

Interim Report 1st half-year 2004



celesio
the healthcare group

Highlights of 2004

- New wholesale branches in Atton and Witry-lès-Reims/France as well as in Torres Novas/Portugal.
- Belgian pharmacy business renamed *Lloydspharma*.
- Pharmacies in the Netherlands operate under the umbrella brand name *Lloyds Apotheken*.
- NMD Grossisthandel wins tender to supply the majority of Norwegian hospitals until the end of 2007.



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, 1st half-year 2004

Turnover _____ € 9.4 bn
 Turnover growth _____ 3.7 %* (3.8 % in €)
 EBITDA** _____ € 297.1 m
 EBITDA growth _____ 14.4 %* (15.0 % in €)
 Profit before tax _____ € 207.5 m
 Growth in profit before tax _____ 23.3 %* (24.1 % in €)
 Net profit _____ € 142.8 m
 Growth in net profit _____ 25.2 %* (26.0 % in €)
 Net profit per share _____ € 1.68

Employees*** _____ 24,324
 Wholesale branches _____ 123
 Pharmacies _____ 1,862

* in local currency

** Earnings Before Interest, Tax, Depreciation and Amortisation

*** converted to full-time equivalents



Celesio Group

August 2004

Dear Shareholders

In the 1st half of 2004 Celesio's business developed positively. The pharmaceutical market is and remains an attractive market for Celesio. Turnover rose, adjusted for exchange rate effects, by 3.7 %. Pre-tax profit rose in local currency significantly by 23.3 %. The management board gives a more precise forecast and anticipates an increase in pre-tax profit in local currency in excess of 15 % compared with 2003.

Celesio covers the entire spectrum of the pharmaceutical market.

The pharmaceutical market is a growth market

Demographic development and pharmaceutical progress are the growth drivers in the pharmaceutical market. The proportion of older people in the overall population is constantly increasing. Demand for medicines is increasing, as people want to grow old in good health. Pharmaceutical innovations make this possible. They bring about price-related market growth and, at the same time, lead to a rise in the proportion of older people – whose demand for health services is continuously growing. The pharmaceutical market therefore helps to generate this demographic-related growth to some extent. As Celesio covers the entire spectrum of the pharmaceutical market, the group is not dependent on the success of a single medicine, but always shares in the growth of the entire market. This is reflected in the company's business development.

The upturn in market growth, which began in the 2nd half of 2003, continued in the 1st half of 2004. The effect of earlier realisation of sales in Germany and the Netherlands in the year 2003 impacted turnover growth negatively at the beginning of 2004, but was offset by positive developments in other countries. With an increase in pre-tax profits significantly ahead of turnover growth, Celesio continued the positive business development of 2003 in the 1st half of 2004.

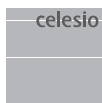
Celesio on course for growth in turnover and profit

After adjustments to take account of exchange rate effects, the group increased its turnover in the 1st half of 2004 compared with the previous year by 3.7 % (3.8 % in €) to € 9,416.9 m. EBITDA reached € 297.1 m, representing an increase of 14.4 % in local currency (15.0 % in €). Return on sales, based on EBITDA, rose to 3.16 %, compared with 2.85 % in the same period last year. Pre-tax profits rose in local currency by 23.3 % (24.1 % in €) to € 207.5 m. On the basis of this, return on sales rose by 36 basis points to 2.20 %. Pre-tax profit per share improved from € 1.97 in the previous year to € 2.44.

The growth trend in wholesale turnover, which has been accelerating since the 2nd half of 2003, continued. The realisation of earlier sales in Germany only effected monthly comparatives in the 1st quarter of 2004. In the 1st half of 2004, Celesio increased turnover in local currency by 2.9 % (3.0 % in €) to € 8,022.5 m. EBITDA, adjusted to take account of exchange rate effects, rose by 8.1 % (8.4 % in €) to € 194.8 m. Pre-tax profit in local currency rose by 14.6 % (14.9 % in €) and reached € 154.9 m. This development was largely attributable to higher gross profit ratios and, above all, to a sustained improved cost base. Celesio improved its profit situation substantially in every country but in Germany, in particular, where the BSSichG [Contribution Rate Security Act] had triggered intensified competition from the 2nd quarter of 2003 onwards and impacted on profit development. Return on sales, based on pre-tax profit, rose to 1.93 %, compared to 1.73 % the previous year.

In retail, Celesio outperformed the comparable market. In the 1st half of 2004 turnover in local currency rose by 8.2 % (8.4 % in €) to € 1,394.4 m. EBITDA, adjusted for exchange rate effects, improved by 17.4 % (18.3 % in €) to € 120.4 m. Strong organic turnover growth, improved gross profit ratios and consistent cost management led to an increase in retail profit before tax of 47.6 % in local currency (50.4 % in €) to € 53.2 m. Based on profit before tax, return on sales rose substantially, from 2.75 % the previous year to 3.82 %.

The growth in profit in wholesale and retail was mainly attributable to higher gross profit ratios and, above all, to an improved sustained cost base.



Celesio Group

Celesio sold or opened 11 pharmacies in the United Kingdom, Ireland, Belgium and Norway in the 1st half of 2004. As part of the portfolio adjustment in the Czech Republic, Celesio disposed of 22 unprofitable pharmacies in the 2nd quarter of 2004. For 2004, Celesio anticipates a slight increase in acquisition activity compared with the previous year, and is adhering to its strategy of only acquiring pharmacies if the price is reasonable and the location promising.

Equity ratio at 29.9 % – Further improvement in net working capital

Celesio Group's balance sheet was sound at the end of the 1st half-year of 2004.

Celesio Group's balance sheet was sound at the end of the 1st half-year of 2004. The equity ratio was 29.9 % compared with 29.3 % on 31 December 2003. Celesio improved its gearing from 0.76 to 0.72. This was mainly due to the fall in the current assets, resulting in the balance sheet total declining by € 154.1 m to € 5,346.7 m. However, exchange rate changes, in particular as a result of the rise of the British Pound Sterling (GBP) on the reporting date, increased this total by € 108.3 m.

Turnover, EBITDA and profit development, 1st half-year

	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	7,787.4	8,022.5	2.9	3.0	179.7	194.8	8.1	8.4
Retail	1,286.4	1,394.4	8.2	8.4	101.8	120.4	17.4	18.3
Total pharmaceutical distribution	9,073.8	9,416.9	3.7	3.8	281.5	315.2	11.5	12.0
Others	0.0	0.0	0.0	0.0	- 23.1	- 18.1	21.6	21.6
Celesio Group	9,073.8	9,416.9	3.7	3.8	258.4	297.1	14.4	15.0

* Wholesale figure for Ireland adjusted.

Fixed assets were down slightly in the first six months of 2004. Depreciation totalled € 47.0 m and the offset of goodwill amounted to € 91.7 m. This compares with additions of € 74.4 m. During the 1st half-year of 2004, Celesio invested € 57.1 m in the underlying business and € 17.3 m in acquisitions. The higher exchange rate of GBP on the reporting date resulted in higher fixed assets. The growth in financial assets was mainly attributable to a loan to a leasing company.

Current assets on 30 June 2004 were significantly reduced compared with 31 December 2003. Stocks, which had been selectively built up in the 4th quarter of 2003 in a number of countries, fell by € 100.5 m, thereby bringing them back to the level typical for the season. Overall, trade debtors fell, but they increased in Austria, due to the expiry of a sale of trade receivables programme. The higher exchange rate of GBP on the reporting date resulted in an increase of € 55.3 m in current assets. The reduction in net working capital led to an inflow of funds of € 100.1 m on 30 June 2004.

2003 Profit before tax and goodwill amortisation € m	2004 Profit before tax and goodwill amortisation € m	Change in local currency %	Change in € %	2003 Profit before tax € m	2004 Profit before tax € m	Change in local currency %	Change in € %
136.6	155.1	13.3	13.6	134.8	154.9	14.6	14.9
43.4	61.4	39.5	41.6	35.4	53.2	47.6	50.4
180.0	216.5	19.6	20.3	170.2	208.1	21.5	22.3
- 3.1	- 0.6	80.9	80.9	- 3.0	- 0.6	80.9	80.9
176.9	215.9	21.4	22.0	167.2	207.5	23.3	24.1



Celesio Group

Equity on 30 June 2004 was slightly lower at € 1,599.5 m, compared to € 1,609.0 m on 31 December 2003. This is attributable to the dividend payment of € 76.5 m. Net profit of € 142.8 m contrasted with the offset of goodwill totalling € 91.7 m. Currency translation, especially from GBP to €, in the amount of € 16.5 m, impacted positively on equity. Excluding the offset of goodwill and the effects of currency translation, equity would have risen by € 75.2 m, and the equity ratio by 1.0 %.

There was very little change in pension reserves and other provisions as at 30 June 2004 compared with 31 December 2003. Trade creditors including liabilities on bills accepted and drawn were slightly up on the figure for the same period in the previous year at the end of the 1st half-year.

Liabilities to banks declined by € 166.9 m on 30 June 2004 as a result of the positive free cash flow situation. Celesio diversified its financing structure by means of further promissory notes totalling € 52.9 m.

Celesio increases profitability

In the 1st half-year of 2004, Celesio increased its profitability. Gross profit ratio, return on sales and interest coverage significantly improved compared with the previous year. Both wholesale and retail contributed to this development.

The group's gross profit ratio increased by 35 basis points compared with the previous year, reaching 10.38 %. 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 31 basis points to 31.15 %, while in wholesale it was up 17 basis points to 6.77 %.

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

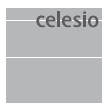
Other operating expenses and income recorded a slightly disproportionate rise after adjustment for exchange rate effects, while personnel costs developed in line with turnover.

Amortisation of goodwill fell compared with the same period in the previous year. Goodwill acquired 15 years ago was fully amortised on 31 December 2003.

The primary reason behind the improved income from investments was the dividend payment by Andraea-Noris Zahn AG. Net interest income is up a little due to the slightly higher interest rate level as well as the investments and acquisitions in the previous year. Nevertheless, interest coverage (EBIT in relation to interest income) improved and stood at 5.88 compared with 5.23 in the 1st half-year of 2003.

Return on sales, based on pre-tax, profit climbed significantly in the reporting period compared with the 1st half of 2003, by 35 basis points to 2.20 %. 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 32.2 % to 31.2 %. Net profit, adjusted for exchange rate effects, grew by 25.2 % (26.0 % in €), to € 142.8 m.



Celesio Group

Celesio finances investments entirely from the cash flow

In the 1st half-year of 2004 the cash flow, adjusted for exchange rate effects, increased by 12.4 % (12.9 % in €) to € 192.1 m. The fall in goodwill amortisation was a key factor in the disproportionately low rise in cash flow. Celesio financed all investments in the 1st half-year of 2004 from its cash flow. Free cash flow rose to € 161.1 m as a result of the fall in net working capital.

Cash flow, 1st half-year

	2003 in € m	2004 in € m
Cash flow	170.2	192.1
Dividends paid	– 72.3	– 76.5
Cash flow after dividends paid	97.9	115.6
Income from the disposal of fixed assets	11.9	19.8
Investment in underlying business	– 42.1	– 57.1
Free cash flow before acquisitions and change in net working capital	67.7	78.3
Change in net working capital	42.9	100.1
Acquisitions	– 53.7	– 17.3
Free cash flow	56.9	161.1

Celesio to increase profit before tax by more than 15 %

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.

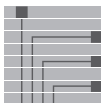
The management board expects pre-tax profit for the 2004 financial year to grow by over 15 % in local currency.

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

Key figures for the Celesio share, 1st half-year

	2003	2004	Change in local currency	Change in €
	€ per share	€ per share	%	%
EBITDA	3.04	3.49	14.4	15.0
Profit before tax and amortisation of goodwill	2.08	2.54	21.4	22.0
Profit before tax	1.97	2.44	23.3	24.1
Net profit	1.33	1.68	25.2	26.0

Growth market healthcare



Celesio Wholesale

Wholesale turnover by country

1st half-year

	No. of branches	2003 in € m	2004 in € m	Change in local currency in %	Change in € in %
France	52	3,362.4	3,524.6	4.8	4.8
Germany	19	1,671.6	1,598.5	- 4.4	- 4.4
United Kingdom	20	1,419.2	1,549.5	7.3	9.2
Austria	7	469.5	473.3	0.8	0.8
Belgium	8	205.0	208.1	1.5	1.5
Ireland*	3	174.8*	207.7	18.8	18.8
Norway	4	218.3	179.9	- 10.2	- 17.6
Portugal	6	144.5	152.0	5.2	5.2
Czech Republic	3	63.4	66.4	7.7	4.8
Italy	1	58.7	62.5	6.4	6.4
Total	123	7,787.4	8,022.5	2.9	3.0

* Figure adjusted.

**Supplying pharmacies
everywhere with everything
pharmacies need**

Wholesale overview

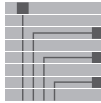
Celesio increased wholesale turnover in the 1st half of 2004 by 2.9 % in local currency. Pre-tax profit rose in local currency by 14.6 %. An improved gross profit ratio, consistent cost management and operational improvements contributed to the positive development in profit.

Accelerated growth trend in wholesale market continues

In wholesale the upturn in the market, which began in the 2nd half of 2003, continued. The impact of earlier realisation of sales negatively influenced this trend in Germany at the beginning of this year.

Turnover in the wholesale division grew by 2.9 % (3.0 % in €), adjusted for exchange rate effects, in the 1st half of 2004, to € 8,022.5 m. EBITDA grew in local currency by 8.1 % (8.4 % in €) to € 194.8 m. Profit before tax rose by 14.6 % (14.9 % in €) to € 154.9 m. This growth is mainly attributable to an improved gross profit ratio and, above all, a continuously improved cost base. The profit situation in Germany also showed a considerable improvement over the previous year. Return on sales, based on profit before tax, rose to 1.93 %, compared to 1.73 % the previous year.

With consistent cost management in all countries, operational improvements, strong co-operation with pharmaceutical manufacturers and innovative customer loyalty concepts, Celesio fully compensated for the government measures introduced in the 1st quarter of 2004: practice fees and co-payment regulations were introduced in Germany, the statutory wholesale margin in France, Germany and Austria was cut and the amounts reimbursed for selected generic products in the United Kingdom fell. In addition, the special tax on prescription medicines in France was changed.



Celesio Wholesale

Customer loyalty concepts make pharmacies fit for the future

With innovative concepts in Germany, the United Kingdom and Austria, Celesio is helping pharmacies to become fit for the future and is strengthening the entire distribution chain, from industry through wholesale to pharmacy. The satisfied customer is at the heart of all models.

Since the beginning of 2004, GEHE Pharma Handel has turned its *Commitment-Model* into the most successful range of services for pharmacies. More than 2,200 pharmacies use these services which cover the areas of purchasing, staff training and marketing.

In the United Kingdom, AAH developed a new concept for its umbrella brand *Vantage*. This concept offers independent pharmacies a uniform market appearance and special services. Pharmacies can now choose between several levels of membership, each level comprising different services to suit the pharmacies' individual needs. The objective is to strengthen the consultative ability of the pharmacies.

At the end of last year, Celesio's Austrian wholesaler introduced the marketing concept *Herba Family* for its customers. It offers a comprehensive package of services relating to marketing, co-operation and further education. Due to the high level of interest, these services are to be expanded in 2005.

Celesio streamlines branch structure and operational processes

In the 1st half of 2004, Celesio improved its operational processes in many countries to increase productivity, efficiency and customer service. In addition, Celesio streamlined its branch network in France, Germany, Belgium, Norway and Portugal. These measures will impact positively on profit for the full year 2004.

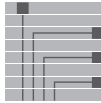
In France, OCP merged the Metz and Nancy branches in the new location of Atton, and the Charleville-Mézières and Reims branches in the Witry-lès-Reims location. Furthermore, OCP improved branch operational processes. To this end, call centres were more closely inter-linked, business hours cut and delivery routes reorganised.

Thanks to a new logistics concept introduced in 2003, GEHE Pharma Handel is able to better utilise its branches' capacity in Germany and streamline its internal operations. This concept is bearing the first fruits of success, and by 2005 is to be implemented in all regions. Furthermore, the company is continuing the modernisation of its branches. As part of this programme the Unna branch was enlarged and restructured, and in May 2004 the branch resumed normal trading.

Since the 1st quarter of 2004 three former branches of OCP Portugal have been merged into two modern branches in Lisbon and Torres Novas. These are ideally located in terms of infrastructure.

PHARMA BELGIUM restructured the logistics of the branches in Liège and Brussels in order to handle night orders more efficiently and reduce the business hours of the Liège branch.

NMD Grossisthandel improved stock management in its Norwegian branches. The recently renovated and extended Oslo central branch stocks the entire range for the whole Norwegian market. The Bergen, Trondheim and Harstad branches now only stock articles which are in frequent demand and those which need to be made available to patients immediately.



Celesio Wholesale

Wholesale information by country

France – High-priced medicines promote turnover growth

The turnover growth of OCP in the 1st half of 2004 was 4.8 %. Sales developed in line with market growth. The increasing proportion of generic products and the associated lower prices had a dampening effect. Turnover with expensive medicines – which since 2003 are not only dispensed in hospitals, but also in pharmacies – increased strongly. This made a positive contribution to turnover growth. Pre-tax profit was in line with expectations.

Many years' co-operation with leading producers of generic products allows OCP to offer its customers a comprehensive range of generic medicines at particularly attractive sales propositions. In this way the company strengthened its position as the leading wholesaler in this segment.

Germany – Logistics concept pays off

Turnover of GEHE Pharma Handel fell in a clearly recessionary market by 4.4 % in the 1st half of 2004, and developed in line with the market. The market's development was marked by the Healthcare Modernisation Act [Gesetz zur Modernisierung der gesetzlichen Krankenkassen] which came into force on 1 January 2004. It resulted in patients rescheduling their doctors' appointments to fall into 2003, thereby changing doctors' prescribing behaviour. This led in the market to a shift in turnover to the last quarter of 2003. In the 2nd quarter of 2004 the behaviour of patients and doctors started to normalise again. Profit before tax showed positive growth, particularly as a result of the more stable market situation and the implementation of an innovative logistics concept. The *Commitment Model* was successfully introduced in January, and has become Germany's most successful service programme for pharmacies and industry.

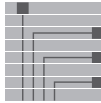
United Kingdom – High turnover growth with hospitals and pharmacy chains

In the 1st half of the year, turnover of AAH rose by 7.3 % in local currency (9.2 % in €) and was in line with the comparable market growth. Turnover with hospitals developed particularly well. Moreover, as a leading supplier to customers who operate pharmacy chains, AAH benefited from their above-average growth. Profit before tax rose considerably more strongly than turnover, as a result of AAH further increasing the efficiency of its operational processes.

In the 1st half of 2004, the market for generic products showed strong growth. Fundamental to this development was the expiry of patents on original preparations. AAH uses the opportunities resulting from this to increase its market share by means of a comprehensive product range at attractive sales propositions for its customers.

Austria – Turnover outperforms the market

Herba Chemosan increased its turnover by 0.8 % in the 1st half of 2004. A distribution contract was converted from a turnover to a commission basis. Adjusted to take account of this effect, turnover developed slightly better than the market. Market growth slowed down due to the effects of statutory changes coming into force on 1 January 2004. Herba Chemosan, however, almost fully compensated for these effects and achieved a pre-tax profit which exceeded expectations.



Celesio Wholesale

Norway – Supply contracts with hospitals extended

In the 1st half of 2004, turnover of NMD Grossisthandel (NMD) fell by 10.2 % in local currency (17.6 % in €). Turnover was reduced – without affecting profit – by the different treatment of a distribution contract. Adjusting to take account of this, turnover was slightly below last year's level. Profit before tax showed positive growth due to the close co-operation with the pharmaceutical industry and strict cost management.

NMD has for years been supplying almost all of the hospitals in the country. The high quality of supply and good co-operation helped NMD to win the public tender at the beginning of April 2004 to supply the hospitals until the end of 2007.

Belgium – Improvements in operations have positive impact

Turnover of PHARMA BELGIUM rose slightly by 1.5 % in the 1st half of 2004 compared with the previous year. Despite intense discount competition in the Belgian wholesale market, PHARMA BELGIUM secured its market share. Pre-tax profit showed positive growth. This is in particular attributable to the operational measures of the last 18 months, as a result of which the branches' capacity was better utilised.

Ireland – Turnover rises again

With a turnover growth of 18.8 %* in the first six months of 2004, the growth of CAHILL MAY ROBERTS(CMR) lagged behind comparable market growth. The market was characterised by intense discount competition. The market consolidation continued; a principal competitor of CMR took over a pharmacy chain. Profit before tax in the 1st half of 2004 was in line with expectations.

* Previous year's figure adjusted.

Portugal – Turnover above the previous year's level

Turnover of OCP Portugal rose by 5.2 % in the 1st half of 2004, thereby being in line with market growth. The increase in turnover is mainly attributable to higher average prices. Profit before tax grew well ahead of turnover.

Czech Republic – Consistent cost management

The Czech pharmaceutical wholesale market is still marked by keen competition with high discounts and long payment targets. GEHE Pharma Praha increased its turnover by 7.7 % in local currency (4.8 % in €), and developed slightly below the market. Profit before tax improved due to consistent cost management.

Italy – New customers won over

With growth of 6.4 % in the first six months of 2004, AFM increased its turnover in line with the market. Turnover grew in the 2nd quarter more strongly than in the 1st quarter. Profit before tax increased more strongly than turnover, and surpassed expectations.

In the 2nd quarter of 2004, AFM won over municipal and independent pharmacies as new customers. In addition, AFM won the contract to supply a municipal hospital with medicines and manage its stocks.



Cesio Retail

Retail turnover by country

1st half-year

	No. of pharmacies	2003 in € m	2004 in € m	Change in local currency in %	Change in € in %
United Kingdom	1,372	887.5	977.5	8.3	10.1
Norway	110	154.0	152.4	7.8	- 1.0
Italy	161	96.4	104.9	8.8	8.8
Ireland	55	50.3	54.5	8.4	8.4
Netherlands	35	46.4	50.8	9.5	9.5
Belgium	66	26.9	34.7	28.7	28.7
Czech Republic	63	24.9	19.6	- 18.9	- 21.1
Total	1,862	1,286.4	1,394.4	8.2	8.4

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

Retail overview

Through strong organic growth Celesio increased turnover in the 1st half of 2004 and outperformed the market. Refitted pharmacies developed particularly well.

Retail turnover up 8.2 %, profit up 47.6 %

In the 1st half of 2004, the pharmacy market continued its growth trend. A large number of new pharmacies being opened influenced the development of the pharmacy markets in Ireland, the Czech Republic and the Netherlands.

Retail turnover grew in local currency by 8.2 % (8.4 % in €) to € 1,394.4 m in the 1st half of 2004 compared with the previous year. Those pharmacies which were relocated to more attractive locations or which were refurbished on the basis of country specific design concepts developed above expectations. They contributed in particular to the high organic turnover growth, which outpaced market growth.

EBITDA improved in local currency by 17.4 % (18.3 % in €) to € 120.4 m. Pre-tax profit, adjusted for exchange rate effects, rose by 47.6 % (50.4 % in €) and reached a high level at € 53.2 m. Return on sales, based on pre-tax profit, rose from 2.75 % to 3.82 %.

The statutory framework changed in individual markets. In the United Kingdom, the reimbursable values of some generic products were reduced on 1 December 2003. In the Netherlands the market players agreed to a reduction in the price of generic products in the 1st quarter of 2004. Prior to that, the increase in clawback had been declared legally ineffective. In Belgium, prices of prescription medicines were cut and the clawback, which had been increased on 1 July 2003, was reduced again on 1 January to its original level. Celesio compensated for the effects of government intervention, as is demonstrated by its profit development. This is proof that Celesio is excellently positioned with its business model.



Celesio Retail

Celesio strengthens its pharmacy brands throughout Europe

The introduction of a uniform market presentation is fundamental to the success of Celesio's pharmacy brands in the individual countries. The pharmacies have a stronger public presence in this way and are better recognised by customers. *Lloydspharma*, since 15 April 2004 the name of the Belgian pharmacy business, introduced a uniform market appearance and began to gradually refit its pharmacies. The Dutch pharmacy business has since 1 July 2004 been operating under the umbrella brand *Lloyds*. The distinguishing feature of all *Lloyds*-pharmacies will be a uniform external presentation whilst continuing to operate under their local name.

The Celesio retail organisations used a variety of different media to underpin their brand image and their perception by the public as an all-round healthcare provider. Vitusapotek sponsored the weather report on Norwegian television at the beginning of the allergy season in March and April. *Lloydspharmacy* accompanied the introduction of free diabetes tests in its pharmacies with advertising campaigns on television and has since then – as surveys show – been perceived much more strongly as the United Kingdom's leading healthcare provider.

Cross-national co-operation creates synergies

In the United Kingdom, Norway and Ireland, Celesio's retail operations have installed an exclusive radio station in their pharmacies. Embedded in an entertainment programme, product information and contributions on current health themes are broadcast. For the market launch and programme design, Celesio's UK retail operation served as an example, which went on air with *Lloydspharmacy Live* in April 2003. Vitusapotek followed in May 2004 and Unicarepharmacy in June 2004.

Lloydspharmacy opened the *Pharmacy of the Future* in May this year in the United Kingdom. It combines modern design and customer-friendly work processes with a market-leading range of services. It is a pilot project for the development of an innovative pharmacy concept, which places the needs of the customers at its centre. Best practices from other Celesio retail countries were incorporated into the concept.

Pioneer in the construction of health centres

Celesio's retail businesses in the United Kingdom, Norway and the Netherlands are leading in the development and construction of health centres. These centres – with pharmacies, doctors' practices and other healthcare providers under one roof – allow Celesio to place pharmacies close to the flow of prescriptions. They are designed in close co-operation with doctors and health authorities, ensuring optimal and comprehensive patient care. Two new centres are planned to be opened in the United Kingdom in August and December 2004, four centres in Norway and one in the Netherlands in the last quarter of this year.

New pharmacies opened in the United Kingdom and Norway

At the end of the 1st half-year of 2004, Celesio was operating 1,862 pharmacies in seven European countries. In the United Kingdom, Ireland, Belgium and Norway, Celesio purchased eight pharmacies and opened three pharmacies. As part of its ongoing optimisation of locations, the group sold or closed 31 pharmacies; 22 of these were unprofitable pharmacies in the Czech Republic.



Celesio Retail

Retail information by country

United Kingdom – High turnover with prescription medicines

In the first six months of 2004, turnover of Lloydspharmacy rose by 8.3 % (10.1 % in €) thus lying above the comparable market. Higher average values per prescription and increases in the number of prescriptions dispensed are reflected in the strong turnover growth of the prescription segment. The OTC segment was characterised by strong competition. Lloydspharmacy expanded its own brand range and grew OTC healthcare sales in line with the pharmacy market. Profit before tax grew more strongly than turnover and was in line with expectations. The gross profit development and strict cost management positively influenced profit.

The National Health Service is renegotiating its contract with the pharmacies in 2004. The contract is to strengthen the role of the pharmacist as a competent adviser in all healthcare matters. With its market-leading services, Lloydspharmacy is excellently positioned for this development. For example, free diabetes and blood tests are offered as standard, and consultation areas for confidential customer discussions have been installed in almost all pharmacies.

Norway – Turnover grows well ahead of market

Vitusapotek increased its turnover in local currency by 7.8 % (– 1.0 % in €). Although in 2003 and early 2004 the measures introduced by the government slowed development, turnover of Vitusapotek grew significantly faster than the comparable market in the 1st half of 2004. Among the government measures were the reduction of medicine prices, the introduction of a reference price system, and the release of certain OTC-products for other distribution channels. Vitusapotek, by contrast, expanded its product range. High turnover growth with generic products, success with own-brands, close co-operation with pharmaceutical manufacturers and a slim cost base led to pre-tax profits developing above expectations.

Italy – Turnover growth accelerates

Since 2003, patients in the Emilia-Romagna and Tuscany regions with continuously high medicine costs have had to obtain their medicines in hospital pharmacies or from local health authorities. This slowed market growth in the 1st half of 2004. Nevertheless the market, especially in the prescription medicines segment, has clearly recovered. The turnover growth of Celesio's Italian pharmacies accelerated in the 2nd quarter of 2004 compared with the 1st quarter of 2004. In the 1st half of 2004, its growth of 8.8 % clearly outperformed the market. This positive development is due to pharmacies having been refurbished and moved to more attractive locations. In addition, the Italian Celesio retail business extended its range of services, for example, with skin type analyses. This strengthens its positioning as a healthcare provider. Profit before tax showed positive growth.

Ireland – Turnover continues to grow

Unicarepharmacy increased its turnover by 8.4 % in the 1st half of 2004. The market was marked by a large number of new pharmacies being opened. Profit before tax rose more strongly than turnover and fulfilled expectations.

Netherlands – Pharmacies operate under the umbrella brand of *Lloyds Apotheken*

In the 1st half of 2004, Celesio's pharmacies in the Netherlands achieved a turnover growth of 9.5 %. The pharmacies have operated since the beginning of July under the umbrella brand of *Lloyds Apotheken*. Excluding acquisitions, turnover growth was in line with comparable market growth, which enjoyed a revival in the 2nd quarter of 2004. The 1st quarter of 2004 was impacted by the earlier realisation of sales. This is due to several prescription medicines no longer being reimbursed from 1 January 2004, which led to an increase in demand in the previous quarter. Price cuts of generic products, introduced in February, dampened growth. Pre-tax profit developed in line with expectations.



Celesio Retail

Belgium – Turnover growth ahead of market

In the first six months of 2004, turnover the Belgian pharmacy business, which has been operating under the name of *Lloydspharma* since 15 April 2004, rose by 28.7 %. Organic growth in turnover was above comparable market growth, which showed a slight recession. The lower level of prices for prescription medicines, triggered by price cuts, was the decisive factor for this development. In addition, doctors prescribed less, but in larger packages. Lloydspharma will expand its range of services so as to position itself in the market as a competent partner in all health matters. Pre-tax profit matched expectations.

Czech Republic – Portfolio adjusted

Turnover of Lékárny Lloyds fell by 18.9 % in local currency (21.1 % in €), and was impacted by the sale of 22 unprofitable pharmacies in April 2004.

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

Interim statements

The interim statements of Celesio for the 1st half 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].

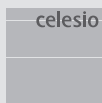
The accounting principles and valuation policies were applied unaltered for the Celesio Group financial statements at 31 December 2003.

Profit and loss account, 1st half-year

	2 nd quarter		1 st half-year	
	2003 € m	2004 € m	2003 € m	2004 € m
Turnover	4,548.5	4,798.3	9,073.8*	9,416.9
Cost of raw materials, consumables and supplies, and of purchased merchandise	4,092.4	4,296.5	8,163.4*	8,439.5
Gross profit	456.1	501.8	910.4	977.4
Other operating expenses and income	- 111.0	- 113.6	- 223.9	- 234.5
Personnel expenses	212.7	228.0	429.4	449.1
Income from investments	0.6	1.0	1.3	3.3
EBITDA	133.0	161.2	258.4	297.1
Amortisation of goodwill	4.8	4.2	9.7	8.4
Amortisation of remaining intangible assets and depreciation of tangible assets	23.3	19.5	42.0	38.6
EBIT	104.9	137.5	206.7	250.1
Interest result	- 19.0	- 21.6	- 39.5	- 42.6
Profit from ordinary activities	85.9	115.9	167.2	207.5
Taxes on income and profit	27.6	36.0	53.9	64.7
Net profit	58.3	79.9	113.3	142.8
Minority interest in profits	- 0.3	- 1.9	- 1.2	- 2.7
Consolidated retained earnings	58.0	78.0	112.1	140.1

In the 1st half of 2004 Celesio employed 24,324 staff (converted to full-time equivalents), compared with 25,415 staff the previous year.

* Wholesale figure for Ireland adjusted.



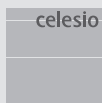
Cesio Group

Balance sheet

	30.06.2003 € m	31.12.2003 € m	30.06.2004 € m
Assets			
Fixed assets			
Intangible assets	1,748.1	1,703.8	1,652.1
Tangible assets	384.0	394.2	405.4
Financial assets	69.4	108.6	118.4
	2,201.5	2,206.6	2,175.9
Current assets			
Stocks	1,151.8	1,401.6	1,301.1
Trade debtors and other assets	1,642.2	1,814.7	1,774.4
Bank and cash balances	12.9	14.0	11.0
	2,806.9	3,230.3	3,086.5
Prepaid expenses	75.2	63.9	84.3
	5,083.6	5,500.8	5,346.7
Equity and Liabilities			
Equity	1,549.1	1,609.0	1,599.5
Provisions			
Provisions for pensions and similar obligations	85.4	86.4	87.7
Other provisions	357.4	374.9	372.8
	442.8	461.3	460.5
Liabilities			
Liabilities to banks	1,171.4	1,011.3	844.4
Promissory notes	0.0	243.9	296.2
Trade creditors	1,461.1	1,573.0	1,651.5
Liabilities on bills accepted and drawn	148.3	229.8	164.9
Remaining liabilities	303.7	364.7	321.9
	3,084.5	3,422.7	3,278.9
Deferred income	7.2	7.8	7.8
	5,083.6	5,500.8	5,346.7

Equity development

	Issued capital € m	Capital- reserves € m	Revenue reserves € m	Retained earnings € m	Minority interests € m	Equity € m
At 01.01.2004	217.7	1,113.0	11.7	249.4	17.2	1,609.0
Dividend payment				- 76.5		- 76.5
Addition to reserves			172.8	- 172.8		0.0
Goodwill set-off			- 91.7			- 91.7
Translation adjustment			16.5			16.5
Net profit				140.1	2.7	142.8
Minority interests					- 0.6	- 0.6
At 30.06.2004	217.7	1,113.0	109.3	140.2	19.3	1,599.5
At 01.01.2003	217.7	1,113.0	58.1	236.0	14.9	1,639.7
Dividend payment				- 72.3		- 72.3
Addition to reserves			163.7	- 163.7		0.0
Goodwill set-off			- 93.7			- 93.7
Translation adjustment			- 36.9			- 36.9
Net profit				112.1	1.2	113.3
Minority interests					- 1.0	- 1.0
At 30.06.2003	217.7	1,113.0	91.2	112.1	15.1	1,549.1



Celesio Group

Cash flow statement, 1st half-year

	2003 € m	2004 € m
Net profit	113.3	142.8
Fixed asset depreciation	52.4	47.0
Profit on sale of tangible assets and change in long-term provisions	4.5	2.3
Cash flow	170.2	192.1
Change in remaining provisions	30.7	- 8.0
Other income and expenses not involving the movement of funds	2.3	- 1.0
Changes in stocks, debtors, other assets and prepayments	184.6	175.5
Changes in short-term liabilities and accruals	- 222.1	- 96.6
Net cash flow from operations	165.7	262.0
Proceeds of sale of fixed assets	11.9	19.8
Investment in fixed assets	- 106.9	- 73.3
Net cash flow from investment activities	- 95.0	- 53.5
Dividend payment	- 72.9	- 77.4
Change in long-term liabilities	- 4.2	- 134.2
Net cash flow from financing activities	- 77.1	- 211.6
Change in funds due to payments	- 6.4	- 3.1
Change in funds due to exchange rates	- 0.4	0.1
Funds on 01.01.	19.7	14.0
Funds on 30.06.	12.7	11.0

Information on Celesio shares

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

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Investors' Calendar 2004/2005

Investors' conference, New York	13 January 2004
Investors' conference, Frankfurt	21 January 2004
Investors' conference, New York	4 – 5 February 2004
Roadshow, London and Paris	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 st quarter 2004	12 May 2004
International Bankers Day, Mainz	29 June 2004
Roadshow, London, Edinburgh, Paris and Frankfurt	July 2004
Interim report, 1 st half-year 2004	16 August 2004
Roadshow, Ireland	September 2004
Investors' conference, Hamburg	9 September 2004
Investors' conference, London	21 September 2004
Investors' conference, Munich	29 September 2004
Roadshow, USA	October 2004
Wholesale branch and pharmacy visit, Birmingham	14 October 2004
Roadshow, London, Paris and Frankfurt	November 2004
Interim report, 1 st – 3 rd quarter 2004	15 November 2004
Annual general meeting, Stuttgart	29 April 2005

Current details on the investors' calendar,
 can be found under www.celesio.com



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