Interim Announcement

as at 28/01/2016

Celesio AG

Q1–Q3 2016

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 retail partnership schemes. With 135 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

Until the end of fiscal year 2014 our business year lasted from 1 January to 31 December. At the Annual General Meeting 2014, shareholders decided to align the business year with the business year of the majority shareholder McKesson Corporation, San Francisco, USA. Therefore the months from 1 January 2015 to 31 March 2015 formed our previous short fiscal year 2015. All following business years now last from 1 April to 31 March. For comparison purposes within this interim announcement, statements referring to the reporting period, the first nine months of fiscal year 2016 (1 April 2015 to 31 December 2015) will be compared with the unaudited Q1-3 period (1 January 2014 to 30 September 2014) of fiscal year 2014. Statements referring to the reporting date 31 December 2015 are compared with the short fiscal year figures (31 March 2015). This enables the comparison in the course of the year to the outlook with the basis fiscal year 2014 and the comparison to the already published figures for the previous period. We do not face a material seasonality in the course of the business.

As since October 2015 Celesio AG is no longer listed on the regular stock market, we do not publish full interim financial statements and full interim management reports any more for the reporting periods of Q1 and Q1-3 respectively. For these two periods only an interim announcement will be published.

Following the decision to put our Brazilian activities on sale, the corresponding entities have been classified as discontinued operations. The previous year's figures were restated according to IFRS 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 announcement is based on information determined in line with the 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 31 December 2015, and all the interpretations (IFRIC) of the International Financial Reporting Standards Interpretation Committee were complied with.

This interim announcement has been neither reviewed nor audited and does not include all of the information required for full combined management report or 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 reporting period at a glance

KEY FIGURES OF THE CELESIO GROUP		1st to 3rd quarter 2014 01/01/2014 - 30/09/2014	**1st to 3rd quarter 2016 01/04/2015 - 31/12/2015**	Change on EUR basis %
Continuing operations				
Revenue	EUR m	15,196.1	**16,227.8**	6.8
Gross profit	EUR m	1,646.3	**1,803.0**	9.5
adjusted [1)]	EUR m	1,648.1	**1,803.0**	9.4
EBIT	EUR m	257.6	**331.9**	28.8
adjusted [1)]	EUR m	318.5	**343.5**	7.8
Profit before taxes	EUR m	208.9	**293.7**	40.6
adjusted [1)]	EUR m	269.8	**305.2**	13.1
Net profit/loss	EUR m	128.6	**202.9**	57.8
adjusted [1)]	EUR m	183.7	**212.7**	15.8
Earnings per share (basic)	EUR	0.64	**0.99**	54.8
Earnings per share (basic), adjusted [1)]	EUR	0.92	**1.03**	12.9
Employees (full-time equivalent) [2)]		25,012	**25,678**	/
Retail pharmacies [2)]		2,184	**2,216**	/
Wholesale branches [2)]		108	**110**	/
Discontinued operations				
Net profit/loss	EUR m	−91.9	**−13.3**	85.6
Earnings per share (basic)	EUR	−0.46	**−0.07**	86.0
Employees (full-time equivalent) [2)]		3,639	**3,402**	/
Continuing and discontinued operations				
Total assets	EUR m	7,769.1 [5]	**8,103.6 [2]**	4.3
Equity	EUR m	2,537.4 [5]	**2,756.8 [2]**	8.6
Equity ratio	%	32.7 [5]	**34.0 [2]**	/
Net Financial Debt	EUR m	897.0 [5]	**1,023.2 [2]**	14.1
Net Financial Debt/EBITDA adj. [1) 3) 4)]		1.68 [5]	**1.92 [2]**	/
Employees (full-time equivalent) [2)]		28,651	**29,080**	/
Employees [2)]		38,593	**38,683**	/
Net profit/loss for the period	EUR m	36.7	**189.6**	/
Earnings per share (basic)	EUR	0.18	**0.92**	/

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 ending on the respective reporting date.
4) Previous year figures as reported.
5) Closing figures as at 31 March 2015.

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 nine months of fiscal year 2016, the basic parameters of the economic environment did not change significantly and had no impact on Celesio.

Revenue and earnings development

CELESIO GROUP REVENUE AND OPERATING RESULTS	1st to 3rd quarter 2014		**1st to 3rd quarter 2016**	
	EUR m	of revenue %	**EUR m**	**of revenue %**
Revenue	15,196.1	100.0	**16,227.8**	**100.0**
Gross profit	1,646.3	10.8	**1,803.0**	**11.1**
adjusted [1]	1,648.1	10.8	**1,803.0**	**11.1**
EBIT	257.6	1.7	**331.9**	**2.0**
adjusted [1]	318.5	2.1	**343.5**	**2.1**
Profit before taxes	208.9	1.4	**293.7**	**1.8**
adjusted [1]	269.8	1.8	**305.2**	**1.9**
Net profit from continuing operations	128.6	0.8	**202.9**	**1.3**
adjusted [1]	183.7	1.2	**212.7**	**1.3**
Net profit from discontinued operations	−91.9	−0.6	**−13.3**	**−0.1**
Net profit/loss from continuing and discontinued operations	**36.7**	**0.2**	**189.6**	**1.2**

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

Revenue

Group revenue came to EUR 16,227.8m in the first nine months of fiscal year 2016, up 6.8% on the comparison period figure (Q1-3 2014) of EUR 15,196.1m. The gain of an exclusive distribution contract with a major manufacturer in the United Kingdom and the volume growth in the British pharmacies 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 489.6m, mainly related to the British pound sterling.

Gross profit

Gross profit (revenue less cost of goods sold) increased by 9.5%, more than revenue in the first nine months of fiscal year 2016 from EUR 1,646.3m to EUR 1,803.0m. At 11.1%, the gross profit margin in the reporting period was higher than the previous year level (Q1-3 2014) of 10.8%. This is mainly due to the stronger revenue growth in Consumer Solutions, which has higher margins than Pharmacy Solutions. Additionally the stronger performance in the German wholesale business had a positive impact. Overall positive exchange rate effects amounted to EUR 84.8m, mainly related to the British pound sterling.

EBIT

EBIT (earnings before interest and taxes) for continuing operations saw an increase of 28.8% from EUR 257.6m (Q1-3 2014) to EUR 331.9m.

In the income statement, we show defined non-recurring expenses and income as non-recurring effects in EBIT as defined in the Annual Report on page 48.

In the first nine months of fiscal year 2016, non-recurring effects amounted to EUR 11.6m (Q1-3 2014 EUR 60.9m). Thereof EUR 7.9m are derived from legal and other consultancy expenses in connection with the acquisition by McKesson Corporation and other M&A projects. The Management Board of Celesio AG is confident that these short term integration costs are counterbalanced with long term advantages.

Adjusted for special effects, EBIT increased by 7.8% to EUR 343.5m compared to EUR 318.5m in Q1-3 2014. The enhanced performance of our British operations and the overall development in Consumer Solutions supported the results. Additionally, we recorded the final insurance settlement payment in Belgium for the warehouse destroyed by a fire in November 2012. Overall positive exchange rate effects on EBIT adjusted amounted to EUR 22.5m, mainly related to the British pound sterling.

Investment result

At EUR 11.0m, the investment result was below the comparison period level (Q1-3 2014) of EUR 12.2m. This was primarily attributable to extraordinary costs of the Dutch investment Brocacef Holding N.V. relating to the pending 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, improved to EUR –49.2m in the reporting period, compared to EUR –60.9m in Q1-3 2014. This was primarily based on the termination of financial instruments which were substituted by an intra-group credit facility granted by McKesson Deutschland with lower interest rates. The adjusted interest coverage ratio was 7.0 (Q1-3 2014 5.2). The unadjusted interest coverage ratio came to 6.7 (Q1-3 2014 4.2).

Income taxes

The tax expenditure increased by 13.0% to EUR 90.8m (Q1-3 2014 EUR 80.3m). This resulted in an effective tax rate of 30.9% for the reporting period compared to 38.4% in Q1-3 2014. Adjusted for special effects, the tax rate would have been 30.3% in the first nine months of fiscal year 2016 compared to 31.9% in Q1-3 2014. This improvement is primarily attributable to changes in the composition of earnings' contributions of the individual country units.

Net profit/loss from continuing operations

The net profit from continuing operations at the Celesio Group came to EUR 202.9m, an increase of 57.8% on the figure for Q1-3 2014 of EUR 128.6m, which results from the previously described increase in EBIT. After adjustments for special effects, net profit from continuing operations, at EUR 212.7m, was up 15.8% on the Q1-3 2014 figure of EUR 183.7m. The basic and diluted earnings per share of the Celesio Group increased from EUR 0.64 in Q1-3 2014 to EUR 0.99 in the first nine months of fiscal year 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 insurance to cover most of the arising expenses and losses.

Discontinued operations generated revenue of EUR 1,119.3m in the first nine months of fiscal year 2016, a decrease of 11.4% on the comparison period figure of EUR 1,263.8m. Currency effects on revenue, caused by the Brazilian real amounted to EUR –259.5m.

Due to the goodwill impairment in fiscal year 2014 the discontinued operations' EBIT rose significantly to EUR –6.6m (Q1-3 2014 EUR –83.9m) in the first nine months of fiscal year 2016. Overall, currency effects on EBIT, caused by the Brazilian real amounted to EUR 0.6m.

The net loss incurred by discontinued operations thus improved to EUR –13.3m compared to EUR –91.9m in Q1-3 2014. With the disposal of the Brazilian operations expected within the next months, the foreign currency translation reserves with a current aggregate loss as of 31 December 2015 of EUR 126.1m will be recorded as a discontinued operation 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 189.6m compared to a net profit of EUR 36.7m in Q1-Q3 2014. Accordingly, basic and diluted earnings per share came to EUR 0.92 compared to EUR 0.18 in Q1 -3 2014.

Assets and Liabilities

As of 31 December 2015, the Celesio Group had total assets of EUR 8,103.6m, which means an increase of EUR 334.5m compared to 31 March 2015.

The gearing, which expresses the ratio of net debt to equity, deteriorated as of 31 December 2015 to 0.37 in comparison to 0.35 as of 31 March 2015. This development was mainly driven by an over-proportional increase in net financial debt of EUR 126.2m compared to the equity development.

ASSETS	31/03/2015	31/12/2015
EUR m		
Non-current assets	**3,064.9**	**3,048.7**
Current assets	**4,704.2**	**5,054.9**
Total assets	**7,769.1**	**8,103.6**

Non-current assets decreased by a total of EUR 16.2m to EUR 3,048.7m compared to 31 March 2015. This decrease was mainly driven by currency effects of EUR 41.8m, depreciation of non-current assets by EUR 83.1m and a decrease of deferred tax assets of EUR 28.9m, which was mainly driven by changes in pension liabilities. This decrease was adversely affected by investments in property, plant & equipment of EUR 82.5m.

As of 31 December 2015, current assets came to EUR 5,054.9m which led to an increase of EUR 350.7m compared to 31 March 2015.

Inventories raised by EUR 170.0m in total to EUR 1,617.7m due to a seasonal higher stock level in UK and France. Trade receivables raised by EUR 64.8m to EUR 2,266.3m, mainly impacted by improved revenue development in UK. As of 31 December 2015, cash and cash equivalents came to EUR 457.9m compared to EUR 371.6m as of 31 March 2015. This increase of EUR 86.3m overall was mainly driven by a new loan from McKesson and was adversely affected by repayment of bank loans and settlement of hedging agreements. As of 31 December 2015, other receivables and other assets increased by EUR 58.7m to EUR 298.9m. This trend was essentially driven by exchange rate effects, deferred bonus income as well as non-income tax prepayments. As of 31 December 2015, the Celesio Group reported assets as held for sale of EUR 392.4m. The decrease of EUR 26.4m compared with 31 March 2015 is primarily caused by foreign currency effects on assets of the Brazilian business planned for disposal.

EQUITY AND LIABILITIES EUR m	31/03/2015	31/12/2015
Equity	**2,537.4**	**2,756.8**
Liabilities	**5,231.7**	**5,346.8**
Non-current liabilities	**1,731.1**	**1,521.4**
Current liabilities	**3,500.6**	**3,825.4**
Total assets	**7,769.1**	**8,103.6**

As of 31 December 2015, we recorded an increase of EUR 219.4m in equity to EUR 2,756.8m compared to 31 March 2015. This development is due to the EUR 187.1m increase in revenue reserves to EUR 1,139.5m, which results from the net profit of the period of EUR 187.0m. An additional increase of EUR 31.8m in revaluation reserves to EUR –445.3m as of 31 December 2015 resulted from higher interest rates and consequently of impacts from actuarial gains on pension liabilities. The equity ratio came to 34.0% on 31 December 2015, which resulted in an increase of 1.4 percentage points compared to 31 March 2015.

Non-current liabilities decreased by an aggregated EUR 209.7m to EUR 1,521.4m. Non-current financial liabilities were down by 120.0m to EUR 1,126.4m as of 31 December 2015. This decrease in non-current financial liabilities is primarily driven by amortizations and reclassifications into current financial liabilities, adversely affected by an increase due to McKesson loans. Pension liabilities decreased by EUR 106.4m due to actuarial gains.

Current liabilities stood at EUR 3,825.4m as of 31 December 2015 and increased consequently up by EUR 324.8m compared to 31 March 2015. Current financial liabilities increased by EUR 332.4m to EUR 354.6m mainly as a result of reclassifications of a non-current financial liability due in October 2016. Trade payables remained stable at EUR 2,385.0m compared to EUR 2,388.7m as of 31 December 2015.

As of 31 December 2015, the group disclosed total liabilities held for sale of EUR 401.2m mainly related to the Brazilian operations.

Net debt increased from EUR 897.0m as of 31 March 2015 to EUR 1,023.2m as of 31 December 2015. The key performance indicator net financial debt/EBITDA (adjusted) increased from 1.68 as of 31 March 2015 to 1.92 as of 31 December 2015.

Change in credit facilities

At the end of September 2015 the existing intragroup credit facility with McKesson Deutschland was extended by EUR 500m to EUR 1,000m as per 1 October 2015. Furthermore, the syndicated revolving credit facility of EUR 500m was cancelled with effect from 2 October 2015.

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.

The first nine months of fiscal 2016 results reflect a solid performance in the fiscal year and Celesio remains focused on achieving key priorities in the business. In the first nine months of fiscal year 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 489.6m.

During the first nine months of fiscal year 2016, we recorded positive influences from the consumer solutions division and the German wholesale business on gross profit and the gross profit margin. Overall the gross profit margin increased to 11.1%.

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

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

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

Due to the goodwill impairment in fiscal 2014, we recorded an increase in EBIT of our discontinued operations.

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.

Subsequent events

Since 31 December 2015 until the editorial deadline there had been no events of particular significance that can be expected to have a material effect on the assets position and revenue and operating results of the Celesio Group.

Outlook

Revenue and earnings forecast

Overall, the Management Board of Celesio AG expects that revenue and adjusted EBIT from continued operations for fiscal 2016 will be slightly ahead of initial expectations for fiscal year 2016 driven by positive exchange rate effects.

We do not expect any acquisitions to have a material financial impact for fiscal year 2016.

Upon the disposal of the Brazilian operations, foreign currency translation reserves, which were EUR 126.1m at 31 December 2015, will be recorded as a discontinued operation expense through profit and loss.

In fiscal 2016, additional consulting and integration costs in connection with the acquisition by McKesson Corporation will arise and 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.

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), which is still valid, except for expectations on revenue and adjusted EBIT on group level mentioned above.

Stuttgart, 26 January 2016

The Management Board

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