

# Press release



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

## **TAMRO GROUP INTERIM REPORT FEBRUARY–OCTOBER 2008: STABLE PROFITABILITY AND CASH FLOW DESPITE MARKET SLOWDOWN**

### **Third-quarter highlights**

- Tamro Group net sales in August–October 2008 amounted to EUR 1,404 million, impacted by a changed business model of some suppliers in Sweden and the negative development of the NOK and SEK rates. Without these effects, the net turnover would have increased by 3%.
- Operating profit in August–October amounted to EUR 31.2 million, up EUR 0.8 million despite a EUR -4.1 million FX impact. Operating profit development was driven by increased retail activity (Norway, Baltic markets and Poland) and solid development in the service portfolio in Finland.
- Profit before taxes in August–October was EUR 27.5 million, down EUR 5.8 million due to a EUR -5.5 million FX impact, increasing interest rates in the turbulent market situation and an extraordinary Russian dividend income last year.
- The acquisition of the Farma pharmacy chain in Lithuania, a major transaction, was completed in August.

### **Group key figures**

	<b>8–10</b>	<b>8–10</b>	<b>Change</b>	<b>2–10</b>	<b>2–10</b>	<b>Change</b>
	<b>2008</b>	<b>2007</b>	<b>%</b>	<b>2008</b>	<b>2007</b>	<b>%</b>
Net sales, EURm	1,404	1,414	-0.7	4,179	4,167	0.3
Operating profit, EURm	31.2	30.4	2.6	102.9	94.3	9.1
Profit before taxes, EURm	27.5	33.3	-17.4	93.8	93.4	0.4
Return on capital employed, %	34.7	27.6		39.0	27.9	
Personnel, average	5,322	4,801	10.9	5,100	4,720	8.1

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

The global financial crisis had a minor effect on Tamro's profitability during the third quarter. However, all of Tamro's operating markets will experience economic slowdown to various extents towards the end of the financial year. Tamro will closely monitor how the busy holiday season develops and adjust business plans accordingly.

Pharmacy liberalisation in Sweden is proceeding as planned, with a Parliament decision scheduled for April 2009. The current draft legislation does not offer international players like Tamro a predictable, functioning market environment that would allow market players to recover the increased costs in the market. Therefore Tamro has delayed any decision on whether to enter or stay out of the Swedish retail market.

## **Tamro's President & CEO Jo Langmoen**

“Market slowdown and modest sales development were a reality in all Tamro countries. It is a myth that pharmaceutical markets are immune to the effects of the recession. Group profitability and cash flow have developed reasonably, considering the overall market situation. Adverse currency changes and higher financial costs had a negative effect. We will continue to focus on customer orientation and cost-efficiency – typical Tamro attributes – during the coming months.”

The interim figures are unaudited.

Tamro Corporation  
Board of Directors

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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).

## **Operating environment**

Nordic pharmaceutical market growth during February–October 2008 was approximately 4%, varying between -0.6% in Norway and 7.5% in Denmark. The higher than expected growth in Denmark results from substantial deliveries to hospitals and does not represent the development in private pharmacies.

In Estonia and Latvia, the double-digit market growth continued in spite of the economic situation. The Baltic markets are characterised by high inflation and an overall weak economic outlook. The market growth continued steady in Poland during third quarter.

Legislative measures to restrict the rise in pharmaceutical costs continued in Tamro's entire market area.

## **Operations in business units**

### Tamro Sweden

Total pharmaceutical sales in Sweden during February–October 2008 were EUR 2,200 (2,289) million in pharmacy purchase prices (PPP), which represents growth of 3% at constant exchange rates (CER) compared to the same period in the previous year.

Tamro Sweden's net sales during February–October were EUR 1,149 (1,278) million, a decrease of 10.2%. The main reason was the changed business model among some suppliers.

Tamro Sweden's average market share for February–October remained at 53%. During third quarter, the company signed a supplier contract that will increase the market share by approximately 3–4 % in 2009.

Tamro Sweden employed an average of 462 (445) people.

The Swedish Ministry of Social Affairs confirmed the timetable of the pharmacy liberalisation. The Government will hand the legislation proposal to the Parliament in January–February 2009 and the Parliament is likely to decide on the liberalisation in March–April 2009. The liberalisation is expected to come into effect on 1 July 2009. The board members and management of Apoteket Omstrukturering AB, responsible for selling of state-owned pharmacies, and the state-owned service company, in charge of the IT infrastructure for Swedish pharmacies, have now all been appointed.

### Nomeco, Denmark

Total pharmaceutical sales in Denmark during February–October 2008 were EUR 1,484 (1,382) million in PPP, which represents an increase of 7.5% at CER compared to the same period in the previous year. The growth is driven primarily by hospital sales (up nearly 15% compared to last year), whereas growth in the pharmacy sector remains low (up 3%). The market growth in the pharmacy sector is expected to stay at a relatively low level also during the fourth quarter.

A factor contributing to the low pharmacy market growth are the prices of generics, which remain at a record low level. A price freeze on original medicines, valid until early 2009, has further slowed down market growth.

Nomeco's net sales during February–October were EUR 1,202 (1,125) million, an increase of 6.8%. Nomeco's market share, 75%, represents the company's strong market position. The company employed an average of 608 (617) people.

#### Tamro Finland

Total pharmaceutical sales in Finland during February–October 2008 were EUR 1,460 (1,371) million in PPP, which represents growth of 6.5% compared to the same period in the previous year.

Tamro Finland's net sales in February–October were EUR 789 (760) million, an increase of 3.7%. Tamro Finland's average market share for February–October was 52%. The company employed an average of 343 (331) people.

The operations of Tamro Finland have continued to develop positively despite challenging market conditions and increased cost pressure. The quality and efficiency of Tamro Finland's logistic services, in particular, have remained stable and on a very high level.

The Finnish Parliament approved the law implementing medicine reference pricing and thus expanding generic substitution. The law will come into effect on 1 April 2009. According to the new law, medicines will be reimbursed according to the cheapest corresponding product available. The new pricing scheme will have a significant effect on market value and growth. Based on government and pharmaceutical industry calculations, it is expected to reduce market value by 4%, which corresponds to approximately EUR 85 million annually. Pharmaceutical wholesalers are expected to lose part of their income. In addition, wholesalers may face increased logistic challenges, as the new pricing scheme could generate more volatility in the demand for individual products.

#### Apokjeden, Norway

Total pharmaceutical sales in Norway during February–October 2008 were EUR 1,102 (1,117) million in PPP, which represents a decline of 0.6% at CER compared to the same period in the previous year. The negative growth in pharmaceutical sales is mainly due to new generics included in the stepped pricing model.

Apokjeden Group's February–October net sales grew by 2.4% to EUR 579 (565) million. Apokjeden's average market share in wholesale was 30% and in retail almost 44% (excluding hospital pharmacies). Apokjeden now owns 219 pharmacies and has 5 franchise pharmacies. The company employed an average of 2,049 (1,895) people, of whom 87% worked in retail.

According to the Norwegian Pharmacy Association, prescription drugs showed a negative growth of 0.8% in the private pharmacy market in 2008. The value per prescription is reduced accordingly year over year. However, sales of commodity goods increased in 2008. Our pharmacy chain Apotek 1 has experienced a higher than average growth in commodity sales.

### Tamro Estonia

Total pharmaceutical sales in Estonia during January–September 2008 were EUR 138 (124) million in PPP, which represents growth of 12% at CER compared to the same period in the previous year.

Tamro's sales development in Estonia was stable. Net sales during February–October were EUR 61 (52) million, an increase of 19%. Factors contributing to the sales increase were the market growth as well as successful retail sales to Tamro's franchise pharmacies and other pharmacy chains.

Tamro's average market share in wholesale was 32% and in retail 14% (excluding franchise pharmacies). The company employed an average of 316 (277) people, of whom 80% worked in retail.

The value-added tax on pharmaceuticals will be increased in January 2009. Also, the Government is debating on Health Sick Fund budget cuts for 2009. The weak general economic outlook may slow down the pharmaceutical sales.

### Tamro Latvia

Total pharmaceutical sales in Latvia during February–October 2008 were EUR 214 (191) million in PPP, which represents growth of 12% at CER compared to the same period in the previous year. The market growth has slowed down significantly due to weakened household purchasing power and budget limitations for reimbursed medicines.

Tamro's net sales in Latvia during February–October were EUR 88 (86) million, an increase of 2.6%. The main reason for the turnover slowdown is the 13% decrease in the pre-wholesale volume.

Tamro Latvia's average wholesale market share for February–October remained at 23%. Tamro's retail market share is almost 10%. Tamro continued to support pharmacies with a joint marketing and co-operation concept, including a common standard for pharmacy branding and customer service. Implementation of a new retail IT system began, ensuring more efficient ordering and stock management process in the pharmacies.

The company employed an average of 413 (366) people, of whom 85% worked in retail.

### Tamro Lithuania

Total pharmaceutical sales in Lithuania during February–October 2008 were EUR 316 (297) million in PPP, which represents growth of 6% at CER compared to the same period in the previous year. The inflation rate increased and was 10% on average. Growing inflation further increased pressure on the pharmacists' wages and transport costs.

Tamro net sales in Lithuania during February–October were EUR 77 (75) million, an increase of 3.4%. Tamro Lithuania's average wholesale market share was 16%.

On 31 August, Tamro Lithuania completed the acquisition of all shares in the Farma pharmacy chain. After the acquisition, the Tamro-controlled Seimos vaistine chain became the third largest pharmacy chain in Lithuania, with a 10% market share.

The company employed an average of 443 (405) people, of whom 79% worked in retail.

### Phoenix Pharma Polska, Poland

Total pharmaceutical sales in Poland during February–October 2008 were EUR 4,198 (3,821) million in pharmacy purchase prices (PPP), which represents growth of 10% at CER compared to the same period in the previous year.

Phoenix Pharma Polska's net sales during February–October were EUR 282 (268) million, an increase of 5.3%. The company's market share in the competitive wholesale market remained at 3%. The company employed an average of 431 (360) people, of whom 26% worked in retail.

In the third quarter, Phoenix Pharma Polska organised the first internet fair for pharmacies, and it resulted in good sales figures. The company's management was strengthened by recruiting a HR manager in charge of developing the company's HR policy.

Phoenix Pharma Polska has decided to shift its focus to logistic services. In addition, the company will continue the expansion into retail.

## **Group's financial performance**

### February–October

The Group's February–October 2008 net sales amounted to EUR 4,179 (4,167) million, an increase of only 0.3% compared to the same period last year. The net sales were impacted by the changed business model of some suppliers in Sweden and the FX effect.

The Group's operating profit in February–October was EUR 103 (94) million, up 9.1% from the same period in the previous year. The Group's ordinary profit before taxes was EUR 94 (93) million, up 0.4%, and the profit margin was 2.2 (2.2)%. The net profit for the period February–October was EUR 68 (70) million.

### August–October

The Group's third quarter net sales amounted to EUR 1,404 (1,414) million, down 0.7% from last year's figures.

The Group's operating profit in August–October was EUR 31 (30) million, up 2.6% from the same period in the previous year. The ordinary profit before taxes was EUR 28 (33) million, down 17%, and the profit margin was 2.0 (2.4)%. The net profit for the period August–October was EUR 19 (25) million.

## **Investments and divestments**

Gross investments totalled EUR 41 (24) million during February-October, consisting of investments in operational assets and retail acquisitions in the Group. The divestments included sale of a minor non-operative shareholding and sale of a small subsidiary company in Denmark.

## **Financing**

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

The interest-bearing net debt amounted to EUR 81 (64) million at the end of October. The effective net debt, including as debt the sold receivables of EUR 196 (63) million, equalled EUR 277 (127) million.

Cash and liquid assets amounted to EUR 20 (18) million. The available limit in the revolving credit facilities with core banks totalled EUR 200 (200) million, and the unused limit in the securitisation programmes was EUR 47 (178) million.

Net financial items during the third quarter amounted to EUR -3.7 (2.8) million. The net financial items of the comparison period included dividend income. The year-to-date net financial items were EUR -9.1 (-1.1) million. The increase is explained by a higher general interest rate level and loan margins, and by a higher amount of debt. Also, the dividend income during Q3 2007 decreased the net financial items last year.

Net gearing increased to 35 (14)% and the equity ratio decreased to 18 (32)%.

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

In the third quarter, the operative cash flow before changes in net working capital and investments amounted to EUR 21 (39) million. The change in net working capital produced a cash flow of EUR -3 (-37) million. Cash flow from net investments amounted to EUR -20 (-11) million. The free cash flow during the third quarter was EUR -1 (-9) million.

The year-to-date operative cash flow before changes in net working capital and investments was EUR 92 (109) million. Changes in net working capital resulted in a cash flow of EUR 36 (-157) million. The net cash flow effect of investments was EUR -32 (-19) million. On a year-to-date basis, the free cash flow increased to EUR 95 (-67) million.

## **Personnel**

The average number of employees in the Group in February–October was 5,100 (4,720), of whom 54 (52)% worked in retail.

## Events after the end of the quarter

Tamro Group Logistics Director **Stefan Pflug** has been appointed Managing Director of PHOENIX Healthcare Distribution Ltd., UK, as of 1 February 2009. Additionally, Mr. Pflug has been appointed Managing Director of PPE, the PHOENIX purchasing organisation.

Phoenix Pharma Polska, Tamro's business unit in Poland, signed a share purchase agreement to acquire PharmExpress, a chain of 13 pharmacies located in Silecia region, Poland. The deal was signed on 19 November.

## APPENDICES

Consolidated income statement

Consolidated balance sheet

Consolidated cash flow statement

Key figures

Net sales by business unit

Number of employees by business unit

Contingent liabilities

Derivative financial instruments

CONSOLIDATED INCOME STATEMENT							
	8-10	8-10	Change	2-10	2-10	Change	2/07-1/08
(EURm)	2008	2007	%	2008	2007	%	2007
Net sales	1,403.6	1,413.7	-0.7	4,179.4	4,166.6	0.3	5,605.2
Other income	0.0	0.0	-	5.6	3.0	86.7	3.6
Raw materials and services	-1,280.0	-1,297.8	-1.4	-3,806.8	-3,826.2	-0.5	-5,144.2
Personnel expenses	-58.3	-53.9	8.2	-171.9	-156.4	9.9	-211.3
Depreciation and value adjustments	-9.2	-8.3	10.8	-26.9	-24.1	11.6	-32.3
Other operating expenses	-24.9	-23.3	6.9	-76.5	-68.6	11.5	-98.6
Operating profit	31.2	30.4	2.6	102.9	94.3	9.1	122.4
Financial income and expenses	-3.7	2.8	-232.1	-9.1	-1.1	727.3	-1.9
Share of associated companies' net income	0.0	0.1	-100.0	0.0	0.2	-100.0	0.3
Profit before extraordinary items	27.5	33.3	-17.4	93.8	93.4	0.4	120.8
Profit before taxes	27.5	33.3	-17.4	93.8	93.4	0.4	120.8
Income taxes	-8.4	-8.2	2.4	-25.9	-22.9	13.1	-31.9
Minority interest	-0.1	0.0	-	-0.5	-0.1	400.0	-0.1
Net profit for the period	19.0	25.1	-24.3	67.5	70.4	-4.1	88.8

CONSOLIDATED BALANCE SHEET			
	31.10.	31.10.	31.1.
(EURm)	2008	2007	2008
Assets			
Intangible and tangible assets	331.7	324.0	322.9
Financial assets	15.3	17.6	17.5
Inventories	409.2	422.0	391.7
Receivables	486.7	632.5	504.6
Liquid assets and short-term investments	19.5	17.5	38.6
	1,262.4	1,413.6	1,275.3
Equity & liabilities			
Shareholders' equity	228.1	452.3	335.9
Minority interest	1.4	0.3	0.3
Obligatory reserves	1.8	2.5	1.6
Long-term liabilities <sup>(1)</sup>	43.3	41.4	45.3
Short-term liabilities <sup>(1)</sup>	987.8	917.1	892.2
Balance sheet total	1,262.4	1,413.6	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				
	2-10	2-10	Change	2/07-1/08
(EURm)	2008	2007	%	2007
Operating profit	99.5	94.3	5.5	121.3
Depreciation, value adjustments and other adjustments	25.9	24.1	7.5	32.1
Financial income and expenses	-11.4	-1.2	850.0	-4.4
Other income and expenses	-7.8	-2.5	212.0	2.4
Taxes	-14.6	-6.1	139.3	-14.1
Cash flow before change in net working capital	91.6	108.6	-15.7	137.3
Change in net working capital	35.6	-157.1	-122.7	10.5
Cash used in / from operating activities	127.2	-48.5	-362.3	147.8
Investments in tangible and intangible assets	-40.7	-23.6	72.5	-37.1
Proceeds from disposal of tangible and intangible assets and financial investments	8.4	4.7	78.7	5.3
Cash used in investing activities	-32.3	-18.9	70.9	-31.8
Free cash flow	94.9	-67.4	-240.8	116.0
Change in loans and other financial items	46.7	29.0	61.0	-6.9
Dividends paid	-160.3	0.0	-	-125.9
Translation differences and other changes	-0.1	0.7	-114.3	0.1
Cash from / used in financing activities	-113.7	29.7	-482.8	-132.7
Change in cash and cash equivalents	-18.8	-37.7	-50.1	-16.7

KEY FIGURES							
	8-10	8-10	Change	2-10	2-10	Change	2/07-1/08
	2008	2007	%	2008	2007	%	2007
Operating margin, %	2.2	2.2		2.5	2.3		2.2
Profit margin, %	2.0	2.4		2.2	2.2		2.2
Return on capital employed, %	34.7	27.6		39.0	27.9		32.0
Return on equity, %	28.0	23.0		32.0	22.8		25.1
Gross investments, €m	20.1	11.5	74.8	40.7	23.6	72.5	37.1
Free cash flow, €m	-1.4	-9.4	-85.1	94.9	-67.4	-240.8	116.0
Capital employed, €m	363.5	512.6	-29.1	357.9	479.9	-25.4	405.8
Net working capital, €m	-26.3	181.2	-114.5	-26.3	181.2	-114.5	16.1
Interest-bearing net debt, €m	81.3	63.7	27.6	81.3	63.7	27.6	10.8
Net gearing, %	35.4	14.1		35.4	14.1		3.2
Equity Ratio, %	18.2	32.0		18.2	32.0		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, €*	0.17	0.22	-22.7	0.59	0.61	-3.3	0.78
Equity per share, €*	2.00	3.95	-49.4	2.00	3.95	-49.4	2.94
Number of employees, average	5,322	4,801	10.9	5,100	4,720	8.1	4,736
* excluding own shares							

NET SALES BY BUSINESS UNIT							
	8-10	8-10	Change	2-10	2-10	Change	2/07-1/08
(EURm)	2008	2007	%	2008	2007	%	2007
Tamro Sweden	381.6	425.6	-10.3	1,148.6	1,278.4	-10.2	1,685.7
Tamro Denmark	401.4	378.6	6.0	1,201.8	1,124.9	6.8	1,526.1
Tamro Finland	272.1	266.5	2.1	788.7	760.4	3.7	1,032.4
Tamro Norway	188.6	193.9	-2.7	578.8	565.4	2.4	765.5
Tamro Estonia	20.7	17.1	21.1	61.3	51.5	19.0	70.4
Tamro Latvia	30.9	29.8	3.7	87.9	85.7	2.6	117.6
Tamro Lithuania	28.0	25.1	11.6	77.1	74.6	3.4	101.5
Tamro Poland	95.8	92.5	3.6	281.7	267.6	5.3	362.7
Other and internal	-15.5	-15.4	0.6	-46.5	-41.9	11.0	-56.7
Group total	1,403.6	1,413.7	-0.7	4,179.4	4,166.6	0.3	5,605.2

NUMBER OF EMPLOYEES BY BUSINESS UNIT, AVERAGE							
	8-10	8-10	Change	2-10	2-10	Change	2/07-1/08
	2008	2007	%	2008	2007	%	2007
Tamro Sweden	483	462	4.5	462	445	3.8	444
Tamro Denmark	581	638	-8.9	608	617	-1.5	620
Tamro Finland	358	329	8.8	343	331	3.6	331
Tamro Norway	2,104	1,925	9.3	2,049	1,895	8.1	1,905
Tamro Estonia	325	286	13.6	316	277	14.1	281
Tamro Latvia	431	375	14.9	413	366	12.8	370
Tamro Lithuania	525	402	30.6	443	405	9.4	402
Tamro Poland	478	362	32.0	431	360	19.7	359
Other and internal	37	22	68.2	35	24	45.8	24
Group total	5,322	4,801	10.9	5,100	4,720	8.1	4,736

CONTINGENT LIABILITIES			
	31.10.	31.10.	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	70.1	68.2	81.6
	71.2	69.5	82.7

DERIVATIVE FINANCIAL INSTRUMENTS			
	31.10.	31.10.	31.1.
(EURm)	2008	2007	2008
Derivatives - notional amounts			
Currency instruments			
Currency forward contracts	325.8	200.6	329.3
Derivatives - market value			
Currency instruments			
Currency forward contracts	0.7	-1.0	-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.