



Interim Report 1st quarter 2005

the healthcare group



celesio
the healthcare group



Celesio Group

Key facts about Celesio

History

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

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



Revenue _____ € 4.9 bn
 Revenue growth _____ 6.2 % (6.4 %*)
 EBIT _____ € 139.4 m
 EBIT growth _____ 12.5 % (13.5 %*)
 Profit before tax _____ € 114.7 m
 Growth in profit before tax _____ 17.2 % (18.3 %*)
 Net profit _____ € 79.2 m
 Growth in net profit _____ 17.3 % (18.4 %*)
 Earnings per share _____ € 0.92

Employees** _____ 32,973
 Wholesale branches _____ 138
 Pharmacies _____ 1,888

* In local currency

** Number of employees

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Highlights of 2005

- Start of integration of Soquiifa-Medicamentos/Portugal and Kemo-farmacija/Slovenia with its holdings in Croatia and Romania into the Celesio Wholesale division.
- Start of integration of Sanalog/Germany into AVS Health Distribution.
- Agreement of the British competition authorities to the acquisition of Healthcare Logistics in the United Kingdom.



Letter to shareholders

Dear Shareholder

In the 1st quarter of 2005, Celesio is once again able to report significant growth. Revenue rose by 6.2 % (6.4 % in local currency) compared with the prior year. Profit before tax rose by 17.2 % (18.3 % in local currency). The performance of the business shows that the company is correctly positioned strategically in an attractive market. Having used international IFRS reporting standards for the first time for the 2004 fiscal year, Celesio is reporting in line with IFRS for the 1st quarter of 2005. The figures for the quarter from the prior year have been adapted in line with IFRS and are thus comparable.

Growth market healthcare

The favourable conditions that exist within the pharmaceutical market will not change in 2005. One of the most important growth drivers is and remains demographic development. Inevitably, the ever-increasing number of elderly people is creating a greater demand for medical care. For example, over sixty-year-olds spend an average of over three times as much as those under the age of sixty on medication. Medical advancement promises additional growth. People are making use of medical progress and investing more in their health.

The company covers the entire scope of the pharmaceutical market with its three business divisions, Celesio Wholesale, Celesio Pharmacies and Celesio Solutions, and is not dependent on the success of one single drug. Celesio therefore participates in the growth of the entire pharmaceutical market with each of its three business divisions.

"People are making use of medical progress and investing more in their health."



Celesio Group

"Services relating to medication and for different customer groups in the pharmaceutical market are a long-term attractive field of growth for Celesio."

"Celesio has improved profitability in the Wholesale and Pharmacies business divisions."

New business division as a growth field

In order to tap into new, attractive, long-term areas of growth, Celesio began developing a European business model for manufacturer-oriented logistics and distribution services in 2004. These activities are part of the new Celesio Solutions business division that will offer services based around medications and for the various customer groups in the pharmaceuticals market in the future. This sector is largely free of state regulation and offers opportunities for entering new foreign markets. As a result, this will facilitate the diversification of business activities in the current core market, the pharmaceutical market, in the long-term.

Positive revenue and profit development

Group revenue increased in the 1st quarter of 2005 by 6.2 % (6.4 % in local currency) to € 4,906.2 m. The Wholesale companies, Soquifa-Medicamentos/Portugal and Kemofarmacija/Slovenia with its holdings in Croatia and Romania, which were included in the consolidated financial statements for the first time in the 1st quarter of 2005, contributed to this growth. Adjusted to take account of all acquisitions, group revenue would have grown by 3.3 % (3.6 % in local currency), although the 1st quarter of 2005 had fewer working days compared with the same period for the prior year and the effect of price reductions, in the United Kingdom in particular, began to be felt.

In the Wholesale division, revenue increased by 6.8 % (6.9 % in local currency) taking account of acquisitions. Organic revenue growth was 3.8 % (4.0 % in local currency) and was therefore in line with market growth.

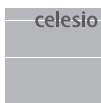
In the pharmacy business revenue grew by 0.6 % (1.3 % in local currency). However, the comparison with the prior year's quarter is impaired. In particular, the significantly lower number of working days in the 1st quarter of 2005 compared with the 1st quarter of 2004 primarily caused the expected slowing of growth along with the price reductions for generic drugs at the end of 2004 and the general price reduc-

tion for patent-protected original preparations in the United Kingdom with effect from 1 January 2005. Price reductions in Norway and Italy as well as the opening of new pharmacies by competitors in Ireland and the Czech Republic also had an impact on Celesio Pharmacies' business. Nevertheless, Celesio Pharmacies showed stronger growth than the comparable market overall. Taking these circumstances into account, performance is positive.

The business performance of Celesio Solutions was also positive. As almost no revenue in the form of trade revenue is disclosed for this division, revenue performance as such is of little relevance. Contracts with customers are generally remunerated on a commission basis or through agreed service fees. The definitive benchmark is therefore the absolute gross profit achieved as a sum of service fees, commission revenue and to some extent margins from trade revenue. Taking the acquisition of Realpol/Czech Republic, SEUR PHARMA/Spain and Sanalog/Germany into account gross profit increased by 35.9 % (35.8 % in local currency) in the 1st quarter of 2005. Gross profit grew organically by 10.0 % (10.0 % in local currency).

The significantly improved gross profit and sustainable cost management contributed to the disproportionate increase in group EBIT of 12.5 % (13.5 % in local currency). EBIT reached € 139.4 m by the end of the quarter.

Profit before tax for the group rose by 17.2 % (18.3 % in local currency) to € 114.7 m. The pharmacies exceeded this growth considerably with an increase in profit of 19.0 % (21.0 % in local currency). In the Wholesale division profit before tax grew by 10.3 % (10.8 % in local currency). In the Solutions division profit before tax fell by 15.6 % (15.1 % in local currency), largely in line with expectations, due to necessary advances as well as increased amortisation and depreciation.



Celesio Group

Revenue, gross profit, EBIT and profit development, 1st quarter

	2004		2005		Change in € in %	Change in local currency in %
	in € m	in % of revenue	in € m	in % of revenue		
Revenue	4,621.9	100.00	4,906.2	100.00	6.2	6.4
Gross profit	487.3	10.54	515.8	10.51	5.8	6.2
EBIT	124.0	2.68	139.4	2.84	12.5	13.5
Profit before tax	97.9	2.12	114.7	2.34	17.2	18.3
Net profit	67.5	1.46	79.2	1.61	17.3	18.4
Cash flow	91.1	1.97	107.2	2.18	17.7	18.5

Increase in profitability

“Taking the prior year’s high level as a starting point, return on sales improved. The Celesio Pharmacies and Celesio Wholesale divisions, in particular, contributed to the positive performance.”

Profitability increased in the 1st quarter of 2005 compared with the 1st quarter of 2004. This is reflected in the income statement. Taking the prior year’s high level as a starting point, return on sales improved. Based on EBIT, this rose to 2.84 % (prior year: 2.68 %), and based on profit before tax to 2.34 % (prior year: 2.12 %). The Celesio Pharmacies and Celesio Wholesale divisions, in particular, contributed to the positive performance.

Whilst absolute gross profit at group level rose by 5.8 % (6.2 % in local currency) to € 515.8 m, the gross profit ratio fell slightly in line with expectations, decreasing by 3 basis points to 10.51 %. In the Wholesale division there was a fall in the gross profit margin of 30 basis points to 6.44 % compared with the prior year due to statutory price cuts in the United Kingdom and a changed product mix in Germany. The pharmacies made a positive contribution to gross profit performance, with the gross profit ratio increasing by 234 basis points to 33.93 %. The proportion contributed by Celesio Pharmacies to the total gross profit thereby increased to 44.5 % (43.6 % in the prior year). A gross profit ratio is irrelevant for the Celesio Solutions division due to the composition of its revenue (service fees, commission and trade revenue). Gross profit achieved as an absolute figure rose in

this business division by 35.9 % (35.8 % in local currency). Excluding the acquisitions in Germany, Spain and the Czech Republic, the figure would have increased by 10.0 % (10.0 % in local currency).

Personnel expenses increased slightly disproportionately to revenue by 8.1 % (8.4 % in local currency) to € 252.6 m. The increased weight of the pharmacy business which employs a lot of personnel was particularly noticeable.

Other expenses and income fell by 5.3 % (5.2 % in local currency) during the 1st quarter of 2005. This was mainly the result of tight cost management in all business divisions and, in the Wholesale business in particular, due to a drop in costs that had been high at the beginning of 2004. This was contrasted with increased rents in the Pharmacies division and advances for the expansion of the Solutions business division.

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

Amortisation of intangible assets and depreciation of property, plant and equipment was on a par with last year's level.

EBIT rose by 12.5 % (13.5 % in local currency) to reach € 139.4 m. In addition to the significantly improved gross profit, sustainable cost management contributed to this disproportionate increase. Based on EBIT, return on sales within the group rose by 16 basis points to 2.84 %.

The level of interest coverage (EBIT in relation to the interest result) improved from 4.75 to 5.63.

Due to the higher level of gross profit and consistent cost management, profit before tax rose disproportionately by 17.2 % (18.3 % in local currency). Return on sales, based on profit before tax, once again reached a new high level with 2.34 % compared with 2.12 % in the prior year. In Celesio Wholesale, return on sales rose by 6 basis point to 1.95 % and in Celesio Pharmacies by 93 basis points to 6.03 %. In the Celesio Solutions division profit before tax fell, largely in accordance with expectations, by 15.6 % (15.1 % in local currency).



Celesio Group

Profitability in this business division, based on profit before tax in relation to gross profit, was 20.70 % (prior year: 33.33 %). The reason for the anticipated drop is largely due to costs as well as amortisation and depreciation for advances required to build up an efficient European network.

Tax expenditure rose as a result of the increase in profit before tax by € 5.1 m and was € 35.5 m. The tax ratio was almost unchanged at 30.9 % (prior year: 31.0 %).

Net profit increased by 17.3 % (18.4 % in local currency) to reach € 79.2 m. Earnings per share were € 0.92 compared with € 0.78 in the prior year.

Improved balance sheet structure – Shareholders' equity ratio at 30.4 %

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

For the quarter ended 31 March 2005 Celesio further improved the structure of its balance sheet: The shareholders' equity ratio reached 30.4 % compared with 29.9 % at the end of the year 2004. With a gearing of 0.99 Celesio is in an excellent position to finance future growth.

Total assets rose by € 242.2 m to € 6,773.3 m. The first-time inclusion of Soquifa-Medicamentos, Kemofarmacija with its holdings in Croatia and Romania, and Sanalog had an impact on goodwill and current assets, and also contributed to the increase in total assets with € 226.9 m. Exchange rate changes, in particular due to the translation of the British Pound Sterling (GBP), increased total assets by € 61.2 m.

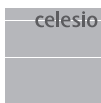
Non-current assets for the quarter ended 31 March 2005 were € 149.7 m above the value on 31 December 2004. Amortisation and depreciation amounted to € 23.3 m in total. Of this, € 1.9 m related to intangible assets and € 21.4 m related to property, plant and equipment. Investments including companies acquired totalled € 137.3 m. Significant acquisitions were companies bought in Portugal, Germany and Slovenia. Celesio financed all investments in the operating business from cash flow. Acquisitions were financed from existing credit lines.

Current assets on 31 March 2005 exceeded the value at the end of 2004 by € 92.5 m. Inventories were reduced as is usual for this time of year. The rise in trade receivables, in comparison with the level for the year ended 31 December 2004, is mainly due to a later payment made to Celesio's British pharmacies, Lloydspharmacy. The first-time inclusion of Soquifa-Medicamentos, Kemofarmacija with its holdings in Croatia and Romania, and Sanalog contributed to the inventories and trade receivables with € 139.1 m. Net working capital rose on 31 March 2005 by € 151.6 m. Adjusted for exchange rate effects and acquisitions, this amounted to an increase of € 89.4 m. This increase is largely attributable to the higher revenue-related receivables for the quarter ended 31 March 2005.

Liabilities rose compared with the year ended 31 December 2004 by € 133.4 m to € 4,712.6 m. The proportion of non-current liabilities increased especially due to the financing of the acquisitions. Current and non-current financial liabilities for the quarter ended 31 March 2005 were € 162.9 m above the value for the year ended 31 December 2004 and totalled € 1,995.8 m.

Pension provisions increased only slightly for the quarter ended 31 March 2005 by € 2.3 m. These accounted for 2.0 % of total assets. Expenditure for pensions including interest expenses amounted to 2.9 % of personnel expenses.

Trade payables totalled € 1,755.2 m and were therefore lower than the total at the end of 2004. This can be attributed to reduced inventories. The result of the inclusion of Soquifa-Medicamentos, Kemofarmacija with its holdings in Croatia and Romania, as well as Sanalog for the first time was an increase in trade payables, other payables and provisions of € 82.4 m.



Celesio Group

Cash flow finances investments in operating business

Cash flow increased in the 1st quarter of 2005 by 17.7 % (18.5 % in local currency) and reached € 107.2 m. Investments in the operating business were financed entirely from cash flow during the 1st quarter of 2005. After financing the change in net working capital as well as acquisitions, a negative free cash flow in line with expectations of € 116.5 m resulted. This compares with € 121.7 m in the prior year.

Cash flow, 1st quarter

	2004 in € m	2005 in € m
Cash flow	91.1	107.2
Dividends paid	0.0	0.0
Cash flow after dividends paid	91.1	107.2
Income from the disposal of non-current assets	5.0	4.1
Investments in the operating business	- 16.3	- 33.2
Free cash flow before acquisitions and change in net working capital	79.8	78.1
Change in net working capital	54.6	- 89.4
Acquisitions and new openings	- 11.7	- 104.1
Others	- 1.0	- 1.1
Free cash flow	121.7	- 116.5

Optimistic prospects for the current fiscal year

The management board foresees sustainable growth in all three business divisions and is optimistic about the remaining part of 2005. Without acquisitions the company expects growth to be in line with the comparable market in the Wholesale division. In the Pharmacies division growth is expected to outperform the relevant market. Price reductions, in particular in the United Kingdom (PPRS, generic drugs), will, however, curb revenue growth in 2005 overall. Strong growth potential in the medium-term is anticipated in the pharmaceutical logistics and distribution sector. In this area of Celesio Solutions the company is leading the way in a European market that is as yet immature and largely unconsolidated.

"Profit before tax in 2005 is once again expected to be significantly higher than it was in the prior year."

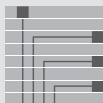
According to Celesio's expectations, the European pharmaceutical market as a whole is set to grow by around 5 % in 2005.

The significant increase in profit for the 2004 fiscal year was achieved through sustainable cost management and in particular through continual improvement of the gross profit margin. Due to price reductions, in particular in the United Kingdom, Celesio is assuming that the gross profit margin in the forthcoming quarters of 2005 will be on a similarly high level as that achieved in the 1st quarter of 2005. Accordingly, the management board is expecting weaker growth rates than in the 1st quarter with regard to profit before tax in the subsequent quarters of 2005. In spite of this, the management board is expecting growth in about double digits for 2005 overall.

Key figures for the Celesio share, 1st quarter

	2004	2005	Change	Change
	in € per share	in € per share	in %	in local currency in %
Earnings	0.78	0.92	17.2	18.3
EBIT	1.46	1.64	12.5	13.5
Cash flow	1.07	1.26	17.7	18.5
Share price (31.03./in €)	44.50	63.07	41.7	–
Number of shares outstanding (31.03./m)	85.05	85.05	–	–
Market capitalisation (31.03./€ m)	3,784.7	5,364.1	41.7	–

Growth market healthcare



Celesio Wholesale

1st quarter

Countries	Revenue 2004	Revenue 2005	Revenue change in €	Revenue change in local currency	Branches 2005
	in € m	in € m	in %	in %	
France	1,766.4	1,786.4	1.1	1.1	52
Germany	758.6	864.4	13.9	13.9	19
United Kingdom	726.1	725.2	- 0.1	1.9	19
Austria	212.9	207.9	- 2.4	- 2.4	7
Portugal	78.3	129.6	65.5	65.5	12
Belgium	104.1	101.5	- 2.5	- 2.5	8
Norway	86.4	93.1	7.8	2.9	4
Slovenia*	-	72.2	-	-	10
Ireland	54.3	59.1	8.8	8.8	3
Czech Republic	31.5	39.1	24.2	13.4	3
Italy	30.7	31.4	2.2	2.2	1
Total	3,849.3	4,109.9	6.8	6.9	138

* Including Croatia and Romania

**Supplying pharmacies everywhere
with everything pharmacies need**

Celesio Wholesale

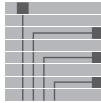
In the 1st quarter of 2005 Celesio Wholesale increased its revenue by 6.8 % (6.9 % in local currency). Profit before tax increased by 10.3 % (10.8 % in local currency). With a slight drop in the gross profit ratio in line with expectations, the positive profit development is largely attributable to consistent cost management and operational improvements. The newly acquired Wholesale companies in Portugal and Slovenia, with its holdings in Croatia and Romania, have now made their first contribution to revenue and profit.

Increase in revenue and profit

Revenue in Celesio Wholesale rose by 6.8 % (6.9 % in local currency) compared with the prior year and reached € 4,109.9 m. The lower number of working days curbed revenue growth. The initial consolidation of Soquifa-Medicamentos/Portugal and Kemofarmacija/Slovenia, with its holdings in Croatia and Romania, contributed to the disproportionate growth of the business division. Without acquisitions the business division performed in line with the market, with an increase in revenue of 3.8 % (4.0 % in local currency).

Revenue, gross profit, EBIT and profit development, 1st quarter

	2004		2005		Change in € in %	Change in local currency in %
	in € m	in % of revenue	in € m	in % of revenue		
Revenue	3,849.3	100.00	4,109.9	100.00	6.8	6.9
Gross profit	259.4	6.74	264.7	6.44	2.1	2.2
EBIT	79.6	2.07	87.9	2.14	10.4	10.9
Profit before tax	72.8	1.89	80.3	1.95	10.3	10.8



Celesio Wholesale

In France high turnover original preparations have increasingly been replaced with cost-effective generic drugs. This resulted in slightly reduced revenue growth compared with the prior year. In Germany performance in the 1st quarter of 2005 was considerably better than the weak revenue result for the same quarter of the prior year that was characterised by a shift in turnover connected with the health reform. AAH in the United Kingdom largely compensated for price reductions implemented in the context of the PPRS (Pharmaceutical Price Regulation Scheme – an agreement relating to medicine prices between the health ministry and the pharmaceutical industry) and the reduction of amounts reimbursed for four important generic active ingredients with greater sales.

In the United Kingdom, France and Norway revenue generated by generic drugs rose considerably, primarily due to the expiry of patents of high turnover preparations and doctors prescribing more generic drugs. Intensive collaboration with manufacturers made it possible for Celesio Wholesale to offer its customers a wide range of generic drugs at attractive conditions. The larger proportion of generic drugs being turned over had a positive impact on gross profit. Nevertheless, statutory price reductions in the United Kingdom and a changed product mix in Germany impacted negatively the gross profit ratio of 6.44 % in the 1st quarter of 2005 which was 30 basis points below that of the prior year.

Celesio Wholesale increased EBIT by 10.4 % (10.9 % in local currency) to € 87.9 m. Profit before tax increased by 10.3 % (10.8 % in local currency) and reached € 80.3 m, the main reason for this being the improved cost basis. The fact that Celesio utilised its branches in some countries better and improved operational processes had a positive effect on profit. Based on profit before tax, return on sales in Celesio Wholesale increased from 1.89 % to 1.95 %.

Celesio Wholesale well-prepared for government measures

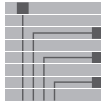
The government measures that were introduced in some countries at the start of the 1st quarter of 2005 had no negative impact on the Celesio Wholesale division compared with the 1st quarter of the prior year. Celesio profited from its strategy of being a geographically diversified company that works together with customers and manufacturers whilst keeping a close eye on costs.

In France, for example, the amounts reimbursed by the state were lowered for three active ingredient combinations in mid March 2005. The statutory wholesale margin there had already been reduced in 2004. In the United Kingdom, PPRS price reductions came into force on 1 January 2005. As a result, the prices of original preparations reduced by an average of around 7 %. The amounts refunded by the government for four important generic active ingredients had already been reduced in 2004. A step price model was introduced in Norway for some prescription-only original preparations. This replaced a reference price system. The new model is characterised by set price reductions to be introduced at regular intervals. In Italy there was a price reduction for certain prescription drugs which came into force on 1 January 2005.

Sights focused on satisfied customers

Customer satisfaction plays a key role for Celesio and is an important success factor. Celesio employees are therefore continually taught about customer orientation in further education courses, and are trained to provide a high quality service. The wholesale companies continued many of the initiatives that had been commenced in this field last year, and took them in a new direction in the 1st quarter of 2005.

As a means of ensuring quality of service, for example, NMD Grossisthandel (NMD) instructed its employees in a training programme developed specially for the company. Extensive training was given on the topics of logistics, health, the environment and quality management. In the second part of 2004, OCP had already introduced a software to support sales in France, which significantly improved customer service. Since then, OCP sales representatives have been able to access relevant customer information more quickly and better accommodate



Celesio Wholesale

customer requirements. Using AAH's pharmacy software, which has been developed to include more functions, prescriptions could be forwarded electronically directly to the pharmacy from the doctor's surgery for the first time in the 1st quarter of 2005. In Italy AFM introduced the AFM Point online service that pharmacies can use to send orders and monitor their progress as well as access product information. In doing so, AFM profited from the experience gained by Celesio Wholesale in other countries.

Cooperation models make customers fit for the future

Customer loyalty models developed by Celesio have been further improved, the aim of this being to strengthen owner-managed pharmacies and make them fit for the future. GEHE Pharma Handel, Celesio's German Wholesale company, developed the quality symbol *live healthily* [gesund leben] specially for the around 2,500 pharmacies taking part in the commitment programme, thereby strengthening their public image. GEHE Pharma Handel also intensified its collaborative work with partners in the industry in the areas of purchasing, sales and marketing. In Austria, Herba Chemosan expanded its customer loyalty programme known as Herba Family by an extra component that pools all marketing services for pharmacies in the areas of customer management, process optimisation and expertise development. In addition to the use of the umbrella brand name Herba Family, customers can now choose from a selection of 13 different marketing tools. Ditt Apotek, the partnership model used by Celesio's Norwegian Wholesale company will be presenting itself as of the 2nd quarter of 2005 as "The pharmacy for sport" thereby highlighting the competences of participating pharmacies in the prevention and treatment of mass-sports-related injuries. To this end, pharmacy employees were given training by orthopaedic specialists and physiotherapists in the 1st quarter of 2005.

Operational processes improved

In the 1st quarter of 2005 Celesio further improved its operational processes in several countries. The measures contributed to improved productivity and are having a positive effect on profit. In Germany, GEHE Pharma Handel implemented its logistics concept, first introduced in 2003, in additional branches. Use of this concept should result in improved utilisation of all branches by the middle of the year and operational processes being streamlined. AAH, the British arm of Celesio Wholesale, began the conversion of its branch in Bristol. The first improvements in processes should become noticeable in the 2nd half of 2005. In Belgium modernisation of the branch network of PHARMA BELGIUM continued to make progress. The three branches in Charleloi and Mons are to be amalgamated at the halfway point in La Louvière. In the 2nd quarter of 2005 the state-of-the-art Belgian wholesale branch is to be opened.

New companies integrated into Celesio

Celesio strengthened its presence in the European wholesale sector through acquisitions and entry into new markets. The companies Soquifa-Medicamentos/Portugal and Kemofarmacija/Slovenia, with its holdings in Croatia and Romania, were integrated during the 1st quarter of 2005 into Celesio Wholesale and are contributing for the first time to revenue and profit.



Celesio Pharmacies

1st quarter

Countries	Revenue 2004	Revenue 2005	Revenue change in €	Revenue change in local currency in %	Pharmacies 2005
	in € m	in € m	in %	in %	
United Kingdom	472.8	464.0	- 1.9	0.1	1,390
Norway	69.1	77.9	12.7	7.6	115
Italy	51.3	52.8	2.9	2.9	162
Ireland	26.4	26.7	1.4	1.4	56
Netherlands	25.1	25.9	3.5	3.5	42
Belgium	16.9	19.9	17.8	17.8	73
Czech Republic	11.5	9.9	- 13.9	- 21.4	50
Total	673.1	677.1	0.6	1.3	1,888

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

Celesio Pharmacies

Celesio's pharmacies increased their revenue during the 1st quarter of 2005 by 0.6 % (1.3 % in local currency) despite a lower number of working days compared with the prior year and price cuts. Profit before tax rose by 19.0 % (21.0 % in local currency). An improved gross profit ratio was largely responsible for the positive profit development. The scope of the range of services offered by the pharmacies was a further success factor: Celesio pharmacies see themselves as all-round health experts working for the local population.

Pharmacies outperform the market

Revenue generated by Celesio Pharmacies rose in the 1st quarter of 2005 by 0.6 % (1.3 % in local currency) compared with the prior year to € 677.1 m. The lower number of working days curbed turnover growth. Although the number of prescriptions processed in the United Kingdom rose again, revenue generated from prescription preparations was deflated as a result of government measures such as price reductions in the context of the PPRS (Pharmaceutical Price Regulation Scheme – agreement relating to medicine prices between the health ministry and the pharmaceutical industry) and the reduction of the amounts reimbursed by the government for four important generic active ingredients. The fact that in the United Kingdom the 1st quarter of 2005 had four fewer working days than the 1st quarter of 2004 should be taken particularly into account. In Norway, revenue generated through company-own brands developed positively. Revenue generated by the Italian Celesio Pharmacies outperformed the market. This was due, in particular, to an increasing number of non-prescription drugs being sold. Market growth in Ireland, the Netherlands and the Czech Republic was distributed across a larger number of pharmacies due to a number of new pharmacies that were opened last year. In relation to all countries, revenue growth of Celesio Pharmacies was ahead of the relevant market. Performance in the OTC segment was in line with that of comparable markets.



Celesio Pharmacies

EBIT increased by 17.6 % (19.5 % in local currency) and reached € 56.0 m. Profit before tax rose by 19.0 % (21.0 % in local currency) for Celesio Pharmacies. Positive gross profit development, consistent cost management and close cooperation with manufacturers of pharmaceuticals was largely responsible for this. After the selling or closing of about 30 unprofitable pharmacies since 2004, profit before tax has also been developing positively in the Czech Republic. Also in all other countries profit was in line with expectations or exceeded them in some cases. Return on sales, based on profit before tax, rose from 5.10 % to 6.03 %.

Revenue, gross profit, EBIT and profit development, 1st quarter

	2004		2005		Change in € in %	Change in local currency in %
	in € m	in % of revenue	in € m	in % of revenue		
Revenue	673.1	100.00	677.1	100.0	0.6	1.3
Gross profit	212.6	31.59	229.7	33.93	8.0	9.0
EBIT	47.6	7.08	56.0	8.27	17.6	19.5
Profit before tax	34.3	5.10	40.8	6.03	19.0	21.0

Changed market conditions are not having a negative impact on the overall result

Expected changes in market conditions occurred in some markets without this having a negative impact on the profit of Celesio Pharmacies. Correct strategic positioning, geographical diversification across several European markets and consistent cost management in all countries had a positive effect.

Price reductions in the United Kingdom in the context of the PPRS came into force on 1 February 2005. As a result, the price of prescription-only original preparations reduced by an average of around 7 %. The amounts refunded by the government for four important generic active ingredients had already been reduced in 2004. In Norway a step price model introduced on 1 January 2005 replaced the reference price system hitherto applicable for some prescription-only original preparations. The guidelines envisage set price reductions at regular intervals. In Italy prices were reduced as of 1 January 2005 for certain prescription medications. In the Netherlands market participants agreed to reduce the prices of generic drugs and original preparations by 2 %.

In England and Wales the contract concluded between the National Health Service and the pharmacies concerning remuneration and the scope of services provided by pharmacies came into effect on 1 April 2005. The new contract involves pharmacies more in healthcare provision for the general public and envisages patients receiving more comprehensive care in the pharmacies. The amounts pharmacies are paid are no longer based solely on the number of prescriptions processed, but also depend on the quality and scope of services they provide. The British pharmacies owned by Celesio, Lloydspharmacy, are well placed to meet these new requirements due to their customer-friendly layout, for example, separate areas for private discussions with customers, and their extensive range of services. In addition to the new contract, it has been made easier to set up pharmacies in exceptional cases.



Celesio Pharmacies

Health experts at their customers' service

Celesio's pharmacies strengthened their profile in the 1st quarter as comprehensive healthcare service providers. Following the successful lead of the British pharmacy chain, Lloydspharmacy, Unicarepharmacy, the Irish chain of Celesio Pharmacies, began offering blood sugar tests as part of a pilot project to their customers. In 2004, Lloydspharmacy had been awarded a prize for outstanding social commitment for their large-scale, national information initiative on the subject of diabetes. Unicarepharmacy also held campaign days on various issues and products for their customers. Lloydspharma, Celesio's Belgian pharmacy chain also addressed its customers with monthly campaigns on specific topics, for example on Women's Day in March. In the Italian pharmacies owned by Celesio, the needs of disabled people are the focus of their work in 2005. The Farmacia Centrale pharmacy in Bologna, which is open around the clock, is to be a shining example of a pharmacy designed to accommodate the needs of disabled people both in terms of its layout and the advice offered. In the 1st quarter of 2005 work was commenced to provide easy access for disabled people and to create signs in Braille. In addition to this, staff are to be trained over the course of the year on how to serve and give advice to disabled people.

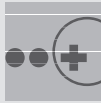
Leading the way in the construction of health centres

In the United Kingdom, Norway and the Netherlands, Celesio is involved in planning and building health centres. These offer patients comprehensive medical care. Doctor's surgeries, pharmacies and other health care providers are all accessible under one roof. By participating in their development, Celesio is able to position its pharmacies near to the source of prescriptions. In the 1st quarter of this year, Celesio built seven centres in the United Kingdom, one in Norway and one in the Netherlands.

New pharmacies opened

At the end of the 1st quarter Celesio was operating 1,888 pharmacies in seven European countries. The group bought nine pharmacies in the United Kingdom, Belgium and the Netherlands and opened eight pharmacies in the United Kingdom, Ireland and the Netherlands. 12 pharmacies were closed down or sold in the United Kingdom, the Czech Republic and Ireland.

Celesio buys pharmacies in existing markets, provided they are in good locations and the prices are right. No pharmacies were acquired in Italy as the local authorities continued to refrain from inviting companies to tender for the privatisation of pharmacies due to legal reasons. The optimum size for a pharmacy chain has still not been achieved by Celesio in Ireland, the Netherlands and Belgium which is why the development of the company's presence in these countries is to be the focus of future acquisition activities.



Celesio Solutions

1st quarter

Business unit	Volume of goods handled 2004 in € m	Volume of goods handled 2005 in € m	Volume of goods handled change in € in %	Volume of goods handled change in local currency in %
AVS Health Distribution (pharmaceutical logistics and distribution)	423.3	669.0	58.0	56.6

**Innovative services for the
pharmaceutical market**

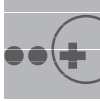
Celesio Solutions

In 2004, Celesio pooled its logistics and distribution services for pharmaceutical manufacturers in the AVS Health Distribution business unit. This is the first business unit of the new division Celesio Solutions. Taking the acquisition of Realpol/Czech Republic, SEUR PHARMA/Spain and Sanalog/Germany into account, gross profit increased by 35.9 % (35.8 % in local currency). In line with expectations, profit before tax was lower than in the prior year (– 15.6 % or – 15.1 % in local currency).

Pharmaceutical services: Growth field with prospects

The growing healthcare market, which is also becoming increasingly complex, demands new services and solutions. Celesio therefore considers services based around medication and for various market participants to be an important and attractive field of growth. One reason they are attractive is because such services are not directly subject to government regulation and it will also be possible to expand this sector in other countries that are currently unappealing to Celesio Wholesale or Celesio Pharmacies due to the regulatory environment.

Work to develop Celesio Solutions began in 2004. The individual logistics and distribution activities currently available for pharmaceutical manufacturers were pooled in the first business unit created in this division temporarily named AVS Health Distribution. With companies already acquired in Spain, the Czech Republic, Germany and the United Kingdom, and other acquisitions, Celesio is building a pan-European network of manufacturer-oriented logistics and distribution services from a single source.



Celesio Solutions

Comprehensive range of services for pharmaceutical logistics and distribution

The pharmaceutical industry is increasingly outsourcing business processes in order to be able to concentrate on its core business, i.e. research and development of drugs. The increasing need of pharmaceutical manufacturers to outsource services and have them performed by third party companies, where possible on a multinational level, was unabated in the 1st quarter of 2005.

Manufacturer-oriented services offered by Celesio Solutions comprise basic logistical services (such as transportation or storage), as well as individual, tailor-made services. Celesio Solutions offers pharmaceutical manufacturers these services on a local, national or multinational level, depending on their needs. Taking on administrative tasks, such as order processing, invoicing, monitoring of product and goods flows or provision of sales data, is also part of the range of services.

Celesio Solutions was represented in eight countries in the 1st quarter of 2005 with the companies in the AVS Health Distribution business unit, these being DEPOTS GENERAUX in France, SANOVA in Austria, FARILLON and Castlreagh in the United Kingdom, Sanalog in Germany, CAHILL MAY ROBERTS in Ireland, SEUR PHARMA in Spain, NMD in Norway and Realpol in the Czech Republic.

Gross profit grows by 35.9 %

Gross profit achieved by Celesio Solutions is an important guide to its success as services are largely paid for on a commission basis or through agreed service fees. In addition to this, some logistics and distribution agreements are concluded on the basis of turnover-related margins. The total gross profit achieved is calculated from the sum of service fees, commission revenues and the margins for trading turnover. The proportions of types of remuneration is subject to change over time.

Gross profit, EBIT and profit development, 1st quarter

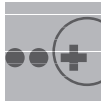
	2004		2005		Change in € in %	Change in local currency in %
	in € m	in % of gross profit	in € m	in % of gross profit		
Gross profit	15.3	100.00	20.8	100.00	35.9	35.8
EBIT	4.6	30.11	4.0	19.05	– 14.0	– 13.6
Profit before tax	5.1	33.33	4.3	20.70	– 15.6	– 15.1

In the 1st quarter of 2005, absolute gross profit rose organically by 10.0 % (10.0 % in local currency) compared with the prior year. Taking the acquisition of Realpol/Czech Republic, SEUR PHARMA/Spain and Sanalog/Germany into account, gross profit increased by 35.9 % (35.8 % in local currency). In the 1st quarter of 2005 gross profit totalled € 20.8 m.

EBIT fell by 14.0 % (13.6 % in local currency) due to the costs as well as amortisation and depreciation related to building up the new business division. Profit before tax was 15.6 % below the value for the prior year (15.1 % in local currency).

Operational processes improved and new customers acquired

In the 1st quarter of 2005, AVS Health Distribution improved operational processes and increased capacity in its existing logistics and distribution business. As part of this, work was started in Austria to introduce new IT systems which, depending on their performance, may be the basis for a Europe-wide IT solution. AVS Health Distribution concluded several new contracts with pharmaceutical manufacturers and renewed many existing contracts. Many years of experience in dealing with medicines, high quality standards and flexibility all form the basis for the trust vested in the company by pharmaceutical manufacturers.



Celesio Solutions

Europe-wide presence strengthened

With the acquisitions made in the Czech Republic and Germany and entry into the Spanish market, Celesio strengthened its presence in the Solutions division and expanded its range of services for pharmaceutical manufacturers in Europe. The company widely completed the integration of Realpol/Czech Republic, Sanalog/Germany and SEUR PHARMA/Spain in the 1st quarter of 2005. At the end of March the Office of Fair Trading agreed to the takeover of Healthcare Logistics in the United Kingdom. As soon as the decision of the Office of Fair Trading has been made definitive, Healthcare Logistics can be integrated into the European business of AVS Health Distribution.

Yours sincerely
Celesio AG

The management board

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

Vorsitzender des Aufsichtsrats:
Prof. Dr. Theo Siegert

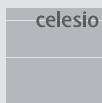
Sitz:
Stuttgart, AG Stuttgart, HRB 9517

Celesio Group

Interim statements

Income statement, 1st quarter

	2004 € m	2005 € m
Revenue	4,621.9	4,906.2
Own work capitalised	0.0	0.5
Total operating performance	4,621.9	4,906.7
Cost of raw materials, consumables and supplies, and of purchased goods	4,134.6	4,390.9
Gross profit	487.3	515.8
Personnel expenses	233.7	252.6
Other expenses and income	– 109.3	– 103.5
Net income from investments	2.3	3.0
EBITDA	146.6	162.7
Amortisation of intangible assets and depreciation of property, plant and equipment	22.6	23.3
EBIT	124.0	139.4
Interest result	– 26.1	– 24.7
Profit before tax	97.9	114.7
Income taxes	30.4	35.5
Net profit	67.5	79.2
Profit attributable to minority interests	1.1	1.4
Consolidated net profit	66.4	77.8
Earnings per share – basic (€)	0.78	0.92
Earnings per share – diluted (€)	0.78	0.92



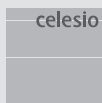
Celesio Group

Balance sheet

	31.12.2004 € m	31.03.2005 € m	
Assets	Non-current assets		
	Intangible assets	1,942.6	2,044.4
	Property, plant and equipment	560.3	602.5
	Financial assets	129.2	133.5
	Deferred tax assets	81.0	82.4
		2,713.1	2,862.8
	Current assets		
	Inventories	1,447.3	1,349.9
	Trade receivables	2,133.3	2,276.8
	Tax receivables	32.6	35.2
	Other receivables and other assets	189.6	236.0
	Cash and cash equivalents	15.2	12.6
	3,818.0	3,910.5	
Total assets	6,531.1	6,773.3	
Equity and liabilities	Shareholders' equity		
	Issued capital and reserves	1,946.2	2,040.7
	Minority interests	5.7	20.0
		1,951.9	2,060.7
	Liabilities		
	Non-current liabilities		
	Financial liabilities	1,339.2	1,555.6
	Pension provisions	132.7	135.0
	Other non-current provisions	30.3	30.7
	Deferred tax liabilities	17.8	21.3
		1,520.0	1,742.6
	Current liabilities		
	Financial liabilities	493.7	440.2
	Trade payables	1,844.1	1,755.2
	Other current provisions	140.4	145.0
Tax liabilities	125.2	137.5	
Other liabilities	455.8	492.1	
	3,059.2	2,970.0	
Total equity and liabilities	6,531.1	6,773.3	

Cash flow statements, 1st quarter

	2004 € m	2005 € m
Net profit	67.5	79.2
Depreciation and amortisation/write-up of property, plant and equipment and intangible assets	22.6	23.3
Gain on disposals of non-current assets	- 0.6	- 0.7
Non-cash changes in net working capital	2.0	3.7
Other non-cash income and expenses	- 0.4	1.7
Cash flow	91.1	107.2
Change in operating assets	187.1	54.2
Change in operating liabilities	- 132.5	- 143.6
Net cash flow operating activities	145.7	17.8
Proceeds from the disposal of non-current assets	5.0	4.1
Investment in non-current assets	- 27.0	- 32.9
Proceeds from the disposals of subsidiaries	1.4	0.7
Cash paid for acquisitions of subsidiaries	- 3.4	- 106.2
Net cash flow from investing activities	- 24.0	- 134.3
Proceeds from borrowings	174.2	232.5
Repayment of borrowings	- 299.4	- 118.9
Net cash flow from financing activities	- 125.2	113.6
Net change in cash and cash equivalents	- 3.5	- 2.9
Net foreign exchange difference	0.4	0.3
Cash and cash equivalents at the beginning of the period	15.4	15.2
Cash and cash equivalents at the end of the period	12.3	12.6



Celesio Group

Statement of shareholders' equity

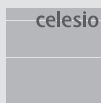
	Issued capital	Capital reserves	Revenue reserves
	€ m	€ m	€ m
01.01.2005	217.7	1,113.0	525.8
Currency adjustments	0.0	0.0	0.0
Net profit	0.0	0.0	77.8
Revaluation of financial instruments	0.0	0.0	0.0
Changes to consolidated group/others	0.0	0.0	- 1.1
31.03.2005	217.7	1,113.0	602.5
01.01.2004	217.7	1,113.0	262.3
Currency adjustments	0.0	0.0	0.0
Net profit	0.0	0.0	66.4
Revaluation of financial instruments	0.0	0.0	0.0
Changes to consolidated group/others	0.0	0.0	- 0.2
31.03.2004	217.7	1,113.0	328.5

Segment reporting, 1st quarter

	Wholesale		Pharmacies	
	2004 € m	2005 € m	2004 € m	2005 € m
Revenue	3,849.3	4,110.1	673.1	677.2
External revenue	3,849.3	4,109.9	673.1	677.1
Inter-segment revenue	0.0	0.2	0.0	0.1
Segment profit from operations	79.5	87.9	47.5	56.0
Income accounted for using the equity method	0.1	0.0	0.1	0.0
EBIT	79.6	87.9	47.6	56.0

	Revaluation reserves		Group interest in equity	Minority interests	Shareholders' equity
	Translation reserves	Other comprehen- sive income			
	€ m	€ m			
	73.2	16.5	1,946.2	5.7	1,951.9
	13.7	0.4	14.1	0.0	14.1
	0.0	0.0	77.8	1.4	79.2
	0.0	3.7	3.7	0.0	3.7
	0.0	0.0	- 1.1	12.9	11.8
	86.9	20.6	2,040.7	20.0	2,060.7
	85.8	6.6	1,685.4	9.6	1,695.0
	27.2	0.4	27.6	0.0	27.6
	0.0	0.0	66.4	1.1	67.5
	0.0	1.2	1.2	0.0	1.2
	0.0	0.0	- 0.2	- 1.1	- 1.3
	113.0	8.2	1,780.4	9.6	1,790.0

	Solutions		Others		Consolidation		Group	
	2004	2005	2004	2005	2004	2005	2004	2005
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
	137.4	159.8	0.0	0.0	- 37.9	- 40.9	4,621.9	4,906.2
	99.6	119.2	0.0	0.0	- 0.1	0.0	4,621.9	4,906.2
	37.8	40.6	0.0	0.0	- 37.8	- 40.9	0.0	0.0
	4.6	4.0	- 7.8	- 8.5	0.0	0.0	123.8	139.4
	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
	4.6	4.0	- 7.8	- 8.5	0.0	0.0	124.0	139.4



Celesio Group

Notes

Accounting principles and valuation policies

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

Consolidated group

The companies Soquifa-Medicamentos/Portugal and Kemofarmacija/Slovenia, with its holdings in Croatia and Romania, have been included in the consolidated financial statements for the first time in the 1st quarter. Sanalog/Germany which is part of the Celesio Solutions division and several pharmacies in the Celesio Pharmacies division, for the most part in the United Kingdom, have also been included in the consolidated statements for the first time.

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

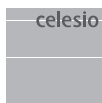
Employees

At the end of the 1st quarter of 2005 Celesio employed 32,973 members of staff (number of people) compared with 32,214 in the prior year.

Notes to the segment reporting

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

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



Celesio Group

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Websites

Celesio AG and companies in the Celesio Group:

www.celesio.com

Celesio Wholesale:

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

Celesio Pharmacies:

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

Celesio Solutions:

AVS Health Distribution

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

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

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

Information on Celesio shares

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

Investors' calendar 2005*

Investment conference (Dresdner Kleinwort
 Wasserstein), New York _____ 12 January 2005
 Investment conference (Cheuvreux), Frankfurt _____ 19 January 2005
 Investment conference (Merill Lynch), New York _____ 10 February 2005
 Investment conference (UBS), New York _____ 15 February 2005
 Balance sheet press conference, Stuttgart _____ 17 March 2005
 Celesio analysts and investors' conference, Mainz _____ 21 March 2005
 International Bankers Day, Mainz _____ 22 March 2005
 Roadshow London, Paris, Frankfurt _____ March 2005
 Event for private shareholders, Stuttgart _____ 18 April 2005
 Investment conference (Spängler), Salzburg _____ 27 April 2005
 Annual general meeting, Stuttgart _____ 29 April 2005
 Dividend payment _____ 2 May 2005
 Interim report, 1st quarter of 2005 _____ 17 May 2005
 Roadshow Scandinavia _____ May 2005
 Investment conference (Deutsche Bank), Frankfurt _____ 1 June 2005
 Roadshow Italy, Switzerland, United Kingdom, USA _____ June 2005
 Interim report, 1st half of 2005 _____ 11 August 2005
 Roadshow Europe _____ September 2005
 Roadshow USA _____ October 2005
 Interim report, 1st to 3rd quarter of 2005 _____ 14 November 2005

* Subject to change

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

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