

**NEWS: 2/04**

## THE GALENICA GROUP PREPARES FOR THE FUTURE AND INCREASES PROFIT BY 22%

HALF YEAR REPORT FOR 30 AUGUST 2004



DEAR SHAREHOLDERS,  
DEAR LADIES AND GENTLEMEN,

THE GALENICA GROUP CONTINUES TO BENEFIT FROM ITS EXTREMELY FLEXIBLE STRUCTURE. RESULTS FOR THE FIRST HALF OF 2004 CONFIRM ONCE AGAIN THE SUCCESS OF THE GROUP'S STRATEGY AND ITS POLICY OF OPENNESS TOWARDS ALL MARKET PLAYERS. ALL BUSINESS SECTORS RECORD A POSITIVE DEVELOPMENT IN TURNOVER COMPARED WITH THE PREVIOUS YEAR. TOTAL TURNOVER OF THE GROUP AMOUNTED TO CHF 1,432.9 MILLION AND THE OPERATING PROFIT ROSE BY MORE THAN 13% COMPARED TO THE SAME PERIOD IN THE PREVIOUS YEAR. DESPITE A WEAK U.S. DOLLAR AND INVESTMENTS IN FUTURE PROJECTS, CONSOLIDATED PROFIT ROSE BY MORE THAN 22% TO AROUND CHF 40.5 MILLION.

**GALENICA GROUP** \_During the course of the first half of 2004 net turnover of the Galenica Group increased by 10.6% (previous year: +16.7%) from CHF 1,295.6 million to CHF 1,432.9 million. The operating results of the Group improved from CHF 43.8 million to CHF 49.6 million, which represents an increase of 13.2%. Consolidated profit rose by 22.1% to CHF 40.5 million (previous year: +10.7% to CHF 33.2 million) – a very successful result in light of the Group's massive investment in future projects. The Galenica Group expects to show double-digit growth in profit again for the ninth consecutive year.

**PHARMA INTERNATIONAL** \_The net sales of Pharma International improved over last year by 23.3% (previous year: +15.2%) to CHF 74.6 million. Development in the sales of Maltofer® and Venofer® is progressing according to plan. Venofer® is the world's leading parenteral iron product.

\_Sales of iron preparations in the USA and Europe continue to grow. A satisfying development in sales of the product has been noted in Asia as well, albeit yet at a lower penetration level.

## CONSOLIDATED NET SALES AS OF 30 JUNE

in million CHF	Consolidated per business sector		Progression 2004/2003	Sales to Group companies		Consolidated net turnover		Progression 2004/2003
	2004	2003		2004	2003	2004	2003	
Pharma International	<b>74.6</b>	60.5	23.3%	<b>0.5</b>	0.7	<b>74.1</b>	59.8	<b>23.9%</b>
Pharma Switzerland	<b>71.0</b>	67.9	4.6%	<b>23.6</b>	25.1	<b>47.4</b>	42.8	<b>10.8%</b>
Prewholesale	<b>592.2</b>	478.1	23.9%	<b>166.2</b>	132.3	<b>426.0</b>	345.8	<b>23.2%</b>
Distribution	<b>807.7</b>	789.9	2.3%	<b>75.7</b>	76.3	<b>732.0</b>	713.6	<b>2.6%</b>
Services	<b>11.8</b>	4.5	162.2%	<b>1.3</b>	0.7	<b>10.5</b>	3.8	<b>176.3%</b>
Retail	<b>142.9</b>	129.8	10.1%	–	–	<b>142.9</b>	129.8	<b>10.1%</b>
<b>Total</b>						<b>1,432.9</b>	1,295.6	<b>10.6%</b>

\_In April expansion of production capacity was begun at the St. Gallen production facility. The first study in clinical phase III of VIT-45 has concluded and shows that the new product satisfies the expectations.

**PHARMA SWITZERLAND** \_Vifor continues to grow in a declining OTC market and has increased its market share. This can be attributed especially to the expansions of the product lines of the particularly successful Algifor®, Magnesium Vital® and Triomer®. Pharma Switzerland also recorded an increase in sales of prescription specialties in the first half of the year. Potter's (Herbal Supplies), the foothold in the British market developed with much promise. The operating result of Pharma Switzerland rose by 4.6% to CHF 9.2 million compared to the same period in the previous year (CHF 8.8 million). The sales increased 4.6% to CHF 71.0 million (previous year: CHF 67.9 million).

\_Pharma Switzerland has newly signed representation contracts with the nutritional supplement Clinutren® from Nestlé Healthcare and of Eubos® skin care products. Likewise, significant distribution contracts were renewed for ROC® and Piz Buin®.

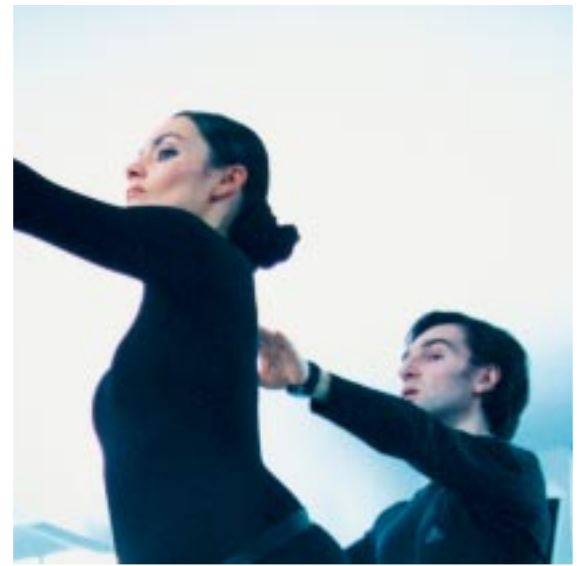
\_The reorganisation at the business sector level which went into effect on 1 January 2004 has advanced to the operative stage. In view of further sustainable development all legal entities in the Business Sector Pharma Switzerland will be transferred to Vifor Ltd. Project costs of more than CHF 1 million will be more than compensated for in the coming years through considerable organisational and administrative savings – for example at the end of the years only one closing account need to be submitted. In the market the products of Pharma Switzerland will continue to be promoted by the existing sales organisations of Vifor, Medichemie, Democal, Adima and Panpharma.

**PREWHOLESALE** \_Demand in the pharma industry for prewholesale services in Europe remains strong and has in recent months experienced a further upsurge. This business sector registered a turnover of CHF 592.2 million (previous year: CHF 478.1 million). The operating result improved by 7.7% to CHF 2.8 million (previous year: CHF 2.6 million). The Business Sector Prewholesale is currently in an expansion phase which requires great effort at both the personnel and financial levels.

\_The management team is being strengthened in France, Spain and Switzerland in order to meet the challenges associated with the increasing demands of the Pharma industry. In France (Saran), Spain and Portugal the standardised operating software for resource planning has been successfully implemented. Preparations for its introduction in Amiens (France) and Burgdorf (Switzerland) are on the fast track.

\_Because the existing locations in Germany are working almost at full capacity it is imperative to find solutions for further development in this significant market. Alloga which belongs to the Division Pharma enjoys a competitive advantage when it comes to specific pharma know-how, experience and image as well as geographical coverage. The introduction of standardised software in the European network and the reinforcement of the management structure are equally important factors for success. These steps will require further considerable investment over the next two years.

**DISTRIBUTION** \_Despite a sluggish market in the first half of the year 2004 Galexis is on track. The turnover of CHF 807.7 million by mid year (previous year: CHF 789.9 million) and the operating result of CHF 7.3 million (previous year: CHF 6.3 million) are consistent with the budgeted numbers. Attractive offers such as the sales promotion tool GalExklusiv and the platform Pharma-Hit also contributed in reaching these results.



\_In the pharma market the average price per package continues to rise. The advantages of NOVA – the «Fee for Services» invoicing system – have had a lasting positive effect on the customers of Galexis. When compared with competing invoicing systems NOVA's logistics costs rose less than proportionally. Furthermore, more and more customers are benefiting from the instrument CUCO (CUsomer COnditions). Thanks to restructuring measures taken between 1998 and 2001 Galexis stands for stability and an optimal price-performance ratio – this in a market where margins are under pressure from politicians and health insurance companies. Furthermore, Galexis managed to continue building on the cooperation with partners in the industry.

**SERVICES** \_Net sales in the first half year of CHF 11.8 million (previous year: CHF 4.5 million) and the negative operating result of CHF 2.2 million (previous year: CHF +0.03 million) are in line with expectations. The Business Sector Services must this year for the last time make large investments in the products triamun®practice and triamun®pharmacy. The operating results for e-mediat, Praxidata and Documed will turn out according to expectations.

\_e-mediat: This year a huge amount of financial and personnel resources went into Content Management as well as the expansion and consolidation of the basic data banks thereby enlarging the offer especially for the pharma and non-pharma industries but also for health insurance companies.

\_Documed has already signed purchasing agreements with its customers for the 2005 Swiss Drug Compendium. The newest edition is currently in production. For security reasons the on-line version now appears in pdf format. In March Documed once again successfully passed the annual inspection of its quality management system according to ISO 9001:2000.

\_The software developers Triamun and Praxidata are progressing according to plan. Numerous contracts with pharmacies and physicians in Switzerland have been agreed or have even already been signed. The introduction of triamun®pharmacy in the pharmacies of GaleniCare is now taking place throughout the market following an initial pilot phase and in consideration of the practical experience gained.

**RETAIL** \_With a turnover of CHF 142.9 million (previous year: CHF 129.8 million) the operating result of the Business Sector Retail in the first half year amounts to CHF 5.1 million (previous year: CHF 5.1 million). There is an extremely competitive atmosphere among pharmacies especially in the French-speaking part of Switzerland. This has resulted in aggressive marketing and continuous special offers. The pharmacies of the Business Sector Retail have at their disposal attractive customer loyalty instruments which are introduced gradually.

\_All in all half year results were at about the level of the previous year, whereas the operating result in the first half of 2004 was influenced by charge of CHF 0.7 million as a result of a change in the billing process for health insurance companies. On a comparative basis however the operating result would have increased by 14% over the previous year.

\_Coop Vitality achieved a satisfying growth rate of between 10% and more than 20% in all eight of its locations. The adaptation of the concept which was realised in 2002 has proven its worth. As planned in the medium term, a Coop Vitality pharmacy will be opened in every large Coop centre.

## OPERATING RESULTS BY BUSINESS SECTOR



in million CHF 30.6.2004 30.6.2003

### Pharma International

Net turnover	<b>74.6</b>	60.5
Profit from operations	<b>25.1</b>	19.6
As % of net turnover	<b>33.6%</b>	32.4%
% of Group profit from operations	<b>51%</b>	45%

### Pharma Switzerland

Net turnover	<b>71.0</b>	67.9
Profit from operations	<b>9.2</b>	8.8
As % of net turnover	<b>13.0%</b>	13.0%
% of Group profit from operations	<b>19%</b>	20%

### Prewholesale

Net turnover	<b>592.2</b>	478.1
Profit from operations	<b>2.8</b>	2.6
As % of net turnover	<b>0.5%</b>	0.5%
% of Group profit from operations	<b>6%</b>	6%

### Distribution

Net turnover	<b>807.7</b>	789.9
Profit from operations	<b>7.3</b>	6.3
As % of net turnover	<b>0.9%</b>	0.8%
% of Group profit from operations	<b>15%</b>	14%

### Services

Net turnover	<b>11.8</b>	4.5
Profit from operations	<b>(2.2)</b>	0.03
As % of net turnover	<b>(18.6%)</b>	0.7%
% of Group profit from operations	<b>(4%)</b>	0%

### Retail

Net turnover	<b>142.9</b>	129.8
Profit from operations	<b>5.1</b>	5.1
As % of net turnover	<b>3.6%</b>	3.9%
% of Group profit from operations	<b>10%</b>	12%

## CONSOLIDATED PROFIT AND LOSS OF THE GROUP

in thousand CHF

1.1. – 30.6.2004 1.1. – 30.6.2003

<b>Income</b>		
Net sales	<b>1,432,908</b>	1,295,581
Increase in inventory	<b>4,518</b>	463
Other income	<b>14,836</b>	13,160
<b>Total income</b>	<b>1,452,262</b>	1,309,204
<b>Expenditure</b>		
Cost of sales	<b>(1,173,611)</b>	(1,066,930)
Salaries and social security contributions	<b>(117,193)</b>	(103,158)
Other expenditure	<b>(96,907)</b>	(83,455)
Depreciation	<b>(14,982)</b>	(11,879)
<b>Total expenditure</b>	<b>(1,402,693)</b>	(1,265,422)
<b>Profit from operations</b>	<b>49,569</b>	43,782
Financial income	<b>3,842</b>	8,331
Financial expenditure	<b>(8,906)</b>	(7,879)
Other income	<b>13,927</b>	5,704
Other expenditure	<b>(6,676)</b>	(3,292)
<b>Profit for the half-year before taxes</b>	<b>51,756</b>	46,646
Taxes	<b>(10,663)</b>	(12,092)
<b>Profit before minority interests</b>	<b>41,093</b>	34,554
Minority interests	<b>(588)</b>	(1,371)
<b>Profit for the half-year</b>	<b>40,505</b>	33,183

**ACCOUNTING PRINCIPLES** \_The consolidated financial statements for the first half of the year have been drawn up in accordance with the Swiss Accounting and Reporting Recommendations (Swiss GAAP AAR) and on the same valuation and consolidation principles as the annual accounts. The basis of consolidation has not changed during the reporting period.

**COMMENTARY ON THE CONSOLIDATED BALANCE SHEET** \_The total income rose by 10.9% compared with the same period last year and amounts to CHF 1,452.3 million. With operating expenses of CHF 1,402.7 million operating results increased by 13.2% from CHF 43.8 million to CHF 49.6 million.

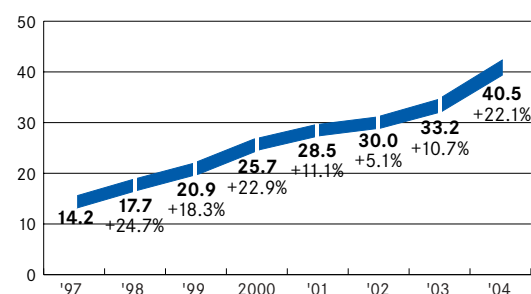
\_The net financial result of CHF – 5.1 million (previous year: CHF 0.5 million) continues to be influenced by the financing of major investments in the expansion of the business sectors Prewholesale and Retail as well as the projects of participation in Coop Vitality. Development in the exchange rates as well as the interest from the Private Placement affected the financial result.

\_Other income of CHF 7.3 million (previous year: CHF 2.4 million) includes revenues from sales as well as proceeds and expenses of real estate no longer required for operating purposes.

\_After deduction of taxes and allowing for minority interests, the consolidated profit as of 30 June 2004 rose by 22.1% von CHF 33.2 million to CHF 40.5 million.

### Evolution of consolidated profit as of 30 June 2004

in million CHF



## CONSOLIDATED BALANCE OF THE GROUP

in thousand CHF 30.6.2004 30.6.2003

### ASSETS

#### Current assets

Cash and securities	129,251	99,211
Trade accounts receivable	364,756	355,963
Other accounts receivable, prepaid expenses and accrued income	49,439	51,786
Inventories	183,003	191,268
<b>Total current assets</b>	<b>66.9% 726,449</b>	<b>67.3% 698,228</b>

#### Long-term assets

Realisable assets		
_Loans	13,918	7,570
_Participations	19,153	17,079
Intangible assets	11,160	264
Fixed assets	314,804	314,647
<b>Total long-term assets</b>	<b>33.1% 359,035</b>	<b>32.7% 339,560</b>
<b>Total assets</b>	<b>100% 1,085,484</b>	<b>100% 1,037,788</b>

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Liabilities

Current liabilities		
_Bank loans	41,891	201,216
_Trade accounts payable	249,664	178,960
_Other accounts payable and accrued expenses	116,401	142,029
Long-term liabilities		
_Bank loans	51,432	44,295
_mortgages	525	1,785
_loans	316,740	134,483
Provisions	38,006	55,229
<b>Total liabilities</b>	<b>75.1% 814,659</b>	<b>73.1% 757,997</b>

**Minority interests** (5.3%) (57,261) (5.0%) (51,682)

#### Shareholders' equity

Share capital	26,000	26,000
Reserves	302,086	305,473
<b>Total shareholders' equity</b>	<b>30.2% 328,086</b>	<b>31.9% 331,473</b>

**Total liabilities and shareholders' equity** 100% 1,085,484 100% 1,037,788

### COMMENTS ON THE CONSOLIDATED BALANCE SHEET

\_The consolidated balance sheet total rose by 4.6% compared with the same period last year. Current assets account for 66.9% of the balance sheet total (previous year 67.3%) and rose from CHF 698.2 million to CHF 726.4 million, an increase of CHF 28.2 million. This development is determined by the increase of cash and securities, trade accounts receivable as well as the reduction other accounts receivable and accrued income and inventories. Long-term assets account for 33.1% of the balance sheet total (previous year 32.7%), rising from CHF 339.6 million to CHF 359.0 million. This increase is largely attributable to investments in fixed assets, participations and intangible assets in the last twelve month.

\_Liabilities amount to CHF 814.7 million, which represents 75.1% of the balance sheet total (previous year CHF 758.0 million, 73.1%). The long-term liabilities primarily relate to Alliance UniChem's part in the financing of the Business sector Retail as well as the Private Placement of November 2003.

\_Net debts stood at around CHF 277.4 million on 30 June 2004 (30 June 2003: CHF 275.3 million) which results in a gearing (total net debt in percent of shareholders equity) of 84.6% (previous year 83.0%).



## OUTLOOK FOR 2004: SIGNIFICANT INVESTMENTS IN THE FUTURE AND STRONGER INTERNATIONAL ALIGNMENT



THE GALENICA GROUP IS VIGOROUSLY ALIGNING ITSELF INTERNATIONALLY, CONTINUES TO INVEST SIGNIFICANT AMOUNTS IN THE FUTURE AND CONSISTENTLY EXPANDS ITS RANGE OF PRODUCTS AND SERVICES. THE GALENICA GROUP EXPECTS A CONTINUED POSITIVE EVOLUTION IN THE RESULTS OF ALL BUSINESS SECTORS.

**GALENICA GROUP** \_The Galenica Group continues to adjust its activities to secure position of long-term continuity. Investments in the areas of Research & Development, Information Technology and new projects as well as for strengthening the management team justify the logic of the long-term development of the Group. Despite these additional expenses the Galenica Group expects double-digit growth for the ninth consecutive time of around 15% of the profit for the year.

**PHARMA INTERNATIONAL** \_The qualitative and quantitative strengthening of the regional offices in Moscow, Miami, and Singapore makes it possible for Vifor (International) to quickly react to the needs of the market and to even better support their customers and partners. Prospects in the market are good. Looming pressure in the U.S.A. should in due course be more than compensated for by the registration work on new indications for products of Vifor (International). The long-term project «Polaris» adapting the sales strategy, structures and processes of Vifor (International) to the size of the company, is now in the implementation phase.

\_Together with the clinical programme for the development of Phase III of the VIT-45 trials are in process for the expansion and documentation of the therapeutic application possibilities (new areas of indication) for Venofer®.

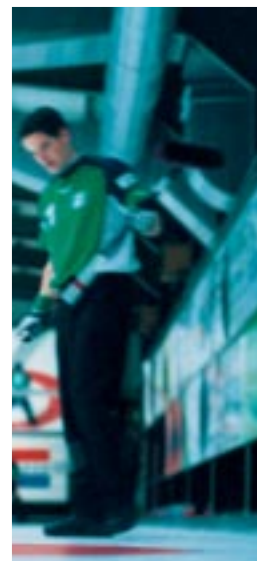
**PHARMA SWITZERLAND** \_The outlook for 2004 and especially 2005 is good. The major contributing factors are acquisitions for the production for third parties as well as new distribution contracts which are near completion.

\_The extensive product line of Potter's (Herbal Supplies) is currently being re-evaluated. A streamlined product line will be marketed beginning in autumn 2004 in the around 900 pharmacies of our partner Alliance UniChem among others. The adopted strategy of European expansion by establishing a foothold in Great Britain with the acquisition of Potter's proves itself to be a success.

**PREWHOLESALE** \_Companies in the Pharma industry – especially mid-size but also larger companies – are actively looking for integrated, high-quality supply chain solutions which offer more than mere warehousing and distribution services. They strive for a simplification of their often heterogeneous and sub-optimal logistics processes. Comprehensive and integrated information systems, professional logistics solutions and the corresponding infrastructure and geographical coverage are therefore the keys to future success in Prewholesale.

\_After the expansion of the logistics centre in Burgdorf is completed in August there will be space for an additional 10,000 pallets. With room for 26,000 pallets, existing service bottlenecks caused by lack of space will be a thing of the past enabling a further increase in productivity. In Great Britain the construction of a new logistics centre with space for 30,000 pallets will be completed in November. In Amiens, France, a permit was granted for the construction of a new logistics centre with space for 40,000 pallets which will replace the current five warehouses. This expansion of capacity will allow for targeting optimal efficiency in the medium term (2 to 3 years).

\_With an expanded logistics capacity, reinforced local management teams and the successful launching of software, considerable investments in success



factors are realised. Partnerships will be sought for the expansion of the market in Europe – particularly in the new EU member states.

**DISTRIBUTION** \_Thanks to strategic measures taken in the last year Galenica has been able to favourably position itself in an otherwise difficult market. Continuing education programmes such as PharmUpdate are experiencing a huge demand not only from customers but also from suppliers. Additional service products should be ready for the market by the end of the year. This will above all further intensify the cooperation with suppliers.

**SERVICES** \_Collaboration with the acquired company Documed in Basel promises further synergies in the areas of scientific, clinical, and commercial data for clinical information systems – somewhat in the form of data bank products with newly integrated services.

\_In the second half of 2004 Documed will introduce «Front Desk», an internet based tool for the simplification of electronic transactions and the adaptation of texts for the «Swiss Drug Compendium».

\_The first feedback on the soon to be available function «Patient view», an electronically guided patient history, is providing new perspectives regarding software for doctor's practices.

**RETAIL** \_Even though further acquisitions are intended the Business Sector Retail uses the business year 2004 for consolidation. Central support functions will be developed further and the introduction of Cate-

gory Management will be advanced. Simplified structures should ease the legal and organisational integration of new pharmacies.

**DATES TO NOTE FOR 2005** \_On 12 April 2005 the Galenica Group will brief the media and financial analysts on the results for the year 2004. The Annual General Meeting is to be held on 19 May 2005.

**THE GALENICA GROUP** \_Galenica is a diversified group active throughout the healthcare market which, among other things, develops, manufactures and markets pharmaceutical products, runs pharmacies, provides logistical and database services and sets up networks. The Galenica Group enjoys a leading position in all its areas of activity – pharmaceutical manufacturing, prewholesale, distribution, associated services and retailing. A large part of the Group's income is generated by international operations.

Berne, 30 August 2004

ETIENNE JORNOD  
Chairman and CEO

FRITZ HIRSBRUNNER  
CFO, Head of Division Finance  
and Corporate Services

**Galenica Ltd**

P. O. Box · Untermattweg 8 · CH-3001 Berne  
Telephone +41 (0)31 990 81 11 · Fax +41 (0)31 990 81 12  
[www.galenica.com](http://www.galenica.com)

Contact person for Investor Relations: Fritz Hirsbrunner, [hirsbrunner@galenica.com](mailto:hirsbrunner@galenica.com)  
Contact person for Media: Rolf Henzi, [henzi@galenica.com](mailto:henzi@galenica.com)