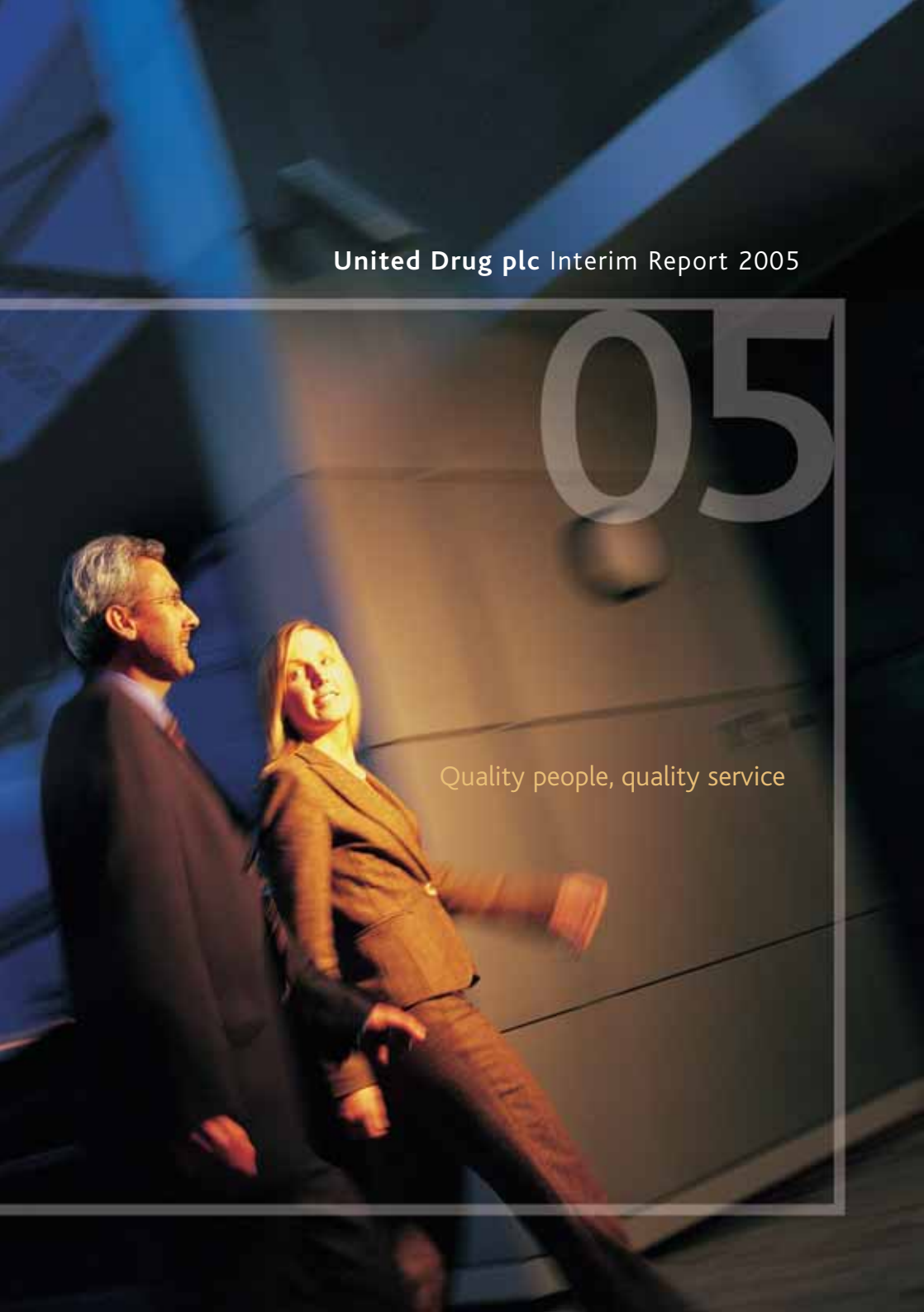


United Drug plc Interim Report 2005

05

Quality people, quality service





# Announcement of the interim results

for the half year ended 31 March 2005

## Highlights

	2005 €'000	2004 €'000	Increase %
Group turnover	633,977	617,513	3%
Trading profit*	23,683	21,399	11%
Profit before taxation*	22,340	19,430	15%
Fully diluted earnings per share*	8.31c	7.29c	14%
Dividend per share	1.50c	1.32c	14%

\* excluding goodwill amortisation

In the six months ended 31 March 2005, United Drug has produced another set of very good results.

Group turnover in the period grew by 3% over the first half of 2004 to €634 million and pre-tax profits, before amortisation of goodwill advanced by 15% to €22.34 million. Fully diluted earnings per share, also before goodwill amortisation, are ahead by 14% to 8.31 cent per share and the interim dividend declared of 1.50 cent per share is also 14% up on 2004.

## Performance

Each of our four divisions – Pharma Wholesale, Contract Distribution Outsourcing, Medical & Scientific and Contract Sales Outsourcing – has performed well in the period.

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Pharma Wholesale goes from strength to strength in terms of both sales and profitability. Our policy of supporting rather than competing with independent retail pharmacists continues to win customer loyalty and new business. This policy will continue with services that allow our customers to focus on growing their businesses and to meet the challenge presented by our wholesale competitors and corporate owned groups. We expect to continue to attract new customers in the growing market place.

In the manufacturer-facing businesses, we have now completed the development of the Magna Park II distribution facility in the Republic of Ireland market, and the UniDrug new premises to service the UK market. These investments are a further realisation of our commitment to provide the highest quality infrastructure, technology and

people to service our healthcare manufacturer clients. All the manufacturer-facing businesses now have a strong platform for future growth and an infrastructure onto which we can bolt additional business.

## Interim Dividend

The Board of Directors has declared an interim dividend of 1.50 cent per share. This is an increase of 14% over the 2004 interim dividend and reflects the Company's strong performance 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 2005 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 9 June 2005. The interim dividend will be paid, or alternatively, share certificates issued, on 22 July 2005 to holders of ordinary shares whose names appear on the Company's register at the close of business on 27 May 2005.

## 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

13 May 2005

In the first half of the 2005 financial year, United Drug has continued its delivery of long-term shareholder value through the focussed execution of our strategy to provide value added services to our partners at both ends of the healthcare supply chain. This is evidenced by the record results recorded in the period. This period has also seen significant additions to the high quality infrastructure supporting our growing businesses, new business wins, new commercial and quality initiatives and continuing development of our people and our management talent.

Group turnover in the period grew by 3% over the first half of 2004 to €634 million, and pre-tax profits, before amortisation of goodwill advanced by 15% to €22.34 million. Fully diluted earnings per share, also before goodwill amortisation, is ahead by 14% at 8.31 cent per share and the interim dividend declared of 1.50 cent per share is also 14% up on 2004.

## Pharma Wholesale

United Drug continues to be the only wholesaler on the island of Ireland committed to providing a full range of support services for independent retail pharmacists and not seeking to compete with them as retailers.

In the Republic of Ireland, United Drug Wholesale has again substantially increased turnover and profitability during the period in a competitive marketplace. United Drug continues to attract a large number of ambitious, entrepreneurial, professional independent pharmacist customers who, with our support, are more than capable of competing in their local markets with pharmacies

owned by our fellow wholesalers and by the large corporate groups. Our market share has grown in key regions of the country during the period.

United Drug Wholesale has further reduced its key expenses-to-sales ratio by getting better utilisation out of our high-class facilities in Ballina, Dublin and Limerick. Our infrastructure allows us to accommodate significant current and future growth with minimal increases in our cost base. Our policy of sharing best practice amongst our facilities and using the combined purchasing power of all Group operations to achieve better value from service providers has cemented our position as the most efficient operator in our market.

In Northern Ireland, Sangers has maintained its clear market leadership position. Significant new customer gains at the start of the financial year were offset by a 7% reduction in the price of ethical pharmaceuticals effective from 1 January 2005, under the UK Pharmaceutical Price Regulation System (PPRS), resulting in limited wholesale turnover growth in the period. However, good margin management and cost control has allowed Sangers report an increase in profits for the six month period. With the full benefit of the new business wins, plus cost management initiatives, performance in the second six months of the financial year is expected to be stronger.

Pemberton Health and Beauty in Northern Ireland has performed well, with strong turnover growth and profits up significantly on last year. Sangers Distribution produced a satisfactory performance in the period. Discussions are ongoing with manufacturers to further consolidate the agency

division as the partner of choice in Northern Ireland. Prospects for the second six months remain positive.

As announced late last year, Stephen Simms retired at the end of March after twenty three years with Sangers and twelve years as a Director of United Drug. Peter Surgenor, who was previously Finance Director with Sangers, has recently been appointed as Managing Director of the Sangers business and Alan Ralph, Managing Director of United Drug Wholesale, has taken over responsibility for United Drug's wholesale activities throughout the island of Ireland.

### **Contract Distribution Outsourcing**

The 2005 financial year has seen the eagerly anticipated opening of the new Magna Park II distribution facility. This state-of-the-art facility will house the Republic of Ireland Contract Distribution businesses – United Drug Distributors, Pemberton and United Drug Hospital – as well as the Medical & Scientific business unit in the Republic of Ireland and will be fully operational by the end of May 2005. The transfer of business to the new location has been managed over approximately six months and whilst not without the normal minor teething problems associated with such a significant project, has successfully transferred without any business interruption.

The new Magna Park facility has been built to the highest Good Distribution Practice (GDP) and audited regulatory standards and is based on an IT platform that will allow us to offer an even greater range of quality services to our

pharmaceutical manufacturer partners. Magna Park II is approximately twice the size of the vacated Belgard Road premises and gives the Contract Distribution businesses capacity for significant further growth in the coming years.

During this period of transition to Magna Park II, the Contract Distribution businesses have performed well in a market that has seen a number of key products come off patent, pharmaceutical manufacturers implement product supply allocations on some of their products that were subject to parallel trade and a slight slowing down of market growth. Despite this, all businesses have grown during the period and we have expanded our client base with new business wins with Altana, Chefaro and Dr. Falk.

UniDrug (UDG), our joint venture in the United Kingdom, took occupation of their new warehouse, Amber Park II, in December 2004. The new warehouse was opened just in time to commence a new and substantial contract with Smith & Nephew International, for whom we now provide warehousing services for stock that is fed to their global markets. We are now able to demonstrate to potential clients our commitment to the quality standards required by them of their distribution partners. Additional contract gains have been made with Altana, Dr Falk, Grunenthal and substantial growth in activities with Ceuta. BMS and Chiron have also renewed their contractual arrangements with UDG. The effects of PPRS price changes (a 7% price reduction from 1 January 2005) have had a minimal impact on the financial performance for the first 6 months, which despite

the substantial overhead costs that accompany the new warehouse, is ahead of the previous year. The business has come through a period of transition, as it increased its physical infrastructure, but is now back on a growth path and very well positioned to win new business.

## Medical & Scientific

The key focus for the Medical and Scientific division (M & S) in the first half of 2005 has been the integration of the Unitech, Intraveno and Intrapharma business units to create an M & S centre-of-excellence for the Irish businesses, in United Drug's new Magna Park business campus.

The integration strategy for Magna Park focussed on maintaining the customer-facing trading identity, sales focus and business practices of the three business units, while developing an enhanced, integrated back-office centre of excellence to support them. The businesses moved as planned in January of this year.

In the new integrated organisation, Unitech retained its sales structures and identity as the biotechnology, scientific and clinical diagnostics arm of the Medical and Scientific division in Ireland. Intraveno retained its identity as the medical-surgical arm and Intrapharma as the pharma-focussed business.

While the businesses have retained their front-end independence, integration of the management and support functions has facilitated the division's growth and development by creating a greater depth of support in terms of

operations, logistics and finance that allow us to offer an even better service to both our end-user customers and our manufacturer-partners.

The integration process has also helped the division to implement "cross business-unit" initiatives such as the establishment of a Point-of-Care sales team.

Point-of-Care, (POC) also referred to as Near Patient Testing, is an exciting development in medical diagnostics driven by the mounting requirement for quicker access to diagnostic results and the technological and manufacturing advances which have delivered smaller, portable and less-complex analysis methods. As an emerging technology, POC will pervade the total hospital environment and is also making its way into both retail pharmacy and the GP surgery.

The Medical & Scientific division is uniquely positioned to develop a significant POC business, requiring as it does a competence in Clinical Diagnostics (as provided by Unitech), Medical/Surgical (as provided by Intraveno) and Pharmacy/GP (as provided by Intrapharma).

A key development in this ambition was our recently agreed partnership with iSTAT, the world's leading developer of POC tests and testing devices. Our cross-functional approach to supporting this product range has received a positive response from our target customers.

Alongside these important developments, the Irish businesses continued to deliver strong growth in terms of sales and profits in the period.

The UK-based businesses have also performed well in the period. Now firmly established in their Basingstoke Head Office, the UK team has focussed on leveraging the advantages of the enhanced support structures to drive growth. A particularly exciting development for the New Splint business was the launch of Waldemar LINK's new MEGA-C Revision System, which will further enhance the company's profile as the supplier of choice for custom/revision orthopaedic implants in the UK.

The Medical and Scientific division is in a strong position after the first six months of trading and is looking forward to another year of significant growth and development.

### **Contract Sales Outsourcing**

The first half of the current financial year has seen the excellent record of Ashfield Healthcare continuing where 2004 left off, with the business again recording an impressive set of results. Ashfield continues to focus on the delivery of both quality and excellence to clients, by both our field based teams and head office staff alike, whilst maintaining a very definite focus on the development of new business.

The UK contract sales outsourcing (CSO) market place remains tight with no "block buster" products on the horizon and a requirement for a flexible sales model amongst pharmaceutical companies. Ashfield's emphasis on the development of new business and seeking to provide the flexibility sought by manufacturers has seen the UK business continuing to expand its client base with new business wins with Provalis,

JJS Pharma, Servier, AstraZeneca and Rosemont, whilst increasing the size of teams and service offerings within its existing client base.

To ensure the protection of all stakeholders is maximised and to continue to widen the added value service offering and delivery of quality and excellence to its clients, Ashfield UK has added a part time Medical Director and full time Compliance Manager to its ever expanding and experienced head office team.

The development of our head office and field based employee's remains as important as ever to Ashfield. This continues to be achieved through the Ashfield Achievers and Academy programmes, which have now been expanded by developing a structured succession plan for individuals along with a Rising Star Programme with the aim of identifying individuals with potential at the early stages of employment within the business. New positions of Senior Representatives and Executive Representatives in the sales force and the equivalent Senior Nurses and Executive Nurses within the nurse teams have also been created.

Ashfield Ireland remains focussed on business development and continues to move away from the recruitment market into the more established Contract Sales Outsourcing business of providing sales representatives and nurse advisors. The growth area appears to be in the nurse advisors arena, where Ashfield remain market leaders and syndicated teams with the launch of a second team in October 2004, increasing the service offering to clients and allowing Ashfield to offer

greater flexibility in meeting their business needs. The client base continues to grow steadily and new business has already been won with MacNeill, Sanofi Aventis, Proctor & Gamble and Amgen resulting in a market share in excess of 40% in Ireland.

Ashfield USA continues to grow through a mix of current team upsizing, with Molnlycke, doubling in size to 10 individuals covering four states – Texas, Florida, Louisiana and Pennsylvania; and external recruitment through placements with KOS Pharma, Coloplast and Aesculap (B.Braun group). The delivery on our existing teams remains the main focus and we have bolstered the head office infrastructure through a mixture of recruiting US employees and secondments from our UK office. Business is being driven through expansion of our existing teams, contacts through established relationships in the UK business and driving the recruitment revenue line.

## Conclusion

The start of the 2005 financial year has continued with the delivery of strong earnings growth in United Drug and has also been a period of transition, particularly for the Contract Distribution and Medical & Scientific businesses, as we have significantly increased the quality and capacity of the infrastructure available to these businesses. All businesses now have in place the physical infrastructure, the IT platform and management talent that should support their growth and development in the coming years. We are in a position to offer the highest quality services to our growing retail pharmacist and

healthcare manufacturer client base in the highly regulated healthcare environment.

With the physical infrastructure in place, we can continue to broaden our service offering to our customers by listening to their needs, implementing new business initiatives and bolting on additional businesses with strong growth potential. The continuing implementation of our strategy over the last six months positions us well for the remainder of this year and for the years ahead.

**Liam FitzGerald**

Chief Executive

13 May 2005

# Group profit and loss account unaudited

for the half year ended 31 March 2005

	Notes	2005 €'000	2004 €'000
<b>Turnover:</b> including share of joint ventures		<b>821,400</b>	787,230
<b>Less:</b> share of joint ventures		<b>(187,423)</b>	(169,717)
<b>Group turnover</b>		<b>633,977</b>	617,513
Operating costs		<b>(611,273)</b>	(597,124)
Goodwill amortisation		<b>(2,035)</b>	(2,015)
<b>Group operating profit</b>		<b>20,669</b>	18,374
Share of joint ventures' operating profit		<b>979</b>	1,010
<b>Trading profit, including share of joint ventures</b>		<b>21,648</b>	19,384
Group interest payable (net)	2	<b>(1,343)</b>	(1,969)
<b>Profit on ordinary activities before taxation</b>		<b>20,305</b>	17,415
Tax on profit on ordinary activities		<b>(4,000)</b>	(3,629)
<b>Profit for the period attributable to ordinary shareholders</b>		<b>16,305</b>	13,786
Dividends - declared	3	<b>(3,283)</b>	(2,789)
<b>Profit retained for the period</b>		<b>13,022</b>	10,997
<b>Profit and loss account at beginning of period</b>		<b>116,044</b>	92,646
Scrip dividend		<b>3,505</b>	2,627
<b>Profit and loss account at end of period</b>		<b>132,571</b>	106,270
Restriction arising on treasury shares		<b>(5,667)</b>	(5,667)
<b>Profit and loss account at end of period as restricted</b>		<b>126,904</b>	100,603
<b>Earnings per ordinary share</b>			
<i>Before goodwill amortisation</i>			
- basic	4	<b>8.45c</b>	7.40c
- diluted	4	<b>8.31c</b>	7.29c
<i>After goodwill amortisation</i>			
- basic	4	<b>7.51c</b>	6.51c
- diluted	4	<b>7.39c</b>	6.42c

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# Group balance sheet unaudited

at 31 March 2005

	2005 €'000	2005 €'000	2004 €'000	2004 €'000
<b>Fixed assets</b>				
Goodwill		60,085		65,625
Tangible fixed assets		59,526		59,743
<b>Financial assets</b>				
<i>Interest in joint ventures</i>				
Share of gross assets	74,381		71,346	
Share of gross liabilities	(66,581)	7,800	(64,871)	6,475
		127,411		131,843
<b>Current assets</b>				
Stocks	120,552		114,791	
Contract work-in-progress	35,511		10,992	
Debtors	223,128		206,315	
Cash at bank and in hand	23,911		15,891	
	403,102		347,989	
<b>Creditors: amounts falling due within one year</b>				
Bank and other financial obligations	(11,515)		(55,776)	
Other creditors	(209,069)		(210,192)	
	(220,584)		(265,968)	
<b>Net current assets</b>		182,518		82,021
<b>Total assets less current liabilities</b>		309,929		213,864
<b>Creditors: amounts falling due after more than one year</b>				
Bank and other financial obligations		(90,048)		(26,361)
<b>Provisions for liabilities and charges</b>		(3,000)		(2,582)
<b>Net assets</b>		216,881		184,921
<b>Capital and reserves</b>				
Called up share capital		11,321		11,021
Share premium account		85,009		76,605
Profit and loss account		126,904		100,603
Other reserves		(6,353)		(3,308)
<b>Shareholders' funds - equity</b>		216,881		184,921

# Group cash flow statement unaudited

for the half year ended 31 March 2005

	2005 €'000	2004 €'000
<b>Operating cash flow before contract work-in-progress</b>	<b>(2,376)</b>	9,679
Cash flow from contract work-in-progress	<b>(4,838)</b>	(8,693)
<b>Cash flow from operating activities</b>	<b>(7,214)</b>	986
Returns on investments and servicing of finance	<b>(1,888)</b>	(2,005)
Corporation tax paid	<b>(2,222)</b>	(1,909)
Capital expenditure and financial investment	<b>(4,764)</b>	131
Acquisitions and disposals	-	(7,521)
Equity dividends paid	<b>(3,996)</b>	(3,555)
<b>Cash flow before financing</b>	<b>(20,084)</b>	(13,873)
<b>Financing</b>		
Issue of shares	<b>4,744</b>	4,435
Net (decrease)/increase in debt	<b>(9,386)</b>	13,671
<b>(Decrease)/increase in cash for the period</b>	<b>(24,726)</b>	4,233
<b>Reconciliation of net cash flow to movement in net debt</b>		
(Decrease)/increase in cash for the period	<b>(24,726)</b>	4,233
Net decrease/(increase) in debt	<b>9,386</b>	(13,671)
<b>Changes in net debt resulting from cash flows</b>	<b>(15,340)</b>	(9,438)
Translation adjustments	<b>(34)</b>	89
<b>Movement in net debt</b>	<b>(15,374)</b>	(9,349)
Net debt at beginning of period	<b>(62,278)</b>	(56,896)
<b>Net debt at end of period</b>	<b>(77,652)</b>	(66,245)

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# Notes to the interim financial statements

for the half year ended 31 March 2005

## 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 2004 Annual Report.

The Group continues to prepare for the adoption of International Financial Reporting Standards ("IFRS") as its primary accounting basis, following the adoption of Regulation No. 1606/2002 by the European Parliament in 2002. IFRS will apply for the first time in the Group's Annual Report for the year ending 30 September 2006 and for the Group's Interim Report for the six month period ending 31 March 2006.

## 2 Interest (net)

	2005 €'000	2004 €'000
Group - interest payable	(1,799)	(2,317)
Group - interest receivable	456	348
	<b>(1,343)</b>	<b>(1,969)</b>

## 3 Dividends – equity shares

	2005 €'000	2004 €'000
Interim dividend of 1.50c per share (2004: 1.32c per share)	<b>3,283</b>	2,789

## 4 Earnings per ordinary share

	2005	2004
<i>Basic earnings per share</i>		
<b>Profit on ordinary activities after tax</b>	<b>€16,305,000</b>	€13,786,000
Weighted average shares outstanding during the period	<b>217,194,192</b>	211,686,668
<b>Basic EPS – cent</b>	<b>7.51</b>	6.51
Goodwill amortisation – cent	<b>0.94</b>	0.89
<b>Basic EPS before goodwill amortisation – cent</b>	<b>8.45</b>	7.40

# Notes to the interim financial statements continued

for the half year ended 31 March 2005

4 Earnings per ordinary share – continued	2005	2004
<i>Fully diluted earnings per share</i>		
<b>Profit on ordinary activities after tax</b>	<b>€16,305,000</b>	€13,786,000
Weighted average shares outstanding during the period	<b>217,194,192</b>	211,686,668
Number of dilutive shares under option	<b>3,497,470</b>	3,201,477
Weighted average shares for calculation of fully diluted EPS	<b>220,691,662</b>	214,888,145
<b>Fully diluted EPS – cent</b>	<b>7.39</b>	6.42
Goodwill amortisation – cent	<b>0.92</b>	0.87
<b>Fully diluted EPS before goodwill amortisation – cent</b>	<b>8.31</b>	7.29

The 7,528,066 (2004: 7,528,066) treasury shares 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.





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