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Celesio AG
Half-year report as of 30 June 2014

More Positive Lives

Events 2014

First quarter

- McKesson new majority shareholder
- Profit matches last year's figure
- EPN 2014 roll-out started

Second quarter

- Domination and profit and loss transfer agreement approved and put to the vote at the Annual General Meeting
- New Chairman of the Management Board and Chief Financial Officer appointed
- Unscheduled impairment losses in Brazil to the amount of EUR 80m

Third quarter

Fourth quarter

About Celesio Group

Celesio is a leading international wholesale and retail company and provider of logistics and services to the pharmaceutical and healthcare sectors. The proactive and preventive approach ensures that patients receive the products and support that they require for optimum care.

We operate in 14 countries around the world and employ some 39,000 employees. Every day, we look after over 2 million customers at just under 2,200 pharmacies of our own and around 4,300 participants in brand partnership schemes. With approximately 130 wholesale branches, we supply some 65,000 pharmacies and hospitals every day with up to 130,000 pharmaceutical products. The services benefit a patient pool of about 15 million per day.

Celesio at a glance

KEY FIGURES OF THE CELESIO GROUP		1st half of 2013	1st half of 2014	Change on EUR basis %	Change in local currency %
Continuing operations					
Revenue	EUR m	10,733.0	**10,930.8**	1.8	3.0
Gross profit	EUR m	1,167.3	**1,168.5**	0.1	1.0
adjusted [1]	EUR m	1,167.4	**1,168.5**	0.1	1.0
EBITDA	EUR m	267.5	**235.1**	– 12.1	– 12.7
adjusted [1]	EUR m	266.7	**260.9**	– 2.2	– 2.7
EBIT	EUR m	202.9	**70.4**	– 65.3	– 73.7
adjusted [1]	EUR m	202.5	**199.1**	– 1.7	– 2.7
Profit before tax	EUR m	135.7	**33.7**	– 75.2	/
adjusted [1]	EUR m	135.3	**162.5**	20.1	/
Net profit/loss	EUR m	87.8	**– 15.0**	/	/
adjusted [1]	EUR m	87.5	**107.2**	22.5	/
Earnings per share (basic)	EUR	0.49	**– 0.09**	/	/
Earnings per share (basic), adjusted [1]	EUR	0.49	**0.54**	10.2	/
Cash outflow from operations	EUR m	31.8	**– 168.3**	/	/
Cash inflow/outflow from investments	EUR m	11.0	**– 60.1**	/	/
Free cash flow	EUR m	– 14.2	**– 307.6**	– 100	/
Employees (full-time equivalents) [3]		28,539	**28,669**	/	/
Retail pharmacies [3]		2,177	**2,188**	/	/
Wholesale branches [3]		132	**133**	/	/
Discontinued operations					
Net profit/loss	EUR m	– 2.4	**– 0.8**	66.7	/
Earnings per share (basic)	EUR	– 0.01	**0.00**	100.0	/
Employees (full-time equivalents) [3]		0	**/**	/	/
Continuing and discontinued operations					**/**
Balance sheet total	EUR m	7,598.3 [2]	**7,547.4 [3]**	– 0.7	/
Equity capital	EUR m	2,192.0 [2]	**2,851.2 [3]**	30.1	/
Equity ratio	%	28.8 [2]	**37.8 [3]**	/	/
Net financial debt	EUR m	1,363.4 [2]	**1,053.4 [3]**	– 22.7	/
Net financial debt/EBITDA adj. [1] [4]		2.5 [2]	**1.9 [3]**	/	/
Employees (full-time equivalents) [3]		28,539	**28,669**	/	/
Employees [3]		38,407	**38,623**	/	/
Net profit/loss	EUR m	85.4	**– 15.8**	/	/
Earnings per share (basic)	EUR	0.48	**– 0.09**	/	/

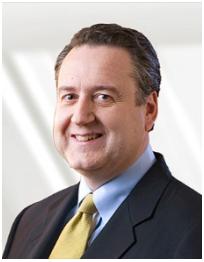
1) Adjusted for special effects from defined non-recurring expenses and income (including tax effect).
2) Closing figures as at 31 December 2013.
3) Closing figures at the end of the reporting period.
4) Based on EBITDA of the last twelve months.

To our shareholders

Celesio AG

1st Half of 2014

Letter from the Chairman of the Management Board



Dear Shareholders,
Ladies and gentlemen,

I am delighted to have the opportunity to welcome you in my role as Chairman of the Management Board of Celesio AG and am looking forward to reporting on the company's further development from now on. Together with my colleagues Alain Vachon and Stephan Borchert, we will continue to pursue our strategic targets with great purpose.

We are satisfied with developments on the operational performance in the first half of 2014. Revenue in the first half was slightly up compared to prior-year period and even increased broadly once the figures are adjusted for currency and consolidation effects. Our company's operating profitability was also within our expected range. Earnings were impacted in particular by non-recurring effects due to consulting and integration costs in conjunction with the takeover by the McKesson Corporation.

Celesio can look back on six months that have been full of changes. The adjustments to the shareholder structure have given valuable impetus to our collaboration with McKesson. We are pleased that the domination and profit and loss transfer agreement with Dragonfly GmbH & Co. KGaA, a subsidiary of the McKesson Corporation, was approved by a significant majority at this year's ordinary Annual General Meeting. This will allow us to generate value by exploiting the potential for synergies once the agreement has been registered in the Commercial Register, which is expected to be done by the end of the fiscal 2014.

As well as the company itself, its partners, customers and employees will also be able to benefit after the agreement is registered from the added value generated by sharing procurement activities, expanding the product range and opening up new sales channels. Future development will hinge on how quickly the international platform can be set up. A coordination team will therefore be tasked with identifying areas of potential, laying the groundwork and then effecting a gradual alignment with McKesson's organisational structure.

We would like to thank our shareholders, customers and business partners and above all our employees for the trusting relationship which we enjoy and which we look forward to continuing.

Stuttgart, July 2014

Marc Owen
Chairman of the Management Board

Stock market environment & Celesio share

Stock market environment

The stock market environment was distinctly mixed in the first half of 2014. Initial euphoria at the beginning of the year gave way to concerns about future economic growth in China and the emerging countries. In February, this downward trend was reinforced by disappointingly weak economic figures from the USA. Prices on equity markets only posted substantial gains once more in the second half of the month. Uncertainties concerning the mounting crisis in the Crimea and possible geopolitical consequences associated therewith depressed performance over the rest of the first quarter.

After losses on share price indexes at the beginning of the second quarter, there was a shift to a stable upward trend in the performance of the indexes. Furthermore, general monetary conditions helped to sustain this trend – both the US and European central banks adhered to their expansive monetary policies.

The DAX progressively chased the 10,000 point mark and exceeded it for the first time on 5 June 2014. On 10 June 2014, the DAX closed at 10,028 points – its six-month high; it posted its lowest level so far this year, at 9,017 points, on 13 March 2014. It closed the first half of 2014 some 5% up on the previous year's closing value, at 9,833 points.

The performance of the MDAX, on which the Celesio share is listed, followed a similar course. However, it ended the first half of 2014 at 16,816 points, slightly up (2%) on its level at the end of 2013.

Celesio share price performance and takeover offer

The performance of the Celesio share was heavily influenced by the takeover by McKesson in the first half of the year and was largely able to decouple from developments on the MDAX and DAX. Influenced by the takeover situation and much speculation among market participants, the share price performed correspondingly positively. While the share price was very volatile in January, it rose to EUR 25.64 in February, falling back to EUR 24.81 by 31 March 2014.

By mid-May 2014, the share price was persisting on a lateral course at a level of EUR 25.00. It then increased to a year's high of EUR 26.35. Celesio shares ended the first half of 2014 at a price of EUR 26.00 on 30 June 2014.

As of 30 June 2014, the market capitalisation was EUR 5.28bn (prior year EUR 2.84bn). In the reporting period, the average number of Celesio shares traded on Xetra stood at 423,979 per day, which is 7% down on the prior-year period of 453,885 shares per day.

CELESIO SHARE PRICE PERFORMANCE, DAX, MDAX

XETRA CLOSING PRICES 02/01/2014 – 30/06/2014 (ONLY TRADING DAYS),

INDEXED TO PRICE OF CELESIO AG

History of the takeover offer

The takeover offer by McKesson started on 5 December 2013. It was subject to the condition that McKesson succeeded in achieving a minimum acceptance threshold of 75% of the Celesio shares on a fully diluted basis by the deadline of 9 January 2014. Since the threshold of 75% was not reached, the takeover offer could not be completed.

On 23 January 2014, Franz Haniel & Cie. GmbH announced that they had held 75.99% of the shares in Celesio AG on 22 January 2014. Likewise, on 23 January 2014, McKesson announced that the company has a stake of around 75% on a fully diluted basis (following the conversion of Celesio convertible bonds into shares) in Celesio by means of various share purchase agreements. Firstly, McKesson (or its company Dragonfly GmbH & Co KGaA) had concluded a share purchase agreement for the acquisition of 75.99% (undiluted) with Franz Haniel & Cie. GmbH. Secondly, McKesson had concluded purchase agreements with the Elliott hedge fund group for the acquisition of 4,840 of the 7,000 convertible bonds maturing in October 2014 and for the acquisition of 2,180 of the 3,500 convertible bonds maturing in April 2018.

McKesson also intended to issue another voluntary takeover offer via its subsidiary Dragonfly with a consideration of EUR 23.50 per share. This voluntary takeover offer started on 28 February 2014 and ended on 2 April 2014 and was not subject to any closing conditions.

On 7 April 2014, the McKesson Corporation announced the result of the voluntary takeover offer. The takeover offer for a total of 1,567,026 Celesio shares was accepted up to the reporting date. This equates to a stake of 0.77% of the share capital issued on the reporting date and of the voting rights in Celesio.

McKesson and the companies attributable to it therefore held 153,898,831 Celesio shares on the reporting date. This equates to a stake of 75.75% of the share capital issued on the reporting date and of the voting rights in Celesio.

On 25 April 2014, the McKesson Corporation announced the result of the voluntary takeover offer. At the end of the extended acceptance period, on 22 April 2014, 24:00 hours, the bidder held 152,331,805 Celesio shares; this equates to a stake of 74.97% of the share capital issued on the reporting date and of the voting rights in Celesio. These voting rights are attributable to Dragonfly Verwaltungs GmbH, Cougar I UK Limited, Cougar II UK Limited, Cougar III UK

Limited, McKesson US Finance Corporation and McKesson Corporation, each entity acting jointly with the bidder within the meaning of Section 2 (5) of the German Securities Acquisition and Takeover Act, in accordance with Section 30 (1) Sentence 1 No. 1 of the German Securities Acquisition and Takeover Act.

McKesson International Holdings IV S.à.r.l., an entity acting jointly with the bidder within the meaning of Section 2 (5) of the German Securities Acquisition and Takeover Act, also held 972,040 Celesio shares on the reporting date; this equates to a stake of 0.48% of the share capital issued on the reporting date and the voting rights in Celesio. These voting rights are attributable to McKesson International Holdings, McKesson International Bermuda IP2A Limited and McKesson Corporation, each entity acting jointly with the bidder within the meaning of Section 2 (5) of the German Securities Acquisition and Takeover Act, in accordance with Section 30 (1) Sentence 1 No. 1 of the German Securities Acquisition and Takeover Act. McKesson International Holdings IV S.à.r.l. has accepted the takeover offer for the 972,040 Celesio shares held by it.

The takeover offer for a total of 1,946,081 Celesio shares was accepted up to the reporting date. This equates to a stake of 0.96% of the share capital issued on the reporting date and of the voting rights in Celesio.

The total number of the Celesio shares held by the bidder and entities acting jointly with it and their subsidiaries on the reporting date plus the Celesio shares for which the takeover offer has been accepted up to the reporting date, comes to 154,277,886 Celesio shares, whereby shares that are subject to several of the issues mentioned above are only counted once. This equates to a stake of 75.93% of the share capital issued on the reporting date and of the voting rights in Celesio.

Exercise of conversion rights

On 28 January and on 12 February 2014, Celesio AG and Celesio Finance B.V. announced that a change of control had occurred in accordance with the issue conditions of their 3.75% convertible bonds maturing in October 2014 and their 2.50% convertible bonds maturing in April 2018.

The control date within the meaning of Section 11 (d) of the respective issue conditions for the convertible bonds was 10 and 24 March 2014 respectively.

Because of the change of control, creditors of the convertible bonds were entitled to demand premature repayment of their convertible bonds or to exercise their conversion right on the basis of adjusted conversion prices (EUR 21.66 and EUR 19.05 respectively).

On 11 April 2014, Celesio Finance B.V. announced that it will make use of its right to cancel all outstanding securities of its 3.75 % convertible bonds maturing on 29 October 2014 as well as all outstanding securities of its 2.50% convertible bonds maturing on 07 April 2018 pursuant to Section 5(c) of the respective issue conditions. The total nominal amount of the outstanding convertible bonds has fallen to less than 15% of the total nominal amount of the bonds which were originally issued. The date chosen for repayment of both convertible bonds was 12 May 2014.

Several conversion declarations were received at Celesio AG up to and including 6 May 2014, the last date for conversion. This resulted in the issue of 33,120,932 new shares on the basis of the conversion rights exercised. The share capital of Celesio AG was increased accordingly by EUR 42,394,792.96 to EUR 260,122,792.96. The contingent capital was reduced accordingly. Cash compensation payments totalling EUR 33,228,875.39 were paid up to the appointed date, for conversion declarations relating to the convertible bond maturing on 7 April 2018, which could not be serviced with shares. The outstanding nominal volume of the two convertible bonds still totalled EUR 1.4m as of 6 May 2014 (of which convertible bond 2014: EUR 1.0m; convertible bond 2018: EUR 0.4m). The convertible bonds were repaid on 12 May 2014 at their fixed nominal value (i.e. EUR 100,000 and EUR 50,000 each convertible bond) plus the interest accrued up to the end of the day preceding the day chosen for repayment (i.e. EUR 239.73 and EUR 1,001.71 each convertible bond).

Bonds 2016 and 2017

On 12 February 2014, Celesio Finance B.V. announced that a change of control had occurred in accordance with the issue conditions of their 4.00% bonds maturing on 18 October 2016 and their 4.50% bonds maturing on 26 April 2017.

In the event that, in addition to the change of control, a rating event should occur within 90 days of the change of control (as defined in the issue conditions of the bonds), the creditors of the bonds are entitled to request early repayment of their bonds as detailed in the issue conditions. Notification that such a rating event had occurred was published by Celesio Finance B.V. after the 90-day period triggered by the change of control, on 8 May 2014. Creditors of both bonds only made use of the premature cancellation right to a very limited extent. Of the original nominal EUR 850m of outstanding bonds a total of EUR 631k were cancelled (of which corporate bond 2016: EUR 305k; corporate bond 2017: EUR 326k). The nominal values plus the interest accrued were repaid to the creditors on 26 May 2014. Both the bonds are thus still recognised as long-term debt.

Shareholder structure

On 6 February 2014, the McKesson Corporation, San Francisco, USA announced the completion of the acquisition of more than 75% of Celesio shares. McKesson is therefore the majority shareholder in Celesio. As of 30 June 2014, the McKesson Corporation, San Francisco, USA, and the companies attributable to it held 154,277,886 Celesio shares. This equates to a stake of 75.92% of the share capital issued and of the voting rights in Celesio.

On 3 April 2014, Magnetar Financial LLC, Evanston, Illinois, USA, notified us that the share of the voting rights held by it and companies attributable to it amounted to 3.14% (which equates to 6,387,521 voting rights) on 27 March 2014.

On 30 June 2014, the free float of Celesio stood at 20.94% of the shares.

Annual General Meeting

The 2014 Annual General Meeting of Celesio AG took place on 15 July 2014 in the Porsche-Arena in Stuttgart. With 83.55% of voting rights represented, attendance this year was above the previous year's turnout of 67.1%. All documents and information on the Annual General Meeting are published on the Internet at celesio.com/en/Investor_Relations/Annual_General_Meeting/.

Dividend

The Annual General Meeting of Celesio AG passed a resolution to pay a dividend of EUR 0.30 per share (PY EUR 0.30) for the 2013 fiscal year. The dividend was paid on 17 July 2014.

Investor Relations

The aim of the work undertaken by Celesio AG to maintain good investor relations is to communicate promptly and comprehensively with the financial community, to maintain continuity and to achieve the greatest possible transparency. These aims are implemented though continuous dialogue with analysts as well as existing and potential investors. These principles represent our paramount premises in our daily work and in contact with the capital market.

On the topic of Investor Relations, we provide additional information on our company and our share online at celesio.com, in the section entitled Investor Relations. In addition to current news and dates, you can also find presentations and speeches as well as our annual reports and quarterly financial reports. Anybody wishing to keep up-to-date with developments at all times can also register for our e-mail service and will then receive corporate notifications and information by e-mail.

INFORMATION ON THE SHARE

Type of share	No-par value registered shares
Share capital in EUR on 30/06/2014	260,122,793
ISIN	DE000CLS1001
WKN	CLS 100
Ticker symbol	CLS1
Indices (selection)	MDAX, MSCI Germany Index, FTSE4Good, ECPI Ethical Index EMU

KEY SHARE FIGURES

		1st half of 2013	**1st half of 2014**
Number of shares outstanding [1]	million	170.1	**203.2**
Market capitalisation [1]	EUR m	2,840.7	**5,283.7**
Closing price [1] [2]	EUR	16.70	**26.00**
High [2]	EUR	17.89	**26.35**
Low [2]	EUR	13.05	**22.43**
Average Xetra trading volume per day	shares	453,885	**423,979**

1) Closing figures as at 30 June
2) Xetra closing prices, Source: Bloomberg.

Interim management report

Celesio AG

1st half of 2014

Economic report

Economic upturn in the first half of 2014

Despite the difficulties in the emerging countries, occasional uncertainties about economic growth in the USA because of the persistent cold spell, and the geopolitical crisis in Ukraine, the first half of 2014, by and large, was characterised by a recovery in the economic environment in Europe. Driven by continuing strong domestic demand, the German economy is also enjoying an upturn. However, this growth is facing headwinds from economic policy. Although the growth seen in economic indicators eased off slightly, the prevailing mood remains positive. In the United Kingdom, the economy was stimulated in particular by measures to make it easier for companies and private households to borrow. However, the emerging countries remain a risk factor for global economic growth. There, perceptible capital outflows and currency devaluation are depressing economic growth. Domestic demand has weakened as a result of adjustments to interest rates in some countries. Combined with stagnant commodity prices, the outlook for commodity-exporting countries has deteriorated. Nevertheless, emerging countries continue to post higher growth rates than more developed industrial countries.

Monetary policy remains expansionary in the advanced countries. The ECB cut its main refinancing operations rate to 0.25% last November. It reduced it again at the beginning of June to 0.15%. For the first time ever, the interest rate for the deposit facility for banks was set at –0.1% at the same time.

Revenue and operating results

Course of business

The course of business in the first half of 2014 was still characterised by the intense competition in Germany, as expected. Furthermore, as part of the preparation of the interim financial statements as at 30 June 2014, impairment tests were conducted due to an adjustment of the long-term revenue prospects. As part of this process, a non-cash impairment loss on goodwill of EUR 76.3m was identified for the Brazilian wholesale activities as well as EUR 6.5m for other intangible assets. This goodwill was primarily due to the acquisitions of Panpharma in 2009 and Oncoprod in 2011.

Group revenue was slightly up on the previous year with market growth in Germany and the strong performance in Norway and the United Kingdom offsetting falls in revenue in France and Belgium. Group revenue even increased by 3.9% following adjustment for currency effects and changes in the consolidated group.

Despite the very good performance in the United Kingdom, adjusted EBIT fell below the prior year's figure due to the discount competition in Germany and a less favourable than anticipated trend in Brazil.

More detailed information on the course of business of the individual segments can be found in the comments about the divisional revenue and operating results figures → from page 25 and→ from page 28.

In the income statement, we show defined non-recurring expenses and income as a non-recurring effect in earnings before the earnings from shareholdings, taxes and interest (EBIT). Additional non-recurring effects amounting to 128.8 EUR m weighed on earnings in the first half of 2014. These were due to the extraordinary revaluation in Brazil, which was classed as a non-recurring effect, and to individual intangible assets from superfluous IT infrastructure in the United Kingdom, to contractual claims from resigned members of the Management Board and other related obligations as well as to legal and other consultancy expenses in connection with the preparation of the planned and completed takeover by the McKesson Corporation.

Revenue

Despite the deconsolidation of the Irish wholesale business in May 2013 and negative currency effects overall, group revenue in the first half of 2014 amounted to EUR 10,930.8m, up 1.8% on the figure for the prior-year period of EUR 10,733.0m. Market growth in Germany and the very good performance in the United Kingdom and Norway impacted positively on revenue. It over-compensated for the French market, which is continuing to decline, and negative performance in Belgium. After adjustment for negative currency effects overall, due to the Brazilian real, revenue increased by 3.0%. Following further adjustment for changes in the consolidated group, revenue even increased sharply by 3.9%.

GROUP REVENUE BY COUNTRY	1st half of 2013 EUR m	1st half of 2014 EUR m	Change on EUR basis %	Change in local currency %
United Kingdom	2,208.5	2,394.6	8.4	4.7
France	3,142.0	3,122.8	– 0.6	– 0.6
Germany	2,088.3	2,231.8	6.9	6.9
Brazil	894.1	812.7	– 9.1	7.3
Norway	599.4	610.6	1.9	12.1
Austria	546.1	563.5	3.2	3.2
Others	1,254.6	1,194.8	– 4.8	– 4.5
Group	**10,733.0**	**10,930.8**	**1.8**	**3.0**

Gross profit

Gross profit in the first half of 2014 rose by 0.1% from EUR 1,167.3m to EUR 1,168.5m. At 10.7%, the gross profit margin in the past six months was below last year's figure of 10.9%. Increased revenue from the higher margin Consumer Solutions division, the increase in margin in the British wholesale business and positive contributions from our central purchasing activities were not sufficient to offset the negative effects of the ferocious discount competition in the German wholesale business, lower-than-expected margins in Brazil and state-imposed price reductions in the British pharmacy business in particular. After adjustments for currency effects, the gross profit increased by 1.0%. You can find more detailed information on the gross profit trend in the first half of 2014 in the comments on the divisions from → page 25 and from → page 28.

Other operating income

In the first half of 2014, other operating income fell by 3.4% to EUR 95.5m (PY 98.9 EUR m.). After adjustments for non-recurring effects, other operating income fell by 3.1%. Currency effects and the deconsolidation of the Irish wholesale business were major factors behind this development. Furthermore, we recorded additional income from the appreciation in the values of Brazilian sales tax receivables as well as the one-off insurance settlement in connection with the warehouse fire in Belgium in the previous year. After adjustments for currency effects, adjusted other operating income fell by 1.5%.

Other operating expenses

At EUR 390.3m, other operating expenses were slightly up, by 1.6%, on the prior year's figure of EUR 384.2m. There were no adjustments in the prior year. In the first half of 2014, on the other hand, there were adjustments of EUR 7.5m, for legal and other consultancy expenses, particularly in connection with the preparation of the planned and completed takeover by the McKesson Corporation. After adjustments for non-recurring effects, they fell in the reporting period by 0.6%. Expenses resulting from the accelerated expansion of our European Pharmacy Network in the United Kingdom contributed to this increase. Following additional adjustment for currency effects, a rise in other operating expenses of 1.2% was reported.

Personnel expenses

At EUR 638.6m, personnel expenses have risen by 3.9% compared with the prior year's figure of EUR 614.5m. After adjustments for non-recurring effects arising from integration costs, personnel expenses rose by 1.0% in comparison with the prior year's figure. Savings in several entities were not able to offset fully the effects of the trend in salaries in Brazil and Norway and the filling of vacant posts in the United Kingdom and in the holding company. Following additional adjustments for currency effects, personnel expenses increased by 2.0%.

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell sharply in comparison with the prior-year period by 12.1% from EUR 267.5m to EUR 235.1m. After adjustments for non-recurring effects, EBITDA decreased by 2.2% to EUR 260.9m compared with EUR 266.7m in the first half of 2013. Following additional adjustments for currency effects, adjusted EBITDA shrank by 2.7%.

Depreciation and amortisation

Scheduled depreciation and amortisation fell by 3.8% from EUR 64.6m to EUR 61.7m in the reporting period. The full scheduled depreciation of some intangible assets towards the end of the previous year was largely responsible for this drop.

Unscheduled depreciation and amortisation

As part of preparing the interim financial statements as at 30 June 2014, impairment tests were conducted due to an adjustment in the long-term earnings outlook. As part of this process, a non-cash impairment loss on goodwill and other intangible assets of EUR 82.8m was identified for the Brazilian wholesale activities. This goodwill was primarily due to acquisitions in 2009 and 2011. Progress has certainly been made to date with the initiated realignment of the Brazilian business units, but not at the desired rate or to the extent planned, primarily due to the consistently increasing consolidation of pharmacy chains and the resulting increased competition. Accordingly, there was an extraordinary impairment loss as part of the unscheduled impairment test on goodwill as well as other individual impairment losses on intangible assets from superfluous IT infrastructure resulting from the global IT strategy in the United Kingdom. Impairment losses and unscheduled depreciation and amortisation on intangible assets and property, plant and equipment amounted to EUR 103.0m overall. In the prior year unscheduled depreciation and amortisation to the amount of EUR 0.4m were attributable to minor portfolio optimisations in Sweden.

EBIT

Earnings before interest and taxes (EBIT) recorded a decline of 65.3% from EUR 202.9m to EUR 70.4m due, in particular, to the extraordinary impairment loss on the goodwill of the Brazilian activities. After adjustments for non-recurring effects, EBIT was EUR 199.1m and was consequently 1.7% below the prior year's figure of EUR 202.5m. Following further adjustment for currency effects, adjusted EBIT fell by 2.7%. Despite the very good performance in the United Kingdom, adjusted EBIT slid below the prior year's figure due to the discount competition in Germany and the unfavourable trend in Brazil.

Investment result

At EUR 7.3m, the investment result was up on the prior year's figure of EUR 5.4m. The gratifying performance by the Dutch investment Brocacef Holding N.V. in the reporting period, which was helped by market conditions, was primarily responsible for this.

Financial result

The financial result, i.e. the balance of interest expenses, interest income and other financial results, improved to EUR – 44.0m compared with EUR – 72.6m in the prior-year period. This was primarily due to the drop in interest expenses resulting from the full effects of converting convertible bonds into shares in the first few months of 2014. The corresponding interest cover ratio came to 4.5 (PY 2.8).

Profit before tax

In the first half of the year, profit before tax decreased by 75.2% from EUR 135.7m to EUR 33.7m. After adjustments for non-recurring effects, profit before tax increased by 20.1%.

Tax expenditure

At EUR 48.7m (PY EUR 47.9m) tax expenditure increased slightly in the first half of 2014 by 1.7%. This resulted in a notional tax ratio of 144.5% for the reporting period, compared with 35.3% in the prior-year period. After adjustments for non-recurring effects, the tax ratio amounted to 34.0% after 35.3% in the 2013 reporting period. This improvement is primarily attributable to fiscal optimisation measures and the changes in the composition of the earnings contributions of the individual country units, which were, however, depressed by the performance in Brazil.

Profit from continuing operations

In the reporting period, the profit from the Celesio Group's continuing operations amounted to EUR – 15.0m compared with EUR 87.8m in the previous year. After adjustments for non-recurring effects, the profit from continuing operations, at EUR 107.2m, was 22.5% up on the prior year's figure of EUR 87.5m. The undiluted earnings per share of the Celesio Group came to EUR – 0.09 compared with EUR 0.49 in the prior-year period.

Profit from discontinued operations

The profit from discontinued operations came to EUR – 0.8m compared with EUR – 2.4m in the prior year and consequently amounted to (undiluted and diluted) EUR 0.00 per share compared with EUR – 0.01 in the prior-year period. The result is largely due to additional provisions for the expected occurrence of risks in relation to the activities disposed of.

Net profit/loss

The net profit/loss as the profit from continuing and discontinuing operations came to EUR – 15.8m in the first half of 2014 compared with EUR 85.4m in the first half of 2013. Accordingly, undiluted earnings per share came to EUR – 0.09 compared with EUR 0.48 in the prior-year period.

CELESIO GROUP REVENUE AND OPERATING RESULTS	1st half of 2013		1st half of 2014		Change on EUR basis	Change in local currency
	EUR m	of revenue %	EUR m	of revenue %	%	%
Revenue	10,733.0	100.0	**10,930.8**	**100.0**	1.8	3.0
Gross profit	1,167.3	10.9	**1,168.5**	**10.7**	0.1	1.0
adjusted [1]	1,167.4	10.9	**1,168.5**	**10.7**	0.1	1.0
EBITDA	267.5	2.5	**235.1**	**2.2**	– 12.1	– 12.7
adjusted [1]	266.7	2.5	**260.9**	**2.4**	– 2.2	– 2.7
EBIT	202.9	1.9	**70.4**	**0.6**	– 65.3	– 73.7
adjusted [1]	202.5	1.9	**199.1**	**1.8**	– 1.7	– 2.7
Profit before tax	135.7	1.3	**33.7**	**0.3**	– 75.2	/
adjusted [1]	135.3	1.3	**162.5**	**1.5**	20.1	/
Profit from continuing operations	87.8	0.8	**– 15.0**	**– 0.1**	/	/
adjusted [1]	87.5	0.8	**107.2**	**1.0**	22.5	/
Profit from discontinued operations	– 2.4	0.0	**– 0.8**	**0.0**	66.7	/
Profit/loss from continuing and discontinued operations	**85.4**	**0.8**	**– 15.8**	**– 0.1**	**/**	**/**

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

Consumer Solutions division

Market environment and business development

Celesio is one of the largest pharmacy operators in Europe and, as of 30 June 2014, has 2,188 of its own retail pharmacies (PY 2,177) in six countries.

Our paramount aim is to supply our customers with the best possible pharmaceutical products and provide them with the best possible advice. In choosing the location of our pharmacies, we take account of proximity to our customers, medical practices or healthcare centres in particular.

Healthcare policy measures in the United Kingdom and Ireland in particular and the accompanying savings depressed the market in the first half of 2014. The substitution of cheaper generic drugs for original products also continued. Nevertheless, in the United Kingdom, in particular, some growth in revenue was achieved by higher sales volumes on low margin products and an increase in service agreements.

Despite the tough economic environment and continuing cutbacks in many countries and the additional burdens of the accelerated expansion of the European Pharmacy Network, the Consumer Solutions division performed well in the first half of 2014. After adjustments for currency effects, there was a perceptible increase in revenue, which was also reflected in a gratifying increase in adjusted results.

Revenue and operating results

Revenue

In the first half of 2014, revenue in the Consumer Solutions division increased by 6.0% from EUR 1,680.4m to EUR 1,781.2m. Service contracts with hospitals and the provision of homecare (Evolution Homecare) had a particularly positive effect on revenue in the United Kingdom. In addition, the positive performance of non-prescription products in Norway contributed to this increase. After adjustments for currency effects, revenue grew by 5.4%. Following additional adjustment for the effects resulting from the changes in the consolidated group, revenue rose by 4.5%.

Gross profit

The division's gross profit improved in the first half of 2014 by 4.4% from EUR 577.1m to EUR 602.5m. After adjustments for marginal non-recurring effects, gross profit also climbed by 4.4%. At 33.8%, the gross profit margin in the last reporting period was below the prior year's figure of 34.3%.

The governmental measures applicable in the United Kingdom since October 2013 and additional measures in Ireland in 2014 continue to weigh on the gross profit margin. This could not be offset fully by our central purchasing activities and an improved product mix in many countries. Following additional adjustments for currency effects, the gross profit increased by 4.1% compared with the prior-year period.

EBITDA

Compared with the prior year, the division's earnings before interest, taxes, depreciation and amortisation (EBITDA) surged in comparison with the prior-year period by 8.8% from EUR 126.6m to EUR 137.8m. After adjustments for non-recurring effects, EBITDA increased by 9.8%. Following additional adjustments for currency effects, EBITDA rose by 9.3%.

EBIT

Earnings before interest and taxes (EBIT) came to EUR 89.3m, compared with the prior year's figure of EUR 95.3m. This equates to a marked decrease of 6.4%. After adjustments for non-recurring effects, EBIT increased significantly by 11.9%. A major factor in achieving this increase was the positive trend in earnings in the United Kingdom. When adjusted additionally for currency effects, EBIT rose by 11.5%.

CONSUMER SOLUTIONS REVENUE AND OPERATING RESULTS	1st half of 2013		1st half of 2014		Change on EUR basis %	Change in local currency %
	EUR m	% of revenue	EUR m	% of revenue		
Revenue	1,680.4	100.0	**1,781.2**	**100.0**	6.0	5.4
Gross profit	577.1	34.3	**602.5**	**33.8**	4.4	4.1
adjusted [1]	577.2	34.3	**602.5**	**33.8**	4.4	4.1
EBITDA	126.6	7.5	**137.8**	**7.7**	8.8	8.4
adjusted [1]	126.2	7.5	**138.5**	**7.8**	9.8	9.3
EBIT	95.3	5.7	**89.3**	**5.0**	– 6.4	– 6.8
adjusted [1]	95.4	5.7	**106.8**	**6.0**	11.9	11.5

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

Performance in the individual countries

For Celesio, the **United Kingdom** is still the most important market in the Consumer Solutions division. Operationally, Lloydspharmacy performed well in the first half of 2014, as expected. The increase in services, particularly in contracts with hospitals and the provision of homecare, more than compensated for the negative effects of government measures and increased costs in connection with the accelerated expansion of the European Pharmacy Network. Central purchasing activities also improved earning power.

For Celesio, **Norway** is the second most important pharmacy market. The significant increase in revenue in local currency was achieved primarily by the non-prescription and service business. In addition, the influenza season at the start of the year, which was not a severe one, was offset by stronger sales in the allergy business. Overall, the contribution to earnings made by the growth in revenue more than compensated for continually increasing personnel expenses.

The course of business in **Italy** increasingly benefited from revenue and earnings from non-prescription products thanks to the European Pharmacy Network that has been put in place. This completely offset the fall in revenue from prescription drugs resulting from continued government cutbacks.

The expansive strategy for the **Swedish pharmacy business** continued to be driven forward. As a result of improved cost management, the increased revenue had a disproportionately high impact on earnings; however, they remained lower than expected.

Pharmacy Solutions division

Market environment and business development

Celesio combines its wholesale activities involving pharmaceutical products in the Pharmacy Solutions division. Here, we supply pharmacists with the key products that they need for their business. The pharmaceutical wholesale business is a crucial link in supplying patients with drugs between drug manufacturers and pharmacies.

With 133 wholesale branches (PY 132) subsidiaries of Celesio operate in ten European countries as well as Brazil, supplying approximately 65,000 pharmacies every day.

The pharmaceutical wholesale business operates in a relatively stable market environment that is not directly and immediately dependent on the economy. However, the business is adversely affected by governmental measures in some countries. In Europe, cheaper generic drugs are increasingly supplanting original products. In France, in particular, this (combined with weak growth in the quantities of drugs consumed) is leading to a declining market. The intensive discount competition in Germany, which again increased in the first half of 2014 compared with the prior-year period, still presents the entire sector with major challenges.

Therefore, there were two sides to the story in the Pharmacy Solutions division in the first half of 2014. The pleasing trend in earnings in many countries, in particular the United Kingdom, was offset by the problems caused by further intensification in the discount competition in Germany compared with the prior-year period. In addition, the poor trend in results in Brazil impacted on the earnings for the segment.

Revenue and operating results

Revenue

In the first half of 2014, revenue in the Pharmacy Solutions division amounted to EUR 9,149.6m compared with EUR 9,052.7m in the prior-year period. As a result, revenue increased slightly by 1.1%. Currency effects, caused by the Brazilian real, as well as the deconsolidation of the Irish wholesale business in May 2013, weighed on business performance in the reporting period. After adjustment for currency effects, revenue increased by 2.6%. By contrast, following additional adjustment for the effects resulting from the change in the consolidated group, in particular from the sale of the Irish wholesale business, revenue increased sharply by 3.7%. The decline in the French market due to the substitution of patent-protected medicines with generic products was more than offset by markedly positive sales growth in Germany. In addition, rapid growth in revenue was achieved in the United Kingdom as a result of higher sales of generic drugs. We also achieved a positive revenue performance in Brazil, Norway and Austria and some of the smaller entities.

Gross profit

In the first half of 2014, the division's gross profit fell by 4.1% from EUR 590.2m to EUR 566.0m. No adjustments were made to the figures, either for the reporting period or for the previous-year period. At 6.2%, the gross profit margin in the first half of 2014 remained well below the figure for the prior year of 6.5%. Here, the trend in the margin was adversely affected by a further intensification in the discount competition in Germany compared with the prior-year period. An additional levelling off of the gross profit margin as a result of increasing sales figures in the high-end segment of prescription drugs in France and Germany was partially offset by the counteractive effect of increased sales of more profitable generic drugs in the United Kingdom. After adjustment for currency effects, the gross profit shrank by 2.1%.

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell significantly by 9.7% from EUR 180.2m to EUR 162.7m compared with the prior-year period. After adjustments for non-recurring effects, EBITDA fell by 9.6%. Following additional adjustments for currency effects, EBITDA decreased significantly by 10.1%.

EBIT

The division's earnings before interest and taxes (EBIT) fell by 65.5% from EUR 153.2m to EUR 52.8m in the first half of 2014. The extraordinary impairment loss on the goodwill of our Brazilian activities was a significant factor in this decrease in earnings. After adjustments for non-recurring effects, EBIT fell significantly by 9.1%. As was shown by the trend in gross profit, this development is largely due to the German business and increased sales of high-end, but less profitable, products. Following additional adjustment for currency effects, EBIT fell significantly by 10.2%.

PHARMACY SOLUTIONS REVENUE AND OPERATING RESULTS	1st half of 2013		1st half of 2014		Change on EUR basis %	Change in local currency %
	EUR m	% of revenue	EUR m	% of revenue		
Revenue	9,052.7	100.0	**9,149.6**	**100.0**	1.1	2.6
Gross profit	590.2	6.5	**566.0**	**6.2**	– 4.1	– 2.1
adjusted [1]	590.2	6.5	**566.0**	**6.2**	– 4.1	– 2.1
EBITDA	180.2	2.0	**162.7**	**1.8**	– 9.7	– 10.2
adjusted [1]	179.8	2.0	**162.5**	**1.8**	– 9.6	– 10.1
EBIT	153.2	1.7	**52.8**	**0.6**	– 65.5	– 76.4
adjusted [1]	152.8	1.7	**138.9**	**1.5**	– 9.1	– 10.2

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

Performance in the individual countries

The market continued to decline in **France**. These negative effects could not be fully offset through consistently applied measures to increase efficiency.

Our **British** wholesale activities posted a significant increase in revenue following higher sales of generic drugs. A more favourable product mix, coupled with better purchasing conditions and additional efficiency increases, led to a gratifying rise in earnings.

The discount competition in **Germany**, which again intensified compared with the prior-year period, had a huge negative impact on earnings in spite of solid market growth. The negative effects of this could not even be sufficiently counteracted by a rigorously pursued cost reduction policy. In addition, higher sales of high-end products with lower gross profit margins affected earnings.

Our activities in **Brazil** generated growth in revenue in the first half of 2014. However, impairment tests were conducted due to an adjustment in the long-term earnings outlook. As part of this process, non-cash impairment losses were recognised for the Brazilian wholesale activities. You can find more detailed information in the operating results for the group on page 21. In addition, the lack of sales tax benefits also impacts performance.

On 28 April 2014, in **Slovenia**, the administrative court delivered its judgement on the antitrust case against Kemofarmacija from 2010. The court upheld the decision of the antitrust authority regarding the violation of Slovenian antitrust law against our wholesale subsidiary. Kemofarmacija has lodged an appeal against the decision. As regards the violation of European Antitrust Law, the court has remanded the decision back to the Slovenian antitrust authority. A new decision by the antitrust authority is expected within the next few months. Administrative proceedings regarding a fine have now been initiated by the authority. The outcome of this case can still not be reliably determined in respect of either the amount or the range of the action. Consequently no provision was recognised for these risks.

Financial position

Statement of cash flows

The cash outflow from operations for continuing operations came to EUR – 168.3m in the first half of 2014. This compared with a cash inflow of EUR 31.8m in the prior-year period. This trend was primarily the result of changes in net operating assets. In the first half of the prior year, there was a reporting date-related improvement in trade liabilities, which did not occur again in the reporting period. The cash outflow from operations in the reporting period was solely attributable to continuing operations. In contrast, the cash inflow from discontinued operations in the prior year was EUR 5.2m.

The cash outflow from investments for continuing operations came to EUR – 60.1m in the reporting period, while the cash inflow in the prior year was EUR 11.0 m. In the prior-year period, the cash inflow mainly resulted from cash received from the sale of subsidiaries through the sale of the wholesale and pharmacy business in the Czech Republic and wholesale activities in Ireland. Compared with the prior-year period, higher investment and business combinations led to an increase in payments for investments in the reporting period. The cash outflow in the reporting period was solely attributable to continuing operations, while in the prior year payments received for the mail-order pharmacy DocMorris, in particular, led to a cash inflow of EUR 13.0m.

Free cash flow for continued operations as the balance from the cash outflow from operations, the cash outflow for investment and interest paid and received came to EUR – 307.6m in the first half of 2014 compared with EUR – 14.2m in the prior-year period. The change was mainly the result of an increase in the cash outflow from operations and the increased cash outflow for investment, which compares with a cash inflow in the prior-year period resulting from payments received from the sale of subsidiaries.

In the reporting period, the cash outflow from financing activity came to EUR – 112.8m compared with a cash outflow of EUR – 151.9m in the prior-year period. As in the prior year, the cash outflow in the reporting period was solely attributable to continuing operations. Compared with the prior-year period, the cash outflow from borrowing decreased by EUR 39.1m, mainly resulting from the as yet unpaid dividend in the reporting period. This was offset by the compensatory payment for the premature sale of the GBP 100m interest-rate swap.

Assets position

On 30 June 2014, the total assets of the Celesio Group came to EUR 7,547.4m and was therefore EUR 50.9m below the comparable figure as at 31 December 2013.

On the reporting date, 30 June 2014, the gearing, i.e. the ratio of outstanding debt to equity, was 0.37 and had consequently improved significantly compared with the gearing as at 31 December 2013 of 0.62, not least due to the conversion of the convertible bonds.

Compared with the end of 2013, non-current assets fell by EUR 30.2m to EUR 3,007.6m. Of this figure, EUR 76.3m was attributable to impairment losses on goodwill at the Brazilian subsidiaries and the depreciation of other intangible assets by EUR 26.7m. Planned depreciation and amortisation of intangible assets held as non-current assets and on property, plant and equipment also reduced assets by EUR 61.7m. This was offset by currency effects of EUR 73.6m, investment in property, plant and equipment of EUR 38.2m and the reclassification of a loan from current to non-current of EUR 9.7m.

As at 30 June 2014, current assets stood at EUR 4,539.8m and were therefore down EUR 20.7m compared with 31 December 2013. Trade receivables rose by EUR 254.7m to EUR 2,337.4m, primarily caused by an increase in receivables, particularly in the United Kingdom as a result of the later scheduled incoming payment from the British healthcare authority, the NHS, and due to higher receivables in Germany, triggered by revenue growth. Currency effects amounting to EUR 34.7m also had a positive impact on the increase in trade receivables. Inventories fell by EUR 14.7m to EUR 1,583.1m as at 30 June 2014. This is largely attributable to the reduction in inventories held in relation to the year end. This was offset by currency effects. As at 30 June 2014, cash and cash equivalents stood at EUR 202.9m compared with EUR 535.7m on 31 December 2013. This equates to a decrease of EUR 332.8m and is mainly due to a reporting date-related subsequent scheduled incoming payment from the British healthcare authority, the NHS, and the repayment of promissory note. In addition, the premature termination of an interest-rate swap led to a compensatory payment of EUR 27.2m. As at 30 June 2014, other receivables and other assets increased by EUR 55.3m to EUR 378.2m. Currency effects were a critical factor here. As at 30 June 2014, the Celesio Group reported assets as held for sale in the amount of EUR 0.9m. The fall of EUR 1.6m compared with 31 December 2013 is due to the sale of property held for sale.

As at the reporting date, an increase in equity capital of EUR 659.2m to EUR 2,851.2m was apparent compared with the end of 2013. This trend is primarily attributable to the conversions of convertible bonds concluded. The equity ratio stood at 37.8% on 30 June 2014. This equates to an increase of 9.0 percentage points compared with the end of December 2013.

In total, non-current liabilities contracted by EUR 324.2m to EUR 1,514.4m. In the process, long-term debt decreased by EUR 337.1m to EUR 1,058.9m mainly due to the conversions of the 2018 convertible bond concluded. On the balance sheet date, deferred tax liabilities also shrank by EUR 13.2m to EUR 28.5m. This was offset by an increase in pension provisions of EUR 19.8m to EUR 356.6m because of pension expenses exceeding pension payments as well as interest effects.

Current liabilities stood at EUR 3,181.8m on the balance sheet date and were consequently EUR 385.9m down on the level at the end of 2013. Current debt decreased by EUR 305.7m to EUR 197.4m in comparison with 31 December 2013. This is primarily attributable to the conversions of the 2014 convertible bond concluded. Essentially, currency and reporting date-related effects from operations were apparent in trade liabilities (EUR 2,271.8m on 30 June 2014 compared with EUR 2,384.6m at the end of 2013) and in other liabilities (EUR 506.6m compared with EUR 472.6m on 31 December 2013).

Employees

On 30 June 2014, 28,669 employees (measured in full-time employees) worked for Celesio, which is 0.5% more than on the prior-year reporting date (28,539 employees). At the end of the reporting period, 15,019 employees (PY 14,835 employees) worked for the Consumer Solutions division. At the end of the quarter, the Pharmacy Solutions division numbered 13,326 employees (PY 13,441 employees). The other employees are attributable to holding functions.

Boards

On 14 March 2014, John H. Hammergren, Chairman and Chief Executive Officer of the McKesson Corporation was elected as the new Chairman of the Supervisory Board. He succeeded Stephan Gemkow, who resigned his seat as of 13 March 2014. At the same time, Paul C. Julian, Executive Vice President and Group President of McKesson Corporation, and Professor Dr Wilhelm Haarmann, Partner of Linklaters LLP law firm, joined the Supervisory Board as additional shareholder representatives. They succeeded Dr Florian Funck and Hanspeter Spek, who have also resigned from the Supervisory Board at Celesio AG.

On 22 May 2014, a meeting of the Supervisory Board of Celesio AG appointed Marc Owen, formerly President of McKesson Specialty Health and a member of the McKesson Operating Team, and Alain Vachon, formerly Senior Vice President and Chief Financial Officer of McKesson U.S. Pharmaceutical, to the Management Board of Celesio AG with effect from 16 July 2014. Marc Owen is assuming the position of Chairman of the Management Board and Alain Vachon the position of Chief Financial Officer. In agreement with the Supervisory Board, the former Speaker of the Management Board and Chief Financial Officer Dr Marion Helmes resigned her position on the Management Board of Celesio AG with effect from 15 July 2014 and left the company on that date. In addition, Martin Fisher, Chief Operating Officer, resigned with effect from 22 May 2014 in agreement with the Supervisory Board.

Research and development

In the context of our operations as a services company, we do not need and do not conduct any research and development. Of course, we develop our range of services and our IT infrastructure constantly.

Risk and opportunities report

As a company operating internationally, we encounter a variety of opportunities and risks as part of our various operations. We identify, assess and pursue them with the help of our internal risk management system. The key opportunities and risks for us are presented in detail in our Annual Report 2013 from page 170. In essence, there has been no change here. In particular, the following opportunities and risks are relevant to our business development and earnings in the 2014 fiscal year:

- The healthcare sector is a very dynamic market with constantly changing conditions.
- Overall, the business of Celesio is subject to fierce competition. The operations of Celesio's competitors may affect its earnings. This is particularly apparent in Germany.
- We operate in markets where payment structures are largely regulated by government. Possible changes to these payment systems may affect our trend in earnings.
- Patent protection for a number of top-selling original products is currently expiring and will expire over the next few years. As a result, the proportion of cheaper generic drugs on the market is increasing. In the medium term, this could have an adverse impact on revenue and, depending on the local reimbursement system, also on operating results.
- Celesio operates in various currency areas. Major changes in exchange rates affect our earnings. The pound sterling is the most relevant currency because of the substantial proportion of our earnings attributable to our business in the United Kingdom. It is followed by the Norwegian krone and the Brazilian real.
- Changes in the market conditions in the healthcare sector are considered as critical to our success and may affect earnings. Among others, these include business combinations between pharmaceutical manufacturers and exclusive distribution models in wholesale business. The intensification of competition in the logistics sector as well as selective relaxations of the rules ensuring that prescription drugs can only be sold in pharmacies are also of relevance.
- Our revenue from OTC (over the counter) sales can also be affected by fluctuations in the economy. At present, they make up some 20% of revenue in the Consumer Solutions division.
- As already mentioned in the management report, a judgement has been delivered in Slovenia in the legal proceedings against Celesio's subsidiary Kemofarmacija. The outcome of the administrative proceedings in terms of a fine initiated subsequently can still not be reliably foreseen in respect of either the amount or the range of the action.

Events after the reporting period

Domination and profit and loss transfer agreement

On 15 July 2014, the Annual General Meeting of Celesio AG approved the domination and profit and loss transfer agreement with Dragonfly GmbH & Co. KGaA. From the 2015 fiscal year, Celesio AG will transfer all distributable profits to the controlling company starting from 1 January 2015, provided the agreement has been entered in the Commercial Register in this fiscal year.

Adjustment to the fiscal year

The Annual General Meeting has agreed to adjust the company's fiscal year. In order to standardise the fiscal year within the Group and to facilitate consolidated accounting the fiscal year will start in future on 1 April and will run until 31 March of the following year. The period from 1 January 2015 to 31 March 2015 constitutes a short fiscal year.

New Supervisory Board members approved by the Annual General Meeting

The Annual General Meeting approved the appointment of John H. Hammergren, Paul C. Julian and Professor Dr Wilhelm Haarmann to the Supervisory Board.

There had been no other events of particular significance by the editorial deadline of 27 July 2014 that can be expected to have a material effect on the assets position and revenue and operating results of the Celesio Group.

Outlook

Overall economic prospects

Growth in the global economy should gather more momentum over the rest of 2014. Both continuation of the expansionary monetary policy adopted throughout the world and a relaxation in countries' austerity measures will provide major impetus. The Kiel Institute for the World Economy (IfW) is also making the following assumptions:

It expects a stabilisation in the European employment market, which not least should have a positive impact on disposable income and private consumer expenditure. For Germany, the experts at the IfW expect a sharp rise in gross domestic product of 2.0% (2014) and 2.5% (2015).

Economic growth should also continue to gather momentum on a sustainable basis in the United Kingdom. Growth in gross domestic product of 3.0% (2014) and 2.9% (2015) is expected. In particular, there should be a perceptible fall in the unemployment rate, which should boost consumption by private households.

France is unlikely to be able to participate in this growth to the same extent and will post growth in gross domestic product of 0.7% (2014) and 1.5% (2015). Gross domestic product in the crisis-ridden countries around the Mediterranean should also pick up once more – for example, the increase in gross domestic product in Portugal is estimated at 0.8% (2014) and 1.5% (2015). Experts expect only a moderate rise in consumer prices in 2014 and consequently inflation will stand at 0.9%. It is only expected to increase slightly to 1.6% in 2015 as economic growth picks up.

The emerging and developing countries in Latin America should also report slower economic growth in 2014 which will be supported by positive growth in the traditional industrial countries among other factors. For the area as a whole, experts expect an increase in gross domestic product of 3.1% (2014) and 3.6% (2015). Brazil will probably post below-average growth in 2014 and report an increase in gross domestic product of 2.5% (2014) and 3.0% (2015).

Our industry: growth in pharmaceutical markets, consolidation and internationalisation

As a consequence of the global economic and financial crisis in 2008/09, the expiry of many patents and because of governments' austerity measures, growth in pharmaceutical markets slowed throughout the world. However, IMS Health expects growth to pick up again over the next few years, particularly in the developing and emerging countries. For instance, IMS Health is forecasting average annual growth in global pharmaceutical markets of 5.3% up to 2017. Largely double-digit growth in the markets of Asia, India and Latin America, which will be driven firstly by a steady increase in population and secondly by an increase in quality and improved access to the healthcare system, is crucial to this development. IMS Health is forecasting an annual growth rate of 12.7% for Brazil up to 2017, while annual average growth of 12.5% and 16.7% is expected for India and China. By comparison, in Europe, IMS Health only expects annual growth of 0.9% up to 2017 and growth of 2.2% per year for the USA.

Demographic change remains a key factor in the development of the global pharmaceutical and healthcare markets. Admittedly, viewed globally, the generation of people aged over 64 currently only accounts for just over 8% of the world's population. However, this percentage will increase over the coming years to around 9% in 2017. In industrial countries, the percentage of people aged over 80 in the population will increase from the current 4.5% to 9.5% by 2050. In the developing and emerging countries, the percentage of people aged over 80 will increase by 2 percentage points to 3.2% by 2050; in absolute figures this means that while there are currently around 63 million people in the 80+ age group, there will be 268 million in 2050 (for comparison: in industrial countries, it will only be 124 million people in 2050.). This trend will lead to an increase in demand for the treatment of chronic and age-related illnesses, which result in long-term medical treatment. This will lead to a considerable increase in costs, since expenditure for older people is well above the average per capita expenditure.

In addition to demographic change, changes to lifestyle habits and to consumer behaviour in both developing and western industrial countries and the increase in lifestyle diseases associated therewith are resulting in increased demand for healthcare services and drugs. In 2013, for instance, 382 million people throughout the world were suffering from diabetes. This figure will increase to 592 million throughout the world by 2035. In Europe alone, the number of sick people will increase from the current 56.3 million people

(approximately 8.5% of the population) to 68.9 million people (approximately 10% of the population) by 2035.

A steady increase in health awareness in industrial countries and increasing willingness on the part of consumers to spend their own money on healthcare services are other factors that will influence the sector long-term and drive growth in the pharmaceutical and healthcare markets.

Another driver for growth is biotechnology-based drugs and drugs to treat complex and frequently chronic diseases such as cancer, HIV or multiple sclerosis. These so-called "speciality pharmaceuticals" are comparatively expensive and place particular demands on transport and storage (short shelf-life, requiring refrigeration at all times), which can generate value added in the pharmaceutical supply chain in particular. According to IMS Health, average annual growth in the "speciality pharmaceuticals" segment in the eight largest developed pharmaceutical markets will amount to around 8% between 2010 and 2020 compared with growth of 4% for traditional drugs.

The central challenge for pharmaceutical and healthcare markets and, in particular, for pharmaceutical distribution markets as well, lies in ongoing governmental regulation of prices in all parts of the pharmaceutical value added chain and the effects of increasing numbers of patents for top-selling drugs expiring and the growth in the comparatively cheap generic drug segment associated therewith. There are signs of increased consolidation in our industry, particularly in established markets, as a reaction to the unremittingly difficult market environment. In addition, we are faced with increasing expansion and internationalisation in so-called "pharmerging markets" such as India and Russia and, in particular, Brazil and China. Global purchasing partnerships are also emerging in some cases with the aim of realising purchasing benefits and economies of scale in the generic drug sector in particular.

Divisions

Consumer Solutions

Despite governmental intervention in some markets, of which we are already aware, we expect operating earnings to grow in 2014 compared with the past fiscal year for the Consumer Solutions division. This will be driven primarily by the implementation of our new European Pharmacy Network under the "Lloyds" brand name. The extent to which further governmental intervention could depress earnings is still unclear.

In the **United Kingdom**, we expect a positive performance from Lloydspharmacy. The development of synergies from closer integration of our wholesale and pharmacy business should also continue in 2014. The purchasing initiative Top-in-Class procurement will continue to have a positive impact. The gradual implementation of the pharmacy network and the further expansion of the service business will also be key value drivers in 2014. The new pharmacy concept will allow us to achieve substantial growth rates in our two focus areas of "skin" and "pain", in particular. This process will also support the increasing switch to a higher margin product mix. We are not assuming any substantial additional burdens resulting from governmental cutbacks in 2014 in our forecast.

In **Norway**, we are expecting earnings to remain stable. Country-specific higher wage inflation costs will be at least offset by increased contributions to earnings resulting from the rise in non-prescription revenue.

In **Sweden** we shall cautiously expand our footprint. However, the normal start-up losses associated with opening new pharmacies will be reduced through improvements in our process for selecting locations and will not prove such a burden as the older locations are now market-ready.

The economic situation remains difficult both on the **Irish** and the **Italian** market. In particular, the healthcare system is still affected by restrictive cutbacks. However, in recent years, we have shown in both countries that our companies can cope with the problems better than the market as a whole. Nevertheless, earnings will not quite reach the prior year's figure.

Our operations in **Belgium** will also be affected by challenging market conditions in 2014.

Pharmacy Solutions

For the 2014 fiscal year, the Management Board assumes that government austerity measures will remain in place, which will have an adverse impact on the business development of the Pharmacy Solutions division. However, we are confident that a large part of these burdens can be offset through continual optimisation, particularly in purchasing.

Our **German business** will be the source of greatest uncertainty regarding the division's performance in 2014. Following the further intensification of the discount competition in the first quarter, we have been seeing clear signs in the course of the second quarter that sense is returning and this will lead to a gradual slowdown in the discount competition. Overall we expect earnings to be on a par with the previous year.

In **France**, we shall still be faced with difficult conditions caused by the declining market in 2014. We therefore expect revenue and earnings to be down on the prior year's figure, despite the ongoing optimisation of the cost structure.

In the **United Kingdom,** we expect revenue and results of operations to climb considerably in 2014, due to improved purchasing conditions and gains in market share.

In **Norway**, we expect an increase in sales and higher earnings thanks to continuing measures to improve efficiency.

In **Brazil**, we expect that the impact of the measures started in 2013 to improve efficiency will start to be felt, even if rather delayed and with contributions to earnings lower than expected, and we will consequently achieve an increase in revenue. Taking these circumstances into account, an extraordinary impairment loss was made on our Brazilian activities at the time of preparing the financial statements for the half-year financial report. In addition, the lack of sales tax benefits will also impact performance.

In **Austria**, we expect solid earnings and results of operations in 2014 thanks to the stable market environment.

Investment

Having successfully piloted our European Pharmacy Network, we shall roll it out further under the "Lloyds" umbrella brand in the 2014 fiscal year. This will lead to increased investment redesigning our pharmacies. We shall also continue with the standardisation of our software environment, which is why IT investment will rise. Overall, we therefore expect investment to exceed the low figure of 2013.

Depreciation and amortisation

Because of the expected increase in investment year on year, we assume that there will be a slight increase in scheduled depreciation and amortisation in the 2014 fiscal year.

Financial result

With regard to the financial result, we expect far lower interest expense in 2014 than in the past fiscal year. As part of the change of control, all convertible bonds were converted into equities or repaid, which reduced the level of debt and interest expenses considerably and increased the equity capital of Celesio.

The assumption is that interest rates will remain stable, meaning that no further changes in earnings are expected.

The financial result may be adversely affected by further appreciation in the euro, particularly against the Brazilian real.

Tax ratio

The adjusted tax ratio may be affected by a change in the mix of contributions to earnings from countries with different tax ratios or a change in country-specific effective tax ratios. On an adjusted basis it will probably again be one to two percentage points below the corresponding ratio for 2013. This is also heavily dependent on the performance of the German wholesale activities and developments in Brazil may also weigh on revenues. On the basis of current assumptions, no significant effects on the tax ratio are expected from the acquisition by McKesson.

Domination and profit and loss transfer agreement

On 23 January 2014, McKesson Corporation, San Francisco, USA announced its intention to conclude a domination and profit and loss transfer agreement (DPLA) with Celesio AG as a controlled company after completing its takeover. Subsequently the Management Board of Celesio AG began negotiations with Dragonfly GmbH & Co. KGaA, a fully-owned subsidiary of McKesson Corporation, with a view to concluding a DPLA. In this regard, a cash settlement per Celesio AG share, in accordance with Section 305 AktG, and a fixed guaranteed dividend or a fixed annual compensatory payment per Celesio AG share for each full fiscal year, in accordance with Section 304 AktG, was determined provisionally. The Annual General Meeting of Celesio AG agreed to the DPLA on 15 July 2014.

Employees

There will be no material change in employee numbers in 2014.

Revenue and earnings forecast

The following comments on the future course of business and on the assumptions about the economic development of the market and industry are based on assessments by the Management Board, which the Board currently views as realistic on the basis of the available information. However, the future development of our divisions is dependent on various factors which are outside the area of influence of Celesio and can therefore only be forecast to a limited degree. These include, for example, the future economic and regulatory environment, the behaviour of competitors and other market participants as well as government intervention in the healthcare and social systems. In particular, any continuation of the intensive discount competition in Germany may affect our earnings forecast. The following forecasts by the Management Board of Celesio AG assume that there will be stable exchange rates, similar interest rates and a comparable consolidated group.

In 2014, Celesio will consistently pursue its strategic realignment. We shall also take progressive measures to optimise companies' levels of efficiency, in addition to the optimisation of cost structures. The expansion of our European Pharmacy Network will also have a positive impact, enabling us to grow even more strongly from 2015 onwards. However, these revenues will still be reduced in part by IT project costs in 2014.

Overall, the Management Board expects that we shall achieve an adjusted EBIT in the 2014 fiscal year that is slightly above the prior year. Accordingly, we also expect a slight increase in the Value Added and ROCE ratios.

The earnings situation will be significantly affected by future developments on the German wholesale market. The Management Board assumes that the unremittingly intensive discount competetion will diminish in the course of the year.

With regard to revenue growth for 2014, the Management Board of Celesio AG is assuming a slight increase in revenue in the lower single-digit percent range.

To date, non-recurring effects are due to unscheduled impairment losses on goodwill (EUR 76.3m) and other intangible assets belonging to the Brazilian activities (EUR 6.5m), as well as depreciation and amortisation on surplus IT infrastructure in the United Kingdom (EUR 20.2m) totalling EUR 103.0m, while the integration costs previously incurred in connection with the planned and completed takeover by the McKesson Corporation accounted for non-recurring effects of EUR 26.2m. Overall, the Management Board expects additional non-recurring effects in the low double-digit millions for the remaining months of the fiscal year. These non-recurring effects are not taken into account in the forecast, which only relates to adjusted EBIT.

Interim condensed consolidated financial statements

Celesio AG

1st half of 2014

Consolidated income statement

EUR m	2nd quarter 2013	2nd quarter 2014	1st half year 2013	1st half year 2014
Revenues	**5,371.4**	**5,551.3**	**10,733.0**	**10,930.8**
Overall performance	**5,371.4**	**5,551.3**	**10,733.0**	**10,930.8**
Cost of materials	–4,781.9	**–4,959.5**	–9,565.7	**–9,762.3**
Gross profit	**589.5**	**591.8**	**1,167.3**	**1,168.5**
Other operating income	51.9	**51.1**	98.9	**95.5**
Other operating expenses	–192.9	**–197.3**	–384.2	**–390.3**
Personnel expenses	–307.6	**–328.5**	–614.5	**–638.6**
EBITDA	**140.9**	**117.1**	**267.5**	**235.1**
Depreciation and amortisation on intangible assets held as non-current assets and on property, plant and equipment	–32.7	**–32.3**	–64.2	**–61.7**
Impairment losses and unscheduled depreciation and amortisation on intangible assets and on property, plant and equipment	–0.4	**–103.0**	–0.4	**–103.0**
EBIT	**107.8**	**–18.2**	**202.9**	**70.4**
Profit/loss from shareholdings measured at equity	1.8	**2.4**	1.8	**4.0**
Profit/loss from other shareholdings	1.7	**1.7**	3.6	**3.3**
Interest expense	–36.8	**–24.9**	–71.3	**–50.5**
Interest income	1.7	**1.8**	3.8	**3.7**
Other financial result	–4.4	**1.8**	–5.1	**2.8**
Profit before taxes from continuing operations	**71.8**	**–35.4**	**135.7**	**33.7**
Income taxes	–25.7	**–23.6**	–47.9	**–48.7**
Profit from continuing operations	**46.1**	**–59.0**	**87.8**	**–15.0**
Profit from discontinued operations	**–2.1**	**0.1**	**–2.4**	**–0.8**
Net profit/loss	**44.0**	**–58.9**	**85.4**	**–15.8**
Of which attributable to non-controlling interests	2.3	**0.7**	4.5	**2.5**
Of which attributable to shareholders of Celesio AG	**41.7**	**–59.6**	**80.9**	**–18.3**
Undiluted earnings per share	**EUR**	**EUR**	**EUR**	**EUR**
Profit from continuing operations	0.26	**–0.29**	0.49	**–0.09**
Profit from discontinued operations	–0.01	**0.00**	–0.01	**0.00**
Net profit/loss	0.25	**–0.29**	0.48	**–0.09**
Diluted earnings per share	**EUR**	**EUR**	**EUR**	**EUR**
Profit from continuing operations	0.25	**–0.29**	0.48	**–0.09**
Profit from discontinued operations	–0.01	**0.00**	–0.01	**0.00**
Net profit/loss	0.24	**–0.29**	0.47	**–0.09**

Consolidated statement of comprehensive income

EUR m	2nd quarter 2013	2nd quarter 2014	1st half year 2013	1st half year 2014
Net profit/loss	**44.0**	**−58.9**	**85.4**	**−15.8**
Items which are not reclassified in profit or loss	**−9.1**	**−8.9**	**−7.5**	**−30.3**
Revaluation of defined benefit pension plans	−9.9	**−8.9**	−11.0	**−26.3**
Stake in the revaluation of defined benefit pension plans of shareholdings measured at equity	0.8	**0.0**	3.5	**−4.0**
Items which may be reclassified in profit or loss	**−69.3**	**44.1**	**−77.5**	**67.2**
Unrealised losses from the current year	0.0	**0.0**	0.0	**−0.4**
Gains affecting net income reclassified in the income statement	0.0	**0.0**	0.0	**0.0**
Unrealised losses from the market valuation of financial assets available for sale	0.0	**0.0**	0.0	**−0.4**
Unrealised gains/losses from the current year	1.6	**0.1**	2.1	**−1.0**
Gains affecting net income reclassified in the income statement	2.2	**0.4**	4.9	**1.7**
Unrealised gains from derivative financial instruments used to hedge cash flows	3.8	**0.5**	7.0	**0.7**
Effects of currency translation not affecting net income	−73.2	**43.6**	−84.5	**66.9**
Dissolution affecting net income based on loss of control	0.0	**0.0**	0.0	**0.0**
Differences from currency translation	−73.2	**43.6**	−84.5	**66.9**
Other comprehensive income after taxes	**−78.4**	**35.2**	**−85.0**	**36.9**
From continuing operations	−78.4	**35.2**	−85.0	**36.9**
Of which attributable to non-controlling interests	−3.6	**0.8**	−2.1	**1.9**
Of which attributable to shareholders of Celesio AG	−74.9	**34.4**	−82.9	**35.0**
From discontinued operations[1)]	0.0	**0.0**	0.0	**0.0**
Of which attributable to non-controlling interests	0.0	**0.0**	0.0	**0.0**
Comprehensive income	**−34.4**	**−23.7**	**0.4**	**21.1**
From continuing operations	−32.4	**−23.7**	2.8	**21.9**
Of which attributable to non-controlling interests	−1.3	**1.5**	2.4	**4.5**
Of which attributable to shareholders of Celesio AG	−31.0	**−25.3**	0.4	**17.4**
From discontinued operations[1)]	−2.0	**0.1**	−2.4	**−0.8**

1) These amounts are attributable in full to the sahreholders of Celesio AG.

Further notes to other comprehensive income are listed on page 78.

Consolidated statement of financial position

ASSETS	31/12/2013	30/06/2014
EUR m		
Non-current assets	**3,037.8**	**3,007.6**
Intangible assets	2,199.0	**2,162.3**
Property, plant and equipment	506.9	**503.7**
Shareholdings measured at equity	78.9	**77.3**
Other financial assets	109.5	**115.8**
Other non-current assets	39.8	**37.3**
Income tax receivables	2.0	**2.0**
Deferred tax assets	101.7	**109.2**
Current assets	**4,560.5**	**4,539.8**
Stock	1,597.8	**1,583.1**
Trade receivables	2,082.7	**2,337.4**
Income tax receivables	18.9	**37.3**
Other receivables and other assets	322.9	**378.2**
Cash and cash equivalents	535.7	**202.9**
Assets held for sale	2.5	**0.9**
Total assets	**7,598.3**	**7,547.4**

LIABILITIES	31/12/2013	30/06/2014
EUR m		
Equity capital	**2,192.0**	**2,851.2**
Subscribed capital	217.7	**260.1**
Capital reserves	1,186.0	**1,783.2**
Retained earnings	1,191.3	**1,173.8**
Reserves not affecting net income	–437.0	**–402.8**
Stake of the shareholders of Celesio AG	**2,158.0**	**2,814.3**
Non-controlling interests	34.0	**36.9**
Liabilities	**5,406.3**	**4,696.2**
Non-current liabilities	**1,838.6**	**1,514.4**
Outstanding debt	1,396.0	**1,058.9**
Provisions for pensions	336.8	**356.6**
Other non-current provisions	63.8	**70.1**
Other liabilities	0.3	**0.3**
Deferred tax liabilities	41.7	**28.5**
Current liabilities	**3,567.7**	**3,181.8**
Outstanding debt	503.1	**197.4**
Trade liabilities	2,384.6	**2,271.8**
Other current provisions	144.0	**128.9**
Income tax liabilities	63.4	**77.1**
Other liabilities	472.6	**506.6**
Liabilities held for sale	0.0	**0.0**
Total assets	**7,598.3**	**7,547.4**

Consolidated statement of cash flows

EUR m	1st half year 2013	1st half year 2014
Profit from continuing operations	**87.8**	**−15.0**
Scheduled depreciation and amortisation as well as impairment losses and unscheduled depreciation and amortisation on intangible assets held as non-current assets and on property, plant and equipment	64.6	**164.7**
Profit/loss from shareholdings measured at equity and other shareholdings	−5.4	**−7.3**
Dividends received	4.0	**3.2**
Financial result	72.6	**44.0**
Profit/loss from the disposal of non-current assets and from the sale of subsidiaries	−0.4	**−0.6**
Impairment losses on items classified as operating assets	23.7	**21.0**
Change in deferred taxes and income tax	47.9	**48.7**
Income tax paid	−46.0	**−59.6**
Other non-cash expenses and income	12.5	**11.8**
Change in net operating assets	−140.5	**−296.9**
Change in stock	23.2	**34.8**
Change in trade receivables	−249.1	**−223.1**
Change in trade liabilities	114.5	**−165.1**
Change in other net operating assets	−29.1	**56.5**
Change in other assets and liabilities	−89.0	**−82.3**
Change in other assets	−60.6	**−43.6**
Change in other liabilities	−28.4	**−38.7**
Cash inflow/outflow from operations – continuing operations	**31.8**	**−168.3**
Cash inflow from operations – discontinued operations	**5.2**	**0.0**
Cash inflow/outflow from operations – continuing and discontinued operations	**37.0**	**−168.3**
Payments received from the disposal of non-current assets	6.2	**7.2**
Payments for investment	−36.4	**−54.6**
Payments received from the sale of subsidiaries [1]	42.0	**1.5**
Payments for business combinations	−0.8	**−14.2**

1) This item includes the cash payments for the costs directly related to the disposal of operations.

EUR m	1st half year 2013	1st half year 2014
Cash inflow/outflow from investment – continuing operations	**11.0**	**–60.1**
Cash inflow from investment – discontinued operations	**13.0**	**0.0**
Cash inflow/outflow from investment – continuing and discontinued operations	**24.0**	**–60.1**
Payments to shareholders(including non-controlling interests)	–52.0	**–1.5**
Payments received from incurring debt	162.1	**195.2**
Payments for the repayment of debt	–205.0	**–227.3**
Interest paid	–60.8	**–82.3**
Interest received	3.8	**3.1**
Cash outflow from financing activity – continuing operations	**–151.9**	**–112.8**
Cash inflow from financing activity – discontinued operations	**0.0**	**0.0**
Cash outflow from financing activity – continuing and discontinued operations	**–151.9**	**–112.8**
Cash change in cash and cash equivalents	**–90.9**	**–341.2**
Non-cash change in cash and cash equivalents	–9.1	**8.4**
Cash and cash equivalents at the beginning of the period	523.9	**535.7**
Cash and cash equivalents at the end of the period	**423.9**	**202.9**
Cash and cash equivalents of discontinued operations and disposal groups at the end of the period	0.0	**0.0**
Cash and cash equivalents at the end of the period (according to the figure in the consolidated statement of financial position)	**423.9**	**202.9**

Consolidated statement of changes in equity

EUR m	Subscribed capital	Capital reserves	Retained earnings
As at: 1 January 2014	**217.7**	**1,186.0**	**1,191.3**
Change in capital	42.4	597.2	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 in the consolidated group	0.0	0.0	0.8
Other comprehensive income	0.0	0.0	0.0
Net profit/loss	0.0	0.0	–18.3
Comprehensive income	0.0	0.0	–18.3
As at: 30 June 2014	**260.1**	**1,783.2**	**1,173.8**
As at: 1 January 2013	**217.7**	**1,186.0**	**1,091.2**
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 in the consolidated group	0.0	0.0	0.0
Other comprehensive income	0.0	0.0	0.0
Net profit/loss	0.0	0.0	39.2
Comprehensive income	0.0	0.0	39.2
As at: 30 June 2013	**217.7**	**1,186.0**	**1,130.4**

1) Of which attributable to discontinued operations and disposal groups EUR 0.0 m (previous year EUR –5.0 m).
2) Of which attributable to discontinued operations EUR 0.0 m (previous year EUR –7.4 m).
3) Of which attributable to discontinued operations and disposal groups EUR 0.0 m (previous year EUR –12.4 m).

Reserves not affecting net income						Stake of the shareholders of Celesio AG	Non-controlling interests	Equity capital
Currency reserve	Revaluation of defined benefit pension plans	Revaluation reserve	Financial assets available for sale	Cash flow-hedges	Other comprehensive income from companies measured at equity			
−280.8	**−154.1**	**0.0**	**0.8**	**−0.5**	**−2.4**	**2,158.0**	**34.0**	**2,192.0**
0.0	0.0	0.0	0.0	0.0	0.0	639.6	0.0	639.6
0.0	0.0	0.0	0.0	0.0	0.0	0.0	−1.5	−1.5
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	−0.8	0.0	0.0	0.0	0.0
65.5	−27.1	0.0	−0.4	1.0	−4.0	35.0	1.9	36.9
0.0	0.0	0.0	0.0	0.0	0.0	−18.3	2.5	−15.8
65.5	**−27.1**	**0.0**	**−0.4**	**1.0**	**−4.0**	**16.7**	**4.5**	**21.2**
−215.3 [1]	−181.2 [2]	0.0	0.4	−0.3	−6.4	**2,814.3 [3]**	**36.9**	**2,851.2**
−159.4	−151.6	0.0	0.0	−16.4	−5.9	2,161.6	34.3	2,195.9
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
−16.3	2.2	0.0	0.0	3.5	2.7	−7.9	1.4	−6.5
0.0	0.0	0.0	0.0	0.0	0.0	39.2	2.2	41.4
−16.4	2.3	0.0	0.0	3.5	2.7	31.3	3.6	34.9
−175.7 [1]	**−149.4 [2]**	**0.0**	**0.0**	**−12.9**	**−3.2**	**2,192.9 [3]**	**37.9**	**2,230.8**

Condensed notes to the consolidated financial statements

Consolidated segment reporting by division

1ST HALF OF 2014 EUR m	Consumer Solutions	Pharmacy Solutions	Other	Consolidation	Group (continuing operations)	Discontinued operations
Income statement						
Revenues	**1,781.2**	**9,149.6**	**0.0**	**0.0**	**10,930.8**	**0.0**
External revenues	1,781.2	9,149.6	0.0	0.0	**10,930.8**	0.0
Internal revenues	0.0	0.0	0.0	0.0	**0.0**	0.0
Gross profit	**602.5**	**566.0**	**0.0**	**0.0**	**1,168.5**	**0.0**
EBITDA	137.8	162.7	−65.4	0.0	**235.1**	0.0
Impairment losses and unscheduled depreciation and amortisation on intangible assets and on property, plant and equipment	−16.8	−86.2	0.0	0.0	**−103.0**	0.0
EBIT	**89.3**	**52.8**	**−71.7**	**0.0**	**70.4**	**0.0**
Segment assets	**2,115.1**	**2,041.8**	**25.4**	**0.0**	**4,182.3**	**0.0**

Consolidated segment reporting by division

1ST HALF OF 2013 EUR m	Consumer Solutions	Pharmacy Solutions	Other	Consolidation	Group (continuing operations)	Discontinued operations
Income statement						
Revenues	**1,680.4**	**9,052.7**	**0.0**	**–0.1**	**10,733.0**	**19.1**
External revenues	1,680.3	9,052.7	0.0	0.0	**10,733.0**	19.1
Internal revenues	0.1	0.0	0.0	–0.1	**0.0**	0.0
Gross profit	**577.1**	**590.2**	**0.0**	**0.0**	**1,167.3**	**2.9**
EBITDA	126.6	180.2	–39.0	–0.3	**267.5**	0.3
Impairment losses and unscheduled depreciation and amortisation on intangible assets and on property, plant and equipment	–0.4	0.0	0.0	0.0	**–0.4**	0.0
EBIT	**95.3**	**153.2**	**–45.3**	**–0.3**	**202.9**	**0.3**
Segment assets	**1,893.8**	**2,102.4**	**18.6**	**0.0**	**4,014.8**	**0.0**

RECONCILIATION OF SEGMENT REVENUES FOR THE 1ST HALF YEAR EUR m	2013	2014
Revenues of reportable segments	**10,733.1**	**10,930.8**
Consolidation	–0.1	**0.0**
Revenues of the group	**10,733.0**	**10,930.8**

RECONCILIATION OF SEGMENT RESULTS FOR THE 1ST HALF YEAR EUR m	2013	2014
EBIT	**202.9**	**70.4**
Profit/loss from shareholdings measured at equity	1.8	**4.0**
Profit/loss from other shareholdings	3.6	**3.3**
Interest expense	–71.3	**–50.5**
Interest income	3.8	**3.7**
Other financial result	–5.1	**2.8**
Profit before taxes from continuing operations	**135.7**	**33.7**

RECONCILIATION OF SEGMENT ASSETS EUR m	30/06/2013	30/06/2014
Segment assets of reportable segments	**4,014.8**	**4,182.4**
Consolidation	0.0	**0.0**
Segment assets of the group	**4,014.8**	**4,182.4**
+ Interest-bearing other financial assets	46.6	**53.3**
+ Non-current and current income tax receivables	41.6	**39.3**
+ Deferred tax assets	113.7	**109.2**
+ Other assets	10.3	**1.6**
+ Cash and cash equivalents	423.9	**202.9**
+ Assets of discontinued operations	0.0	**0.0**
- Other non-current provisions	65.4	**70.1**
- Other current provisions	129.0	**128.9**
- Trade liabilities	2,334.0	**2,271.8**
- Other liabilities	458.7	**487.9**
Total assets	**7,638.0**	**7,547.4**

Accounting and measurement policies

The condensed consolidated interim report of Celesio AG for the first quarter of 2014 – comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and selected notes – is prepared on the basis of International Accounting Standard (IAS) 34 – Interim Reporting. All the applicable International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, approved for use in the European Union as at 30 June 2014, and all the interpretations (IFRIC) of the International Financial Reporting Standards Interpretation Committee were complied with. The accounting policies applied in the preparation of the condensed interim report essentially correspond to those used in the consolidated financial statements as at 31 December 2013. The condensed interim report should therefore be read in conjunction with the consolidated financial statements of Celesio AG for the fiscal year 2013.

The accounting policies used to prepare the consolidated financial statements for 2013 have been adopted without change.

As a result of the application of the standard "IFRS 10 - Consolidated Financial Statements", compulsory since 1 January 2014, which replaces regulations on preparing the consolidated financial statements in the former "IAS 27 – Consolidated and Separate Financial Statements" and "SIC-12 – Consolidation - Special Purpose Entities", there was no major impact on the scope of consolidation of Celesio AG and therefore on the consolidated interim report. Furthermore, the initial application of "IFRS 11 – Joint Arrangements", which replaces "IAS 31 – Interest in Joint Ventures" and "SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers", and the newly issued standard "IFRS 12 – Disclosure of Interests in Other Entities" did not have any impact on the consolidated interim report. In addition, the standards "IAS 32 – Offsetting Financial Assets and Financial Liabilities" and "IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting" were applied compulsorily as of 1 January 2014, each without any impact on the consolidated interim report.

The consolidated financial statements were prepared in euro. Unless otherwise stated, all figures are provided in millions of euros (EUR m). Please note that differences can result from the use of rounded amounts and percentages due to financial rounding.

Consolidated group

Business combinations and sales of subsidiaries in the first half of 2014

Business combinations

In the first half of 2014, four retail pharmacies in Norway, five 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.

Furthermore, the German company GesuCon GmbH, a provider of IT solutions for optimising pharmacists' ordering and stock management, was acquired 100% and fully consolidated in the Others division.

The key information about the companies acquired in the first half of 2014 is as follows:

EUR m	Total
Consideration transferred	**20.3**
Purchase price paid	**12.8**
Contingent purchase price components	**6.1**
Stakes previously held at equity	**1.4**
Revaluation of stakes previously held at equity	**0.0**
Cash purchase price	**9.4**
Fair value of the assets and debt acquired	
Total assets	**9.3**
Intangible assets	**2.6**
Property, plant and equipment	**0.3**
Stock	**1.3**
Trade receivables	**1.2**
Cash and cash equivalents	**3.4**
Other assets	**0.5**
Total liabilities	**2.8**
Deferred tax liabilities	**0.8**
Trade liabilities	**0.6**
Other liabilities	**1.4**
Goodwill	**13.8**
Non-controlling interests	**0.0**

Incidental acquisition costs of EUR 0.2m were recognised in other expenses. No treasury shares were issued to settle purchase price liabilities.

The fair value of receivables acquired amounts to EUR 1.8m and equates to the gross amounts of contractual receivables. Trade receivables amounting to EUR 1.2m are included in this figure.

The resultant goodwill mainly represents the future prospects expected with the respective acquisition and the value of the experience among the employees acquired and is tax deductible in the amount of EUR 0.4m.

Revenue of EUR 3.9m and a net profit of EUR 0.4m are attributable to the companies acquired in the 2014 fiscal year. If these companies had been acquired at the beginning of the fiscal year, they would have contributed EUR 6.6m to the revenues and EUR 0.4m to the net profit of the group.

Change in contingent considerations

In the 2014 fiscal year, the contingent considerations carried as liabilities in accordance with IFRS 3, which was revised in 2008 and has been applicable since 2010, increased by EUR – 1.3m. Access to a new contingent consideration of EUR 6.1m was offset by repayment of contingent considerations amounting to EUR 4.8m. 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 ranges for the contingent considerations at the end of the 2014 fiscal year.

Sales of subsidiaries

Two retail pharmacies in the United Kingdom were sold in the first half of 2014 as a result of measures to streamline the portfolio. The considerations received amounted to EUR 1.9m (EUR 1.9m of which was cash). Assets of EUR 0.4m, solely property, plant and equipment, were sold. Disposal costs of EUR 0.1m were incurred, some of which were transaction costs. The profit on disposal amounted to EUR 1.4m. It is shown in other operating earnings.

Changes in the amount of subsidiaries' shareholdings involving no loss of control

In the 2014 fiscal year, minor additional stakes were acquired in the Pharmacy Solutions division in Slovenia and in the Others division in France. The effects on retained earnings were also correspondingly minor.

Business combinations and sales of subsidiaries in the first half of 2013

Business combinations

The key information about the companies acquired in the first half of 2013 is as follows:

EUR m	Total
Consideration transferred	**1.3**
Purchase price paid	**1.0**
Contingent purchase price components	**0.3**
Stakes previously held at equity	**0.0**
Revaluation of stakes previously held at equity	**0.0**
Cash purchase price	**0.6**
Fair value of the assets and debt acquired	
Total assets	**0.7**
Property, plant and equipment	**0.1**
Stock	**0.1**
Trade receivables	**0.1**
Cash and cash equivalents	**0.4**
Other assets	**0.0**
Total liabilities	**0.5**
Other liabilities	**0.5**
Goodwill	**1.1**
Non-controlling interests	**0.0**

No significant incidental acquisition costs were incurred.

No contingent purchase price components arose in the 2013 fiscal year.

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 0.2m.

Revenue of EUR 0.2m and an earnings contribution of EUR 0.3m were attributable in the prior-year period to the companies acquired in the 2013 fiscal year. If these companies had been acquired at the beginning of the comparative period, they would have contributed EUR 1.3m to the revenues of the group. They would have contributed EUR 0.3m to the net profit of the group.

Sales of subsidiaries

Two retail pharmacies in the United Kingdom and one retail pharmacy in Sweden were sold in the first half of 2013 as a result of measures to streamline the portfolio. Assets of EUR 0.1m, solely property, plant and equipment, were sold. The profit on disposal amounted to EUR 0.3m. It is shown in other operating earnings.

Non-recurring expenses in the consolidated income statement

Non-recurring effects amounting to EUR 128.8m overall weighed on earnings in the first half of 2014. These non-recurring effects are due in particular to the unscheduled impairment losses on goodwill (amounting to EUR 76.3m) and other intangible assets belonging to the Brazilian activities (amounting to EUR 6.5m), depreciation and amortisation on surplus IT infrastructure in the United Kingdom (amounting to EUR 20.2m) legal and consultancy expenses in connection with the completed takeover by the McKesson Corporation (amounting to EUR –26.2).

In contrast, non-recurring effects amounting to EUR 0.4m weighed on earnings in the reference period.

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 used 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.

Due to an adjustment in the long-term earnings outlook at the Wholesale Brazil cash-generating unit, an unscheduled impairment test was required, which resulted in the valuation being adjusted by a total of EUR 82.8m. Progress has certainly been made to date with the initiated realignment of the Brazilian business units, but not at the desired rate or to the extent planned, primarily due to the increasing consolidation of pharmacy chains and the resulting fiercer competition.

A large portion of the unscheduled depreciation and amortisation, amounting to EUR 76.3m, related to goodwill dating back to 2009 and 2011. This amount was fully impaired. In addition, brand rights for Brazilian activities amounting to EUR 6.5m were subject to an unscheduled impairment, as the value in use was below the carrying amount not including goodwill.

As part of the impairment test, forecasts were adjusted to reflect the latest findings and capitalisation interest rates were recalculated, if necessary. The total cost of capital used in the unscheduled impairment test for the Wholesale Brazil cash-generating unit was 15.0%, compared to 15.1% used in the scheduled impairment test on 31 October 2013.

In order to validate the values in use determined as at 30 June 2014, additional scenarios of critical calculation parameters were performed for the Wholesale France cash-generating unit:

- An increase in the total cost of capital by 1.0 percentage points
- A reduction in growth rates after the detailed planning period of 0.5 percentage points
- Accrual of planned revenues delayed by a year, while margins remain as in the basic scenario, due to the uncertainties dominating the markets and the strategy projects currently under implementation

At the Wholesale France cash-generating unit, the total cost of capital amounted to 12.1% as at 30 June 2014, while growth rates after the detailed planning period were 1.0%. Furthermore, the Wholesale France cash-generating unit includes goodwill of EUR 134.2m. Based on the assumptions above, the value in use exceeds the carrying amount of the cash-generating unit by EUR 37.0m. If the total cost of capital increased 1.0 percentage points, the carrying amount of the cash-generating unit would equal its value in use. A change in the growth rates after the detailed planning period or a delay in the planned revenues, both of which are considered possible, would not necessitate an impairment.

Discontinued operations and disposal groups

General

As part of its far-reaching strategic realignment and portfolio optimisation, in 2012 Celesio announced plans to initiate the sale process for a range of companies and activities which no longer formed part of the company's core business. Consequently, it sold the Movianto business unit, with the exception of Movianto Ireland, the Pharmexx business unit and the DocMorris mail order pharmacy in 2012. Movianto Ireland and the Wholesale Ireland were divested in the second quarter of 2013.

No units were classified as discontinued operations and disposal groups in the 2014 fiscal year. The profit from discontinued operations, which is largely due to provisions for the expected occurrence of additional risks in relation to the activities divested, amounted to EUR –0.8m in the first half of 2014 compared to EUR –2.4m in the prior-year period.

Measurement effects and disposals

The units classified as discontinued operations and disposal groups are measured at fair value less the costs of disposal. Fair value is determined based on purchase agreements concluded. No impairment was taken for Movianto Ireland and Wholesale Ireland in the first half of 2013.

No units classified as discontinued operations and disposal groups were deconsolidated in the reporting period.

The key information about the deconsolidation of both Movianto Ireland, classified as discontinued operations, and Wholesale Ireland, classified as a disposal group, which took place in the reporting periods is as follows:

1ST HALF OF 2013 EUR m	Wholesale Ireland	Movianto Ireland	Total
Considerations received	**34.8**	**10.0**	**44.8**
For which cash transactions are expected	34.8	10.0	**44.8**
For which cash transactions already concluded	21.4	6.1	**27.5**
Profit/loss on disposal	0.4	0.5	**0.9**
Total assets	**98.9**	**54.4**	**153.3**
Intangible assets	0.0	0.0	**0.0**
Property, plant and equipment	0.0	0.0	**0.0**
Deferred tax assets	1.1	0.0	**1.1**
Stock	19.2	9.9	**29.1**
Trade receivables	56.6	39.6	**96.2**
Cash and cash equivalents	10.9	0.0	**10.9**
Other assets	11.1	4.9	**16.0**
Total liabilities	**66.6**	**46.0**	**112.6**
Outstanding debt	0.0	0.0	**0.0**
Provisions for pensions	1.1	0.0	**1.1**
Deferred tax liabilities	0.5	0.2	**0.7**
Trade liabilities	49.9	39.7	**89.6**
Other current provisions	0.4	0.2	**0.6**
Other liabilities	14.7	5.9	**20.6**

Assets and liabilities held for sale

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

EUR m	31/12/2013 Non-current assets held for sale	30/06/2014 Non-current assets held for sale
Intangible assets	0.0	**0.0**
Property, plant and equipment	2.5	**0.9**
Stock	0.0	**0.0**
Trade receivables	0.0	**0.0**
Cash and cash equivalents	0.0	**0.0**
Other assets	0.0	**0.0**
Assets	**2.5**	**0.9**
Outstanding debt	0.0	**0.0**
Trade liabilities	0.0	**0.0**
Other liabilities	0.0	**0.0**
Liabilities	**0.0**	**0.0**

Property with a carrying value of EUR 0.4m (PY EUR 2.0m) is reported as non-current assets held for sale in the Pharmacy Solutions division. The figure in the Consumer Solutions division amounts to EUR 0.5m (PY EUR 0.5m).

Profit from discontinued operations

The profit from discontinued operations includes the risks associated with the disposals in 2012 and 2013.
The profit from discontinued operations is as follows:

EUR m	Total	
1st half year	2013	**2014**
Revenue	19.1	**0.0**
Cost of materials	–16.2	**0.0**
Gross profit	2.9	**0.0**
EBITDA	0.3	**0.0**
EBIT	0.3	**0.0**
Profit before taxes from discontinued operations	0.3	**0.0**
Income taxes	0.0	**0.0**
Profit after taxes from discontinued operations	0.3	**0.0**
Profit after taxes from measurement and the disposal of discontinued operations	–2.7	**–0.8**
Profit from discontinued operations	**–2.4**	**–0.8**

Guarantees and other commitments, other financial obligations and contingent liabilities

On 30 June 2014, there were guarantees and sureties amounting to EUR 87.5m (31 December 2013 EUR 96.6m). The fall amounting to EUR 9.1m is mainly attributable to the reduction in guarantees in wholesale business in the United Kingdom.

During the first half of 2014, there has been no material change in the other financial obligations shown in the consolidated financial statements as at 31 December 2013.

The contingent liabilities recognised for legal and tax risks as part of the acquisition of Panpharma in 2009 amounted to EUR 28.1m as at 30 June 2014 (31 December 2013 EUR 32.0m). These shrank mainly due to the statute of limitations expiring on legal and tax risks and the agreement with the tax authorities, in addition to currency effects. To cover these risks, claims for reimbursement were agreed with the former shareholders, which are capped at a maximum amount.

The claims for reimbursement are recognised as a claim against the former owners in current or non-current assets and mainly decline in line with the contingent liabilities for legal and tax risks. To secure these claims, Celesio has access to assets held in trust for the former owners along with other possibilities to offset the claims and collateral granted. Depending on maturity, the contingent liabilities recognised are reported in current or non-current provisions. The contingent liabilities include income tax liabilities of EUR 1.4m (31 December 2013 EUR 2.9m).

On 28 April 2014, in Slovenia, the administrative court delivered its judgement on the antitrust case against Kemofarmacija from 2010. The court upheld the decision of the antitrust authority regarding the violation of Slovenian antitrust law against our wholesale subsidiary. Kemofarmacija has lodged an appeal against the decision. As regards the violation of European Antitrust Law, the court has remanded the decision back to the Slovenian antitrust authority. A new decision by the antitrust authority is expected within the next few months. Administrative proceedings regarding a fine have now been initiated by the authority. The outcome of this case can still not be reliably determined in respect of either the amount or the range of the action. Consequently no provision was recognised for these risks.

Fair value measurement

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

ASSETS	31/12/2013		30/06/2014	
EUR m	Carrying amounts	Fair values	Carrying amounts	Fair values
Financial assets available for sale - equity instruments	58.8	58.8	**59.0**	**59.0**
Financial assets available for sale - debt instruments	3.6	3.6	**3.5**	**3.5**
Loans to investments	14.5	14.4	**14.4**	**14.2**
Other loans	32.6	32.2	**38.9**	**38.4**
Other financial assets	**109.5**	**109.0**	**115.8**	**115.1**
Other non-current assets	**39.8**	**39.8**	**37.3**	**37.3**

LIABILITIES	31/12/2013		30/06/2014	
EUR m	Carrying amounts	Fair values	Carrying amounts	Fair values
Liabilities to banks	111.2	119.9	**115.5**	**122.9**
Schuldschein note loans and bonds	1,273.9	1,461.1	**934.8**	**1,010.8**
Lease liabilities	7.5	7.5	**6.3**	**6.3**
Other financial liabilities	3.4	3.3	**2.3**	**2.4**
Non-current financial liabilities	**1,396.0**	**1,591.8**	**1,058.9**	**1,142.4**
Other non-current liabilities	**0.3**	**0.3**	**0.3**	**0.3**
Liabilities to banks	56.8	56.8	**194.1**	**194.1**
Schuldschein note loans and bonds	439.7	487.6	**0.0**	**0.0**
Lease liabilities	3.3	3.3	**2.8**	**2.8**
Other financial liabilities	3.3	3.3	**0.5**	**0.5**
Current financial liabilities	**503.1**	**551.0**	**197.4**	**197.4**

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

The financial assets available for sale mainly comprise shareholdings in unlisted companies where neither control nor any significant influence can be exercised. If there are no active markets, these financial assets are shown at amortised cost. On 30 June 2014, unlisted shareholdings with a carrying amount of EUR 57.9m (PY EUR 57.3m) were measured at amortised cost for this reason.

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

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

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

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

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

Assets accounted for at fair value

EUR m	
Recurring fair value measurement	
Financial assets available for sale	
Derivative financial instruments – without hedge accounting	

Liabilities accounted for at fair value

EUR m	
Recurring fair value measurement	
Derivative financial instruments – with hedge accounting	
Derivative financial instruments – without hedge accounting	
Other liabilities	

	31/12/2013				30/06/2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	5.1	0.0	0.0	5.1	**4.6**	**0.0**	**0.0**	**4.6**
	0.0	0.5	0.0	5.2	**0.0**	**1.6**	**0.0**	**1.6**

	30/06/2013				30/06/2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	0.0	26.4	0.0	**26.4**	**0.0**	**0.3**	**0.0**	**0.3**
	0.0	8.9	0.0	**8.9**	**0.0**	**18.7**	**0.0**	**18.7**
	0.0	0.0	0.3	**0.3**	**0.0**	**0.0**	**0.9**	**0.9**

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

The fair value of financial instruments, which are traded on an active market, is based on listed prices on the balance sheet date. The DCF method is used to determine the level 2 and 3 fair values of assets and liabilities measured at fair value on a recurring basis. In the process, the future cash flows expected from financial instruments are first discounted using market interest rates corresponding to their respective terms. Celesio takes account of the creditworthiness of the respective debtor by establishing adjustment values, so-called credit value adjustments (CVA) or debt value adjustments (DVA) on the basis of a mark-up/mark-down procedure. Where possible, the CVA or DVA is determined using prices for credit derivatives observable on the market.

The level 3 liabilities relate to liabilities from business combinations after 1 January 2010, which are measured on the basis of earnings variables as well as assumptions and assessments by management. Please refer to → page 62 for the reconciliation of this with level 3 liabilities measured at fair value from the beginning of the reporting period to the end of the reporting period.

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.

Other comprehensive income after taxes

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

EUR m	1st half of 2013			1st half of 2014		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Items which are not reclassified in profit or loss						
Revaluation of defined benefit pension plans	−1.2	−9.8	−11.0	**−29.5**	**3.2**	**−26.3**
Stake in revaluation of defined benefit pension plans of shareholdings measured at equity	3.5	/	3.5	**−4.0**	**/**	**−4.0**
Items, which may be reclassified in profit or loss subsequently						
Unrealised losses from the current year	0.0	0.0	0.0	**−0.4**	**0.0**	**−0.4**
Gains/losses affecting net income reclassified in the income statement	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Unrealised losses from the market valuation of financial assets available for sale	0.0	0.0	0.0	**−0.4**	**0.0**	**−0.4**
Unrealised gains/losses from the current year	2.8	−0.7	2.1	**−2.0**	**1.0**	**−1.0**
Gains/losses affecting net income reclassified in the income statement	6.6	−1.7	4.9	**2.8**	**−1.1**	**1.7**
Unrealised gains/losses from derivative financial instruments used to hedge cash flows	9.4	−2.4	7.0	**0.8**	**−0.1**	**0.7**
Effects of currency translation not affecting net income	−84.5	0.0	−84.5	**66.9**	**/**	**66.9**
Dissolution affecting net income based on loss of control	0.0	0.0	0.0	**0.0**	**/**	**0.0**
Differences from currency translation	−84.5	0.0	−84.5	**66.9**	**/**	**66.9**
Other comprehensive income	**−72.8**	**−12.2**	**−85.0**	**33.8**	**3.1**	**36.9**

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 (previously Patient and Consumer Solutions) and Pharmacy Solutions divisions. These divisions are the basis of the internal management by the Management Board and consequently the reportable segments.

The Management Board of Celesio AG is the main decision-maker in accordance with IFRS 8.7. The divisions of Celesio AG can be described as follows:

- The Consumer Solutions division addresses patients and consumers. It includes the entire logistics chain from purchasing merchandise to handing it over to end consumers. In particular, the division includes activities relating to retail and mail-order pharmacies, as well as activities in brand partner shops. In the operating segment International Retail, similarly to the wholesale business, a distinction has been made since the end of 2012 between the operating segments per country on the basis of a reorganisation of the organisational and reporting structure, which were also combined for the purposes of segment reporting by business area.

  The division also includes our shareholding in Brocacef Holding N.V. in the Netherlands, which is recognised as an associated company.
- The Pharmacy Solutions division offers solutions for pharmacists; it concentrates on wholesale business with third party customers. In this division too, operating segments are combined at country level. The Pharmacy Solutions division also includes the developer of pharmacy sites, Inten, and Rudolf Spiegel, the mail order company for pharmacy and laboratory equipment, until it was sold in September 2013.
- The Others division mainly includes the activities of the ultimate parent company Celesio AG and other companies that are not attributable directly to operations. Celesio AG has shareholdings in the key national operating companies and holding companies. The operating companies of the Celesio Group are also mainly financed via Celesio AG and Celesio Finance B.V., Netherlands. Celesio AG also bundles group functions including in Accounting, Controlling, Treasury and IT.

  The consolidation measures between the divisions are presented separately.

The Management Board measures the success of the segments through EBIT calculated in accordance with IFRS. This is defined as earnings before earnings

from shareholdings, interest and taxes. Gross profit and EBITDA are also provided as additional voluntary information.

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 segment reporting by business area is based on the same accounting provisions as for the group. Transactions within the group are measured at market prices.

Transactions with related parties

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

All transactions with related parties are 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 31/12/2013	30/06/2014
Receivables and loans	/	5.7
Liabilities	/	0.0

1ST HALF EUR m	McKesson Corporation, San Francisco, USA 2013	2014
Revenues	/	0.0
Expenses	/	0.0

	Subsidiaries of McKesson Corporation, San Francisco, USA		Joint ventures and associates of McKesson Corporation, San Francisco, USA		Joint ventures and associates of Celesio AG	
	31/12/2013	30/06/2014	31/12/2013	30/06/2014	31/12/2013	30/06/2014
	/	0.0	/	0.0	2.1	1.7
	/	0.0	/	0.0	0.0	0.0

	Subsidiaries of McKesson Corporation, San Francisco, USA		Joint ventures and associates of McKesson Corporation, San Francisco, USA		Joint ventures and associates of Celesio AG	
	2013	2014	2013	2014	2013	2014
	/	0.0	/	0.0	5.2	4.7
	/	0.0	/	0.0	0.0	0.0

As of February 2014, Franz Haniel & Cie. GmbH, Duisburg is no longer listed as a related party. The goods or services supplied and received until that date are as follows:

	Franz Haniel & Cie. GmbH, Duisburg		Subsidiaries of Franz Haniel & Cie. GmbH		Joint ventures and associates of Franz Haniel & Cie. GmbH	
	31/12/2013	31/01/2014	31/12/2013	31/01/2014	31/12/2013	31/01/2014
EUR m						
Receivables and loans	0.0	0.0	0.1	0.1	0.0	0.0
Liabilities	0.0	0.0	0.1	0.0	0.0	0.0
	01/01/2013 - 30/06/2013	01/01/2014 - 31/01/2014	01/01/2013 - 30/06/2013	01/01/2014 - 31/01/2014	01/01/2013 - 30/06/2013	01/01/2014 - 31/01/2014
Revenues	0.1	0.0	0.0	0.0	0.0	0.1
Expenses	0.0	0.0	0.1	0.0	0.7	0.0

Employees

At the end of the first half of 2014, Celesio employed 28,669 (30 June 2013: 28,539) employees (full-time equivalents).

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 8.7m (PY income EUR 5.4m). Other financial income also contains exchange gains amounting to EUR 27.5m (PY EUR 101.1m) and exchange losses of EUR 16.4m (PY EUR 112.9m). There were no impairment losses on loan receivables in the fiscal year or the prior year. In contrast, other financial income includes income from impaired loan receivables of EUR 0.4m (PY EUR 1.4m).

On 23 January 2014, McKesson Corporation, San Francisco, USA announced its intention to conclude a domination and profit and loss transfer agreement (DPLA) with Celesio AG as a controlled company after completing its takeover. Subsequently the Management Board of Celesio AG began negotiations with Dragonfly GmbH & Co. KGaA, a fully-owned subsidiary of McKesson Corporation, with a view to concluding a DPLA. In this regard, a cash settlement per Celesio AG share, in accordance with Section 305 AktG, and a fixed guaranteed dividend or a fixed annual compensatory payment per Celesio AG share for each full fiscal year, in accordance with Section 304 AktG, was determined provisionally. The Annual General Meeting of Celesio AG agreed to the DPLA on 15 July 2014.

The Annual General Meeting of Celesio AG passed a resolution to pay a dividend of EUR 0.30 per share (previous year EUR 0.30) for the 2013 fiscal year. The dividend was paid on 17 July 2014.

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

Events after the reporting period

Domination and profit and loss transfer agreement

On 15 July 2014, the Annual General Meeting of Celesio AG approved the domination and profit and loss transfer agreement with Dragonfly GmbH & Co. KGaA. From the 2015 fiscal year, Celesio AG will transfer all distributable profits to the controlling company starting from 1 January 2015, provided the agreement has been entered in the Commercial Register in this fiscal year.

Adjustment to the fiscal year

The Annual General Meeting has agreed to adjust the company's fiscal year. In order to standardise the fiscal year within the Group and to facilitate consolidated accounting the fiscal year will start in future on 1 April and will run until 31 March of the following year. The period from 1 January 2015 to 31 March 2015 constitutes a short fiscal year.

New Supervisory Board members approved by the Annual General Meeting

The Annual General Meeting approved the appointment of John H. Hammergren, Paul C. Julian and Prof. Dr. Wilhelm Haarmann to the Supervisory Board.

There had been no other events of particular significance by the editorial deadline of 27 July 2014 that can be expected to have a material effect on the assets position and revenue and operating results of the Celesio Group.

Stuttgart, 28 July 2014

The Management Board

Responsibility statement by the legal representatives

To the best of our knowledge, we affirm that, in compliance with the principles of proper accounting, the consolidated financial statements convey a true and fair picture of the Group's assets position and revenue and operating results, and the course of business including the company's performance and the position of the Group are presented in such a way in the interim Group management report that a true and fair picture is conveyed, and the material opportunities and risks of the Group's anticipated performance in the remaining financial year are described.

STUTTGART, 28 July 2014

MARC OWEN
CHAIRMAN OF THE MANAGEMENT BOARD

ALAIN VACHON
CHIEF FINANCIAL OFFICER

STEPHAN BORCHERT
MEMBER OF THE MANAGEMENT BOARD

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This Half-Year Financial Report was published on 31 July 2014. It is produced in German and English and is available to download from the Internet at celesio.com, in the section entitled Investor Relations.
A printed version of the Half-Year Financial Report can be ordered there.
Rounding differences may occur in the Half-Year Financial Report due to presentation in EURm.
The German version is legally binding.

This Half-Year Financial Report was compiled with the help of the editorial system FIRE.sys.

Photography: Oliver Rossi / Corbis, Hero Images

Financial calendar

Quarterly financial report as at 30 September 2014

28 October 2014

(Extract)

Subject to modification. Additional dates and revised dates are available on the Internet at www.celesio.com/de/Investor_Relations/financial calendar.

Forward-looking statements

The present Half-Year 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.