



Interim Report 1st half-year 2005

the healthcare group

celesio
the healthcare group



Celesio Group

Key facts about Celesio

History

Founder _____ Franz Ludwig Gehe
 Founded _____ 1835 in Dresden
 Core business _____ Pharmaceutical distribution
 _____ Pharmaceutical services
 Head office _____ Stuttgart

Key financial figures for the 1st half of 2005 (IFRS)





Revenue _____ 10.1 billion euros
 Revenue growth _____ 7.0 percent (7.2 percent *)
 EBIT _____ 314.1 million euros
 EBIT growth _____ 13.6 percent (14.4 percent *)
 Profit before tax _____ 264.6 million euros
 Growth in profit before tax _____ 15.5 percent (16.3 percent *)
 Net profit _____ 219.7 million euros
 Growth in net profit _____ 39.0 percent (39.8 percent *)
 Earnings per share _____ 2.55 euros

Employees** _____ 34,320
 Wholesale branches _____ 137
 Pharmacies _____ 1,911

* In local currency

** Head count

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Celesio Group

Highlights 2005

- Refund of trade tax in the sum of 38.9 million euros net (52.9 million euros gross) for the period 1996 to 2001.
- Group profit increased clearly again, despite a difficult market environment in parts.
- Significant expansion of market position in the field of services for manufacturers due to takeover of Healthcare Logistics in the United Kingdom. Commencement of integration of Healthcare Logistics into the AVS Health Distribution business unit in the 2nd quarter.
- Sanalog in Germany integrated into the AVS Health Distribution business unit.
- Integration of the Portuguese pharmaceutical wholesaler Soquifa-Medicamentos proceeds according to plan.
- Slovenian pharmaceutical wholesaler Kemofarmacija with its subsidiaries in Croatia and Romania consolidated for the first time in the 1st quarter.

Letter to shareholders

Dear Shareholders

In the 1st half of 2005, Celesio again showed considerable growth despite a difficult market environment in parts. This shows that the company's positioning in the healthcare market is strategically correct. Revenue increased over the previous year by 7.0 percent (7.2 percent in local currency). Profit before tax rose disproportionately by 15.5 percent (16.3 percent in local currency).*

Revenue and profit show considerable increase

In the 1st half-year, revenue of the Celesio Group rose by 7.0 percent (7.2 percent in local currency) to 10,078.9 million euros. The acquisitions in Wholesale, Soquifa-Medicamentos in Portugal and Kemofarmacija in Slovenia with its subsidiaries in Croatia and Romania, were consolidated for the first time in the 1st quarter and contributed to growth. Excluding acquisitions, revenue would have increased by 4.1 percent (4.4 percent in local currency), despite price cuts especially in the United Kingdom.

In Wholesale, revenue, including acquisitions, grew by 7.3 percent (7.5 percent in local currency). Excluding acquisitions, revenue rose by 4.4 percent (4.6 percent in local currency) compared with the first half of the previous year. Hence growth in Celesio Wholesale was in line with the comparable market.

"The acquisitions in Wholesale, Soquifa-Medicamentos in Portugal and Kemofarmacija in Slovenia, contributed to growth."

*Since the financial year 2004, Celesio reports according to IFRS (International Financial Reporting Standards). The half-year figures from the previous year were adapted in line with IFRS and are therefore comparable.



Celesio Group

With a revenue growth of 2.4 percent (3.2 percent in local currency) to 1,428.2 million euros, the pharmacies business showed overall stronger growth than the market. The Celesio pharmacies in the United Kingdom handled a larger number of prescriptions, with a greater demand for prescription medicines. At the same time, however, price cuts for generic products and for reimbursable original preparations curbed growth. In Ireland, the Netherlands and the Czech Republic the continued increase in the number of newly opened pharmacies diluted market growth.

"The first-time consolidation of Healthcare Logistics, the UK market leader in this sector, becomes evident in a significant increase in the gross profit of Celesio Solutions."

The Celesio Solutions division also showed positive growth. In the 1st half of 2005, gross profit* rose by 77.7 percent (78.4 percent in local currency). The first-time consolidation of Healthcare Logistics, the UK market leader in this sector, in the 2nd quarter becomes evident in a significant increase in the gross profit of Celesio Solutions. Celesio had already laid the foundations for the Celesio Solutions division in 2004, when the company began to build up with AVS Health Distribution a European business model for logistics services directed at manufacturers.

"Profit before tax also rose significantly. The increase in gross profit and cost savings contributed significantly to this."

Within the group EBIT grew, despite a difficult market environment in parts, in the 1st half-year by 13.6 percent (14.4 percent in local currency) to 314.1 million euros. Profit before tax also rose significantly. The increase in gross profit and cost savings contributed significantly to this. In line with expectations, growth in profit before tax in the 2nd quarter was at 14.3 percent less strong than in the 1st quarter. Within the group it rose by 15.5 percent (16.3 percent in local currency) in the first six months to 264.6 million euros. Pre-tax profit of Celesio Pharmacies grew by 15.2 percent (16.3 percent in local currency). In Celesio Wholesale, growth in pre-tax profit totalled 13.3 percent (13.7 percent in local currency). In the Celesio Solutions division, profit before tax developed in line with expectations, and was 6.7 percent (7.4 percent in local currency) higher than in the previous year. Prepayments related to building up the

*For the Celesio Solutions division it is absolute gross profit that is the measure of success rather than revenue, as customers generally pay on the basis of services rendered. Only in isolated cases is trading revenue involved. Gross profit is derived from total remuneration for services rendered and margins from trade turnover.

Celesio Group in the 1st half-year

	2004		2005		Change in € in %	Change in local currency in %
	in € m	in % of revenue	in € m	in % of revenue		
Revenue	9,423.9	100.00	10,078.9	100.00	7.0	7.2
Gross profit	1,004.7	10.66	1,081.3	10.73	7.6	8.1
EBIT	276.5	2.93	314.1	3.12	13.6	14.4
Profit before tax	229.0	2.43	264.6	2.62	15.5	16.3
Net profit	158.1	1.68	219.7	2.18	39.0	39.8
Cash flow	205.8	–	276.8	–	34.5	35.0

division, higher depreciation and amortisation as well as the financing costs for the newly acquired companies hampered the development of pre-tax profit.

Improved profitability

Profitability showed a further increase in the 1st half of 2005 by comparison with the first six months of last year. Return on sales, already at a high level last year, improved yet again. Based on EBIT it rose to 3.12 percent (the previous year: 2.93 percent) and based on pre-tax profit it increased to 2.62 percent (the previous year: 2.43 percent).

“Return on sales, already at a high level last year, improved yet again.”

At group level, absolute gross profit increased by 7.6 percent (8.1 percent in local currency) to 1,081.3 million euros. The gross profit ratio rose by seven basis points to 10.73 percent. In Wholesale, the gross profit margin fell by 29 basis points to 6.42 percent, as anticipated, due to statutory price cuts in the United Kingdom and a change in the product mix in Germany. By contrast, Celesio Pharmacies increased its gross profit ratio by 164 basis points to 33.77 percent. A gross profit ratio is not relevant for the Celesio Solutions division in view of the special structure of its revenue. Gross profit, as an absolute figure, rose by 77.7 percent (78.4 percent in local currency) to 57.2 million euros, taking account of the acquisition of Realpol in the Czech Republic,



Celesio Group

SEUR PHARMA in Spain, Sanalog in Germany and Healthcare Logistics in the United Kingdom. Without the acquisitions, gross profit would have risen by 8.8 percent (8.9 percent in local currency).

Personnel expenses within the Celesio Group increased slightly ahead of revenue by 8.1 percent (8.6 percent in local currency) to 514.0 million euros. The reason for this is the higher proportion of the more labour-intensive pharmacy business.

Other expenses (off-set with other income) grew in the 1st half-year 2005 less strongly than revenue. This was the result of tight cost management in all divisions and in particular the decrease in costs in Wholesale. This was offset by increased rental expenses in the Pharmacies division and prepayments related to the expansion of the Solutions division.

Income from investments was mainly influenced by the dividends from the holding in Andreae-Noris Zahn AG.

Amortisation of intangible assets and depreciation of property, plant and equipment remained at the level of the previous year.

EBIT rose by 13.6 percent (14.4 percent in local currency), reaching 314.1 million euros. Sustainable cost management and the improved gross profit contributed to this disproportional increase.

The interest coverage ratio (EBIT in relation to interest result) increased from 5.82 to 6.34.

Due to the higher gross profit and consistent cost management, pre-tax profit also rose disproportionately by 15.5 percent (16.3 percent in local currency). Return on sales based on pre-tax profit was at a high level with 2.62 percent after 2.43 percent the previous year. Return on sales in Celesio Wholesale grew by eleven basis points to 2.09 percent and in Celesio Pharmacies by 81 basis points to 7.23 percent. In the Celesio Solutions division, pre-tax profit rose by 6.7 percent (7.4 percent in local currency). The recently acquired companies also contributed to this increase in profit. The profitability of the division, measured by pre-tax profit in relation to gross profit, was 20.35 percent (previous year: 33.88 percent).

Despite the higher pre-tax profit, tax expenditure fell by 26.0 million euros to 44.9 million euros. The trade tax refund in the sum of 38.9 million euros net (52.9 million euros gross) for the years 1996 to 2001 was a crucial factor in this. The tax ratio was reduced considerably as a result of this one-off effect, and was only 16.9 percent (previous year: 31.0 percent).

Net profit increased by 39.0 percent (39.8 percent in local currency) to 219.7 million euros. Earnings per share were 2.55 euros compared with 1.83 euros the previous year. Excluding the trade tax refund, net profit and earnings per share would have shown an increase of 14.4 percent.

Balance sheet and shareholders' equity further strengthened

On 30 June 2005, the balance sheet structure was constant. The equity ratio at 29.9 percent remained unchanged compared with the year end 2004, even though the acquisitions led to an increase in the total assets. With a gearing of 0.93, Celesio is in an excellent position to finance future growth.

Total assets rose by 516.2 million euros to 7,047.3 million euros. The first-time consolidation of Soquifa-Medicamentos, Kemofarmacija with its subsidiaries in Croatia and Romania, Sanalog and Healthcare Logistics contributed to the increase in total assets by 343.4 million euros, in particular regarding goodwill and current assets. Changes in the exchange rate, in particular in the conversion of the British pound sterling (GBP), increased total assets by 124.2 million euros.

"Celesio is in an excellent position to finance future growth."



Celesio Group

Non-current assets as at 30 June 2005 were 290.8 million euros above the value at 31 December 2004. The total figure for amortisation and depreciation was 47.5 million euros, of which 4.0 million euros related to intangible assets and 43.5 million euros related to property, plant and equipment. Investments including acquisitions totalled 281.1 million euros. The companies purchased in Portugal, Germany, Slovenia and the United Kingdom were a substantial part of the acquisitions. Celesio financed all its investments in the existing business and the acquisitions from cash flow.

Current assets on 30 June 2005 exceeded the figure for the end of 2004 by 225.4 million euros. The first-time consolidation in particular of Soquifa-Medicamentos and Kemofarmacija, with its subsidiaries in Croatia and Romania, increased inventories and trade receivables with 147.3 million euros. Net working capital fell on 30 June by 25.4 million euros. Adjusted to take account of exchange rate effects and acquisitions, the reduction amounted to 95.8 million euros. The decrease is due to the seasonal reduction in inventories and the expected increase in trade payables. By contrast, trade receivables increased. This is essentially due to a later payment made by the National Health Service to Celesio's UK pharmacies, Lloydspharmacy.

As regards the development of shareholders' equity, net profit totalling 219.7 million euros was offset by dividend payments of 103.3 million euros. Effects from currency translations resulted in an increase in shareholders' equity of 31.7 million euros. The increase in minority interests is essentially the result of the consolidation of Kemofarmacija.

Liabilities increased by 364.2 million euros to 4,943.4 million euros compared with 31 December 2004. The consolidation for the first time of Soquifa-Medicamentos, Kemofarmacija with its subsidiaries in Croatia and Romania as well as Sanalog and Healthcare Logistics, resulted in an increase in liabilities of 122.0 million euros.

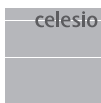
Current and non-current financial liabilities at the end of the 1st half-year were 67.2 million euros above the figure on 31 December 2004, and totalled 1,900.1 million euros.

Pension provisions rose slightly by 4.1 million euros, and accounted for 1.9 percent of total assets. Expenditure for pensions including interest expense amounted to 2.6 percent of personnel expenses.

Trade payables totalled 2,026.4 million euros, thereby exceeding the value at the year end of 2004 by 182.3 million euros.

Investments in existing business financed from cash flow

Cash flow increased in the 1st half of 2005 by 34.5 percent (35.0 percent in local currency), reaching 276.8 million euros. Without the trade tax refund, the increase would have been 15.6 percent. All investments in the existing business and the acquisitions were financed entirely from the cash flow. Those investments and acquisitions which were not yet cash effective in the 1st half-year 2005 are included under Others. Taking the positive change in the net working capital into account, a positive free cash flow of 37.8 million euros resulted.



Celesio Group

Cash flow, 1st half-year

	2004 in € m	2005 in € m
Cash flow	205.8	276.8
Dividends paid	- 77.4	- 103.3
Cash flow after dividends paid	128.4	173.5
Income from the disposal of non-current assets	18.8	14.1
Investments in the operating business	- 56.7	- 61.1
Free cash flow before acquisitions and change in net working capital	90.5	126.5
Change in net working capital	111.9	95.8
Acquisitions and new openings	- 18.1	- 220.0
Proceeds from the disposal of subsidiaries	1.6	0.8
Others	1.5	34.7
Free cash flow	187.4	37.8

Optimistic prospects for 2005

"Despite a difficult market environment in parts, the management board anticipates profit before taxes to grow in low double digits for 2005 as a whole."

The management board is optimistic with regard to the 2005 financial year and foresees sustainable growth for all three divisions. They anticipate growth to be in line with the comparable market in the Wholesale division, and to outperform the market in the Pharmacies division. Price reductions in the United Kingdom in particular, will curb market growth there and hence the growth in group revenue in the current year. In the medium term, the management board anticipates strong growth potential, particularly for the Celesio Solutions division. With this division, Celesio is leading the way in a European market that is still immature and largely unconsolidated.

Celesio anticipates growth of around five percent for the European pharmaceutical market in 2005.

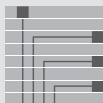
Celesio achieved the significant increase in profit before taxes in the 2004 financial year through sustainable cost management and a continual improvement of the gross profit margin. In view of the price reductions of medicines effective in 2005, in particular in the United Kingdom, the management board anticipates that the gross profit margin in the 2nd half of 2005 will stabilise at the level of the 1st half-year. With regard to profit before tax, the management board is therefore expecting weaker growth rates for the 2nd half-year than for the 1st half-year. Despite a difficult market environment in parts, the management board nevertheless anticipates profit before taxes to grow in low double digits for 2005 as a whole.

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

	2004	2005	Change	Change
	in € per share	in € per share	in %	in local currency in %
Earnings	1.83	2.55	39.0*	39.8*
EBIT	3.25	3.69	13.6	14.4
Cash flow	2.42	3.25	34.5*	35.0*
Share price (30.06./in €)	49.10	64.99	32.4	–
Number of shares outstanding (30.06./m)	85.05	85.05	–	–
Market capitalisation (30.06./€ m)	4,176.0	5,527.4	32.4	–

* Including trade tax refund

Growth market healthcare



Celesio Wholesale

1st half-year

Countries	Revenue 2004	Revenue 2005	Revenue change in €	Revenue change in local currency	Number of branches 2005
	in € m	in € m	in %	in %	
France	3,509.7	3,594.7	2.4	2.4	52
Germany	1,598.5	1,775.0	11.0	11.0	19
United Kingdom	1,501.2	1,532.1	2.1	3.9	19
Austria	425.9	426.6	0.2	0.2	7
Portugal	152.0	247.8	63.0	63.0	12
Belgium	208.1	203.2	– 2.3	– 2.3	6
Norway	179.9	196.7	9.3	5.4	4
Slovenia*	–	145.5	–	–	11
Ireland	113.4	122.3	7.9	7.9	3
Czech Republic	66.4	81.6	22.9	13.9	3
Italy	62.5	61.6	– 1.4	– 1.4	1
Total	7,817.6	8,387.1	7.3	7.5	137

* Including the subsidiaries in Croatia and Romania

**Supplying pharmacies everywhere
with everything pharmacies need**

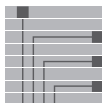
Celesio Wholesale

The Celesio Wholesale division increased its revenue in the 1st half of 2005 by 7.3 percent (7.5 percent in local currency). Profit before tax rose by 13.3 percent (13.7 percent in local currency). Operational improvements and, above all, consistent cost management were responsible for the positive growth in profit. The wholesalers Soquifa-Medicamentos in Portugal and Kemofarmacija in Slovenia with subsidiaries in Croatia and Romania contributed to revenue and profit for the first time.

Growth in revenue and profit

In the 1st half-year Celesio Wholesale increased revenue by 569.5 million euros to 8,387.1 million euros. This corresponds to a 7.3 percent improvement on the previous year (7.5 percent in local currency). Soquifa-Medicamentos in Portugal and the majority holding in Kemofarmacija in Slovenia with its subsidiaries in Croatia and Romania were consolidated for the first time at the beginning of the year and so contributed to growth. Without acquisitions, the increase in revenue for the division would have been 4.4 percent (4.6 percent in local currency), which would have been in line with growth of the comparable market.

Revenue in Celesio's French Wholesale company only showed slight growth, in particular as in the 1st half-year the patent protection for several high-turnover medicines expired, and these were increasingly replaced by cost-effective generic products. Revenue in Germany developed considerably better than in the previous year. It should be noted, however, that it was exceptionally weak at the beginning of 2004. At that time, many patients had already visited their doctor in December 2003 to avoid having to pay the practice fee introduced by the healthcare reform. In the United Kingdom, AAH succeeded in maintaining revenue above the level of the previous year. AAH compensated for the price reductions of reimbursable medicines and generic products by increasing the number of packages sold. The Austrian pharmaceutical market and the revenue of Herba Chemosan showed virtually no growth. Prescription of some expensive medicines has been limited since the beginning of 2005 due to the statutory reform regarding prescription approval.



Celesio Wholesale

Celesio Wholesale in the 1st half-year

	2004		2005		Change in € in %	Change in local currency in %
	in € m	in % of revenue	in € m	in % of revenue		
Revenue	7,817.6	100.00	8,387.1	100.00	7.3	7.5
Gross profit	524.5	6.71	538.2	6.42	2.6	2.8
EBIT	169.1	2.16	189.3	2.26	12.0	12.4
Profit before tax	154.8	1.98	175.4	2.09	13.3	13.7

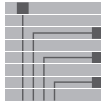
Celesio achieved a strong growth from generic products in the United Kingdom, France and Norway. This was primarily due to the expiry of patents for high-turnover medicines and a change in the prescribing behaviour of doctors. Intensive collaboration with manufacturers of generic products enabled Celesio to offer its wholesale customers a wide range of products at attractive conditions, thereby benefiting from the growing market for generic products. The increase in sales of generic products had a positive impact on gross profit. However, statutory price cuts in the United Kingdom and a change in product mix at GEHE Pharma Handel in Germany had the opposite effect. Overall the gross profit ratio in the 1st half of 2005 was 29 basis points below the previous year.

Celesio Wholesale increased EBIT by 12.0 percent (12.4 percent in local currency) to 189.3 million euros. Profit before tax rose by 13.3 percent (13.7 percent in local currency) to reach 175.4 million euros. This development was mainly attributable to sustainable cost management and operational improvements in several countries. Based on pre-tax profit, return on sales rose from 1.98 percent to 2.09 percent.

Higher profit level despite price cuts

In 2004 and in the first half of 2005 the market conditions changed in some countries. Thanks to geographic diversification, sustainable cost control and close collaboration with customers and manufacturers, Celesio was able to compensate for the negative effects.

In France, the reimbursable amounts for several combinations of active ingredients were reduced. The statutory wholesale margin there had already been reduced in 2004. The restructuring of prices for non-reimbursable medicines in Germany in 2004 continues to have a negative impact on the gross profit margin. In the United Kingdom, the prices for reimbursable original preparations were reduced by seven percent on average as a result of the PPRS (Pharmaceutical Price Regulation Scheme – medicine pricing agreement between the Department of Health and the pharmaceutical industry). Prices of generic products were also reduced in 2004 and 2005. In Austria, prescription of some expensive medicines was restricted at the beginning of 2005. Similarly, a graduated pricing system has been in force in Norway since the beginning of the year, characterised by set price reductions at regular intervals. In Italy, the prices of certain prescription medicines were reduced on 1 January 2005.



Celesio Wholesale

More fitness for pharmacies

Celesio is backing the owner-managed pharmacy and making it fit for the future with the further development of customer loyalty models in several countries. At the same time, Celesio is strengthening the entire distribution chain – from the industry and wholesale, through to the pharmacy. As part of its Commitment Model, GEHE Pharma Handel developed the quality symbol *live healthily [gesund leben]*. The intention is to build this up as a brand and increase the consumer's awareness of the participating pharmacies. Celesio Wholesale's German company also sponsored the nationwide healthcare campaign, *Cardio-vascular run 2005, [Herz-Kreis-Lauf 2005]* which served the same purpose. Participating pharmacies offered fitness and health tests for sports enthusiasts and anyone else who was interested. The Norwegian Celesio Wholesale company has been strengthening its cooperation model, *Ditt Apotek*. Since the 2nd quarter *Ditt Apotek* has been presenting itself as the "Pharmacy for sport", involving the expertise of the participating pharmacies in the prevention and treatment of mass-sports-related injuries and strengthening its links with sports associations. The *Ditt Apotek* brand is thus to be even more firmly established in Norway at a local level.

More efficient branches

Celesio improved its operational processes and consequently increased productivity, efficiency and customer service. GEHE Pharma Handel completed the reorganisation begun in 2003, by means of which its branches are to be better utilised and its operational processes streamlined. All branches are now included in the new logistics concept. AAH, the UK Celesio Wholesale company, has completed the modernisation of its Bristol branch. The improved work processes had a positive effect in the 1st half-year in Germany and are expected to have a positive impact on profit in the United Kingdom in the 2nd half-year. In June 2005, PHARMA BELGIUM opened Belgium's most modern pharmaceutical wholesale branch in La Louvière. This new branch replaces three former branches and will improve both the quality of supply and efficiency of the company.

New subsidiaries accelerate expansion

Celesio has strengthened its presence in European wholesale through acquisitions and entering new markets. The Portuguese wholesaler Soquifa-Medicamentos has been incorporated into the group since early 2005. The Slovenian pharmaceutical wholesaler Kemofarmacija with its subsidiaries in Croatia and Romania has also been consolidated since the 1st quarter of 2005. Both companies made a positive contribution to revenue and profit.



Celesio Pharmacies

1st half-year

Countries	Revenue 2004	Revenue 2005	Revenue change in €	Revenue change in local currency	Number of pharmacies 2005
	in € m	in € m	in %	in %	
United Kingdom	977.4	977.1	0.0	1.8	1,410
Norway	152.4	171.8	12.7	8.6	114
Italy	104.9	107.2	2.3	2.3	162
Ireland	54.5	54.4	− 0.2	− 0.2	56
Netherlands	50.8	56.5	11.3	11.3	44
Belgium	34.7	41.3	19.0	19.0	75
Czech Republic	19.7	19.9	1.2	− 6.2	50
Total	1,394.4	1,428.2	2.4	3.2	1,911

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

Celesio Pharmacies

With growth of 2.4 percent (3.2 percent in local currency) revenue of Celesio Pharmacies showed overall stronger growth than the market in the 1st half of 2005. The market was characterised by increasing demand for medicines with simultaneous price reductions. The improvement in gross profit produced a significant increase in profit of 15.2 percent (16.3 percent in local currency).

Celesio Pharmacies outperform the market

Celesio increased the revenue of its pharmacies by 2.4 percent (3.2 percent in local currency) to 1,428.2 million euros, the entire division therefore showing stronger growth than the market. The demand for medicines continued to increase. In the United Kingdom in particular, Lloydsparmacy developed well compared with the difficult trading environment currently being experienced in UK retail. The number of processed prescriptions showed a further increase. This development was offset by price reductions in some countries. In the United Kingdom, the development of revenue in pharmacies was influenced by the reduction in the price of reimbursable original preparations (PPRS – Pharmaceutical Price Regulation Scheme – pricing agreement for medicines between the Department of Health and the pharmaceutical industry) and of generic products. With its Norwegian pharmacies, Celesio grew ahead of the market, which was characterised by the graduated pricing model introduced in January. The development of Vitusapotek both in the prescription field and also for OTC products (also due to high-margin own brands) was positive. In Italy, Celesio pharmacies grew in a very weak environment stronger than the market. Growth in both countries was also due to the modernised pharmacies. In Ireland, the Netherlands and the Czech Republic numerous new pharmacies have been opened since 2004, so market growth there was spread over more pharmacies.



Celesio Pharmacies

EBIT for Celesio Pharmacies rose by 15.7 percent (17.0 percent in local currency) and reached 135.0 million euros. Despite the dampened growth in revenue, profit before tax increased by 15.2 percent (16.3 percent in local currency) to 103.2 million euros. The positive growth in gross profits, strict cost management and the intensive collaboration with pharmaceutical manufacturers were largely responsible for this. In the Czech Republic, where Celesio has disposed of 34 unprofitable pharmacies since 2004, profit before tax was positive. In the other countries, pre-tax profit grew in line with expectations, in some cases even exceeding them. Return on sales rose from 6.42 percent to 7.23 percent based on profit before tax.

Celesio Pharmacies in the 1st half-year

	2004		2005		Change in € in %	Change in local currency in %
	in € m	in % of revenue	in € m	in % of revenue		
Revenue	1,394.4	100.00	1,428.2	100.00	2.4	3.2
Gross profit	448.0	32.13	482.3	33.77	7.6	8.5
EBIT	116.7	8.37	135.0	9.45	15.7	17.0
Profit before tax	89.6	6.42	103.2	7.23	15.2	16.3

The right strategy and tight cost management

Despite a change in market conditions in some countries, Celesio Pharmacies increased profit considerably. This was due to correct strategic positioning, geographical diversification and sustainable cost control.

The PPRS price reductions in the United Kingdom came into force for pharmacies on 1 February 2005. As a result, the price of reimbursable original preparations reduced by seven percent on average. The prices of some generic products were also reduced in 2004 and 2005. In Norway, a graduated pricing model has regulated reimbursement for a number of prescription-only original preparations since 1 January 2005. Fixed price reductions are envisaged at regular intervals. On 1 January 2005, the prices of certain prescription medicines were also reduced in Italy. In the current discussion in Italy on the subject of the sale of OTC medicines, Celesio anticipates that also in the future they will only be permitted to be sold in pharmacies. In the Netherlands, the market participants agreed to reduce the prices of generic products and original preparations by two percent.

The agreement in the United Kingdom between the National Health Service and the pharmacies concerning the remuneration and scope of services for pharmacies within England and Wales came into force on 1 April 2005. The new agreement promotes the comprehensive care of patients in pharmacies and, in addition to the quantity of prescriptions processed, also uses the quality and scope of services as a basis for determining the level of remuneration. Lloydspharmacy leads the market in terms of community dispensing and services, with customer-friendly pharmacy layouts, including separate consultation areas for confidential discussions. Lloydspharmacy in the United Kingdom is therefore in an excellent position to meet the terms of the new pharmacy contract.



Celesio Pharmacies

More attention for the disabled

Celesio Pharmacies expanded their range of services, product range and the quality of consultancy in the 1st half-year. Vitusapotek in Norway organised communications training for employees whose job entails contact with customers and, for the first time, organised mystery shoppers to visit and evaluate their pharmacies on a regular basis. Celesio's Italian pharmacies set their sights on the needs of the disabled. They have started to create barrier-free access and signs in Braille, and have given their employees training in how to serve, advise and care for disabled customers. Unicarepharmacy in Ireland followed Lloydspharmacy's example and offered their customers blood sugar tests in a pilot project.

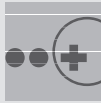
Construction of health centres

Celesio is playing an important part in the development of health centres in the United Kingdom, Norway and the Netherlands, where pharmacies, doctors' surgeries and other healthcare providers are all accommodated under one roof. In these centres, planned in close cooperation with doctors and health authorities, Celesio pharmacies can be positioned close to the source of prescriptions. Seven centres were opened or under construction in the 1st half of 2005.

Expanding the pharmacies' portfolio

At the end of the 1st half-year, Celesio was operating a total of 1,911 pharmacies in seven European countries. In the first half-year, Celesio acquired 32 pharmacies in the United Kingdom, the Netherlands and Belgium, and opened nine pharmacies in the United Kingdom, the Netherlands and Ireland. 13 pharmacies were closed or sold in the United Kingdom, Czech Republic, Ireland and Norway as part of ongoing optimisation of locations.

Celesio purchases pharmacies in existing markets if the location is attractive and the price is reasonable. In Italy, however, local authorities are still holding back from inviting companies to tender for the privatisation of pharmacies for legal reasons. In Ireland, the Netherlands and Belgium, Celesio has still not reached the right size for a pharmacy chain. Celesio will therefore make the expansion of the pharmacies' presence in these countries, as well as in the United Kingdom, the focus of its attention.



Celesio Solutions

1st half-year

Business unit	Gross profit 2004	Gross profit 2005	Gross profit change in €	Gross profit change in local currency
	in € m	in € m	in %	in %
AVS Health Distribution (pharmaceutical logistics and distribution)	32.2	57.2	77.7	78.4

**Innovative services for the
pharmaceutical market**

Celesio Solutions

In 2004, Celesio pooled all its logistics services for pharmaceutical manufacturers under the name AVS Health Distribution, the first business unit of the new Celesio Solutions division. Acquisitions strengthened this new business unit considerably. Taking the acquisitions into account, gross profit rose by 77.7 percent (78.4 percent in local currency). The first-time consolidation of Healthcare Logistics in the United Kingdom had a particularly positive effect. Profit before tax was 6.7 percent (7.4 percent in local currency) above the level of the previous year.

Substantial growth in gross profit

Absolute gross profit – the definitive success indicator of the Celesio Solutions* division – rose by 77.7 percent (78.4 percent in local currency) to 57.2 million euros in the 1st half of 2005. All acquisitions are included in this. The acquisition of Healthcare Logistics, the UK market leader in this sector, contributed to the positive development of gross profit and strengthened the market position of AVS Health Distribution in the United Kingdom considerably. Without acquisitions, gross profit increased by 8.8 percent (8.9 percent in local currency).

The newly acquired companies, in particular Healthcare Logistics, contributed significantly to the increase in EBIT of 22.5 percent (23.3 percent in local currency). Profit before tax increased by 6.7 percent (7.4 percent in local currency). The costs for building up the new business division, higher depreciation and amortisation as well as the financing costs for the acquisitions hampered the development of pre-tax profit.

*For the Celesio Solutions division it is absolute gross profit that is the measure of success rather than revenue, as customers generally pay on the basis of services rendered. Only in isolated cases is trading revenue involved. Gross profit is derived from total remuneration for services rendered and margins from trade turnover.



Celesio Solutions

The acquisitions in Spain, the Czech Republic, Germany and the United Kingdom strengthened AVS Health Distribution and represent a substantial step forward in building up a network of services for pharmaceutical manufacturers throughout Europe from a single source. In the 1st quarter, AVS Health Distribution largely completed the integration of Realpol in the Czech Republic, Sanalog in Germany and SEUR PHARMA in Spain. Healthcare Logistics in the United Kingdom was consolidated for the first time in the 2nd quarter.

Celesio Solutions in the 1st half-year

	2004		2005		Change in € in %	Change in local currency in %
	in € m	in % of gross profit	in € m	in % of gross profit		
Gross profit	32.2	100.00	57.2	100.00	77.7	78.4
EBIT	9.8	30.33	11.9	20.91	22.5	23.3
Profit before tax	10.9	33.88	11.6	20.35	6.7	7.4

Wide range of logistics services for manufacturers

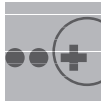
The 1st half of 2005 confirmed a trend in the pharmaceutical market: manufacturers are concentrating more on their core business, outsourcing marginal areas and passing these tasks onto their service partners – where possible at European level.

Among the services that Celesio already offers the pharmaceutical industry today with its AVS Health Distribution business unit, are basic logistical services – such as transportation and storage – as well as customer- and product-specific services. Administrative tasks are also included in their range of services. Order processing, monitoring the flow of products or provision of sales data can all be done on behalf of the customer. Celesio offers its partners this range of services at local, national or European level, depending on their needs.

In the 1st half of 2005, Celesio Solutions was represented with the business unit AVS Health Distribution in eight countries: in the United Kingdom, France, Austria, Ireland, Germany, Spain, Norway and the Czech Republic.

More storage space and new contracts

In Spain, AVS Health Distribution improved its operational processes and expanded its storage capacity in the first six months of the current year, in so doing laying the foundations for further growth. In the field of cold chain logistics, Celesio won contracts for the supply of vaccines to doctors' surgeries in Ireland and Northern Ireland. With its intensified focus on manufacturer-oriented services and its already much extended geographical presence, AVS Health Distribution has also succeeded in making widespread contact with new industrial customers.



Cesio Solutions

Good prospects for growth in an unregulated market

The healthcare market is expanding and becoming more complex, requiring market participants to make fresh considerations and seek new solutions. Cesio Solutions concentrates on precisely this, by offering the various market participants tailor-made services in everything concerning medicines. The service range of AVS Health Distribution in the field of manufacturers' logistics marks the beginning of new growth areas for Cesio. Their overriding characteristics are that they address different customer groups with specific service requirements, have a fragmented competition structure and are not directly subject to government regulation. Cesio Solutions can therefore also expand in countries that are (still) of no interest to the other divisions due to the market being subject to government regulations.

Yours sincerely
Cesio AG

The management board

Vorstand:
Dr. Fritz Oesterle, Vorsitzender
Jacques Ambonville, Stefan Meister, Dr. Felix A. Zimmermann

Vorsitzender des Aufsichtsrats:
Prof. Dr. Theo Siegert

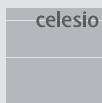
Sitz:
Stuttgart, AG Stuttgart, HRB 9517

Celesio Group

Interim statements

Income statement, 1st half-year

	2 nd quarter		1 st half-year	
	2004 € m	2005 € m	2004 € m	2005 € m
Revenue	4,802.0	5,172.7	9,423.9	10,078.9
Own work capitalised	0.0	3.4	0.0	3.9
Total operating performance	4,802.0	5,176.1	9,423.9	10,082.8
Cost of raw materials, consumables and supplies, and of purchased goods	4,284.6	4,610.6	8,419.2	9,001.5
Gross profit	517.4	565.5	1,004.7	1,081.3
Personnel expenses	241.7	261.4	475.4	514.0
Other expenses and income	- 101.2	- 106.2	- 210.5	- 209.7
Net income from investments	1.0	1.0	3.3	4.0
EBITDA	175.5	198.9	322.1	361.6
Amortisation of intangible assets and depreciation of property, plant and equipment	23.0	24.2	45.6	47.5
EBIT	152.5	174.7	276.5	314.1
Interest result	- 21.4	- 24.8	- 47.5	- 49.5
Profit before tax	131.1	149.9	229.0	264.6
Income taxes	40.5	9.4	70.9	44.9
Net profit	90.6	140.5	158.1	219.7
Profit attributable to minority interests	1.1	1.5	2.2	2.9
Consolidated net profit	89.5	139.0	155.9	216.8
Earnings per share – basic (€)	1.05	1.63	1.83	2.55
Earnings per share – diluted (€)	1.05	1.63	1.83	2.55



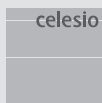
Celesio Group

Balance sheet

	31.12.2004 € m	30.06.2005 € m	
Assets	Non-current assets		
	Intangible assets	1,942.6	2,159.9
	Property, plant and equipment	560.3	624.7
	Financial assets	129.2	136.3
	Deferred tax assets	81.0	83.0
		2,713.1	3,003.9
	Current assets		
	Inventories	1,447.3	1,411.1
	Trade receivables	2,133.3	2,328.7
	Tax receivables	32.6	21.4
	Other receivables and other assets	189.6	267.7
	Cash and cash equivalents	15.2	14.5
	3,818.0	4,043.4	
Total assets	6,531.1	7,047.3	
Equity and liabilities	Shareholders' equity		
	Issued capital and reserves	1,946.2	2,084.0
	Minority interests	5.7	19.9
		1,951.9	2,103.9
	Liabilities		
	Non-current liabilities		
	Financial liabilities	1,339.2	1,439.9
	Pension provisions	132.7	136.8
	Other non-current provisions	30.3	31.4
	Deferred tax liabilities	17.8	20.6
		1,520.0	1,628.7
	Current liabilities		
	Financial liabilities	493.7	460.2
	Trade payables	1,844.1	2,026.4
	Other current provisions	140.4	118.0
Tax liabilities	125.2	133.4	
Other liabilities	455.8	576.7	
	3,059.2	3,314.7	
Total equity and liabilities	6,531.1	7,047.3	

Cash flow statement, 1st half-year

	2004 € m	2005 € m
Net profit	158.1	219.7
Depreciation and amortisation/write-up of property, plant and equipment and intangible assets	45.6	47.5
Gain on disposals of non-current assets	- 3.5	- 1.4
Non-cash changes in net working capital	8.3	8.7
Other non-cash income and expenses	- 2.7	2.3
Cash flow	205.8	276.8
Change in operating assets	98.0	- 16.3
Change in operating liabilities	13.9	112.1
Net cash flow operating activities	317.7	372.6
Proceeds from the disposal of non-current assets	18.8	14.1
Investment in non-current assets	- 55.8	- 68.8
Proceeds from the disposals of subsidiaries	1.6	0.8
Cash paid for acquisitions of subsidiaries	- 17.5	- 177.6
Net cash flow from investing activities	- 52.9	- 231.5
Payment to shareholders	- 77.4	- 103.3
Proceeds from borrowings	170.1	644.2
Repayment of borrowings	- 360.9	- 682.9
Net cash flow from financing activities	- 268.2	- 142.0
Net change in cash and cash equivalents	- 3.4	- 0.9
Net foreign exchange difference	0.4	0.2
Cash and cash equivalents at the beginning of the period	15.4	15.2
Cash and cash equivalents at the end of the period	12.4	14.5



Celesio Group

Statement of shareholders' equity

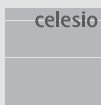
	Issued capital	Capital reserves	Revenue reserves
	€ m	€ m	€ m
01.01.2005	217.7	1,113.0	525.8
Dividends	0.0	0.0	- 102.1
Currency adjustments	0.0	0.0	0.0
Net profit	0.0	0.0	216.8
Revaluation of financial instruments	0.0	0.0	0.0
Changes to consolidated group/others	0.0	0.0	- 0.3
30.06.2005	217.7	1,113.0	640.2
01.01.2004	217.7	1,113.0	262.3
Dividends	0.0	0.0	- 76.5
Currency adjustments	0.0	0.0	0.0
Net profit	0.0	0.0	155.9
Revaluation of financial instruments	0.0	0.0	0.0
Changes to consolidated group/others	0.0	0.0	- 0.5
30.06.2004	217.7	1,113.0	341.2

Segment reporting, 1st half-year

	Wholesale		Pharmacies	
	2004 € m	2005 € m	2004 € m	2005 € m
Revenue	7,817.6	8,387.5	1,394.4	1,428.2
External revenue	7,817.6	8,387.1	1,394.4	1,428.2
Inter-segment revenue	0.0	0.4	0.0	0.0
Segment profit from operations	168.8	189.0	116.6	135.0
Income accounted for using the equity method	0.3	0.3	0.1	0.0
EBIT	169.1	189.3	116.7	135.0

	Revaluation reserves		Group interest in equity	Minority interests	Shareholders' equity
	Translation reserves	Other comprehen- sive income			
	€ m	€ m			
	73.2	16.5	1,946.2	5.7	1,951.9
	0.0	0.0	- 102.1	- 1.2	- 103.3
	30.9	0.8	31.7	0.0	31.7
	0.0	0.0	216.8	2.9	219.7
	0.0	- 8.3	- 8.3	0.0	- 8.3
	0.0	0.0	- 0.3	12.5	12.2
	104.1	9.0	2,084.0	19.9	2,103.9
	85.8	6.6	1,685.4	9.6	1,695.0
	0.0	0.0	- 76.5	- 0.9	- 77.4
	22.9	0.1	23.0	0.0	23.0
	0.0	0.0	155.9	2.2	158.1
	0.0	11.3	11.3	0.0	11.3
	0.0	0.0	- 0.5	- 0.5	- 1.0
	108.7	18.0	1,798.6	10.4	1,809.0

	Solutions		Others		Consolidation		Group	
	2004	2005	2004	2005	2004	2005	2004	2005
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
	290.9	352.3	0.0	0.0	- 79.0	- 89.1	9,423.9	10,078.9
	211.9	263.6	0.0	0.0	0.0	0.0	9,423.9	10,078.9
	79.0	88.7	0.0	0.0	- 79.0	- 89.1	0.0	0.0
	9.8	11.9	- 19.1	- 22.1	0.0	0.0	276.1	313.8
	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.3
	9.8	11.9	- 19.1	- 22.1	0.0	0.0	276.5	314.1



Celesio Group

Notes

Accounting principles and valuation policies

The consolidated interim statements for Celesio AG for the 1st half-year of 2005 has been drawn up on the basis of the International Accounting Standard (IAS) 34. In doing so, all relevant International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, and all interpretations of the International Financial Reporting Interpretation Committee (IFRIC) as of 30 June 2005 were taken into account. Accounting standards used to prepare the interim statements largely correspond to those used in the consolidated financial statements for the year ended 31 December 2004. The interim statements are therefore to be read in conjunction with the consolidated financial statements of Celesio AG for the 2004 fiscal year. The standards that were legally required to be applied as of 1 January 2005 did not have any significant effect on the interim statements.

Consolidated group

The companies Soquifa-Medicamentos/Portugal and Kemofarmacija/Slovenia, with its subsidiaries in Croatia and Romania, have been included in the consolidated financial statements for the first time in the 1st half-year. Alongside several pharmacies in the Celesio Pharmacies division, Sanalog/Germany and Healthcare Logistics/United Kingdom in the Celesio Solutions division were consolidated for the first time as of 1 January 2005 and 1 April 2005 respectively.

The inclusion of these companies for the first time does not affect comparability with the prior year.

Employees

At the end of the 1st half-year of 2005 Celesio employed 34,320 members of staff (head count) compared with 32,033 in the prior year.

Notes to the segment reporting

Segmentation at Celesio has been made in line with IAS 14. It is based on the internal organisational and reporting structures of the company. The same accounting standards are used as those employed for the group.

The internal organisation and reporting structure of Celesio is based on the business divisions Wholesale, Pharmacies, Solutions and Others. The Wholesale division includes the wholesale activities of Celesio with third-party customers. The Pharmacies division represents all activities related to the provision of services in Celesio's pharmacies. This covers the entire logistics chain from purchasing goods from the manufacturer to their delivery to the consumer. The Solutions division comprises the provision of services for manufacturers in the areas of pharmaceutical logistics and distribution as well as trading activities. The Others business division essentially contains the activities of the group's parent company Celesio AG and other non-operational companies. The consolidation measures between the business divisions are shown separately. The operational segment profit in accordance with IAS 14 corresponds to the EBIT without taking into account the income from associates accounted for using the equity method.



Celesio Group

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Websites

Celesio AG and companies in the Celesio Group:

www.celesio.com

Celesio Wholesale:

France	www.ocp.fr
Germany	www.gehe.de
Austria	www.herba-chemosan.at
Norway	www.nmd.no
Czech Republic	www.gehe.cz

Celesio Pharmacies:

United Kingdom	www.lloydspharmacy.co.uk www.johnbellcroyden.co.uk
Norway	www.vitusapotek.no
Italy	www.admentaitalia.it
Ireland	www.unicarepharmacy.ie
Netherlands	www.lloydsapotheek.nl
Belgium	www.lloydspharma.be
Czech Republic	www.lekarnylloyds.cz

Celesio Solutions:

AVS Health Distribution

United Kingdom	www.farillon.co.uk www.healthcarelogistics.co.uk
Austria	www.sanova.at
Germany	www.sanalog.de
Czech Republic	www.realpol.cz

Celesio Wholesale offers access-protected business to business solutions for pharmacies:

France	www.ocp.fr
Germany	www.gehe-point.de
United Kingdom	www.aah-point.com
Austria	www.herba-point.at
Norway	FarmaLink (cannot be accessed by the public)
Italy	www.afmpoint.it

Information on Celesio shares

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

Investors' calendar 2005/2006*

Investment conferences, New York
 and Frankfurt _____ January/February 2005
 Balance sheet press conference, Stuttgart _____ 17 March 2005
 Celesio analysts and investors' conference,
 Mainz _____ 21 March 2005
 International Bankers Day, Mainz _____ 22 March 2005
 Roadshow London, Paris, Frankfurt _____ March 2005
 Event for private shareholders, Stuttgart _____ 18 April 2005
 Investment conference (Spängler), Salzburg _____ 27 April 2005
 Annual general meeting, Stuttgart _____ 29 April 2005
 Dividend payment _____ 2 May 2005
 Interim report, 1st quarter of 2005 _____ 17 May 2005
 Roadshow Scandinavia _____ May 2005
 Investment conference (Deutsche Bank), Frankfurt _____ 1 June 2005
 Roadshow Milan, Zurich, Edinburgh, USA _____ June 2005
 Interim report, 1st half of 2005 _____ 11 August 2005
 Investment conference (Merill Lynch), London _____ 15 September 2005
 Roadshow London, Paris, Frankfurt, Lugarno _____ September 2005
 Investment conference (HVB), Munich _____ 29 September 2005
 Roadshow USA _____ October 2005
 Interim report, 1st to 3rd quarter of 2005 _____ 14 November 2005
 Balance sheet press conference, Stuttgart _____ 16 March 2006
 Celesio analysts and investors' conference,
 Amsterdam _____ 20 March 2006
 International Bankers Day, Amsterdam _____ 21 March 2006
 Annual general meeting, Stuttgart _____ 27 April 2006

* Subject to change

The latest information on the Investors' Calendar
 can be found at www.celesio.com

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