

# Press release



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**Comparable figures refer to last year's corresponding period unless otherwise stated.**

## **TAMRO GROUP INTERIM REPORT FEBRUARY–JULY 2008**

- Tamro Group net sales in February–July amounted to 2,776 (2,753), an increase of 0.8%. Net sales in May–July amounted to EUR 1,389 (1,401) million, a decrease of 0.9%.
- The profit before taxes in February–July was EUR 66 (60) million, an increase of 10.5%. The profit margin was 2.4 (2.2)%.
- Market growth continued to be more modest than expected mainly due to price decreases and government interventions in several markets. Labour conflicts in the health care sector in Sweden and Denmark, combined with poor availability of pharmacists in Norway and the Baltic states impacted the business negatively.

“The modest market growth and sales development were offset by targeted internal measures allowing the Group’s profitability to develop reasonably, inspite of substantial increase in personnel costs and fuel prices. However, our market environment will be changing as countries like Sweden and Latvia, among others, are beginning to realise that their respective pharmacy legislations may need a complete revision to cater for future society needs,” states Tamro’s President & CEO **Jo Langmoen**.

### **Operating environment**

Nordic pharmaceutical market growth during February–July 2008 was approximately 3%, varying between -1% in Norway and 7% in Finland. A contributing factor to the modest growth is the increase in legislative measures to restrict the growth of pharmaceutical costs.

In Estonia and Latvia the growth continued at a double digit rate. The Baltic markets are characterised by high inflation and an overall weak economic outlook. Pharmaceutical consumption is still below the EU average, and the legislative environment regarding pharmaceuticals is still developing.

The market growth was unchanged in Poland compared to the corresponding period last year.

### **Operations in business units**

#### Tamro Sweden

Total pharmaceutical sales in Sweden during February–July 2008 were EUR 1,528 (1,512) million in pharmacy purchase prices (PPP), which represents growth of 4% at constant exchange rates (CER)

compared to the same period in the previous year. The labour conflict between nurses and County councils had a negative effect on pharmaceutical sales during May.

Tamro Sweden's net sales during February–July 2008 were EUR 767 (853) million, a decrease of 10%. The main reason was the increased share of consignment business which is not accounted as sales.

Tamro's average market share for February–July 2008 remained at 53%. The company employed an average of 459 (445) people.

Apoteket AB continued to prepare for the new market structure. The Parliament decided to form a temporary owner company of Apoteket named "Apoteket Omstrukturering AB", which will arrange the sale of several hundred pharmacies and form a new platform for Apoteket's activities in a liberalised market. A decision was also made to establish a state-owned service company to be in charge of the infrastructure for pharmacies in the new market. The implementation of the new, liberal pharmacy legislation was postponed to 1 July 2009.

#### Nomeco, Denmark

The Danish pharmaceutical market showed slow development during the first six months of 2008. Sales through wholesalers grew by 3% at CER to EUR 646 (628) million in PPP compared to the same period in the previous year.

A price freeze on original medicines, valid until mid-2009, contributes to low market growth. According to the Danish Competition board, the medicine prices in Denmark are approximately 7% below the average of other comparable countries in Europe.

Nevertheless, Nomeco maintained its strong market position in Denmark with an average market share of 74%. Nomeco's net sales during February–July 2008 were EUR 800 (746) million, an increase of 7%. The company employed an average of 629 (609) people.

Danish pharmacies have on average 21 000 inhabitants per pharmacy which is a high number compared to other European countries. Nevertheless, the pharmacies cannot benefit from this efficient structure due to the current pricing and reimbursement model. Consequently the economy of Danish pharmacies has become a public concern and major changes are demanded.

Pharmacies have a keen interest in Nomeco's VMI concept, where Nomeco forecasts the expected pharmacy sales and automatically replenishes inventories. Also, there is growing use of new services in addition to traditional services in pre-wholesale, such as the handling of pharmaceutical samples and repackaging.

#### Tamro Finland

Total pharmaceutical sales in Finland during February–July 2008 were EUR 962 (897) million in PPP, which represents growth of 7% at CER compared to the same period in the previous year.

The operations of Tamro Finland continue to be stable, efficient and of high quality despite serious cost pressure, e.g. from rising fuel prices. Tamro Finland's net sales in February–July 2008 were EUR 517 (494) million, an increase of 5%. Tamro's average market share for February–July was 52%. The company employed an average of 339 (332) people.

The Finnish government has proposed a reference pricing model for reimbursed pharmaceutical products from 1 April 2009. The reference price would be determined by the article with the lowest price among medicines containing the same active ingredient. The proposal has been criticised by many stakeholders in the pharmaceutical markets. Wholesalers have expressed concerns particularly about risks of product availability under the proposed new pricing scheme. The proposed pricing scheme is expected to have a significant negative effect on market value and growth.

#### Apokjeden, Norway

Total pharmaceutical sales in Norway during February–July 2008 were EUR 730 (734) million in PPP, which represents a decline of 1% at CER compared to the same period in the previous year. The change in the stepped pricing regulation in January 2008 and inclusion of new products in the model this year have had a negative effect on pharmacy sales.

Apokjeden Group's February–July 2008 net sales grew by 5% to EUR 390 (372) million, mainly as a consequence of new establishments, increased number of customers and more prescriptions in the pharmacies. Apokjeden's average market share in wholesale was 32%. The retail market share, excluding hospitals and hospital pharmacies, was 41%. Including four new pharmacies opened during February–July 2008, Apokjeden owns 217 pharmacies. The company employed an average of 2,025 (1,882) people.

Tamro Group CFO **Lars Birkeland** was appointed as the new Managing Director for the Apokjeden Group. He will take over the new position as of 1 February 2009, succeeding **Øyvind Winther** who was appointed Executive Board Member of PHOENIX Group in February 2008 and has maintained a dual role since this new appointment.

#### Tamro Estonia

According to the State Agency of Medicine, total pharmaceutical sales in Estonia during January–June 2008 were EUR 95 (85) million, which represents growth of 12% at CER compared to the same period in the previous year. The expected market growth for the full financial year is 10–12% despite the weakened general economic outlook.

Tamro's net sales in Estonia during February–July 2008 were EUR 41 (34) million, an increase of 18%. Tamro's average market share for February–July was 32%. In retail, Tamro's pharmacies enjoy a market share of 32%, including franchise pharmacies. During the reporting period, Tamro opened four new pharmacies. Tamro-managed Apteek1 is the largest pharmacy chain in Estonia. In retail, consumer marketing remains aggressive and pressure from low price campaigns has a negative impact on margins.

Tamro Estonia employed an average of 311 (274) people.

### Tamro Latvia

Total pharmaceutical sales in Latvia during February–July 2008 were EUR 141 (127) million in PPP, which represents growth of 11% at CER compared to the same period in the previous year. It is expected that growth will slow down for the full year as a result of weak overall economic development in Latvia.

Tamro's net sales in Latvia during February–July 2008 were EUR 57 (56) million. Tamro's average market share for February–July remained at 23% in wholesale. Successful expansion into retail continued as Tamro acquired five pharmacies and further developed the existing portfolio of pharmacies.

Tamro Latvia employed an average of 403 (363) people.

The second half of the financial year is expected to be dominated by efforts to overcome the effect of the stagflation with weak economy and consumption demand, whilst there is still a high inflation of 17% and severe shortage of pharmacists, causing personnel costs to soar.

### Tamro Lithuania

Total pharmaceutical sales in Lithuania during February–July 2008 were EUR 208 (195) million in PPP, which represents growth of 6% at CER compared to the same period in the previous year.

Tamro Lithuania's net sales during February–July 2008 were EUR 49 (50) million, a decrease of 1%. Tamro's average market share for February–July was 16% in wholesale. During the reporting period, Tamro acquired the pharmacy chain Farma consisting of 44 pharmacies. The acquisition made Tamro the third largest pharmacy chain in Lithuania. The acquisition was closed on 31 August 2008 and after that, Tamro's market share in Lithuania reached 10%.

The company employed an average of 393 (407) people.

During the reporting period, Tamro successfully implemented Oracle's Enterprise One software in Lithuania. The new system will further improve logistic efficiency, security and control of business processes.

The inflation rate increased and was 12% on average. Growing inflation placed further pressure on pharmacists' wages and transport costs.

### Phoenix Pharma Polska, Poland

Total pharmaceutical sales in Poland during February–July 2008 were EUR 2,500 (2,492) million in pharmacy purchase prices (PPP), which is on the same level compared to the same period in the previous year.

Phoenix Pharma Polska's net sales during February–July 2008 were EUR 186 (175) million, an increase of 6%. The company's market share for February–July was 3% in wholesale.

Phoenix Pharma Polska employed an average of 409 (360) people.

The company has been challenged by a changing competitive environment (change of key supplier portfolio and of producers' delivery model). There is strong competition between wholesalers and the wholesale margins are on the decline.

Phoenix Pharma Polska will continue to expand in retail, and the number of fully owned pharmacies is expected to increase during the rest of the financial year. The product sales structure will be modified and the quality of customer service will be further improved.

## **Group's financial performance**

### February–July

The Group's February–July 2008 net sales amounted to EUR 2,776 (2,753) million, an increase of 0.8% compared to the same period last year.

The Group's operating profit in February–July was EUR 72 (64) million. The Group's ordinary profit before taxes was EUR 66 (60) million and the profit margin was 2.4 (2.2)%. The net profit for the period February–July was EUR 49 (45) million.

### May–July

The Group's second quarter net sales amounted to EUR 1,389 (1,401) million, down 0.9% from last year's figures.

The Group's operating profit in May–July was EUR 38 (33) million, up 17% from the same period in the previous year. The ordinary profit before taxes was EUR 35 (31), up 14%, and the profit margin was EUR 2.5 (2.2)%. The net profit for the period May–July was EUR 26 (23) million.

## **Investments and divestments**

The gross investments totalled EUR 20.6 (12.1) million during February–July 2008. They consisted mainly of investments in operational assets and retail acquisitions.

## **Financing**

The financial position of the Group remained strong during the second quarter.

The interest-bearing net debt amounted to EUR -11 (55) million at the end of July 2008. The effective net debt including as debt the sold receivables of EUR 184 (107) million equalled EUR 173 (162) million.

Cash and liquid assets amounted to EUR 91 (13) million. The available limit in the revolving credit facilities with core banks amounted to EUR 200 (200) million, and the unused limit in the securitisation programmes was EUR 68 (136) million.

Net financial items during the second quarter amounted to EUR -3.0 (-2.1) million. The year-to-date net financial items were EUR -5.4 (-3.9) million. The increase is explained partly by a higher general interest rate level and partly by a higher amount of debt.

Net gearing decreased to -3 (13) % compared with the end of Q2 2007, and the equity ratio decreased to 24 (33) %.

### **Free cash flow and net working capital**

In the second quarter, the operative cash flow before changes in net working capital and investments amounted to EUR 38 (40) million. The decrease in net working capital produced a cash flow of EUR 186 (37) million. The increase in the amount of receivables sold impacted the cash flow positively during the second quarter. Net investments amounted to EUR -7 (-7) million. The free cash flow increased to EUR 217 (70) million.

During the first half of the financial year the operative cash flow before changes in net working capital and investments was EUR 70 (70) million and remained on the same level compared to the last year's corresponding period. Changes in net working capital resulted in a cash flow of EUR 38 (-120) million. The net cash flow effect of investments was EUR -12 (-8) million. On a year-to-date basis the free cash flow increased to EUR 96 (-58) million.

### **Personnel**

The average number of employees in the Group was 5,002 (4,696), of whom 53 (52)% work in retail.

### **Outlook for the full-year 2008/2009**

The weakened general economic development and government interventions are slowing down market growth in some of Tamro's markets. However, for the remaining financial year, Tamro expects the results to equal or exceed last year's thanks to operational improvements and cost focus.

Tamro is following how the Swedish government is handling the deregulation process. It remains to be seen whether the new system will encourage market dynamics and international players to create a functioning pharmacy market, based on secure and efficient distribution as well as high customer

benefits. Depending on the Swedish government's model for a deregulated pharmacy market Tamro may decide to enter the retail market. The deregulation in Sweden will have a major effect on Tamro's performance, but its financial impact will not be substantial before the financial year 2009/10 and thereafter.

The interim figures are unaudited.

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This interim report has been disclosed as a web interim report on Tamro Group's web site at [www.tamro.com](http://www.tamro.com).

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CONSOLIDATED INCOME STATEMENT							
	5-7	5-7	Change	2-7	2-7	Change	2/07-1/08
(EURm)	2008	2007	%	2008	2007	%	2007
Net Sales	1,388.6	1,400.6	-0.9	2,775.8	2,752.9	0.8	5,605.2
Other income	3.9	0.0	-	5.6	3.0	86.7	3.6
Raw materials and services	-1,261.1	-1,284.4	-1.8	-2,526.8	-2,528.4	-0.1	-5,144.2
Personnel expenses	-58.9	-54.1	8.9	-113.6	-102.5	10.8	-211.3
Depreciation and value adjustments	-9.1	-7.2	26.4	-17.7	-16.0	10.6	-32.3
Other operating expenses	-25.4	-22.3	13.9	-51.5	-45.1	14.2	-98.6
Operating profit	38.0	32.6	16.6	71.8	63.9	12.4	122.4
Financial income and expenses	-3.0	-2.1	42.9	-5.4	-3.9	38.5	-1.9
Share of associated companies' net income	0.0	0.1	-100.0	0.0	0.1	-100.0	0.3
Profit before extraordinary items	34.9	30.6	14.1	66.4	60.1	10.5	120.8
Profit before taxes	34.9	30.6	14.1	66.4	60.1	10.5	120.8
Income taxes	-8.7	-7.5	16.0	-17.5	-14.7	19.0	-31.9
Minority interest	-0.2	0.0	-	-0.3	-0.1	200.0	-0.1
Net profit for the period	26.0	23.0	13.0	48.6	45.3	7.3	88.8

CONSOLIDATED BALANCE SHEET			
	31.7.	31.7.	31.1.
(EURm)	2008	2007	2008
Assets			
Intangible and tangible assets	330.6	317.0	322.9
Financial assets	15.4	17.5	17.5
Inventories	418.9	407.6	391.7
Receivables	484.5	546.5	504.6
Liquid assets and short-term investments	91.0	13.3	38.6
	1,340.4	1,301.9	1,275.3
Equity & liabilities			
Shareholders' equity	314.9	422.8	335.9
Minority interest	1.3	0.2	0.3
Obligatory reserves	2.3	2.1	1.6
Long-term liabilities <sup>(1)</sup>	45.2	42.3	45.3
Short-term liabilities <sup>(1)</sup>	976.7	834.5	892.2
Balance sheet total	1,340.4	1,301.9	1,275.3

<sup>(1)</sup> Deferred tax liabilities are presented as long-term liabilities, and the figures for the comparison periods have been adjusted accordingly.

CONSOLIDATED CASH FLOW STATEMENT				
	2-7	2-7	Change	2/07-1/08
(EURm)	2008	2007	%	2007
Operating profit	71.4	63.9	11.7	121.3
Depreciation, value adjustments and other adjustments	17.6	15.8	11.4	32.1
Financial income and expenses	-4.8	-3.7	29.7	-4.4
Other income and expenses	-5.1	-2.9	75.9	2.4
Taxes	-8.9	-3.5	154.3	-14.1
Cash flow before change in net working capital	70.2	69.6	0.9	137.3
Change in net working capital	38.4	-120.1	-132.0	10.5
Cash used in / from operating activities	108.6	-50.5	-315.0	147.8
Investments in tangible and intangible assets	-20.6	-12.1	70.2	-37.1
Proceeds from disposal of tangible and intangible assets and financial investments	8.3	4.6	80.4	5.3
Cash used in investing activities	-12.3	-7.5	64.0	-31.8
Free cash flow	96.3	-58.0	-266.0	116.0
Change in loans and other financial items	30.2	15.7	92.4	-6.9
Dividends paid	-74.4	0.0	-	-125.9
Translation differences and other changes	0.2	0.4	-50.0	0.1
Cash from / used in financing activities	-44.0	16.1	-373.3	-132.7
Change in cash and cash equivalents	52.3	-41.9	-224.8	-16.7

KEY FIGURES							
	5-7	5-7	Change	2-7	2-7	Change	2/07-1/08
(EURm)	2008	2007	%	2008	2007	%	2007
Operating margin, %	2.7	2.3		2.6	2.3		2.2
Profit margin, %	2.5	2.2		2.4	2.2		2.2
Return on capital employed, %	36.8	26.1		37.4	28.4		32.0
Return on equity, %	34.6	23.2		30.0	22.8		25.1
Gross investments, €m	12.9	5.9	118.6	20.6	12.1	70.2	37.1
Free cash flow, €m	216.6	70.1	209.0	96.3	-58.0	-266.0	116.0
Capital employed, €m	419.0	511.0	-18.0	391.1	458.7	-14.7	405.8
Net working capital, €m	-30.3	151.0	-120.1	-30.3	151.0	-120.1	16.1
Interest-bearing net debt, €m	-10.6	55.1	-119.2	-10.6	55.1	-119.2	10.8
Net gearing, %	-3.3	13.0		-3.3	13.0		3.2
Equity Ratio, %	23.6	32.5		23.6	32.5		26.4
Number of shares- at end, millions*	114.5	114.5		114.5	114.5		114.5
Number of shares- average, millions*	114.5	114.5		114.5	114.5		114.5
Earnings per share, €*	0.23	0.20	15.0	0.42	0.40	5.0	0.78
Equity per share, €*	2.76	3.69	-25.2	2.76	3.69	-25.2	2.94
Number of employees, average	5,109	4,758	7.4	5,002	4,696	6.5	4,736
* excluding own shares							

NET SALES BY BUSINESS UNIT							
	5-7	5-7	Change	2-7	2-7	Change	2/07-1/08
(EURm)	2008	2007	%	2008	2007	%	2007
Tamro Sweden	379.4	423.4	-10.4	767.0	852.8	-10.1	1,685.7
Tamro Denmark	402.2	390.7	2.9	800.4	746.3	7.2	1,526.1
Tamro Finland	257.6	252.3	2.1	516.5	493.9	4.6	1,032.4
Tamro Norway	202.5	195.2	3.7	390.2	371.5	5.0	765.5
Tamro Estonia	20.2	17.3	16.8	40.6	34.4	18.0	70.4
Tamro Latvia	26.4	25.9	1.9	57.0	55.9	2.0	117.6
Tamro Lithuania	22.5	23.8	-5.5	49.1	49.5	-0.8	101.5
Tamro Poland	92.5	86.3	7.2	185.9	175.1	6.2	362.7
Other and internal	-14.7	-14.3	2.8	-30.9	-26.5	16.6	-56.7
Group total	1,388.6	1,400.6	-0.9	2,775.8	2,752.9	0.8	5,605.2

NUMBER OF EMPLOYEES BY BUSINESS UNIT. AVERAGE							
	5-7	5-7	Change	2-7	2-7	Change	2/07-1/08
	2008	2007	%	2008	2007	%	2007
Tamro Sweden	476	457	4.2	459	445	3.1	444
Tamro Denmark	627	623	0.6	629	609	3.3	620
Tamro Finland	350	333	5.1	339	332	2.1	331
Tamro Norway	2,049	1,906	7.5	2,025	1,882	7.6	1,905
Tamro Estonia	318	277	14.8	311	274	13.5	281
Tamro Latvia	413	370	11.6	403	363	11.0	370
Tamro Lithuania	402	405	-0.7	393	407	-3.4	402
Tamro Poland	439	362	21.3	409	360	13.6	359
Other and internal	35	25	40.0	34	24	41.7	24
Group total	5.109	4.758	7.4	5.002	4.696	6.5	4.736

CONTINGENT LIABILITIES			
	31.7.	31.7.	31.1.
(EURm)	2008	2007	2008
Property mortgages	0.8	0.8	0.8
Guarantees for others	0.3	0.5	0.3
Other commitments	76.0	70.1	81.6
	77.1	71.4	82.7

DERIVATIVE FINANCIAL INSTRUMENTS			
	31.7.	31.7.	31.1.
(EURm)	2008	2007	2008
Derivatives - notional amounts			
Currency instruments			
Currency forward contracts	325.6	342.5	329.3
Derivatives - market value			
Currency instruments			
Currency forward contracts	-0.1	0.5	-0.6

The notional amounts of derivatives summarised here do not represent amounts actually exchanged between the parties and are thus not a measure of Tamro's derivatives-related exposure.