Interim Report, 1st Half Year of 2011

H1

Markus Pinger appointed new CEO

Ongoing fierce competition
and government burdens in Europe

Investment in realignment
of Lloydspharmacy

Unscheduled impairment losses
of EUR 116m

celesio

Contents

Celesio at a glance

Key figures of the Celesio Group		1st half year 2010	**1st half year 2011**	Change on a euro basis %	Change adjusted for portfolio and currency effects[6] %
Revenue	EUR m	11,508.6	11,486.2	– 0.2	– 0.4
EBITDA	EUR m	324.5	271.7	– 16.3	– 15.2
Profit before tax[5]	EUR m	178.3	24.8	– 86.1	–
adjusted[2) 4)]	EUR m	203.8	151.8	– 25.5	–
Net profit/loss[5]	EUR m	112.8	– 30.2	–	–
adjusted[2) 4)]	EUR m	136.8	93.5	– 31.7	–
Earnings per share[5] (basic)	EUR	0.64	– 0.20	–	–
Earnings per share[5] (basic), adjusted[2) 4)]	EUR	0.79	0.53	– 32.1	–
Net cash flow from operating activities	EUR m	241.2	133.3	– 44.7	–
Net cash flow from investing activities	EUR m	– 69.0	– 73.2	6.1	–
Free cash flow	EUR m	121.2	– 0.7	–	–
Total assets[1) 3)]	EUR m	8,511.3	8,372.3	– 1.6	–
Equity[1) 3) 5)]	EUR m	2,495.9	2,463.9	– 1.3	–
Equity ratio[1) 3) 5)]	%	29.3	29.4	–	–
Employees (full-time equivalents)[3]		36,609	36,429	–	–
Retail pharmacies[3]		2,311	2,291	–	–
Wholesale branches[3]		133	133	–	–

1) Previous-year figures restated due to the completion of purchase price allocation for the Panpharma acquisition.
2) Adjusted for special effects in the financial result.
3) Closing figures at the end of the reporting period.
4) Adjusted for impairment losses recognised on intangible assets consisting of impairment losses on goodwill and brand names and the associated tax effects on the net profit/loss.
5) Previous-year figures restated to reflect the treatment of the Panpharma dividend to non-controlling interests as purchase price repayment instead of as interest expense.
6) The change adjusted for portfolio and currency effects (organic growth) eliminates the effects of currency translation, consolidation changes (elimination of all units that were not already consolidated as of 1 January of the previous year or that were deconsolidated in the period after 1 January of the previous year), gains/losses on disposal and impairment losses of intangible assets. The figure is also adjusted for changes in the value of shares in ANZAG, which were held up to and including 2010.

Information on the Celesio share	
Share type	No-par value registered shares
Share capital in EUR on 30/06/2011	217,728,000.00
ISIN code	DE000CLS1001
German securities code	CLS 100
German stock exchange code	CLS1
Indices (selection)	MDAX, MSCI Germany Index, FTSE4Good, ECPI Ethical Index EMU

The Celesio Group

Celesio is one of the leading international service providers within the pharmaceutical and healthcare markets. We are active in 27 countries worldwide and employ approximately 47,000 employees[1] in our three divisions Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions. Just under 2,300 of Celesio's own retail pharmacies, as part of Patient and Consumer Solutions, serve around half a million customers every day. In our wholesale activities, the core business of Pharmacy Solutions, more than 133 wholesale branches deliver to over 65,000 pharmacies – day in, day out. In the Manufacturer Solutions division, we offer pharmaceutical manufacturers logistics, marketing and sales solutions and operate in the area of Efficient Care Pharma.

1) Total number of employees, corresponds to 36,429 full-time equivalents.

Key events 2011

Q1

- Pressure increased on pharmaceutical prices in Europe
- International DocMorris rebranding launched for our own pharmacies in Ireland
- Non-regulated service business strengthened at Lloydspharmacy
- Further convertible bond successfully placed

Q2

- Markus Pinger appointed new CEO
- Ongoing fierce competition and government burdens in Europe
- Investment in realignment of Lloydspharmacy
- Unscheduled impairment losses of EUR 116m

Q3

Q4

Chairman's letter to the shareholders

Wolfgang Mähr
Chairman of the Management Board

Dear shareholders,

Looking back, the past half year was a challenging period. Pharmaceutical and healthcare markets across Europe have been more heavily burdened by government measures, the effects of which are particularly strong for our pharmacy business. The sovereign debt crisis has compelled numerous European governments to make further cuts in spending on health. We now believe that direct government intervention alone will burden our earnings by an additional EUR 120m in 2011 as a whole. At the same time, we are facing keener competition in some countries, especially in the wholesale business, which is turning into an irrational competition for market shares in some cases.

We did not see this development coming with this much force. The tough overall market situation was reflected in our share price in the second quarter. Uncertainty as to who would take the reins at the top of Celesio, coupled with anticipated further government measures, contributed to the negative performance of the share price. As a result, Celesio had to recognise impairment losses of EUR 116m at Pharmexx and on the wholesale business in Denmark and Portugal following unscheduled impairment testing of assets. These impairment losses are due to the current negative development on the pharmaceutical markets and of the macro economy.

At Celesio, we took early action to prepare for changes in the pharmaceutical and healthcare sector, launching effective measures to improve earnings and change our alignment over several years within the framework of Agenda 2015. We are currently focusing our investing activity on expanding our existing business, initially to the detriment of earnings. One such example is our British pharmacy subsidiary, Lloydspharmacy, which we have strengthened through investment in new service offerings and more attractive pricing and product ranges.

Markus Pinger will join Celesio as the new CEO as at 15 August 2011. Over the past six years, Markus Pinger has taken on various roles on the Executive Board of Beiersdorf. He was most recently responsible for "Brands & Supply-Chain". As at 1 August, we welcomed Stephan Borchert to the Management Board. He has taken over the leadership of the Patient and Consumer Solutions (PCS) division with the aim of accelerating the expansion of non-price-regulated business at our pharmacies.

In recent weeks, the entire Management Board met with Markus Pinger and Stephan Borchert to exchange ideas. Our new team brings together the benefits of many years' experience and technical knowledge, which lay the groundwork for Celesio's successful development.

In the past, we have chosen to expand business in the non-price-regulated segment. We will continue to pursue this path in future with even greater determination. Celesio's Management Board, with Markus Pinger as the CEO, will soon be able to provide you with more detail on that. Until then, please accept my heartfelt thanks for the trust that you, as our shareholders, have placed in our company.

Yours sincerely,
Wolfgang Mähr

The share

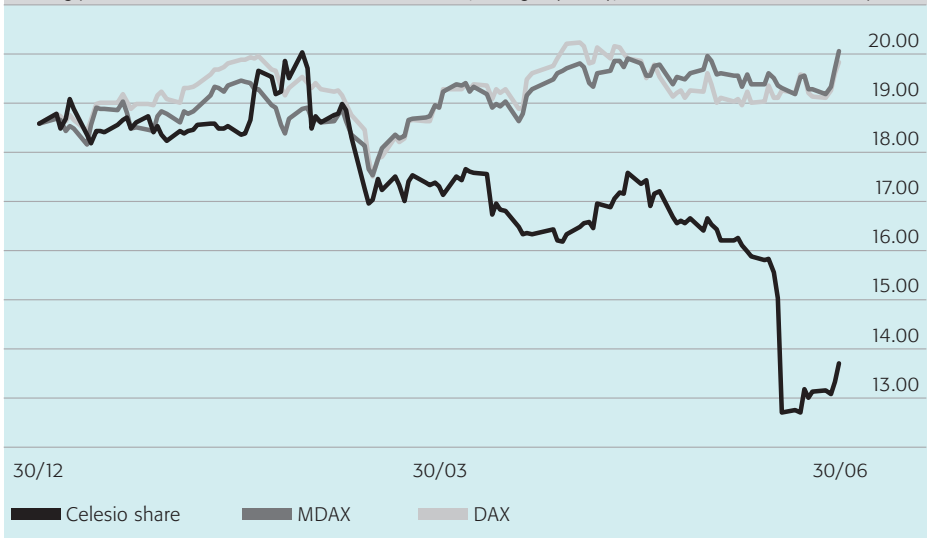
The stock markets

In the first six months, the DAX slowly continued the upward climb that started in the previous year. Despite a global environment characterised by the euro crisis and Japan's natural and nuclear disaster, the main German stock index saw an increase of 5.5% in the first six months to 7,376 points. The MDAX, which includes the Celesio share in its basket, exhibited a similar performance. In the same period, this midcap index grew by 7.3% and closed trading for the period at 10,932 points as at 30 June 2011.

The Celesio share

The development of the Celesio share was once again highly volatile in the first six months of 2011. By the end of February it had climbed to a price of EUR 20.05. In an environment plagued by uncertainty, the share was however unable to maintain the level of the reference indices DAX and MDAX and fell to EUR 15.06 by mid-June. Following a market update on 16 June 2011, the price fell to EUR 12.74, the lowest level seen this year. The share then enjoyed a slight recovery, closing at EUR 13.75 on 30 June. This corresponds to a decrease of 26.88% compared to the beginning of the year. Market capitalisation at the end of the second quarter amounted to EUR 2,338.8m (previous year EUR 3,055.0m). The trading volume of our share on the Xetra market in the reporting period came to 717,619 shares per day, up around 11% on the volume of the comparable period in the previous year.

Development of the Celesio share, MDAX, DAX
Closing prices on Xetra – 30/12/2010 – 30/06/2011 (trading days only), scaled to the Celesio share price



Annual general meeting

The 2011 annual general meeting was held in the Porsche Arena in Stuttgart on 17 May. Attendance was once again high, with 76.9% of voting rights represented (previous year 81.3%). All documents and information on the 2011 annual general meeting are available on the internet at celesio.com/generalmeeting.

Dividend

Celesio's once again distributed a dividend of EUR 0.50 per share for the 2010 fiscal year. Celesio thus remained committed to its long-lasting dividend policy of distributing approximately 30% of the ordinary net profit of the group.

Investor relations

Celesio's investor relations department stands for ongoing, timely, open and transparent dialogue with institutional and private investors as well as financial analysts. In the first six months of the current fiscal year, we were involved in numerous discussions with existing and potential investors and with analysts. We spoke to investors and analysts individually and also took part in conferences. In the first half year of 2011, we presented Celesio at roadshows and conferences in Boston, New York, London, Paris and Frankfurt am Main, among others.

Further information on the company, the Celesio share, upcoming events and publications can be found in the investor relations section of our website at www.celesio.com.

Key share figures		1st half year 2010	**1st half year 2011**
Number of shares outstanding[1]	million	170.1	170.1
Market capitalisation[1]	EUR m	3,055.0	2,338.8
Closing price[1][2]	EUR	17.96	13.75
High[2]	EUR	25.50	20.05
Low[2]	EUR	17.51	12.74
Average Xetra trading volume per day	shares	644,037	717,619

[1] Closing figures as at 30 June.
[2] Xetra closing price, source: Bloomberg.

Interim management report

Economic environment

The global economy exhibited a positive overall development in the first six months of 2011. Particularly, the large emerging economies continued to enjoy a dynamic development. The natural and nuclear disaster in Japan and the political unrest in northern Africa did not dampen economic growth. However, the mood on the international capital markets was overshadowed by fears surrounding the economic development in the USA and the threat of insolvency in several countries in the euro zone.

Celesio's business was also affected by the European debt crisis. Government intervention on prices and margins continued to impact our earnings in the first half year of 2011. The additional burden on Celesio's earnings from government measures came to some EUR 64m in the period from January to June, compared to just EUR 43m in the first half year of 2010. This was compounded by the poor general development of the pharmaceutical markets in western Europe, especially in France, Portugal and Denmark.

Revenue and earnings development

Between January and June 2011, our **group revenue** fell slightly, down 0.2% on the previous period to EUR 11,486.2m, mainly as a result of government intervention. Adjusted for portfolio and currency effects, group revenue decreased by 0.4%.

Group revenue by country	1st half year 2010 EUR m	**1st half year 2011** EUR m	Change on a euro basis %	Change in local currency %
France	3,441.1	3,399.8	– 1.2	– 1.2
United Kingdom	2,337.2	2,359.3	0.9	0.8
Germany	2,175.8	2,166.9	– 0.4	– 0.4
Brazil	703.9	768.4	9.2	5.0
Austria	528.3	534.7	1.2	1.2
Norway	498.4	518.5	4.0	1.7
Other	1,823.9	1,738.6	– 4.7	– 5.5
Total	**11,508.6**	**11,486.2**	**– 0.2**	**– 0.7**

Gross profit came to EUR 1,372.9m in the first half year of 2011, which corresponds to a decrease of 2.4% compared to the previous year. The fall was attributable to government intervention in particular. Despite the difficult market situation, the effects of the interventions were not fully apparent because the significant increase in volume had an offsetting effect. Adjusted for portfolio and currency effects, the decrease came to 2.0%. The gross profit margin also fell slightly by 0.2% to 12.0%.

Other income increased by 1.8% to EUR 99.9m. Adjusted for portfolio and currency effects, this represents a rise of 0.8%.

Other expenses were up 0.7% on the previous year at EUR 461.9m. Adjusted for portfolio and currency effects, other expenses increased by just 0.1%.

Personnel expenses amounted to EUR 743.0m in the reporting period, a rise of 2.7%. This was mainly due to increases in collectively bargained wages as well as the settlement of contractual claims linked to the early departure of the former CEO from the company as of 30 June 2011. Adjusted for portfolio and currency effects, personnel expenses increased by 3.4%.

The **investment result**, comprising the result from associates accounted for using the equity method as well as the result from other investments, came to EUR 3.8m, compared to EUR 0.8m in the previous year. With effect as at 1 December 2010, the investment result includes the Dutch investment Brocacef Holding, which is recognised under associates, as well as the joint venture Medco Celesio. Brocacef Holding made a positive contribution to earnings of EUR 3.1m. Start-up losses were incurred at Medco Celesio as planned.

EBITDA (earnings before interest, taxes, depreciation and amortisation) decreased by 16.3% in a year-on-year comparison to EUR 271.7m. The EUR 52.8m drop is mainly attributable to additional government burdens of around EUR 64m, which exceeded expectations. Adjusted for portfolio and currency effects, the decrease came to 15.2%. The group's EBITDA margin was 2.4% in the reporting period (previous year 2.8%).

Amortisation of non-current intangible assets and **depreciation** of property, plant and equipment increased by 2.5% to EUR 66.0m. This is largely due to the rollout of new standard software across Europe, which was started in the previous year. Adjusted for portfolio and currency effects, amortisation and depreciation increased by 2.2%.

An unscheduled impairment test revealed the need for Celesio to recognise impairment losses totalling EUR 116.3m in three business units. The **impairment losses** on intangible assets amount to EUR 72.0m at Pharmexx and EUR 21.0m and EUR 23.3m, respectively, in the wholesale business in Denmark and Portugal. This unscheduled impairment test of all assets was triggered by the market value of Celesio AG falling below the carrying amount of equity as at 30 June 2011. Impairment testing only led to impairment losses being recognised in the three business units mentioned. The impairment losses recognised for accounting purposes were the result of uncertainty at the macroeconomic level in Europe, which gave rise to a weak market environment that is now heavily burdened, both directly and indirectly, by government austerity measures in the healthcare sector. The higher discount rate on future payments also influenced the amount of the impairment losses.

In the reporting period the **financial result** came to EUR – 64.6m, compared to EUR – 81.8m in the previous year and comprises the balance of the items interest expense, interest income and other financial result. This is primarily due to non-cash currency effect of EUR 3.4m (previous year EUR – 13.6m), which is included in the other financial result and stem from revaluing the purchase price liability for outstanding Panpharma shares with the period-end exchange rate. Also included are further non-cash special effects within interest expense, such as the unwinding of the purchase price liability for the acquisition of the remaining Panpharma shares and the application of the effective interest rate method for the convertible bonds issued in October 2009 and April 2011. The figures for the second quarter of 2010 were restated accordingly. Adjusted for the special effects described, the financial result came to EUR – 53.9m (previous year EUR – 56.1m).

Profit before tax came to EUR 24.8m and was thus down 86.1% on the previous year. Adjusted for the impairment losses as well as the special effects described in the section on the financial result, profit before tax came to EUR 151.8m.

Based on the lower profit before tax, the **tax expense** decreased to EUR 55.0m (previous year EUR 65.5m), resulting in an imputed **tax rate** of 222.0% (previous year 36.8%). The tax rate increased primarily as a result of the impairment losses. Furthermore, the special effects described in the section on the financial result are not generally tax deductible. Adjusted for these special effects, the tax rate would have been 38.4% (previous year 32.2%). The adjusted tax rate rose in particular due to an increase in the loss situation of the consolidated tax group in Germany.

A **net loss** of EUR 30.2m was incurred compared to a net profit of EUR 112.8m in the comparative period of the previous year. Adjusted for the impairment losses as well as the special effects described in the section on the financial result, there would have been a net profit of EUR 93.5m.

Our basic **earnings per share** fell to EUR – 0.20 (previous year EUR 0.64).

Revenue and earnings development of the Celesio Group	1st half year 2010		**1st half year 2011**		Change on a euro basis	Change adjusted for portfolio and currency effects[4]
	EUR m	% of revenue	EUR m	% of revenue	%	%
Revenue	11,508.6	100.0	11,486.2	100.0	– 0.2	– 0.4
Gross profit	1,407.3	12.2	1,372.9	12.0	– 2.4	– 2.0
EBITDA	324.5	2.8	271.7	2.4	– 16.3	– 15.2
Profit before tax[1]	178.3	1.5	24.8	0.2	– 86.1	–
adjusted[2][3]	203.8	1.8	151.8	1.3	– 25.5	–
Net profit/loss[1]	112.8	1.0	– 30.2	–	–	–
adjusted[2][3]	136.8	1.2	93.5	0.8	– 31.7	–

[1] Previous-year figures restated to reflect the treatment of the Panpharma dividend to non-controlling interests as purchase price repayment instead of as interest expense.
[2] Adjusted for impairment losses recognised on intangible assets consisting of impairment losses on goodwill and brand names. In the case of the net profit/loss, they relate to associated tax effects.
[3] Adjusted for special effects contained in the financial result.
[4] The change adjusted for portfolio and currency effects (organic growth) eliminates the effects of currency translation, consolidation changes (elimination of all units that were not already consolidated as at 1 January of the previous year or that were deconsolidated in the period after 1 January of the previous year), gains/losses on disposal and impairment of goodwill, brands and intangible assets. The figure is also adjusted for changes in the value of shares in ANZAG, which were held up to and including 2010.

Patient and Consumer Solutions division

Market environment and business development

Our Patient and Consumer Solutions division targets patients and consumers with our strong pharmacy brands. Our sales channels consist of our own retail and mail-order pharmacies. Where corporations are not permitted to operate their own pharmacies, as is currently the case in Germany, we also participate in brand partnerships with independent pharmacists within franchise models. We began to implement a new market strategy in the first half year of 2011. Going ahead, we want to be represented by just two strong brands. In the UK, our most important pharmacy market, we are represented by Lloydspharmacy. In all other countries, our pharmacies will in future be operated under the DocMorris brand.

As at 30 June 2011, we operated a total of 2,291 retail pharmacies, 20 fewer than as of 30 June 2010. The 63 Dutch pharmacies that we contributed to Brocacef Holding have not been included in these figures since the fourth quarter of 2010. We opened 18 pharmacies (previous year 22) in the first six months of 2011, of which 14 were in Sweden.

Our British pharmacy chain Lloydspharmacy contributed 58.5% to revenue of the Pharmacies business area in the reporting period (previous year 57.5%). Despite the burden of government measures implemented as at 1 October 2010 and 1 April 2011, Lloydspharmacy managed to increase revenue slightly in the first six months. Lloydspharmacy also managed to make up for the ongoing poor consumer climate in the UK, which caused the OTC business to suffer in particular. Our British pharmacy chain managed to achieve this by increasing the volume of prescriptions processed and boosting revenue growth by 46% in the non-price-regulated service business with institutions in 2011. This business includes care agreements with hospitals, prisons and other institutions. Under new management, Lloydspharmacy also began restructuring measures to extend the OTC business by better meeting consumer needs. This includes streamlining the product range, launching a price initiative, extending opening hours and creating a new mail-order website. This will burden our earnings by around EUR 20m in 2011.

Despite government measures and start-up expenses in Sweden, DocMorris International Retail is developing as expected. Following our successful entry to the Swedish market in 2010 with 50 new pharmacies, we built on this positive development by opening 14 new pharmacies in the first two quarters of 2011. Our efforts to secure growth are supported by the 100 agreements that we have now concluded for pharmacy locations. Initially, the one-off expenses and start-up losses associated with market entry in Sweden burdened the earnings development of the division.

We pressed ahead with our rebranding efforts for pharmacies in Ireland. According to our planning, around one third of the pharmacies will have been redesigned by the end of the year. By the end of 2012, all of our Irish pharmacies are to be captured under the DocMorris brand. We will also conduct additional pilot projects, for instance in Italy. Rebranding in Ireland is a strategic step in developing DocMorris to become the leading pharmacy chain in Europe.

Revenue and earnings development

Revenue fell slightly by 1.0% to EUR 1,746.6m in the Patient and Consumer Solutions division. This was caused above all by the deconsolidation of our Dutch pharmacies in 2010. Revenue increased compared to the previous period in all countries apart from Ireland in the first six months of the year. Adjusted for portfolio and currency effects, revenue increased by 0.4% in this division.

Gross profit saw a slight decrease of 2.1% to EUR 579.9m on account of government measures. Adjusted for portfolio and currency effects, the decrease came to 0.7%. The gross profit margin came to 33.2% (previous year 33.6%).

EBITDA fell by 25.6% to EUR 102.1m. This development was mainly attributable to further government measures (especially in the UK), although there were some compensatory effects. Additional burdens came from the start-up expenses for our pharmacy chain in Sweden as well as the operating and organisational expenses for the new management organisation DocMorris International Retail. Other business areas generated EBITDA of EUR 3.1m. This now includes the investment result (measured using the equity method) of our investment in Brocacef Holding in the Netherlands whose business was also once again affected by government measures. The previous-year figures were restated to reflect the change in the reporting structure.

Revenue and earnings development Patient and Consumer Solutions		1st half year 2010[1]		**1st half year 2011**		Change on a euro basis	Change adjusted for portfolio and currency effects[2]
		EUR m	% of revenue	EUR m	% of revenue	%	%
Pharmacies	Revenue	1,763.6	100.0	1,746.6	100.0	– 1.0	0.4
	Gross profit	592.6	33.6	579.9	33.2	– 2.1	– 0.7
	EBITDA	137.2	7.8	99.0	5.7	– 27.8	– 23.0
Other business areas	Revenue	–	–	–	–	–	–
	Gross profit	–	–	–	–	–	–
	EBITDA	–	–	3.1	–	–	–
Total	Revenue	1,763.6	100.0	1,746.6	100.0	– 1.0	0.4
	Gross profit	592.6	33.6	579.9	33.2	– 2.1	– 0.7
	EBITDA	137.2	7.8	102.1	5.8	– 25.6	– 23.0

[1] Figures restated to reflect new reporting structure.
[2] The change adjusted for portfolio and currency effects (organic growth) eliminates the effects of currency translation, consolidation changes (elimination of all units that were not already consolidated as at 1 January of the previous year or that were deconsolidated in the period after 1 January of the previous year), gains/losses on disposal and impairment of brands and intangible assets. The figure is also adjusted for changes in the value of shares in ANZAG, which were held up to and including 2010.

Pharmacy Solutions division

Market environment and business development

The Pharmacy Solutions division focuses on pharmaceutical wholesale and is represented by our subsidiaries in twelve European countries and Brazil. Due to the tense financial situation of government budgets in Europe, wholesale is also increasingly affected by government austerity measures, albeit to a lesser extent than our pharmacy business. In Germany, government intervention on regulatory matters triggered unexpectedly fierce competition on discounting in the pharmaceutical wholesale business. Furthermore, the pharmaceutical market in France stagnated, while the Portuguese and Danish markets contracted.

The number of wholesalers was at 133 as at the end of the second quarter. There was an equal number of new openings and closures.

The intensive competition on a stagnating pharmaceutical market led to falling revenue and gross profit for our French wholesaler OCP. Revenue came to EUR 3,332.0m and was thus 1.1% lower than in the previous-year period. OCP managed to keep the market share steady at a relatively high level since October 2010. A new discount model was launched at the beginning of 2011 as part of Agenda 2015 with the aim of boosting profitability and strengthening customer loyalty.

As in the previous year, earnings developed well at our British wholesaler AAH. Revenue increased slightly by 0.5% to EUR 1,282.1m. At the same time, AAH successfully increased margins through improvements in operations, including, for example, purchasing terms.

In Germany, the Arzneimittelmarktneuordnungsgesetz (AMNOG, Act for the Restructuring of the Pharmaceutical Market in Statutory Health Insurance) came into force on 1 January 2011, requiring wholesalers to impose on pharmacies a mandatory rebate of 0.85% on the manufacturer price for 2011 and negatively affecting GEHE's earnings. The higher manufacturer discount introduced in August 2010 and the price moratorium imposed by the federal government on reimbursable medicines effective 1 August 2010 to 31 December 2013 presented an ongoing burden. We were not able to pass on these burdens by reducing discounts in the first half year of 2011. Revenue decreased slightly by 0.4% to EUR 1,965.5m. In preparation for the compensation structure with fixed amounts from 1 January 2012, GEHE defended its market share but had to contend with dwindling profits as a result.

Business at our Brazilian wholesaler Panpharma is developing in line with our expectations. The first half year of 2011 saw a revenue increase by 9.2% to EUR 768.4m. This was mainly attributable to higher prices and currency effects. The Brazilian market continues to grow at a healthy rate.

Revenue at OCP Portugal fell by 16.3% to EUR 228.6m. In Portugal, the pharmaceutical market is contracting. Furthermore, discussions are underway for a range of government measures, which would adversely affect OCP Portugal. For instance, wholesale margins could be adjusted by changing the current fixed lump-sum compensation to a system comprising a combination of margins set on a diminishing scale and lump-sum components. As a result of this potential development and the increase in the country risk premiums and discount rates, our unscheduled impairment test of assets revealed the need to recognise a full impairment loss of EUR 23.3m on the goodwill of OPC Portugal.

In Denmark, Tjellesen Max Jenne reported a 9.1% fall in revenue to EUR 215.0m. This was due to a contracting pharmaceutical market and a fierce competitive situation. This tougher competition has squeezed our margins and profits permanently. As a result of the fall in margins and profits associated with higher discount rates, the unscheduled impairment test revealed the need to recognise full impairment losses of EUR 21.0m on goodwill and on the brand name.

Other business areas of the Pharmacy Solutions division incorporate Rudolf Spiegel Versand for pharmacy and laboratory equipment and Inten, the property developer for pharmacies.

Revenue and earnings development

Revenue in the Pharmacy Solutions division remained at more or less the previous-year level in the reporting period at EUR 9,422.8m. For the most part, this is attributable to the Wholesale business area, which contributed revenue of EUR 9,420.4m. Other business areas accounted for EUR 2.4m (previous year EUR 2.6m) of revenue in the division. Adjusted for portfolio and currency effects, revenue fell by 0.5%, mainly as a result of government measures in Germany and ongoing pressure from competition in France.

The division's **gross profit** decreased by 2.7% to EUR 594.3m, primarily due to government measures in Germany. The gross profit margin also fell slightly in the comparative period, down 0.2% to 6.3%. Adjusted for portfolio and currency effects, gross profit fell by 3.3%.

EBITDA of the Pharmacy Solutions division exhibited a decrease of 6.9% to EUR 214.2m. Above all, burdens in Germany and France are to blame for this development. Adjusted for portfolio and currency effects, this was equivalent to a decrease of 8.3% compared to the previous year. EBITDA of other business areas improved to EUR 0.2m (previous year EUR – 4.2m).

Revenue and earnings development Pharmacy Solutions		1st half year 2010		**1st half year 2011**		Change on a euro basis	Change adjusted for portfolio and currency effects[1]
		EUR m	% of revenue	EUR m	% of revenue	%	%
Wholesale	Revenue	9,422.5	100.0	9,420.4	100.0	0.0	– 0.5
	Gross profit	609.5	6.5	593.1	6.3	– 2.7	– 3.3
	EBITDA	234.3	2.5	214.0	2.3	– 8.7	– 10.0
Other business areas	Revenue	2.6	100.0	2.4	100.0	– 5.2	–
	Gross profit	1.1	43.7	1.2	47.8	3.6	–
	EBITDA	– 4.2	–	0.2	10.6	–	–
Total	Revenue	9,425.1	100.0	9,422.8	100.0	0.0	– 0.5
	Gross profit	610.6	6.5	594.3	6.3	– 2.7	– 3.3
	EBITDA	230.1	2.4	214.2	2.3	– 6.9	– 8.3

[1] The change adjusted for portfolio and currency effects (organic growth) eliminates the effects of currency translation, consolidation changes (elimination of all units that were not already consolidated as at 1 January of the previous year or that were deconsolidated in the period after 1 January of the previous year), gains/losses on disposal and impairment of intangible assets. The figure is also adjusted for changes in the value of shares in ANZAG, which were held up to and including 2010.

Manufacturer Solutions division

Market environment and business development

The pharmaceutical industry faces growing competition and increased pressure on costs throughout the world. Many pharmaceutical manufacturers are therefore increasingly focusing on their core competences, relying on external service providers at certain points along the value-added chain. Celesio's Manufacturer Solutions division develops innovative services to meet this need. Unlike our pharmacy and wholesale activities, this business is generally only affected indirectly by government intervention in pricing structures. Pressure on pharmaceutical manufacturers also leads to falling costs, which in turn impact on business in the Manufacturer Solutions division. This is reflected in the temporary reluctance to award new contracts.

The **Logistics Solutions** business area, which currently only comprises Movianto, saw its business volume grow. The contracts lost in the UK have still not been fully compensated for. This fact, coupled with start-up expenses in Portugal and the difficult market situation in Spain, led to significantly lower earnings compared to the same period of the previous year. Towards the end of the reporting period, the tide turned and we have managed to win new contracts of strategic importance. The great majority of the new contracts will not enter into force until 2012, however.

Business at our subsidiary Pharmexx, which represents our **Marketing Solutions** business area, did not respond as fast as anticipated following the restructuring. Although we succeeded in stabilising business in most countries, the volume of new contracts fell short of expectations. The lack of non-recurring effects for integration and restructuring relieved the burden on costs compared to the previous-year period. Our unscheduled impairment test of assets revealed the need to recognise impairment losses of EUR 72.0m. The impairment losses on Pharmexx reflect the reduced expectations as to future business prospects due to negative developments in the European pharmaceutical markets. This increased pressure on pharmaceutical manufacturers, which in turn led to delayed orders being placed with Pharmexx. The negative effect on the valuation is compounded by increased discount rates.

In the **Efficient Care Pharma** business area, which includes the joint venture Medco Celesio as well as Evolution Homecare, further start-up losses and start-up expenses were incurred according to plan. Once again, it was not possible to contribute the mail-order pharmacy DocMorris to the joint venture Medco Celesio due to litigation issues that are still pending.

Earnings development

The Manufacturer Solutions division earned **gross profit**[1] of EUR 198.7m, a slight fall of 2.6%. In the Logistics Solutions business area, we managed to increase gross profit by 4.2% to EUR 91.5m in the period from January to June 2011. In contrast, the Marketing Solutions business area saw it fall 8.1% to EUR 106.0m. Efficient Care Pharma generated gross profit of EUR 1.2m (previous year EUR 1.0m).

The 64.0% decrease in **EBITDA**, which came to EUR 2.1m in this division, is above all due to the start-up expenses at Medco Celesio and the declining income at Movianto.

Earnings development Manufacturer Solutions		1st half year 2010		**1st half year 2011**		Change on a euro basis	Change adjusted for portfolio and currency effects[2]
		EUR m	% of gross profit	EUR m	% of gross profit	%	%
Logistics Solutions	Gross profit	87.8	100.0	91.5	100.0	4.2	3.6
	EBITDA	6.7	7.6	5.3	5.8	– 21.5	– 22.3
Marketing Solutions	Gross profit	115.3	100.0	106.0	100.0	– 8.1	– 6.1
	EBITDA	1.4	1.2	2.7	2.6	91.7	41.8
Efficient Care Pharma	Gross profit	1.0	100.0	1.2	100.0	19.4	43.4
	EBITDA	– 2.2	–	– 5.9	–	>– 100.0	– 4.5
Total	Gross profit	204.1	100.0	198.7	100.0	– 2.6	– 1.7
	EBITDA	5.9	2.9	2.1	1.1	– 64.0	– 0.6

[1] The key performance indicator of relevance for the Manufacturer Solutions division is the absolute gross profit generated instead of revenue. This is because our customers normally pay fees for services; trading revenue is generated only in exceptional cases. In Logistics Solutions, the gross profit is calculated as the sum of fee income plus a retail margin; in Marketing Solutions, gross profit is essentially equivalent to revenue. The gross profit margin is not a meaningful figure for the Manufacturer Solutions division due to the specific structure of its revenue.

[2] The change adjusted for portfolio and currency effects (organic growth) eliminates the effects of currency translation, consolidation changes (elimination of all units that were not already consolidated as at 1 January of the previous year or that were deconsolidated in the period after 1 January of the previous year), gains/losses on disposal and impairment of brands and intangible assets. The figure is also adjusted for changes in the value of shares in ANZAG, which were held up to and including 2010.

Financial position

Net cash flow from operating activities came to EUR 132.5m, a decrease compared to the previous-year figure of EUR 241.2m. This development can be explained by the EUR 52.8m fall in EBITDA, coupled with larger cash outflows adjusted for consolidation and currency effects from the change in net working capital[1]. Compared to the figure as at 30 June 2010, we were however again able to slightly improve our net working capital in days, a measurement of how long capital is tied up. Nevertheless, the improvement was not as marked as in the previous-year comparative period.

Net cash flow from investing activities increased from EUR – 69.0m in the previous year to EUR – 73.2m. The higher outflow primarily resulted from capital expenditures which increased by EUR 10.8m to EUR 78.1m. These mainly include investment in our wholesale branch network, realignment of pharmacies, setting up our Swedish pharmacy chain and investment in IT. Proceeds on the disposal of non-current assets fell by EUR 0.4m to EUR 9.6m.

Free cash flow fell from EUR 121.2m in the first half year of 2010 to EUR – 0.7m as a result of the lower cash inflow from operating activities, the higher cash outflow from investing activities and an increase in interest paid.

Celesio Group statement of cash flows	1st half year 2010 EUR m	**1st half year 2011** EUR m
Net cash flow from operating activities	241.2	132.5
Net cash flow from investing activities	– 69.0	– 73.2
Interest paid	– 51.0	– 60.0
Free cash flow	**121.2**	**– 0.7**
Payments made to shareholders	– 86.2	– 85.9
Net cash flow from change in borrowings	– 82.1	161.6
Change in ownership interests in subsidiaries that do not result in a loss of control	– 2.4	– 0.3
Net change in cash and cash equivalents	**– 49.5**	**74.7**
Net foreign exchange difference	16.8	– 7.9
Change in cash and cash equivalents	**– 32.7**	**66.8**

[1] Net working capital is calculated as the difference between current operating assets (inventories, trade receivables and other assets) and current operating liabilities (trade payables, provisions and other liabilities).

Assets position

The Celesio Group had **total assets** of EUR 8,372.3m as at 30 June 2011, a decrease of EUR 30.4m compared to 31 December 2010. The decrease in intangible assets as a result of the impairment losses is the main reason. Exchange rate differences also reduced total assets by EUR 137.3m. The group's gearing, which expresses the ratio of net financial debt to equity, came to 0.72 compared to 0.66 as at the end of the previous year.

Compared to the end of 2010 **non-current assets** decreased by a total of EUR 181.3m to EUR 3,269.5m. Intangible assets decreased by EUR 164.3m to EUR 2,381.6m, while property, plant and equipment fell by EUR 12.6m to EUR 579.7m. In addition to exchange rate effects, this is attributable to the impairment losses of EUR 116.3m stemming from the unscheduled impairment test of assets.

Current assets increased by EUR 150.9m to EUR 5,102.8m compared to the end of 2010. This development was significantly driven by trade receivables, which increased by EUR 77.7m to EUR 2,599.7m, as well as cash and cash equivalents, up EUR 66.8m to EUR 267.6m. The increase in trade receivables was attributable above all to the payment term for the monthly reimbursement from the National Health Service (NHS) in the UK which was scheduled one day later compared to the year-end 2010. Other receivables and other assets also saw a rise, up EUR 55.9m to EUR 421.4m due to the reporting date. In contrast, inventories fell by EUR 53.3m to EUR 1,634.8m.

At EUR 2,463.9m, **equity** was down by EUR 137.2m compared to the end of the previous year. One reason for this was the negative impact of higher revaluation reserves which mainly increased on account of the rise in the negative currency reserve to EUR – 229.1 million. In addition, revenue reserves fell by EUR 1,274.8m, above all as a result of the impairment losses of intangible assets. The equity ratio fell to 29.4% compared to 31.0% as at 31 December 2010.

Non-current liabilities came to EUR 2,331.6m, an increase of EUR 39.0m. This development is primarily attributable to the EUR 92.5m increase in financial liabilities to EUR 1,882.1m following the convertible bond issued in April 2011. In contrast, other liabilities fell by EUR 44.6m to EUR 109.7m and other non-current provisions by EUR 24.9m to EUR 95.4m. Shares in the purchase price liabilities for Panpharma were reclassified from non-current other liabilities to current other liabilities.

Current liabilities increased by EUR 67.8m to EUR 3,576.8m. The major factor in this was the EUR 74.3m increase in other liabilities to EUR 659.2m. Current financial liabilities also increased by a significant EUR 28.4m to EUR 162.1m. In contrast, other current provisions decreased by 29.8m to 132.2m.

Employees

As at 30 June 2011 the Celesio Group had 36,429 employees (previous year 36,609 employees)[1]. This represents a relatively stable development, although there were small changes within the divisions. At the end of the reporting period, Celesio had 15,523 employees (previous year 15,779 employees) in the Patient and Consumer Solutions division, 13,887 (previous year 14,212 employees) in the Pharmacy Solutions division and 6,729 (previous year 6,339) in the Manufacturer Solutions division. The remaining employees worked at the group level.

Changes to the Management Board

The Supervisory Board of Celesio AG appointed Mr Markus Pinger, former member of the Executive Board of Beiersdorf AG, as the new CEO on 23 June 2011. Markus Pinger will take over the role as of 15 August 2011. The former CEO, Dr Fritz Oesterle, left the company as of 30 June 2011. Mr Wolfgang Mähr, member of the Management Board of Celesio AG, is acting CEO for the transitional period from 1 July 2011 to 15 August 2011.

Subsequent events

On 21 July 2011, Medco Health Solutions, Inc. and Express Scripts, Inc. publicly announced that they have concluded a binding merger agreement. Among other things, the merger plans are subject to approval by the anti-trust authorities.

Outlook

Economic development

After recovering noticeably in 2010, the growth rate of the global economy is expected to slow slightly in 2011. The International Monetary Fund (IMF) forecasts global gross domestic product (GDP) growth of 4.3% for 2011, compared to growth of 5.1% in 2010. This growth will primarily be driven by domestic demand in emerging economies. For example, the IMF anticipates growth of 4.1% for Brazil. The estimate for the euro zone in 2011 was recently adjusted slightly upwards. GDP is now expected to increase by 2.0%.

[1] Effective this fiscal year we now disclose the headcount as full-time equivalents; previous-year figures were restated accordingly.

Nevertheless, the extraordinarily high sovereign debt of a number of European states and the USA, in particular, coupled with the future monetary policies of the central banks pose risks to the general economic upturn. We do not anticipate any change in the extremely tense budget situation – at least not for the European countries of relevance for Celesio. We therefore expect continued pressure on government healthcare systems to contain their costs, which will go hand in hand with restrictions on the healthcare costs borne by the government, i.e. on what is referred to as the primary healthcare market. Generic medicines will become increasingly popular in Europe and in Brazil as patents for a large number of top-selling pharmaceuticals expire. In light of the value placed on health, demand on the secondary healthcare market, in which patients and consumers pay for the products and services themselves, will in future be less dependent on economic cycles than other consumer goods markets.

Business development

Patient and Consumer Solutions. In the coming years, we will successively implement our new brand strategy to concentrate our pharmacy business activities on two brands: Lloydspharmacy in the UK and DocMorris elsewhere. Having opened the first 50 pharmacies in Sweden in 2010, we are highly committed to driving forward the expansion in 2011. Our focus when setting up new pharmacies is on selecting attractive locations. The start-up expenses associated with setting up our pharmacy chain in Sweden will burden the result in 2011; we have planned for this in our budget. We also began rebranding our 72 Irish pharmacies under the DocMorris brand in the first quarter of 2011. The process is scheduled for completion in Ireland in the course of 2012.

Government intervention will curb profitability in the Patient and Consumer Solutions division in a whole range of countries in 2011. This particularly applies to pharmacies in the UK and Ireland. A drastic reduction in the reimbursement prices paid for generic medicines last October will burden the total UK pharmacy market by approximately GBP 275m on a full-year basis compared to the previous year. The Lloydspharmacy business will be affected in proportion to its market share. In Ireland, reimbursement prices for generic medicines were also cut by a significant 40%. Further price cuts were implemented as at 1 January 2011.

At this stage, it is not possible to make any reliable forecast as to whether there will be any further government intervention in the compensation paid to pharmacies.

Pharmacy Solutions. In the Pharmacy Solutions division, we need to be prepared once again for an extremely challenging market environment in certain key countries such as France and Germany and do not expect any short-term improvement in the discount-driven price competition. On the other hand, we predict significantly higher growth rates in the Brazilian pharmaceutical market and the related pharmaceutical wholesale market than in Europe, with considerably less government intervention. We expect the earnings of the other business areas to continue developing positively.

Manufacturer Solutions. With its business based on contracts, it is more difficult to predict the development of the Logistics Solutions business area than it is for wholesale, for instance. The loss of a contract with one of our larger customers in the UK will be felt in 2011 and impact on earnings. Most of the new contracts signed will not enter into force until 2012.

Following the full acquisition of Pharmexx in the previous year, we defined restructuring measures more closely for the Marketing Solutions business area. Adjusted for impairment losses, we assume a positive contribution to earnings for 2011 now that restructuring costs do not have to be included.

The development of the new business area, Efficient Care Pharma, will be dominated by the start-up costs of the joint venture, Medco Celesio. Consequently, we have planned for this business area to burden the division's earnings in 2011.

Investments and capital expenditures

We expect our investments and capital expenditures to rise in 2011 in comparison to 2010. This is primarily a result of additional investments in standardising and modernising our group-wide IT applications and implementing our brand strategy in the Patient and Consumer Solutions division. We will continue the expansion of our pharmacy chain in Sweden. Investments in possible acquisitions have not been considered because they cannot be planned with any reasonable certainty.

Financial result and tax rate

The special effects described in the financial result section under revenue and earnings development will continue to have an impact throughout the 2011 fiscal year. The tax rate may be influenced by a change in the mix of earnings returned by the different countries in which the group operates or a change in the specific effective tax rates in each country. The tax rate increased primarily as a result of the overall loss situation of the consolidated tax group in Germany which affected the overall tax rate disclosed for the group accordingly.

Employees

Based on the current situation, we do not expect the number of employees to change significantly in 2011.

Risks and opportunities

We use high-performance systems to identify, measure and track opportunities and risks. The major opportunities and risks relevant to us are described in detail from page 100 onwards of the 2010 annual report. The risks presented there essentially remain unchanged. The following opportunities and risks are relevant for the development of our business and earnings in the 2011 fiscal year:

- With our core activities in the pharmacy business and pharmaceutical trade, we are active in markets in which the compensation structures are highly regulated. Any changes to these compensation structures could impact the development of our earnings.
- As we have business activities in different currency areas, significant exchange rate fluctuations impact our earnings. Because a large proportion of our business is in the UK, the pound sterling is of greatest relevance, followed by the Brazilian real and the Norwegian krone.
- Our OTC revenue, which accounts for around 20% of revenue in the Patient and Consumer Solutions division, can be influenced by changes in the economic environment.
- The risk of customer default can be higher in individual countries if the economy develops negatively.

Earnings forecast 2011

Further government intervention will have a significant impact on our earnings in the 2011 fiscal year, particularly in the pharmacy business in the UK and the pharmaceutical wholesale business in Germany. The direct effects that are currently foreseeable are likely to reduce group EBITDA by at least a further EUR 120m compared to the previous year. It should be possible to compensate for some of these effects as a result of the development in other divisions and our initiatives to improve profitability as part of Agenda 2015.

In addition to the further government measures already mentioned, our income statement is also expected to reflect the structural changes from efforts to streamline the portfolio, most of which were carried out in 2010. These measures include the contribution of our Dutch pharmacies to Brocacef Holding, the sale of our investment in ANZAG and establishing the joint venture Medco Celesio as well as our pharmacy chain in Sweden. They were complemented by strategic investments in the low double-digit million euro range for the realignment of Lloydspharmacy. We consider these a way to add value and an investment in Celesio's future.

Based on the government measures currently announced, Celesio anticipates an operating result (EBITDA) of around EUR 600m for 2011 as a whole, which is in line with the current expectations of the capital market.

Celesio intends to continue its long-term dividend policy of distributing a dividend that remains relatively stable at around 30% of ordinary net profit of the group year adjusted for impairment losses.

Over the coming weeks, the new Management Board team will continue the strategic process, analyse the portfolio of Celesio in the light of current market developments and then make the necessary decisions to continue on our current path. Against the background of these various developments, we are and remain an international service provider in the pharmaceutical and healthcare markets.

Stuttgart, 8 August 2011

The Management Board

Interim condensed financial statements

Group income statement for the 1st half year 2011

	2nd quarter		1st half year	
	2010 EUR m	**2011** EUR m	2010 EUR m	**2011** EUR m
Revenue	**5,840.3**	**5,763.3**	**11,508.6**	**11,486.2**
Own work capitalised	0.0	0.0	0.1	0.1
Total operating performance	**5,840.3**	**5,763.3**	**11,508.7**	**11,486.3**
Cost of raw materials, consumables and supplies and of purchased goods	– 5,111.4	– 5,082.9	– 10,101.4	– 10,113.4
Gross profit	**728.9**	**680.4**	**1,407.3**	**1,372.9**
Other income	53.4	54.7	98.2	99.9
Other expenses	– 237.6	– 235.0	– 458.6	– 461.9
Personnel expenses	– 368.7	– 371.5	– 723.2	– 743.0
Result from associates accounted for using the equity method	0.1	– 0.7	0.3	– 0.9
Result from other investments	– 4.8	2.3	0.5	4.7
EBITDA	**171.3**	**130.2**	**324.5**	**271.7**
Amortisation and depreciation	– 33.4	– 33.3	– 64.4	– 66.0
Impairment losses recorded on intangible assets	0.0	– 116.3	0.0	– 116.3
EBIT	**137.9**	**– 19.4**	**260.1**	**89.4**
Interest expense[1)]	– 44.7	– 38.6	– 74.0	– 74.6
Interest income	3.0	2.2	6.6	4.3
Other financial result	– 9.1	– 1.9	– 14.4	5.7
Profit before tax[1)]	**87.1**	**– 57.7**	**178.3**	**24.8**
Income taxes	– 33.8	– 27.2	– 65.5	– 55.0
Net profit/loss[1)]	**53.3**	**– 84.9**	**112.8**	**– 30.2**
Profit/loss attributable to non-controlling interests	3.0	2.0	4.4	3.4
Profit/loss attributable to shareholders of Celesio AG[1)]	**50.3**	**– 86.9**	**108.4**	**– 33.6**
Earnings per share – basic (EUR)[1)]	**0.30**	**– 0.51**	**0.64**	**– 0.20**
Earnings per share – diluted (EUR)[1) 2)]	**0.29**	**– 0.51**	**0.63**	**– 0.20**

1) Previous-year figures restated to reflect the disclosure of the Panpharma dividend to non-controlling interests as purchase price repayment instead of as interest expense.
2) Due to the fact that the potential ordinary shares from the convertible bond would increase earnings per share calculated in the reporting period, they are not disclosed in accordance with IAS 33.41.

Group statement of comprehensive income for the 1st half year 2011

	2nd quarter		1st half year	
	2010 EUR m	**2011** EUR m	2010 EUR m	**2011** EUR m
Net loss[1]	**53.3**	**– 84.9**	**112.8**	**– 30.2**
Other comprehensive income				
Gains/losses from marking available-for-sale financial assets to market	1.2	0.0	0.3	0.0
Of which income taxes	*– 0.3*	*0.0*	*0.2*	*0.0*
Gains/losses from derivative financial instruments to hedge cash flows	1.6	– 6.9	– 13.4	0.4
Of which income taxes	*4.4*	*– 2.4*	*5.3*	*– 6.3*
Exchange differences	119.7	– 17.8	135.9	– 62.1
Of which non-controlling interests	*0.1*	*0.1*	*0.1*	*0.0*
Other comprehensive income	**122.5**	**– 24.7**	**122.8**	**– 61.7**
Comprehensive income[1]	**175.8**	**– 109.6**	**235.6**	**– 91.9**
Share of comprehensive income attributable to non-controlling interests	3.1	2.1	4.5	3.4
Share of comprehensive income attributable to shareholders of Celesio AG[1]	**172.7**	**– 111.7**	**231.1**	**– 95.3**

[1] Previous-year figures restated to reflect the disclosure of the Panpharma dividend to non-controlling interests as repayment of the purchase price instead of as interest expense.

Group statement of financial position as at 30 June 2011

Assets	31/12/2010 EUR m	**30/06/2011** EUR m
Non-current assets		
Intangible assets	2,545.9	2,381.6
Property, plant and equipment	592.3	579.7
Associates accounted for using the equity method	80.6	82.5
Other financial assets	107.6	111.1
Income tax receivables	3.1	3.1
Deferred tax assets	121.3	111.5
	3,450.8	**3,269.5**
Current assets		
Inventories	1,688.1	1,634.8
Trade receivables	2,522.0	2,599.7
Income tax receivables	28.9	33.8
Other receivables and other assets	365.5	421.4
Cash and cash equivalents	200.8	267.6
Non-current assets held for sale	2.5	0.0
Assets of a disposal group classified as held for sale	144.1	145.5
	4,951.9	**5,102.8**
Total assets	**8,402.7**	**8,372.3**

Equity and liabilities	31/12/2010 EUR m	**30/06/2011** EUR m
Equity		
Issued capital	217.7	217.7
Capital reserves	1,145.2	1,186.0
Revenue reserves	1,393.7	1,274.8
Revaluation reserves	– 167.4	– 229.1
Equity attributable to shareholders of Celesio AG	**2,589.2**	**2,449.4**
Non-controlling interests	11.9	14.5
	2,601.1	**2,463.9**
Liabilities		
Non-current liabilities		
Financial liabilities	1,789.6	1,882.1
Pension provisions	142.1	150.4
Other non-current provisions	120.3	95.4
Other liabilities	154.3	109.7
Deferred tax liabilities	86.3	94.0
	2,292.6	**2,331.6**
Current liabilities		
Financial liabilities	133.7	162.1
Trade payables	2,514.6	2,531.3
Other current provisions	162.0	132.2
Income tax liabilities	72.3	62.1
Other liabilities	584.9	659.2
Liabilities of a disposal group classified as held for sale	41.5	29.9
	3,509.0	**3,576.8**
Total liabilities	**5,801.6**	**5,908.4**
Total equity and liabilities	**8,402.7**	**8,372.3**

Group statement of cash flows for the 1st half year 2011

	2010 EUR m	**2011** EUR m
Profit before tax[1)]	178.3	24.8
Financial result[1)]	– 81.8	– 64.6
EBIT	260.1	89.4
Amortisation and depreciation	– 64.4	– 66.0
Impairment losses recorded on intangible assets	0.0	– 116.3
EBITDA	**324.5**	**271.7**
Result from associates accounted for using the equity method and other equity investments	– 0.8	– 3.8
Net result from the disposal of non-current assets and subsidiaries	– 2.3	– 5.1
Impairment of operating assets	23.6	17.4
Non-cash change in pension provisions	11.0	13.9
Other non-cash income and expenses	11.1	– 7.8
Income taxes paid	– 83.9	– 72.8
Dividends received	5.6	3.5
Interest received	6.7	4.3
Change in operating assets	– 161.9	– 150.0
Change in operating liabilities	107.6	61.2
Net cash flow from operating activities	**241.2**	**132.5**
Proceeds from the disposal of non-current assets	10.0	9.6
Capital expenditure on non-current assets	– 67.3	– 78.1
Proceeds from the sale of subsidiaries	0.2	2.2
Cash paid for business combinations	– 11.9	– 6.9
Net cash flow from investing activities	**– 69.0**	**– 73.2**
Payments made to shareholders	– 86.2	– 85.9
Changes in ownership interests in subsidiaries that do not result in a loss of control	– 2.4	– 0.3
Proceeds from borrowings	607.3	597.8
Repayment of borrowings	– 689.4	– 436.2
Interest paid	– 51.0	– 60.0
Net cash flow from financing activities	**– 221.7**	**15.4**
Net change in cash and cash equivalents	**– 49.5**	**74.7**
Net foreign exchange difference	16.8	– 7.9
Cash and cash equivalents at the beginning of the period	127.7	200.8
Cash and cash equivalents at the end of the period	**95.0**	**267.6**

[1)] Previous-year figures restated due to the completion of the purchase price allocation for the Panpharma acquisition.

The presentation of cash flows from operating activities was changed effective 1 January 2011. Since this date, dividends received have been reported separately under cash flows from operating activities. This made it necessary to report the net result from associates accounted for using the equity method and other equity investments separately. For this reason, investment income which was previously included under other non-cash income and expenses is no longer reported under this item. Likewise, the line item interest received has been reclassified from the cash flow from financing activities to the cash flow for operating activities. The previous-year figures were restated accordingly to match the current presentation.

Group statement of changes in equity for the 1st half year 2011

	Issued capital	Capital reserves	Revenue reserves[1) 2)]	Revaluation reserves				**Equity attributable to shareholders of Celesio AG** [1) 2)]	**Non-controlling interests**	**Equity**[1) 2)]
				Translation reserves[1) 2)]	Asset revaluation reserves	Available-for-sale financial assets	Cash flow hedges			
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
As at 01/01/2011	**217.7**	**1,145.2**	**1,393.7**	**– 151.5**	**– 0.4**	**– 0.6**	**– 14.9**	**2,589.2**	**11.9**	**2,601.1**
Change in capital	0.0	40.8	0.0	0.0	0.0	0.0	0.0	40.8	0.0	40.8
Dividends	0.0	0.0	– 85.1	0.0	0.0	0.0	0.0	– 85.1	– 0.8	– 85.9
Changes in ownership interests in subsidiaries that do not result in a loss of control	0.0	0.0	– 0.2	0.0	0.0	0.0	0.0	– 0.2	0.0	– 0.2
Changes to the consolidated group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive income	0.0	0.0	0.0	– 62.1	0.0	0.0	0.4	– 61.7	0.0	– 61.7
Net profit/loss	0.0	0.0	– 33.6	0.0	0.0	0.0	0.0	– 33.6	3.4	– 30.2
Comprehensive income	0.0	0.0	– 33.6	– 62.1	0.0	0.0	0.4	– 95.3	3.4	– 91.9
As at 30/06/2011	**217.7**	**1,186.0**	**1,274.8**	**– 213.6**	**– 0.4**	**– 0.6**	**– 14.5**	**2,449.4**	**14.5**	**2,463.9**
As at 01/01/2010[2)]	**217.7**	**1,145.2**	**1,221.7**	**– 232.6**	**0.9**	**– 0.6**	**– 13.3**	**2,339.0**	**13.1**	**2,352.1**
Change in capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	– 85.1	0.0	0.0	0.0	0.0	– 85.1	– 1.1	– 86.2
Changes in ownership interests in subsidiaries that do not result in a loss of control	0.0	0.0	– 1.9	0.0	0.0	0.0	0.0	– 1.9	– 0.5	– 2.4
Changes to the consolidated group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	– 3.2	– 3.2
Other comprehensive income	0.0	0.0	0.0	135.8	0.0	0.3	– 13.4	122.7	0.1	122.8
Net profit/loss	0.0	0.0	108.4	0.0	0.0	0.0	0.0	108.4	4.4	112.8
Comprehensive income	0.0	0.0	108.4	135.8	0.0	0.3	– 13.4	231.1	4.5	235.6
As at 30/06/2010[1)]	**217.7**	**1,145.2**	**1,243.1**	**– 96.8**	**0.9**	**– 0.3**	**– 26.7**	**2,483.1**	**12.8**	**2,495.9**

1) Previous-year figures restated to reflect the disclosure of the Panpharma dividend to non-controlling interests as purchase price repayment instead of as interest expense.
2) Previous-year figures restated due to the completion of the purchase price allocation for the Panpharma acquisition.

Selected explanatory notes to the consolidated financial statements

Group segment reporting by business area for the 1st half year 2011

2011	Patient and Consumer Solutions			Pharmacy Solutions			Manufacturer Solutions				Others	Consolidation	Group
	Pharmacies	Other business areas	Total Patient and Consumer Solutions	Wholesale	Other business areas	Total Pharmacy Solutions	Logistics Solutions	Marketing Solutions	Efficient Care Pharma	Total Manufacturer Solutions			
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
Income statement													
Revenue	**1,746.6**	**0.0**	**1,746.6**	**9,420.4**	**2.4**	**9,422.8**	**216.2**	**109.3**	**27.5**	**353.0**	**0.0**	**– 36.2**	**11,486.2**
External revenue	1,746.6	0.0	1,746.6	9,420.4	2.4	9,422.8	182.6	108.7	25.5	316.8	0.0	0.0	11,486.2
Inter-segment revenue	0.0	0.0	0.0	0.0	0.0	0.0	33.6	0.6	2.0	36.2	0.0	– 36.2	0.0
Gross profit	**579.9**	**0.0**	**579.9**	**593.1**	**1.2**	**594.3**	**91.5**	**106.0**	**1.2**	**198.7**	**0.0**	**0.0**	**1,372.9**
EBITDA	**99.0**	**3.1**	**102.1**	**214.0**	**0.2**	**214.2**	**5.3**	**2.7**	**– 5.9**	**2.1**	**– 46.7**	**0.0**	**271.7**
Impairment losses recorded on intangible assets	0.0	0.0	0.0	– 44.3	0.0	– 44.3	0.0	– 72.0	0.0	– 72.0	0.0	0.0	– 116.3
EBIT	70.8	3.1	73.9	142.4	0.2	142.6	1.1	– 71.3	– 6.0	– 76.2	– 50.9	0.0	89.4
Segment assets	**2,019.6**	**73.8**	**2,093.4**	**2,023.1**	**11.5**	**2,034.6**	**182.1**	**72.9**	**9.1**	**264.1**	**95.8**	**– 2.4**	**4,485.5**

Group segment reporting by business area for the 1st half year 2010

2010	Patient and Consumer Solutions			Pharmacy Solutions			Manufacturer Solutions				Others[1]	Consolidation[1]	Group
	Pharmacies[1]	Other business areas[1]	Total Patient and Consumer Solutions[1]	Wholesale	Other business areas	Total Pharmacy Solutions	Logistics Solutions	Marketing Solutions	Efficient Care Pharma	Total Manufacturer Solutions			
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
Income statement													
Revenue	**1,763.6**	**0.0**	**1,763.6**	**9,422.5**	**2.6**	**9,425.1**	**224.5**	**120.5**	**16.4**	**361.4**	**0.0**	**– 41.5**	**11,508.6**
External revenue	1,763.6	0.0	1,763.6	9,422.5	2.6	9,425.1	184.4	120.5	15.0	319.9	0.0	0.0	11,508.6
Inter-segment revenue	0.0	0.0	0.0	0.0	0.0	0.0	40.1	0.0	1.4	41.5	0.0	– 41.5	0.0
Gross profit	**592.6**	**0.0**	**592.6**	**609.5**	**1.1**	**610.6**	**87.8**	**115.3**	**1.0**	**204.1**	**0.0**	**0.0**	**1,407.3**
EBITDA	**137.2**	**0.0**	**137.2**	**234.3**	**– 4.2**	**230.1**	**6.7**	**1.4**	**– 2.2**	**5.9**	**– 48.7**	**0.0**	**324.5**
Impairment losses recorded on intangible assets	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
EBIT	108.5	0.0	108.5	206.4	– 4.2	202.2	3.0	– 0.7	– 2.3	0.0	– 50.6	0.0	260.1
Segment assets[2][3]	**2,183.5**	**0.0**	**2,183.5**	**2,241.0**	**3.8**	**2,244.8**	**169.5**	**145.0**	**3.4**	**317.9**	**162.1**	**– 28.2**	**4,880.1**

[1] Previous-year figures restated to reflect new reporting structure.
[2] Previous-year figures restated to reflect the disclosure of the Panpharma dividend to non-controlling interests of the purchase price repayment instead of as interest expense.
[3] Previous-year figures restated due to the completion of the purchase price allocation for the Panpharma acquisition.

Please see the notes to the segment reporting for further information.

Reconciliation of segment revenue for the 1st half year 2011	2010 EUR m	**2011** EUR m
Revenue of the reportable segments	**11,550.1**	**11,522.4**
Consolidation	– 41.5	– 36.2
Group revenue	**11,508.6**	**11,486.2**

Reconciliation of segment results for the 1st half year 2011	2010 EUR m	**2011** EUR m
EBITDA of the reportable segments	**324.5**	**271.7**
EBITDA of the group	**324.5**	**271.7**
Amortisation and depreciation	– 64.4	– 66.0
Impairment losses recorded on intangible assets	0.0	– 116.3
EBIT	**260.1**	**89.4**
Interest expense[1)]	– 74.0	– 74.6
Interest income	6.6	4.3
Other financial result	– 14.4	5.7
Profit before tax[1)]	**178.3**	**24.8**

Reconciliation of segment assets as at 30/06/2011	30/06/2010 EUR m	**30/06/2011** EUR m
Segment assets of the reportable segments[1) 2) 3)]	**4,908.3**	**4,487.9**
Consolidation[2)]	– 28.2	– 2.4
Segment assets of the group[1) 3)]	**4,880.1**	**4,485.5**
+ Interest-bearing other financial assets	53.6	53.1
+ Non-current and current income tax receivables	30.9	36.9
+ Deferred tax assets[3)]	136.1	111.5
+ Other assets	1.2	10.7
+ Cash and cash equivalents	95.0	267.6
– Other current provisions[3)]	143.8	132.2
– Trade payables	2,452.4	2,531.3
– Other liabilities[1) 3)]	718.2	743.5
Total assets[3)]	**8,511.3**	**8,372.3**

[1)] Previous-year figures restated to reflect the disclosure of the Panpharma dividend to non-controlling interests as purchase price repayment instead of as interest expense.
[2)] Previous-year figures restated to reflect new reporting structure.
[3)] Previous-year figures restated due to the completion of the purchase price allocation for the Panpharma acquisition.

Accounting policies

The interim condensed consolidated report of Celesio AG for the first half year of 2011, comprising the group statement of financial position, group income statement, group statement of comprehensive income, group statement of cash flows, group statement of changes in equity and selected explanatory notes to the consolidated financial statements, is based on »International Accounting Standard (IAS) 34 – Interim Financial Reporting«. All International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, and endorsed by the European Union as at 30 June 2011 and all Interpretations (IFRIC) of the International Financial Reporting Standards Interpretation Committee were observed in the process of preparing the interim report. The accounting principles applied in the preparation of the interim report generally correspond to those applied in the annual report as at 31 December 2010. Changes in the accounting policies are explained below and in the comments on the statement of cash flows and segment reporting. The condensed interim report should therefore be read in conjunction with the consolidated financial statements of Celesio AG for the 2010 fiscal year.

The impact on the interim report of the Standards and Interpretations, whose application was mandatory for the first time from 1 January 2011, is as follows:

– In November 2009, the IASB issued a revised version of »**IAS 24** – Related Party Disclosures«. The impact on the Celesio Group from the revised version relates to the new definition of a related party. As a result, disclosures are required for the first time on associates and joint ventures in the wider group held by the majority shareholder of Celesio.

– IASB issued a further **omnibus of amendments** in May 2010, »Improvements to International Financial Reporting Standards«. These consist primarily of clarifications and simplifications in the application of IFRSs. First-time application has not resulted in any material impact on the interim report of Celesio.

Furthermore, the following standards and interpretations have become mandatory since 1 January 2011 but did not have any impact on the consolidated financial statements of Celesio: »**IFRS 1** – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters«, »**IAS 32** – Classification of Rights Issues«, »**IFRIC 14** – Prepayments of a Minimum Funding Requirement« and »**IFRIC 19** – Extinguishing Financial Liabilities with Equity Instruments«.

Consolidated group

Business combinations and disposals in the first half year of 2011

Business combinations. In the first half year of 2011, in the Patient and Consumer Solutions division in the course of optimising the portfolio three retail pharmacies in the Czech Republic and one retail pharmacy in Norway were acquired and consolidated.

Moreover, the Patient and Consumer Solutions division consolidated the entity »28 CVR Ltd.« for the first time after increasing its shareholding from 33% to 100% as at 26 March 2011. 28 CVR Ltd. offers patients consulting services online under the Dr Thom brand.

First-time consolidation has been made on the basis of a preliminary purchase price allocation as it was not possible to finish the allocation of fair value by the end of the reporting period. The purchase price allocation will be concluded no later than within twelve months of the acquisition date in each case.

The consideration transferred amounted to EUR 9.6m in total. At the time control was obtained, the entities acquired in the combination carried cash and cash equivalents of EUR 1.5m. The consideration transferred consists of a purchase price payment of EUR 6.2m and a purchase price liability of EUR 0.1m. Moreover, it includes the fair values of the investments formerly recognised using the equity method of EUR 3.3m in the course of business combinations achieved in stages mentioned above. Incidental acquisition-related costs of EUR 0.1m were expensed through profit or loss. No equity instruments were issued to settle purchase price liabilities. Due to the fact that the fair value of the investment measured using the equity method, which was already held by the Celesio Group prior to the date on which control was obtained by the group, corresponds to its carrying amount, there is no impact on profit or loss from revaluing the shares in the income statement.

The fair value of the identifiable assets and liabilities of the entities acquired in the first half year of 2011 as at the date of acquisition are presented below:

	Fair value EUR m
Intangible assets	0.3
Property, plant and equipment	0.2
Inventories	0.1
Trade receivables	0.1
Cash and cash equivalents	1.5
Other assets	0.1
	2.3
Trade payables	1.1
Other liabilities	1.1
	2.2

The fair value of the receivables acquired in the combination amount to EUR 0.2m. This includes trade receivables of EUR 0.1m. No valuation allowances were recognised on these receivables. Thus the fair value corresponds to the amount agreed on in the contracts.

The resulting goodwill totalled EUR 9.5m. The goodwill generally reflects the expected future cash flows that will be generated by the combination and the expertise of the employees. There were no non-controlling interests on the date of first-time consolidation.

Revenue attributable to the entities acquired in the first half year of 2011 amounts to EUR 3.0m and the net profit to EUR 0.1m. Had these entities been acquired at the beginning of the fiscal year, the entities would have contributed EUR 5.8m to group revenue and EUR 0.2m to the group's net profit.

Disposals. Five retail pharmacies in the UK were sold in the first half year of 2011 in the course of streamlining the portfolio. In addition, the Italian company, Deltafarm s.r.l., was deconsolidated. This entity was previously reported under the Others segment because it was a legal entity for leasing a warehouse.

The proceeds from the disposal totalled EUR 2.3m. There were no non-cash components in the sale. In the process, assets (mainly property, plant and equipment) of EUR 3.9m and liabilities of EUR 2.5m were disposed of.

Revenue of EUR 1.1m was generated in the reporting period by the entities sold.

Business combinations and disposals in the first half year of 2010

Business combinations. In the first half year of 2010, the Patient and Consumer Solutions division consolidated two retail pharmacies in Norway and one in the UK for the first time. In one of these cases put and call options existed with the remaining owners concerning all shares not already held by Celesio. These pharmacies were fully consolidated in the consolidated financial statements of Celesio with a corresponding liability recognised for the outstanding purchase price. In addition, the French company, RepscoPharmexx SAS and its subsidiaries, in which Celesio holds a 40% interest, were fully consolidated in the first quarter of 2010 in the Marketing Solutions business area. Full consolidation was based on call options that were exercisable at the end of the reporting period even though Celesio did not hold the majority of voting rights.

Preliminary purchase price allocations were used as the basis for consolidation in 2010, and were concluded within twelve months of the acquisition date in each case. There were no significant effects on the comparable period from the finalisation of the purchase price allocation. The final figures are presented below.

The aggregate costs of the business combinations total EUR 18.6m. At the time control was obtained, the entities acquired in the combination carried cash and cash equivalents of EUR 4.9m. The costs of the combination consisted of a purchase price payment of EUR 3.7m and a purchase price liability of EUR 2.6m, relating primarily to put and call options. Moreover, the costs included the carrying amounts of the investments formerly recognised using the equity method of EUR 12.3m that were acquired in stages. Acquisition-related costs were expensed through profit or loss in accordance with the revised IFRS 3. No equity instruments were issued to settle purchase price liabilities. In accordance with IFRS 3, additional acquisitions of shares were not included in this. Due to the fact that the fair value of investments measured using the equity method that were held by the Celesio Group prior to the acquisition date corresponded to their carrying amount, there is no impact on profit or loss from revaluing the shares.

The fair value of the identifiable assets and liabilities of the entities acquired in the first half year of 2010 as at the date of acquisition are presented below:

	Fair value EUR m
Intangible assets	0.1
Property, plant and equipment	0.6
Inventories	0.4
Trade receivables	11.8
Cash and cash equivalents	4.9
Other assets	2.8
	20.6
Financial liabilities	2.0
Trade payables	3.4
Other liabilities	15.0
	20.4

The fair value of the receivables acquired in the combination amounted to EUR 14.6m. This included trade receivables of EUR 11.8m. No valuation allowances were recognised on these receivables. Thus the fair value corresponded to the amount agreed on in the contracts.

The resulting goodwill totalled EUR 18.3m. The goodwill generally reflected the expected future cash flows that will be generated by the combination and the expertise of the employees. The full goodwill method was not applied. Consequently, non-controlling interests were measured at their share in the fair value of the identifiable net assets. Non-controlling interests of EUR -0.1m were recognised on the date of first-time consolidation.

Revenue attributable to the entities acquired in the first half year of 2010 amounts to EUR 35.2m and the net profit to EUR 2.3m. Had these entities been acquired at the beginning of the fiscal year, the entities would have contributed EUR 36.7m to group revenue and EUR 2.5m to the group's net profit.

Disposals. In the first half year of 2010 the Patient and Consumer Solutions division sold two retail pharmacies in the UK and three in the Netherlands. In the Marketing Solutions business area, one entity in Germany (Synergos GmbH), one in Chile (Etika y Compania Limitada) together with its parent in Luxembourg (New Star Company S.A.), and two entities in Brazil (Rent Power do Brasil Represetacoes Ltda. and pharmexx Brasil Ltda.) were deconsolidated. The two Brazilian entities were previously consolidated on the basis of exercisable call options. These call options were not exercised and have expired in the meantime. They were deconsolidated in the comparative period accordingly. These discontinued entities generated revenue of EUR 1.7m in the comparative period. The proceeds from the disposals amounted to EUR 3.1m. In the process, assets of EUR 4.6m (mainly inventories and other receivables) and liabilities of EUR 1.9m were disposed of. The non-cash components of the proceeds from the disposal amounted to EUR 1.8m.

Impairment losses recorded on intangible assets

In accordance with **»IAS 36** – Impairment of Assets« an entity must assess at each reporting date whether there is any indication of impairment, and if so (triggering event), it must determine the recoverable amount of the assets or cash-generating unit. As at 30 June 2011, the market value of Celesio AG – the value of all shares issued by the company – had fallen below the carrying amount of equity, which constitutes a triggering event. An extraordinary impairment test was carried out accordingly for all assets that fall within the scope of IAS 36. It is assumed that goodwill and brands have an indefinite useful life. This also applies to brands acquired by the group provided that there is an intention to use them for an indefinite period. They are reviewed at least once annually in accordance with IAS 36 and, if there is any indication of impairment, subjected to an impairment test. Celesio conducts its annual impairment tests on goodwill in the third quarter of each year as a matter of course.

Impairment losses are determined by allocating goodwill or brands at the level of the cash-generating units. The cash-generating units in the Wholesale business area correspond, as in the previous year, to the business area of the respective country (e.g. Wholesale Germany). Within the Manufacturer Solutions division, the Movianto and the Pharmexx Group business areas are each considered separate cash-generating units as in the previous year. Effective as at 1 January 2011, Celesio reports the »Pharmacies« business area and »Other business areas« under the Patient and Consumer Solutions division. In the »Pharmacies« business area a distinction is made between the DocMorris and Lloydspharmacy cash-generating units. As a consequence of the realignment and reorganisation of our pharmacy business passed by management resolution in 2010 to match the logic of the brand, the internal reporting structure of the Patient and Consumer Solutions division was adjusted accordingly from 1 January 2011. The European-wide DocMorris business is managed by the DocMorris International Retail unit. In the comparative period, the Patient and Consumer Solutions division contained the three distinct business areas "Retail Pharmacies", "Mail-order Pharmacies" and "Other business areas". The cash-generating units within the "Retail Pharmacies" and "Mail-order Pharmacies" business areas corresponded to the business areas by country (e.g. Retail Pharmacies UK).

Impairment losses are recognised at the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's value in use and its fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit concerned and is determined using the discounted cash flow method. In each case, this essentially relies on the latest business planning approved by management for the next five years.

The 2010 medium-term planning approved by the Management Board for the detailed planning period 2011 to 2015 was updated to reflect the latest understanding and used for the extraordinary impairment test as at 30 June 2011. The planning projections are rolled forward to the following years using a constant growth rate. The growth rates after the detailed planning period are based on historical growth rates, external studies on future market developments for the medium-term, taking account of the development of Celesio in comparison to the market, and the expectation for long-term market growth in light of demographic developments. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period. Other significant assump-

tions include the expected impact of government measures on the healthcare sector for the pharmacy and wholesale business, the development in the number of brand partnerships for franchise systems and the international standardisation in the services portfolio at Pharmexx. Government measures are incorporated regularly in the planning as soon as they have been agreed or their agreement is foreseeable. Cash flows are discounted using the weighted average cost of capital (before tax) which is determined for each cash-generating unit. The cost of capital is composed of borrowing costs, which are based on the interest rates obtainable on the capital markets, and the costs of equity, which are calculated from a risk-free base interest rate, a premium for the industry risk and a country-specific risk premium.

The following overview summarises the parameters used to determine the value in use for each division and selected cash-generating units as at 30 June 2011:

	Goodwill		**WACC**		**Growth rate after the detailed planning period**	
	31/12/2010 EUR m	**30/06/2011** EUR m	2010 %	**2011** %	2010 %	**2011** %
Patient and Consumer Solutions	1,556.9	1,511.3	8.5 – 10.7	9.5 – 10.4	1.5 – 3.0	1.9 – 2.0
Of which Lloydspharmacy	*1,191.6*	*1,143.0*	*9.3*	*9.5*	*2.0*	*2.0*
Of which DocMorris	*365.3*	*368.3*	*8.5 – 10.7*	*10.4*	*1.5 – 3.0*	*1.9*
Pharmacy Solutions	528.3	489.0	8.7 – 12.8	9.1 – 17.8	2.0	1.5 – 3.0
Of which Wholesale France	*134.1*	*134.1*	*10.1*	*10.6*	*2.0*	*2.0*
Of which Wholesale UK	*145.1*	*138.4*	*9.4*	*9.6*	*2.0*	*2.0*
Of which Wholesale Austria	*101.3*	*101.3*	*9.1*	*9.7*	*2.0*	*2.0*
Manufacturer Solutions	233.0	158.2	9.3 – 10.0	10.2 – 11.4	2.0	2.0
Of which Pharmexx	*136.1*	*63.6*	*10.0*	*11.4*	*2.0*	*2.0*
Of which Movianto	*96.9*	*94.6*	*9.3*	*10.2*	*2.0*	*2.0*

The extraordinary impairment test as at 30 June 2011 revealed the need to recognise impairment losses of EUR 116.3m on goodwill and other intangible assets with indefinite useful lives.

The impairment losses break down by cash-generating unit as follows:

	Impairment of goodwill **30/06/2011** EUR m	Impairment of other intangible assets **30/06/2011** EUR m	WACC 2010 %	Growth rate after the detailed planning period 2010 %	WACC **2011** %	Growth rate after the detailed planning period **2011** %
Wholesale Portugal	23.3	0.0	10.0	2.0	14.0	1.5
Wholesale Denmark	13.6	7.4	8.7	2.0	9.1	2.0
Pharmexx	72.0	0.0	10.0	2.0	11.4	2.0

Following the negative developments on the European pharmaceutical markets and the increase in interest rates used for discounting the projected cash flows, goodwill had to be adjusted in these three cash-generating units on account of the extraordinary impairment test as at 30 June. Negative developments are primarily the result of even higher burdens from government austerity measures in the healthcare sector in Europe, the rise in interest rates and the slow development of the pharmaceutical markets, including in Portugal and Denmark.

- The pharmaceutical market in Portugal is contracting and the overall economic situation remains difficult. A range of government measures have therefore been planned. These will negatively affect OCP Portugal, the Portuguese wholesaler. In the first half year of 2011, revenue at OCP Portugal fell by 16.3%. An impairment loss of EUR 23.3m had to be recognised on goodwill to reflect these developments, the expected decrease in the operating result and the increased cost of capital, which is primarily due to the rise in the country-specific risk premium and the risk-free base interest rate. There is no need to recognise any other impairment losses on assets because their market values are higher.
- The Danish market is also in decline, with fierce competition set to negatively impact the operating result of the Danish wholesale business – a trend that will continue in the future. Against this background, the Danish wholesaler Tjellesen Max Jenne reported a 9.1% drop in revenue in the first half year of 2011. The fiercer competition led to permanently lower margins and a lower profit. This development, coupled with higher cost of capital (especially the risk-free base interest rate), led to impairment losses of EUR 13.6m and EUR 7.4m being recognised on goodwill and the brand, respectively.
- Business at Pharmexx could not be expanded as rapidly as expected despite the restructuring measures implemented over the past two years. Although the company succeeded in stabilising business in most countries, the volume of new contracts fell short of expectations. An impairment loss of EUR 72.0m had to be recognised on goodwill to reflect lower expectations of business prospects and the increased cost of capital, which is primarily due to the rise in the country-specific risk premium and the risk-free base interest rate. The lower expectations are due to negative developments in the European pharmaceutical markets, which increase pressure on pharmaceutical manufacturers and can in turn lead to delays in incoming orders at Pharmexx.

The required impairment was determined on the basis of the value in use for all three cash-generating units. The weighted total cost of capital based on specific current data from the capital market was used to discount cash flows. Scenarios for critical calculation parameters such as the weighted average cost of capital and the growth rate after the detailed planning period are carried out to validate the values in use and any resulting need to record an impairment. Each negative deviation from the planning and valuation parameters in future would lead to a further need for impairment assuming that all other factors remain the same. Management considers an increase of 1.0 percentage point in the weighted average cost of capital and a decrease in the growth rate of 0.5 percentage points after the detailed planning period to be possible as at 30 June 2011. Based on the assumptions actually used in planning, which are set out in the table above, the value in use of the cash-generating unit Wholesale Austria exceeds the carrying amount by EUR 28.5m. If the weighted average cost of capital were to increase by 0.66 percentage points, the carrying amount of the cash-generating unit would correspond to its value in use.

Disposal groups classified as held for sale

On 21 June 2010, Celesio agreed to set up a Europe-wide joint venture with the US healthcare group, Medco Health Solutions, Inc. Official approval from the antitrust authorities was issued on 2 August 2010, with Medco Celesio B.V. being founded in the third quarter of 2010. Each partner in the joint venture, which is based in Amsterdam, holds 50% of the shares. Celesio will contribute the Apotheke DocMorris mail-order pharmacy and Medco the Europa Apotheek Venlo mail-order pharmacy to the joint venture. The mail-order pharmacy, DocMorris, was previously disclosed in the »Pharmacies« business area. In the statement of financial position as at 30 June 2010, all assets and liabilities under disposal groups classified as held for sale were reclassified to current assets or current liabilities for the first time. Subject to certain conditions being fulfilled, the mail-order pharmacies are to be contributed according to the joint venture agreement. Because a number of procedural issues are still pending this has not yet been done.

The main asset and liability groups classified as held for sale are presented below:

	31/12/2010 EUR m	**30/06/2011** EUR m
Intangible assets	91.4	95.2
Property, plant and equipment	4.3	1.6
Deferred tax assets	2.6	2.6
Inventories	11.5	12.0
Trade receivables	27.7	27.7
Cash and cash equivalents	0.2	0.1
Other assets	6.4	6.3
	144.1	**145.5**
Deferred tax liabilities	3.9	3.9
Trade payables	15.2	13.4
Other liabilities	22.4	12.6
	41.5	**29.9**

Convertible bond

On 29 March 2011, Celesio Finance B.V. issued a convertible bond with a nominal value of EUR 350.0m guaranteed by Celesio AG. The proceeds from issuing the bond were paid out to Celesio Finance B.V. on 7 April 2011. The bond is split into tranches of EUR 100,000, has a coupon of 2.50% per year – based on the outstanding value – and matures on 7 April 2018 if not repaid, converted or repurchased in the meantime. The convertible bond grants the investor a right to convert the bond into no-par shares in Celesio AG. The conversion price stood at EUR 22.48, both on the date the bond was issued and as at 30 June 2011. To account for extraordinary events (capital increase, stock splits, etc.) the term of the bond the conversion price will be adjusted according to the terms of the bond. The conversion rights granted by the bond correspond to approximately 15.6m shares. The conversion rights less the proportionate transaction costs and the related deferred tax expense increased capital reserves in the reporting period by EUR 40.8m.

Issuing the convertible bond takes advantage of the good market conditions for long-term financing of the group while also diversifying the sources of financing and our investor base.

Celesio AG will use the cash flow generated from the bond issue for general purposes at the company, such as expanding DocMorris to be the first international chain of pharmacies in Europe.

Contingent liabilities and other financial obligations

The contingent liabilities and other financial liabilities presented in the consolidated financial statements as at 31 December 2010 have not changed materially in the first half year of 2011.

Contingent liabilities recognised for legal and tax risks in connection with the business combination with Panpharma amounted to EUR 89.9m as at 30 June 2011 (EUR 105.9m as at 31 December 2010). The reduction is primarily attributable to legal and tax risks becoming statute-barred and arrangements reached with the tax authorities. To cover these legal and tax risks, an agreement has been entered into with the former owners limiting reimbursement claims to a maximum amount; the reimbursements can possibly be offset against future purchase price instalments. For this reason, the reduction in contingent liabilities does not have any direct impact on profit or loss. Based on their maturity, these recognised contingent liabilities have been divided into current and non-current provisions. The contingent liabilities include income tax liabilities of EUR 4.7m (EUR 6.1m as at 31 December 2010).

Components of other comprehensive income

Other comprehensive income – presented in the statement of comprehensive income – consists of the following components:

	2nd quarter 2010 EUR m	**2nd quarter 2011** EUR m	1st half year 2010 EUR m	**1st half year 2011** EUR m
Available-for-sale financial assets				
Gains/losses from the current year	– 2.0	– 0.8	– 2.9	– 0.8
Less reclassification to profit and loss	– 3.2	– 0.8	– 3.2	– 0.8
	1.2	**0.0**	**0.3**	**0.0**
Derivative financial instruments to hedge cash flows				
Gains/losses from the current year	– 11.5	– 9.0	– 27.7	– 7.5
Less reclassification to profit and loss	– 13.1	– 2.1	– 14.3	– 7.9
	1.6	**– 6.9**	**– 13.4**	**0.4**

Notes to the segment reporting

Segmentation mirrors the internal reporting structure of Celesio and has changed in comparison to the previous year. As a consequence of the realignment and reorganisation of our pharmacy business passed by management resolution in 2010 to match the logic of the brand, the internal reporting structure of the Patient and Consumer Solutions division was adjusted accordingly from 1 January 2011. The European-wide DocMorris business is managed by the DocMorris International Retail unit. Moreover, the Manufacturer Solutions division was reorganised upon foundation of the Medco Celesio joint venture, with the business areas making up the division being renamed.

Celesio's internal reporting structure is based on the subdivision of the Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions divisions into several business areas each. These business areas form the basis for internal controlling by the Management Board and thus correspond to the reportable segments. The Management Board of Celesio AG is the chief operating decision maker referred to in IFRS 8.7. The internal reporting to the Management Board contains both separate information for each business area and condensed information for each division. Therefore, these subtotals are also disclosed in the segment reporting.

- The Patient and Consumer Solutions division is aimed at patients and consumers. This covers the entire logistics chain, from purchasing merchandise through to selling to end consumers. We report the »Pharmacies« business area and »Other business areas« under the Patient and Consumer Solutions division. In the Pharmacies business area a distinction is made between the segments DocMorris and Lloydspharmacy which are combined for segment reporting. These each consist of the retail pharmacies and mail-order pharmacies. DocMorris additionally includes brand partnerships. We report our investment in Brocacef Holding N.V. in the Netherlands as an associate under »Other business areas«.

- The Pharmacy Solutions division, which has retained the same structure as in the previous year, offers solutions tailored to the pharmacy market. Its focus is on the wholesale business with external customers, which is a separate segment. The Other business areas segment of the Pharmacy Solutions division includes Rudolf Spiegel Versand for pharmacy and laboratory equipment and Inten, the property developer for pharmacies.

– With its service offering, the Manufacturer Solutions division is geared towards the pharmaceutical industry. Upon conversion to the new reporting structure as at 1 January 2011, the business areas of the Manufacturer Solutions division were renamed »Logistics Solutions«, »Marketing Solutions« and »Efficient Care Pharma«. The »Logistics Solutions« business area, which comprises Movianto, offers pharmaceutical logistics and related services such as storage, transport and packaging and represents a separate reporting segment. The »Marketing comprises Solutions« business area, which Pharmexx, offers innovative marketing and sales solutions and likewise constitutes a separate reporting segment in the Manufacturer Solutions division. In the »Efficient Care Pharma« business area, Evolution Homecare coordinates the supply of pharmaceuticals to patients at home. This business area also includes the joint venture, Medco Celesio B.V. which offers cross-sector solutions to improve the quality of healthcare provided to patients over the long-term and reduce the financial burden on payers in the European health care system.

The Others segment is primarily used to report the activities of the group's parent, Celesio AG, and other non-operating companies. Celesio AG holds investments in the major operating national companies and national holdings. In addition, the operating entities of the Celesio Group are primarily financed via Celesio AG and Celesio Finance B.V., Netherlands (Amsterdam). Moreover, Celesio AG bundles essential group functions, primarily in the fields of accounting, controlling, treasury and IT. Since 1 January 2011 Alliance Apotheken Management GmbH and Apotheke DocMorris Holding GmbH, two units which were previously reported under the Retail Pharmacies segment, have been reported under Others. In addition, DocMorris Pharma GmbH has also been reported under Others since 1 January 2011. This was previously reported in the »Mail-order Pharmacies« segment. The previous-year figures were restated accordingly.

Consolidation of inter-division activities is shown separately.

The Management Board takes EBITDA as a measure of the success of the segments. EBITDA stands for earnings before interest, taxes, depreciation and amortisation. In addition, information on the gross profit and EBIT is disclosed voluntarily.

Segment assets pursuant to IFRS 8 correspond with the tied capital, which is calculated as the sum of the carrying amount of all non-interest-bearing assets (except for income tax assets) less non-interesting-bearing liabilities (except for income tax liabilities).

The same accounting standards as for the Celesio Group have been used in segment reporting. Intercompany transactions are measured at market prices.

Related party transactions

Related parties as defined by 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. In particular, related parties include the majority shareholder, Franz Haniel & Cie., Duisburg, and its subsidiaries and associates, as well as the joint ventures, associates and members of the boards of Celesio AG.

All transactions with related parties have been conducted at arm's length.

There are contracts for management and other services in place with Franz Haniel & Cie. GmbH and its subsidiaries and associates. In the comparative period, the German companies of the Celesio Group were also included in the consolidated tax group for VAT, of which Franz Haniel & Cie. GmbH is the parent, until 31 December 2010.

There are ongoing business relationships with joint ventures and associates for the supply of merchandise.

The goods and services received from or supplied to related parties are summarised below:

	Franz Haniel & Cie. GmbH, Duisburg		Subsidiaries of Franz Haniel & Cie. GmbH		Joint ventures and associates of Franz Haniel & Cie. GmbH		Joint ventures and associates of Celesio AG	
	31/12/2010 EUR m	**30/06/2011** EUR m	31/12/2010 EUR m	**30/06/2011** EUR m	31/12/2010 EUR m	**30/06/2011** EUR m	31/12/2010 EUR m	**30/06/2011** EUR m
Loans and receivables	4.5	0.0	4.3	3.8	0.0	0.0	0.1	0.2
Liabilities	1.5	1.0	2.5	0.0	0.2	0.2	0.0	0.1

1st half year	Franz Haniel & Cie. GmbH, Duisburg		Subsidiaries of Franz Haniel & Cie. GmbH		Joint ventures and associates of Franz Haniel & Cie. GmbH		Joint ventures and associates of Celesio AG	
	2010 EUR m	**2011** EUR m	2010 EUR m	**2011** EUR m	2010 EUR m	**2011** EUR m	2010 EUR m	**2011** EUR m
Income	0.0	0.0	0.1	0.0	0.0	0.0	6.3	10.6
Expenses	0.0	0.0	0.3	0.2	0.7	0.7	0.0	0.0

Employees

At the end of the first half year of 2011, Celesio employed 36,429 full-time equivalents compared to 36,609 full-time equivalents in the previous year.

Other notes

In connection with termination benefits, an amount of EUR 9.1m was recorded in personnel expenses in the first half of 2011 to cover contractual claims as defined by IAS 24.17d. Of this amount, EUR 1.1m is attributable to pension commitments.

The line item other financial result relates to changes in the fair value of derivatives used to hedge financial liabilities. Changes in market values of derivative exchange rate hedges in the reporting period gave rise to income of EUR 1.7m (previous year EUR 0.0m). Changes in the market values of derivative exchange rate hedges gave rise to income of EUR 1.4m (previous year expenses of EUR 6.7m). Moreover, the other financial result contains exchange rate gains of EUR 105.4m (previous year EUR 118.7m) and exchange rate losses of EUR 102.8m (previous year EUR 126.4m).

In accordance with the proposal for the appropriation of profits for 2010, a dividend of EUR 85.1m or EUR 0.50 per share (previous year EUR 85.1m or EUR 0.50 per share) was distributed to the shareholders of Celesio AG in the first half year of 2011.

There were no other issues requiring reporting in the reporting period.

Stuttgart, 8 August 2011

The Management Board

Responsibility statement

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

Stuttgart, 8 August 2011

The Management Board

Wolfgang Mähr

Dr Christian Holzherr

Dr Michael Lonsert

Review report

To Celesio AG, Stuttgart

We have reviewed the interim condensed consolidated financial statements, comprising the group statement of financial position, the group income statement, the group statement of comprehensive income, the group statement of cash flows, the group statement of changes in equity and selected explanatory notes, and the interim group management report of Celesio AG, Stuttgart, for the period from 1 January 2011 to 30 June 2011, which are part of the financial report for the first half year pursuant to Sec. 37w WpHG (Wertpapierhandelsgesetz, German Securities Trading Act). The preparation of the interim condensed consolidated financial statements in accordance with IFRSs on interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the company's management. Our responsibility is to issue a review report on the interim condensed consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Public Auditors in Germany). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed consolidated financial statements have not been prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the applicable provisions of the WpHG. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we could obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements have not been prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Stuttgart, 9 August 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Prof Dr Pfitzer Wirtschaftsprüfer (German Public Auditor)	Matischiok Wirtschaftsprüfer (German Public Auditor)

Financial calendar

(excerpt)	
Interim report, 1st to 3rd quarter of 2011	10 November 2011
Annual report 2011	27 March 2012
Interim report, 1st quarter of 2012	14 May 2012
Annual general meeting 2012	16 May 2012

Subject to amendment. Other dates and updates can be found at www.celesio.com under Investor Relations/Financial Calendar.

Imprint

Celesio AG
Neckartalstrasse 155
70376 Stuttgart
Germany
Telephone +49(0)711.50 01-00 (central switchboard)
Fax +49(0)711.50 01-12 60
E-Mail service@celesio.com
www.celesio.com

Corporate Investor Relations
Telephone +49(0)711.50 01-735
Fax +49(0)711.50 01-740
E-Mail investor@celesio.com

This interim report was published on 11 August 2011 and is available in German and English. It can be downloaded or ordered from the investor relations section at www.celesio.com. The German version of the annual report is legally binding.

Forward-looking statements
This interim report contains forward-looking statements that are based on the latest estimates made by the management of future developments. Such statements are subject to inherent risks and uncertainties. It lies beyond the powers of Celesio to control or precisely estimate these risks and uncertainties which can include future market conditions and economic environment, state intervention, the behaviour of other market players or the successful integration of corporate acquisitions and realisation of expected synergies. Should one of these or another uncertainty or risk factor eventuate or should the assumptions on which these forward-looking statements are made prove to be incorrect, then the actual events could diverge significantly from the explicit or implied events contained in the statements. Celesio does not intend, nor does it assume any special obligation, to update forward-looking statements to reflect events or developments occurring after this report went to press.