

Letter to Shareholders 1st quarter 2004



celesio
the healthcare group

2004 Highlights

- New wholesale branches in Witry-lès-Reims/France and in Torres Novas/Portugal.
- Belgian pharmacies under the uniform name of *Lloydspharma*.



Key facts about Celesio

Tradition

Founder _____ Franz Ludwig Gehe
 Founded _____ 1835 in Dresden
 Core business _____ pharmaceutical distribution
 Head office _____ since 1981 Stuttgart

Key financial figures, 1st quarter 2004

Turnover _____ € 4.6 bn
 Turnover growth _____ 3.0 %* (2.1 % in €)
 EBITDA** _____ € 135.9 m
 EBITDA growth _____ 9.5 %* (8.4 % in €)
 Profit before tax _____ € 91.6 m
 Growth in profit before tax _____ 13.0 %* (12.7 % in €)
 Net profit _____ € 62.9 m
 Growth in net profit _____ 14.7 %* (14.4 % in €)
 Net profit per share _____ € 0.74

Employees*** _____ 24,481
 Wholesale branches _____ 124
 Pharmacies _____ 1,882

* Adjusted for exchange rate effects

** Earnings Before Interest, Tax, Depreciation and Amortisation

*** Converted to full-time equivalents



Celesio Group

May 2004

Dear Shareholders

In the 1st quarter of 2004, the Celesio Group continued its long-term growth. This development highlights the continued attractiveness of the pharmaceutical market. Turnover in local currency rose by 3.0 % and profit before tax by 13.0 %. For the 2004 financial year, the management board is expecting double figure profit growth in local currency.

Celesio benefits from the growing pharmaceutical market

Celesio continues its positive business development from 2003.

The pharmaceutical market is and will remain a growth market. The number of older people as a proportion of the total population is constantly increasing. Between 1960 and 2040, this proportion will more than double. Together with people's desire to grow old healthily, this results in a continuous increase in the demand for medicines and hence growth for Celesio. The business development of Celesio reflects this trend. In the 1st quarter of 2004, the group increased its turnover adjusted for exchange rate effects, improved its pre-tax profits at an even stronger rate and significantly raised profitability. Celesio therefore continues its positive business development from 2003.

The recovery of market growth which began in the 2nd half of 2003 – adjusted for the earlier realisation of sales in Germany and in the Netherlands – continued in the 1st quarter of 2004. The earlier realisation of sales arose from the impending charging of patients at the beginning of 2004. In both German wholesale and Dutch retail, this resulted in a shift of turnover into the 4th quarter of 2003 and a correspondingly lower turnover contribution in the 1st quarter of 2004.

83.6 % of turnover was generated outside Germany.

Celesio increases turnover and profit

Celesio increased its turnover in local currency in the 1st quarter of 2004 by 3.0 % (2.1 % in €) to € 4,618.7 m. EBITDA, adjusted for exchange rate effects, increased by 9.5 % and at the end of the quarter was € 135.9 m. Based on EBITDA, return on sales rose to 2.94 %, compared with 2.77 % in the same period last year.

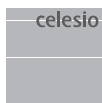
Profit before tax, adjusted for exchange rate effects, rose by 13.0 % (12.7 % in €) to € 91.6 m. Return on sales, based on profit before tax, increased by 18 basis points to 1.98 %. Profit before tax per share was € 1.08 after € 0.96 in the previous year.

In wholesale Celesio continued the growth trend which accelerated in the 2nd half of 2003, after adjustment for the earlier realisation of sales in Germany. Turnover rose in the 1st quarter of 2004, adjusted for exchange rate effects, by 2.1 % (1.5 % in €) to € 3,945.6 m. Growth was in line with comparable market growth. The increased gross profit ratio in the wholesale business and the continued improvement in the cost base resulted in an increase in pre-tax profits in local currency of 8.4 % (7.9 % in €) to € 71.0 m. Return on sales measured in terms of profit before tax increased to 1.80 %, against 1.69 % the previous year.

As a result of strong organic growth, turnover in retail reached the high level of € 673.1 m. With an increase of 8.4 % after adjustment for exchange rate effects (5.6 % in €), growth was considerably higher than comparable market growth. The increase in turnover and improvement in gross profit ratio in retail yielded an increase in pre-tax profits of 23.7 % in local currency (24.0 % in €) to € 19.2 m. Based on pre-tax profit, return on sales improved from 2.43 % in the previous year to 2.86 %.

In the 1st quarter of 2004, Celesio acquired or opened six pharmacies in the United Kingdom, Belgium, Ireland and Norway. In Italy, no large privatisation proceedings for municipal pharmacies were put out to tender, and in the unsatisfactory Czech pharmacy business, no new pharmacies were acquired. The pharmacy portfolio will be gradually expanded in the 2004 financial year. Celesio will only acquire pharmacies if the price is reasonable and the location promising.

The increased gross profit ratios in wholesale and retail and the continued improvement in the cost base resulted in an increase in pre-tax profits.



Celesio Group

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

Equity ratio at 31.2 % – Improved balance sheet structure

Celesio Group's balance sheet at the end of 1st quarter 2004 was sound. The equity ratio was 31.2 % compared with 29.3 % at 31 December 2003. Gearing improved from 0.79 to 0.74. This was primarily due to a fall in the current assets, resulting in a reduced balance sheet total of € 5,301.3 m. Exchange rate changes by contrast, in particular as a result of the rise of the British pound sterling (GBP) at the reporting date, increased the balance sheet total by € 125.9 m.

Fixed assets remained almost unchanged during the first three months of the year. Depreciation and the offset of goodwill amounted to € 69.9 m. This compares with additions totalling € 27.8 m. The rise in the price of the GBP at the reporting date resulted in higher fixed assets. During the 1st quarter of 2004, Celesio invested € 16.6 m in the underlying business and € 11.2 m in acquisitions. Investments were financed entirely from cash flow.

Despite the rise in the value of the GBP, current assets were reduced at 31 March 2004 compared with the end of the previous quarter. Celesio reduced stockholdings, which had been deliberately built up in some countries in the 4th quarter of 2003, by € 131.0 m, thereby bring-

Turnover, EBITDA and profit development, 1st quarter

	2003 Turnover	2004 Turnover	Change	Change adjusted for exchange rate effects	2003 EBITDA	2004 EBITDA	Change	Change adjusted for exchange rate effects
	€ m	€ m	%	%	€ m	€ m	%	%
Wholesale	3,888.1	3,945.6	1.5	2.1	88.8	91.3	2.8	3.3
Retail	637.2	673.1	5.6	8.4	46.7	52.1	11.5	13.3
Total pharmaceutical distribution	4,525.3	4,618.7	2.1	3.0	135.5	143.4	5.8	6.8
Others	0.0	0.0	0.0	0.0	- 10.1	- 7.5	26.6	26.6
Celesio Group	4,525.3	4,618.7	2.1	3.0	125.4	135.9	8.4	9.5

ing them back to the level typical for the season. Overall trade debtors fell. In Austria trade debtors increased due to the expiry of a sale of trade receivables programme. In the other countries however, in particular in Germany, trade debtors fell. The rise in value of the GBP at the reporting date resulted in an increase in current assets, totalling € 68.2 m. Net working capital decreased at 31 March 2004 by € 26.9 m, after adjustment for exchange rate effects.

Equity at 31 March 2004 was € 1,654.0 m compared with € 1,609.0 m at 31 December 2003. Net profit of € 62.9 m contrasted with the offset of goodwill totalling € 46.6 m. In terms of currency translation, particularly from GBP into €, foreign exchange effects in the amount of € 28.9 m impacted positively on equity.

Pension and other provisions at 31 March 2004 were slightly higher than on 31 December 2003. Trade creditors including liabilities on bills accepted and drawn fell due to the lower stock levels. Other liabilities fell in connection with the sale of receivables in the United Kingdom.

Due to the positive free cash flow situation, liabilities to banks fell at 31 March 2004 by € 113.7 m. Celesio diversified its financing structure by means of further promissory notes totalling € 52.9 m.

2003 Profit before tax and goodwill amortisation € m	2004 Profit before tax and goodwill amortisation € m	Change %	Change adjusted for exchange rate effects %	2003 Profit before tax € m	2004 Profit before tax € m	Change %	Change adjusted for exchange rate effects %
66.7	71.1	6.7	7.1	65.8	71.0	7.9	8.4
19.5	23.3	19.5	20.4	15.5	19.2	24.0	23.7
86.2	94.4	9.6	10.1	81.3	90.2	11.0	11.3
0.0	1.4	n.a.	n.a.	0.0	1.4	n.a.	n.a.
86.2	95.8	11.2	11.8	81.3	91.6	12.7	13.0



Celesio Group

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

Celesio increases profitability

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

The group's gross profit ratio rose by 26 basis points compared with the 1st quarter of 2003 to 10.30 %. This development was particularly attributable to the increasing proportion of the pharmacy business and its higher gross profit ratio. In retail the gross profit ratio rose by 45 basis points to 31.00 % and in wholesale by 8 basis points to 6.77 %.

Other operating expenses and income rose disproportionately in the 1st quarter of 2004, as is typical for the season. Income, which regularly reaches its lowest level in the 1st quarter, particularly contributed to this development. Personnel costs were in line with the level of the previous year.

Depreciation fell, primarily due to lower goodwill amortisation. Goodwill which had been acquired 15 years ago was fully amortised as of 31 December 2003. Other depreciation rose slightly due to investments over the last twelve months.

Income from investments improved, mainly due to the dividend payment by Andreae-Noris Zahn AG. The slight increase in interest rate levels, together with the investments and acquisitions of the previous year, resulted in a small rise in the interest result. Interest coverage (EBIT in relation to interest result) nevertheless improved to 5.35 compared with 4.97 in the 1st quarter of 2003.

Return on sales, based on pre-tax profit, rose in the 1st quarter of 2004 compared with the same period of 2003, by 18 basis points to 1.98 %. This was due to an improved gross profit ratio and strict cost management.

The income tax ratio decreased slightly from 32.4 % in the same period of 2003 to 31.3 %. Net profit, adjusted for exchange rate effects, rose by 14.7 % (14.4 % in €) to € 62.9 m.

Investments financed entirely from cash flow

Cash flow, adjusted for exchange rate effects, increased by 7.4 % (6.3 % in €) to € 86.0 m in the 1st quarter of 2004. Responsible for this disproportionately low rise was the fall in goodwill amortisation. Investments in the 1st quarter of 2004 were entirely financed from cash flow. Free cash flow rose to € 92.2 m as a result of the fall in net working capital.

Cash flow, 1st quarter

	2003 in € m	2004 in € m
Cash flow	80.9	86.0
Dividends paid	0.0	0.0
Cash flow after dividends paid	80.9	86.0
Income from the disposal of fixed assets	5.6	7.1
Investment in underlying business	- 18.3	- 16.6
Free cash flow before acquisitions and change in net working capital	68.2	76.5
Change in net working capital	56.5	26.9
Acquisitions	- 27.2	- 11.2
Free cash flow	97.5	92.2



Celesio Group

The pharmaceutical market is and will remain an attractive market for Celesio.

Profit growth expected to be in double digits for the full year 2004

The Celesio Group is assuming an upward trend in market growth for the whole of 2004 and anticipates a growth of around 5 %.

Demographic developments, pharmaceutical progress and people's desire to grow old healthily are the most significant factors driving growth in the pharmaceutical market, and therefore driving Celesio's growth too. Government measures to reduce costs in the healthcare system lead to temporary fluctuations in growth, but do not interrupt the positive trend of the pharmaceutical market. Celesio is extremely well positioned in this market due to its geographical diversification in 11 European countries, its vertical integration across all stages of pharmaceutical distribution and its many years of experience. Therefore, the pharmaceutical market is and will remain an attractive market for Celesio.

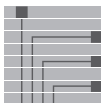
The management board anticipates that Celesio will continue to grow with its existing business throughout 2004. In wholesale, turnover in local currency is expected to increase in line with comparable market growth and in retail to outperform comparable market growth.

Growth in turnover, the continued improvement in the gross profit ratios and sustained cost management will positively impact on profit growth. The group therefore anticipates double figure growth in pre-tax profits, adjusted for exchange rate effects, for the full year 2004.

Key figures for the Celesio share, 1st quarter

	2003	2004	Change	Change adjusted for exchange rate effects
	€ per share	€ per share	%	%
EBITDA	1.47	1.60	8.4	9.5
Profit before tax and amortisation of goodwill	1.01	1.13	11.2	11.8
Profit before tax	0.96	1.08	12.7	13.0
Net profit	0.65	0.74	14.4	14.7

Growth market healthcare



Celesio Wholesale

Wholesale turnover by country

1st quarter

	2003	2004	Change	Change adjusted for exchange rate effects
	in € m	in € m	in %	in %
France	1,676.0	1,774.3	5.9	5.9
Germany	839.9	758.6	- 9.7	- 9.7
United Kingdom	699.5	750.0	7.2	8.9
Austria	239.8	236.3	- 1.5	- 1.5
Belgium	102.2	104.1	1.9	1.9
Ireland	86.3	95.2	10.3	10.3
Norway	109.9	86.4	- 21.4	- 10.3
Portugal	73.6	78.3	6.3	6.3
Czech Republic	31.1	31.7	1.9	5.8
Italy	29.7	30.7	3.3	3.3
Total	3,888.1	3,945.6	1.5	2.1

**Supplying pharmacies
everywhere with everything
pharmacies need**

Wholesale overview

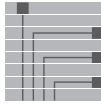
In the 1st quarter of 2004, Celesio increased turnover in the wholesale division by 2.1 % after adjustment for exchange rate effects. Profit before tax in local currency rose by 8.4 %. The division intensified its cooperation with pharmaceutical manufacturers, improved the cost base and introduced new customer loyalty concepts.

Improved gross profit ratio and efficiency gains drive profit growth

The upturn in the pharmaceutical wholesale market, which began in the 2nd half of 2003, adjusted for earlier sales realisation in Germany, continued in the 1st quarter of 2004. The cause of this earlier sales realisation was an increase in the demand for medicines in the 4th quarter of 2003 as a result of new financial charges to patients at the beginning of 2004.

The wholesale division increased turnover, adjusted for exchange rate effects, in the 1st quarter of 2004 by 2.1 % (1.5 % in €) to € 3,945.6 m. Specific circumstances in Germany and Norway affected growth. In Germany, earlier realisation of sales led to a shift in turnover. In Norway, different treatment of a distribution agreement reduced turnover, without affecting profit.

The improved gross profit ratio and efficiency gains resulted in an increase in pre-tax profits, adjusted for exchange rate effects, of 8.4 % (7.9 % in €) to € 71.0 m. Return on sales, based on pre-tax profit, was 1.80 % compared with 1.69 % the previous year.



Celesio Wholesale

Introduction of innovative customer loyalty concepts in a changing market environment

Business development in wholesale in the 1st quarter of 2004 was affected by changes in the market environment in some countries. Part of this was the introduction of practice fees and co-payment regulations in Germany, reductions in statutory wholesale margins in France, Germany and Austria, the reduction in amounts refunded for selected generic products in the United Kingdom, and the new regulation – without essentially affecting profit – of a special tax on prescription medicines in France.

Celesio more than compensated for the negative effects of government measures by working closely with pharmaceutical manufacturers, continually improving the cost base and introducing innovative customer loyalty concepts. In Germany for example, with the so-called Commitment Model, a special range of services was created for pharmacies, in which over 2,000 pharmacists were already taking part by the end of the 1st quarter of 2004. In Austria Herba Chemosan presented in autumn 2003 a marketing plan for 2004 to the pharmacies, to help pharmacists improve customer loyalty and boost turnover.

Wholesale information by country

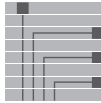
France – Strong growth in turnover with high-priced medicines

OCP increased its turnover in the 1st quarter of 2004 by 5.9 %. Growth was in line with the comparable market. Profit before tax fulfilled expectations.

Since 2003 high-priced medicines, such as those for the treatment of AIDS and cancer, can no longer only be dispensed in hospitals but also in pharmacies. For OCP this led to a strong growth in turnover in this medicinal product segment in the 1st quarter of 2004.

OCP utilised the potential of the generics market and gradually improved its market position in this field. OCP has been working with leading pharmaceutical manufacturers for many years and offers its customers an extensive range of generic products with attractive conditions.

In order to improve efficiency and customer service, OCP continued the streamlining of its branch network. In February 2004 the Reims and Charleville-Mézières branches were combined to form the new Champagne-Ardenne branch in Witry-lès-Reims. In June 2004 the Metz and Nancy branches will merge to form the new Metz-Nancy-Lorraine branch in Atton.



Celesio Wholesale

Germany – Extension of the logistics concept to all branches

The German pharmaceutical wholesale market was impacted in the first three months of 2004 by the German Healthcare Modernisation Act [Gesetz zur Modernisierung der gesetzlichen Krankenkassen], which came into force at the beginning of the year. Patients rescheduled their doctors appointments to fall into 2003, changing the doctors' prescribing behaviour as a result. This led throughout the market to an earlier realisation of turnover in the 4th quarter of 2003. The impact on GEHE Pharma Handel was over € 100 m. For this reason – as could be expected – turnover in the 1st quarter of 2004 fell by 9.7 %. Profit developed in line with expectations.

The logistics concept introduced in 2003 by GEHE Pharma Handel, in the framework of a pilot project to streamline in-house processes and improve capacity utilisation of the branches, showed its first clear signs of success. It will be introduced gradually into all regions and is to include all branches by 2005.

With the so-called Commitment Model, GEHE Pharma Handel has created a special range of services for pharmacies. This programme is based on the vertical cooperation of the market participants – industry, wholesale and pharmacy – and is intended to strengthen the entire distribution chain. At the heart of these activities is the end user. By the end of the quarter, more than 2,000 pharmacies were already taking part. This demonstrates the degree of interest shown by German pharmacists in the model.

United Kingdom – High turnover growth in generic products

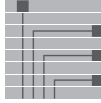
The turnover of AAH in the 1st quarter of 2004 rose by 8.9 % in local currency (7.2 % in €) and was in line with comparable market growth. AAH increased profit before tax at a considerably higher rate than turnover, thereby exceeding expectations. The reason for this was strict cost management, increased sales of generic products, particularly with customers operating their own pharmacy chains, and the introduction of programmes to improve efficiency.

Expiring patents on original preparations and the prescribing behaviour of doctors caused the British generics market to expand in the 1st quarter of 2004. AAH considerably increased turnover in the generics segment, particularly with large customers. AAH intends to consistently improve its market share in this growing segment by means of attractive conditions and an extensive range.

Austria – Consistent cost management

The turnover of Herba Chemosan in the 1st quarter of 2004 fell by 1.5 %. Adjusted for the changeover of a distribution agreement from turnover to commission basis, turnover developed better than the market. The market was affected by statutory interventions, which came into force on 1 January 2004. The pre-tax profit of Herba Chemosan showed positive growth. Consistent cost management in particular contributed to this.

In autumn 2003, Herba Chemosan presented an annual marketing plan for 2004 to the Austrian pharmacies, offering them an extensive service package. With support provided in the areas of marketing, cooperation and vocational training, the loyalty of end users to the pharmacies is to be enhanced and the pharmacies' turnover increased. For example, pharmacies promote for the first time – accompanied by theme-related brochures and window displays – special occasions such as Valentines Day, Easter and Mother's Day. The offer was received with great interest by pharmacists.



Celesio Wholesale

Norway – Modernised branch makes an impact

The turnover of NMD Grossisthandel (NMD) in the first three months of 2004 fell in local currency by 10.3 % (21.4 % in €) compared with the previous year. The turnover figure was reduced – without impact on profit – due to the change in treatment of a Norwegian distribution agreement. Adjusted to take account of this, turnover was at the previous year's level.

Pre-tax profit showed positive growth. The higher productivity of the modernised branch in Oslo is beginning to make an impact.

Belgium – New logistics concept means branches are better utilised

The turnover growth of PHARMA BELGIUM in the 1st quarter of 2004 was 1.9 % and therefore below comparable market growth. The market environment was characterized by intense discount competition.

The restructuring measures implemented in the 2003 financial year improved operational processes, reduced costs and had a clear positive impact on profit before tax in the 1st quarter of 2004.

On 1 March 2004 a new logistics concept was introduced to improve capacity utilisation in the Liege and Brussels branches. In particular, it optimises the handling of overnight orders, and reduces the office hours of the Liege branch.

Ireland – Turnover growth continues

CAHILL MAY ROBERTS (CMR) showed a growth in turnover of 10.3 % in the first three months of 2004, underperforming the comparable market.

The growth in profit before tax in the 1st quarter of 2004 was in line with expectations.

Portugal – Turnover growth outperforms market growth

OCP PORTUGAL clearly increased its turnover in the 1st quarter of 2004 by 6.3 %. This is ahead of market growth. The market share of generic products rose sharply compared with the previous year and now amounts to approximately 6 %. Profit before tax grew more strongly than turnover.

The streamlining of the branch network in the central southern region was concluded in the 1st quarter of 2004. As a result of restructuring, OCP PORTUGAL improved efficiency, productivity and customer service. The Lisbon branch is now located in a modern building and conveniently placed for transport. The former branches Torres Novas and Santarem have been merged in a new branch in Torres Novas.

Czech Republic – Improved productivity in the branches

GEHE Pharma Praha achieved a turnover growth of 5.8 % in the 1st quarter of 2004 in local currency (1.9 % in €). The Czech pharmaceutical wholesale market experienced strong competition. Growth in pre-tax profits was in line with expectations.

Productivity showed marked improvement in all branches.

Italy – Turnover above previous year's level

In a stagnating market the turnover of AFM was slightly above the level of the previous year. Profit before tax grew in line with expectations.



Celesio Retail

Retail turnover by country

1st quarter

	2003	2004	Change	Change adjusted for exchange rate effects
	in € m	in € m	in %	in %
United Kingdom	447.7	472.8	5.6	7.2
Norway	72.4	69.1	- 4.6	8.9
Italy	48.1	51.3	6.8	6.8
Ireland	24.4	26.4	8.4	8.4
Netherlands	20.2	25.1	24.0	24.0
Belgium	11.8	16.9	42.9	42.9
Czech Republic	12.7	11.5	- 9.0	- 5.5
Total	637.2	673.1	5.6	8.4

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

Retail overview

Celesio's retail business achieved strong organic turnover growth in the 1st quarter of 2004, with growth again ahead of the market. The refurbished pharmacies developed better than expected.

Retail increases turnover by 8.4 % and profit by 23.7 %

The pharmacy market continued its growth trend in the 1st quarter of 2004. However the retail markets in Ireland, the Czech Republic and the Netherlands, were impacted by a large number of new pharmacies being opened.

The retail division achieved turnover of € 673.1 m in the 1st quarter of 2004, corresponding to a growth in local currency of 8.4 % (5.6 % in €). Those pharmacies which were refurbished on the basis of nationwide standardised design concepts or relocated to more attractive locations in 2003, developed better than expected. They made a crucial contribution to organic growth, which outperformed the market.

Profit before tax reached a high level, at € 19.2 m. Adjusted for exchange rate effects, this represents an increase of 23.7 % (24.0 % in €) over the previous year. Return on sales therefore rose from 2.43 % in the previous year to 2.86 %.

The profit development clearly demonstrates the ability of Celesio Retail to more than compensate for the impact of government measures in individual countries. In the United Kingdom, reimbursement for certain generic products was reduced. In the Netherlands, all market participants agreed to a reduction in the price of generic products after the increase in the clawback was declared ineffective through a court judgement in December 2003. In Belgium, the clawback, which had been increased on 1 July 2003, was reduced to its original level on 1 January 2004.



Celesio Retail

Celesio locates pharmacies close to the flow of prescriptions

In respect of the liberalisation of licensing for pharmacies demanded by the British Office of Fair Trading in 2003, the Department of Trade envisaged a partial easing of the licensing process. This is, for instance, to apply to pharmacies in large suburban supermarkets and to pharmacies with very long opening hours. Lloydsparmacy has for many years located its pharmacies close to the flow of prescriptions such as near to medical practices or in health centres. With this location policy, there is little competition between Lloydsparmacy and supermarkets.

Celesio owns new pharmacies in the United Kingdom, Belgium, Ireland and Norway

Celesio retail was operating 1,882 pharmacies in seven European countries at the end of the 1st quarter of 2004. In the United Kingdom, Belgium, Ireland and Norway, Celesio acquired four pharmacies and opened two new pharmacies. As part of the ongoing location optimisation, the group sold or closed six pharmacies.

Retail information by country

United Kingdom – High turnover growth in the prescription segment

The turnover of Lloydspharmacy rose in the 1st quarter of 2004, adjusted for exchange rate effects, by 7.2 % (5.6 % in €). In the prescription segment in particular, turnover showed strong growth. This development was due to the continued increase in the average value per prescription and to the increasing number of prescriptions handled. Turnover of non-prescription medicines also grew ahead of the comparable market. Pre-tax profit rose at a considerably higher rate than turnover and was in line with expectations.

During 2004, the British National Health Service is renegotiating its contract with the nation's pharmacies. The new contract is, inter alia, intended to improve the level of consultation services provided by pharmacists through incentives and to make the pharmacy an integral part of the healthcare system. Lloydspharmacy views this development with optimism. As a market leading provider of state-of-the-art services, Lloydspharmacy has for many years considered the provision of appropriate advice, tailor-made to the individual needs of customers, to be of fundamental importance. Therefore in 2003 and the 1st quarter of 2004 Lloydspharmacy, installed consultation areas in almost all of its pharmacies, to offer a wide range of services such as diabetes and cholesterol tests and individual customer advice. The new contract is expected to be concluded and introduced in the 2nd half of 2004.

Lloydspharmacy is leading in the planning and development of health centres. Patients there are offered a wide range of health services under one roof. The planning of these centres is carried out in close cooperation with doctors, who appreciate the high level of competence of the Lloydspharmacy pharmacists. Two new health centres are planned to be opened in August and December 2004.



Celesio Retail

Norway – Turnover growth outpaces market growth

Vitusapotek increased turnover in local currency by 8.9 % (– 4.6 % in €), thereby outpacing comparable market growth. However, the reduction in the price of medicines introduced in 2003, the introduction of a reference price system, and the release of non-prescription medicines for other distribution channels had the effect of reducing turnover in the 1st quarter of 2004.

Profit before tax exceeded expectations. This is essentially attributable to strict cost management.

Italy – High customer satisfaction

Celesio's Italian pharmacies achieved a turnover growth of 6.8 %, surpassing the weak market growth. Turnover growth was hampered because since 2003 some high-priced medicines in the regions of Emilia-Romagna and Tuscany are only dispensed in hospital pharmacies or by the local health authorities. Patients with long-term high medical costs are particularly affected by this. Growth in pre-tax profit was in line with expectations.

The Milan pharmacies carried out a customer satisfaction survey. The results showed that customers are extremely satisfied with the services provided. Based on this, the range of services is to be further improved and expanded, such as fitting out all of Celesio's Italian pharmacies to accommodate disabled customers.

Ireland – Turnover above previous year's level

Unicarepharmacy achieved a turnover growth of 8.4 %. The market is still impacted by a large number of new pharmacies being opened. The prescription medicines segment again showed strong growth. Profit before tax is in line with expectations.

Netherlands – Turnover growth in double digits

With its pharmacies in the Netherlands, Celesio achieved a turnover growth of 24.0 % in the 1st quarter of 2004. Reductions in the price of generic products had the effect of reducing turnover. Organic growth in turnover was in line with the comparable market growth, which slowed down compared with the 4th quarter of 2003. The withdrawal of some prescription medicines from eligibility for reimbursement on 1 January 2004 had triggered a rapid growth in the preceding quarter, due to turnover being brought forward. At the end of March 2004, market growth revived again. The growth of pre-tax profits exceeded expectations.

Dutch retail introduced a product placement programme in its pharmacies to improve sales of OTC products. The programme has already been successfully introduced by Celesio in a similar form in other countries.



Celesio Retail

Belgium – Pharmacies will in future be called *Lloydspharma*

In the first three months of 2004, Lloydspharmacy Belgium achieved a turnover growth of 42.9 %. Customer-oriented services resulted in organic growth which surpassed the comparable market. Pre-tax profit grew in line with expectations.

The year 2004 is marked by the establishment of a uniform brand. From 15 April 2004, all pharmacies will be renamed and bear the name *Lloydspharma*. By the end of the year all pharmacies will be gradually redesigned in line with a uniform presentation. This will make them more strongly recognisable for the public.

Czech Republic – Cost base considerably reduced

Turnover of Lékárny Lloyds was below the market with a decline, adjusted for exchange rate effects, of 5.5 % (9.0 % in €). Pre-tax profit improved. Considerable savings were achieved by reorganisation measures and the reduction of central functions.

Yours sincerely
Celesio AG

The management board

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

Vorsitzender des Aufsichtsrats:
Prof. Dr. Theo Siegert

Sitz:
Stuttgart, AG Stuttgart, HRB 9517

Interim statements

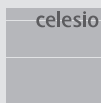
The interim statements of Celesio for the 1st quarter of 2004 is based on the German Standardisation Board Standard No. 6 [Deutsches Rechnungslegungs-Standard Nr. 6], Interim reporting and the relevant provisions of the German Commercial Code [Handelsgesetzbuch] and Companies Act [Aktiengesetz].

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

Profit and loss account, 1st quarter

	2003 € m	2004 € m
Turnover	4,525.3	4,618.7
Cost of raw materials, consumables and supplies, and of purchased merchandise	4,071.0	4,143.1
Gross profit	454.3	475.6
Other operating expenses and income	– 112.9	– 121.0
Personnel expenses	216.7	221.0
Income from investments	0.7	2.3
EBITDA	125.4	135.9
Amortisation of goodwill	4.9	4.2
Amortisation of remaining intangible assets and depreciation of tangible assets	18.7	19.1
EBIT	101.8	112.6
Interest result	– 20.5	– 21.0
Profit from ordinary activities	81.3	91.6
Taxes on income and profit	26.3	28.7
Net profit	55.0	62.9
Minority interest in profits	– 0.9	– 0.8
Consolidated retained earnings	54.1	62.1

In the 1st quarter of 2004, Celesio employed 24,481 employees (converted to full-time equivalents), compared with 25,223 employees the previous year.



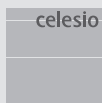
Celesio Group

Balance sheet

	31.03.2003 € m	31.12.2003 € m	31.03.2004 € m
Assets			
Fixed assets			
Intangible assets	1,782.9	1,703.8	1,705.0
Tangible assets	385.5	394.2	401.5
Financial assets	63.6	108.6	107.6
	2,232.0	2,206.6	2,214.1
Current assets			
Stocks	1,161.0	1,401.6	1,270.6
Trade debtors and other assets	1,598.6	1,814.7	1,733.8
Bank and cash balances	13.7	14.0	10.8
	2,773.3	3,230.3	3,015.2
Prepaid expenses	75.2	63.9	72.0
	5,080.5	5,500.8	5,301.3
Equity and Liabilities			
Equity	1,618.1	1,609.0	1,654.0
Provisions			
Provisions for pensions and similar obligations	85.3	86.4	87.0
Other provisions	322.5	374.9	381.4
	407.8	461.3	468.4
Liabilities			
Liabilities to banks	1,160.3	1,011.3	897.6
Promissory notes		243.9	296.8
Trade creditors	1,437.2	1,573.0	1,507.1
Liabilities on bills accepted and drawn	186.0	229.8	199.0
Remaining liabilities	265.5	364.7	270.7
	3,049.0	3,422.7	3,171.2
Deferred income	5.6	7.8	7.7
	5,080.5	5,500.8	5,301.3

Equity development

	Issued capital € m	Capital- reserves € m	Revenue reserves € m	Retained earnings € m	Minority interests € m	Equity € m
At 01.01.2004	217.7	1,113.0	11.7	249.4	17.2	1,609.0
Addition to reserves			172.9	- 172.9		0.0
Goodwill set-off			- 46.6			- 46.6
Translation adjustment			28.9			28.9
Net profit				62.1	0.8	62.9
Minority interests					- 0.2	- 0.2
At 31.03.2004	217.7	1,113.0	166.9	138.6	17.8	1,654.0
At 01.01.2003	217.7	1,113.0	58.1	236.0	14.9	1,639.7
Addition to reserves			163.7	- 163.7		0.0
Goodwill set-off			- 46.3			- 46.3
Translation adjustment			- 29.7			- 29.7
Net profit				54.1	0.9	55.0
Minority interests					- 0.6	- 0.6
At 31.03.2003	217.7	1,113.0	145.8	126.4	15.2	1,618.1



Celesio Group

Cash flow statement, 1st quarter

	2003 € m	2004 € m
Net profit	55.0	62.9
Fixed asset depreciation	23.6	23.3
Profit on sale of tangible assets and change in long-term provisions	2.3	- 0.2
Cash flow	80.9	86.0
Change in remaining provisions	1.2	3.3
Other income and expenses not involving the movement of funds	0.5	0.1
Profit on disposal of financial assets	- 0.2	0.0
Changes in stocks, debtors, other assets and prepayments	240.9	270.3
Changes in short-term liabilities and accruals	- 249.0	- 267.9
Net cash flow from operations	74.3	91.8
Proceeds of sale of fixed assets	5.6	7.1
Investment in fixed assets	- 47.2	- 26.4
Net cash flow from investment activities	- 41.6	- 19.3
Change in long-term liabilities	- 38.3	- 75.9
Net cash flow from financing activities	- 38.3	- 75.9
Change in funds due to payments	- 5.6	- 3.4
Change in funds due to exchange rates	- 0.4	0.2
Funds on 01.01.	19.7	14.0
Funds on 31.03.	13.7	10.8

Information on Celesio shares

ISIN Code _____ DE0005858005

WKN Code _____ 585 800

SE Code _____ CLS

Reuters Code _____ CLSG

Bloomberg Code _____ CLS GR

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 E-mail service@celesio.com

Investors' Calendar 2004/2005

Investors' conference, New York	_____	13 January 2004
Investors' conference, Frankfurt	_____	21 January 2004
Investors' conferences, New York	_____	4 – 5 February 2004
Roadshow, Europe	_____	March 2004
Balance sheet press conference, Stuttgart	_____	18 March 2004
Analysts' and investors' conference, London	_____	25 March 2004
Investors' conference, Frankfurt	_____	29 March 2004
Annual general meeting, Stuttgart	_____	29 April 2004
Dividend payment	_____	30 April 2004
Roadshow, Scandinavia	_____	May 2004
Letter to Shareholders, 1 st quarter 2004	_____	12 May 2004
Roadshow, Europe	_____	July 2004
Letter to Shareholders, 1 st half-year 2004	_____	16 August 2004
Roadshow, USA	_____	October 2004
Roadshow, Europe	_____	November 2004
Letter to Shareholders, 1 st – 3 rd quarter 2004	_____	15 November 2004
Annual general meeting, Stuttgart	_____	29 April 2005

Up-to-date information on the Investors' Calendar
 is available on www.celesio.com



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celesio

the healthcare group