Interim Report 2017

Celesio AG

H1 Half-year financial report as of 30 September 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 strong brands and about 36,000 employees, the group is active in 13 European countries (thereof with own operations in ten countries; Celesio manages retail and wholesale operations in Norway, retail operations in Sweden and wholesale operations in Ireland. In addition, Celesio participates in a joint venture in the Netherlands.). Every day, the company serves over 2 million customers – at more than 2,150 pharmacies of its own, at about 300 managed pharmacies and at over 5,500 participants in the brand partnership schemes. With 109 wholesale branches in Europe, Celesio supplies more than 50,000 pharmacies and hospitals every day with up to 130,000 pharmaceutical products.

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. Additionally McKesson Corporation acquired in February 2016 the Norwegian and Swedish businesses from Celesio AG. McKesson provides solutions that include pharmaceutical and medical-surgical supply management, healthcare information technology, and business and clinical services.

The reporting period at a glance

KEY FIGURES OF THE CELESIO GROUP		1st half 2016 01/04/2015 - 30/09/2015	**1st half 2017 01/04/2016 - 30/09/2016**	Change on EUR basis %
Continuing operations				
Revenue	EUR m	10,672.7	**10,376.3**	−2.8
Gross profit	EUR m	1,188.2	**991.5**	−16.6
adjusted [1)]	EUR m	1,188.2	**991.5**	−16.6
EBIT	EUR m	228.6	**146.3**	−36.0
adjusted [1)]	EUR m	235.5	**157.1**	−33.3
Profit before taxes	EUR m	201.0	**120.2**	−40.2
adjusted [1)]	EUR m	207.9	**130.9**	−37.0
Net profit/loss	EUR m	138.9	**88.5**	−36.3
adjusted [1)]	EUR m	144.8	**96.7**	−33.2
Earnings per share (basic)	EUR	0.68	**0.44**	−35.6
Earnings per share (basic), adjusted [1)]	EUR	0.70	**0.47**	−33.5
Cash inflow/outflow from operating activities	EUR m	68.9	**94.4**	37.0
Net cash flow from investing activities	EUR m	−83.4	**−224.5**	>−100
Free cash flow	EUR m	−45.1	**−166.9**	>−100
Employees (full-time equivalent) [2)]		25,293	**26,311**	/
Retail pharmacies [2)]		2,214	**2,184**	/
Wholesale branches [2)]		109	**109**	/
Discontinued operations				
Net profit/loss	EUR m	−17.2	**−153.3**	>−100
Earnings per share (basic)	EUR	−0.09	**−0.76**	>−100
Employees (full-time equivalent) [2)]		3,340	**0**	/
Continuing and discontinued operations				
Total assets	EUR m	8,081.8 [5]	**7,929.3 [2]**	−1.9
Equity	EUR m	2,752.5 [5]	**2,625.4 [2]**	−4.6
Equity ratio	%	34.1 [5]	**33.1 [2]**	/
Net financial debt	EUR m	1,097.9 [5]	**1,431.2 [2]**	30.4
Net Financial Debt/EBITDA adj. [1) 3) 4)]		2.05 [5]	**3.15 [2]**	/
Employees (full-time equivalent) [2)]		28,633	**26,311**	/
Employees [2)]		38,167	**35,883**	/
Net profit/loss for the period	EUR m	121.7	**−64.8**	/
Earnings per share (basic)	EUR	0.59	**−0.32**	/

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 2016.

Economy

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.

On 23 June 2016 the UK voted to leave the European Union (EU) (BREXIT). The outcome of the referendum led to high uncertainty in the markets and to a devaluation of the British Pound. However, the future course, the next steps and the timeline of the negotiations with the EU are still under discussion. As the aftermath of the BREXIT and the announced UK governmental reimbursement cuts on prescription products is still not fully clear, the consequences for the Celesio Group are hard to predict.

Beside the development in the UK, the basic parameters of the economic environment remained stable in the first six months of fiscal year 2017.

Revenue and earnings development

CELESIO GROUP REVENUE AND OPERATING RESULTS	1st half 2016		1st half 2017	
	EUR m	of revenue %	EUR m	of revenue %
Revenue	10,672.7	100.0	10,376.3	100.0
Gross profit	1,188.2	11.1	991.5	9.6
adjusted 1)	1,188.2	11.1	991.5	9.6
EBIT	228.6	2.1	146.3	1.4
adjusted 1)	235.5	2.2	157.1	1.5
Profit before taxes	201.0	1.9	120.2	1.2
adjusted 1)	207.9	1.9	130.9	1.3
Net profit from continuing operations	138.9	1.3	88.5	0.9
adjusted 1)	144.8	1.4	96.7	0.9
Net profit from discontinued operations	−17.2	−0.2	−153.3	−1.5
Net profit/loss from continuing and discontinued operations	**121.7**	**1.1**	**−64.8**	**−0.6**

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

Revenue

Group revenue came to EUR 10,376.3m in H1 of fiscal year 2017 (01/04/2016 - 30/09/2016), a decrease of 2.8% compared to of EUR 10,672.7m in H1 of fiscal year 2016 (01/04/2015 - 30/09/2015). Devaluation of the British Pound led to negative exchange rate effects of EUR 431.2m. The decline in revenue due to the exchange rate effects and the sale of our Norwegian and Swedish activities was partially offset by revenue growth in our German wholesale operation and the acquisitions completed in the first half of fiscal year 2017. On a constant currency basis and excluding the disposals in the previous period figure our revenue grew in H1 2017 by 5.7% compared to H1 2016.

Gross profit

Gross profit decreased by 16.6% from EUR 1,188.2m in H1 2016 to EUR 991.5m in H1 2017. The decline in gross profit was due to the sale of our Norwegian and Swedish activities, negative exchange rate effects of EUR 74.3m, related to the British Pound and the UK government reimbursement cut.

EBIT

EBIT (earnings before interest and taxes) for continuing operations saw a decrease of 36.0% from EUR 228.6m (H1 2016) to EUR 146.3m in the reporting period.

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 recognized on intangible or tangible assets,
- restructuring charges from changes in strategy, of ordinary business, including changes to the senior management
- the integration process of newly acquired entities into the Celesio Group and the integration into the McKesson Corporation,

In H1 2017, non-recurring effects amounted to EUR 10.7m (H1 2016 EUR 6.9m). Thereof EUR 13.9m were incurred for legal and other consultancy expenses mainly in connection with the acquisitions and integration of newly acquired entities. By contrast EUR 5.0m result from the reclassification gain of a small entity within the German wholesale operations, which was classified as disposal group in the short fiscal year 2015 and whose plan to sell was suspended.

Adjusted for special effects, EBIT decreased to EUR 157.1m compared to EUR 235.5m in H1 2016. In H1 2017 EBIT adjusted was adversely impacted by the sale of our Norwegian and Swedish activities in the previous fiscal year, the UK government reimbursement cut and the devaluation of the British Pound. Overall negative exchange rate effects on EBIT adjusted amounted to EUR 12.7m, mainly related to the British Pound.

Investment result

At EUR 7.2m, the investment result in H1 2017 was above the comparison period level (H1 2016) of EUR 6.5m. This was primarily attributable to the costs in H1 2016 of the Dutch investment Brocacef Holding N.V. relating to the at that time pending acquisition of Mediq Apotheken Netherland B.V. This acquisition was completed in June 2016.

Financial result

The financial result, the balance of the items interest expense, interest income and other financial result, slightly improved to EUR –33.3m in the reporting period, compared to EUR –34.1m in H1 2016. Comparing H1 2016 with H1 2017, we continued to substitute external financial instruments with intra-group financing agreements with Celesio Holdings Deutschland GmbH & Co. KGaA. The interest coverage ratio came to 4.4 (H1 2016: 6.7). The adjusted interest coverage ratio was 4.7 (H1 2016: 6.9).

Income taxes

The tax expenditure decreased by 49.1% to EUR 31.7m (H1 2016: EUR 62.1m). This resulted in an effective tax rate of 26.4% for the reporting period compared to 30.9% in H1 2016. Adjusted for special effects, the tax rate would have been 26.1% in H1 2017 compared to 30.4% in H1 2016. The improvement in the tax rate is mainly due to the shift in the geographically earnings mix.

Net profit/loss from continuing operations

The net profit from continuing operations at the Celesio Group came to EUR 88.5m, a decrease of 36.3% on the figure for H1 2016 of EUR 138.9m. After adjustments for special effects, net profit from continuing operations, at EUR 96.7m, was down 33.2% on the H1 2016 figure of EUR 144.8m. The basic and diluted earnings per share of the Celesio Group decreased from EUR 0.68 in H1 2016 to EUR 0.44 in H1 2017.

Net profit/loss from discontinued operations

The closing conditions for the sale of our Brazilian activities were fulfilled as of 31 May 2016 and the transaction was closed as of this date.

Discontinued operations generated revenue of EUR 260.3m in the first two months of H1 2017. In the six months of H1 2016 revenue of EUR 774.0m was generated. Negative currency effects on revenue, caused by the Brazilian Real amounted to EUR 51.1m.

Gross profit of discontinued operations in the first two months of H1 2017 came to EUR 25.5m compared to EUR 70.3m in the six months of H1 2016. Negative currency effects on gross profit, caused by the Brazilian Real amounted to EUR 5.2m.

EBIT amounted to EUR –2.2m in the first two months of H1 2017 (six months of H1 2016: EUR –8.6m). Overall, negative currency effects on EBIT, caused by the Brazilian Real amounted to EUR 0.2m.

On the closing of the transaction EUR 146.9m were recorded as an expense through profit and loss. Whereas EUR 127.2m relate to the foreign currency translation reserve as of 31 May 2016 and EUR 19.7m relate to the loss recognized upon the disposal and to adjustments to amounts previously presented in discontinued operations that are directly related to the disposal.

Thus the net loss incurred by discontinued operations deteriorated to EUR –153.3m compared to EUR –17.2m in H1 2016.

Net profit/loss

Net profit and loss from continuing and discontinued operations came to EUR –64.8m compared to a net profit of EUR 121.7m in H1 2016. Accordingly, basic and diluted earnings per share came to EUR –0.32 compared to EUR 0.59 in H1 2016.

Consumer Solutions

Market environment and business development

Celesio is one of the largest pharmacy operators in Europe. As of the end of H1 2017 Celesio operated 2,184 own retail pharmacies (H1 2016: 2,214) in four countries. The decrease is caused by the sale of our Norwegian and Swedish business in February 2016 and was partially offset by the acquisition of the Sainsbury's pharmacy business on 1 September 2016.

Due to the ongoing optimisation of our portfolio and including the Sainsbury's pharmacy business we acquired 279, opened two, closed four and sold seven retail pharmacies in the first half of fiscal year 2017.

Revenue and earnings development

CONSUMER SOLUTIONS REVENUE AND OPERATING RESULTS	1st half 2016 EUR m	1st half 2016 OF REVENUE %	1st half 2017 EUR m	1st half 2017 OF REVENUE %
Revenue	2,093.1	100.0	**1,818.3**	**100.0**
Gross profit	678.4	32.4	**513.3**	**28.2**
adjusted [1)]	678.4	32.4	**513.3**	**28.2**
EBIT	124.5	5.9	**51.4**	**2.8**
adjusted [1)]	127.5	6.1	**63.1**	**3.5**

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

Revenue

Revenue in the Consumer Solutions division decreased by 13.1% from EUR 2,093.1m in H1 2016 to EUR 1,818.3m in H1 2017. Negative exchange rate effects on revenue related to the British Pound amounted to EUR 221.2m. Additionally the sale of our Norwegian and Swedish business weighed on the revenues in H1 2017, but was partially offset by the acquisitions during the first six months of fiscal year 2017. On a constant currency basis and excluding disposals in the previous period figure our revenue in Consumer Solutions grew in H1 2017 by 18.2% compared to H1 2016.

Gross profit

In H1 2017, the gross profit decreased by 24.3% from EUR 678.4m in H1 2016 to EUR 513.3m (15.7% decrease on a constant currency basis). However, this decline was primarily driven by the sale of our Norwegian and Swedish businesses and unfavourable exchange rate effects. Adjusting for those two items gross profit increased slightly year over year where acquisitions and organic growth offset the unfavourable impact of reimbursement cuts in the UK. Negative exchange rate effects amounted to EUR 58.4m, related to the British Pound.

EBIT

In H1 2017, EBIT amounted to EUR 51.4m compared to EUR 124.5m in H1 2016, a decrease of 58.7%. EBIT adjusted for special effects decreased by 50.5% from EUR 127.5m in H1 2016 to EUR 63.1m in H1 2017. The largest driver of decline in EBIT adjusted was the sale of our Norwegian and Swedish operations in the previous fiscal year. Excluding the disposals in the previous period figure and currency effects, EBIT adjusted in the division declined on a year over year basis due primarily to government reimbursement cuts in the UK. Exchange rate effects had a negative impact of EUR 6.8m, 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 (H1 2016: 109), Celesio is active in nine European countries.
Celesio is one of the top players in all 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, France, Portugal and Belgium. 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. Celesio offers additionally different services to suppliers, manufactures and other third parties in the pharmaceutical and healthcare sector.
The pharmaceutical wholesale business operates in a relatively stable market environment that is not directly dependent on economic stability.

Revenue and earnings development

PHARMACY SOLUTIONS REVENUE AND OPERATING RESULTS	1st half 2016		**1st half 2017**	
	EUR m	OF REVENUE %	**EUR m**	**OF REVENUE %**
Revenue	8,579.6	100.0	**8,560.9**	**100.0**
Gross profit	509.8	5.9	**477.9**	**5.6**
adjusted [1)]	509.8	5.9	**477.9**	**5.6**
EBIT	133.9	1.6	**116.7**	**1.4**
adjusted [1)]	135.3	1.6	**114.1**	**1.3**

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

Revenue

In H1 2017, the Pharmacy Solutions division generated revenue of EUR 8,560.9m compared to EUR 8,579.6m in H1 2016, a decrease of 0.2%. The overall negative exchange rate effect of EUR 210.1m from the British Pound has been more than compensated by the growing business in several countries.

Gross profit

In H1 2017, the gross profit decreased by 6.3% from EUR 509.8m in H1 2016 to EUR 477.9m (3.1% decrease on a constant currency basis). Discount levels to customers in Germany led to the slight decline in gross profit. Exchange rate effects of EUR 15.9m, related to the British Pound also unfavourably impacted gross profit.

EBIT

In H1 2017, the division's EBIT decreased by 12.9% from EUR 133.9m in H1 2016 to EUR 116.7. EBIT adjusted for special effects decreased by 15.7% from EUR 135.3m in H1 2016 to EUR 114.1m in H1 2017. Unfavourable currency effects of EUR 5.8m, caused by the British Pound were the primary driver of decline in EBIT adjusted. Additionally EBIT adjusted in H1 2016 saw a positive one-off effect from the final insurance settlement in Belgium.

Financial position

Statement of cash flows

The net cash flow from operating activities came to EUR 94.4m for continuing operations in H1 2017. This compares to a cash flow of EUR 68.9m generated in H1 2016. This trend was primarily the result of changes in operating net assets.

For discontinued operations net cash flow from operating activities came to EUR –31.2m, compared to EUR 11.3m in H1 2016.

The net cash flow from investing activities for continuing operations amounted to EUR –224.5m, compared to EUR –83.4m in H1 2016. Compared to H1 2016, several investments led to an increase in cash outflow for investments. For discontinued operations, net cash flow from investing activities came to EUR –90.8m, in contrast to the net cash flow of EUR –4.4m in H1 2016.

Cash and cash equivalents came to EUR 369.8m as of 30 September 2016, a decrease of EUR 53.7m compared to the end of fiscal year 2016.

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 –210.4m for continuing operations in H1 2017 compared to EUR –45.1m in H1 2016.

Cash inflow from financing activities for continued operations amounted to EUR 258.4m in H1 2017 compared to a cash outflow of EUR -59.0 m in H1 2016. Thereby the cash inflow from borrowing increased by EUR 162.9m, while cash outflow for the settlement of financial liabilities decreased by EUR 76.8m. Net cash flow from change in borrowings increased by EUR 239.7m due to additional loans received from the McKesson Corporation. As of 30 September 2016, net working capital amounted to EUR 1,347.2m (31 March 2016 EUR 1,187.5m).

Assets position

As of 30 September 2016, the Celesio Group had total assets of EUR 7,929.3m; a decrease of EUR 152.5m compared to 31 March 2016.

The gearing, which expresses the ratio of net debt to equity, deteriorated as of 30 September 2016 to 0.55 compared to 0.40 as of 31 March 2016. This development was mainly driven by an over-proportional increase in net financial debt of EUR 333.3m compared to the equity development.

ASSETS EUR m	31/03/2016	30/09/2016
Non-current assets	**2,908.7**	**2,884.5**
Current assets	**5,173.1**	**5,044.8**
Total assets	**8,081.8**	**7,929.3**

Non-current assets increased by a total of EUR 24.2m to EUR 2,884.5m compared to 31 March 2016. This increase was mainly driven by an increase in intangible assets of EUR 134.8m, for the most part due to the acquisitions of the Bupa Home Healthcare, Sainsbury's and Sangers (Northern Ireland) and an increase in at equity investments of EUR 70.2m due to the Mediq acquisition.

As of 30 September 2016, current assets came to EUR 5,044.8m, a decrease of EUR 128.3m compared to 31 March 2016. Cash and cash equivalents decreased by EUR 53.7m to EUR 369.8m, mainly driven by operating business. Inventories raised by EUR 75.1m in total to EUR 1,451.8m, mainly due to the acquisitions of the Sainsbury's pharmacy business, Bupa Home Healthcare and Sangers (Northern Ireland). Trade receivables decreased by EUR 26.4m to EUR 2,198.3m. Other receivables and other assets increased by EUR 203.5m to EUR 976.4m, which was essentially driven by exchange rate effects.

As of 30 September 2016, the Celesio Group reported assets held for sale of EUR 23.1m. As part of the approval from the Competition and Market Authority (CMA) for the Sainsbury's acquisition, Celesio has to dispose pharmacies in 12 areas in England and Wales. The decrease in the assets held for sale of EUR 308.0m resulted from the disposal of the Brazilian business.

EQUITY AND LIABILITIES EUR m	31/03/2016	30/09/2016
Equity	**2,752.5**	**2,625.4**
Liabilities	**5,329.3**	**5,303.9**
Non-current liabilities	**1,483.7**	**1,354.0**
Current liabilities	**3,845.6**	**3,949.9**
Total assets	**8,081.8**	**7,929.3**

As of 30 September 2016, we recorded a decrease of EUR 127.1m in equity to EUR 2,625.4m compared to 31 March 2016. This development is due to the EUR 66.4m decrease in revenue reserves to EUR 1,051.5m due to the net loss of the period. Revaluation reserves also decreased by EUR 62.0m to EUR –489.5m as of 30 September 2016 as a result of lower interest rates consequently leading to actuarial losses on pension liabilities. The equity ratio came to 33.1% on 30 September 2016, a decrease of 0.9 percentage points compared to 31 March 2016.

Non-current liabilities decreased by EUR 129.7m to EUR 1,354.0m. Non-current financial liabilities were down by EUR 218.4m to EUR 948.0m as of 30 September 2016. This decrease is primarily driven by reclassifications of the Celesio Bond 2017 into current liabilities and exchange rate effects. This decrease in non-current financial liabilities was partially offset by a new loan from McKesson. Pension liabilities increased by EUR 74.4m to EUR 326.8m due to actuarial losses from the interest rate reduction described.

Current liabilities stood at EUR 3,949.9m as of 30 September 2016 and were consequently up by EUR 104.3m compared to 31 March 2016. Current financial liabilities increased by EUR 498.0m to EUR 853.0m mainly as a result of reclassifications of the Celesio Bond 2017 from non-current financial liabilities to current financial liabilities. As of 30 September 2016, liabilities held for sale totally declined by EUR 437.4m due to the sale of the Brazilian operations.

Net debt deteriorated from EUR 1,097.9 as of 31 March 2016 to EUR 1,431.2m as of 30 September 2016. The key performance indicator net financial debt/EBITDA (adjusted) deteriorated from 2.05 as of 31 March 2016 to 3.15 as of 30 September 2016.

Employees

CELESIO GROUP EMPLOYEES	Full-time equivalents reporting date		Employees reporting date	
	30/09/2015	**30/09/2016**	30/09/2015	**30/09/2016**
Continuing operations Consumer Solutions	15,421	**16,399**	22,557	**23,907**
Continuing operations Pharmacy Solutions	9,548	**9,581**	11,561	**11,608**
Group holding	324	**331**	362	**368**
Discontinued operations	3,340	**0**	3,687	**0**
Continuing and discontinued operations	**28,633**	**26,311**	**38,167**	**35,883**

Employee figures

As of 30 September 2016, 26,311 full-time equivalents (FTEs) worked for Celesio – a decrease of 8.1% against 30 September 2015. The decrease due to the sale of our Norwegian, Swedish and Brazilian businesses was partially offset by the acquisitions, mainly in the UK.

As of 30 September 2016, a total of 16,399 FTEs were employed in the Consumer Solutions division, an increase of 6.3 % compared to 30 September 2015. The increase results from the acquisition of the Sainsbury's pharmacy business and the acquisition of BUPA Home Healthcare and was partially offset by the sale of our Norwegian and Swedish businesses. At 62.3% (30 September 2015: 61.0%) this division accounted for the largest share of FTEs in the group. The Pharmacy Solutions division had 9,581 FTEs as of 30 September 2016, an increase of 0.3 % compared to previous reporting date. There were 331 FTEs working at Holding level as of 30 September 2016 (30 September 2015: 324 FTEs).

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 half of fiscal year 2017 results reflect a solid start to the fiscal year and Celesio remains focused on achieving key priorities in the business.

Overall, the revenue development in all countries met our expectation. Negative currency effects of EUR 431.2m mainly related to the British Pound weighed on the revenue development, but were partially offset by our acquisitions.

During H1 2017, we recorded several influences on gross profit in both segments. In particular the UK government reimbursement cuts on prescription products adversely impacted our gross profit as well as the devaluation of the British Pound.

In line with our expectations, additional non-recurring effects occurred due to legal and other consultancy expenses in connection with the acquisitions and integration of newly acquired entities.

On divisional level, revenues and EBIT adjusted were negatively impacted by the devaluation of the British Pound. EBIT in Consumer Solutions was additionally adversely affected the UK government reimbursement cuts on prescription products.

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

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.

In September 2016 representatives from the German Federal Cartel Office searched the business premises of our German wholesaler GEHE Pharma Handel GmbH and some other German pharmaceutical wholesalers. We fully cooperated with the German Federal Cartel Office to support the investigation. At this early stage, results of this investigation are unknown to us. We currently have no indication for a material impact, if any, on Celesio's earnings, financial and asset position.

Beside this the key opportunities and risks for us are unchanged. They are presented in the Annual Report for fiscal year 2016 from page 51 onwards.

Subsequent events

On 18 October 2016 we repaid the due bond with a nominal value of EUR 349.7m. The refinancing of this bond was given by Celesio Holdings Deutschland GmbH & Co. KGaA.

Outlook

Revenue and earnings forecast

As disclosed in our Annual Report for fiscal year 2016 (01/04/2015 - 31/03/2016), we expected fiscal year 2017 (01/04/2016 – 31/03/2017) consolidated revenue and earnings to be impacted by the prior year disposal of our Norwegian and Swedish businesses and a weakening British Pound. As a result we guided continued operations revenue slightly below fiscal year 2016 and EBIT adjusted considerably below fiscal year 2016. On a constant currency basis and excluding disposals, we expected revenue and EBIT adjusted growth slightly above market and considerably above fiscal year 2016.

While we maintain our revenue outlook for fiscal year 2017, in the wake of the recent UK government reimbursement cuts to prescription products, we now expect EBIT adjusted on a constant currency basis and excluding the prior year disposals to be slightly below fiscal year 2016.

For a detailed disclosure of the expectations on the outlook of Celesio, we refer to the respective section within the Annual Report for fiscal year 2016 (page 60-65), which is still valid, except for the above mentioned updated expectations on EBIT adjusted on a constant currency basis and excluding disposals.

Interim condensed consolidated report

Celesio AG

1st half of 2017

Consolidated income statement

EUR M	1st half 2016	1st half 2017
Revenue	**10,672.7**	**10,376.3**
Cost of materials	−9,484.5	−9,384.8
Gross profit	**1,188.2**	**991.5**
Other operating income	100.4	94.6
Other operating expenses	−381.4	−338.8
Personnel expenses	−623.1	−549.7
EBITDA	**284.1**	**197.6**
Depreciation on intangible assets held as non-current assets and on property, plant and equipment	−54.4	−51.1
Impairment losses recorded on intangible assets and property, plant and equipment	−1.1	−0.2
EBIT	**228.6**	**146.3**
Result from associates accounted for using the equity method	6.4	6.9
Result from other investments	0.1	0.3
Interest expense	−33.7	−42.0
Interest income	2.9	6.1
Other financial result	−3.3	2.6
Profit before tax from continuing operations	**201.0**	**120.2**
Income taxes	−62.1	−31.7
Net profit/loss from continuing operations	**138.9**	**88.5**
Net profit/loss from discontinued operations	**−17.2**	**−153.3**
Profit / Loss	**121.7**	**−64.8**
Of which attributable to non-controlling interests	1.7	1.6
Of which attributable to shareholders of Celesio AG	**120.0**	**−66.4**
Earnings per share – undiluted	**EUR**	**EUR**
Net profit/loss from continuing operations	0.68	0.44
Net profit/loss from discontinued operations	−0.09	−0.76
Profit / Loss	0.59	−0.32
Earnings per share – diluted	**EUR**	**EUR**
Net profit/loss from continuing operations	0.68	0.44
Net profit/loss from discontinued operations	−0.09	−0.76
Profit / Loss	0.59	−0.32

Consolidated statement of comprehensive income

EUR M	1st half 2016	1st half 2017
Net profit/loss for the period	**121.7**	**−64.8**
Items that will not be recycled through profit or loss	**55.5**	**−61.3**
Revaluation of defined benefit pension plans	55.5	**−61.3**
Items, that are recycled through profit or loss	**−21.3**	**8.0**
Foreign currency translation posted directly to other comprehensive income	−21.3	**−119.3**
Release to profit or loss due to loss of control	0.0	**127.3**
Exchange differences	−21.3	**8.0**
Other comprehensive income after tax	**34.2**	**−53.3**
From continuing operations	34.7	**−185.3**
Of which attributable to non-controlling interests	0.0	**0.1**
Of which attributable to shareholders of Celesio AG	34.7	**−185.4**
From discontinued operations	−0.5	**132.0**
Of which attributable to non-controlling interests	−0.1	**0.1**
Comprehensive income	**155.9**	**−118.1**
From continuing operations	173.6	**−96.8**
Of which attributable to non-controlling interests	1.8	**1.5**
Of which attributable to shareholders of Celesio AG	171.8	**−98.3**
From discontinued operations	−17.7	**−21.3**

Please refer to page 51 for more information on other comprehensive income.

Consolidated statement of financial position

ASSETS EUR m	31/03/2016	30/09/2016
Non-current assets	**2,908.7**	**2,884.5**
Intangible assets	1,964.6	2,099.4
Property, plant and equipment	451.0	453.2
At equity investments	153.5	223.7
Other financial assets	292.0	49.8
Other non-current assets	13.1	20.8
Income tax receivables	1.1	1.1
Deferred tax assets	33.4	36.5
Current assets	**5,173.1**	**5,044.8**
Inventories	1,376.7	1,451.8
Trade receivables	2,224.7	2,198.3
Income tax receivables	30.9	25.4
Other receivables and other assets	772.9	976.4
Cash and cash equivalents	423.5	369.8
Assets held for sale	344.4	23.1
Total assets	**8,081.8**	**7,929.3**

EQUITY AND LIABILITIES	31/03/2016	30/09/2016
EUR m		
Equity	**2,752.5**	**2,625.4**
Issued capital	260.1	**260.1**
Capital reserves	1,783.2	**1,783.2**
Revenue reserves	1,117.9	**1,051.5**
Revaluation reserves	−427.5	**−489.5**
Stake of the shareholders of Celesio AG	**2,733.7**	**2,605.3**
Non-controlling interests	18.8	**20.1**
Liabilities	**5,329.3**	**5,303.9**
Non-current liabilities	**1,483.7**	**1,354.0**
Financial liabilities	1,166.4	**948.0**
Pension provisions	252.4	**326.8**
Other non-current provisions	40.0	**54.0**
Other liabilities	6.1	**9.5**
Deferred tax liabilities	18.8	**15.7**
Current liabilities	**3,845.6**	**3,949.9**
Financial liabilities	355.0	**853.0**
Trade payables	2,306.1	**2,302.8**
Other current provisions	101.4	**94.0**
Income tax liabilities	133.1	**151.4**
Other liabilities	512.6	**548.7**
Liabilities held for sale	437.4	**0.0**
Total assets	**8,081.8**	**7,929.3**

Consolidated statement of cash flows

EUR M	1st half 2016	1st half 2017
Net profit/loss from continuing operations	**138.9**	**88.5**
Amortisation, depreciation and impairment of non-current intangible and property, plant and equipment	55.5	**51.3**
Result from associates accounted for using the equity method and other equity investments	−6.5	**−7.2**
Dividends received	7.0	**6.8**
Financial result	34.1	**33.3**
Net result from the disposal of non-current assets and subsidiaries	−0.6	**−1.6**
Impairment losses on items classified as operating assets	8.4	**10.9**
Deferred taxes and income tax	62.1	**31.7**
Income taxes paid	6.1	**−5.8**
Other non-cash income and expenses	9.4	**1.1**
Change in net operating assets	−195.1	**−46.5**
Change in inventories	−63.7	**−61.4**
Change in trade receivables	−53.4	**84.5**
Change in trade payables	−101.0	**−45.2**
Change in other net operating assets	23.0	**−24.4**
Change in other assets and liabilities	−50.4	**−68.1**
Change in other assets	4.0	**−4.9**
Change in other liabilities	−54.4	**−63.2**
Net cash flow from operating activities - continuing activities	**68.9**	**94.4**
Net cash flow from operating activities - discontinued operations	**11.3**	**−31.2**
Net cash flow from operating activities - continuing and discontinued operations	**80.2**	**63.2**
Proceeds from the disposal of non-current assets	5.0	**1.4**
Capital expenditure on non-current assets	−79.0	**−73.9**
Proceeds from the disposal of subsidiaries	0.5	**0.5**
Cash paid for business combinations	−9.9	**−152.5**

EUR M	1st half 2016	1st half 2017
Net cash flow from investing activities - continuing operations	**−83.4**	**−224.5**
Net cash flow from investing activities - discontinued operations	**−4.4**	**−90.8**
Net cash flow from investing activities - continuing and discontinued operations	**−87.8**	**−315.3**
Payments made to shareholders (including non-controlling interests)	−1.8	**−0.4**
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	0.0	**0.0**
Proceeds from borrowings	406.8	**569.7**
Repayment of borrowings	−369.9	**−296.4**
Interest paid	−33.2	**−42.8**
Interest received	2.6	**6.0**
Profit transfer	0.0	**0.0**
Payments for group hedging activities	−63.5	**22.3**
Net cash flow from financing activities - continuing activities	**−59.0**	**258.4**
Net cash flow from financing activities - discontinued operations	**−4.5**	**−31.1**
Net cash flow from financing activities - continuing and discontinued operations	**−63.5**	**227.3**
Net change in cash and cash equivalents	**−71.1**	**−24.8**
Non-cash change in cash and equivalents	−5.1	**−28.9**
Cash and cash equivalents at the beginning of the period	377.9	**423.5**
Cash and cash equivalents at the end of the period	**301.8**	**369.8**
Cash and cash equivalents of discontinued operations and disposal groups at the end of the period	7.3	**0.0**
Cash and cash equivalents at the end of the period (according to the group statement of financial position)	**294.5**	**369.8**

Consolidated statement of changes in equity

EUR m	Issued capital	Capital reserves	Revenue reserves	
as of 01/04/2016	**260.1**	**1,783.2**	**1,117.9**	
Changes in equity	0.0	0.0	0.0	
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	
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	−66.4	
Total comprehensive income / expenses	0.0	0.0	−66.4	
Profit transfer	0.0	0.0	0.0	
as of 30/09/2016	**260.1**	**1,783.2**	**1,051.5**	
As of 01/04/2015	**260.1**	**1,783.2**	**952.4**	
Changes in equity	0.0	0.0	0.0	
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	
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	120.0	
Comprehensive income	0.0	0.0	120.0	
Profit transfer	0.0	0.0	0.0	
As of 30/09/2015	**260.1**	**1,783.2**	**1,072.4**	

	Revaluation reserves				
Translation reserves	Revaluation of defined benefit plans	financial assets held for sale	Stake of the share-holders of Celesio AG	Non-controlling interests	Equity
−302.5	**−125.6**	**0.6**	**2,733.7**	**18.8**	**2,752.5**
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	−0.4	−0.4
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
−5.6	−56.5	0.0	−62.1	0.2	−61.9
0.0	0.0	0.0	−66.4	1.6	−64.8
−5.6	−56.5	0.0	−128.5	1.8	−126.7
0.0	0.0	0.0	0.0	0.0	0.0
−308.1	**−182.1**	**0.6**	**2,605.2**	**20.2**	**2,625.4**
−211.5	**−265.9**	**0.3**	**2,518.6**	**18.8**	**2,537.4**
0.0	0.0	0.0	0.0	−1.8	−1.8
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
−32.0	66.4	0.0	34.4	−0.1	34.3
0.0	0.0	0.0	120.0	1.7	121.7
−32.0	66.4	0.0	154.4	1.6	156.0
0.0	0.0	0.0	0.0	0.0	0.0
−243.5	**−199.5**	**0.3**	**2,673.0**	**18.6**	**2,691.6**

Consolidated segment reporting by division

FISCAL YEAR 2017	Consumer Solutions	Pharmacy Solutions	Others	Consoli-dation	Group (continuing operations)	Discontinued operations
EUR m						
Income statement						
Revenue	**1,818.3**	**8,560.9**	**0.0**	**−2.9**	**10,376.3**	**260.3**
External revenue	1,818.3	8,557.5	0.0	0.0	**10,375.8**	260.3
Inter-segment revenue	0.0	3.4	0.0	−2.9	**0.5**	0.0
Gross profit	**513.3**	**477.9**	**0.3**	**0.0**	**991.5**	**25.5**
EBITDA	75.5	138.9	−16.8	0.0	**197.6**	−2.2
Impairment losses recorded on intangible assets and property, plant and equipment	−0.2	0.0	0.0	0.0	**−0.2**	0.0
EBIT	**51.4**	**116.7**	**−21.8**	**0.0**	**146.3**	**−2.2**
Segment assets	**2,012.4**	**1,860.7**	**523.9**	**−1.6**	**4,395.4**	**0.0**

Consolidated segment reporting by division

FISCAL 2016	Consumer Solutions	Pharmacy Solutions	Others	Consoli-dation	Group (continuing operations)	Discontinued operations
EUR m						
Income statement						
Revenue	**2,093.1**	**8,579.6**	**0.0**	**0.0**	**10,672.7**	**774.0**
External revenue	2,093.1	8,579.6	0.0	0.0	**10,672.7**	774.0
Inter-segment revenue	0.0	0.0	0.0	0.0	**0.0**	0.0
Gross profit	**678.4**	**509.8**	**0.0**	**0.0**	**1,188.2**	**70.3**
EBITDA	156.1	153.5	−25.6	0.1	**284.1**	−8.6
Impairment losses recorded on intangible assets and property, plant and equipment	−1.0	−0.1	0.0	0.0	**−1.1**	0.0
EBIT	**124.5**	**133.9**	**−29.9**	**0.1**	**228.6**	**−8.6**
Segment assets	**2,287.3**	**1,782.2**	**−16.0**	**0.0**	**4,053.5**	**0.0**

RECONCILIATION OF SEGMENT REVENUE	1st half 2016	1st half 2017
EUR m		
Revenue of the reportable segments	**10,672.7**	**10,379.2**
Consolidation	0.0	**−2.9**
Group revenue	**10,672.7**	**10,376.3**

RECONCILIATION OF SEGMENT EARNINGS	1st half 2016	1st half 2017
EUR m		
EBIT	**228.6**	**146.3**
Result from associates accounted for using the equity method	6.4	**6.9**
Result from other investments	0.1	**0.3**
Interest expense	−33.7	**−42.0**
Interest income	2.9	**6.1**
Other financial result	−3.3	**2.6**
Profit before tax from continuing operations	**201.0**	**120.2**

RECONCILIATION OF SEGMENT ASSETS	30/09/2015	30/09/2016
EUR m		
Segment assets of the reportable segments	**4,053.6**	**4,397.0**
Consolidation	−0.1	**−1.7**
Segment assets of the group	**4,053.5**	**4,395.3**
+ Interest-bearing other financial assets	45.3	**44.7**
+ Non-current and current income tax receivables	30.0	**26.5**
+ Deferred tax assets	48.5	**36.5**
+ Other assets	23.3	**74.3**
+ Cash and cash equivalents	294.5	**369.8**
+ Assets of discontinued operations	337.4	**0.0**
- Other non-current provisions	41.2	**54.0**
- Other current provisions	80.4	**94.0**
- Trade liabilities	2,261.7	**2,302.8**
- Other liabilities	487.5	**531.4**
Total net assets	**7,703.3**	**7,929.3**

Accounting and measurement policies

The condensed consolidated interim report of Celesio AG for the first six months of the fiscal year 2017 – 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 September 2016, and all the interpretations (IFRIC) of the International Financial Reporting Standards Interpretation Committee were complied with. This condensed consolidated interim report was not subjected either to a full audit or to a review by the auditor. 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 2016. The condensed interim report should therefore be read in conjunction with the consolidated financial statements of Celesio AG for the fiscal year 2016.

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.

Consolidated group

Business combinations and disposals in the first six months of the fiscal year 2017

Business combinations

On 1 April 2016, the Consumer Solutions division acquired MDD Pharma N.V., based in Kortrijk, Belgium, 100%. This company provides the production and supply of patient-specific, packaged pharmaceuticals for care facilities in Belgium. With this takeover, Celesio is expanding its operations to other B2B segments and is becoming one of the leading suppliers for retirement/care homes in Belgium.

Moreover, on 1 June 2016, the Consumer Solutions division also saw the completion of the entire acquisition of Masta Limited, based in Leeds,United Kingdom. This company is a supplier of travel health consulting and vaccinations, and is also a wholesale supplier of travel vaccines.

On 1 July 2016, Bupa Home Healthcare Limited, based in Harlow, United Kingdom, was acquired with a share of 100% and is also disclosed under the Consumer Solutions division. The core business is services in the area of domestic patient care; with this takeover, Celesio intends to strengthen its service capability in this particular area.

On 1 September 2016, the pharmacy business of Sainsbury's Supermarkets Ltd was also acquired and will strengthen the Consumer Solutions business, LloydsPharmacy, in the United Kingdom with 281 additional pharmacies.

The Pharmacy Solutions division acquired Sangers NI Limited, based in Belfast, United Kingdom, with a share of 100% on 1 June 2016. This acquisition

will expand the Pharmacy Solutions division and in particular the wholesale business in Northern Ireland.

In addition, on 31 May 2016, the company acquired the full shares of Grupo Holon, based in Amora, Portugal. This is a major network of independent pharmacies offering the participants a wide selection of pharmaceutical services, marketing and advantageous purchasing conditions. With this takeover, Celesio intends to expand its expertise and service capability in the retail pharmaceutical market.

Moreover, in the first six months of the fiscal year 2017, a retail pharmacy in the United Kingdom was acquired 100% and fully consolidated as a result of measures to optimise the portfolio in the Consumer Solutions division.

In addition, McKesson Belgium Holdings SPRL and Sofarmex BVBA were acquired 100% and fully consolidated in the Pharmacy Solutions division.

The key information about the companies acquired in the first six months of the fiscal year 2017 is as follows:

EUR M	Sainsbury's	Bupa Home Healthcare	Sangers & Masta	Others	Total
Consideration transferred	**151.8**	**33.1**	**131.5**	**27.9**	**344.3**
Purchase price payment	147.4	33.1	131.5	20.7	**332.7**
Purchase price liability	4.4	0.0	0.0	0.7	**5.1**
Contingent consideration	0.0	0.0	0.0	6.5	**6.5**
Cash purchase price	**147.4**	**32.3**	**118.1**	**20.0**	**317.8**
Fair value of assets and liabilities assumed					
Total assets	**85.5**	**124.9**	**140.3**	**29.2**	**379.9**
Intangible assets	58.7	13.5	31.7	14.7	**118.6**
Property, plant and equipment	5.0	3.4	15.9	1.5	**25.8**
Deferred tax assets	0.0	1.1	0.4	0.3	**1.8**
Inventories	21.8	20.2	19.8	1.9	**63.7**
Trade receivables	0.0	77.2	46.4	5.5	**129.1**
Cash and cash equivalents	0.0	0.8	13.4	0.7	**14.9**
Other assets	0.0	8.7	12.7	4.6	**26.0**
Total liabilities	**4.9**	**104.1**	**60.4**	**17.5**	**186.9**
Financial liabilities	0.0	0.0	0.0	3.7	**3.7**
Deferred tax liabilities	0.0	2.5	5.6	4.3	**12.4**
Trade payables	0.0	86.5	34.4	7.5	**128.4**
Other liabilities	4.9	15.1	20.4	2.0	**42.4**
Goodwill	**71.3**	**12.3**	**51.6**	**16.2**	**151.4**
Non-controlling interests	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

At the time these consolidated financial statements were produced, the necessary market valuations and other calculations for the accounting of the companies acquired in the first six months of the fiscal year 2017 had not yet been completed. The incorporated figures are based on provisional calculations that will be adjusted as necessary in the course of the assessment period of one year.

The calculation of the purchase prices of Sangers NI Limited and Masta Limited have to be considered to be tentative at the time these consolidated financial statements were completed.

During the takeover of the pharmacy business of Sainsbury's, it was agreed that the Group would settle the difference between the amount of the net working capital at the time of the acquisition and the agreed value. For this purpose, a purchase price liability in the amount of EUR 4.4m was recognised. The purchase price for Sainsbury's of EUR 147.4m and a first tranche for Sangers NI Limited and Masta Limited of EUR 85.4m was already paid in advance in the prior fiscal year.

No equity instruments were issued to settle existing purchase price liabilities.

For all transactions, the fair value of the receivables acquired comes to EUR 154.7m.This contains trade receivables of EUR 129.1m.

The resultant goodwill of EUR 151.4m mainly represents the future prospects expected with the respective business combinations and the value of the experience among the employees acquired. No text deductibility is expected for any resultant goodwill from these acquisitions.

Incidental acquisition costs of EUR 9.5mwere recognised in other expenses (prior year: EUR 2.4m).

Revenue and net profit/loss attributable to the entities acquired in the first six months of the 2017 fiscal year were generated in the following amounts:

	Sainsbury's	Bupa Home Healthcare	Sangers & Masta	Others	Total
Profit after taxes from acquisition date till end of reporting period	−0.3	0.5	1.6	0.4	**2.2**
Revenue from acquisition date till end of reporting period	17.9	150.7	76.5	8.4	**253.5**
Profit after taxes in the reporting period	0.2	1.5	2.6	0.4	**4.7**
Revenue in the reporting period	107.2	299.1	123.2	11.7	**541.2**

Change in contingent consideration

The contingent considerations increased in the 2017 fiscal year, due to the acquisition of Grupo Holon, by EUR 6.5m. In the context of the agreement about the contingent consideration with the sellers of Grupo Holon, the Group is obliged to pay an amount of up to EUR 1.6m annually for a period of four years if the EBITDA for the fiscal years 2016 to 2019 reaches agreed limit values. Based on the long-term planning of Grupo Holon and the assessment of the management, we anticipate that the upper limit will be reached and the contingent consideration will amount to EUR 6.5m.

Sales of subsidiaries

The disclosures on the disposal and deconsolidation during the reporting period of Pharmacy Solutions Brazil, which was classified as a discontinued operation, can be found in the section on “Discontinued operations and disposal groups”.

Business combinations and disposals in fiscal year 2016

Business combinations

In the first six months of the fiscal year 2016, seven retail pharmacies in Ireland and a retail pharmacy in the United Kingdom 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 six months of the fiscal year 2016 is as follows:

EUR M	Total
Consideration transferred	11.5
Purchase price payment	9.9
Contingent consideration	1.6
Shares previously recognised using the equity method	0.0
Revaluation of shares previously recognised using the equity method	0.0
Cash purchase price	9.9
Fair value of assets and liabilities assumed	
Total assets	1.5
Property, plant and equipment	0.4
Deferred tax assets	0.1
Inventories	0.5
Trade receivables	0.4
Other assets	0.1
Total liabilities	0.4
Trade payables	0.3
Other liabilities	0.1
Goodwill	10.4
Non-controlling interests	0.0

Incidental acquisition costs of EUR 0.2m 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 1.6m was recognised.

The fair value of the receivables acquired comes to EUR 0.5m 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 acquisitions and the value of the experience among the employees acquired and is tax deductible in the amount of EUR 0.5m.

Revenue of EUR 2.5m and an earnings contribution of EUR 0.4m were attributable in the previous-year period to the companies acquired in the fiscal year 2016. If these companies had been acquired at the beginning of the reference period, they would have contributed EUR 10.0m to the revenues of the group. The contribution to the group's net profit would have been EUR 1.5m.

Change in contingent consideration

The contingent consideration fell 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 six months of the fiscal year 2016.

Non-recurring expenses in the consolidated income statement

In the first six months of the fiscal year 2017, non-recurring effects amounting to EUR 10.7m overall that weighed on earnings were incurred. These non-recurring effects essentially result from legal and consultancy expenses concerning the acquisiton and integration of new companies and/or into McKesson Corporation of EUR 13.9m. This was partly offset by the reclassification and valuation adjustment of a small entity within wholesale Germany in the amount of EUR 5.0m after the plan to sell was suspended.Non-recurring effects amounting to EUR 6.9m weighed on earnings in the reference period. These non-recurring effects essentially resulted from legal and consultancy expenses concerning the integration into McKesson Corporation.

Unscheduled impairment test

Pursuant to "IAS 36 – Impairment of Assets", a company must assess on each reporting date whether there is any indication that an asset could be impaired and in such a case must determine the recoverable amount of the asset or cash-generating unit. The assets to which IAS 36 applies were therefore subjected to an impairment test.

Goodwill and trade names are assumed to have an indefinite useful life. This also applies to acquired trade names, providing there is no intended time limit on their use. The impairment test is conducted according to the allocation of goodwill or trade names to a level of so-called cash-generating units. The composition of the cash-generating units has remained unchanged since the end of the year. If necessary, forecasts have been adjusted to reflect the latest findings and capitalisation interest rates have been recalculated.

An impairment loss is recorded at the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the two figures value in use and fair value, less costs of disposal. Value in use is generally applied as the measurement benchmark and corresponds to the present value of future cash flows which can be allocated to the unit under consideration, calculated using the discounted cash flow method.

This relies on the latest business planning approved by management for the next five years (detailed planning period). The planning projections are rolled forward to the following years using a constant growth rate. The growth rates after the detailed planning period are based on historical growth rates, independent studies on medium-term market development – comparing the projected performance of Celesio to that of the market – and the expectation for long-term growth in the healthcare market in light of demographic and other developments.

The planning is based on past developments and expectations of future market developments at the level of the cash-generating unit. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period as well as expected direct synergies in procurement resulting from the business combination with McKesson, which can be allocated to the individual cash-generating units.

On 23 June 2016 the UK voted to leave the European Union (EU) (BREXIT). The outcome of the referendum led to high uncertainty in the markets and to a devaluation of the British Pound. However, the future course, the next steps and the timeline of the negotiations with the EU are still under discussion. . Celesio does not consider that Brexit will necessarily bea triggering event for impairment testing, because at present the long-term effects of Brexit on the business environment of the Celesio Group cannot be foreseen.

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 recorded up to now 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 sale of the Brazilian entities was completed on 31 May 2016.

With effect from 8 August 2016, the small sub-unit of Wholesale Germany, which was classified as a disposal group in the short fiscal year 2015, was incorporated back into the continuing operations as the plan to sell was suspended.

Revaluation differences and disposals

The key information on the deconsolidation in the reporting period of the Wholesale Brazil unit, classified as discontinued operations, breaks down as follows:

EUR M	Pharmacy Solutions Brazil
Consideration received	0.0
Thereof non cash-effective	0.0
Currency reserve	−127.2
Gain/loss on disposal	−133.2
Total assets	380.8
Inventories	48.6
Trade receivables	225.2
Cash and cash equivalents	47.3
Other receivables and other assets	59.7
Total liabilities	374.7
Financial liabilities	113.5
Other provisions	38.2
Income tax liabilities	−0.3
Trade payables	194.6
Other liabilities	28.7

Assets and liabilities held for sale

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

EUR m	31/03/2016 Non-current assets held for sale	30/09/2016 Non-current assets held for sale
Intangible assets	0.0	**19.3**
Property, plant and equipment	0.4	**3.8**
Inventories	28.5	**0.0**
Trade receivables	233.0	**0.0**
Cash and cash equivalents	3.1	**0.0**
Other assets	79.4	**0.0**
Assets	**344.4**	**23.1**
Financial liabilities	135.2	**0.0**
Trade payables	235.2	**0.0**
Other liabilities	67.0	**0.0**
Equity and liabilities	**437.4**	**0.0**

Due to the planned sale of pharmacies in the United Kingdom, non-current assets are presented as held for sale in the Consumer Solutions division.

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

EUR M	Total 1st half 2016	Total 1st half 2017
Revenue	774.0	**260.3**
Cost of materials	−703.7	**−234.8**
Gross profit	70.3	**25.5**
EBITDA	−8.6	**−2.2**
EBIT	−8.6	**−2.2**
Profit/loss before tax from discontinued operations	−19.6	**−7.1**
Income taxes	4.0	**0.7**
Profit/loss after tax from discontinued operations	−15.6	**−6.4**
Profit/loss after tax from the measurement and disposals of discontinued operations	−1.6	**−146.9**
Net profit/loss from discontinued operations	**−17.2**	**−153.3**

Guarantees and other commitments, other financial obligations and contingent liabilities

On 30 September 2016, the group had issued guarantees and warranties of EUR 174.8m (31 March 2016 EUR 60.4m). The increase in the amount of EUR 114.4m was essentially due to process guarantees that were granted for tax risks in Brazil.

Tax risks in Brazil that related to the time after the majority takeover of Panpharma and Oncoprod in 2009 and 2011 respectively were transferred to the buyer upon the sale of the Brazil business with effect from 31 May 2016.

Contingent liabilities recognised for legal tax risks in connection with the business combination with Panpharma in 2009 in the amount of EUR 113.9m amounted on 30 September 2016 to EUR 20.8m (31 March 2016: EUR 18,3m.) These figures increased due to currency translation effects. To cover these legal and tax risks, an agreement was entered into with the former owners for the reimbursement of the risks originating in the time prior to the majority takeover in 2009. Celesio has possibilities to offset the claims with liabilities securing these potential reimbursement claims partially.

On the one hand, contingent liabilities recognised in 2009 and, on the other, reimbursement claims were not sold together with the Brazil business and are also not classified as held for sale.

There are also VAT risks in the amount of EUR 12.4m at Panpharma, Brazil, for which the buyer holds reimbursement rights. An outflow of resources is regarded as possible but not as highly probable.

In the Slovenian privatisation process, the second instance essentially confirmed the court judgement from the first instance in favour of Kemofarmacija, but rejected certain elements; the counterparty has lodged an appeal against the decision.

In September 2016 representatives from the German Federal Cartel Office searched the business premises of our German wholesaler GEHE Pharma Handel GmbH and some other German pharmaceutical wholesalers. We fully cooperated with the German Federal Cartel Office to support the investigation. At this early stage, results of this investigation are unknown to us. We currently have no indication for a material impact, if any, on Celesio’s earnings, financial and asset position.

Fair value measurement

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

ASSETS	31/03/2016		30/09/2016	
	Carrying amount	Fair value	Carrying amount	Fair value
EUR m				
Available-for-sale financial assets - equity instruments	1.0	1.0	**1.5**	**1.5**
Available-for-sale financial assets - debt instruments	3.6	3.6	**3.6**	**3.6**
Loans to investments	15.8	15.6	**20.7**	**20.6**
Other loans	271.6	271.5	**24.0**	**23.7**
Other financial assets	**292.0**	**291.7**	**49.8**	**49.4**
Other non-current assets	**13.1**	**13.1**	**20.8**	**20.8**

EQUITY AND LIABILITIES	31/03/2016		30/09/2016	
	Carrying amount	Fair value	Carrying amount	Fair value
EUR m				
Liabilities to banks	22.2	25.9	**21.0**	**24.4**
Promissory notes and bonds	498.4	519.6	**0.0**	**0.0**
Lease liabilities	2.7	2.7	**2.8**	**2.8**
Other financial liabilities	643.1	641.6	**924.2**	**922.5**
Non-current liabilities	**1166.4**	**1189.8**	**948.0**	**949.7**
Other non-current liabilities	**6.1**	**6.1**	**9.5**	**9.5**

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 September 2016, unlisted shareholdings with a carrying amount of EUR 0.9m (previous year EUR 0.4m) 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: Quoted prices in active markets for similar assets and liabilities or other valuation techniques, the inputs of which are based on observable market data.

Level 3: Valuation techniques in which all the relevant inputs 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
Other non-current liabilities
Derivative financial instruments - not designated as hedging instruments
Other liabilities
Fair value measurement on a non-recurring basis
Liabilities held for sale

	31/03/2016				30/09/2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	4.3	0.0	0.0	4.3	**4.2**	**0.0**	**0.0**	**4.2**
	0.0	19.7	0.0	19.7	**0.0**	**2.1**	**0.0**	**2.1**
	0.0	0.0	344.4	344.4	**0.0**	**0.0**	**23.1**	**23.1**

	31/03/2016				30/09/2016			
	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**	**6.5**	**6.5**
	0.0	0.4	0.0	**0.4**	**0.0**	**0.1**	**0.0**	**0.1**
	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	0.0	0.0	437.4	**437.4**	**0.0**	**0.0**	**0.0**	**0.0**

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 planned sales of pharmacies in the Consumer Solutions division which have been classified as non-current assets held for sale since this year. For a description of the measurement policy, please see → page 41.

Other comprehensive income after taxes

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

	1st half 2016			1st half 2017		
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	77.3	−21.8	55.5	**−81.3**	**20.0**	**−61.3**
Items that may be subsequently recycled through profit or loss						
Foreign currency translation posted directly to other comprehensive income	−21.3	0.0	−21.3	**−119.3**	**0.0**	**−119.3**
Release to profit or loss due to loss of control	0.0	0.0	0.0	**127.3**	**0.0**	**127.3**
Exchange differences	−21.3	0.0	−21.3	**8.0**	**0.0**	**8.0**
Other comprehensive income	**56.0**	**−21.8**	**34.2**	**−73.3**	**20.0**	**−53.3**

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. This covers the entire logistics chain, from purchasing merchandise through to selling to end consumers. In particular, the division includes activities relating to retail and mail-order pharmacies, as well as activities in brand partner shops and services in the field of medical care at home through the British company, Bupa. Through the acquisition of MDD Pharma at the beginning of the fiscal year, Celesio has also become one of the leading suppliers for retirement and care homes in Belgium.

  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”. With a wide selection of professional pharmaceutical services, marketing, training concepts and attractive purchasing conditions, the Holon Group in Portugal also belongs to the Pharmacy Solutions segment.
- 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 measures the success of the segments through EBIT calculated in accordance with IFRS. 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.

Transactions with related parties

Related parties as defined by IAS 24 (Related Party Disclosures) are legal entities and natural persons who can exercise influence 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 in particular 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.

Regarding financing transactions with McKesson Corporation please refer to financial position.

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:

EUR M	McKesson Corporation, San Francisco, USA 31/03/2016	McKesson Corporation, San Francisco, USA 30/09/2016		
Loans and receivables	7.3	**1.2**		
Liabilities	12.6	**18.2**		

EUR m	McKesson Corporation, San Francisco, USA 01/04/2015-30/09/2015	McKesson Corporation, San Francisco, USA 01/04/2016-30/09/2016		
Income	0.4	**0.3**		
Expenses	0.0	**2.7**		

	Subsidiaries of McKesson Corporation, San Francisco, USA		Joint ventures and associates of Celesio AG	
	31.03.2016	30/09/2016	31.03.2016	30/09/2016
	424.4	**569.1**	23.0	**92.1**
	698.6	**983.5**	0.9	**9.6**

	Subsidiaries of McKesson Corporation, San Francisco, USA		Joint ventures and associates of Celesio AG	
	01.04.2015-30.09.2015	01.04.2016-30.09.2016	01.04.2015-30.09.2015	01.04.2016-30.09.2016
	6.7	**11.4**	57.3	**27.1**
	3.0	**20.3**	6.5	**0.0**

Employees

At the end of the reporting period, Celesio employed 26,311 employees (full-time equivalents), of whom none (30/09/2015: 3,340) are employed at companies that are reported as discontinued operations. As at 30/09/2015, 28,633 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 17.2m (previous year income of EUR 83.8m). Other financial income also contains exchange gains amounting to EUR 48.3m (previous year EUR 8.7m) and exchange losses of EUR 28.5m (previous year EUR 95.8m). There were no impairment losses on loan receivables in the fiscal year or the previous year.

In accordance with Section 4 (2) and (3) of the DTPA, Celesio Holdings Deutschland GmbH & Co. KGaA (formerly McKesson Deutschland GmbH & Co. KGaA) guarantees the external shareholders a dividend of EUR 0.83 per share for the term of the contract and therefore also for the fiscal year 2016.

The net retained profit of Celesio AG for the fiscal year 2016 amounted to EUR 0.0 (previous year: EUR 709,297,135.00) and corresponds to the net profit/loss due to the profit transfer. In accordance with the resolution of the Annual General Meeting of 11 August 2015, the net retained profit of Celesio AG for the fiscal year 2014 in the amount of EUR 709,297,135.00 was transferred in full to other revenue reserves. In accordance with Section 4 (2) and (3) of the DTPA, Celesio Holdings Deutschland GmbH & Co. KGaA undertook to pay the external shareholders a dividend of EUR 0.83 per share for the term of the contract and therefore also for the fiscal year 2016.

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

Events after the reporting period

On 18 October 2016, the repayment of the business bond was completed at a nominal value in the amount of EUR 349.7m. The refinancing was managed by Celesio Holdings Deutschland GmbH & Co. KGaA.

Stuttgart, 21 November 2016.

The Management Board

Responsibility statement

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

STUTTGART, 21 November 2016

MARC OWEN
CHAIRMAN OF THE MANAGEMENT BOARD
LABOUR RELATIONS DIRECTOR

ALAIN VACHON
MEMBER OF THE BOARD FOR
FINANCE

TILO KÖSTER
MEMBER OF THE BOARD FOR
LEGAL AND COMPLIANCE

Contacts and Imprint

Celesio AG

Neckartalstraße 155
70376 Stuttgart, Germany
Germany
Telephone +49 (0) 711 5001-00
Fax +49 (0) 711 5001-1260
service@celesio.com
www.celesio.com

Investor Relations
investor@celesio.com

Communications
Telephone +49 (0) 711 5001-549
Fax +49 (0) 711 5001-543
media@celesio.com

This Interim Financial Report was published on 22 November 2016. It is produced in German and English and is available to download from the Internet at celesio.com, in the section entitled Investor Relations.
Rounding differences may occur in the Interim Financial Report due to presentation in EUR m.
The German version is legally binding.

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

Forward-looking statements

The present Interim 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.