



Partnering leaders in healthcare



Announcement of the interim results

half year ended 31 March 2004

Highlights

	2004 €'000	<i>(as restated)</i> 2003 €'000	Increase %
Group turnover	617,513	537,305	15%
Trading profit*	21,399	17,740	21%
Profit before taxation*	19,430	16,014	21%
Fully diluted earnings per share*	7.29c	6.22c**	17%
Dividend per share	1.32c	1.14c**	16%

* excluding goodwill amortisation and exceptional item

** restated to reflect the 7 for 1 share split of the Company's share capital which took place on 10 July 2003.

Chairman's statement

In the six months to 31 March 2004, United Drug has produced another set of record financial results and continued its long-term track record of delivering superior returns for shareholders.

Financial highlights

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Group performance

Each of our four divisions – Pharma Wholesale, Contract Distribution Outsourcing, Medical & Scientific and Contract Sales Outsourcing, increased both sales and profitability in the period. A well thought out strategic direction begets good financial results. In summary, the results for this half year underline a continuation of our superior infrastructural facilities, an ever increasing emphasis on cost reduction, whilst simultaneously improving our quality of service to both principals and customers, and a managerial capacity to deliver some of the best returns amongst our European peer group.

Divisional performance

In Pharma Wholesale, the reality that we are now the only wholesale pharmaceutical company on the island of Ireland not competing with our customers has influenced an increasing number of retail pharmacists to transfer their business to United Drug. *Our policy is to support our customers, not to compete with them.* Catalyst, our financing support package for retail pharmacists, is transparent in contrast to a competitive offering, and for this reason is gaining an accelerating acceptance.

In the manufacturer facing businesses, our commitment to invest in the highest quality infrastructure, technology and people to service our customers, continues to be the cornerstone to increased sales and profits.

We have now successfully completed the integration of our three most recent acquisitions, Intraveno in the Republic of Ireland, and both New Splint and Mantis in the UK, within our Medical & Scientific Division. Increasing sales and profits provide a platform for further growth, both organically and by acquisition.

In our fourth division, Contract Sales Outsourcing, both Ashfield UK and Ashfield Ireland had a record half year in every aspect of their businesses.

Interim dividend

The Board of Directors has declared an interim dividend of 1.32 cent per share, which is an increase of 16% as compared to last year. This increase in dividend is a reflection of the strong performance of the Company in the period and a continuation of the policy of rewarding shareholders with improved dividend payments.

The Directors are pleased to advise that all shareholders will be given an opportunity of receiving all or part of the 2004 interim dividend as a scrip dividend in the form of new ordinary shares. It is expected that the share alternative election/mandate forms, setting out details of the share alternative offer and the procedures to be followed, will be posted to shareholders on 10 June 2004. The interim dividend will be paid or, alternatively, share certificates issued, on 23 July 2004 to holders of ordinary shares whose names appear on the Company's register at the close of business on 28 May 2004.

Outlook

Given the strong performance in the first half of this year, I am confident that United Drug will report another very successful year.

Martin Rafferty

Chairman

18 May 2004

Chief Executive's review

The first half of the 2004 financial year has continued the strong growth and development reported by United Drug in 2003 and earlier years. In the six months to 31 March 2004, all four business divisions have progressed significantly and overall the Company has produced further record financial results.

Group turnover for the six months was €618 million, an increase of 15% over the first half of 2003. Headline profit before tax (before goodwill amortisation and a once-off exceptional cost incurred in 2003) increased by 21% to €21.4 million and earnings per share, measured on the same basis, was ahead by 17% to 7.29 cent per share.

Some of the major developments driving this financial performance include: a further broadening of the offering to our retail pharmacy customers and tight cost control in the growing and highly competitive Irish pharmaceutical wholesale market; the provision of highest quality service through best-in-class people, technology and infrastructure for our pharmaceutical manufacturer clients, combined with a strong focus on cost management in our Contract Distribution Outsourcing business; further integration of our Irish and UK management and operations and some important new business wins in the Medical and Scientific business; Mantis Surgical, the UK based medical and surgical company acquired during 2003 performed ahead of expectations and has fully achieved its 12 month earn-out; the Contract Sales Outsourcing business achieving a high renewal rate on existing business and strong new business development leading to increased market share in both the UK and Ireland; the agreement of a sale and leaseback arrangement for our new Magna Park II facility that adds to our financial flexibility and capacity to finance future growth.

Pharma Wholesale

United Drug remains committed to supporting our independent retail pharmacy customers and providing services that optimise those customers' ability to compete effectively. As the only wholesaler on the island of Ireland not owning retail pharmacy, we are in the unique position of being able to provide impartial support and advice to our customers rather than competing with them.

In the highly competitive Republic of Ireland pharmaceutical wholesale market, United Drug Wholesale has significantly increased turnover and profitability over the period. This growth has come from the continuing focus on providing a full range of high quality services to our customers and achieving better utilisation from our facilities. The need to provide cost effective support and services for independent retail pharmacists looking to grow and develop their presence in the market remains strong, particularly as other wholesale groups have sought to increase their ownership of retail pharmacy. In this regard, United Drug, through our Catalyst financing support package, has assisted many pharmacists to acquire their own pharmacies and to do so at a much lower cost than can be achieved through other methods, whilst enabling them to own 100% of the equity in the pharmacy from day one. Catalyst is by far the most cost efficient and effective route

into retail pharmacy ownership for new entrants. Equity based schemes that claim to support independent pharmacists actually exploit new entrants through highly costly equity buy back mechanisms that benefit the sponsors of those schemes at the expense of the new entrant.

In Northern Ireland, Sangers continued to build on its clear market leadership position, improving further on last year's significant gains. These gains, together with good market growth, have resulted in strong turnover in our wholesale business during the period. This growth in turnover, combined with good margin management and cost control, has resulted in a considerable increase in overall profitability. Further gains are anticipated, boding well for the second six months. Sangers Distribution and Pemberton Health and Beauty have performed well in the first six months and our healthcare grocery business is now well established and contributing to overall profitability.

Contract Distribution Outsourcing

The Contract Distribution Outsourcing (CDO) division performed well in the first six months of this year, with both sales and profits significantly ahead of last year. The division offers distribution, sales and administration services to multi-national manufacturers of human and veterinary medicines, consumer products and photographic equipment.

The CDO division is continuing to re-invest in quality, people, technology and infrastructure. The ongoing investment in training is paying dividends both in terms of improved operational efficiency and also employee motivation. In conjunction with this and the focus on the Quality Agenda, we were delighted to receive ISO 9000 (2001) accreditation during the period. Our investment in technology projects continues to put us at the forefront of warehouse and logistics management, and our web enabled Sales Reporting System has provided tremendous benefits for both internal and client users. We hope to leverage these successes even further when we transfer the business to a bespoke, state-of-the-art facility - Magna Park II - in January 2005.

Magna Park II will allow our Pharmaceutical Distribution business, United Drug Distributors, to develop its current business further, adding as it will, some much needed extra capacity, together with best-in-class technology and a layout planned around Good Distribution Practice (GDP) guidelines as set out under legislation. We are having ongoing discussions with a number of manufacturers in order to further consolidate our position as the partner of choice for Contract Distribution Outsourcing services in Ireland.

Within the CDO division, a number of the other businesses are continuing to thrive and are looking forward to further successes going forward. The Hospital business has recently enhanced its operational capability, and is looking forward to improving on its returns even further. Our consumer products businesses, trading as Pemberton Marketing and Blackhall Pharmaceuticals, have had good performances in the period and continue to search out new business and opportunities. Pemberton has recently received approval for a substantial investment in technology, which will be implemented when the business

moves to Magna Park II, allowing it to become the number one player in consumer products distribution. Our Animal Health business is also looking forward to the move to the new premises, as it will afford them greater scope for new business, which they have started to move on already. Finally, the repackaging business launched last year, Pharmaceutical Packaging Services, secured newly licensed premises during the period and is continuing to provide a tailor-made service to manufacturers of both pharmaceutical and consumer goods. This business is growing steadily. It is adding to the portfolio of services offered to manufacturers by United Drug and is also being offered to clients for whom we are not currently acting as distributor, thus allowing us to build our relationships in the market to an even greater extent.

UniDrug, our joint venture in the United Kingdom, has performed below expectations in the period. Unscheduled delays in the project to build a new warehouse led to additional running expenses in the existing premises, that is trying to operate beyond maximum capacity levels. Consequently, we have a lack of capacity to take on projected new business. The issues delaying the project have now been overcome. Occupation and revenue earning potential from October 2004 will precede practical completion, which is scheduled for January 2005. The new premises will be a state-of-the-art facility built with the experience of 7 years serving a changing and ever more demanding customer base. Key features include full climate control, an in-rack sprinkler system and formal compartmentalisation of operational areas, again fully compliant with GDP legislation.

The implementation of new best of breed IT systems is also under way in UniDrug. A specialist warehouse management system is being implemented and a new sales order processing and pricing system will commence in quarter 3 of 2004. Supporting systems to our distribution operations will be introduced in quarter 4, offering levels of planning and tracking in line with the highest expectations of pharmaceutical manufacturers. The new premises and IT systems will allow UniDrug to further strengthen its service offering to customers and position itself as the partner of choice for the considerable number of manufacturers currently considering outsourcing their distribution requirements.

Medical & Scientific

The acquisition of Mantis Surgical last year provided an opportunity to develop a consolidated Unitech UK business, building our market position and our expertise, skills and strong market profile already present in New Splint, the division's entry vehicle into the UK market. This consolidated business will facilitate the introduction into the UK of the successful life sciences and distribution models developed in the Republic of Ireland, and will provide a platform for strong revenue and profit growth through the creation of a best-in-class centre of excellence for the UK business.

The first half of this year has seen significant progress towards the achievement of this goal; the combined businesses are on track to take occupancy of a new HQ/warehouse complex in Basingstoke in mid-June; the roll out of sophisticated IT customer

management tools to better resource the sales teams is underway; plans to introduce life science and distribution models into the UK business are almost complete; and we are identifying other niche clinical specialities into which the business can expand.

This activity has taken place against a backdrop of consistent organic growth for the UK businesses and a number of “firsts”, such as the sale by Mantis Surgical of the first surgical robot in the UK to Guy’s Hospital in London. The UK business continues to endorse our strong belief in its ability to deliver sustainable, high-quality profit growth going forward.

The Irish based business activities of the division, represented by Intraveno and Unitech in the Republic of Ireland and Ulster Anaesthetics/Vector Scientific in Northern Ireland have also performed well in the period. Unitech and Vector Scientific have both consolidated their market-leading positions through the winning of significant new business in the haematology, clinical biochemistry and biotechnology sectors.

The medical and pharmaceutical businesses of Intraveno have also enjoyed a strong first-half year, once again ahead of last year in terms of sales and profitability. Both businesses have had successes on a broad range of fronts and have continued to deepen their relationships with key principals. Our re-entry into the ophthalmic sector in the Republic this year has been successful, and this business unit is performing ahead of projections.

The Medical and Scientific Division is in a strong position after the first six months of trading. Positive market environments in both Ireland and the UK, combined with the Division’s exceptional portfolio of high-quality, innovative products and its ability to provide a unique, value-added service to both its end-user customers and principals promises another year of significant growth.

Contract Sales Outsourcing

Ashfield Healthcare has continued its record of year on year growth in terms of headcount, turnover, gross and net contribution. Ashfield continues to consolidate its position as the second largest and fastest growing contract sales outsourcing company in the UK and currently holds a market share in excess of 40%.

This notable achievement by Ashfield has been created by ensuring the renewal of the majority of its existing business, continuing to anticipate the needs and wants of the market place and by widening the range of services it offers. By building relationships and responding to needs of pharmaceutical manufacturers, Ashfield has grown its business and broadened its impressive yet established client base through relationships with Pfizer, Proctor & Gamble, Organon and Strakan.

Ashfield House, our impressive head office and training facility, remains the jewel in Ashfield’s crown, raising the profile of the Company with existing and potential clients alike. It enables Ashfield to provide a quality training offering to both employees and clients, emphasising the importance it places on training and developing its staff.

Ashfield Ireland continues from the success story of last year with a sound business that maintains its position as market leader. With new business wins and extensions and expansions of current contracts, the emphasis of the business has continued to move away from recruitment to becoming a more focused CSO service provider. The Company continues to add to its portfolio and has business with many multi-national manufacturers including Pfizer, Boots, BMS, Organon and AstraZeneca. The emphasis placed on training and development by Ashfield in the UK is now in place in Ireland with the Ashfield Achievers Program currently being rolled out to its sales and nurse teams.

In October 2003, Ashfield USA won its first piece of business for a small team of wound-care representatives with Molnlycke, one of Ashfield UK's longest standing clients. The Company is generating additional revenue by successfully filling headcount recruitment places for manufacturers in the US market and continues to develop its relationships and service offering in this market.

Conclusion

Our aim is to be a leading healthcare services provider dedicated to maximising shareholder value. We seek to extract maximum value from our central position in the healthcare supply chain by developing added-value partnerships with healthcare manufacturers and delivering cost competitive, high quality service to end customers. Being at the forefront of the provision of innovative supply chain and marketing-led solutions and maintaining and developing world-class managerial skills in a highly energised environment, is central to our success.

The people in our organisation are also key to our success and I would like to thank all my colleagues for their dedication and professionalism in delivering the highest quality services to our customers. All employees are a part of our success but there is one individual that deserves special mention. Philip Caffrey announced earlier this year that he will be retiring from United Drug at the end of this financial year. Philip joined the Company in 1974 and became a director in 1978. He has played a central role in all the major developments in United Drug over the years and indeed was my mentor for many years. Philip's knowledge, wisdom, integrity and humour will be sorely missed by all in United Drug and by many of our customers. His contribution to the Group goes well beyond any words that would seek to encapsulate and describe it. I thank Philip for all he has done for the Company and wish him well in his retirement.

Liam FitzGerald
Chief Executive

18 May 2004

Group profit & loss account unaudited

for the half year ended 31 March 2004

	Notes	2004 €'000	(as restated) 2003 €'000
Turnover: including share of joint ventures	1	787,230	694,939
Less: share of joint ventures		(169,717)	(157,634)
Group turnover	1	617,513	537,305
Operating costs	1	(597,124)	(520,822)
Goodwill amortisation		(2,015)	(1,790)
Exceptional item	2	-	(1,149)
Group operating profit		18,374	13,544
Share of joint ventures' operating profit		1,010	1,257
Trading profit, including share of joint ventures		19,384	14,801
Group interest payable (net)	3	(1,969)	(1,711)
Share of joint ventures' net interest		-	(15)
Profit on ordinary activities before taxation		17,415	13,075
Tax on profit on ordinary activities		(3,629)	(2,549)
Profit for the period attributable to ordinary shareholders		13,786	10,526
Dividends - declared	4	(2,789)	(2,384)
Profit retained for the period		10,997	8,142
Profit and loss account at beginning of period		92,646	74,918
Scrip dividend		2,627	1,812
Realisation of revaluation surplus		-	253
Profit and loss account at end of period		106,270	85,125
Restriction arising on treasury shares		(5,667)	(5,667)
Profit and loss account at end of period as restricted		100,603	79,458
Earnings per ordinary share			
<i>Before goodwill amortisation and before exceptional item</i>			
- basic	5	7.40c	6.27c
- diluted	5	7.29c	6.22c
<i>Before goodwill amortisation and after exceptional item</i>			
- basic	5	7.40c	5.90c
- diluted	5	7.29c	5.85c
<i>After goodwill amortisation and after exceptional item</i>			
- basic	5	6.51c	5.09c
- diluted	5	6.42c	5.05c

Group balance sheet unaudited

at 31 March 2004

	2004 €'000	2004 €'000	2003 €'000	2003 €'000
Fixed Assets				
Goodwill		65,625		57,774
Tangible fixed assets		70,735		63,591
Financial Assets				
<i>Interest in joint ventures</i>				
Share of gross assets	71,346		65,539	
Share of gross liabilities	(64,871)	6,475	(60,599)	4,940
		142,835		126,305
Current Assets				
Stocks	114,791		106,541	
Debtors	206,315		175,831	
Cash at bank and in hand	15,891		7,375	
	336,997		289,747	
Creditors: amounts falling due within one year				
Bank and other financial obligations	55,776		47,582	
Other creditors	210,192		194,466	
	265,968		242,048	
Net current assets		71,029		47,699
Total assets less current liabilities		213,864		174,004
Creditors: amounts falling due after more than one year				
Bank and other financial obligations		26,361		17,344
Provisions for liabilities and charges		2,582		1,932
Net assets		184,921		154,728
Capital and reserves				
Called up share capital		11,021		9,871
Share premium account		76,605		71,319
Profit and loss account		100,603		79,458
Other reserves		(3,308)		(5,920)
Shareholders' funds - equity		184,921		154,728

Group cash flow statement unaudited

for the half year ended 31 March 2004

	2004	2003
	€'000	€'000
Cash flow from operating activities	9,679	(2,824)
Returns on investments and servicing of finance	(2,005)	(1,223)
Corporation tax paid	(1,909)	(2,612)
Capital expenditure and financial investment	(8,562)	(4,996)
Acquisitions and disposals	(7,521)	(13,110)
Equity dividends paid	(3,555)	(3,467)
Cash flow before financing	(13,873)	(28,232)
Financing		
Issue of shares	4,435	3,155
Net increase in debt	13,671	8,568
Increase/(decrease) in cash for the period	4,233	(16,509)
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash for the period	4,233	(16,509)
Net increase in debt	(13,671)	(8,568)
Changes in net debt resulting from cash flows	(9,438)	(25,077)
Translation adjustments	89	(236)
Movement in net debt	(9,349)	(25,313)
Net debt at beginning of period	(56,896)	(32,238)
Net debt at end of period	(66,245)	(57,551)

Notes to the financial statements

for the half year ended 31 March 2004

1 Accounting Policies

The interim report is prepared in accordance with applicable accounting standards and the accounting policies and presentation applied to the interim results are consistent with those applied in the 2003 Annual Report, with the exception that during the current financial period, the Group implemented Application Note G to FRS 5, *Revenue Recognition*. The effect of implementing this Application Note was to reduce both turnover and cost of sales in the current and prior periods by €26.6m and €24.1m respectively, to reflect the fact that turnover now represents the fair value of consideration received and receivable in respect of goods and services delivered to third party customers during the period. The implementation of the Application Note has no impact on Group operating profit or net assets for the current or prior periods. The interim financial statements are unaudited.

2 Exceptional item

	2004 €'000	2003 €'000
Redundancy costs	-	1,149

The exceptional item related to redundancy costs incurred following the acquisition of the UK operations of Ventiv Inc in October 2002.

3 Interest (net)

	2004 €'000	2003 €'000
Group - interest payable	(2,317)	(1,950)
Group - interest receivable	348	239
	(1,969)	(1,711)

4 Dividends - equity shares

	2004 €'000	2003 €'000
Interim dividend of 1.32c per 5 cent share (2003: 8.00c per 32 cent share)	2,789	2,384

5 Earnings per ordinary share	2004	2003
	€'000	€'000
Basic earnings per share		
Profit on ordinary activities after tax	13,786	10,526
Weighted average shares outstanding during the period	211,686,668	206,668,203
Basic EPS - cent	6.51	5.09
Goodwill amortisation (net of tax) - cent	0.89	0.81
Basic EPS before goodwill amortisation - cent	7.40	5.90
Exceptional item (net of tax) - cent	-	0.37
Basic EPS before goodwill amortisation and exceptional item - cent	7.40	6.27
Fully diluted earnings per share		
Profit on ordinary activities after tax	13,786	10,526
Weighted average shares outstanding during the period	211,686,668	206,668,203
Number of dilutive shares under option	3,201,477	1,812,328
Weighted average shares for calculation of fully diluted EPS	214,888,145	208,480,531
Fully diluted EPS - cent	6.42	5.05
Goodwill amortisation (net of tax) - cent	0.87	0.80
Fully diluted EPS before goodwill amortisation - cent	7.29	5.85
Exceptional item (net of tax) - cent	-	0.37
Fully diluted EPS before goodwill amortisation and exceptional item - cent	7.29	6.22

The 7,528,066 treasury shares of 5 cent each (2003: 1,075,438 of 32 cent each) held by the Group do not rank for dividend and have therefore been excluded from the weighted average number of shares in issue used in the calculation of earnings per share.

The 2003 numbers have been restated to reflect the 7 for 1 share split of the Company's share capital which took place on 10 July 2003.



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