

**Interim Report** 1<sup>st</sup> – 3<sup>rd</sup> quarter 2004



**celesio**  
the healthcare group

## Highlights of 2004

- *Commitment* model of GEHE Pharma Handel successfully established in the German market with more than 2,400 participating pharmacies and 26 industry partners.
- New wholesale branches in Atton and Witry-lès-Reims/France, as well as in Torres Novas/Portugal.
- Belgian pharmacy business renamed *Lloydspharma*.
- NMD Grossisthandel wins tender to supply the majority of Norwegian hospitals until the end of 2007.
- Modernised wholesale branch in Linz/Austria.
- CAHILL MAY ROBERTS wins tender to supply Irish doctors with vaccines.
- Pharmacies in the Netherlands operate under the umbrella brand name *Lloyds Apotheken*.



## Key facts about Celesio

### Tradition

Founder \_\_\_\_\_ Franz Ludwig Gehe  
 Founded \_\_\_\_\_ 1835 in Dresden  
 Core business \_\_\_\_\_ pharmaceutical distribution  
 Head office \_\_\_\_\_ Stuttgart since 1981

### Key financial figures, 1<sup>st</sup> – 3<sup>rd</sup> quarter 2004

Turnover \_\_\_\_\_ € 14.2 bn  
 Turnover growth \_\_\_\_\_ 3.4 %\* (3.8 % in €)  
 EBITDA\*\* \_\_\_\_\_ € 465.7 m  
 EBITDA growth \_\_\_\_\_ 17.4 %\* (18.6 % in €)  
 Profit before tax \_\_\_\_\_ € 329.4 m  
 Growth in profit before tax \_\_\_\_\_ 26.1 %\* (27.4 % in €)  
 Net profit \_\_\_\_\_ € 226.6 m  
 Growth in net profit \_\_\_\_\_ 28.3 %\* (29.7 % in €)  
 Net profit per share \_\_\_\_\_ € 2.66

Employees\*\*\* \_\_\_\_\_ 24,404  
 Wholesale branches \_\_\_\_\_ 123  
 Pharmacies \_\_\_\_\_ 1,863

\* in local currency

\*\* Earnings Before Interest, Tax, Depreciation and Amortisation

\*\*\* converted to full-time equivalents



Celesio Group

November 2004

Dear Shareholders

**In the first three quarters of 2004 Celesio's turnover and profit rose again. This shows that the healthcare market is an attractive market in the long term. Celesio's turnover rose by 3.4 % in local currency over the previous year. Pre-tax profit increased significantly with growth of 26.1 % in local currency. The management board anticipates an increase in pre-tax profit in local currency of more than 20 % in 2004.**

### **The pharmaceutical market is a market of the future**

Demographic development and medical progress are the growth drivers of the pharmaceutical market.

As a player in the pharmaceutical market, Celesio operates in one of the markets of the future. Demographic development is one of the most important factors driving growth. People are investing more and more in their health and life expectancy is constantly increasing. Demographers expect that the proportion will steadily increase. Medical progress itself has a crucial role in this demographic growth. Medical innovations increase growth because they enable people to live longer, healthier lives.

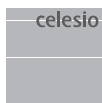
## Celesio is on course for growth

Celesio covers the entire spectrum of the pharmaceutical market and therefore benefits from the growth of the entire market. Celesio's success is not dependent on the development of just one medicine. The markets in which Celesio has a presence continued to grow in the first nine months of 2004.

Turnover in local currency rose in the first nine months of 2004 by 3.4 % (3.8 % in €) compared to the previous year and reached € 14,162.1 m. In wholesale Celesio grew, taking account of extraordinary items, in line with the comparable market at 2.7 % adjusted for exchange rate effects (3.0 % in €). In retail Celesio clearly outperformed the market with growth of 7.5 % in local currency (8.5 % in €). The group EBITDA grew by 17.4 % in local currency (18.6 % in €) to € 465.7 m. Return on sales, based on EBIDTA, rose by 41 basis points to 3.29 %.

Pre-tax profit in local currency rose by 26.1 % (27.4 % in €) and was € 329.4 m at 30 September 2004. In retail, profit growth was significantly higher at 55.3 % in local currency (59.0 % in €). Celesio clearly improved its profit situation in both business divisions. This was primarily due to higher gross profit ratios and an improved cost base. Return on sales, based on pre-tax profit, rose from 1.90 % to 2.33 %. Pre-tax profit per share was € 3.87 compared with € 3.04 last year.

Celesio improves profits  
in both business divisions.



Celesio Group

### Sound balance sheet structure – equity ratio at 30.6 %

The balance sheet structure as at 30 September is sound.

With an equity ratio of 30.6 % on 30 September 2004 in comparison with 29.3 % on 31 December 2003, Celesio's balance sheet structure is sound. Gearing improved in the same time period from 0.79 to 0.75. The positive growth in cash flow and the reduction in current assets have contributed to this. The balance sheet total declined to € 5,318.0 m. However, exchange rate effects, in particular as a result of the rise of the British Pound Sterling (GBP) on the reporting date, increased the balance sheet total by € 62.5 m.

Overall fixed assets fell by € 69.8 m in the first nine months of 2004. The higher exchange rate of GBP on the reporting date resulted in higher fixed assets. Depreciation and offset of goodwill amounted to € 207.1 m. By comparison, investments in tangible assets and intangible assets amounted to € 134.4 m. The growth in financial assets was mainly attributable to a loan to a leasing company. Up until the end of the 3<sup>rd</sup> quarter of 2004, Celesio invested € 81.6 m in the underlying business and € 52.8 m in acquisitions. Celesio financed the investments entirely from the cash flow.

### Turnover, EBITDA and profit development, 1<sup>st</sup> – 3<sup>rd</sup> quarter

	2003 Turnover	2004 Turnover	Change in local currency	Change in €	2003 EBITDA	2004 EBITDA	Change in local currency	Change in €
	€ m	€ m	%	%	€ m	€ m	%	%
Wholesale	11,709.0	<b>12,061.6</b>	2.7	3.0	266.3	<b>300.0</b>	12.0	12.6
Retail	1,935.1	<b>2,100.5</b>	7.5	8.5	157.9	<b>194.4</b>	21.4	23.2
<b>Total pharmaceutical distribution</b>	13,644.1	<b>14,162.1</b>	3.4	3.8	424.2	<b>494.4</b>	15.5	16.6
Others	0.0	<b>0.0</b>	0.0	0.0	- 31.4	<b>- 28.7</b>	8.4	8.4
<b>Celesio Group</b>	13,644.1	<b>14,162.1</b>	3.4	3.8	392.8	<b>465.7</b>	17.4	18.6





**Celesio** Group

Pension reserves and other provisions changed very little as at 30 September 2004 in comparison with 31 December 2003. At the end of the 3<sup>rd</sup> quarter, trade creditors including liabilities on bills accepted and drawn were slightly down on the figure at the start of the year.

Liabilities to banks declined by € 224.4 m on 30 September 2004 as a result of the positive free cash flow situation and the issue of further promissory notes. Celesio diversified its financing structure by means of these further promissory notes totalling € 183.2 m in the first nine months of 2004.

### **Profitability increased**

In the first nine months of 2004 Celesio increased its profitability. Gross profit ratio, return on sales and interest coverage improved compared with the same period in the previous year. Both wholesale and retail contributed to this development.

The group's gross profit ratio increased by 38 basis points to 10.44 % compared with the previous year. The growing importance of the retail business and its higher gross profit ratio were chiefly responsible for this development. In the retail business the gross profit ratio grew by 60 basis points to 31.63 %. In wholesale the gross profit ratio was up 16 basis points to 6.75 %.

Other operating expenses and income grew at a slower rate than turnover thanks to rigorous costs control. Due to the growing importance of the retail business, which is more staff intensive, personnel costs grew slightly ahead of turnover.

Gross profit ratio, return on sales and interest coverage improved.

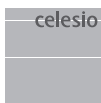


Amortisation of goodwill fell. Goodwill acquired 15 years ago was fully amortised on 31 December 2003. Amortisation of the remaining intangible assets and depreciation of tangible assets were also down on the previous year's value.

The primary reason behind the improved income from investments was the dividend payment by Andreae-Noris Zahn AG. Net interest income was up a little due to the slightly higher interest rate level as well as the investments and acquisitions in the last 12 months. Nevertheless, interest coverage (EBIT in relation to interest income) improved and stood at 6.08 compared with 5.63 in the first nine months of 2003.

Return on sales, based on pre-tax profit, reached a new record level with an increase of 43 basis points to 2.33 %. Besides the improved gross profit ratio, this development owes much to rigorous cost control.

The income tax ratio dropped compared with the same period in the previous year from 32.4 % to 31.2 %. In particular, Celesio's increased business activities abroad contributed to this development. After adjustments made to take account of exchange rate effects, net profit grew by 28.3 % (29.7 % in €) to € 226.6 m.



Celesio Group

## Celesio increases cash flow

In the first nine months of 2004 cash flow, adjusted for exchange rate effects, increased by 16.5 % (17.5 % in €) to € 301.7 m. The improved gross profit ratio, consistent cost management and an investment policy which increases returns also had a positive effect on the cash flow. Free cash flow grew to € 65.2 m. This is mainly due to the increase of the operational cash flow and the low level of acquisition activities.

### Cash flow, 1<sup>st</sup> – 3<sup>rd</sup> quarter

	2003 in € m	<b>2004 in € m</b>
Cash flow	256.7	301.7
Dividends paid	– 72.3	– 76.5
<b>Cash flow after dividends paid</b>	<b>184.4</b>	<b>225.2</b>
Income from the disposal of fixed assets	19.6	24.3
Investment in underlying business	– 110.9	– 81.6
<b>Free cash flow before acquisitions and change in net working capital</b>	<b>93.1</b>	<b>167.9</b>
Change in net working capital	– 56.4	– 49.9
Acquisitions	– 122.7	– 52.8
<b>Free cash flow</b>	<b>– 86.0</b>	<b>65.2</b>

### Profit growth of over 20 % anticipated

The management board anticipates that the market will continue its upward trend compared with the previous year, and expects a market growth of at least 5 % for the 2004 financial year.

In local currency, wholesale turnover is to grow in line with the comparable market and retail turnover is to grow ahead of the comparable market.

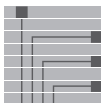
The management board anticipates group pre-tax profit to grow by more than 20 % in local currency in the 2004 financial year.

The management board anticipates market growth of at least 5 %.

### Key figures for the Celesio share, 1<sup>st</sup> – 3<sup>rd</sup> quarter

	2003	<b>2004</b>	Change in local currency	Change in €
	€ per share	<b>€ per share</b>	%	%
EBITDA	4.62	<b>5.48</b>	17.4	18.6
Profit before tax and amortisation of goodwill	3.21	<b>4.02</b>	24.0	25.2
Profit before tax	3.04	<b>3.87</b>	26.1	27.4
Net profit	2.06	<b>2.66</b>	28.3	29.7

### Growth market healthcare



Celesio Wholesale

## Celesio Wholesale overview by country

1<sup>st</sup> – 3<sup>rd</sup> quarter

	No. of branches 2004	Turnover 2003  in € m	<b>Turnover 2004  in € m</b>	Turnover change in local currency in %	Turnover change in €  in %
France	52	5,010.7	<b>5,201.9</b>	3.8	3.8
Germany	19	2,537.7	<b>2,480.2</b>	– 2.3	– 2.3
United Kingdom	20	2,188.2	<b>2,363.0</b>	5.4	8.0
Austria	7	693.2	<b>705.4</b>	1.8	1.8
Belgium	8	303.4	<b>307.2</b>	1.3	1.3
Ireland	3	268.3	<b>318.7</b>	18.8	18.8
Norway	4	313.0	<b>271.6</b>	– 7.6	– 13.2
Portugal	6	216.0	<b>226.1</b>	4.7	4.7
Czech Republic	3	93.1	<b>97.6</b>	6.1	4.8
Italy	1	85.4	<b>89.9</b>	5.3	5.3
<b>Total</b>	<b>123</b>	<b>11,709.0</b>	<b>12,061.6</b>	<b>2.7</b>	<b>3.0</b>

**Supplying pharmacies  
everywhere with everything  
pharmacies need**

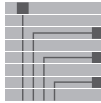
## Celesio Wholesale overview

**In the first three quarters of 2004, Celesio increased wholesale turnover in local currency by 2.7 %. Pre-tax profit rose by 18.2 % in local currency. A significantly improved gross profit ratio, consistent cost management and operational improvements contributed to the positive development in profit.**

### **Celesio benefits from growth in generics and improves gross profit ratio**

Celesio increased its wholesale turnover in local currency by 2.7 % (3.0 % in €) in the first three quarters of 2004 and so grew, taking account of extraordinary items, in line with the comparable market. For the period ended 30 September turnover was € 12,061.6 m. EBITDA grew by 12.0 % in local currency (12.6 % in €) to € 300.0 m. After adjustment for exchange rate effects, pre-tax profit increased in comparison with the previous year by 18.2 % (18.8 % in €) and reached € 240.8 m. This is mainly attributable to the improved gross profit ratio and the improved cost base across the whole group. Return on sales, based on pre-tax profit, rose from 1.73 % in the previous year to 2.00 %.

Strong growth was seen in the market for generic products in the first three quarters, particularly in France and the United Kingdom. The expiry of patents on some of the best selling medicines as well as changes to the way doctors prescribe medicines were crucial to this development. Celesio co-operated intensively with producers of generic products and offered pharmacies a comprehensive range of generic medicines on attractive conditions, thus strengthening its market share in this segment. This made a significant contribution to the improved gross profit ratio.



**Celesio** Wholesale

In the first three quarters of 2004, there were changes to market conditions in several countries. Due to Celesio's geographical diversification, consistent cost management and intensive co-operation with customers and manufacturers, these changes did not adversely affect overall profitability. Changes to the market included a new regulation for a special tax on prescription medicines in France, practice fees and newly stipulated co-payment regulations in Germany, reductions in the statutory wholesale margin in France, Germany and Austria and, finally, a cut in the amounts reimbursed for selected generic products in the United Kingdom.

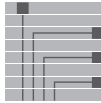
### **Customer satisfaction is the number one priority**

Customer-focused employees and service quality are essential to ensure customers are satisfied. In the first three quarters of 2004, Celesio ensured customer satisfaction through numerous measures. For example, Celesio's Norwegian wholesaler, NMD Grossisthandel (NMD), developed a training course for its employees with core themes such as logistics, healthcare, the environment and quality management. This is to ensure that NMD continues to provide high quality service. OCP, Celesio's French wholesaler, introduced a customer relationship management software. Sales staff can now access all relevant information on customers quickly, and thus address the needs of pharmacies even more effectively.

Many pharmacies in Germany, the United Kingdom and Austria make use of one of Celesio's customer loyalty concepts. The aim of these concepts is to make privately managed pharmacies fit for the future and to strengthen the whole distribution chain – industry, wholesale and pharmacies. Celesio offers participants a special package of services relating to purchasing, marketing and training. With more than 2,400 participating pharmacies, the Commitment model of GEHE Pharma Handel, the German Celesio wholesaler, is extremely successful. There is no other programme in Germany that has been joined by as many pharmacies.

### **Operational improvements for future profit growth**

In the first three quarters of 2004, Celesio improved its operational processes in many countries, thereby improving productivity, efficiency and customer service. As part of these activities, Celesio streamlined its branch network in some countries and introduced new warehouse management and logistics systems. Celesio's wholesalers in France, Germany, the United Kingdom, Austria, Norway, Belgium and Portugal were affected by the measures. The measures will impact positively on the profit for 2004 and the coming years.



Celesio Wholesale

## Celesio Wholesale information by country

### France – Market share in generics sector strengthened

At the end of the 3<sup>rd</sup> quarter, turnover of Celesio's French wholesaler, OCP, was up 3.8 % on the previous year. Particularly strong growth was experienced on turnover from higher priced medicines. Since 2003, many of these medicines have been dispensed not only in hospitals but also in pharmacies.

In order to participate in the strong growth of the generic products market, OCP continued its close co-operation with pharmaceutical manufacturers. As a result OCP was able to offer its customers a comprehensive range of generic products at particularly attractive conditions and to expand its market share in the generic products sector. Profit before tax was in line with expectations.

### Germany – Positive profit development

Compared to the previous year, turnover of Celesio's German wholesaler, GEHE Pharma Handel, fell by 2.3 % on 30 September 2004. The entire market also showed a downward trend. The reform of the health-care system brought new types of enterprises into the pharmaceutical market such as mail order companies, pharmacy consortia and very small pharmacy chains.

Profit before tax showed positive growth. The introduction of a new sales structure, an innovative logistics concept and the *Commitment* model service programme for pharmacies and industry, all contributed to this development. The first indications of steadily intensifying competition were detected in the 3<sup>rd</sup> quarter.



### **United Kingdom – Customer service expanded**

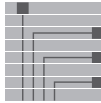
In the first three quarters, turnover in local currency of AAH, Celesio's British wholesaler, rose by 5.4 % (8.0 % in €) compared to the previous year. Increased turnover with hospitals and with customers who operate pharmacy chains made a significant contribution to this.

AHH participated in the strong growth of the generic products market and offered its customers an extensive product range on attractive conditions. Profit before tax showed higher growth than anticipated.

### **Austria – Turnover above the market**

At the end of the 3<sup>rd</sup> quarter of 2004, Celesio's Austrian wholesaler, Herba Chemosan, increased its turnover by 1.8 % in comparison with the previous year, thereby outperforming the market. Profit before tax exceeded expectations.

The *Herba Family* customer loyalty concept, with services being offered in the areas of marketing, co-operation and training, was very well received by pharmacies. The service will be extended further and new marketing services are being introduced in autumn 2004.



Celesio Wholesale

### **Norway – High quality service pays off**

In the first three quarters Celesio's Norwegian wholesaler, NMD Grossisthandel (NMD), showed a decline in turnover in local currency of 7.6 % (13.2 % in €) in comparison with the previous year. This was due to the different treatment of a distribution contract which did not, however, impact on profit. Adjusted to take account of this special effect, turnover was 1.4 %, adjusted to take account of exchange rate effects, higher than the previous year's level. Profit before tax showed positive growth, which is mainly due to very strict cost management.

The high quality service which NMD offers its customers paid off during the reporting period. In April, NMD once again won the tender to supply most Norwegian hospitals until the end of 2007.

### **Belgium – Improved operational processes**

Celesio's Belgian wholesaler, PHARMA BELGIUM, increased its turnover in the first three quarters of 2004 by 1.3 % over the previous year. Profit before tax is in line with expectations. In a market environment characterised by intense discount competition, PHARMA BELGIUM expanded its attractive offers and services for pharmacies. The company also carried out operational improvements. For example, the logistics processes of the branches in Brussels and Lüttich were reorganised.

### **Ireland – CMR supplies Irish doctors with vaccines**

CAHILL MAY ROBERTS (CMR), Celesio's wholesaler in Ireland, increased its turnover in the first three quarters of 2004 by 18.8 % compared to the previous year. Profit before tax grew in line with expectations. CMR countered discount competition in the Irish market with consistent cost management and improvements in logistical equipment. For example, CMR invested in new refrigerated equipment – an investment that has paid off. CMR won the tender for supplying vaccines to doctors throughout the entire country.

### **Portugal – Profit rises more strongly than turnover**

OCP PORTUGAL, Celesio's Portuguese wholesaler, achieved an increase of 4.7 % in turnover in the first nine months of 2004 in comparison with the previous year. Profit before tax grew ahead of turnover and exceeded expectations.

OCP PORTUGAL improved operational processes in the 1<sup>st</sup> quarter of 2004: Three former sites have now been merged into the two modern branches in Lisbon and Torres Novas, which have good transport connections.

### **Czech Republic – Sustainable cost management**

GEHE Pharma Praha, Celesio's wholesaler in the Czech Republic, increased its turnover in the first three quarters of 2004 in local currency by 6.1 % (4.8 % in €) over the previous year. The Czech pharmaceutical market was characterised by keen competition with high discounts and long payment targets. Profit before tax improved in line with expectations due to sustainable cost management.

### **Italy – Growth in the prescription sector**

AFM, Celesio's Italian wholesaler, increased its turnover in the first three quarters of 2004 by 5.3 %, thereby developing in line with the market. In the prescription sector in particular, AFM achieved significant growth as increasingly expensive products were prescribed. Profit before tax exceeded expectations.

AFM won over in the 2<sup>nd</sup> quarter 2004 new customers including municipal and independent pharmacies. In addition AFM won the contract to supply a municipal hospital with medicines and medical equipment, and to manage its stocks.



Celesio Retail

## Celesio Retail overview by country

1<sup>st</sup> – 3<sup>rd</sup> quarter

	No. of pharmacies	Turnover 2003 in € m	<b>Turnover 2004</b> <b>in € m</b>	Turnover change in local currency in %	Turnover change in € in %
United Kingdom	1,368	1,344.1	<b>1,477.0</b>	7.2	9.9
Norway	112	230.7	<b>234.4</b>	8.1	1.6
Italy	161	137.0	<b>148.9</b>	8.7	8.7
Ireland	55	75.9	<b>82.4</b>	8.7	8.7
Netherlands	38	71.8	<b>76.6</b>	6.8	6.8
Belgium	70	40.2	<b>52.8</b>	31.3	31.3
Czech Republic	59	35.4	<b>28.4</b>	- 18.9	- 19.9
<b>Total</b>	<b>1,863</b>	<b>1,935.1</b>	<b>2,100.5</b>	<b>7.5</b>	<b>8.5</b>

**Our pharmacies:  
Optimal care in everything  
to do with health**

## Celesio Retail overview

**In the first three quarters of 2004, Celesio significantly increased its retail turnover by 7.5 % in local currency and strengthened its market position. Pre-tax profit rose by 55.3 % in comparison to the previous year. Modernised pharmacies made a significant contribution to this positive development.**

### Strong organic turnover growth

The pharmacy market grew in the first three quarters of 2004. However, a large number of new pharmacies being opened influenced the development of the pharmacy markets in Ireland, the Netherlands and the Czech Republic. Celesio increased retail turnover in local currency by 7.5 % in comparison to the previous year (8.5 % in €) to € 2,100.5 m. Modernised pharmacies made a significant contribution to the high organic growth, and Celesio thus strengthened its retail market position. EBITDA grew by 21.4 % in local currency (23.2 % in €) to € 194.4 m. Pre-tax profit rose by 55.3 % in local currency (59.0 % in €) to € 92.2 m. This development is mainly due to positive gross profit growth, strict cost management and close co-operation with manufacturers. Return on sales, based on pre-tax profit, improved from 3.00 % to 4.39 %.

Particularly in the United Kingdom, Norway, Italy and the Netherlands, the generic products market grew strongly in the first three quarters. This was mainly attributable to changes to the way doctors prescribe medicines and the expiry of patent protection for some high turnover medicines. In its pharmacies, Celesio offers its customers not only a wide range of generic products but also comprehensive advice. In this way, Celesio strengthened its market share in this sector and increased its gross profit.

In the first nine months of 2004, conditions changed in several markets. However, geographical diversification and sustainable cost management in all countries ensured that the positive growth of Celesio's retail division was not adversely affected. In the United Kingdom for example, the amounts reimbursed for some active ingredients were reduced; in Norway, the prices of certain medications were lowered and some medicines were approved for other distribution channels. In some regions of Italy, patients with continuously high medicine costs have been obtaining their medications only from hospitals or local



**Celesio** Retail

health authorities since 2003. In the 1<sup>st</sup> quarter of 2004, players in the pharmaceutical market in the Netherlands agreed on a reduction in the price of generic products after the increase in clawback was declared ineffective through a court judgement. In Belgium there were also price reductions for some prescription medicines but, in return, clawback which had been increased on 1 July 2003, was reduced to its original level on 1 January 2004.

### **At the forefront of pharmacy innovations**

Using innovative measures, Celesio made its pharmacies open to new optical and acoustic experiences for its customers. For example, Celesio is the first pharmacy operator in Europe to offer its customers an exclusive radio programme. This was first introduced in the United Kingdom in 2003 and then in May and June 2004, Celesio's Norwegian and Irish pharmacies, Vitusapotek and Unicarepharmacy, followed suit.

In May 2004, Celesio's British pharmacy chain, Lloydspharmacy, opened a "pharmacy of the future". It combines modern design with a market leading range of services. It is the pilot project for the pharmacy concept of the future. Where appropriate, successful examples of best practice in some countries are transferred to other countries.

### **Strengthening its position as a comprehensive healthcare service provider**

In the first nine months of 2004, Celesio strengthened its position as a comprehensive healthcare service provider. For example, most Lloydspharmacy stores have set up consultation areas for confidential customer discussions and introduced free diabetes tests. With this service, Lloydspharmacy is helping to identify the "missing million" people in the United Kingdom who suffer from diabetes but are unaware of their condition. Between November 2003 and September 2004, Lloydspharmacy employees screened half a million people and advised around 25,000 to see their G.P. In recognition of this work, Lloydspharmacy was awarded the Corporate Social Responsibility prize by the renowned UK specialist magazine *Marketing Week*. In addition Celesio's Italian pharmacies introduced skin type analyses.

These measures were supported by extensive advertising and information campaigns. In this way Celesio's retail organisations are strengthening their market profile as a comprehensive healthcare provider and positioning their pharmacy brands more dominantly on the market. The idea of enhancing the pharmacist's role as a competent adviser in all healthcare matters is also being taken up by state institutions. The National Health Service contract with the pharmacies in the United Kingdom for example, which is being renegotiated in 2004, will probably be based on this idea.

### **Leading the way in the construction of health centres**

September 2004 saw the opening of the health centre, planned and built by Lloydspharmacy, in Newbattle, United Kingdom. The health centres which Celesio also helps to plan and construct in Norway and the Netherlands offer patients a range of healthcare services with pharmacies, doctors' practices and other healthcare providers under one roof. This allows Celesio to place pharmacies close to the flow of prescriptions. There are plans to open a further six centres in the United Kingdom, Norway and the Netherlands in the last quarter of 2004.

### **New pharmacies opened**

In the first three quarters of this year, Celesio was operating 1,863 pharmacies in seven European countries. It is Celesio's policy to only acquire pharmacies if they are in attractive locations and are being sold at a suitable price. Celesio acquired 14 pharmacies in the United Kingdom, the Netherlands, Ireland, Belgium and Norway, and opened six pharmacies in the United Kingdom, the Netherlands and Norway. As part of its ongoing optimisation of locations 39 pharmacies were sold or closed; 22 of these were unprofitable pharmacies in the Czech Republic. Celesio anticipates that overall slightly more acquisitions will be made in the year 2004 than in the previous year.



Celesio Retail

## Celesio Retail information by country

### United Kingdom – Stronger growth in the prescription sector

In the first three quarters of 2004, Lloydspharmacy, Celesio's British pharmacy chain, increased its turnover by 7.2 % in local currency (9.9 % in €). Lloydspharmacy achieved particularly strong turnover growth in the prescription sector. During the reporting period, the pharmacies processed more prescriptions than in the previous year. The prescription value was also higher than in the previous year. There was positive growth in turnover in Lloydspharmacy's own brand range, which the company expanded. In the non-prescription sales (OTC) segment, which was characterised by strong competition, Lloydspharmacy concentrated on a range of products to match its claim to be *Your local health authority*, thus streamlining the non-prescription sales (OTC) range in some pharmacies. Pre-tax profit exceeded expectations.

### Norway – New product range introduced

Celesio's Norwegian pharmacy chain, Vitusapotek, increased its turnover in local currency by 8.1 % (1.6 % in €). The growth in turnover was mainly attributable to the launch of two new product ranges relating to healthcare and hygiene products. Vitusapotek thus compensated for the impact resulting from the release of certain non-prescription medicines for other, non-pharmacy distribution channels such as supermarkets. Growth in pre-tax profit exceeded expectations.



### **Italy – New services introduced**

By the end of the 3<sup>rd</sup> quarter, turnover in Celesio's Italian pharmacies grew by 8.7 % in comparison to the previous year. Turnover growth outperformed market growth. This was largely attributable to modernised pharmacies in attractive locations and in close proximity to doctors' practices. In addition, Celesio's Italian retail business strengthened its profile as a comprehensive healthcare provider by providing new services such as skin type analyses. Pre-tax profit showed positive growth. For legal reasons, local authorities refrained from invitations to tender for pharmacy privatisations.

### **Ireland – Turnover exceeds last year's level**

In the first three quarters of 2004, Celesio's Irish pharmacies, Unicarepharmacy, increased turnover in comparison with the previous year by 8.7 %. Unicarepharmacy expanded its traditional range of photographic products and photograph processing. There was also a high demand for digital film development which was introduced in some pharmacies. Pre-tax profit was in line with expectations.

### **Netherlands – New umbrella brand *Lloyds Apotheken***

In the first nine months of 2004, the Dutch pharmacy business increased turnover by 6.8 % over the previous year. Pre-tax profit was in line with expectations.

Since 1 July 2004, the Dutch pharmacies have operated under the umbrella brand of *Lloyds*. The *Lloyds* pharmacies will all be easily recognisable by having a uniform internal and external visual appearance but, at the same time, they will retain their established local names.



**Celesio** Retail

### **Belgium – Turnover growth ahead of the market**

With its pharmacies in Belgium, Lloydspharma, Celesio achieved turnover growth of 31.3 % at the end of the 3<sup>rd</sup> quarter of 2004. Turnover of generic products grew strongly in the reporting period. Lloydspharma worked closely with manufacturers to achieve this growth. Pre-tax profit was in line with expectations.

### **Czech Republic – Positive profit growth**

Celesio's Czech pharmacies, Lékárny Lloyds, showed a drop in turnover of 18.9 % in local currency (19.9 % in €). This was largely attributable to the sale of 22 unprofitable pharmacies in April 2004. Pre-tax profit showed positive growth.

Yours sincerely,  
Celesio AG

The management board

Vorstand:

Dr. Fritz Oesterle, Vorsitzender

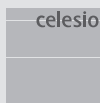
Jacques Ambonville, Stefan Meister, Dr. Felix A. Zimmermann

Vorsitzender des Aufsichtsrats:

Prof. Dr. Theo Siegert

Sitz:

Stuttgart, AG Stuttgart, HRB 9517



Ceslio Group

## Interim statements

The interim statements of Ceslio for the 1<sup>st</sup> – 3<sup>rd</sup> quarter of 2004 are based on the German Standardisation Board Standard No. 6 [Deutsches Rechnungslegungs–Standard Nr.6], interim reporting and the relevant provisions of the German Commercial Code [Handelsgesetzbuch] and the Companies Act [Aktiengesetz].

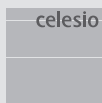
The accounting principles and valuation policies were applied unaltered for the Ceslio Group financial statements at 31 December 2003.

### Profit and loss account, 1<sup>st</sup> – 3<sup>rd</sup> quarter

	3 <sup>rd</sup> quarter		1 <sup>st</sup> – 3 <sup>rd</sup> quarter	
	2003 € m	2004 € m	2003 € m	2004 € m
<b>Turnover</b>	<b>4,570.3*</b>	<b>4,745.1</b>	<b>13,644.1</b>	<b>14,162.1</b>
Cost of raw materials, consumables and supplies, and of purchased merchandise	4,108.7*	4,244.2	12,272.1	12,683.7
<b>Gross profit</b>	<b>461.6</b>	<b>500.9</b>	<b>1,372.0</b>	<b>1,478.4</b>
Other operating expenses and income	– 118.7	– 109.8	– 342.6	– 344.2
Personnel expenses	210.2	223.1	639.6	672.4
Income from investments	1.7	0.6	3.0	3.9
<b>EBITDA</b>	<b>134.4</b>	<b>168.6</b>	<b>392.8</b>	<b>465.7</b>
Amortisation of goodwill	5.0	4.3	14.7	12.7
Amortisation of remaining intangible assets and depreciation of tangible assets	21.2	20.1	63.2	58.7
<b>EBIT</b>	<b>108.2</b>	<b>144.2</b>	<b>314.9</b>	<b>394.3</b>
Interest result	– 16.8	– 22.3	– 56.3	– 64.9
<b>Profit from ordinary activities</b>	<b>91.4</b>	<b>121.9</b>	<b>258.6</b>	<b>329.4</b>
Taxes on income and profit	29.9	38.1	83.8	102.8
<b>Net profit</b>	<b>61.5</b>	<b>83.8</b>	<b>174.8</b>	<b>226.6</b>
Minority interest in profits	0.1	– 0.5	– 1.1	– 3.1
<b>Consolidated retained earnings</b>	<b>61.6</b>	<b>83.3</b>	<b>173.7</b>	<b>223.5</b>

At the end of the 3<sup>rd</sup> quarter of 2004, Ceslio employed 24,404 staff (converted to full-time equivalents) compared with 25,386 staff in the previous year.

\* Wholesale figure for Ireland adjusted.



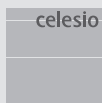
Cesio Group

## Balance sheet

	30.09.2003 € m	31.12.2003 € m	30.09.2004 € m
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	1,740.5	1,703.8	<b>1,610.9</b>
Tangible assets	390.7	394.2	<b>407.3</b>
Financial assets	124.3	108.6	<b>118.6</b>
	<b>2,255.5</b>	<b>2,206.6</b>	<b>2,136.8</b>
<b>Current assets</b>			
Stocks	1,232.1	1,401.6	<b>1,286.2</b>
Trade debtors and other assets	1,712.8	1,814.7	<b>1,790.5</b>
Bank and cash balances	11.4	14.0	<b>16.1</b>
	<b>2,956.3</b>	<b>3,230.3</b>	<b>3,092.8</b>
<b>Prepaid expenses</b>	<b>50.7</b>	<b>63.9</b>	<b>88.4</b>
	<b>5,262.5</b>	<b>5,500.8</b>	<b>5,318.0</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	<b>1,574.2</b>	<b>1,609.0</b>	<b>1,628.9</b>
<b>Provisions</b>			
Provisions for pensions and similar obligations	87.3	86.4	<b>88.7</b>
Other provisions	341.1	374.9	<b>385.1</b>
	<b>428.4</b>	<b>461.3</b>	<b>473.8</b>
<b>Liabilities</b>			
Liabilities to banks	1,312.4	1,011.3	<b>786.9</b>
Promissory notes	0.0	243.9	<b>426.7</b>
Trade creditors	1,436.0	1,573.0	<b>1,524.7</b>
Liabilities on bills accepted and drawn	185.5	229.8	<b>210.1</b>
Remaining liabilities	318.1	364.7	<b>256.3</b>
	<b>3,252.0</b>	<b>3,422.7</b>	<b>3,204.7</b>
<b>Deferred income</b>	<b>7.9</b>	<b>7.8</b>	<b>10.6</b>
	<b>5,262.5</b>	<b>5,500.8</b>	<b>5,318.0</b>

## Equity development

	Issued capital € m	Capital- reserves € m	Revenue reserves € m	Retained earnings € m	Minority interests € m	Equity € m
<b>At 01.01.2004</b>	<b>217.7</b>	<b>1,113.0</b>	<b>11.7</b>	<b>249.4</b>	<b>17.2</b>	<b>1,609.0</b>
Dividend payment				- 76.5		- 76.5
Addition to reserves			172.8	- 172.8		0.0
Goodwill set-off			- 135.7			- 135.7
Translation adjustment			5.7			5.7
Net profit				223.5	3.1	226.6
Minority interests					- 0.2	- 0.2
<b>At 30.09.2004</b>	<b>217.7</b>	<b>1,113.0</b>	<b>54.5</b>	<b>223.6</b>	<b>20.1</b>	<b>1,628.9</b>
<b>At 01.01.2003</b>	<b>217.7</b>	<b>1,113.0</b>	<b>58.1</b>	<b>236.0</b>	<b>14.9</b>	<b>1,639.7</b>
Dividend payment				- 72.3		- 72.3
Addition to reserves			163.7	- 163.7		0.0
Goodwill set-off			- 134.5			- 134.5
Translation adjustment			- 32.8			- 32.8
Net profit				173.7	1.1	174.8
Minority interests					- 0.7	- 0.7
<b>At 30.09.2003</b>	<b>217.7</b>	<b>1,113.0</b>	<b>54.5</b>	<b>173.7</b>	<b>15.3</b>	<b>1,574.2</b>



Celesio Group

### Cash flow statement, 1<sup>st</sup> – 3<sup>rd</sup> quarter

	2003 € m	2004 € m
<b>Net profit</b>	<b>174.8</b>	<b>226.6</b>
Fixed asset depreciation	77.9	71.4
Profit on sale of tangible assets and change in long-term provisions	4.0	3.7
<b>Cash flow</b>	<b>256.7</b>	<b>301.7</b>
Change in remaining provisions	15.0	5.4
Other income and expenses not involving the movement of funds	5.7	2.1
Profit on disposal of financial assets	- 1.2	0.0
Changes in stocks, debtors, other assets and prepayments	49.7	150.0
Changes in short-term liabilities and accruals	- 181.6	- 126.6
<b>Net cash flow from operations</b>	<b>144.3</b>	<b>332.6</b>
Proceeds of sale of fixed assets	19.6	24.3
Investment in fixed assets	- 236.4	- 133.5
<b>Net cash flow from investment activities</b>	<b>- 216.8</b>	<b>- 109.2</b>
Dividend payment	- 72.9	- 77.4
Change in long-term liabilities	137.3	- 144.0
<b>Net cash flow from financing activities</b>	<b>64.4</b>	<b>- 221.4</b>
<b>Change in funds due to payments</b>	<b>- 8.1</b>	<b>2.0</b>
Change in funds due to exchange rates	- 0.2	0.1
Funds on 01.01.	19.7	14.0
<b>Funds on 30.09.</b>	<b>11.4</b>	<b>16.1</b>

### Information on Celesio shares

ISIN Code \_\_\_\_\_ DE0005858005  
 WKN Code \_\_\_\_\_ 585 800  
 SE Code \_\_\_\_\_ CLS  
 Reuters Code \_\_\_\_\_ CLSG  
 Bloomberg Code \_\_\_\_\_ CLS GR

## Addresses, contacts

### Shareholder information:

Alexander Paasch  
 Corporate Finance, Treasury & Investor Relations Director  
 Telephone +49(0)711.50 01-735  
 Telefax +49(0)711.50 01-736  
 E-mail investor@celesio.com

### Requests for publication and questions concerning corporate communications:

Dr Ruth Kappel  
 Corporate Communications Director  
 Telephone +49(0)711.50 01-11 92  
 Telefax +49(0)711.50 01-12 60  
 E-mail service@celesio.com

### Investors' Calendar 2004/2005

Investors' conference, New York, Frankfurt	January 2004
Investors' conference, New York	4 – 5 February 2004
Roadshow, London, Paris, Frankfurt	March 2004
Balance sheet press conference, Stuttgart	18 March 2004
Analysts'- and investors' conference, London	25 March 2004
Investors' conference, Frankfurt	29 March 2004
Annual general meeting, Stuttgart	29 April 2004
Dividend payment	30 April 2004
Roadshow, Scandinavia	May 2004
Interim report, 1 <sup>st</sup> quarter 2004	12 May 2004
International Bankers Day, Mainz	29 June 2004
Roadshow, London, Edinburgh, Paris and Frankfurt	July 2004
Interim report, 1 <sup>st</sup> half-year 2004	16 August 2004
Roadshow, Ireland	September 2004
Investors' conference, London, Munich	September 2004
Roadshow, USA	October 2004
Wholesale branch and pharmacy visit, Birmingham	14 October 2004
Roadshow, London, Paris, Frankfurt	November 2004
Interim report, 1 <sup>st</sup> – 3 <sup>rd</sup> quarter 2004	15 November 2004
Investors' conference, New York	12 January 2005
Investors' conference, Frankfurt	19 January 2005
Balance sheet press conference, Stuttgart	17 March 2005
Annual general meeting, Stuttgart	29 April 2005
Investors' conference, Frankfurt	1 June 2005

Current details on the investors' calendar,  
 can be found on: [www.celesio.com](http://www.celesio.com)



Celesio AG  
Neckartalstrasse 155  
70376 Stuttgart  
Germany  
Telephone +49(0)711.50 01-00 (switchboard)  
Telefax +49(0)711.50 01-12 60  
E-mail [service@celesio.com](mailto:service@celesio.com)  
Internet [www.celesio.com](http://www.celesio.com)

**celesio**  
the healthcare group