Interim Report 2016

Celesio AG

Q1 Quarterly financial report as of 30 June 2015

celesio

The Celesio Group

Celesio is a leading international wholesale and retail company and provider of logistics and services to the pharmaceutical and healthcare sector. Our proactive and preventive approach ensures that patients receive the products and support that they require for optimum care. With more than 38,000 employees, we operate in 14 countries around the world. Every day, we serve over 2 million customers – at more than 2,200 pharmacies of our own and over 4,300 participants in our brand partnership schemes. With 134 wholesale branches, we supply 65,000 pharmacies and hospitals every day with up to 130,000 pharmaceutical products. Our services benefit a patient pool of about 15 million per day.

McKesson Corporation, San Francisco, USA, is the majority shareholder in Celesio AG. The company acquired more than 75 percent of Celesio AG shares in February 2014. McKesson provides solutions that include pharmaceutical and medical-surgical supply management, healthcare information technology, and business and clinical services.

Change in the financial year and additional notes

For comparison purposes within the management report, statements referring to the reporting period, the first quarter of fiscal year 2016 (1 April 2015 to 30 June 2015) will be compared with the unaudited Q1 period (1 January 2014 to 31 March 2014) of fiscal 2014. Interim condensed consolidated financial statements (IFRS) referring to the closing date of Q1 2016 (30 June 2015) are compared with the short fiscal year figures (31 March 2015). On the one hand this enables the comparison in the course of the year to the outlook with the basis fiscal year 2014. On the other hand, this enables the comparison to the already published figures for the previous period. Additionally, we do not face a material seasonality in the course of the business.

Following the decision to put our Brazilian activities Panpharma and Oncoprod on sale, the corresponding entities have been classified as discontinued operations. The previous year's figures were restated according to IRFS regulations to allow comparison to the previous year period. Unless stated otherwise, the following comments on revenue and earnings development pertain to continuing operations, only.

This Interim Report has been neither reviewed nor audited and does not include all of the information required for full combined management report/ full consolidated annual financial statements, and should be read in conjunction with the Annual Report for the short fiscal year 2015 (1 January to 31 March 2015).

The fiscal year at a glance

KEY FIGURES OF THE CELESIO GROUP		1st quarter 2014	1st quarter 2016	Change on EUR basis %
Continuing operations				
Revenue	EUR m	4,990.2	5,337.1	7.0
Gross profit	EUR m	543.7	595.7	9.6
adjusted [1)]	EUR m	543.7	595.7	9.6
EBIT	EUR m	91.0	119.9	31.7
adjusted [1)]	EUR m	98.0	122.3	24.8
Profit before taxes	EUR m	73.0	107.0	46.6
adjusted [1)]	EUR m	80.0	109.4	36.8
Net profit/loss	EUR m	46.7	71.8	53.8
adjusted [1)]	EUR m	53.7	73.9	37.6
Earnings per share (basic)	EUR	0.24	0.35	45.7
Earnings per share (basic), adjusted [1)]	EUR	0.28	0.36	29.6
Cash inflow/outflow from operating activities	EUR m	−73.4	−43.8	40.4
Net cash flow from investing activities	EUR m	−27.0	−33.5	−24.2
Free cash flow	EUR m	−132.0	−104.1	21.1
Employees (full-time equivalent) [2)]		24,929	25,279	/
Retail pharmacies [2)]		2,180	2,202	/
Wholesale branches [2)]		108	109	/
Discontinued operations				
Net profit/loss	EUR m	−3.6	−9.0	>−100
Earnings per share (basic)	EUR	−0.02	−0.04	>−100
Employees (full-time equivalent) [2)]		3,693	3,409	/
Continuing and discontinued operations				
Total assets	EUR m	7,679.1 [2]	7,857.5 [2]	2.3
Equity	EUR m	2,875.7 [2]	2,643.4 [2]	−8.1
Equity ratio	%	37.4 [2]	33.6 [2]	/
Net Financial Debt	EUR m	934.2 [2]	1,046.8 [2]	12.1
Net Financial Debt/EBITDA adj. [1) 3) 4)]		1.71 [2]	1.90 [2]	/
Employees (full-time equivalent) [2)]		28,622	28,688	/
Employees [2)]		38,581	38,149	/
Net profit/loss for the period	EUR m	43.1	62.8	/
Earnings per share (basic)	EUR	0.22	0.31	/

1) Adjusted for special effects from defined non-recurring expenses and income (including tax effect).
2) Closing figures at the end of the reporting period.
3) Based on EBITDA of the last twelve months.
4) Previous year figures as reported

Economy

No significant dependency on economic environment

The pharmaceutical wholesale business operates in a relatively stable market environment that is not directly dependent on economic stability. The pharmaceutical retail business is slightly dependent on the overall economy, typically for non-prescription products sold. However, we have not seen any precise dependency on the overall economic environment in the past. During the first months of fiscal year 2016, the basic parameters of the economic environment changed, but had no impact on Celesio.

Revenue and earnings development

CELESIO GROUP REVENUE AND OPERATING RESULTS

	1st quarter 2014		**1st quarter 2016**	
	EUR m	of revenue %	**EUR m**	**of revenue %**
Revenue	4,990.2	100.0	**5,337.1**	**100.0**
Gross profit	543.7	10.9	**595.7**	**11.2**
adjusted [1)]	543.7	10.9	**595.7**	**11.2**
EBIT	91.0	1.8	**119.9**	**2.2**
adjusted [1)]	98.0	2.0	**122.3**	**2.3**
Profit before taxes	73.0	1.5	**107.0**	**2.0**
adjusted [1)]	80.0	1.6	**109.4**	**2.1**
Net profit from continuing operations	46.7	0.9	**71.8**	**1.3**
adjusted [1)]	53.7	1.1	**73.9**	**1.4**
Net profit from discontinued operations	−3.6	−0.1	**−9.0**	**−0.2**
Net profit/loss from continuing and discontinued operations	**43.1**	**0.9**	**62.8**	**1.2**

1) Adjusted for special effects from defined non-recurring expenses and income (including tax effect).

Revenue

Group revenue came to EUR 5,337.1m in Q1 2016, up 7.0% on the comparison period figure (Q1 2014) of EUR 4,990.2m. The gain of an exclusive distribution contract with a major manufacturer in the United Kingdom more than offset the loss in revenue due to the loss of the hospital contract in Norway. Thereby overall positive exchange rate effects amounted to EUR 196.1m, mainly related to the British pound.

Gross profit

Gross profit (revenue less cost of goods sold) increased by 9.6%, more than revenue in Q1 2016 from EUR 543.7m to EUR 595.7m. Mainly lower rebates to our customers in Germany and the growth in gross profit in the United Kingdom contributed to the positive development. At 11.2%, the gross profit margin in the reporting period was higher than the previous year level (Q1 2014) of 10.9%. Thereby overall positive exchange rate effects amounted to EUR 35.9m, mainly related to the British pound.

EBIT

EBIT (earnings before interest and taxes) for continuing operations saw an increase of 31.7% from EUR 91.0m (Q1 2014) to EUR 119.9m.

In the income statement, we show defined non-recurring expenses and income as non-recurring effects in EBIT.

Celesio defines an effect as non-recurring, once this effect is derived from

- impairment losses/gains recorded on non-current assets and revaluations pursuant to IFRS 5 regarding the expected amount of net sales proceeds, and deconsolidation of these entities,
- impairment losses/write ups recognised on intangible or tangible assets,
- restructuring charges from changes in strategy, of ordinary business, including changes to the senior management
- the integration process with the McKesson Corporation, to be well-positioned in future to meet the increasingly global nature of drug distribution and the healthcare industry.

In Q1 2016, non-recurring effects amounted to EUR 2.5m (Q1 2014 EUR 7.0m). Thereof EUR 1.7m are derived from legal and other consultancy expenses in connection with the acquisition by McKesson Corporation.

Adjusted for special effects, EBIT increased by 24.8% to EUR 122.3m compared to EUR 98.0m in Q1 2014. A lower discount level in Germany and the enhanced performance of our British operations boosted the quarterly results. Overall positive exchange rate effects on EBIT adjusted amounted to EUR 9.6m, mainly related to the British pound sterling.

Investment result

At 2.9m, the investment result was below the comparison period level (Q1 2014) of EUR 3.2m. This was primarily attributable to extraordinary costs of the Dutch investment Brocacef Holding N.V. relating to the acquisition of Mediq Apotheken Netherland B.V.

Financial result

The financial result, the balance of the items interest expense, interest income and other financial result, increased to EUR –15.8m in the reporting period, compared to EUR –21.3m in Q1 2014. This was primarily based on the revaluation of an intra-company loan due to currency exchange effects. The adjusted interest coverage ratio was 7.7 (Q1 2014 4.6). The unadjusted interest coverage ratio came to 7.6 (Q1 2014 4.3).

Income taxes

At EUR 35.2m (Q1 2014 EUR 26.3m), the tax expenditure increased by 33.7%. This results in an effective tax rate of 32.9% for the reporting period compared to 36.0% in Q1 2014. Adjusted for special effects, the tax rate would have been 32.5% in Q1 2016 compared to 32.9% in Q1 2014.

Net profit/loss from continuing operations

The net profit from continuing operations at the Celesio Group came to EUR 71.8m, an increase of 53.8% on the figure for Q1 2014 of EUR 46.7m, which results from the previously described increase in EBIT. After adjustments for special effects, net profit from continuing operations, at EUR 73.9m, was up 37.6% on the Q1 2014 figure of EUR 53.7m. The basic and diluted earnings per share of the Celesio Group increased from EUR 0.24 in Q1 2014 to EUR 0.35 in Q1 2016.

Net profit/loss from discontinued operations

In April 2015, a fire destroyed our Brazilian warehouse in Sao Paulo. We do not expect the fire to have any material effect on our financial condition and results of our operations as we have an insurance to cover most of the arising expenses and losses. However, this event may have some influence on the expected value of proceeds from the sale of the Brazilian business. Orders usually made through the respective warehouse were redirected to our other warehouses based in the region of Sao Paulo.

Discontinued operations generated revenue of EUR 400.4m in Q1 2016, an increase of 2.9% on the comparison period figure of EUR 389.2m. Currency effects on revenue, caused by the Brazilian real amounted to EUR – 19.4m.

Gross profit of discontinued operations increased by 8.8% to EUR 35.9m compared to EUR 33.0m in Q1 2014. Currency effects on gross profit, caused by the Brazilian real amounted to EUR – 3.5m.

The discontinued operations' EBIT declined significantly to EUR – 6.2m (Q1 2014 EUR – 2.4m). In Q1 2016, earnings were significantly impacted by stock losses of EUR 8.6m due to the fire in Sao Paulo. Overall, currency effects on EBIT, caused by the Brazilian real amounted to EUR 0.2m.

The net loss incurred by discontinued operations thus increased to EUR – 9.0m compared to EUR – 3.6m in Q1 2014. With the disposal of the Brazilian operations expected within the next nine months, the foreign currency translation reserves with a current aggregate loss as of 30 June 2015 of EUR 125.2m will be recorded as an expense through profit and loss, once the sale transaction is closed.

Net profit/loss

Net profit and loss from continuing and discontinued operations came to EUR 62.8m compared to a net profit of EUR 43.1m in Q1 2014. Accordingly, basic and diluted earnings per share came to EUR 0.31 compared to EUR 0.22 in Q1 2014.

Consumer Solutions

Market environment and business development

Celesio is one of the largest pharmacy operators in Europe. As of the end of Q1 2016 Celesio operated 2,202 retail pharmacies (Q1 2014 2,180) in six countries. In Q1 2016, we opened seventeen, acquired four, closed three and sold zero pharmacy due to ongoing optimisation of our portfolio.
In the United Kingdom in particular, growth in revenue was achieved by higher sales volumes and an increase in service agreements.

Revenue and earnings development

CONSUMER SOLUTIONS REVENUE AND OPERATING RESULTS	1st quarter 2014		1st quarter 2016	
	EUR m	OF REVENUE %	EUR m	OF REVENUE %
Revenue	865.6	100.0	**1,042.7**	**100.0**
Gross profit	297.5	34.4	**342.2**	**32.8**
adjusted [1)]	297.5	34.4	**342.2**	**32.8**
EBIT	51.9	6.0	**65.9**	**6.3**
adjusted [1)]	51.8	6.0	**66.7**	**6.4**

1) Adjusted for special effects from defined non-recurring expenses and income.

Revenue

Revenue in the Consumer Solutions division increased by 20.5% from EUR 865.6m in Q1 2014 to EUR 1,042.7m in Q1 2016. All countries, but in particular the performance in the United Kingdom, Norway and Italy contributed to this growth. Overall positive exchange rate effects on revenue amounted to EUR 88.5m, mainly related to the British pound sterling.

Gross profit

In Q1 2016, the division's gross profit increased by 15.1% from EUR 297.5m Q1 2014 to EUR 342.2m. All countries, but in particular the performance in the Norway and Italy contributed to this growth. The gross profit margin declined from 34.4% in Q1 2014 to 32.8% in Q1 2016. Higher sales and service volumes with lower-margin products put pressure on the overall gross profit margin in the United Kingdom. Overall positive exchange rate effects amounted to EUR 27.5m, mainly related to the British pound.

EBIT

In Q1 2016, EBIT amounted to EUR 65.9m compared to EUR 51.9m in Q1 2014, an increase of 27.1%. EBIT adjusted for special effects increased by 28.8% from EUR 51.8m in Q1 2014 to EUR 66.7m in Q1 2016. The development was driven by the good performance in several countries, in particular the United Kingdom, Norway and Italy contributed to this growth. Exchange rate effects had an overall positive impact of EUR 5.7m, mainly derived from the British pound.

Pharmacy Solutions

Market environment and business development

Celesio bundles its wholesale activities with pharmaceutical products in its Pharmacy Solutions division.
With 109 wholesale branches (previous year period 108), Celesio subsidiaries are active in ten European countries.
Celesio leads the market in France and in Austria, and is one of the top players in most other countries, with the exception of Italy, where we only operate regionally.
Celesio offers supplementary services for pharmacists such as the organisation and management of pharmacy cooperation programmes in Germany, in France, in Belgium and in Norway. Within the framework of these cooperation programmes, we also support our business partners with offers and campaigns and provide platforms to facilitate the exchange of information.
The pharmaceutical wholesale business operates in a relatively stable market environment that is not directly dependent on economic stability. In Europe, cheaper generics are replacing original products at an increasing rate. Coupled with an equally weak development in volumes, this is causing the market to decline, in particular in France. The discount level in Germany has cooled down since the first quarter of 2014. Due to a loss of a major hospital contract in Norway, the course of business in our wholesale division varies in Q1 2016 in comparison to Q1 2014.

Revenue and earnings development

PHARMACY SOLUTIONS REVENUE AND OPERATING RESULTS	1st quarter 2014		**1st quarter 2016**	
	EUR m	OF REVENUE %	**EUR m**	**OF REVENUE %**
Revenue	4,124.6	100.0	**4,294.4**	**100.0**
Gross profit	246.2	6.0	**253.5**	**5.9**
adjusted [1)]	246.2	6.0	**253.5**	**5.9**
EBIT	66.3	1.6	**67.0**	**1.6**
adjusted [1)]	66.2	1.6	**67.7**	**1.6**

1) Adjusted for special effects from defined non-recurring expenses and income.

Revenue

In Q1 2016, the Pharmacy Solutions division generated revenue of EUR 4,294.4m compared to EUR 4,124.6m in Q1 2014, an increase of 4.1%. The gain of an exclusive distribution contract with a major manufacturer in the United Kingdom and overall positive currency effects of EUR 107.6m from the British pound have more than compensated the loss of revenue due to the loss of a hospital contract in Norway.

Gross profit

In Q1 2016, the division's gross profit increased by 3.0% from EUR 246.2m in Q1 2014 to EUR 253.5m. The lower discount level in Germany was offset by the loss of the hospital contract in Norway and the continued challenging market environment in France. Thereby overall positive exchange rate effects amounted to EUR 8.4m, mainly related to the British pound. The gross profit margin of 5.9% in Q1 2016 declined below the Q1 2014 level of 6.0%.

EBIT

In Q1 2016, the division's EBIT increased by 1.1% from EUR 66.3m in Q1 2014 to EUR 67.0. EBIT adjusted for special effects increased by 2.3% from EUR 66.2m in Q1 2014 to EUR 67.7m in Q1 2016. The lower discount level in Germany was offset by the loss of the hospital contract in Norway and the continued challenging market environment in France. Overall positive currency effects, mainly caused by the British pound, amounted to EUR 3.9m.

Financial position

Statement of cash flows

The net cash flow from operating activities comes to EUR – 43.8m for continuing operations in Q1 2016. This compares to cash flow of EUR – 73.4m generated in Q1 2014. This trend was primarily the result of changes in operating net assets. Due to the change of fiscal year in Q1 2016 there were reporting date-related changes in net working capital, which did not occur in Q1 2014, such as decrease of trade receivables and trade payables in United Kingdom.

Net cash flow from operating activities came to EUR –9.1m for discontinued operations, compared to EUR –53.1m in Q1 2014.

The net cash flow from investing activities for continuing operations amounted to EUR –33.5m, compared to EUR –27.0m in Q1 2014. Compared to Q1 2014, higher investments led to an increase in cash outflow for investments. Additionally, the acquisition of four Pharmacies in Ireland during Q1 2016 is reflected within this figure. For discontinued operations, net cash flow from investing activities came to EUR –1.3m, in contrast to the net cash flow of EUR –1.2m in Q1 2014.

Cash and cash equivalents came to EUR 312.1m as of 30 June 2015, a decrease of EUR 59.5m compared to the end of short fiscal year 2015.

Free cash flow, the balance of net cash flow from operating activities, net cash flow from investing activities and interest paid and received, totalled EUR –104.1m for continuing operations in Q1 2016 compared to EUR –132.0m in Q1 2014.

Net debt increased from EUR 897.0m as of 31 March 2015 to EUR 1,046.8m as of 30 June 2015. The key performance indicator net debt/EBITDA (adjusted) increased from 1.71 as of 31 March 2015 to 1.90 as of 30 June 2015.

Cash inflow from financing activities for continued operations amounted to EUR 5.2m in Q1 2016 compared to a cash outflow of EUR –40.9m in Q1 2014. Thereby the cash inflow from borrowing increased by EUR 327.9m, while cash outflow for the settlement of financial liabilities increased by EUR –224.8 m. Net cash flow from change in borrowings increased by 103.1m due to additional loans received from the McKesson Corporation totalling 173.0m partially offset by repayments of bank loans of -82.8m.

As of 30 June 2015, net working capital amounted to EUR 1,386.7m (31 March 2015 EUR 1,377.4m).

Assets position

As of 30 June 2015, the Celesio Group had total assets of EUR 7,857.5m; an increase of EUR 88.4m compared to 31 March 2015.

The gearing, which expresses the ratio of net debt to equity, deteriorated as of 30 June 2015 to 0.40 compared to 0.35 as of 31 March 2015. This development was mainly driven by the increase in net financial liabilities.

ASSETS	31.03.2015	30.06.2015
EUR m		
Non-current assets	**3,064.9**	**3,089.3**
Current assets	**4,704.2**	**4,768.2**
Total assets	**7,769.1**	**7,857.5**

Non-current assets increased by a total of EUR 24.4m to EUR 3,089.3m compared to 31 March 2015. Of this amount, EUR 38.2m related to currency effects and EUR 22.8m related to changes in investment in property, plant and equipment. This was adversely affected by the depreciation of non-current assets and property, plant and equipment of EUR 26.6m as well as a decrease of Deferred Tax Assets of EUR 21.6m. The DTA decrease was mainly affected by the increase in pension provision due to increased interest rates.

As of 30 June 2015, current assets came to EUR 4,768.2m an increase of EUR 64.0m compared to 31 March 2015. Inventories raised by EUR 5.5m in total to EUR 1,453.2m. Trade receivables raised by EUR 32.3m to EUR 2,233.8m, impacted by improved revenue development in UK.

As of 30 June 2015, cash and cash equivalents came to EUR 312.1m compared to EUR 371.6m as of 31 March 2015; an decrease of EUR 59.5m overall.

As of 30 June 2015, other receivables and other assets increased by EUR 55.0m to EUR 295.2m. This trend was essentially driven by exchange rate effects, deferred bonus income as well as non-income tax prepayments in France. As of 30 June 2015, the Celesio Group reported assets as held for sale of EUR 454.7m. The increase of EUR 35.9m compared with 31 March 2015 is primarily caused by the operational development of assets of PS Brazil business planned for disposal.

EQUITY AND LIABILITIES EUR m	31.03.2015	30.06.2015
Equity	**2,537.4**	**2,643.4**
Liabilities	**5,231.7**	**5,214.1**
Non-current liabilities	**1,731.1**	**1,783.5**
Current liabilities	**3,500.6**	**3,430.6**
Total assets	**7,769.1**	**7,857.5**

As of 30 June 2015, we recorded a EUR 106.0m an increase in equity capital to EUR 2,643.4m compared to 31 March 2015. This development is due to the EUR 62.3m increase in revenue reserves to EUR 1,014.7m due to the net profit of the period and by the EUR 43.3m decrease of revaluation reserves to EUR –433.8m as of 30 June 2015 as a result from increasing interest rates. The equity ratio came to 33.6% on 30 June 2015, an increase of 1.1 percentage points compared to 31 March 2015.

Non-current liabilities increased by an aggregated EUR 52.4m to EUR 1,783.5m. Non-current financial liabilities were up 107.8m to EUR 1,354.2m as 30 June 2015. The rise in non-current financial liabilities is primarily driven by the new EUR 323.0m loan granted by McKesson Deutschland partially offset by the repayment of a former EUR 150.0m loan granted by McKesson Deutschland.

Current liabilities stood at EUR 3,430.6m as of 30 June 2015 and were consequently down by EUR 70.0m compared to 31 March 2015. Current financial liabilities decreased by EUR 17.5m to EUR 4.7m mainly as a result of reclassifications from non-current liabilities as well as the settlement of current financial liabilities. Trade payables and other liabilities, decreased from EUR 2,385.0m to EUR 2,300.3m and EUR 500.8m to EUR 493.2m, respectively, between 31 March 2015 and 30 June 2015 mainly due to currency and cut-off effects. As of 30 June 2015, the group disclosed total liabilities held for sale of EUR 455.5m.

Employees

CELESIO GROUP EMPLOYEES	Full-time equivalents reporting date		Employees reporting date	
	31/03/2014	30/06/2015	31/03/2014	30/06/2015
Continuing operations Consumer Solutions	14,985	**15,388**	22,515	**22,463**
Continuing operations Pharmacy Solutions	9,630	**9,572**	11,698	**11,577**
Group holding	314	**319**	346	**361**
Discontinued operations	3,693	**3,409**	4,022	**3,748**
Continuing and discontinued operations	**28,622**	**28,688**	**38,581**	**38,149**

Employee figures [1)]

As of 30 June 2015, 28,688 full-time equivalents (FTEs) worked for Celesio – an increase of 0.2% against 31 March 2014.

As of 30 June 2015, a total of 15,388 FTEs were employed in the Consumer Solutions division, an increase of 2.7%. At 60.9 % (31 March 2014 60.1 %) this division accounted for the largest share of FTEs in the group. The Pharmacy Solutions division had 9,572 employees as of 30 June 2015, a decrease of 0.6%. There were 319 employees working at Holding level as of 30 June 2015 (31 March 2014 314 employees).

[1)] Unless otherwise indicated, the employee figures relate to full-time equivalents.

Overall picture of the economic situation

The pharmaceutical and healthcare markets in which we operate as a leading service provider are characterised by good long-term prospects for development. In contrast, government intervention in pricing and margin-setting is associated with negative effects for Celesio in many of the European markets.

First quarter fiscal 2016 results reflect a solid start to the fiscal year and Celesio remains focused on achieving key priorities in the business. In Q1 2016, we recorded a pleasing development of revenue ahead of our expectation, due to the gain of an exclusive distribution contract with a major manufacturer in the United Kingdom, in particular. Overall, the revenue development in all countries met our expectation. Currency exchange rate effects had an overall positive impact on the development of revenue of EUR 196.1m.

During Q1 2016, we recorded several influences on gross profit and the gross profit margin in both segments. Overall the gross profit margin increased to 11.2%.

In line with our expectations, additional non-recurring effects occurred due to legal and other consultancy expenses in connection with the takeover by McKesson Corporation.

On divisional level, we recorded a twofold development, which was ahead of our expectations. As expected, both divisions were able to raise revenue. Whereas the retail business recorded a significant increase in EBIT adjusted, results were slightly increasing within the wholesale business.

Consistent with our latest outlook, we recognized a drop in the adjusted tax rate.

Overall, we consider the economic situation of the Celesio Group to be positive.

Due to significant write-offs of stock losses, we recorded a decrease in EBIT adjusted of our discontinued operations.

Research and development

As a healthcare trading company and service provider, we have no need to pursue research and development activities in the course of our business. Of course we still develop our range of services and our IT infrastructure on a rolling basis.

Risk and opportunities report

As an international company, we encounter various risks and opportunities in the course of our varied business operations. Each and every corporate decision is based on a conscious weighing up of the opportunities and risks involved. We therefore set up a comprehensive opportunities and risk management system which allows us to identify and analyse risks in good time and take suitable countermeasures if necessary.

The key opportunities and risks for us are presented on the Annual Report for short fiscal year 2015 from page 71 onwards. In essence, there has been no change here.

Outlook

We do not record any change to our previously provided outlook with in the annual report for the short fiscal year 2015.

Therefore, we still expect adjusted EBIT for fiscal 2016 to be in line with the adjusted EBIT for the adjusted fiscal 2014 excluding the benefit in fiscal 2014 from the pension in Norway.

For a detailed disclosure of the expectations on the outlook of Celesio, we refer to the respective section within the Annual Report for short fiscal year 2015 (page 89-95).

Revenue and earnings forecast

In addition to cost structures, we will also continue to optimise the efficiency of our companies. However, the development of the fiscal 2016 will be burdened by government intervention in several markets accompanied by special effects from the integration process and the ongoing challenging environment in France. In addition, project costs in fiscal 2016, especially those incurred as part of the harmonisation of our extremely heterogeneous software landscape, will place a burden on earnings.

Overall, the Management Board of Celesio assumes that revenue for continued operations for fiscal 2016 will be flat compared to the adjusted fiscal 2014. The adjusted EBIT for continued operations for fiscal 2016 will be considerably below the level of the adjusted EBIT for the adjusted fiscal 2014. Due to the reclassification of the Brazilian entities, the restated figures for the comparison period have changed considerably. The write-off of bad debt and tax receivables in Brazil in fiscal 2014 resulted in a more negative year over year variance. Moreover, the benefit from Norway pension accounting is not expected to repeat in fiscal 2016.

With the disposal of the Brazilian operations the foreign currency translation reserves, with a current aggregate loss of EUR 125.2m as of 30 June 2015, will be recorded as an expense through profit and loss, once the sale transaction is closed.

In fiscal 2016, consulting and integration costs in connection with the acquisition by McKesson Corporation may still arise and possible earnings will be derived from the combined sourcing with McKesson. McKesson expects annual synergies of 275 - 325 million dollars by the fourth year following registration of the domination and profit and loss transfer agreement. Both effects are not considered in the EBIT forecast, which is only based on adjusted EBIT.

Subsequent events

On 28 July 2015, Celesio AG, owner of Lloyds Pharmacy Ltd (LloydsPharmacy) compounded with Sainsbury the formation of a strategic partnership that will see LloydsPharmacy acquire Sainsbury's pharmacy business for £125m.

Under the terms of the transaction, LloydsPharmacy has agreed to acquire 281 pharmacies in total, including 277 in-store pharmacies and four located in hospitals, all of which will be rebranded as LloydsPharmacy.

The transaction is expected to complete by the end of February next year, subject to regulatory approval by the European Commission and the Competition and Markets Authority.

The transaction will not have a major impact on our outlook for fiscal 2016.

Interim condensed consolidated financial statements

Celesio AG

1st quarter of 2016

Consolidated income statement

EUR M	short fiscal 2015	1st quarter 2016
Revenue	**5,269.1**	**5,337.1**
Cost of materials	−4,696.8	−4,741.4
Gross profit	**572.3**	**595.7**
Other operating income	41.8	50.3
Other operating expenses	−204.8	−183.6
Personnel expenses	−314.4	−315.9
EBITDA	**94.9**	**146.5**
Depreciation on intangible assets held as non-current assets and on property, plant and equipment	−26.5	−26.6
Impairment losses recorded on intangible assets and property, plant and equipment	−6.2	0.0
EBIT	**62.2**	**119.9**
Result from associates accounted for using the equity method	15.2	2.9
Result from other investments	−0.1	0.1
Interest expense	−17.5	−16.2
Interest income	1.8	1.3
Other financial result	−7.1	−1.0
Profit before tax from continuing operations	**54.5**	**107.0**
Income taxes	−21.5	−35.2
Net profit/loss from continuing operations	**33.0**	**71.8**
Net profit/loss from discontinued operations	**−255.3**	**−9.0**
Net profit/loss for the period	**−222.3**	**62.8**
Of which attributable to non-controlling interests	0.8	0.5
Of which attributable to shareholders of Celesio AG	**−223.1**	**62.3**
Profit center	**7.9**	**0.0**
Earnings per share – undiluted	**EUR**	**EUR**
Net profit/loss from continuing operations	**0.16**	**0.35**
Net profit/loss from discontinued operations	−1.26	−0.04
Net profit/loss for the period	−1.10	0.31
Earnings per share – diluted	**EUR**	**EUR**
Net profit/loss from continuing operations	0.16	0.35
Net profit/loss from discontinued operations	−1.26	−0.04
Net profit/loss for the period	−1.10	0.31

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

EUR M	short fiscal 2015	2016
Net profit/loss for the period	**−222.3**	**62.8**
Items, that are not recycled through profit or loss	**−12.6**	**33.7**
Revaluation of defined benefit pension plans	−12.6	**33.7**
Items, that are recycled through profit or loss	**18.7**	**9.7**
Foreign currency translation posted directly to other comprehensive income	18.7	**9.7**
Exchange differences	18.7	**9.7**
Other comprehensive income after tax	**6.1**	**43.4**
From continuing operations	20.8	**43.3**
Of which attributable to non-controlling interests	0.0	**0.1**
Of which attributable to shareholders of Celesio AG	20.8	**43.1**
From discontinued operations	−14.7	**0.1**
Of which attributable to non-controlling interests	0.0	**0.0**
Comprehensive income	**−216.2**	**106.1**
From continuing operations	53.8	**115.0**
Of which attributable to non-controlling interests	0.8	**0.6**
Of which attributable to shareholders of Celesio AG	53.0	**114.4**
From discontinued operations	−270.0	**−8.9**

Please refer to page 47 for more information on other comprehensive income.

Consolidated statement of financial position

ASSETS	31.03.2015	30/06/2015
EUR m		
Non-current assets	**3,064.9**	**3,089.3**
Intangible assets	2,286.7	2,327.7
Property, plant and equipment	517.2	521.4
At equity investments	150.4	151.7
Other financial assets	50.5	50.1
Other non-current assets	2.0	1.9
Income tax receivables	1.5	1.5
Deferred tax assets	56.6	35.0
Current assets	**4,704.2**	**4,768.2**
Inventories	1,447.7	1,453.2
Trade receivables	2,201.5	2,233.8
Income tax receivables	24.4	19.2
Other receivables and other assets	240.2	295.2
Cash and cash equivalents	371.6	312.1
Assets held for sale	418.8	454.7
Total assets	**7,769.1**	**7,857.5**

EQUITY AND LIABILITIES EUR m	31.03.2015	30/06/2015
Equity	**2,537.4**	**2,643.4**
Issued capital	260.1	**260.1**
Capital reserves	1,783.2	**1,783.2**
Revenue reserves	952.4	**1,014.7**
Revaluation reserves	−477.1	**−433.8**
Stake of the shareholders of Celesio AG	**2,518.6**	**2,624.2**
Non-controlling interests	18.8	**19.2**
Liabilities	**5,231.7**	**5,214.1**
Non-current liabilities	**1,731.1**	**1,783.5**
Financial liabilities	1,246.4	**1,354.2**
Pension provisions	403.6	**348.2**
Other non-current provisions	44.0	**42.1**
Other liabilities	6.2	**6.2**
Deferred tax liabilities	30.9	**32.8**
Current liabilities	**3,500.6**	**3,430.6**
Financial liabilities	22.2	**4.7**
Trade payables	2,385.0	**2,300.3**
Other current provisions	109.9	**81.7**
Income tax liabilities	66.9	**95.2**
Other liabilities	500.8	**493.2**
Liabilities held for sale	415.8	**455.5**
Total assets	**7,769.1**	**7,857.5**

Consolidated statement of cash flows

EUR M	short fiscal 2015	1st quarter 2016
Net profit/loss from continuing operations	**33.0**	**71.8**
Amortisation, depreciation and impairment of non-current intangible and property, plant and equipment	32.7	**26.6**
Result from associates accounted for using the equity method and other equity investments	−15.1	**−3.0**
Dividends received	1.3	**1.7**
Financial result	22.8	**15.9**
Net result from the disposal of non-current assets and subsidiaries	−0.2	**0.0**
Impairment losses on items classified as operating assets	5.9	**2.9**
Change in deferred taxes and income taxes	21.5	**35.2**
Income taxes paid	−38.8	**10.0**
Other non-cash income and expenses	13.3	**7.8**
Change in net operating assets	−113.0	**−130.2**
Change in inventories	46.3	**2.0**
Change in trade receivables	−143.8	**−16.6**
Change in trade payables	42.3	**−108.3**
Change in other net operating assets	−57.8	**−7.3**
Change in other assets and liabilities	−13.2	**−82.5**
Change in other assets	40.8	**−27.7**
Change in other liabilities	−54.0	**−54.8**
Net cash flow from operating activities - continuing activities	**−49.8**	**−43.8**
Net cash flow from operating activities - discontinued operations	**−21.3**	**−9.1**
Net cash flow from operating activities - continuing and discontinuing activities	**−71.1**	**−52.9**
Proceeds from the disposal of non-current assets	7.9	**2.1**
Capital expenditure on non-current assets	−33.2	**−30.2**
Proceeds from the disposal of subsidiaries	0.1	**0.1**
Cash paid for business combinations	−4.7	**−5.5**

EUR M	short fiscal 2015	1st quarter 2016
Net cash flow from investing activities - continuing operations	**−29.9**	**−33.5**
Net cash flow from investing activities - discontinued operations	**−1.7**	**−1.3**
Net cash flow from investing activities - continuing and discontinued operations	**−31.6**	**−34.8**
Payments made to shareholders (including non-controlling interests)	0.0	**−0.2**
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	−0.9	**0.0**
Proceeds from borrowings	300.0	**324.8**
Repayment of borrowings	−137.9	**−230.9**
Interest paid	−6.1	**−27.9**
Interest received	1.7	**1.1**
Profit center	0.0	**0.0**
Payments for group hedging activities	−58.9	**−61.7**
Net cash flow from financing activities - continuing activities	**97.9**	**5.2**
Net cash flow from financing activities - discontinued operations	**33.0**	**16.9**
Net cash flow from financing activities - continuing and discontinuing activities	**130.9**	**22.1**
Net change in cash and cash equivalents	**28.2**	**−65.6**
Non-cash change in cash and equivalents	13.9	**5.3**
Cash and cash equivalents at the beginning of the period	335.8	**377.9**
Cash and cash equivalents at the end of the period	**377.9**	**317.6**
Cash and cash equivalents of discontinued operations and disposal groups at the end of the period	6.3	**5.5**
Cash and cash equivalents at the end of the period (according to the group statement of financial position)	**371.6**	**312.1**

Consolidated statement of changes in equity

EUR m	Issued capital	Number of shares	Capital reserves	Revenue reserves
As of 01/04/2015	**260.1**	**203,220,932**	**1,783.2**	**952.4**
Dividends	0.0		0.0	0.0
Changes in the amount of the shareholding in subsidiaries involving no loss of control	0.0		0.0	0.0
Reclassification of pension compensation from associated companies	0.0		0.0	0.0
Changes to the consolidated group	0.0		0.0	0.0
Other comprehensive income	0.0		0.0	0.0
Net profit/loss for the period	0.0		0.0	62.3
Comprehensive income	0.0		0.0	62.3
Profit center	0.0		0.0	0.0
As of 30/06/2015	**260.1**	**203,220,932**	**1,783.2**	**1,014.7**
As of 01/01/2015	**260.1**	**203,220,932**	**1,783.2**	**1,194.5**
Reclassification of pension compensation from associated companies	0.0		0.0	−11.1
Changes to the consolidated group	0.0		0.0	0.0
Other comprehensive income	0.0		0.0	0.0
Net profit/loss for the period	0.0		0.0	−223.1
Comprehensive income	0.0		0.0	−223.1
Profit center	0.0		0.0	−7.9
As of 31/03/2015	**260.1**	**203,220,932**	**1,783.2**	**952.4**

1) Of which attributable to discontinued operations and disposal groups EUR 125,2m (previous year EUR 125,4m).
2) Of which attributable to discontinued operations EUR 0.0m (previous year EUR 0.0m).
3) Of which attributable to discontinued operations and disposal groups EUR 0.0m (previous year EUR 0.0m).

Revaluation reserves						Stake of the share-holders of Celesio AG	Non-controlling interests	Equity
Translation reserves	Revaluation of defined benefit plans	Asset revaluation reserves	Available for sale financial assets	Cash flow hedges	Other comprehensive income from associates accounted for using the equity method			
−211.5	**−265.9**	**0.0**	**0.3**	**0.0**	**0.0**	**2,518.6**	**18.8**	**2,537.4**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**−0.2**	**−0.2**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
9.6	33.7	0.0	0.0	0.0	0.0	**43.3**	**0.1**	**43.4**
0.0	0.0	0.0	0.0	0.0	0.0	**62.3**	**0.5**	**62.8**
9.6	33.7	0.0	0.0	0.0	0.0	**105.6**	**0.6**	**106.2**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
−201.9 [1]	**−232.2** [2]	**0.0**	**0.3**	**0.0**	**0.0**	**2,624.2**	**19.2**	**2,643.4**
−238.7	**−244.8**	**0.0**	**0.3**	**0.0**	**−11.1**	**2,743.5**	**18.0**	**2,761.5**
0.0	0.0	0.0	0.0	0.0	11.1	**0.0**	**0.0**	**0.0**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
27.2	−21.1	0.0	0.0	0.0	0.0	**6.1**	**0.0**	**6.1**
0.0	0.0	0.0	0.0	0.0	0.0	**−223.1**	**0.8**	**−222.3**
27.2	−21.1	0.0	0.0	0.0	0.0	**−217.0**	**0.8**	**−216.2**
0.0	0.0	0.0	0.0	0.0	0.0	**−7.9**	**0.0**	**−7.9**
−211.5 [1]	**−265.9** [2]	**0.0**	**0.3**	**0.0**	**0.0**	**2,518.6**	**18.8**	**2,537.4**

Consolidated segment reporting by division

1ST QUARTER 2016	Consumer Solutions	Pharmacy Solutions	Others	Consolidation	Group (continuing operations)	Discontinued operations
EUR m						
Income statement						
Revenue	**1,042.7**	**4,294.4**	**0.0**	**0.0**	**5,337.1**	**400.4**
External revenue	1,042.7	4,294.4	0.0	0.0	**5,337.1**	400.4
Inter-segment revenue	0.0	0.0	0.0	0.0	**0.0**	0.0
Gross profit	**342.2**	**253.5**	**0.0**	**0.0**	**595.7**	**35.9**
EBITDA	81.0	76.8	−11.3	0.0	**146.5**	−6.2
Impairment losses recorded on intangible assets and property, plant and equipment	0.0	0.0	0.0	0.0	**0.0**	0.0
EBIT	**65.9**	**67.0**	**−13.0**	**0.0**	**119.9**	**−6.2**
Segment assets	**2,343.1**	**1,811.0**	**−47.1**	**−0.1**	**4,106.9**	**0.0**

Consolidated segment reporting by division

SHORT FISCAL 2015	Consumer Solutions	Pharmacy Solutions	Others	Consolidation	Group (continuing operations)	Discontinued operations
EUR m						
Income statement						
Revenue	**979.0**	**4,290.1**	**0.0**	**0.0**	**5,269.1**	**391.3**
External revenue	979.0	4,290.1	0.0	0.0	5,269.1	391.3
Inter-segment revenue	0.0	0.0	0.0	0.0	0.0	0.0
Gross profit	**320.7**	**251.6**	**0.0**	**0.0**	**572.3**	**30.8**
EBITDA 1)	51.3	43.5	0.1	0.0	94.9	−9.3
Impairment losses recorded on intangible assets and property, plant and equipment	−5.6	−0.6	0.0	0.0	−6.2	0.0
EBIT 1)	**30.4**	**33.4**	**−1.6**	**0.0**	**62.2**	**−11.4**
Segment assets 1)	**2,186.0**	**1,749.7**	**−121.1**	**0.0**	**3,814.6**	**0.8**

1) Retrospektive Anpassung des internen Management Reportings der Segmente

RECONCILIATION OF SEGMENT REVENUE	short fiscal 2015	1st quarter 2016
EUR m		
Revenue of the reportable segments	**5,269.1**	**5,337.1**
Consolidation	0.0	**0.0**
Group revenue	**5,269.1**	**5,337.1**

RECONCILIATION OF SEGMENT EARNINGS	short fiscal 2015	1st quarter 2016
EUR m		
EBIT	**62.2**	**119.9**
Result from associates accounted for using the equity method	**15.2**	**2.9**
Result from other investments	**−0.1**	**0.1**
Interest expense	**−17.5**	**−16.2**
Interest income	**1.8**	**1.3**
Other financial result	**−7.1**	**−1.0**
Profit before tax from continuing operations	**54.5**	**107.0**

RECONCILIATION OF SEGMENT ASSETS	31.03.2015	30/06/2015
EUR m		
Segment assets of the reportable segments	**3,864.8**	**4,107.0**
Consolidation	0.0	**−0.1**
Segment assets of the group	**3,864.8**	**4,106.9**
+ Interest-bearing other financial assets	46.1	**45.7**
+ Non-current and current income tax receivables	25.9	**20.7**
+ Deferred tax assets	56.6	**35.0**
+ Other assets	6.6	**1.2**
+ Cash and cash equivalents	371.6	**312.1**
+ Assets of discontinued operations	418.0	**453.7**
- Other non-current provisions	44.0	**42.1**
- Other current provisions	109.9	**81.7**
- Trade liabilities	2,385.0	**2,300.3**
- Other liabilities	440.6	**458.1**
Total net assets	**7,769.1**	**7,857.5**

Accounting and measurement policies

The condensed consolidated interim report of Celesio AG for the first three months of the fiscal year 2016 – comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and selected notes – is prepared on the basis of International Accounting Standard (IAS) 34 – Interim Reporting. All the applicable International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, approved for use in the European Union as at 30 June 2015, and all the interpretations (IFRIC) of the International Financial Reporting Standards Interpretation Committee were complied with. The accounting policies applied in the preparation of the condensed interim report essentially correspond to those used in the consolidated financial statements as at 31 March 2015. The condensed interim report should therefore be read in conjunction with the consolidated financial statements of Celesio AG for the fiscal year 2015.

The consolidated financial statements were prepared in euro. Unless otherwise stated, all figures are provided in millions of euro (EUR m). We would like to draw attention to the fact that differences may arise from use of amounts and percentages rounded to the nearest whole number.

Adjustments to previous-year disclosures

An adjustment within the internal management reporting results from methodical change of the intercompay settlements and allocation of inventory between the segments, resulted in a shift in the corresponding previous-year values for EBIT/EBITDA in segment reporting by business area between Consumer Solutions (EUR -10.5m), Pharmacy Solutions (EUR -22.4m) and Others (EUR +32.9m), as well as for segment assets between Consumer Solutions (EUR 47.6m) and Pharmacy Solutions (EUR -47.6m).

The previous-year disclosures relate to a short fiscal year.

Consolidated group

Business combinations and disposals in the first three months of the fiscal year 2016

Business combinations

In the first three months of the fiscal year 2016, four retail pharmacies in Ireland were acquired 100% and fully consolidated as a result of measures to optimise the portfolio in the Consumer Solutions division.

The key information about the companies acquired in the first three months of the fiscal year 2016 is as follows:

EUR m	Total
Consideration transferred	**6.2**
Purchase price payment	5.5
Purchase price liability	0.7
Contingent consideration	0.0
Shares previously recognised using the equity method	0.0
Revaluation of shares previously recognised using the equity method	0.0
Cash purchase price	**5.5**
Fair value of assets and liabilities assumed	
Total assets	**1.4**
Property, plant and equipment	0.3
Inventories	0.5
Trade receivables	0.4
Other assets	0.2
Total liabilities	**0.5**
Trade payables	0.4
Other liabilities	0.1
Goodwill	**5.3**
Non-controlling interests	**0.0**

Incidental acquisition costs of EUR 0.1m were recognised in other expenses. No equity instruments were issued to settle existing purchase price liabilities. A purchase price liability in the amount of EUR 0.7m was recognised.

The fair value of the receivables acquired comes to EUR 0.4m and corresponds to the gross amounts of the contractual receivables. This contains trade receivables of EUR 0.4m.

The resultant goodwill mainly represents the future prospects expected with the respective business combinations and the value of the experience among the employees acquired and is tax deductible in the amount of EUR 0.0m.

Revenue of EUR 0.4m and a net profit of EUR 0.0m are attributable to the companies acquired in the fiscal year 2016. If these companies had been acquired at the beginning of the fiscal year, they would have contributed EUR 4.5m to the revenues and EUR 0.4m to the net profit of the group.

Change in contingent consideration

The contingent consideration carried as liabilities in accordance with IFRS 3, which was revised in 2008 and has been mandatory since 2010, reduced by EUR 0.2m in the fiscal year 2016 as a result of a repayment of contingent consideration. Adjustments to the current value of contingent considerations are mainly determined on the basis of an earnings variable taking account of long-term planning. This did not result in any material adjustments to the range of contingent consideration recorded at the end of the fiscal year 2016.

Sales of subsidiaries

No companies were sold in the first three months.

Business combinations and disposals in fiscal year 2015

Business combinations

The table below provides the significant details of the companies acquired in the fiscal year 2015:

EUR m	Total
Consideration transferred	**4.6**
Purchase price payment	0.0
Contingent consideration	4.6
Shares previously recognised using the equity method	0.0
Revaluation of shares previously recognised using the equity method	0.0
Cash purchase price	**−0.6**
Fair value of assets and liabilities assumed	
Total assets	**1.7**
Property, plant and equipment	0.3
Inventories	0.5
Trade receivables	0.1
Cash and cash equivalents	0.6
Other assets	0.2
Total liabilities	**1.3**
Trade payables	0.1
Other liabilities	1.2
Goodwill	**4.2**
Non-controlling interests	**0.0**

No significant incidental acquisition-related costs were incurred.

The resultant goodwill mainly represents the future prospects expected with the acquisitions and the value of the experience among the employees acquired and is tax deductible in the amount of EUR 0.0m.

The fair value of the receivables acquired comes to EUR 0.2m and corresponds to the gross amounts of the contractual receivables. This contains trade receivables of EUR 0.1m. Revenue of EUR 1.4m and an earnings contribution of EUR 0.0m were attributable in the previous-year period to the companies acquired in the fiscal year 2015. If these companies had been acquired at the beginning of the reference period, they would have contributed EUR 1.4m to the revenues of the group. The contribution to the group's net profit would have been EUR 0.0m.

Sales of subsidiaries

Two retail pharmacies in the UK were sold in the fiscal year 2015. The consideration received amounted to EUR 0.1m.

Non-recurring expenses in the consolidated income statement

In the first three months of the fiscal year 2016, non-recurring effects amounting to EUR 2.5m overall that weighed on earnings were incurred. These non-recurring effects essentially result from legal and other consultancy expenses concerning the integration into McKesson Corporation, to be well-positioned in future to meet the increasingly global nature of drug distribution and the healthcare industry.

In contrast, non-recurring effects amounting to EUR 16.4m weighed on earnings in the reference period.

Discontinued operations and disposal groups

General

Following careful scrutiny and analysis of the strategic options, the Management Board of Celesio passed a resolution at the end of March 2015 to initiate the sales process for the Panpharma and Oncoprod units. These were previously recorded in the Pharmacy Solutions division and no longer form part of the core business of Celesio AG. With the planned sale of the Brazilian subsidiaries, Celesio is setting its focus on European markets and customers.

The two Brazilian units have been classified as discontinued operations since the previous year. In addition, at the start of February 2015 a resolution was passed to sell a small sub-unit of CGU PS Germany. Since this time, this unit has been classified as a disposal group.

Revaluation differences and disposals

The units classified as discontinued operations and disposal groups are measured at fair value less the costs of disposal. In this case, fair value is based on the preliminary offers of purchase and standard company valuation models (discounted cashflow method). No adjustments (before and after taxes) were made in the reporting period for the Wholesale Brazil cash-generating unit (previous year EUR -210,5m), which are reported in the net profit/loss from discontinued operations. Likewise, for a small sub-unit of CGU PS Germany that is available for sale, no adjustments were made in the past quarter (previous year EUR -6,6m).

Assets and liabilities held for sale

The main groups of assets and liabilities held for sale are as follows:

EUR m	31/03/2015 Non-current assets held for sale	30/06/2015 Non-current assets held for sale
Intangible assets	0.0	**0.0**
Property, plant and equipment	0.6	**0.5**
Inventories	51.3	**61.0**
Trade receivables	262.4	**269.1**
Cash and cash equivalents	6.3	**5.5**
Other assets	98.2	**118.6**
Assets	**418.8**	**454.7**
Financial liabilities	134.0	**152.2**
Trade payables	195.2	**219.3**
Other liabilities	86.6	**84.0**
Equity and liabilities	**415.8**	**455.5**

Real estate with a carrying amount of EUR 0.5m (previous year EUR 0.6m) held by the Consumer Solutions division is reported under non-current assets held for sale.

Profit from discontinued operations

The net profit/loss from discontinued operations breaks down as follows:

EUR M	Total short fiscal 2015	Total 1st quarter 2016
Revenue	391.3	**400.4**
Cost of materials	−360.5	**−364.5**
Gross profit	30.8	**35.9**
EBITDA	−9.3	**−6.2**
EBIT	−11.4	**−6.2**
Profit/loss before tax from discontinued operations	−15.7	**−10.8**
Income taxes	−30.1	**2.0**
Profit/loss after tax from discontinued operations	−45.8	**−8.8**
Profit/loss after tax from the measurement and disposals of discontinued operations	−209.5	**−0.2**
Net profit/loss from discontinued operations	**−255.3**	**−9.0**

Guarantees and other commitments, other financial obligations and contingent liabilities

On 30 June 2015, there were financial guarantees amounting to EUR 78.3m (EUR 81.6m as at 31 March 2015). The decrease of EUR 3.3m is mainly due to the reduction of warranties in the UK wholesale operation.

In the first three months of 2016, there was no material change to the other financial obligations shown in the consolidated financial statements as at 31 March 2015.

Panpharma, Brazil, in particular is exposed to tax risks mainly in connection with VAT concessions as well as corporate income tax on these concessions. These result from the complexity of the tax laws as well as disagreements between states regarding the mutual recognition of concessions. In this regard, in December 2014 Panpharma received a tax bill from the federal tax authority of Rio de Janeiro referring to the years 2009 to 2013 for an amount of approx. EUR 80m. Panpharma already filed a defence against this claim in the fiscal year 2014. We disagree with the assessment of the federal state tax authorities and believe that we have strong legal arguments to defend our positions. The chances for Panpharma of losing the legal dispute or rather overruling of the objection have been assessed to be possible, but not more likely than not.

Contingent liabilities recognised for legal tax risks in connection with the business combination with Panpharma in 2009 amounted to EUR 21.7m as of 30 June 2015 (EUR 21.5m as of 31 March 2015). These increased as a result of currency effects. To cover these legal tax risks, claims for reimbursement were agreed with the former shareholders, which are capped at a maximum amount.

The claims for reimbursement are recognised as a claim against the former owners in current or non-current assets. Celesio has options to offset the claims with liabilities, which partially hedges the potential reimbursement claims. Since the short fiscal year 2015, the contingent liabilities have been presented under the liabilities held for sale.

As regards the privatisation process in Slovenia, at first instance a favourable judgement was given for Kemofarmacija. The process is, however, currently under revision. The possibility that a higher court will pronounce a judgement that will lead to a cash outflow for Kemofarmacija is considered to be unlikely. The maximum risk is EUR 8.5m.

Fair value measurement

The following overview shows the carrying amounts and the fair values for each class of assets and liabilities:

ASSETS	31/03/2015		30.06.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
EUR m				
Available-for-sale financial assets - equity instruments	0.7	0.7	**0.7**	**0.7**
Available-for-sale financial assets - debt instruments	3.7	3.7	**3.7**	**3.7**
Loans to investments	15.8	15.7	**15.7**	**15.6**
Other loans	30.3	30.2	**30.0**	**29.7**
Other financial assets	**50.5**	**50.3**	**50.1**	**49.7**
Other non-current assets	**2.0**	**2.0**	**1.9**	**1.8**

EQUITY AND LIABILITIES	31/03/2015		30.06.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
EUR m				
Liabilities to banks	89.1	95.7	**23.9**	**27.1**
Promissory notes and bonds	846.0	897.7	**846.4**	**889.9**
Lease liabilities	4.7	4.7	**4.4**	**4.4**
Other financial liabilities	306.6	306.6	**479.5**	**479.4**
Non-current liabilities	**1246.4**	**1304.7**	**1,354.2**	**1,400.8**
Other non-current liabilities	**6.2**	**6.2**	**6.2**	**6.2**

If the carrying amount represents an appropriate approximate value for the fair value, no details of the fair value are provided in the table.

The financial assets available for sale mainly comprise shareholdings in unlisted companies where neither control nor any significant influence can be exercised. If there are no active markets, these financial assets are shown at amortised cost. On 30 June 2015, unlisted shareholdings with a carrying amount of EUR 0.3m (previous year EUR 0.3m) were measured at amortised cost for this reason.

Celesio uses the following hierarchy to determine and recognise assets and liabilities measured at fair value:

Level 1: Listed prices on active markets for the same asset or the same liability

Level 2: Listed prices on active markets for similar assets and liabilities or other measurement methods where all key data used are based on observable market data.

Level 3: Measurement methods where all key data used are not based on observable market data.

The following overview shows the assets and liabilities measured at fair value in the statement of financial position, divided into the measurement levels shown:

Assets accounted for at fair value

EUR M
Fair value measurement on a recurring basis
Available-for-sale financial assets
Derivative financial instruments - not designated as hedging instruments
Fair value measurement on a non-recurring basis
Assets held for sale

Liabilities measured at fair value

EUR M
Fair value measurement on a recurring basis
Derivative financial instruments - designated as hedging instruments
Derivative financial instruments - not designated as hedging instruments
Other liabilities
Fair value measurement on a non-recurring basis
Liabilities held for sale

	31/03/2015				30.06.2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	4.0	0.0	0.0	4.0	**4.0**	**0.0**	**0.0**	**4.0**
	0.0	6.6	0.0	6.6	**0.0**	**0.5**	**0.0**	**0.5**
	0.0	0.0	418.8	418.8	**0.0**	**0.0**	**454.7**	**454.7**

	31/03/2015				30/06/2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	0.0	73.2	0.0	**73.2**	**0.0**	**45.4**	**0.0**	**45.4**
	0.0	0.0	0.6	**0.6**	**0.0**	**0.0**	**0.4**	**0.4**
	0.0	0.0	415.8	415.8	**0.0**	**0.0**	**−455.5**	**−455.5**

There were no reclassifications of assets and liabilities measured at fair value on a recurring basis between level 1 and level 2 in the reporting period and no reclassifications to or from level 3.

The fair value of financial instruments that are actively traded on an active market is determined by reference to listed bid prices at the end of the reporting period. In level 2 and 3, assets and liabilities measured at fair value on a recurring basis are determined using the DCF method. This involves discounting the cash flows expected from the financial instruments using market interest rates for instruments of a similar term. Celesio accounts for the credit rating of the respective debtor by means of credit value adjustments (CVA) or debt value adjustments (DVA) on the basis of a mark-up/mark-down procedure. Where possible, the CVAs and DVAs are determined from observable prices for credit derivatives on the market.

Level 3 liabilities consist of liabilities from business combinations made after 1 January 2010 that were measured on the basis of earnings indicators as well as the assumptions and estimates of management. Please see → page 35 for a reconciliation of the opening and closing balances of liabilities measured at fair value in level 3 of the hierarchy.

No comprehensive income and expenses resulted from the recurring measurement of level 3 assets and liabilities, which are held in the company on the reporting date, at fair value.

The assets and liabilities measured at fair value on a non-recurring basis in level 3 concern the two Brazilian units, which have been classified as discontinued operations since the previous year. This also includes a small sub-unit of CGU PS Germany, which has been classified as a disposal group since the previous year. For a description of the measurement policy, please see → page 38.

Other comprehensive income after taxes

The items of other comprehensive income after taxes - including non-controlling interests - developed as follows:

	2015			2016		
EUR m	before taxes	taxes	after taxes	before taxes	taxes	after taxes
Items that will not be recycled through profit or loss						
Revaluation of defined benefit plans	−7.3	−5.3	−12.6	**48.2**	**−14.5**	**33.7**
Items that may be subsequently recycled through profit or loss						
Foreign currency translation posted directly to other comprehensive income	18.7	/	18.7	**9.7**	**/**	**9.7**
Release to profit or loss due to loss of control	0.0	/	0.0	**0.0**	**/**	**0.0**
Exchange differences	18.7	/	18.7	**9.7**	**/**	**9.7**
Other comprehensive income	**11.4**	**−5.3**	**6.1**	**57.9**	**−14.5**	**43.4**

Notes to the segment reporting

The segments are defined in line with the internal reporting structure of Celesio and are divided into the Consumer Solutions and Pharmacy Solutions divisions. These divisions form the basis for the internal controlling by the Management Board and thus correspond to the reportable segments.

The Management Board of Celesio AG is the chief operating decision maker referred to in IFRS 8.7. The divisions of Celesio AG can be described as follows:

- The Consumer Solutions division is aimed at patients and consumers. It includes the entire logistics chain from purchasing merchandise to handing it over to end consumers. In particular, the division includes activities relating to retail and mail-order pharmacies, as well as activities in brand partner shops.
  In addition, the division contains our investment in Brocacef Holding N.V. in the Netherlands, which is reported as an associate.
- The Pharmacy Solutions division offers solutions for pharmacists; it concentrates on wholesale business with third party customers. The operating segments in this division have likewise been combined at country level. The Pharmacy Solutions division includes the property developer for pharmacies "Inten".
- The Others division is primarily used to report the activities of the group's parent, Celesio AG, and other companies not directly attributable to operating activities. Celesio AG holds investments in the major operating national companies and national holdings. In addition, the operating entities of the Celesio Group are primarily financed via Celesio AG and Celesio Finance B.V., Netherlands. Celesio AG bundles group functions including in the fields of accounting, controlling, treasury and IT.
  Consolidation of intra-group activities is shown separately.

The Management Board takes EBIT under IFRS as a measure of the success of the segments. This is defined as earnings before interest, taxes and investment result. In addition, information on the gross profit and EBITDA is disclosed voluntarily.

The segment assets to be reported according to IFRS 8 correspond to committed capital, which is made up of the total of the carrying amounts of all non-interest bearing assets (apart from assets' tax items) less non-interest bearing liabilities (apart from liabilities' tax items).

The same accounting standards were applied to segment reporting by business area as were applied for the Celesio Group. Intercompany transactions are measured at market prices.

There are no customers individually accounting for more than 10% of revenue.

With regard to the information on countries, segment revenue is allocated to the country in which the revenue is generated. Segment assets are allocated to the country in which they are located.

Transactions with related parties

Related parties as defined by IAS 24 (Related Party Disclosures) are legal entities and natural persons who can exercise significant influence or control over Celesio AG and its subsidiaries or, alternatively, are subject to the control or significant influence of Celesio AG or its subsidiaries. Since 6 February 2014, this has included the majority shareholder McKesson Corporation, San Francisco, USA, and its subsidiaries, joint ventures and associates. In addition, related parties include the joint ventures, associates and members of the boards of Celesio AG.

All transactions with related parties have been conducted at arm's length.

There are ongoing business relationships with joint ventures and associates, in particular with regard to supplies of merchandise.

The goods and services received from or supplied to related parties are summarised below:

	McKesson Corporation, San Francisco, USA			
	31/03/2015	30/06/2015		
EUR M				
Loans and receivables	0.2	0.1		
Liabilities	0.0	0.0		

	McKesson Corporation, San Francisco, USA			
	01.01.2015-31.03.2015	01.04.2015-30.06.2015		
EUR m				
Income	0.0	0.0		
Expenses	0.0	0.0		

	Subsidiaries of McKesson Corporation, San Francisco, USA		Joint Ventures and associates of McKesson Corporation, San Francisco, USA		Joint ventures and associates of Celesio AG	
	31/03/2015	30/06/2015	31/03/2015	30/06/2015	31/03/2015	30/06/2015
	0.0	**0.7**	0.0	**0.0**	25.6	**25.6**
	310.5 [1]	**484.3 [1]**	0.0	**0.0**	0.9	**1.0**

	Subsidiaries of McKesson Corporation, San Francisco, USA		Joint Ventures and associates of McKesson Corporation, San Francisco, USA		Joint ventures and associates of Celesio AG	
	01.01.2015-31.03.2015	01.04.2015-30.06.2015	01.01.2015-31.03.2015	01.04.2015-30.06.2015	01.01.2015-31.03.2015	01.04.2015-30.06.2015
	0.0	**0.7**	0.0	**0.0**	15.9	**26.9**
	0.0	**0.3**	0.0	**0.0**	0.0	**6.4**

Employees

At the end of the reporting period Celesio employed 28,688 employees (full-time equivalents), of whom 3,409 (31 March 2015: 3,677) are employed at companies that are reported as discontinued operations. As at 31 March 2015 28,795 employees (full-time equivalents) were employed in the Celesio Group.

Other disclosures in the notes

Other financial income contains changes in the market value of derivatives used to hedge financial liabilities, which were recognised through profit or loss. The changes in the market value of derivative currency hedge contracts resulted in Expenses amounting to EUR 21.6m (previous year expenses of EUR 38.7m). Other financial income also contains exchange gains amounting to EUR 32.2m (previous year EUR 91.3m) and exchange losses of EUR 54.8m (previous year EUR 59.5m). There were no impairment losses on loan receivables in the fiscal year or the previous year. In contrast, other financial income includes income from impaired loan receivables of EUR 0.0m (previous year EUR 0.1m).

A domination and profit and loss transfer agreement (DPTA) has been in place since 2 December 2014 between the company and majority shareholder McKesson Deutschland GmbH & Co. KGaA, a wholly owned indirect subsidiary of the McKesson Corporation, which has its head office in San Francisco, California, USA. In accordance with the DPTA, a profit and loss transfer is taking place for the first time for the short fiscal year 2015, which began on 1 January 2015. A net retained profit was therefore generated for the fiscal year 2014 – the use of this will be decided by way of a resolution at the Annual General Meeting. In accordance with § 4 (1) and (3) of the DPTA, McKesson Deutschland GmbH & Co. KGaA guarantees the external shareholders a dividend of EUR 0.83 per share for the fiscal year 2014. McKesson Deutschland GmbH & Co. KGaA has declared to the company its willingness to pay this guaranteed dividend in full to the external shareholders, even in the event that the net retained profit of the fiscal year is not distributed.

Against this background, the Management Board and Supervisory Board propose to transfer in full the net retained profit recorded for the fiscal year 2014 of EUR 709,297,000.00 to other revenue reserves.

On the basis of the domination and profit and loss transfer agreement, McKesson Deutschland GmbH & Co. KGaA (previously Dragonfly GmbH & Co. KGaA) guarantees external shareholders of Celesio AG the payment of a guaranteed dividend for the short fiscal year 2015 of EUR 0,21 per share and has declared to the Management Board of Celesio AG that it is prepared to pay this out in the full amount to the external shareholders for the short fiscal year 2015. For the fiscal year 2013, the Annual General Meeting of Celesio AG passed a resolution to pay a dividend of EUR 0.30 per share (PY EUR 0.30 per share). The dividend was paid on 17 July 2014.

There were no further issues requiring disclosure in the interim reporting period.

Events after the reporting period

On 28 July 2015, Celesio AG, owner of Lloyds Pharmacy Ltd (LloydsPharmacy) compounded with Sainsbury the formation of a strategic partnership that will see LloydsPharmacy acquire Sainsbury's pharmacy business for £125m.

Under the terms of the transaction, LloydsPharmacy has agreed to acquire 281 pharmacies in total, including 277 in-store pharmacies and four located in hospitals, all of which will be rebranded as LloydsPharmacy.

The transaction is expected to complete by the end of February next year, subject to regulatory approval by the European Commission and the Competition and Markets Authority.

The transaction will not have a major impact on our outlook for fiscal 2016.

Stuttgart, 28 July 2015.

The Management Board

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This Quarterly Financial Report was published on 30 July 2015. It is produced in German and English and is available to download from the Internet at celesio.com, in the section entitled Investor Relations.

Alternatively, a printed version can be ordered from the website.

Rounding differences may occur in the Quarterly Financial Report due to presentation in EUR m.

The German version is legally binding.

This Quarterly Financial Report was generated with the assistance of the editing package FIRE.sys.

Financial calendar

Annual General Meeting for the fiscal year 2014 and the short fiscal year 2015

11 August 2015

Interim Report for 1st half of 2016

29 October 2015

(Extract)

Subject to modification. Additional dates and revised dates are available on the Internet at www.celesio.com/en/Investor_Relations/Financial_calendar/.

Forward-looking statements

The present Quarterly Financial Report contains forward-related statements based on current assessments by the management about future performance. Such statements are subject to risks and uncertainties, which are outside Celesio's capacity to control or estimate precisely - such as the future market environment and economic framework conditions, government measures, the behaviour of other market participants or the successful integration of new acquisitions and realisation of anticipated synergies. Should one of these or other elements of uncertainty and imponderables occur or should the assumptions on which these statements are based prove to be inaccurate, the actual results may differ significantly from the results explicitly mentioned or contained implicitly in these statements. Celesio neither intends nor assumes any separate obligation to update future-related statements to reconcile them with events or developments following the date of this report.