmaceutical, medical-surgical and laboratory products. Additionally, cardinal.com empowers medical professionals with instant access to a wide array of supply-management information they need to improve quality in patient care and drive costs out of their operations.

We are very pleased with our recent results, and prospects for continued growth. Allegiance is positioned as a global player in an increasingly global market. We have significant infrastructure, scale and capacity. An aging population and continued development of new medical technologies also contribute positively to our outlook. We believe healthcare will continue to seek the lowest cost environment, which means continued growth of the care continuum. The investments we have made in the non-hospital market in 2000 position us well to capitalize on this trend.



Workers at this recently constructed Custom Sterile facility in South Carolina refer to electronic images to ensure that surgical kits are assembled to customers' specific item and placement requirements.



Cardinal Health provides a broad range of services for pharmaceutical and biotech companies, such as blister packaging (above) and blow-fill-seal technology for sterile liquid pharmaceuticals (below). These technologies can enhance a product's performance and help bring it to market faster and more cost-effectively.



Pharmaceutical Technologies and Services

In 2000, we formulated, manufactured and packaged more than 6,000 products on behalf of pharmaceutical and biotech companies worldwide.

THE ESTIMATED \$8 BILLION MARKET FOR OUR MANUFACTURING AND PACKAGING SERVICES IS EXPANDING EACH YEAR BY MORE THAN

15%

In the past year, Cardinal's Pharmaceutical Technologies and Services businesses formulated, manufactured and packaged more than 6,000 products on behalf of hundreds of pharmaceutical and biotechnology companies worldwide, including the world's 20 largest pharmaceutical manufacturers. Since 1997, Cardinal has been developing a global, integrated approach for pharmaceutical product development, manufacturing, packaging and sales and marketing support, featuring proprietary processes and technologies unavailable from any other single source. Manufacturers' expenditures for such services are currently estimated at \$8 billion annually, increasing at more than 15% a year.

A number of factors are responsible for this trend. First, the high cost of developing new drugs and increased public focus on drug pricing are driving pharmaceutical companies to seek more efficient means to develop and manufacture products. Second, greater consolidation of the pharmaceutical industry is prompting companies to pursue cost savings by forming strategic partnerships to accomplish activities that are not core competencies. Third, reducing the amount of time to launch a new drug can greatly improve its profitability. CenterWatch research estimates that a single day's delay results in approximately \$1.3 million in lost prescription sales for an average product, and up to 10 times that amount for a blockbuster drug. Fourth, many of today's new drugs are more complicated, requiring non-traditional formulations to enable effectiveness. Finally, biotech companies are beginning to receive an increasing number of drug approvals, but are not investing in the infrastructure to manufacture, package, distribute and market those products.

Cardinal Health has built leadership positions in businesses that provide comprehensive, integrated services for

pharmaceutical and biotech companies. Cardinal provides full development, manufacturing and packaging capabilities for traditional and advanced drug-delivery systems, and an integrated approach to marketing, distribution and customer service. The ability to integrate these essential functions can shave valuable time off of a drug's development schedule, and bring important therapy to patients sooner than would otherwise be possible.

Cardinal's Pharmaceutical Technologies and Services segment includes four principal businesses: **R.P. Scherer Corporation** develops and manufactures drug-delivery systems including proprietary soft-gelatin capsules, rapid-dissolve tablets (Zydis®) and topical technologies. The company operates 15 plants in 10 countries. **Automatic Liquid Packaging** is the largest producer of sterile liquid pharmaceuticals. The company's unique, patented "blow-fill-seal" process produces these products in topical, inhaled and ophthalmic formulations. **PCI Services** is the world's leading provider of integrated contract packaging services, operating 16 facilities in the United States, Puerto Rico, the United Kingdom and Germany. Lastly, **Cardinal Health Sales and Marketing Services** provides high-quality contract sales and marketing expertise as well as strategic and tactical planning, product management and general consulting services to pharmaceutical, biotechnology and medical-surgical companies.

For a company developing a new drug, these services mean that it need only go to one service provider – Cardinal – to enhance a product's performance and bring it to market faster and more cost-effectively. For Cardinal, these businesses provide an important portfolio of services to offer its pharmaceutical manufacturer and biotech partners, and an exciting new avenue for growth.

How we will grow our Pharmaceutical Technologies and Services business:



George Fotiades,
Group President,
Pharmaceutical Technologies
and Services

In fiscal 2000, our investments began to pay real dividends:

- We achieved record revenues (up 15%) and operating earnings (up 25%);
- We broadened our service portfolio with several important acquisitions;
- We expanded capacity at 10 plants, including a major expansion of Scherer's softgel operation in Tampa, a high-rise packaging warehouse in Philadelphia, and a new label and insert facility in New Jersey;
- We helped manufacturers develop and launch important new or reformulated drugs, including Abbott's Norvir®, Glaxo Wellcome's Agenerase® and Lilly's Zyprexa® in Zydys® form;
- We strengthened our pipeline of new drugs under development;
- We increased cross-selling among our companies.

While fiscal 2000 was a very successful year, it was also a building year for this group of companies. I believe we are just beginning to realize the enormous potential opportunities we have to serve this important customer base. Here's why:

- #1 Increased Outsourcing** – Pharmaceutical and biotech companies increasingly view external partnerships as a means to reduce costs, accelerate speed to market, improve a drug's therapeutic effectiveness and broaden a drug's appeal.
- #2 Unique, Integrated Services** – We provide the most comprehensive offering for pharmaceutical manufacturers available anywhere, and we excel at what we do. We offer proprietary technologies, a proven reputation, a well-established infrastructure maintained to the highest pharmaceutical standard, global reach with a presence in all of the world's major pharmaceutical markets and an experienced management team. In fact, the group's senior managers average more than 20 years of experience in the pharmaceutical industry.
- #3 Investing for Growth** – We are making strategic investments to capitalize on future market growth, enhance our proprietary positions and further integrate our offering to customers.



Pharmaceutical companies like Abbott Laboratories put their trust in R.P. Scherer to help speed life-saving drugs such as Norvir® to market.

In June, we broke ground on our biggest investment ever – the \$80 million Cardinal Health Product Development Center. I am very excited about the prospects for this new initiative, which will provide access to the technologies and integrated services Cardinal offers and address a clear need for speed, quality and cost management in the drug-development process. The center will employ more than 250 scientists on 58 acres in New Jersey, near some of the world's largest pharmaceutical operations. It will be capable of delivering all of the product development, laboratory services, product quality, and regulatory and technology transfer support necessary to bring a drug from laboratory to commercialization.

We invested in new packaging resources with the recent purchase of a folding carton operation in Puerto Rico and a pharmaceutical-packaging printer on the West Coast of the United States. In December, we will assume the operations of a new state-of-the-art manufacturing facility in Puerto Rico from the Alcon group, further strengthening our contract manufacturing capabilities. We also recently invested in new drug delivery systems with R.P. Scherer's acquisition of topical delivery technologies from Advanced Polymer Systems. This acquisition included a manufacturing center and proven commercialized technologies with strong prospects for growth worldwide.

In the coming year, we will focus on expanding the number of drugs in our pipeline. We will accelerate initiatives to integrate our services and broaden relationships with our customers by demonstrating our speed, quality and cost-effectiveness. And we will continue to seek acquisitions that complement our services and enhance our proprietary technologies.



R.P. Scherer continues to make significant investments in facilities for the formulation and manufacture of pharmaceuticals, including this 205,000 square foot addition to its Florida softgel plant completed in fiscal 2000. These investments have enabled Scherer to become the world's leading manufacturer of pharmaceuticals in soft-gelatin form.



Cardinal Health develops a broad range of advanced information and automation products. ScriptLINE® (above) generates incremental annual sales of approximately \$39 million for retail customers, including Kmart's 1,570 pharmacies, by improving the accuracy of prescription claims. In fiscal 2000, Pyxis introduced MEDSTATION®SN (below), the company's most advanced automated system for safe, efficient pharmaceutical dispensing.



Automation and Information Services

Each day, Cardinal helps customers manage more than five million medication and supply dispensing events nationwide.

TODAY, MORE THAN

4000

HEALTHCARE CUSTOMERS IN 11 COUNTRIES
ARE BENEFITING FROM PYXIS' TECHNOLOGY.

Each day, Cardinal's Automation and Information Services businesses help customers manage more than five million medication and supply dispensing events in approximately 8,500 healthcare facilities and retail pharmacy locations nationwide. This group helps healthcare practitioners, providers and suppliers improve patient outcomes, reduce costs, and increase efficiency through the application of unique technology and innovative information systems.

Pyxis Corporation is the world's leading supplier of automated dispensing technologies for pharmaceuticals and medical supplies. Pyxis' technology enables healthcare providers to streamline the medication and medical-supply distribution process, cutting costs, saving time and minimizing the risk of medication errors. Pyxis systems reduce or eliminate labor-intensive tasks by managing and distributing medications and supplies at the point of order, storage, retrieval and use. As a result, pharmacists and nurses are able to direct more time and energy where they have the most value – on patient care.

Today, more than 4,000 healthcare customers in the United States and 10 other countries are benefiting from Pyxis' technology. With 38 products that help to streamline the distribution process from the wholesaler to the patient's bedside, Pyxis' product line is the broadest and deepest in the industry.

To extend this innovative supply chain management technology to the broader marketplace, Cardinal formed

a new company, **Vistant Corporation**, in June of 2000. Vistant's products will offer automated point-of-use procurement, materials management and information management technologies for manufacturing and industrial firms.

The **Cardinal Information Companies** develop information systems designed to address the needs of three principal customer groups: retail pharmacies, hospital pharmacies and pharmaceutical manufacturers. Cardinal's ScriptLINE® product improves retail pharmacies' ability to efficiently process third-party prescription claims, enabling these customers to capture additional revenues. For hospital customers, Cardinal provides systems that help to improve the quality of care for patients by performing risk-adjusted outcomes analysis from pooled, historical medical records. In addition, Cardinal's systems utilize product movement data to provide greater decision making support for pharmaceutical manufacturers.

These services, combined with the products and services of the company's Pharmaceutical Distribution and Provider Services and Medical-Surgical Products and Services businesses, provide Cardinal with powerful resources to offer its healthcare provider customers. As a result, Cardinal is able to develop unique solutions that help its customers address many of their most pressing issues, including cost control, medication safety and growing shortages of nursing and pharmacy professionals.

How we will grow our Automation and Information Services business:



Stephen S. Thomas,
Group President,
Automation and
Information Services

During the past year, we continued to invest in the unique capabilities that will ensure that the Automation and Information

Services group remains a leader in its respective markets. In fiscal 2000, we:

- Developed and launched seven new Pyxis products,
- Acquired and successfully integrated two important product lines,
- Introduced the Pyxis SAFETYnet™ program – a package of leading-edge products and services that helps customers protect their patients, staff and bottom line,
- Expanded our ScriptLINE® business to more than 4,300 retail pharmacies,
- Broadened Pyxis' international effort with installations in four new countries for a total of 10 countries outside of the United States,
- Realized numerous opportunities to cross-sell our automation and information products with other Cardinal businesses,
- Formed a new company, Vistant Corporation, to bring Pyxis' technologies to non-healthcare markets.

While the current environment for hospitals and other healthcare providers is financially challenging, we remain optimistic about the market potential for our products and services for a number of reasons:

#1 Solutions for Difficult Issues – We provide automation and information services that address the most pressing issues facing healthcare providers...

- **Cost Reduction** – Healthcare providers, faced with declining reimbursement rates by third-party payers, are seeking to become more efficient. Our automation and information systems help to reduce inventory and labor costs by improving the utilization and control of pharmaceuticals and simplifying processes.
- **Patient Safety** – Recent studies by the Quality of Health Care in America Committee and the Institute of Medicine have identified medication errors as a leading concern in the delivery of healthcare today. Proper utilization of automation systems for more accurate dispensing and information systems for decision support can help minimize the risk of medication errors.
- **Staffing Shortages** – Current estimates point to a severe shortage of pharmacists and nurses to support the needs of an expanding U.S. healthcare system in the coming decade. Our automated systems help to reduce or



Vistant Corporation was formed in June 2000 to utilize Pyxis' technologies to meet market demand for automated solutions in non-healthcare markets.

minimize certain labor-intensive tasks, resulting in better deployment of these valuable professionals.

#2 Industry Leadership – Cardinal's investment in new product development has resulted in the broadest automation and information product offering in the industry. We support this effort with unparalleled commitment to customer service and education. Today, we have more than 500 customer service representatives supporting the needs of our customers nationwide. Our educational alternatives are the most flexible and comprehensive in the industry, including online training available over the Internet.

#3 New Market Opportunities – We continue to develop automation and information systems customized for new applications, such as the recently introduced Pyxis Anesthesia System™ for operating room environments. In addition, we have only begun to penetrate healthcare markets outside of the United States, which offer significant growth potential. Finally, we have a tremendous opportunity to extend our market-leading automated dispensing technologies to customers in manufacturing and industrial environments.

At Cardinal, we continuously look for new ways to improve the supply chain management process. Our ability to identify innovative ways to apply our technologies to meet market needs, successfully develop and introduce new products, and provide unparalleled customer service will drive our continued leadership in this rapidly growing market.



Pyxis introduced seven important new products during fiscal 2000, including the Pyxis Anesthesia System™, which was designed to provide greater control of medications and supplies for anesthesia in operating rooms.

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Selected Operating Trends

	Percentage of Operating Revenues			Percentage Change From Prior Period	
	2000	1999	1998	2000 vs. 1999	1999 vs. 1998
Operating revenue	100.0%	100.0%	100.0%	17%	19%
Gross margin	11.4%	12.2%	12.5%	10%	16%
Selling, general and administrative expenses	6.5%	7.3%	7.8%	3%	13%
Special charges	0.3%	0.7%	0.3%	N.M.	N.M.
Operating earnings	4.7%	4.2%	4.4%	33%	12%
Interest expense and other, net	0.5%	0.5%	0.6%	3%	5%
Income taxes	1.6%	1.4%	1.3%	31%	25%
Net earnings	2.7%	2.2%	2.5%	41%	7%
Net effect of special charges and other ⁽¹⁾	0.2%	0.5%	0.1%	N.M.	N.M.

N.M.- Not Meaningful

⁽¹⁾ Effect of special charges includes merger-related costs, other special charges and pro forma adjustment.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of "Notes to Consolidated Financial Statements" for further analysis.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company operates within four operating business segments: Pharmaceutical Distribution and Provider Services, Medical-Surgical Products and Services, Pharmaceutical Technologies and Services and Automation and Information Services. See Note 12 of "Notes to Consolidated Financial Statements" for a description of these segments and a discussion of the Company's change in operating segments.

Results of Operations

Operating Revenue

Years ended June 30	Growth ⁽¹⁾		Percent of Total Operating Revenues		
	2000	1999	2000	1999	1998
Pharmaceutical Distribution and Provider Services	22%	24%	75%	72%	69%
Medical-Surgical Products and Services	5%	6%	19%	22%	24%
Pharmaceutical Technologies and Services	15%	6%	4%	4%	5%
Automation and Information Services	(2)%	52%	2%	2%	2%
Total Company	17%	19%	100%	100%	100%

⁽¹⁾ The growth rate applies to the respective fiscal year as compared to the prior fiscal year.

The majority of the Company's overall operating revenue increase of 17% came from existing customers in the form of increased volume and pharmaceutical price increases. The remainder of the growth came from the addition of new customers, some of which was a result of cross-selling opportunities amongst the various businesses.

The Pharmaceutical Distribution and Provider Services segment's operating revenue growth in 2000 and 1999 was primarily due to strong sales to pharmacy chain stores and through the Company's specialty distribution businesses. All operating revenue growth for this segment was internal. In addition, several new contracts involving multiple operating segments have boosted revenues. Offsetting the growth in 2000 was the impact of the pharmacy management business continuing to exit unprofitable accounts, an initiative that began in late fiscal 1999.

The increase in the Medical-Surgical Products and Services segment's operating revenue in 2000 was due to an increase in sales across virtually all product lines. In addition, revenue growth was further enhanced by an increase in international demand over fiscal 1999. The increase in operating revenues for this segment in 1999 was due to strong sales of self-manufactured products and higher margin distributed products.

The growth in the Pharmaceutical Technologies and Services segment in 2000 and in 1999 was primarily the result of strong sales volume in the pharmaceutical packaging and liquid fill contract manufacturing businesses within this segment. The pharmaceutical packaging business' growth was attributable to a mix of new customers and increased volume from existing customers. The liquid fill contract manufacturing business' revenue growth was a result of increased volume. An increase in the drug delivery system business' sales volume in North America and the health and nutrition market also contributed to the revenue growth for fiscal 2000. In addition, cross-selling opportunities amongst the businesses within this segment has contributed to an increase in operating revenues.

The slight decrease in the operating revenues for the Automation and Information Services segment in fiscal 2000 as compared to 1999 was primarily due to timing of customers' purchases related to the Year 2000. Fiscal 1999 operating revenue growth was a result of general increases in customer demand as well as customers purchasing products early in anticipation of the Year 2000. This segment continues to have strong demand for its new pharmacy automation products from the domestic hospital sector and non-acute care customers.

Bulk Deliveries to Customer Warehouses

The Company reports as revenue bulk deliveries made to customers' warehouses, whereby the Company acts as an intermediary in the ordering and subsequent delivery of pharmaceutical products. Fluctuations in bulk deliveries result largely from circumstances that are beyond the control of the Company, including consolidation within the customers' industries, decisions by customers to either begin or discontinue warehousing activities, and changes in policies by manufacturers related to selling directly to customers. Due to the lack of margin generated through bulk deliveries, fluctuations in their amount have no significant impact on the Company's earnings.

Gross Margin

	<i>(as a percentage of operating revenue)</i>		
<i>Years ended June 30</i>	2000	1999	1998
Pharmaceutical Distribution and Provider Services	5.9%	6.0%	6.4%
Medical-Surgical Products and Services	23.2%	23.4%	21.7%
Pharmaceutical Technologies and Services	33.1%	33.0%	34.0%
Automation and Information Services	69.2%	68.5%	69.6%
Total Company	11.4%	12.2%	12.5%

The overall decrease in gross margin in 2000 and 1999 was due primarily to a greater mix of lower margin pharmaceutical distribution in 2000 and 1999 as compared to the prior years. The Pharmaceutical Distribution and Provider Services segment represented 75% of 2000 operating revenues, up from 72% and 69% of 1999 and 1998 operating revenues, respectively.

The decrease in the gross margin of the Pharmaceutical Distribution and Provider Services segment in 2000 and 1999 was primarily due to the impact of lower selling margins, as a result of a highly competitive market and greater mix of high volume customers where a lower cost of distribution and better asset management enabled the Company to offer lower selling margins to its customers. Offsetting this decrease was an increase in vendor incentives and a positive impact related to the rationalization program for the pharmacy management business (see discussion in "Operating Revenues").

The decrease in the Medical-Surgical Products and Services segment's gross margin in 2000 was due to increased pricing pressures in certain self-manufactured

product lines, including the exam glove business, as well as a slight shift in revenue growth towards lower margin distributed products. In 1999, the improvement in this segment's gross margin was primarily the result of improvements in the segment's product mix, including the growth of self-manufactured products sales in both domestic and international markets, as well as the impact of manufacturing and other cost efficiencies.

The Pharmaceutical Technologies and Services segment's gross margin increase in 2000 was a result of revenue growth in the higher margin liquid fill contract manufacturing and drug delivery system businesses. The drug delivery system business' shift to higher margin pharmaceutical products from lower margin health and nutrition products has also contributed to the improvement in gross margin. The decrease in gross margin in 1999 was a result of the business mix within this segment.

The Automation and Information Services segment's gross margin increase in 2000 was mainly a result of price increases during the year and product mix. In 1999, the Automation and Information Services segment experienced a slight decrease in gross margin mainly due to product mix.

Selling, General and Administrative Expenses

Years ended June 30	<i>(as a percentage of operating revenue)</i>		
	2000	1999	1998
Pharmaceutical Distribution and Provider Services	2.8%	3.0%	3.3%
Medical-Surgical Products and Services	15.8%	16.9%	16.2%
Pharmaceutical Technologies and Services	14.5%	15.9%	15.9%
Automation and Information Services	34.9%	34.2%	39.2%
Total Company	6.5%	7.3%	7.8%

The decline in selling, general and administrative expenses as a percentage of operating revenue for fiscal years 2000 and 1999 reflects economies associated with the Company's revenue growth, in addition to significant productivity gains resulting from continued cost control efforts in all segments and the continuation of consolidation and selective automation of operating facilities in the Pharmaceutical Distribution and Provider Services and the Pharmaceutical Technologies and Services segments. Offsetting the improvements noted was an increase in selling, general and administrative expenses as a percentage of operating revenue for the Automation and Information Services segment for fiscal year 2000, primarily

resulting from a slight decrease in operating revenue from fiscal 1999 to fiscal 2000. In addition, the Medical-Surgical Products and Services segment's selling, general and administrative expenses as a percentage of operating revenues increased in fiscal year 1999 as compared to fiscal year 1998. This increase was primarily due to the acquisition of businesses during fiscal 1999, which were accounted for under the purchase method of accounting. As such, the historical financial statements have not been restated for these acquisitions. These acquired businesses have a higher selling, general and administrative expense rate than the Medical-Surgical Products and Services segment's normal rate, resulting in an increase during fiscal 1999 compared to 1998. The 3% and 13% overall growth in selling, general and administrative expenses experienced in fiscal years 2000 and 1999, respectively, was due primarily to increases in personnel costs and depreciation expense, and compares favorably to the 17% and 19% growth in operating revenue for the same periods.

Special Charges

The following is a summary of the special charges for the fiscal years ended June 30, 2000, 1999 and 1998.

<i>(in millions, except per share amounts)</i>	Fiscal Year Ended June 30,		
	2000	1999	1998
Transaction and employee-related costs	\$ (3.8)	\$ (95.4)	\$ (35.7)
ALP transaction bonus	(20.3)	–	–
Exit costs	(11.7)	(9.4)	(3.8)
Scherer restructuring costs	(9.6)	(26.7)	–
Inventory write-offs	–	(4.0)	–
Owen Healthcare, Inc. employee-related costs	–	(1.1)	–
Canceled merger transaction	–	3.7	–
Other integration costs	(19.3)	(13.7)	(9.7)
Total merger-related costs	\$ (64.7)	\$ (146.6)	\$ (49.2)
Other special charges:			
Facilities closures	\$ –	\$ –	\$ (6.1)
Employee severance	–	–	(2.5)
Total other special charges	\$ –	\$ –	\$ (8.6)
Total special charges	\$ (64.7)	\$ (146.6)	\$ (57.8)
Tax effect of special charges	14.9	29.0	22.0
Tax benefit for change in tax status	–	–	11.7
Pro forma ALP taxes	–	9.3	4.6
Net effect of special charges	\$ (49.8)	\$ (108.3)	\$ (19.5)
Net effect on diluted earnings per share	\$ (0.18)	\$ (0.38)	\$ (0.06)

Merger-Related Charges. Costs of effecting mergers and subsequently integrating the operations of the various merged companies are recorded as merger-related costs when incurred. The merger-related costs are primarily a result of the merger transactions with ALP, Allegiance and Scherer.

During the fiscal years presented in the table herein, the Company incurred direct transaction costs related to its merger transactions. These expenses primarily include investment banking, legal, accounting and other professional fees associated with the respective merger transactions. In addition, the Company incurred employee-related costs, which consist primarily of severance and transaction/stay bonuses as a result of the ALP, Allegiance and Scherer merger transactions. Partially offsetting the transaction and employee-related costs recorded during the fiscal year ended June 30, 2000 was a \$10.3 million credit to adjust the estimated transaction and employee-related costs previously recorded in connection with the Allegiance merger transaction. Actual billings and employee-related costs were less than the amounts originally anticipated, resulting in a reduction of the merger-related costs. Exit costs relate primarily to costs associated with lease terminations and moving expenses as a direct result of the merger transactions with ALP, Allegiance and Scherer. Other integration costs include charges related to integrating the operations of previous merger transactions.

The Company recorded charges of \$9.6 million and \$26.7 million during the fiscal years ended June 30, 2000 and 1999, respectively, associated with the business restructuring as a result of the Company's merger transaction with Scherer. As part of the business restructuring, the Company is closing certain facilities. In connection with such closings, the Company has incurred employee-related costs, asset impairment charges and exit costs related to the termination of contracts and lease agreements.

Charges of \$4.0 million related to the write-down of impaired inventory associated with the merger transaction with Owen Healthcare, Inc. ("Owen") were recorded during the fiscal year ended June 30, 1999. Also, during fiscal 1999, the Company recorded \$1.1 million related to severance costs for a restructuring associated with the change in management that resulted from the merger transaction with Owen. Partially offsetting the total merger-related charges for fiscal 1999 was a credit recorded to adjust the estimated transaction and termination costs previously recorded in connection with the canceled merger transaction with Bergen Brunswig Corporation ("Bergen") (see Note 15 of "Notes to Consolidated Financial Statements"). The actual billings for services provided by third parties engaged by the Company were less than the estimate, resulting in a reduction of the merger-related costs.

Other Special Charges. During fiscal 1998, the Company recorded a special charge of \$8.6 million related to the rationalization of its pharmaceutical distribution operations. Approximately \$6.1 million related to asset impairments and lease exit costs resulting primarily from the Company's decision to accelerate the consolidation of a number of distribution facilities and the relocation to more modern facilities for certain others. The remaining amount related to employee severance costs, including approximately \$2.0 million incurred in connection with the settlement of a labor dispute with former employees of the Company's Boston pharmaceutical distribution facility, resulting in termination of the union relationship.

During fiscal 1998, Scherer, along with its joint venture partner, converted the legal ownership structure of Scherer's 51% owned subsidiary in Germany from a corporation to a partnership. As a result of this change in tax status, the Company's tax basis in the German subsidiary was adjusted, resulting in a one-time tax refund of approximately \$4.6 million, as well as a reduction in the cash taxes to be paid in the current and future years. Combined, these factors reduced fiscal 1998 income tax expense by \$11.7 million.

Pro Forma Impact. Since April 1998, ALP has been organized as an S-Corporation for tax purposes. Accordingly, ALP was not subject to federal income tax from April 1998 up to the date of the merger transaction. For the fiscal years ended 1999 and 1998, net earnings would have been reduced by \$9.3 million and \$4.6 million, respectively, if ALP had been subject to federal income taxes.

The effects of the merger-related costs and other special charges recorded, as well as the pro forma adjustments related to ALP tax treatment was to reduce net earnings by \$49.8 million to \$679.7 million in fiscal 2000, by \$108.3 million to \$481.0 million in fiscal 1999, and by \$19.5 million to \$448.5 million in fiscal 1998. The effect of such charges reduced reported diluted earnings per Common Share by \$0.18 to \$2.39 in fiscal 2000, by \$0.38 to \$1.68 in fiscal 1999 and by \$0.06 to \$1.58 in fiscal 1998.

The Company estimates that it will incur additional merger-related costs associated with the various merger transactions it has completed to date totaling approximately \$69.4 million (\$45.1 million, net of tax) in future periods in order to properly integrate operations, of which a portion represents facility rationalizations, and implementation efficiencies with regard to, among other things, information systems, customer systems, marketing programs and administrative functions. Such amounts will be charged to expense when incurred.

The Company's trend with regard to acquisitions has been to expand its role as a provider of services to the

healthcare industry. This trend has resulted in expansion into service areas which (a) complement the Company's core pharmaceutical distribution business; (b) provide opportunities for the Company to develop synergies with, and thus strengthen, the acquired business; and (c) generally generate higher margins as a percentage of operating revenue than pharmaceutical distribution. As the healthcare industry continues to change, the Company continually evaluates possible candidates for merger or acquisition and intends to continue to seek opportunities to expand its healthcare operations and services in all reporting segments. There can be no assurance that it will be able to successfully pursue any such opportunity or consummate any such transaction, if pursued. If additional transactions are entered into or consummated, the Company would incur additional merger-related costs.

Interest Expense and Other

The increase in interest expense and other of \$3.0 million during fiscal 2000 compared to fiscal 1999 is attributable to the combination of higher average interest rates on debt and higher average levels of borrowing during fiscal 2000. Additional borrowings were used to fund working capital needs as well as the Company's stock buyback program during fiscal 2000 (see Note 9 of the "Notes to Consolidated Financial Statements"). The increase in interest expense and other of \$5.3 million during fiscal 1999 compared to fiscal 1998 is primarily due to the Company's issuance of \$150 million of 6.25% Notes due 2008, in a public offering in July 1998 (see "Liquidity and Capital Resources"). The effect of the issuance of the 6.25% Notes during fiscal 1999 was partially offset by a decrease in other debt instruments with higher interest rates.

Provision for Income Taxes

The provisions for income taxes relative to pretax earnings were 37% of pretax earnings in fiscal 2000 compared with 39% in fiscal 1999 and 35% for fiscal 1998. The fluctuation in the tax rate is primarily due to the impact of recording certain non-deductible merger-related costs during various periods and the change in ALP tax status, as well as fluctuating state and foreign effective tax rates as a result of the Company's business mix for all three fiscal years. In addition, a change in tax status of a 51% owned German subsidiary resulted in a lower tax provision during fiscal 1998. The provisions for income taxes excluding the impact of merger-related charges, the tax status of the German subsidiary and including the pro forma impact of the change in ALP tax status were 36%, 37%, and 38% for fiscal years 2000, 1999, and 1998, respectively.

Liquidity and Capital Resources

Working capital increased to \$2.6 billion at June 30, 2000 from \$2.3 billion at June 30, 1999. This increase resulted from additional investments in inventories, trade receivables, and cash and equivalents of \$925.3 million, \$74.9 million and \$319.2 million, respectively. Offsetting the increases in current assets was an increase in accounts payable and other accrued liabilities of \$667.0 million and \$641.0 million, respectively. Increases in inventories reflect the higher level of business volume in Pharmaceutical Distribution and Provider Services' activities, especially in the fourth quarter of fiscal 2000 when operating revenue for this segment grew 24% over the same period in the prior year. The increase in trade receivables is slightly lower than the Company's revenue growth (see "Operating Revenue" above) due to effective asset management resulting in the increase in cash and equivalents. The change in accounts payable is due primarily to the timing of inventory purchases.

Property and equipment, at cost, increased by \$138.9 million from June 30, 1999 to June 30, 2000. The increase was primarily due to ongoing plant expansion and manufacturing equipment purchases in certain manufacturing businesses, as well as additional investments made for management information systems and upgrades to distribution facilities. The Company has several operating lease agreements for the construction of new facilities. See further discussion in Note 8 of "Notes to Consolidated Financial Statements."

Shareholders' equity increased to \$4.0 billion from \$3.6 billion at June 30, 1999, primarily due to net earnings of \$679.7 million and the investment of \$133.1 million by employees of the Company through various stock incentive plans, offset by treasury share repurchases of \$333.9 million and dividends paid of \$28.0 million.

The Company has a commercial paper program, providing for the issuance of up to \$1.0 billion in aggregate maturity value of commercial paper. The Company had \$509.2 million outstanding under this program at June 30, 2000. The Company also has uncommitted short-term credit facilities with various bank sources aggregating \$250.0 million. At June 30, 2000, \$54.2 million was outstanding related to these short-term credit facilities. The Company has an unsecured bank credit facility which provides for up to an aggregate of \$1.5 billion in borrowings of which \$750 million expires on March 31, 2001 and \$750 million expires on March 31, 2004. At expiration, these facilities can be extended upon mutual consent of the Company and the lending institutions. This credit facility exists largely to support issuances

of commercial paper as well as other short-term borrowings and remains unused at June 30, 2000. At June 30, 2000, the commercial paper and other short-term borrowings of \$563.4 million were reclassified as long-term, reflecting the Company's intent and ability, through the existence of the unused credit facility, to refinance these borrowings. The Company also has line-of-credit agreements with various bank sources aggregating \$49.3 million, of which \$19.1 million is outstanding as of June 30, 2000 (see Note 4 of "Notes to Consolidated Financial Statements").

During fiscal 1999, the Company issued \$150 million of 6.25% Notes due 2008, the proceeds of which were used for working capital needs due to growth in the Company's business. The Company currently has the capacity to issue \$250 million of additional debt securities pursuant to a shelf registration statement filed with the Securities and Exchange Commission.

The Company believes that it has adequate capital resources at its disposal to fund currently anticipated capital expenditures, business growth and expansion, and current and projected debt service requirements, including those related to business combinations.

See Notes 1 and 5 of the "Notes to Consolidated Financial Statements" for information regarding the use of financial instruments and derivatives thereof, including foreign currency hedging instruments. As a matter of policy, the Company does not engage in "speculative" transactions involving derivative financial instruments.

Other

Subsequent Business Combinations. On August 16, 2000, the Company completed the purchase of Bergen Brunswick Medical Corporation for approximately \$180 million, subject to post-closing adjustments. On July 26, 2000, the Company completed the purchase of a manufacturing facility and the rights to two proprietary, topical drug delivery technologies from Advanced Polymer Systems, Inc. for \$25.0 million at closing and contingent future payments totaling potentially an additional \$26.5 million. On July 19, 2000, the Company completed the purchase of Rexam Healthcare Packaging's folding-carton manufacturing operations in Guaynabo, Puerto Rico for \$32.5 million, subject to post-closing adjustments. All three acquisitions will be accounted for as purchase transactions for financial reporting purposes.

Termination Agreement. On August 24, 1997, the Company and Bergen announced that they had entered into a definitive merger agreement, as amended, pursuant to which a wholly owned subsidiary of the Company would be merged with and into Bergen (the "Bergen Merger Agreement"). On July 31, 1998, the United States District Court for the District of Columbia granted the Federal Trade Commission's request for a preliminary injunction to halt the proposed merger. On August 7, 1998, the Company and Bergen jointly terminated the Bergen Merger Agreement and, in accordance with the terms of the Bergen Merger Agreement, the Company reimbursed Bergen for \$7.0 million of transaction costs. Additionally, the termination of the Bergen Merger Agreement caused the costs incurred by the Company (that would not have been deductible had the merger been consummated) to become tax deductible for federal income tax purposes, resulting in a tax benefit of \$12.2 million. The obligation to reimburse Bergen and the additional tax benefit were recorded in the fourth quarter of the fiscal year ended June 30, 1998.

Recently Adopted Financial Accounting Standards.

As of July 1, 1999, the Company adopted the Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 provides guidance on accounting for costs of computer software developed or obtained for internal use. The adoption of this statement did not have a material impact on the Company's consolidated financial statements.

Recently Issued Financial Accounting Standards.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 by Statement of Financial Accounting Standards No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. As amended by Statement of Financial Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133," the provisions of SFAS 133 will require adoption no later than the

beginning of the Company's fiscal year ending June 30, 2001. Adoption of SFAS 133, as amended by SFAS 138, is not expected to have a material impact on the Company's consolidated financial statements.

On December 3, 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" which requires adoption during the fourth quarter of fiscal 2001. At this time, the Company does not anticipate that the adoption of SAB 101 will have a material impact on the consolidated financial statements. The Company will continue to analyze the impact of SAB 101, including any amendments or further interpretation, based upon the relevant facts and circumstances at the time of adoption.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risks, which include changes in U.S. interest rates, changes in foreign currency exchange rates as measured against the U.S. dollar and changes in commodity prices.

Interest Rates. The Company utilizes a mix of debt maturities along with both fixed-rate and variable-rate debt to manage its exposures to changes in interest rates. The Company does not expect changes in interest rates to have a material effect on income or cash flows in fiscal 2001, although there can be no assurances that interest rates will not significantly change.

As of June 30, 2000, the Company had total long-term obligations outstanding of \$1,495.1 million of which \$895.3 million represented Notes and Debentures with fixed interest rates and maturity dates beginning in fiscal 2004. As of June 30, 1999, the Company had total long-term obligations outstanding of \$1,235.5 million of which \$1,008.0 million represented Notes and Debentures with fixed interest rates and maturity dates beginning in fiscal 2004. The average interest rate related to these obligations was 6.7% and 6.8% as of June 30, 2000 and 1999, respectively. The majority of the remaining outstanding long-term obligations and credit facilities have variable interest rates that fluctuate with the LIBOR or prime rates. As of June 30, 2000 and 1999, the fair value of the total long-term obligations was \$1,455.9 million and \$1,233.3 million, respectively. Maturities of long-term obligations for future fiscal years are: 2001 – \$9.3 million; 2002 – \$568.1 million; 2003 – \$2.9 million;

2004 – \$201.2 million; 2005 – \$1.6 million and 2006 and thereafter – \$712.0 million.

The Company periodically enters into interest rate swap agreements when existing conditions and market situations dictate. The Company does not enter into interest rate swap agreements for trading or speculative purposes. The impact of interest rate swaps is not significant. See Note 5 of "Notes to Consolidated Financial Statements".

Foreign Exchange. The Company conducts business in several major international currencies. The Company periodically uses financial instruments, principally foreign currency options, to attempt to manage the impact of foreign exchange rate changes on anticipated sales. In addition, the Company periodically enters into forward foreign currency exchange contracts to hedge certain exposures related to selected transactions that are relatively certain as to both timing and amount. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations and cash flows. Gains and losses on the hedging activities are recognized concurrently with the gains and losses from the underlying transactions. The Company does not enter into forward exchange contracts or foreign currency options for trading or speculative purposes.

In addition, the Company uses commodity contracts to hedge raw material costs expected to be denominated in foreign currency. These contracts generally cover a one-year period and all gains and losses are deferred and recognized in cost of goods sold with the underlying product costs.

As of June 30, 2000, the notional amount of the forward exchange contracts outstanding was \$17.2 million and the related fair value gain on these contracts was \$0.1 million. As of June 30, 1999, the Company did not have any material foreign currency options or forward exchange contracts outstanding. As of June 30, 2000 and 1999, the notional amounts of the commodity hedge contracts were \$3.9 million and \$9.6 million and the fair value gain/(loss) on these contracts were \$0.1 million and \$(0.3) million, respectively. The unrealized gains or losses on these options or contracts represent hedges of foreign exchange gains and losses on a portion of the Company's foreign earnings, cash flows and selected transactions. As a result, the Company does not expect future gains and losses on these contracts to have a material impact on the Company's consolidated financial statements.

Consolidated Statements of Earnings

(In millions, except per share amounts)

	Fiscal Year Ended June 30,		
	2000	1999	1998
Revenue:			
Operating revenue	\$ 25,246.9	\$ 21,558.5	\$ 18,084.6
Bulk deliveries to customer warehouses	4,623.7	3,553.0	2,991.4
Total revenue	29,870.6	25,111.5	21,076.0
Cost of products sold:			
Operating cost of products sold	22,360.1	18,931.5	15,823.5
Cost of products sold – bulk deliveries	4,623.4	3,553.0	2,991.4
Merger-related costs	–	4.0	–
Total cost of products sold	26,983.5	22,488.5	18,814.9
Gross margin	2,887.1	2,623.0	2,261.1
Selling, general and administrative expenses	1,627.4	1,580.9	1,403.0
Special charges:			
Merger-related costs	64.7	142.6	49.2
Other special charges	–	–	8.6
Total special charges	64.7	142.6	57.8
Operating earnings	1,195.0	899.5	800.3
Interest expense and other	(117.2)	(114.2)	(108.9)
Earnings before income taxes	1,077.8	785.3	691.4
Provision for income taxes	398.1	304.3	242.9
Net earnings	\$ 679.7	\$ 481.0	\$ 448.5
Net earnings per Common Share:			
Basic	\$ 2.44	\$ 1.73	\$ 1.61
Diluted	\$ 2.39	\$ 1.68	\$ 1.58
Weighted average number of Common Shares outstanding:			
Basic	279.1	277.7	277.9
Diluted	284.4	285.2	284.6
Net earnings	\$ 679.7	\$ 481.0	\$ 448.5
Pro forma adjustment for income taxes (See Note 2)	–	(9.3)	(4.6)
Pro forma net earnings	\$ 679.7	\$ 471.7	\$ 443.9
Pro forma net earnings per Common Share:			
Basic	\$ 2.44	\$ 1.70	\$ 1.60
Diluted	\$ 2.39	\$ 1.65	\$ 1.56

The accompanying notes are an integral part of these consolidated statements.

Consolidated Balance Sheets

<i>(In millions)</i>	June 30, 2000	June 30, 1999
Assets		
Current assets:		
Cash and equivalents	\$ 504.6	\$ 185.4
Trade receivables, net	1,677.0	1,602.1
Current portion of net investment in sales-type leases	187.7	152.5
Inventories	3,865.3	2,940.0
Prepaid expenses and other	636.0	358.8
Total current assets	6,870.6	5,238.8
Property and equipment, at cost:		
Land, buildings and improvements	761.0	717.3
Machinery and equipment	2,068.7	1,999.8
Furniture and fixtures	108.1	81.8
Total	2,937.8	2,798.9
Accumulated depreciation and amortization	(1,310.9)	(1,237.4)
Property and equipment, net	1,626.9	1,561.5
Other assets:		
Net investment in sales-type leases, less current portion	578.6	454.3
Goodwill and other intangibles, net	961.7	942.1
Other	227.1	207.8
Total	\$ 10,264.9	\$ 8,404.5
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable, banks	\$ 19.1	\$ 28.6
Current portion of long-term obligations	9.3	11.6
Accounts payable	3,030.9	2,363.9
Other accrued liabilities	1,202.2	561.2
Total current liabilities	4,261.5	2,965.3
Long-term obligations, less current portion	1,485.8	1,223.9
Deferred income taxes and other liabilities	536.4	645.7
Shareholders' equity:		
Common Shares, without par value	1,227.9	1,091.7
Retained earnings	3,173.4	2,544.0
Common Shares in treasury, at cost	(329.1)	(17.2)
Cumulative foreign currency adjustment	(81.9)	(44.0)
Other	(9.1)	(4.9)
Total shareholders' equity	3,981.2	3,569.6
Total	\$ 10,264.9	\$ 8,404.5

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Shareholders' Equity

<i>(In millions)</i>	Common Shares		Retained Earnings	Treasury Shares		Cumulative Foreign Currency Adjustment	Other	Total Shareholders' Equity
	Shares Issued	Amount		Shares	Amount			
Balance, June 30, 1997	175.3	\$ 1,026.2	\$ 1,741.1	(0.7)	\$ (31.6)	\$ (12.5)	\$ (5.3)	\$ 2,717.9
Comprehensive income:								
Net earnings			448.5					448.5
Foreign currency translation adjustments						(16.0)		(16.0)
Total comprehensive income								432.5
Employee stock plans activity, including tax benefits of \$35.2 million	2.0	64.9		(0.3)	29.0		(0.5)	93.4
Treasury shares acquired and shares retired	(1.3)	(25.7)	(12.7)	(0.8)	(104.9)			(143.3)
Dividends paid			(35.7)					(35.7)
Other adjustments							(0.5)	(0.5)
Adjustment for change in fiscal year of an acquired subsidiary (see Note 1)	(0.1)	(0.8)	(35.0)	0.4	25.2	0.6	0.8	(9.2)
Balance, June 30, 1998	175.9	\$ 1,064.6	\$ 2,106.2	(1.4)	\$ (82.3)	\$ (27.9)	\$ (5.5)	\$ 3,055.1
Comprehensive income:								
Net earnings			481.0					481.0
Foreign currency translation adjustments						(17.0)		(17.0)
Total comprehensive income								464.0
Employee stock plans activity, including tax benefits of \$55.8 million	2.7	100.5		(0.7)	34.8		(2.9)	132.4
Treasury shares acquired and shares retired	(1.9)	(73.8)	(2.9)	1.7	30.3		3.5	(42.9)
Dividends paid			(47.5)					(47.5)
Stock split effected as a stock dividend and cash paid in lieu of fractional shares	103.1		(0.3)					(0.3)
Adjustment for change in fiscal year of an acquired subsidiary (see Note 1)	0.1	0.5	8.6			0.9		10.0
Stock issued for acquisitions and other	0.2	(0.1)	(1.1)					(1.2)
Balance, June 30, 1999	280.1	\$ 1,091.7	\$ 2,544.0	(0.4)	\$ (17.2)	\$ (44.0)	\$ (4.9)	\$ 3,569.6
Comprehensive income:								
Net earnings			679.7					679.7
Foreign currency translation adjustments						(37.9)		(37.9)
Total comprehensive income								641.8
Employee stock plans activity, including tax benefits of \$42.4 million	4.0	137.5			(0.2)		(4.2)	133.1
Treasury shares acquired and shares retired			(22.2)	(7.2)	(311.7)			(333.9)
Dividends paid			(28.0)					(28.0)
Stock issued for acquisitions and other		(1.3)	(0.1)					(1.4)
Balance, June 30, 2000	284.1	\$ 1,227.9	\$ 3,173.4	(7.6)	\$ (329.1)	\$ (81.9)	\$ (9.1)	\$ 3,981.2

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

<i>(In millions)</i>	Fiscal Year Ended June 30,		
	2000	1999	1998
Cash Flows from Operating Activities:			
Net earnings	\$ 679.7	\$ 481.0	\$ 448.5
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	245.9	238.2	218.4
Provision for deferred income taxes	127.6	132.4	90.1
Provision for bad debts	34.4	29.7	23.4
Change in operating assets and liabilities, net of effects from acquisitions:			
Increase in trade receivables	(110.3)	(214.5)	(211.7)
Increase in inventories	(926.3)	(317.9)	(474.3)
Increase in net investment in sales-type leases	(159.5)	(282.3)	(103.3)
Increase in accounts payable	678.8	229.7	520.9
Other operating items, net	67.9	81.3	60.0
Net cash provided by operating activities	638.2	377.6	572.0
Cash Flows from Investing Activities:			
Acquisition/divestiture of subsidiaries, net of cash acquired	(67.5)	(147.5)	(45.8)
Proceeds from sale of property and equipment	39.7	57.9	10.8
Additions to property and equipment	(307.8)	(326.0)	(286.3)
Purchase of marketable securities available for sale	(7.7)	(15.6)	(14.2)
Proceeds from sale of marketable securities available for sale	56.0	13.5	10.6
Other	–	–	(4.7)
Net cash used in investing activities	(287.3)	(417.7)	(329.6)
Cash Flows from Financing Activities:			
Net change in commercial paper and short-term debt	400.7	(207.4)	(89.2)
Reduction of long-term obligations	(157.9)	(118.5)	(49.1)
Proceeds from long-term obligations, net of issuance costs	0.5	223.7	111.4
Proceeds from issuance of Common Shares	87.2	62.1	59.2
Dividends on common shares, minority interests and cash paid in lieu of fractional shares	(28.0)	(75.7)	(52.3)
Purchase of treasury shares and other	(334.2)	(47.8)	(155.0)
Net cash used in financing activities	(31.7)	(163.6)	(175.0)
Net Increase (Decrease) in Cash and Equivalents	319.2	(203.7)	67.4
Cash and Equivalents at Beginning of Year	185.4	389.1	321.7
Cash and Equivalents at End of Year	\$ 504.6	\$ 185.4	\$ 389.1

The accompanying notes are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Cardinal Health, Inc., together with its subsidiaries (collectively the “Company”), is a provider of services to the healthcare industry offering an array of value-added pharmaceutical and other healthcare products distribution services and pharmaceutical-related products and services to a broad base of customers. The Company currently conducts its business within four business segments: Pharmaceutical Distribution and Provider Services, Medical-Surgical Products and Services, Pharmaceutical Technologies and Services and Automation and Information Services. See Note 12 for discussion related to the Company’s operating segments.

Basis of Presentation. The consolidated financial statements of the Company include the accounts of all majority-owned subsidiaries and all significant intercompany accounts and transactions have been eliminated. In addition, the consolidated financial statements give retroactive effect to the mergers with MediQual Systems, Inc. (“MediQual”) on February 18, 1998; R.P. Scherer Corporation (“Scherer”) on August 7, 1998; Allegiance Corporation (“Allegiance”) on February 3, 1999; Pacific Surgical Innovations, Inc. (“PSI”) on May 21, 1999; and Automatic Liquid Packaging, Inc. (“ALP”) on September 10, 1999 (see Note 2). Such business combinations were accounted for under the pooling-of-interests method.

The Company’s fiscal year end is June 30 and Scherer’s and PSI’s fiscal year ends were March 31 and September 30, respectively. For the fiscal year ended June 30, 1998, the consolidated financial statements combine the Company’s fiscal year ended June 30, 1998 with Scherer’s fiscal year ended March 31, 1998 and PSI’s fiscal year ended September 30, 1998.

Due to the change in Scherer’s fiscal year end from March 31 to conform with the Company’s June 30 fiscal year end, Scherer’s results of operations for the three months ended June 30, 1998 are not included in the combined results of operations but are reflected as an adjustment in the Consolidated Statements of Shareholders’ Equity. Scherer’s net revenue and net earnings for this period were \$161.6 million and \$8.6 million, respectively. Scherer’s cash flows from operating and financing activities for this period were \$12.6 million and \$32.6 million, respectively, while cash flows used in investing activities were \$12.2 million. As a result of changing Allegiance’s

fiscal year end from December 31 to June 30, the results of operations for the six months ended December 31, 1997 are included in the combined results of operations for both the fiscal years ended June 30, 1997 and 1998 and are reflected as an adjustment in the Consolidated Statements of Shareholders’ Equity. Allegiance’s total revenue and net earnings for this period were \$2.2 billion and \$47.9 million, respectively. Allegiance’s cash flows from operating activities for this period were \$147.2 million, while cash flows used in investing and financing activities were \$63.7 million and \$83.8 million, respectively.

In addition, the Company completed several individually immaterial acquisitions during fiscal 2000, 1999 and 1998, which were accounted for under the purchase method of accounting. The consolidated financial statements include the results of operations from each of these business combinations as of the date of acquisition.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts may differ from these estimated amounts.

Cash Equivalents. The Company considers all liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying value of cash equivalents approximates their fair value. Cash payments for interest were \$113.5 million, \$105.5 million, and \$97.4 million and cash payments for income taxes were \$106.4 million, \$80.0 million, and \$157.9 million for fiscal 2000, 1999, and 1998, respectively. See Notes 2 and 4 for additional information regarding non-cash investing and financing activities.

Receivables. Trade receivables are primarily comprised of amounts owed to the Company through its pharmaceutical and other healthcare distribution activities and are presented net of an allowance for doubtful accounts of \$61.6 million and \$53.9 million at June 30, 2000 and 1999, respectively.

The Company provides financing to various customers. Such financing arrangements range from one year to ten years, at interest rates that generally fluctuate with the prime rate. The financings may be collateralized, guaranteed by third parties or unsecured. Finance notes and accrued interest receivable are \$24.0 million and

\$19.8 million at June 30, 2000 and 1999, respectively (the current portions are \$9.3 million and \$9.2 million, respectively), and are included in other assets. These amounts are reported net of an allowance for doubtful accounts of \$4.6 million and \$4.9 million at June 30, 2000 and 1999, respectively.

The Company has formed Medicine Shoppe Capital Corporation (“MSCC”), Pyxis Capital Corporation (“PCC”) and Cardinal Health Funding LLC (“CHF”) as wholly owned subsidiaries of Medicine Shoppe, Pyxis and Griffin Capital Corporation (“Griffin”), respectively. MSCC, PCC and CHF were organized for the sole purpose of buying receivables and selling those receivables to certain financial institutions or to other investors. They are designed to be special purpose, bankruptcy remote entities. Although consolidated to the extent required by generally accepted accounting principles, MSCC, PCC and CHF are separate legal entities from the Company, Medicine Shoppe, Pyxis and Griffin; they each maintain separate financial statements; and their assets will be available first and foremost to satisfy the claims of their creditors.

Inventories. A majority of inventories (approximately 63% in 2000 and 59% in 1999) are stated at lower of cost, using the last-in, first-out (“LIFO”) method, or market and are primarily merchandise inventories. The remaining inventory is primarily stated at the lower of cost using the first-in, first-out (“FIFO”) method or market. If the Company had used the FIFO method of inventory valuation, which approximates current replacement cost, inventories would have been higher than the LIFO method reported at June 30, 2000 and 1999 by \$46.0 million and \$50.4 million, respectively.

Property and Equipment. Property and equipment are stated at cost. Depreciation and amortization for financial reporting purposes are primarily computed using the straight-line method over the estimated useful lives of the assets which range from one to fifty years, including capital lease assets which are amortized over the terms of their respective leases. Amortization of capital lease assets is included in depreciation and amortization expense. At each balance sheet date, the Company assesses the recoverability of its long-lived property, based on a review of projected undiscounted cash flows associated with these assets.

Goodwill and Other Intangibles. Goodwill and other intangibles primarily represent intangible assets related to the excess of cost over net assets of subsidiaries acquired. Intangible assets are being amortized using the straight-line method over lives that range from ten to forty

years. Accumulated amortization was \$637.2 million and \$599.9 million at June 30, 2000 and 1999, respectively. At each balance sheet date, a determination is made by management to ascertain whether there is an indication that the intangible assets may have been impaired based primarily on a review of projected undiscounted operating cash flows for each subsidiary.

Revenue Recognition. The Company records distribution revenue when merchandise is shipped to its customers and the Company has no further obligation to provide services related to such merchandise. The Company also acts as an intermediary in the ordering and subsequent delivery of bulk shipments of pharmaceutical products, which are classified as bulk deliveries to customer warehouses and are included in total revenue.

The Company earns franchise and origination fees from its apothecary-style pharmacy franchisees. Franchise fees represent monthly fees based upon franchisees’ sales and are recognized as revenue when they are earned. Origination fees from signing new franchise agreements are recognized as revenue when the new franchise store is opened.

Pharmacy management and other service revenues are recognized as the related services are rendered according to the contracts established. A fee is charged under such contracts through a capitated fee, a dispensing fee, a monthly management fee, or an actual costs-incurred arrangement. Under certain contracts, fees for services are guaranteed by the Company not to exceed stipulated amounts or have other risk-sharing provisions. Revenue is adjusted to reflect the estimated effects of such contractual guarantees and risk-sharing provisions.

Packaging and liquid fill contract manufacturing revenues are recognized from services provided upon the completion of such services.

Drug delivery system revenue is recognized upon shipment of products to the customer. Non-product revenue related to option, milestone and exclusivity fees are recognized when earned and all obligations of performance have been completed.

Revenue is recognized from sales-type leases of point-of-use pharmacy systems when the systems are delivered, the customer accepts the system, and the lease becomes noncancelable. Unearned income on sales-type leases is recognized using the interest method. Sales of point-of-use pharmacy systems are recognized upon delivery and customer acceptance. Revenue for systems installed under operating lease arrangements is recognized over the lease term as such amounts become receivable according to the provisions of the lease.

Clinical information system license revenue is recognized upon delivery of the software to the customer and

the completion of implementation/set up training necessary to operate the software. The portion of the license fee related to system support is deferred and recognized over the annual license period.

Translation of Foreign Currencies. The financial position and the results of operations of the Company's foreign operations, excluding the Company's Malaysian and Mexican manufacturing operations which are denominated in U.S. dollars, are measured using the local currencies of the countries in which they operate and are translated into U.S. dollars. Although the effects of foreign currency fluctuations are mitigated by the fact that expenses of foreign subsidiaries are generally incurred in the same currencies in which sales are generated, the reported results of operations of the Company's foreign subsidiaries are affected by changes in foreign currency exchange rates and, as compared to prior periods, will be higher or lower depending upon a weakening or strengthening of the U.S. dollar. In addition, the net assets of foreign subsidiaries are translated into U.S. dollars at the foreign currency exchange rates in effect at the end of each period. Accordingly, the Company's consolidated shareholders' equity will fluctuate depending upon the relative strengthening or weakening of the U.S. dollar versus relevant foreign currencies.

Derivative Financial Instrument Risk. The Company uses derivative financial instruments to minimize the impact of foreign exchange rate changes on earnings and cash flows. The Company also periodically enters into foreign currency exchange contracts to hedge certain exposures related to selected transactions that are relatively certain as to both timing and amount. The Company does not use derivative financial instruments for trading or speculative purposes (see Note 5 for further discussion).

Research and Development Costs. Costs incurred in connection with the development of new products and manufacturing methods are charged to expense as incurred. Research and development expenses, net of customer reimbursements, were \$48.5 million, \$49.7 million, and \$45.7 million in fiscal 2000, 1999, and 1998, respectively. Customer reimbursements in the amount of \$10.4 million, \$11.8 million, and \$13.0 million were received for the fiscal years ended June 30, 2000, 1999, and 1998, respectively.

Income Taxes. No provision is made for U.S. income taxes on earnings of foreign subsidiary companies which the Company controls but does not include in the consolidated federal income tax return since it is management's practice and intent to permanently reinvest the earnings.

Pro forma Adjustment for Income Taxes. On September 10, 1999, the Company completed a merger transaction with ALP (the "ALP Merger"). As of April 1998, ALP had elected S-Corporation status for income tax purposes. As a result of the merger, ALP terminated its S-Corporation election. The pro forma adjustment for income taxes presents the pro forma tax expense of ALP as if ALP had been subject to federal income taxes during the periods presented (see Note 2).

Earnings Per Common Share. Basic earnings per Common Share ("Basic") is computed by dividing net earnings (the numerator) by the weighted average number of Common Shares outstanding during each period (the denominator). Diluted earnings per Common Share is similar to the computation for Basic, except that the denominator is increased by the dilutive effect of stock options outstanding, computed using the treasury stock method.

Excluding dividends paid by all entities with which the Company has merged, the Company paid cash dividends per Common Share of \$0.100, \$0.095, and \$0.070 for the fiscal years ended June 30, 2000, 1999, and 1998, respectively.

Stock Splits. On August 12, 1998, the Company declared a three-for-two stock split which was effected as a stock dividend and distributed on October 30, 1998 to shareholders of record on October 9, 1998. All share and per share amounts included in the consolidated financial statements, except the Consolidated Statements of Shareholders' Equity, have been adjusted to retroactively reflect these stock splits.

New Accounting Pronouncement. As of July 1, 1999, the Company adopted the Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 provides guidance on accounting for costs of computer software developed or obtained for internal use. The adoption of this statement did not have a material impact on the Company's consolidated financial statements.

2. Business Combinations, Merger-Related Costs and Other Special Items

Business Combinations. On September 10, 1999, the Company completed the ALP Merger, which was accounted for as a pooling-of-interests. In the ALP Merger, the Company issued approximately 5.8 million Common Shares to ALP stockholders.

On May 21, 1999, the Company completed a merger transaction with PSI. The Company issued approximately 233,000 Common Shares to PSI shareholders and has accounted for the merger transaction as a pooling-of-interests in the accompanying financial statements.

In addition to the merger transactions described above, during fiscal 2000, the Company completed several individually immaterial acquisitions, which were accounted for under the purchase method of accounting. These business combinations were primarily related to the Company's medical-surgical distribution, point-of-use pharmacy systems and pharmaceutical-packaging services. The aggregate purchase price, which was paid primarily in cash, including fees and expenses, was approximately \$63.5 million. Liabilities of the operations assumed were approximately \$7.0 million, including debt of \$4.0 million. Had the acquisitions taken place July 1, 1999, consolidated results would not have been materially different from reported results.

On February 3, 1999, the Company completed a merger transaction with Allegiance that was accounted for as a pooling-of-interests transaction. The Company issued approximately 70.7 million Common Shares to Allegiance stockholders and Allegiance's outstanding stock options were converted into options to purchase approximately 10.3 million Common Shares. In addition, on August 7, 1998, the Company completed a merger transaction with Scherer that was accounted for as a pooling-of-interests. The Company issued approximately 34.2 million Common Shares to Scherer stockholders and Scherer's outstanding stock options were converted into options to purchase approximately 3.5 million Common Shares. The Company recorded a merger-related charge to reflect transaction and other costs incurred as a result of these merger transactions in fiscal 1999. Additional merger-related costs associated with integrating the separate companies and instituting efficiencies are charged to expense in subsequent periods when incurred.

In addition to the merger transactions described above, during fiscal 1999, the Company completed several individually immaterial acquisitions, which were accounted for under the purchase method of accounting. These business combinations were primarily related to the Company's medical-surgical distribution, point-of-use pharmacy systems and pharmaceutical-packaging services.

The aggregate purchase price, which was paid primarily in cash, including fees and expenses, was approximately \$160.8 million. Liabilities of the operations assumed were approximately \$18.9 million, including debt of \$3.2 million. Had the acquisitions taken place July 1, 1998, consolidated results would not have been materially different from reported results.

On February 18, 1998, the Company completed a merger transaction with MediQual (the "MediQual Merger") which was accounted for as a pooling-of-interests. The Company issued approximately 860,000 Common Shares to MediQual shareholders and MediQual's outstanding stock options were converted into options to purchase approximately 36,000 Common Shares of the Company.

During fiscal 1998, the Company made a number of individually immaterial acquisitions for an aggregate purchase price of \$47.8 million and exchanged non-monetary assets with a value of approximately \$10.5 million to acquire an interest in Source Medical Corporation, a new venture in Canada. All of these acquisitions were accounted for as purchase transactions. Had the acquisitions taken place July 1, 1997, consolidated results would not have been materially different from reported results.

Special Charges

The following is a summary of the special charges for the fiscal years ended June 30, 2000, 1999 and 1998.

	Fiscal Year Ended June 30,		
<i>(in millions, except per share amounts)</i>	2000	1999	1998
Transaction and employee-related costs	\$ (3.8)	\$ (95.4)	\$ (35.7)
ALP transaction bonus	(20.3)	–	–
Exit costs	(11.7)	(9.4)	(3.8)
Scherer restructuring costs	(9.6)	(26.7)	–
Inventory write-offs	–	(4.0)	–
Owen Healthcare, Inc. employee-related costs	–	(1.1)	–
Canceled merger transaction	–	3.7	–
Other integration costs	(19.3)	(13.7)	(9.7)
Total merger-related costs	\$ (64.7)	\$ (146.6)	\$ (49.2)
Other special charges:			
Facilities closures	\$ –	\$ –	\$ (6.1)
Employee severance	–	–	(2.5)
Total other special charges	\$ –	\$ –	\$ (8.6)
Total special charges	\$ (64.7)	\$ (146.6)	\$ (57.8)
Tax effect of special charges	14.9	29.0	22.0
Tax benefit for change in tax status	–	–	11.7
Pro forma ALP taxes	–	9.3	4.6
Net effect of special charges	\$ (49.8)	\$ (108.3)	\$ (19.5)
Net effect on diluted earnings per share	\$ (0.18)	\$ (0.38)	\$ (0.06)

Merger-Related Charges. Costs of effecting mergers and subsequently integrating the operations of the various merged companies are recorded as merger-related costs when incurred. The merger-related costs are primarily a result of the merger transactions with ALP, Allegiance and Scherer.

During the fiscal years presented in the table herein, the Company incurred direct transaction costs related to its merger transactions. These expenses primarily include investment banking, legal, accounting and other professional fees associated with the respective merger transactions. In addition, the Company incurred employee-related costs, which consist primarily of severance and transaction/stay bonuses as a result of the ALP, Allegiance and Scherer merger transactions. Partially offsetting the transaction and employee-related costs recorded during the fiscal year ended June 30, 2000 was a \$10.3 million credit to adjust the estimated transaction and employee-related costs previously recorded in connection with the Allegiance merger transaction. Actual billings and employee-related costs were less than the amounts originally anticipated, resulting in a reduction of the merger-related costs. Exit costs relate primarily to costs associated with lease terminations and moving expenses as a direct result of the merger transactions with ALP, Allegiance and Scherer. Other integration costs include charges related to integrating the operations of previous merger transactions.

The Company recorded charges of \$9.6 million and \$26.7 million during the fiscal years ended June 30, 2000 and 1999, respectively, associated with the business restructuring as a result of the Company's merger transaction with Scherer. As part of the business restructuring, the Company is closing certain facilities. In connection with such closings, the Company has incurred employee-related costs, asset impairment charges and exit costs related to the termination of contracts and lease agreements.

Charges of \$4.0 million related to the write-down of impaired inventory associated with the merger transaction with Owen Healthcare, Inc. ("Owen") were recorded during the fiscal year ended June 30, 1999. Also, during fiscal 1999, the Company recorded \$1.1 million related to severance costs for a restructuring associated with the change in management that resulted from the merger transaction with Owen. Partially offsetting the total merger-related charges for fiscal 1999 was a credit recorded to adjust the estimated transaction and termination costs previously recorded in connection with the canceled merger transaction with Bergen Brunswig Corporation ("Bergen") (see Note 15). The actual billings for services provided by third parties engaged by the Company were less than the estimate, resulting in a reduction of the merger-related costs.

Other Special Items. During fiscal 1998, the Company recorded a special charge of \$8.6 million (\$5.2 million, net of tax) related to the rationalization of its pharmaceutical distribution operations. Approximately \$6.1 million related to asset impairments and lease exit costs resulting primarily from the Company's decision to accelerate the consolidation of a number of distribution facilities and the relocation to more modern facilities for certain others. The remaining amount related to employee severance costs, including approximately \$2.0 million incurred in connection with the final settlement of a labor dispute with former employees of the Company's Boston pharmaceutical distribution facility, resulting in termination of the union relationship.

During fiscal 1998, Scherer finalized part of its long-term tax planning strategy by converting, with its joint venture partner, the legal ownership structure of Scherer's 51% owned subsidiary in Germany from a corporation to a partnership. As a result of this change in tax status, the Company's tax basis in the German subsidiary was adjusted, resulting in a one-time tax refund of approximately \$4.6 million, as well as a reduction in cash taxes to be paid in the current and future years. Combined, these factors resulted in a one-time reduction of fiscal 1998 income tax expense by approximately \$11.7 million.

Pro Forma Impact. Since April 1998, ALP has been organized as an S-Corporation for tax purposes. Accordingly, ALP was not subject to federal income tax from April 1998 up to the date of the merger transaction. For the fiscal years ended 1999 and 1998, net earnings would have been reduced by \$9.3 million and \$4.6 million, respectively, if ALP had been subject to federal income taxes.

In fiscal 2000, the net effect of various merger-related charges reduced reported net earnings by \$49.8 million to \$679.7 million and reduced reported diluted earnings per Common Share by \$0.18 per share to \$2.39 per share. The net of tax effect of the various merger-related costs recorded and pro forma adjustments related to ALP taxes during fiscal 1999 was to reduce reported net earnings by \$108.3 million to \$481.0 million and to reduce reported diluted earnings per Common Share by \$0.38 per share to \$1.68 per share. The fiscal 1998 effect of various merger-related charges and other special items recorded and pro forma adjustments related to ALP taxes during fiscal 1998 was to reduce reported net earnings by \$19.5 million to \$448.5 million and to reduce reported diluted earnings per Common Share by \$0.06 per share to \$1.58 per share.

Certain merger-related costs are based upon estimates, and actual amounts paid may ultimately differ from these estimates. If additional costs are incurred, such items will be expensed as incurred.

3. Leases

Sales-Type Leases. The Company's sales-type leases are for terms generally ranging up to five years. Lease receivables are generally collateralized by the underlying equipment. The components of the Company's net investment in sales-type leases are as follows (in millions):

	June 30, 2000	June 30, 1999
Future minimum lease payments receivable	\$ 890.3	\$ 717.7
Unguaranteed residual values	11.1	1.0
Unearned income	(120.1)	(100.1)
Allowance for uncollectible minimum lease payments receivable	(15.0)	(11.8)
Net investment in sales-type leases	766.3	606.8
Less: current portion	187.7	152.5
Net investment in sales-type leases, less current portion	\$ 578.6	\$ 454.3

Future minimum lease payments to be received pursuant to sales-type leases during the next five years are: 2001 – \$219.9 million; 2002 – \$214.4 million; 2003 – \$200.6 million; 2004 – \$157.9 million; 2005 – \$85.6 million and 2006 and thereafter – \$11.9 million.

Lease Related Financing Arrangements. Pyxis has previously financed its working capital needs through the sale of certain lease receivables to a non-bank financing company. As of June 30, 2000, \$22.5 million of lease receivables were owned by the financing company. The agreement with the financing company was amended to terminate Pyxis' obligation to sell lease receivables to the financing company. Due to Pyxis customers upgrading the Pyxis machines or expanding the number of units being leased under the original lease agreements that have been sold to the financing company, Pyxis has been converting the original lease agreements with customers to updated lease agreements. Pyxis has been maintaining these revised leases and not selling them to the financing company to replace the original lease receivables. As a result, Pyxis entered into an agreement with the financing company to pay the financing company the remaining portion of the original lease receivables outstanding at the time of revision over the original terms. The future minimum payments for these notes at June 30, 2000 are: 2001 – \$36.2 million; 2002 – \$20.1 million and 2003 – \$5.4 million, which are classified as part of other liabilities.

4. Short-Term Borrowings and Long-Term Obligations

Notes Payable, Banks. The Company has entered into various unsecured, uncommitted line-of-credit arrangements that allow for borrowings up to \$49.3 million at June 30, 2000, at various money market rates. At June 30, 2000, \$19.1 million, at a weighted average interest rate of 7.4%, was outstanding under such arrangements and \$28.6 million, at a weighted average interest rate of 6.4%, was outstanding at June 30, 1999. The total available but unused lines of credit at June 30, 2000 was \$30.2 million.

Long-Term Obligations. Long-term obligations consist of the following (in millions):

	June 30, 2000	June 30, 1999
6.0% Notes due 2006	\$ 150.0	\$ 150.0
6.25% Notes due 2008	150.0	150.0
6.5% Notes due 2004	100.0	100.0
6.75% Notes due 2004	99.7	99.7
7.3% Notes due 2006	127.9	183.2
7.8% Debentures due 2016	75.7	125.2
7.0% Debentures due 2026 (7 year put option in 2003)	192.0	199.9
Commercial paper	509.2	49.2
Short-term borrowings, reclassified	54.2	35.3
Borrowings under credit agreement; interest averaging 6.8% in 1999	–	96.9
Other obligations; interest averaging 4.0% in 2000 and 6.7% in 1999, due in varying installments through 2020	36.4	46.1
Total	1,495.1	1,235.5
Less: current portion	9.3	11.6
Long-term obligations, less current portion	\$ 1,485.8	\$ 1,223.9

The 6.0%, 6.25% and 6.5% Notes represent unsecured obligations of the Company, and the 6.75% Notes represent unsecured obligations of Scherer, which are guaranteed by the Company. The 7.3% Notes and the 7.8% and 7.0% Debentures represent unsecured obligations of Allegiance, which are guaranteed by the Company. These obligations are not redeemable prior to maturity and are not subject to a sinking fund.

The Company has a commercial paper program, providing for the issuance of up to \$1.0 billion in aggregate maturity value of commercial paper. The Company had \$509.2 million outstanding under this program at June 30, 2000 with a market interest rate based upon LIBOR.

The Company also maintains other short-term credit facilities that allow for borrowings up to \$250.0 million. At June 30, 2000 and 1999, \$54.2 million and \$35.3 million were outstanding under these uncommitted facilities. The effective interest rate as of June 30, 2000 and 1999 was 6.3% and 6.0%, respectively. The Company also has an unsecured bank credit facility, which provides for up to an aggregate of \$1.5 billion in borrowings of which \$750 million expires on March 31, 2001 and \$750 million expires on March 31, 2004. At expiration, these facilities can be extended upon mutual consent of the Company and the lending institutions. This credit facility exists largely to support issuances of commercial paper as well as other short-term borrowings and remains unused at June 30, 2000. At June 30, 2000 and 1999, the commercial paper and other short-term borrowings totaling \$563.4 million and \$84.5 million, respectively, were reclassified as long-term, reflecting the Company's intent and ability, through the existence of the unused credit facility, to refinance these borrowings.

During fiscal 1999, the Company issued \$150 million of 6.25% Notes due 2008, the proceeds of which were used for working capital needs due to growth in the Company's business. At June 30, 2000, the Company currently has the capacity to issue \$250 million of additional debt securities pursuant to a shelf registration statement filed with the Securities and Exchange Commission.

Certain long-term obligations are collateralized by property and equipment of the Company with an aggregate book value of approximately \$27.5 million at June 30, 2000. Maturities of long-term obligations for future fiscal years are: 2001 – \$9.3 million; 2002 – \$568.1 million; 2003 – \$2.9 million; 2004 – \$201.2 million; 2005 – \$1.6 million and 2006 and thereafter – \$712.0 million.

5. Financial Instruments

Interest Rate Management. The Company has entered into an interest rate swap agreement with a notional amount of \$20.0 million that matures November 2002 to hedge against variable interest rates. The Company exchanged its variable rate position related to a lease agreement for a fixed rate of 7.08%. The Company recognizes in income the periodic net cash settlements under the swap agreement as it accrues.

Foreign Exchange Risk Management. In the normal course of business, operations of the Company are exposed to fluctuations in foreign exchange rates. In order to reduce the uncertainty of the impact of foreign exchange rate movements on operations, the Company

periodically enters into foreign currency options and forward contracts (principally European currencies and Japanese yen) to hedge certain anticipated sales and firm commitments denominated in foreign currencies. These option and forward contracts typically mature within one year. The Company's forward contracts do not subject it to material risks due to the exchange rate movements because gains and losses on these contracts offset losses and gains and the assets, liabilities, and transactions being hedged. The risk of loss associated with the foreign currency option contracts is limited to the premium paid for the option contracts. Gains and losses on the forward and option contracts are recognized concurrently with the gains and losses from the underlying transactions. Premiums paid on the option contract are amortized in other income/expense over the life of the underlying hedged transactions.

The Company also uses commodity contracts to hedge raw material costs expected to be denominated in foreign currency. These contracts generally cover a one-year period and all gains and losses are deferred and recognized in cost of goods sold with the underlying product costs. The contracts qualify as hedges for accounting purposes in accordance with the criteria established in SFAS No. 80 "Accounting for Futures Contracts." Cash flows resulting from these commodity contracts are classified in the same category as the items being hedged.

The counterparties to these contracts are major financial institutions and the Company does not have significant exposure to any one counterparty. Management believes the risk of loss is remote and in any event would not be material.

Fair Value of Financial Instruments. The carrying amounts of cash and equivalents, trade receivables, accounts payables, notes payable-banks and other accrued liabilities at June 30, 2000 and 1999, approximate their fair value because of the short-term maturities of these items.

The estimated fair value of the Company's long-term obligations was \$1,455.9 million and \$1,233.3 million as compared to the carrying amounts of \$1,495.1 million and \$1,235.5 million at June 30, 2000 and 1999, respectively. The fair value of the Company's long-term obligations is estimated based on either the quoted market prices for the same or similar issues and the current interest rates offered for debt of the same remaining maturities or estimated discounted cash flows. The following is a summary of the fair value gain/(loss) of the Company's derivative instruments, based upon the

estimated amount that the Company would receive (or pay) to terminate the contracts at the reporting date. The fair values are based on quoted market prices for the same or similar instruments.

(in millions)	2000		1999	
	Notional Amount	Fair Value Gain/(Loss)	Notional Amount	Fair Value Gain/(Loss)
Foreign currency forward contracts	\$ 17.2	\$ 0.1	\$ -	\$ -
Commodity contracts	\$ 3.9	\$ 0.1	\$ 9.6	\$ (0.3)
Interest Rate Swaps	\$ 20.0	\$ -	\$ 20.0	\$ (0.7)

6. Income Taxes

Consolidated U.S. income before taxes (in millions):

	Fiscal Year Ended June 30,		
	2000	1999	1998
U.S. Based Operations	\$ 952.3	\$ 710.9	\$ 582.3
Non-U.S. Based Operations	125.5	74.4	109.1
Total	\$ 1,077.8	\$ 785.3	\$ 691.4

The provision for income taxes consists of the following (in millions):

	Fiscal Year Ended June 30,		
	2000	1999	1998
Current:			
Federal	\$ 221.1	\$ 123.9	\$ 113.9
State	21.1	26.3	23.1
Foreign	28.3	21.7	15.8
Total	\$ 270.5	\$ 171.9	\$ 152.8
Deferred	127.6	132.4	90.1
Total provision	\$ 398.1	\$ 304.3	\$ 242.9

A reconciliation of the provision based on the Federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Fiscal Year Ended June 30,		
	2000	1999	1998
Provision at Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of Federal benefit	3.0	3.9	4.1
Foreign tax rates	(2.2)	(3.0)	(4.8)
Nondeductible expenses	1.4	4.5	1.5
Other	(0.3)	(1.7)	(0.7)
Effective income tax rate	36.9%	38.7%	35.1%

Provision has not been made for U.S. or additional foreign taxes on \$303.2 million of undistributed earnings of foreign subsidiaries because those earnings are considered permanently reinvested in the operations of those

subsidiaries. It is not practicable to estimate the amount of tax that might be payable on the eventual remittance of such earnings.

Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, and operating loss and tax credit carryforwards for tax purposes. The components of the deferred income tax assets and liabilities are as follows (in millions):

	June 30, 2000	June 30, 1999
Deferred income tax assets:		
Receivable basis difference	\$ 37.0	\$ 27.8
Accrued liabilities	35.5	101.0
Net operating loss carryforwards	8.3	9.1
Foreign tax and other credit carryforwards	10.5	16.5
Other	8.9	35.0
Total deferred income tax assets	\$ 100.2	\$ 189.4
Valuation allowance for deferred income tax assets	(2.7)	(7.0)
Net deferred income tax assets	\$ 97.5	\$ 182.4
Deferred income tax liabilities:		
Inventory basis differences	(180.4)	(138.9)
Property-related	(199.7)	(218.9)
Revenues on lease contracts	(178.7)	(165.9)
Other	(4.9)	2.7
Total deferred income tax liabilities	\$ (563.7)	\$ (521.0)
Net deferred income tax liabilities	\$ (466.2)	\$ (338.6)

The above amounts are classified in the consolidated balance sheets as follows (in millions):

	June 30, 2000	June 30, 1999
Other current assets/(liabilities)	\$ (124.3)	\$ 82.5
Deferred income taxes and other liabilities	(341.9)	(421.1)
Net deferred income tax liabilities	\$ (466.2)	\$ (338.6)

The Company had Federal net operating loss carryforwards of \$2.3 million and state net operating loss carryforwards of \$166.9 million at June 30, 2000. A valuation allowance of \$2.7 million at June 30, 2000 has been provided for the state net operating loss, as utilization of such carryforwards within the applicable statutory periods is uncertain. The Company's Federal net operating loss carryforwards and a portion of the state net operating loss carryforwards are subject to a change in ownership limitation calculation under Internal Revenue Code Section 382. After application of the valuation allowance described above, the Company anticipates no limitations will apply with respect to utilization of these assets. The Federal net operating loss carryforward begins expiring in 2005 and the state net operating loss carryforward

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expires through 2020. Expiring state net operating loss carryforwards and the required valuation allowances have been adjusted annually. At June 30, 2000, the Company did not have any foreign tax credit carryforwards.

Under a tax-sharing agreement with Baxter International, Inc. ("Baxter"), Allegiance will pay for increases and be reimbursed for decreases to the net deferred tax assets transferred on the date of the Baxter spin-off of Allegiance. Such increases or decreases may result from audit adjustments to Baxter's prior period tax returns.

7. Employee Retirement Benefit Plans

The Company sponsors various retirement and pension plans, including defined benefit and defined contribution plans. Substantially all of the Company's domestic non-union employees are eligible to be enrolled in Company-sponsored contributory profit sharing and retirement savings plans which include features under Section 401(k) of the Internal Revenue Code, and provide for Company matching and profit sharing contributions. The Company's contributions to the plans are determined by the Board of Directors subject to certain minimum requirements as specified in the plans.

Qualified domestic union employees are covered by multi-employer defined benefit pension plans under the provisions of collective bargaining agreements. Benefits under these plans are generally based on the employee's years of service and average compensation at retirement.

The total expense for employee retirement benefit plans (excluding defined benefit plans (see below)) was as follows (in millions):

	Fiscal Year Ended June 30,		
	2000	1999	1998
Defined contribution plans	\$ 40.6	\$ 44.3	\$ 37.9
Multi-employer plans	0.4	0.5	0.5
Total	\$ 41.0	\$ 44.8	\$ 38.4

Defined Benefit Plans. The Company has several defined benefit plans covering substantially all salaried and hourly Scherer employees. The Company's domestic defined benefit plans provide defined benefits based on years of service and level of compensation. Foreign subsidiaries provide for pension benefits in accordance with local customs or law. The Company funds its pension plans at amounts required by the applicable regulations.

The following tables provide a reconciliation of the change in benefit obligation, the change in plan assets and the net amount recognized in the consolidated balance sheets (based on a measurement date of March 31, in millions):

	June 30, 2000	June 30, 1999
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 98.7	\$ 86.7
Service cost	4.6	6.5
Interest cost	5.7	6.7
Plan participant contributions	0.5	0.7
Amendments	-	0.2
Actuarial loss	6.1	4.6
Benefits paid	(2.8)	(3.7)
Translation and other adjustments	(12.5)	(3.0)
Curtailments	(0.3)	-
Benefit obligation at end of year	\$ 100.0	\$ 98.7
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 55.7	\$ 42.2
Actual return on plan assets	6.3	12.2
Employer contributions	3.5	4.9
Plan participant contributions	0.5	0.7
Benefits paid	(2.3)	(2.6)
Translation and other adjustment	1.2	(1.7)
Fair value of plan assets at end of year	\$ 64.9	\$ 55.7
Funded status	\$ (35.1)	\$ (43.0)
Unrecognized net actuarial loss	8.0	7.5
Unrecognized net transition asset	(0.4)	(2.0)
Unrecognized prior service cost	0.2	0.2
Translation and other adjustment	0.5	-
Net amount recognized	\$ (26.8)	\$ (37.3)
Amounts recognized in the Consolidated Balance Sheet:		
Prepaid benefit cost	\$ -	\$ 1.6
Accrued benefit liability	(26.8)	(38.9)
Net amount recognized	\$ (26.8)	\$ (37.3)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$98.7 million, \$94.9 million, and \$63.5 million, respectively, as of June 30, 2000 and \$89.4 million, \$85.1 million and \$47.8 million, respectively, as of June 30, 1999.

Components of the Company's net periodic benefit costs are as follows (in millions):

	For the Fiscal Year Ended June 30,		
	2000	1999	1998
Components of net periodic benefit cost:			
Service cost	\$ 4.6	\$ 6.5	\$ 4.9
Interest cost	5.7	6.7	5.4
Expected return on plan assets	(6.2)	(6.9)	(5.1)
Amortization of actuarial loss	0.1	1.9	1.0
Amortization of transition obligation	1.9	–	0.1
Amortization of prior service cost	–	0.3	–
Net amount recognized	\$ 6.1	\$ 8.5	\$ 6.3

For fiscal 2000 and 1999, the weighted-average actuarial assumptions used in determining the funded status information and net periodic benefit cost information were: discount rate of 6.5% and 6.4%, expected return on plan assets of 7.4% and 6.2% and rate of compensation increase of 4.0% and 3.7%, respectively.

8. Commitments and Contingent Liabilities

The future minimum rental payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year at June 30, 2000 are: 2001 – \$47.0 million; 2002 – \$34.3 million; 2003 – \$27.7 million; 2004 – \$23.3 million; 2005 – \$18.7 million and 2006 and thereafter – \$35.9 million.

In addition, the Company has entered into operating lease agreements with several banks for the construction of various new facilities. The initial terms of the lease agreements extend through May 2005, with optional five-year renewal periods. In the event of termination, the Company is required to either purchase the facility or vacate the property and make reimbursement for a portion of unrecovered property cost. The instruments provide for maximum fundings of \$406.2 million, which is the total estimated cost of the construction projects. As of June 30, 2000, the amount expended was \$279.9 million. Currently, the Company's minimum annual lease payments under the agreements are approximately \$18.8 million. Neither the facilities' cost or the minimum annual lease payments are included in the future minimum rental payments disclosed above.

Rental expense relating to operating leases was approximately \$73.7 million, \$69.6 million, and \$64.8 million in fiscal 2000, 1999 and 1998, respectively. Sublease rental income was not material for any period presented herein.

As of June 30, 2000, the Company has capital expenditure commitments related primarily to plant expansions and facility acquisitions of approximately \$18.0 million.

The Company and Whitmire Distribution Corporation (“Whitmire”), one of the Company's wholly-owned subsidiaries, as well as other pharmaceutical wholesalers, were named as defendants in a series of purported class action lawsuits regarding the sale of brand name prescription drugs which were later consolidated and transferred by the Judicial Panel for Multi-District Litigation to the United States District Court for the Northern District of Illinois. On November 30, 1998, the Court ordered judgment as a matter of law in favor of the defendants. On February 22, 2000, the United States Supreme Court denied the plaintiffs' final attempt to appeal the ruling, refusing to grant the plaintiffs' Petition for Writ of Certiorari. The wholesaler defendants, including the Company and Whitmire, entered into a Judgment Sharing Agreement whereby the total exposure for the Company and its subsidiaries is limited to the lesser of \$1 million or 1% of any judgment against the wholesalers and the manufacturers and provides for a reimbursement mechanism for legal fees and expenses. The Company and Whitmire have also been named as defendants in a series of related antitrust lawsuits brought by chain drug stores and independent pharmacies who opted out of the federal class action lawsuits, and in a series of state court cases alleging similar claims under various state laws regarding the sale of brand name prescription drugs. The Judgment Sharing Agreement applies to these related cases as well.

On September 30, 1996, Baxter International, Inc. (“Baxter”) and its subsidiaries transferred to Allegiance and its subsidiaries their U.S. healthcare distribution business, surgical and respiratory therapy business and healthcare cost-saving business, as well as certain foreign operations (the “Allegiance Business”) in connection with a spin-off of the Allegiance Business by Baxter. In connection with this spin-off, Allegiance, which was acquired by the Company on February 3, 1999, assumed the defense of litigation involving claims related to the Allegiance Business from Baxter Healthcare Corporation (“BHC”), including certain claims of alleged personal injuries as a result of exposure to natural rubber latex gloves. Allegiance will be defending and indemnifying BHC, as contemplated by the agreements between Baxter and Allegiance, for all expenses and potential liabilities associated with claims pertaining to the litigation assumed by Allegiance. As of June 30, 2000, there were approximately 533 lawsuits involving BHC and/or Allegiance containing allegations of sensitization to natural rubber

latex products. Some of these cases are now beginning to proceed to trial. Because of the increase in claims filed and the ongoing defense costs that will be incurred, the Company believes it is probable that it will continue to incur significant expenses related to the defense of cases involving natural rubber latex gloves. At this time, the Company is unable to evaluate the extent of total potential liability, and unable to estimate total potential loss. The Company believes that a substantial portion of any liability will be covered by insurance, subject to self-insurance retentions, exclusions, conditions, coverage gaps, policy limits and insurer solvency.

The Company also becomes involved from time-to-time in other litigation incidental to its business, including without limitation inclusion of certain of its subsidiaries as a potentially responsible party for environmental cleanup costs. Although the ultimate resolution of the litigation referenced herein cannot be forecast with certainty, the Company intends to vigorously defend itself and does not believe that the outcome of any pending litigation will have a material adverse effect on the Company's consolidated financial statements.

9. Shareholders' Equity

At June 30, 2000 and 1999, the Company's authorized capital shares consisted of (a) 500,000,000 Class A common shares, without par value; (b) 5,000,000 Class B common shares, without par value; and (c) 500,000 non-voting preferred shares without par value. The Class A common shares and Class B common shares are collectively referred to as Common Shares. Holders of Class A and Class B common shares are entitled to share equally in any dividends declared by the Company's Board of Directors and to participate equally in all distributions of assets upon liquidation. Generally, the holders of Class A common shares are entitled to one vote per share and the holders of Class B common shares are entitled to one-fifth of one vote per share on proposals presented to shareholders for vote. Under certain circumstances, the holders of Class B common shares are entitled to vote as a separate class. Only Class A common shares were outstanding as of June 30, 2000 and 1999.

On March 16, 2000, the Company's Board of Directors authorized the repurchase of up to an aggregate of \$750 million of Common Shares. Through June 30, 2000, approximately 7 million Common Shares, having

an aggregate cost of \$302.8 million, have been repurchased under an accelerated share repurchase program and placed into treasury shares. The 7 million shares repurchased under the program are subject to a future contingent purchase price adjustment to be settled based upon the difference in the market price of the Company's common stock at the time of settlement compared to the market price as of March 16, 2000. The forward stock purchase contract allows the Company to determine the method of settlement. As of June 30, 2000, the cost to settle the transaction would be approximately \$115.1 million; when settled the amount will be charged to common shares in treasury.

10. Concentrations of Credit Risk and Major Customers

The Company invests cash in deposits with major banks throughout the world and in high quality short-term liquid instruments. Such investments are made only in instruments issued or enhanced by high quality institutions. These investments mature within three months and the Company has not incurred any related losses.

The Company's trade receivables, finance notes and accrued interest receivable, and lease receivables are exposed to a concentration of credit risk with customers in the retail and healthcare sectors. Credit risk can be affected by changes in reimbursement and other economic pressures impacting the acute care portion of the healthcare industry. However, such credit risk is limited due to supporting collateral and the diversity of the customer base, including its wide geographic dispersion. The Company performs ongoing credit evaluations of its customers' financial conditions and maintains reserves for credit losses. Such losses historically have been within the Company's expectations.

During fiscal 2000, the Company's two largest customers individually accounted for 12% and 14% of operating revenue, respectively. During fiscal 1999 and fiscal 1998, the same two customers individually accounted for 11% and 13% of operating revenue, respectively. These two customers are serviced primarily through the Pharmaceutical Distribution and Provider Services and Medical-Surgical Products and Services segments. During fiscal 2000, 1999 and 1998, one customer accounted for 52%, 57% and 62% of bulk deliveries, respectively.

11. Stock Options and Restricted Shares

The Company maintains stock incentive plans (the "Plans") for the benefit of certain officers, directors and employees. Options granted generally vest over two or three years and are exercisable for periods up to ten years from the date of grant at a price which equals fair market value at the date of grant.

The Company accounts for the Plans in accordance with APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the Plans been determined consistent with Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," the Company's net income and diluted earnings per Common Share would have been reduced by \$21.6 million and \$0.08 per share, respectively, for fiscal 2000, \$83.1 million and \$0.29 per share, respectively, for fiscal 1999, and \$33.6 million and \$0.12 per share, respectively, for fiscal 1998. During fiscal 1999, stock option grants under the previous Allegiance and Scherer plans vested immediately on the merger date. These accelerated grants increased the fiscal 1999 pro forma effect on net income and diluted earnings per Common Share by \$32.9 million and by \$0.12 per share, respectively. Because the SFAS 123 method of accounting has not been applied to options granted prior to July 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The following summarizes all stock option transactions for the Company under the plans from July 1, 1997 through June 30, 2000, giving retroactive effect to conversions

of options in connection with merger transactions and stock splits (in millions, except per share amounts):

	Options Outstanding	Weighted Average Exercise Price
Balance at June 30, 1997	20.1	\$ 19.25
Granted	6.3	43.70
Exercised	(3.7)	14.62
Canceled	(0.9)	21.46
Change in fiscal year	(0.7)	28.26
Balance at June 30, 1998	21.1	23.96
Granted	3.4	69.61
Exercised	(3.6)	16.80
Canceled	(0.6)	45.60
Balance at June 30, 1999	20.3	34.51
Granted	6.4	47.02
Exercised	(3.9)	22.74
Canceled	(1.0)	55.07
Balance at June 30, 2000	21.8	\$ 39.21

Giving retroactive effect to conversion of stock options related to mergers and stock splits, the weighted average fair value of options granted during fiscal 2000, 1999, and 1998 was \$17.64, \$22.55, and \$14.19, respectively.

The fair values of the options granted to Company employees and directors were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for grants in the respective periods:

	As of June 30,		
	2000	1999	1998
Risk-free interest rate	6.25%	5.72%	5.53%
Expected life	4 years	4 years	3 years
Expected volatility	37%	30%	27%
Dividend yield	0.18%	0.18%	0.16%

Information relative to stock options outstanding as of June 30, 2000:

Range of exercise prices	Outstanding			Exercisable	
	Options (in millions)	Weighted average remaining contractual life in years	Weighted average exercise price	Options (in millions)	Weighted average exercise price
\$ 0.05 – \$ 26.61	7.1	5.6	\$ 17.57	7.1	\$ 17.57
\$ 26.78 – \$ 40.58	3.9	6.6	38.24	3.9	38.24
\$ 40.71 – \$ 46.75	6.3	9.1	46.44	0.3	42.24
\$ 47.38 – \$ 71.00	4.4	7.9	64.62	0.1	60.35
\$ 73.38 – \$ 79.56	0.1	8.6	74.70	–	–
\$ 0.05 – \$ 79.56	21.8	7.2	\$ 39.21	11.4	\$ 25.60

As of June 30, 2000, there remained approximately 4.8 million additional shares available to be issued pursuant to the Plans.

The market value of restricted shares awarded by the Company is recorded in the "Other" component of shareholders' equity in the accompanying consolidated balance sheets. The compensation awards are amortized to expense over the period in which participants perform services, generally one to seven years. As of June 30, 2000, approximately 0.3 million shares remained restricted and subject to forfeiture.

The Company has an employee stock purchase plan under which the sale of 5.0 million of Cardinal's common stock have been authorized. The purchase price is determined by the lower of 85 percent of the closing market price on the date of subscription or 85 percent of the closing market price on the last day of the offering period. At June 30, 2000, subscriptions of 0.3 million were outstanding, however no shares had been issued to employees under the plan.

12. Segment Information

In the prior year, the Company was comprised of three reportable segments: Pharmaceutical Distribution, Pharmaceutical Services and Medical-Surgical Products. In September 2000, the Company expanded its management reporting structure from three to four reportable segments by separating the Pharmaceutical Services segment primarily into two segments: Pharmaceutical Technologies and Services and Automation and Information Services. Prior period amounts have been restated for this change.

The Company's operations are principally managed on a products and services basis and are comprised of four reportable business segments: Pharmaceutical

Distribution and Provider Services, Medical-Surgical Products and Services, Pharmaceutical Technologies and Services and Automation and Information Services.

The Pharmaceutical Distribution and Provider Services segment involves the distribution of a broad line of pharmaceuticals, healthcare and beauty products, therapeutic plasma and other specialty pharmaceutical products and other items typically sold by hospitals, retail drug stores and other healthcare providers. In addition, this segment provides services to the healthcare industry through integrated pharmacy management, temporary pharmacy staffing, as well as franchising of apothecary-style retail pharmacies.

The Medical-Surgical Products and Services segment involves the manufacture of medical, surgical and laboratory products and the distribution of these products to hospitals, physician offices, surgery centers and other healthcare providers.

The Pharmaceutical Technologies and Services segment provides services to the healthcare manufacturing industry through the design of unique drug delivery systems, liquid fill contract manufacturing, comprehensive packaging services, and reimbursement services.

The Automation and Information Services segment provides services to hospitals and other healthcare providers through pharmacy automation equipment and clinical information system services.

The Company evaluates the performance of the segments based on operating earnings after the corporate allocation of administrative expenses. Information about interest income and expense, and income taxes is not provided on a segment level. In addition, special charges are not allocated to the segments. The accounting policies of the segments are the same as described in the summary of significant accounting policies.

The following tables include revenue and operating earnings for the fiscal years ended June 30, 2000, 1999 and 1998 for each segment and reconciling items necessary to total to amounts reported in the consolidated financial statements (in millions):

	Revenue		
	2000	1999	1998
Operating revenue:			
Pharmaceutical Distribution and Provider Services	\$ 18,838.7	\$ 15,482.2	\$ 12,468.6
Medical-Surgical Products and Services	4,960.2	4,726.3	4,456.1
Pharmaceutical Technologies and Services	1,079.8	938.0	889.0
Automation and Information Services	402.4	411.6	270.6
Other	(34.2)	0.4	0.3
Total operating revenue	\$ 25,246.9	\$ 21,558.5	\$ 18,084.6
Bulk deliveries to customer warehouses:			
Pharmaceutical Distribution and Provider Services	4,623.7	3,553.0	2,991.4
Total revenue	\$ 29,870.6	\$ 25,111.5	\$ 21,076.0

	Operating Earnings		
	2000	1999	1998
Pharmaceutical Distribution and Provider Services	\$ 589.1	\$ 466.8	\$ 389.2
Medical-Surgical Products and Services	368.0	303.7	247.0
Pharmaceutical Technologies and Services	200.6	160.4	160.8
Automation and Information Services	138.0	141.0	79.5
Corporate ⁽¹⁾	(100.7)	(172.4)	(76.2)
Total operating earnings	\$ 1,195.0	\$ 899.5	\$ 800.3

The following tables include depreciation and amortization expense as well as capital expenditures for the fiscal years ended June 30, 2000, 1999 and 1998 and assets as of June 30, 2000, 1999 and 1998 for each segment and reconciling items necessary to total to amounts reported in the consolidated financial statements:

	Depreciation and Amortization Expense		
	2000	1999	1998
Pharmaceutical Distribution and Provider Services	\$ 41.9	\$ 37.9	\$ 32.6
Medical-Surgical Products and Services	120.5	119.9	122.8
Pharmaceutical Technologies and Services	48.9	57.6	42.5
Automation and Information Services	15.8	9.1	7.4
Corporate ⁽¹⁾	18.8	13.7	13.1
Total depreciation and amortization expense	\$ 245.9	\$ 238.2	\$ 218.4

	Capital Expenditures		
	2000	1999	1998
Pharmaceutical Distribution and Provider Services	\$ 75.9	\$ 76.7	\$ 70.1
Medical-Surgical Products and Services	109.8	108.3	80.2
Pharmaceutical Technologies and Services	105.1	126.2	127.3
Automation and Information Services	17.0	14.8	8.7
Total capital expenditures	\$ 307.8	\$ 326.0	\$ 286.3

	Assets		
	2000	1999	1998
Pharmaceutical Distribution and Provider Services	\$ 4,514.1	\$ 3,457.6	\$ 2,919.7
Medical-Surgical Products and Services	2,899.5	2,823.7	2,731.0
Pharmaceutical Technologies and Services	1,291.7	1,230.4	1,101.5
Automation and Information Services	1,044.5	827.3	444.3
Corporate ⁽²⁾	515.1	65.5	400.1
Total assets	\$ 10,264.9	\$ 8,404.5	\$ 7,596.6

⁽¹⁾ Corporate-operating earnings primarily consist of special charges of \$64.7 million, \$146.6 million, and \$57.8 million for the fiscal years ended June 30, 2000, 1999, and 1998, respectively, and unallocated corporate depreciation and amortization and administrative expenses.

⁽²⁾ Corporate-assets include primarily corporate cash and cash equivalents, corporate property, plant and equipment, net, unallocated deferred taxes and the elimination of investment in subsidiaries.

Notes to Consolidated Financial Statements

The following table presents revenue and long-lived assets by geographic area (in millions):

	Revenue			Long-Lived Assets	
	For The Fiscal Year Ended June 30,			As of June 30,	
	2000	1999	1998	2000	1999
United States	\$ 28,889.1	\$ 24,199.5	\$ 20,336.3	\$ 1,112.9	\$ 1,101.7
International	981.5	912.0	739.7	514.0	459.8
Total	\$ 29,870.6	\$ 25,111.5	\$ 21,076.0	\$ 1,626.9	\$ 1,561.5

Long-lived assets include property, plant and equipment, net of accumulated depreciation.

13. Selected Quarterly Financial Data (Unaudited)

The following selected quarterly financial data (in millions, except per share amounts) for fiscal 2000 and 1999 has been restated to reflect the pooling-of-interests business combinations as discussed in Note 2.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2000				
Revenue:				
Operating revenue	\$ 5,829.3	\$ 6,254.3	\$ 6,400.6	\$ 6,762.7
Bulk deliveries to customer warehouses	954.4	1,145.2	1,072.5	1,451.6
Total revenue	\$ 6,783.7	\$ 7,399.5	\$ 7,473.1	\$ 8,214.3
Gross margin	\$ 654.8	\$ 721.9	\$ 739.5	\$ 770.9
Selling, general and administrative expenses	\$ 391.3	\$ 415.3	\$ 394.7	\$ 426.1
Net earnings	\$ 122.0	\$ 173.5	\$ 189.5	\$ 194.7
Net earnings per Common Share:				
Basic	\$ 0.44	\$ 0.62	\$ 0.68	\$ 0.71
Diluted	\$ 0.43	\$ 0.61	\$ 0.67	\$ 0.69
Fiscal 1999				
Revenue:				
Operating revenue	\$ 5,017.4	\$ 5,289.5	\$ 5,579.5	\$ 5,672.1
Bulk deliveries to customer warehouses	781.7	999.8	874.7	896.8
Total revenue	\$ 5,799.1	\$ 6,289.3	\$ 6,454.2	\$ 6,568.9
Gross margin	\$ 591.4	\$ 654.6	\$ 677.7	\$ 699.3
Selling, general and administrative expenses	\$ 373.9	\$ 401.4	\$ 397.1	\$ 408.5
Net earnings	\$ 94.7	\$ 141.5	\$ 89.2	\$ 155.6
Net earnings per Common Share:				
Basic	\$ 0.34	\$ 0.51	\$ 0.32	\$ 0.56
Diluted	\$ 0.33	\$ 0.50	\$ 0.31	\$ 0.54

As more fully discussed in Note 2, merger-related costs and other special charges were recorded in various quarters in fiscal 2000 and 1999. The following table summarizes the impact of such costs, as well as the impact of the pro forma adjustments related to ALP taxes on net earnings and diluted earnings per share in the quarters in which they were recorded (in millions, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2000				
Net earnings	\$ (29.7)	\$ (3.4)	\$ (9.1)	\$ (7.6)
Diluted net earnings per Common Share	\$ (0.10)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Fiscal 1999				
Net earnings	\$ (26.3)	\$ 0.9	\$ (71.5)	\$ (11.4)
Diluted net earnings per Common Share	\$ (0.10)	\$ 0.01	\$ (0.25)	\$ (0.04)

14. Recently Issued Financial Accounting Standards

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended in June 2000 by Statement of Financial Accounting Standards No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. As amended by Statement of Financial Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133," the provisions of SFAS 133 will require adoption no later than the beginning of the Company's fiscal year ending June 30, 2001. Adoption of SFAS 133, as amended by SFAS 138, is not expected to have a material impact on the Company's consolidated financial statements.

On December 3, 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" which requires adoption during the fourth quarter of fiscal 2001. At this time, the Company does not anticipate that the adoption of SAB 101 will have a material impact on the consolidated financial statements. The Company will continue to analyze the impact of SAB 101, including any amendments or further interpretation, based upon the relevant facts and circumstances at the time of adoption.

15. Terminated Merger Agreement

On August 24, 1997, the Company and Bergen announced that they had entered into a definitive merger agreement (as subsequently amended by the parties on March 16, 1998), pursuant to which a wholly owned

subsidiary of the Company would be merged with and into Bergen (the "Bergen Merger Agreement"). On March 9, 1998, the FTC filed a complaint in the United States District Court for the District of Columbia seeking a preliminary injunction to halt the proposed merger. On July 31, 1998, the District Court granted the FTC's request for an injunction to halt the proposed merger. On August 7, 1998, the Company and Bergen jointly terminated the Bergen Merger Agreement. In accordance with the terms of the Bergen Merger Agreement, the Company was required to reimburse Bergen for \$7.0 million of transaction costs upon termination of the Bergen Merger Agreement. Additionally, the termination of the Bergen Merger Agreement caused the costs incurred by the Company (that would not have been deductible had the merger been consummated) to become tax deductible, resulting in a tax benefit of \$12.2 million. The obligation to reimburse Bergen and the additional tax benefit are reflected in the consolidated financial statements in the fourth quarter of the fiscal year ended June 30, 1998.

16. Subsequent Events

On August 16, 2000, the Company completed the purchase of Bergen Brunswick Medical Corporation for approximately \$180 million, subject to post-closing adjustments. On July 26, 2000, the Company completed the purchase of a manufacturing facility and the rights to two proprietary, topical drug delivery technologies from Advanced Polymer Systems, Inc. for \$25.0 million at closing and contingent future payments totaling potentially an additional \$26.5 million. On July 19, 2000, the Company completed the purchase of Rexam Healthcare Packaging's folding-carton manufacturing operations in Guaynabo, Puerto Rico for \$32.5 million, subject to post-closing adjustments. All three acquisitions will be accounted for as purchase transactions for financial reporting purposes.

Common Share Information

	High	Low	Dividends
Fiscal 1999			
Quarter Ended:			
September 30, 1998	\$ 71.00	\$ 55.67	\$ 0.0250
December 31, 1998	75.88	54.83	0.0250
March 31, 1999	80.50	66.00	0.0250
June 30, 1999	71.88	56.88	0.0250
Fiscal 2000			
Quarter Ended:			
September 30, 1999	\$ 69.94	\$ 52.00	\$ 0.0250
December 31, 1999	56.38	37.50	0.0250
March 31, 2000	59.38	37.19	0.0250
June 30, 2000	74.00	45.88	0.0300
Through September 1, 2000	\$ 84.22	\$ 67.91	\$ 0.0300

The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Company's Board of Directors and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

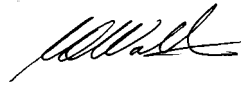
Management's Statement of Financial Responsibility

Management is responsible for the integrity of the financial information contained in this report, including the audited financial statements, which have been prepared in conformity with generally accepted accounting principles and include amounts that are based on management's careful judgment and the best information available.

In order to fulfill its responsibility for the accuracy of financial information, management has designed a reliable system of internal financial controls that provides a cost-effective safeguard over Company assets, while at the same time ensuring that transactions are executed and accounted for in accordance with management's instructions. Compliance with the established financial controls is the responsibility of qualified financial managers, including an internal audit department.

The Audit Committee of the Board of Directors, comprised solely of Directors from outside the Company,

meets on a quarterly basis with management and both the external and internal auditors as necessary. The committee's primary responsibilities include ongoing assessment of: (i) management's discharge of its responsibility for fair and accurate financial reporting; (ii) the activities and independence of the external and internal auditors; (iii) the adequacy of internal financial controls and the financial reporting process; and (iv) compliance with key Company policies.



Robert D. Walter
Chairman and
Chief Executive Officer



Richard J. Miller
Executive Vice President
and Chief Financial Officer

Report of Independent Public Accountants

To the Shareholders and Directors of Cardinal Health, Inc.:

We have audited the accompanying consolidated balance sheet of Cardinal Health, Inc. and subsidiaries as of June 30, 2000 and the related consolidated statements of earnings, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Cardinal Health, Inc. and subsidiaries as of June 30, 1999 and 1998, were audited by other auditors whose report dated August 10, 1999, except for the first paragraph of Note 2 as to which the date is May 26, 2000 and the fiscal 1999 and 1998 amounts in Note 12 as to which the date is September 5, 2000, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit

includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cardinal Health, Inc. and subsidiaries as of June 30, 2000 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Columbus, Ohio
July 21, 2000

Selected Consolidated Financial Data⁽¹⁾:

	Fiscal Years Ended June 30,				
<i>(In millions, except per share amounts)</i>	2000	1999	1998	1997	1996
Earnings Statement Data:					
Revenue:					
Operating revenue	\$ 25,246.9	\$ 21,558.5	\$ 18,084.6	\$ 15,995.9	\$ 14,449.6
Bulk deliveries to customer warehouses	4,623.7	3,553.0	2,991.4	2,469.1	2,178.5
Total revenue	\$ 29,870.6	\$ 25,111.5	\$ 21,076.0	\$ 18,465.0	\$ 16,628.1
Gross margin	2,887.1	2,623.0	2,261.1	2,053.3	1,955.1
Selling, general and administrative expenses	1,627.4	1,580.9	1,403.0	1,314.8	1,343.8
Merger-related costs and special charges	(64.7)	(142.6)	(57.8)	(50.9)	(728.5)
Operating earnings (loss) ⁽²⁾	1,195.0	899.5	800.3	687.6	(117.2)
Net earnings (loss) ^{(2) (3)}	\$ 679.7	\$ 481.0	\$ 448.5	\$ 351.0	\$ (310.2)
Net earnings (loss) per Common Share: ^{(2) (3) (4)}					
Basic	\$ 2.44	\$ 1.73	\$ 1.61	\$ 1.29	\$ (1.17)
Diluted	\$ 2.39	\$ 1.68	\$ 1.58	\$ 1.26	\$ (1.17)
Weighted average number of Common Shares outstanding:					
Basic	279.1	277.7	277.9	272.9	265.5
Diluted	284.4	285.2	284.6	279.1	271.6
Balance Sheet Data:					
Cash and equivalents	\$ 504.6	\$ 185.4	\$ 389.1	\$ 321.7	\$ 365.0
Trade receivables, net	\$ 1,677.0	\$ 1,602.1	\$ 1,448.6	\$ 1,305.1	\$ 1,259.7
Inventories	\$ 3,865.3	\$ 2,940.0	\$ 2,619.5	\$ 2,093.0	\$ 1,967.3
Property and equipment, net	\$ 1,626.9	\$ 1,561.5	\$ 1,488.0	\$ 1,408.9	\$ 1,391.5
Total assets	\$ 10,264.9	\$ 8,404.5	\$ 7,596.6	\$ 6,636.9	\$ 6,555.7
Short-term obligations	\$ 28.4	\$ 40.2	\$ 32.9	\$ 30.5	\$ 120.5
Accounts payable	\$ 3,030.9	\$ 2,363.9	\$ 2,147.0	\$ 1,627.3	\$ 1,644.1
Long-term obligations	\$ 1,485.8	\$ 1,223.9	\$ 1,330.0	\$ 1,321.0	\$ 1,593.3
Shareholders' equity	\$ 3,981.2	\$ 3,569.6	\$ 3,055.1	\$ 2,717.9	\$ 2,294.2
Total liabilities and shareholders' equity	\$ 10,264.9	\$ 8,404.5	\$ 7,596.6	\$ 6,636.9	\$ 6,555.7
Cash dividends declared per Common Share ⁽⁴⁾	\$ 0.105	\$ 0.100	\$ 0.073	\$ 0.063	\$ 0.053

⁽¹⁾ Restated to reflect business combinations in fiscal 2000, 1999, 1997, and 1996.

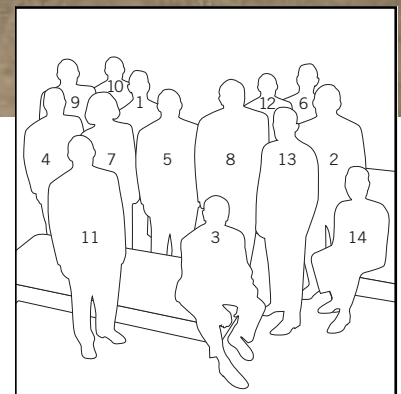
⁽²⁾ Merger-related costs and other special charges have been recorded in connection with various business combinations and facility rationalizations, the impact of which is included in the amounts summarized above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of "Notes to Consolidated Financial Statements" for further analysis of special charges.

⁽³⁾ Amounts summarized above, for fiscal years ended June 30, 1999 and 1998, do not reflect the impact of pro forma adjustments related to the taxes for Automatic Liquid Packaging, Inc. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 of "Notes to Consolidated Financial Statements" for further analysis of pro forma adjustments.

⁽⁴⁾ Net earnings (loss) and cash dividends per Common Share have been adjusted to retroactively reflect all stock dividends and stock splits through June 30, 2000.



Dave Bing (1), Silas S. Cathcart (2), George H. Conrades (3), John F. Finn (4), Robert L. Gerbig (5), John F. Havens (6), Regina E. Herzlinger, Ph.D., (7), John C. Kane (8), J. Michael Losh (9), John B. McCoy (10), Richard C. Notebaert (11), Michael D. O'Halleran (12), Robert D. Walter (13), Melburn G. Whitmire (14)



Board of Directors

Dave Bing, 46

Chairman and Chief Executive Officer, The Bing Group LLC

Silas S. Cathcart, 74

Retired Chairman and Chief Executive Officer, Illinois Tool Works Inc.

George H. Conrades, 61

Chairman and Chief Executive Officer, Akamai Technologies, Inc.

John F. Finn, 52

Chairman and Chief Executive Officer, Gardner, Inc.

Robert L. Gerbig, 55

Retired Chairman and Chief Executive Officer, Gerbig, Snell/Weisheimer & Associates, Inc.

John F. Havens, 73

Director Emeritus and Retired Chairman, Bank One Corporation

Regina E. Herzlinger, Ph.D., 56

Professor, Harvard University Graduate School of Business Administration

John C. Kane, 60

Vice Chairman, President and Chief Operating Officer, Cardinal Health, Inc.

J. Michael Losh, 54

Retired Chief Financial Officer, General Motors Corporation

John B. McCoy, 57

Chairman of the Board, Corillian Corporation; Retired Chairman, Bank One Corporation

Richard C. Notebaert, 53

President and Chief Executive Officer, Tellabs, Inc.

Michael D. O'Halleran, 49

President and Chief Operating Officer, Aon Corporation

Robert D. Walter, 55

Chairman and Chief Executive Officer, Cardinal Health, Inc.

Melburn G. Whitmire, 60

Retired Vice Chairman, Cardinal Health, Inc.

Corporate Officers

Robert D. Walter

Chairman and Chief Executive Officer

John C. Kane

Vice Chairman, President and Chief Operating Officer

Joseph F. Damico

Executive Vice President; Group President – Medical-Surgical Products and Services

George L. Fotiades

Executive Vice President; Group President – Pharmaceutical Technologies and Services

James F. Millar

Executive Vice President; Group President – Pharmaceutical Distribution and Provider Services

Stephen S. Thomas

Executive Vice President; Group President – Automation and Information Services

Steven Alan Bennett

Executive Vice President, Chief Legal Officer and Secretary

Brendan A. Ford

Executive Vice President – Corporate Development

Richard J. Miller

Executive Vice President and Chief Financial Officer

Anthony J. Rucci

Executive Vice President and Chief Administrative Officer

Kathy Brittain White

Executive Vice President and Chief Information Officer

Michael E. Beaulieu

Senior Vice President, Controller and Principal Accounting Officer

Donna Brandin

Senior Vice President and Treasurer

Donald V. Freiert, Jr.

Senior Vice President – Enterprise Services

Gary S. Jensen

Senior Vice President – Audit and Financial Services

Bruce D. McWhinney

Senior Vice President – Quality and Clinical Affairs

James M. Simon

Senior Vice President and Chief Communications Officer

Stephanie A. Wagoner

Senior Vice President; President – Cardinal Health Capital Corporation

Carole S. Watkins

Senior Vice President – Human Resources

Connie R. Woodburn

Senior Vice President – Professional and Government Relations

Investor Information

Fiscal 2000 Cash Dividend Data

Fiscal Quarter	Record Date	Payment Date	Per Common Share Amount
1st	October 1, 1999	October 15, 1999	\$0.025
2nd	January 1, 2000	January 15, 2000	\$0.025
3rd	April 1, 2000	April 15, 2000	\$0.025
4th	July 1, 2000	July 15, 2000	\$0.030

Common Stock Price History

(Twelve Months Ended June 30)	2000	1999	1998	1997	1996
High	\$74.000	\$80.500	\$64.168	\$42.750	\$33.445
Low	\$37.188	\$54.832	\$36.418	\$29.777	\$19.445
Close	\$74.000	\$64.125	\$62.500	\$38.168	\$32.055

As adjusted for stock dividends and stock splits.

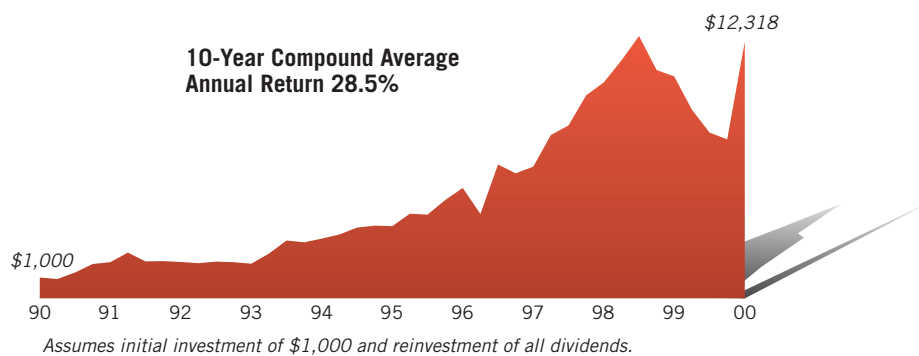
Dividend History

(Twelve Months Ended June 30) Year	Cash Dividends Declared	Stock Dividends/ Splits	Distribution Date of Dividend/Split
1990	\$0.018	5/4 Stock Split	September 30, 1989
1991	\$0.023	5/4 Stock Split	September 30, 1990
1992	\$0.028	5/4 Stock Split	September 30, 1991
1993	\$0.034		
1994	\$0.044	5/4 Stock Split	June 30, 1994
1995	\$0.053		
1996	\$0.053		
1997	\$0.063	3/2 Stock Split	December 16, 1996
1998	\$0.073		
1999	\$0.100	3/2 Stock Split	October 30, 1998
2000	\$0.105		

As adjusted for stock dividends and stock splits.

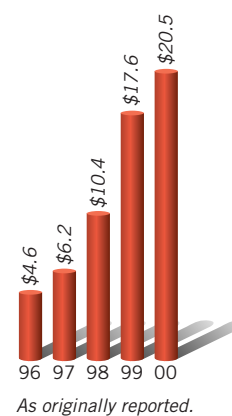
Ten-Year Total Return to Investors

(June 29, 1990 to June 30, 2000)



Market Valuation

In billions (as of June 30)



Corporate Office

Cardinal Health, Inc.
7000 Cardinal Place
Dublin, Ohio 43017

(614) 757-5000
www.cardinal.com

Transfer Agent & Registrar

Shareholders with inquiries regarding address corrections, dividend payments, lost certificates or changes in registered ownership should contact Cardinal's stock transfer agent:

EquiServe Trust Company
P.O. Box 2500
Jersey City, New Jersey 07303-2500

(800) 446-2617
(201) 324-0498

EquiServe has the ability to respond to inquiries via the Internet at: www.equiserve.com

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Lehman Brothers Inc.
McDonald Investments, Inc.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Morgan Stanley Dean Witter & Co.
Salomon Smith Barney Inc.
Sanford C. Bernstein & Co., Inc.
Standard & Poor's Securities, Inc.
Value Line Securities, Inc.
William Blair & Company, L.L.C.

Common Stock

Cardinal Health's common stock is listed on the New York Stock Exchange under the ticker symbol "CAH," and is a component of the Standard & Poor's 500 Index. As of September 1, 2000, Cardinal Health had approximately 21,800 shareholders of record.



Financial Information

Comprehensive financial information about Cardinal Health can be readily obtained by visiting the company's Investor Center at: www.cardinal.com.

This information, including Cardinal Health's annual report, Forms 10-K and 10-Q, and other published corporate literature, is also available upon written request to the Investor Relations Department at the corporate office, or by calling the Investor Relations Line at (614) 757-5222.

Facsimile copies of the company's most recent press releases can be obtained at no charge by calling "Company News On-Call" at (800) 758-5804 and requesting extension 128363.

For other inquiries, the Investor Relations Department can be reached directly at (614) 757-7489.

Annual Meeting

The 2000 Annual Meeting of Shareholders will be held at 8:00 a.m. on Wednesday, November 1, 2000 at Cardinal Health's corporate office in Dublin, Ohio. Shareholders are cordially invited to attend.



cardinal.com



Our Purpose

The people of Cardinal Health are driven by a common purpose: To help customers across the healthcare industry – from manufacturers to providers of patient care – find answers to the challenges they face.

Our success is dependent on helping our customers succeed. Our approach is to be:

A Partner

We believe the best ideas come from creative collaboration with our customers and each other.

Applying Unparalleled Resources

We create powerful solutions with our customers by applying leading products and services to their needs in new and innovative ways.

With a Passion for Performance

We achieve the greatest results for our customers when we actively identify and capitalize on the opportunities created by the advancement of healthcare.