Financial Statements Celesio AG 2011

celesio

Balance sheet as of 31 December 2011

Assets	Note	31/12/2010 EUR k	**31/12/2011** EUR k
Fixed assets			
Intangible assets	1	30,491	28,820
Property, plant and equipment	2	4,772	4,346
Financial assets	3	1,698,663	1,799,203
		1,733,926	**1,832,369**
Current assets			
Receivables and other assets	4	1,122,227	1,120,930
Cash and cash equivalents	5	952	171,200
		1,123,179	**1,292,130**
Prepaid expenses	6	**3,981**	**20,921**
Total assets		**2,861,086**	**3,145,420**

Equity and liabilities	Note	31/12/2010 EUR k	**31/12/2011** EUR k
Equity			
Issued capital	7	217,728	217,728
Capital reserves	7	1,114,230	1,131,981
Revenue reserves	7	307,532	393,483
Profit available for distribution	8	85,050	85,952
Contingent capital		*(21,773)*	*(21,773)*
		1,724,540	**1,829,144**
Provisions			
Provisions for pensions and similar obligations	9	18,915	26,049
Other provisions	10	29,352	29,349
		48,267	**55,398**
Liabilities	11	**1,088,053**	**1,260,812**
Deferred income		**226**	**66**
Total equity and liabilities		**2,861,086**	**3,145,420**

Income statement for the 2011 fiscal year

	Note	2010 EUR k	**2011** EUR k
Investment result	15	252,112	244,933
Interest result	16	- 22,425	5,550
Own work capitalised		530	97
Other income	17	54,978	115,963
Personnel expenses	18	42,305	55,645
Amortisation of intangible assets and depreciation of property, plant and equipment		6,887	8,644
Other expenses	19	86,829	128,678
Earnings before taxes and extraordinary expenses		**149,174**	**173,576**
Extraordinary expenses	20	270	3,457
Income taxes	21	- 3,429	- 1,785
Net profit for the year		**152,333**	**171,904**
Transfer to other revenue reserves		- 67,283	- 85,952
Profit available for distribution		**85,050**	**85,952**

Notes to the financial statements

General disclosures

The financial statements as of 31 December 2011 of Celesio AG, Stuttgart, have been prepared in euro (EUR) in accordance with Sec. 242 et seq. and Sec. 264 et seq. Handelsgesetzbuch (HGB, German Commercial Code) as well as in accordance with the relevant provisions of Aktiengesetz (AktG, German Stock Corporation Act). The Company is subject to the requirements for large corporations.

The group income statement has been prepared using the nature of expense method. The financial statements reflect the activities of a management holding. Main sources of income of Celesio AG include income from investments or from profit transfer agreements. The financing of the Group remains a focus of business activities. For this reason, the income statement is not classified in accordance with Sec. 275 HGB.

In order to improve the clarity of the financial statements, we have summarised individual balance sheet and income statement items and have disclosed and commented on them separately in these notes to the financial statements. For the same reason, we have also indicated in the notes whether individual items are related to other balance sheet items and “of which” captions.

Celesio AG's financial statements and management report for the 2011 fiscal year are published in the Bundesanzeiger (German Federal Gazette). The management report of Celesio AG is combined with the management report of the group.

Accounting policies

The financial statements are prepared pursuant to the provisions of the German Commercial Code. The methods used to report and value assets and liabilities are disclosed in the notes to the individual balance sheet item.

Notes to the balance sheet

Analysis of fixed assets for 2011

	Intangible assets		Property, plant and equipment		Financial assets	**Total**
	Purchased concessions and industrial rights EUR k	Payments on account EUR k	Buildings on third-party land EUR k	Other equipment, furniture and fixtures EUR k	EUR k	EUR k
Accumulated historical cost 01/01/11	**40,818**	**7,263**	**6,506**	**4,407**	**1,874,640**	**1,933,634**
Additions	1,962	4,329	0	214	178,271	184,776
Reclassifications	1,528	- 1,528	0	0	0	0
Disposals	0	0	0	51	63,006	63,057
Accumulated historical cost 31/12/11	**44,308**	**10,064**	**6,506**	**4,570**	**1,989,905**	**2,055,353**
Accumulated historical cost 01/01/11	**17,590**	**0**	**3,302**	**2,839**	**175,977**	**199,708**
Additions	8,003	0	263	377	14,725	23,368
Write-ups	41	0	0	0	0	41
Disposals	0	0	0	51	0	51
Accumulated historical cost 31/12/11	**25,552**	**0**	**3,565**	**3,165**	**190,702**	**222,984**
Net book value 31/12/2011	**18,756**	**10,064**	**2,941**	**1,405**	**1,799,203**	**1,832,369**
Net book value 31/12/2010	23,228	7,263	3,204	1,568	1,698,663	1,733,926

Intangible assets are composed entirely of software. Property, plant and equipment includes leasehold improvements (including land improvements), other plant and equipment as well as furniture and fixtures. The development of financial assets is detailed in note (3), Financial assets.

(1) Intangible assets

Purchased intangible assets are recognised at acquisition cost. Intangible assets are amortised using the straight-line method at rates of between 20% and 33% p.a. The additions mainly concern software licenses, including incidental acquisition costs for commissioning.

Exercising the option contained in Sec. 255 (2a) HGB, internally generated intangible assets are not recognised.

(2) Property, plant and equipment

Additions to property, plant and equipment are recognised at cost. Furniture and fixtures are subject to straight-line depreciation using rates of between 5 and 33%. Leasehold improvements are depreciated over the term of the lease. Land improvements are depreciated at rates of between 3 and 25%. Additions comprise leasehold improvements. Low-value assets with a net value of up to EUR 150 per item were fully written off and expensed in the year of acquisition with their immediate disposal being assumed. In the interest of simplification, fixed assets with a net value of more than EUR 150 but less than EUR 1,000 are summarised in a catch-all item in the commercial balance sheet in accordance with the requirement for an item to be set up annually for tax purposes. The total amount of the annual compound items is immaterial and subject to depreciation at a flat rate of 20% in the year of initial recognition and the following four years pursuant to the tax provisions. All other depreciation on additions to property, plant and equipment is charged pro rata temporis.

(3) Financial assets

	Shares in affiliates EUR k	Loans to affiliates EUR k	Investments EUR k	Other loans EUR k	Securities classified as fixed assets EUR k	**Total** EUR k
Accumulated historical cost 01/01/11	**1,748,143**	**60,715**	**65,263**	**519**	**0**	**1,874,640**
Additions	173,341	2,409	261	0	2,260	178,271
Reclassifications	0	0	- 8	0	8	0
Disposals	62,937	0	0	69	0	63,006
Accumulated historical cost 31/12/11	**1,858,547**	**63,124**	**65,616**	**450**	**2,268**	**1,989,905**
Accumulated amortisation, depreciation and write-downs 01/01/11	**175,977**	**0**	**0**	**0**	**0**	**175,977**
Additions	14,725	0	0	0	0	14,725
Disposals	0	0	0	0	0	0
Accumulated amortisation, depreciation and write-downs 31/12/11	**190,702**	**0**	**0**	**0**	**0**	**190,702**
Net book value 31/12/2011	**1,667,845**	**63,124**	**65,616**	**450**	**2,268**	**1,799,203**
Net book value 31/12/2010	1,572,166	60,715	65,263	519	0	1,698,663

Financial assets are recognised at the lower of cost or fair value. For non-interest-bearing loans, historical cost is the present value. Interest-free or low-interest loans are discounted to their present value. Unwinding of the discount is presented under additions in the analysis of fixed assets. Loans are generally recognised at nominal value.

(4) Receivables and other assets

	31/12/2010 EUR k	**31/12/2011** EUR k
Receivables from affiliates	1,112,847	1,103,743
of which due in more than one year	(0)	(47,094)
Receivables from other investors and investees	16	58
of which due in more than one year	(0)	(0)
Other assets	9,364	17,129
of which due in more than one year	(2,590)	(2,043)
Total	**1,122,227**	**1,120,930**

Receivables and other assets are stated at their nominal value. Specific bad debt allowances provide for all foreseeable valuation risks. Non-interest bearing receivables due in more than one year are discounted. Receivables from affiliates include trade receivables of EUR 62,108k (previous year EUR 65,151k).

Receivables denominated in foreign currency are translated using the mean spot rate on closing date. If they have residual terms of more than one year, the realisation principle (Sec. 252 (1) No. 4 Clause 2 HGB) and the historical cost principle (Sec. 253 (1) Sentence 1 HGB) are applied.

(5) Cash and cash equivalents

	31/12/2010 EUR k	**31/12/2011** EUR k
Cash on hand	9	8
Bank balances	943	166,263
Share of plan assets in the pension provision allocable to cash and cash equivalents	0	4,929
Total	**952**	**171,200**

(6) Prepaid expenses

Prepaid expenses mainly reflect the deferred interest advantage of the convertible bonds and accrued IT services.

(7) Issued capital and reserves

Issued capital amounts to EUR 217,728k and is split as in the previous year into 170,100,000 ordinary shares (registered no par value shares).

By resolution of the annual general meeting on 26 April 2007, the capital of EUR 43,546k authorised until 7 May 2007 was cancelled by revocation of Art. 3 (2) of the articles of association. By resolution of the annual general meeting on 26 April 2007, the Management Board was authorised, with the consent of the Supervisory Board, to increase the issued capital of the company once or several times on or before 25 April 2012 by up to EUR 43,546k in return for cash contributions, by issuing new registered no par value shares. Art. 3 (2) of the articles of association was redrafted accordingly. Therefore, authorised capital of EUR 43,546k is available until 25 April 2012.

By resolution of the annual general meeting of 8 May 2009, the Management Board is authorised to increase the share capital of the company on or before 30 April 2014 with the consent of the Supervisory Board by issuing new no par registered shares in return for cash contributions and/or contributions in kind on one or more occasions by a maximum of EUR 65,318,400. No use has been made of this authorisation to date. To the extent that the authorisation continued to exist thereafter, it was withdrawn by resolution of the annual general meeting on 17 May 2011.

The annual general meeting on 8 May 2009 passed a resolution to increase the issued capital by up to EUR 21,772,800. The Management Board made use of most of this authorisation in issuing the convertible bond on 29 October 2009. To the extent that the authorisation continued to exist thereafter, it was withdrawn by resolution of the annual general meeting on 6 May 2010.

By resolution dated 6 May 2010, the annual general meeting passed a resolution to increase the issued capital contingently by up to EUR 21,772,800.

By resolution of the annual general meeting of 6 May 2010, the Management Board was authorised, with the consent of the Supervisory Board, to issue registered option bonds and/or convertible bonds (together: bonds) on one or more occasions with a total nominal value of up to EUR 500m on or before 5 May 2015 and to grant the holders of convertible bond options and conversion rights, respectively, for registered shares in the company representing a share in the share capital of the company of up to EUR 21,772,800 in accordance with the precise conditions of the options or convertible bonds, and to exclude shareholders' subscription rights in accordance with the resolution of the annual general meeting. In accordance with Art. 3 (5) of the articles of association, the share capital can be contingently increased by up to EUR 21,772,800, split into 17,010,000 no-par registered shares (contingent capital 2010). The Management Board made some use of this authorisation in issuing the convertible bond on 7 April 2011.

By resolution of the annual general meeting of 17 May 2011, the Management Board is authorised to increase the share capital of the company on or before 16 May 2016 with the consent of the Supervisory Board by issuing new no-par registered shares in return for cash contributions or contributions in kind on one or more occasions by a maximum of EUR 65,318,400 (authorised capital 2011).

On 7 April 2011, Celesio Finance B.V. issued a convertible bond with a nominal value of EUR 350m guaranteed by Celesio AG. The bond is split into denominations of EUR 100,000, has a coupon of 2.50% per year 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, based on the contingent capital 2010. The conversion price stood at EUR 22.48, both on the date the bond was issued and as of the reporting date. According to the terms of the bond, the conversion price will be adjusted during the term of the bond to account for extraordinary events (capital increase, stock splits, etc.). The conversion rights granted by the bond correspond to approximately 15.6m shares. The capital reserve increased by EUR 17,751k in the reporting year as a result of the conversion rights.

(8) Profit available for distribution

The profit available for distribution from the previous year of EUR 85,050k was distributed in full as a dividend for the 2010 fiscal year. Deducting the profit reclassified to revenue reserves from the net profit for the year 2011 of EUR 171,904k results in a profit available for distribution of EUR 85,952k as of 31 December 2011. An amount of EUR 85,952k was contributed to other revenue reserves.

According to the proposal for the appropriation of profits, EUR 42,525k of the profit available for distribution is to be paid out as a dividend for the 2011 fiscal year and EUR 43,427k is to be carried forward to new account.

(9) Provisions for pensions and early retirement obligations

Pension provisions have been calculated using the projected unit credit method and the 2005G mortality tables issued by Prof Dr Klaus Heubeck. Pursuant to the alternative treatment allowed by Sec. 253 (2) Sent. 2 HGB, the discount rate used in the calculation is based on the average market interest rate for instruments with a term of 15 years of 5.14%, as required by the regulation on discounting provisions issued on 18 November 2009. Expected salary increases were taken into account at 2.75%; expected pension increases at 1.90%. Employee churn has been considered using assumptions that vary depending on the age, length of service and gender of the employees.

Making use of the alternative treatment allowed by Sec. 67 (1) Sentence 1 EGHGB (transitional provisions of BilMoG), the additions to the provision required by the change in the law governing the accounting of provisions pursuant to Sec. 249 (1) Sentence 1 and Sec. 253 (1) Sentence 2 (2) HGB introduced by BilMoG have been recognised in full. The addition was calculated as of 1 January 2010 using the projected unit credit method. An interest rate of 5.25% was applied as of 1 January 2010. Anticipated wage and salary increases were also considered at an annual trend of 2.75% and 1.90% for pension increases. Employee turnover has been considered using assumptions that vary depending on the age, length of service and gender of the employees. A difference of EUR 3,457k was recognised in the reporting period.

(10) Other provisions

	31/12/2010 EUR k	**31/12/2011** EUR k
Tax provisions	7,770	6,583
Sundry other provisions	21,582	22,766
Total	**29,352**	**29,349**

Other provisions comprise tax provisions as well as sundry other provisions. Sundry other provisions are created to cover all contingent liabilities and anticipated losses from pending transactions as of the balance sheet date. These are measured on the basis of prudent commercial judgment at the amount considered necessary to settle the liability (i.e. including any future cost or price increases). Provisions with a residual term of more than one year were discounted.

Deferred taxes are calculated on the basis of the differences between the commercial financial statements and tax balance sheet of Celesio AG. In addition, the deferred taxes carried by the dependent companies in the consolidated tax group led by Celesio AG are also considered. A tax rate of 30.7% has been used to calculate deferred taxes. This rate includes corporate income tax, the solidarity surcharge and trade tax.

Deferred taxes result in particular from the prohibition of recognising provisions for potential losses from pending transactions in the tax balance sheet, the discounting of shareholder loans, and the measurement of provisions for pensions, phased retirement and long-service bonuses. Furthermore, there are also losses carried forward and interest carried forward.

Deferred tax liabilities originate primarily from the different measurement bases used by partnerships.

A decision was made not to recognise the surplus deferred tax assets remaining after deducting deferred tax liabilities in accordance with the alternative treatment allowed by Sec. 274 HGB.

Other provisions mainly comprise provisions for personnel-related expenses, potential losses from interest swaps not designated as hedging instruments, outstanding invoices, commitment fees, remuneration of the Supervisory Board, costs of preparing the annual report, costs of preparing the financial statements as well as outstanding contributions.

(11) Liabilities

The remaining terms of the liabilities are detailed in the schedule of liabilities.

Liabilities	31/12/2010 Due in				**31/12/2011** Due in			
	less than one year	more than one and less than five years	more than five years	Book value	less than one year	more than one and less than five years	more than five years	**Book value**
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Liabilities to banks	19	0	0	19	0	0	0	0
Trade payables	1,335	0	0	1,335	2,721	0	0	2,721
Liabilities to affiliates	726,678	350,000	0	1,076,678	489,770	403,856	356,568	1,250,194
Liabilities to other investors and investees	0	0	0	0	1,675	0	0	1,675
Other liabilities	9,785	236	0	10,021	6,107	115	0	6,222
of which taxes	(648)	(0)	(0)	(648)	(2,604)	(0)	(0)	(2,604)
of which for social security	(6)	(0)	(0)	(6)	(0)	(0)	(0)	(0)
Total	**737,817**	**350,236**	**0**	**1,088,053**	**500,273**	**403,971**	**356,568**	**1,260,812**

Liabilities to affiliates include liabilities of EUR 700,000k which can be converted into equity instruments (previous year EUR 350,000k). The liabilities to affiliates also include trade payables of EUR 111,515k (previous year EUR 39,475k).

Liabilities are measured at the settlement amount. Liabilities denominated in foreign currency are translated using the spot rate on closing date. If they had residual terms of more than one year, the realisation principle (Sec. 252 (1) No. 4 Clause 2 HGB) and the historical cost principle (Sec. 253 (1) Sentence 1 HGB) were applied.

(12) Contingent liabilities

Contingent liabilities	31/12/2010 EUR k	**31/12/2011** EUR k
From guarantees, notes and cheque guarantees	2,545,202	2,772,832
of which for affiliates	(2,542,828)	(2,772,829)
Total	**2,545,202**	**2,772,832**

Most of the guarantee obligations have been entered into are towards creditor banks (of which EUR 2,006,964k (previous year EUR 1,770,042k) for Celesio Finance B.V., Baarn, Netherlands).

The risk of a claim relating to the guarantee for affiliates' liabilities to banks is deemed to be low because of these subsidiaries' respective net assets, financial position and results of operations.

(13) Other financial obligations and off-balance sheet transactions

In addition to the contingent liabilities, there are other financial obligations amounting to EUR 106,413k. These obligations relate to the following items:

Due to the outsourcing of all the group's IT infrastructure by virtue of an agreement concluded in February 2009 and effective 1 April 2009, the group has a financial obligation to pay service fees and future lease instalments expected to amount to EUR 99,898k (previous year EUR 129,462k) over a period ending 31 March 2016. The decrease is attributable to the utilisation in the current year as well as a contractual amendment. The amount of the obligation can change depending on the services availed of under the agreement.

In addition, there are other financial obligations of EUR 1,854k (previous year EUR 7,500k) from data and voice communication service agreements. They have a remaining term of five years.

Other financial obligations relate to rental agreements and future lease payments for company cars and company equipment, consulting and service agreements of EUR 1,922k (previous year EUR 2,081k) which expire within one to five years as well as capital expenditure commitments of EUR 2,739k (previous year EUR 2,655k).

(14) Derivative financial instruments and hedge accounting

Derivative financial instruments	Nominal value		Market value		Book value	
	31/12/2010 EUR k	**31/12/2011** EUR k	31/12/2010 EUR k	**31/12/2011** EUR k	31/12/2010 EUR k	**31/12/2011** EUR k
Interest instruments	574,082	327,831	- 22,829	- 14,424	- 2,518	- 1,182
Currency instruments	575,580	768,142	5,043	- 650	0	0
Total	**1,149,662**	**1,095,973**	**- 17,786**	**- 15,074**	- **2,518**	**- 1,182**

The carrying amounts of derivative financial instruments are recognised in the balance sheet under liabilities at EUR 182k (previous year EUR 418k) and other provisions at EUR 1,000k (previous year EUR 2,100k).

The market values of derivative financial instruments are determined by reference to capital market data at the end of the reporting period and use of suitable valuation techniques such as the discounted cash flow method as well as other generally accepted option pricing models. If interest rates are needed for the valuation, the market interest rates for the respective residual term of the derivatives are used. The derivative interest instruments are interest swaps. The derivative currency instruments exclusively comprise forward exchange contracts, currency swaps and currency options in pound sterling, Czech crown, Danish krone, Swedish krona, US dollar, Swiss franc, Turkish lira, Polish zloty, Brazilian real, Norwegian krone and Canadian dollar.

As regards assets, liabilities and forecast transactions, Celesio is exposed - among other things - to risks resulting from changes in exchange rates and interest rates. Based on a risk appraisal, selected hedging instruments are used to limit these risks.

The use of derivatives is subject to uniform group guidelines set by the Management Board, compliance of which is monitored constantly. These include functional segregation of trading, handling and posting and the authorisation of a few qualified employees to enter into derivative financial instruments. All derivatives are entered into exclusively for hedging purposes and are entered into only with banks with top credit ratings. In other words, derivatives are not used for trading or other speculative purposes.

Interest rate risks are understood as the negative impact of fluctuating interest rates on the net profit of the group. A distinction must be made between fixed-interest and floating-rate financial instruments. For fixed-interest financial instruments, a fixed market interest rate is agreed on for the full term of the derivative. The risk is that when market interest rates fluctuate, the market price of the financial instrument will change (fair value risk due to changes in interest rates). The market price is based on the present value of future payments (interest payments plus repayment of principal) discounted using the market interest rate prevailing at the end of the reporting period. The fair value risk due to changes in interest rates will therefore lead to a gain or loss if the fixed-interest instrument is sold before maturity.

For floating-rate financial instruments the interest rate is adjusted in line with respective market interest rates. However, there is a risk here that there may be a short-term fluctuation in interest rates leading to changes in the interest due (cash flow risk due to interest rates).

Interest swaps were used in the past fiscal year to hedge interest risks. An interest swap involves swapping the fixed or floating interest rate in the underlying transaction for the entire term of the underlying instrument. The decision on whether to use derivative financial instruments is based on the projected interest rate risk and debt. The interest hedging strategy is reviewed at monthly intervals and new targets are defined. This involves securing interest rates for at least 50% of the projected debt level.

Currency risks refer to the possible impairment of items in the statement of financial position and any forward transactions due to fluctuations in exchange rates.

Forward exchange contracts, currency swaps and currency options were used in the 2011 fiscal year to hedge against foreign exchange exposures.

The majority of the foreign exchange risks are a result of the development of the euro against the pound sterling (GBP).

Foreign exchange exposures are mainly secured by micro-hedges. This involves a direct hedge of the underlying transaction by means of a foreign exchange derivative, generally a currency swap. In addition, currency derivatives are used to hedge forecast transactions in foreign currency. This involves selecting the currency derivative (or a combination of several derivatives) which best reflects the likelihood of occurrence and timing of the forecast transaction.

In addition to forward exchange contract and currency swaps, non-deliverable forwards were used in the 2011 fiscal year to hedge against foreign exchange exposures. As of the reporting date there were only forward exchange contracts, currency swaps and non-deliverable foreign exchange options.

Foreign exchange options give the purchaser the right to exchange one currency for another currency at a fixed rate on a fixed date. Non-deliverable options are different from traditional instruments in that there is no physical settlement of the exchange currency on the maturity date. Rather, one party makes a net payment on the basis of how the exchange rate has developed. The Celesio Group usually uses these derivatives to hedge against the currency risk in countries with foreign exchange controls (such as Brazil).

When hedge accounting is applied in accordance with Sec. 254 HGB, the following accounting and valuation principles apply:

Economic hedging relationships are accounted for by designating hedges. If the positive and negative changes in the values of the underlying and the hedging instrument completely cancel each other out for the hedged risk during the period, they are offset and not recognised in either the underlying or the hedging instrument or in the income statement (compensatory approach). If, the negative changes in value from the hedged risk outweigh the positive changes (an ineffective hedge), the difference is expensed as an unrealised loss in keeping with the imparity principle by recognising a provision for the hedge relationship.

The risk management strategy is formalised and documented at the beginning of a hedge relationship in terms of the hedged risk, the planned term of the hedge, the hedging instrument, the underlying transaction and the method used to measure the effectiveness of the hedge.

The following hedges were designated:

	Hedged item/hedging instrument	Risk/type of hedge	Amount included	Amount of hedged risk	Term of the hedge
(1)	Group loan / interest derivative	Interest risk / micro hedge	EUR 8,939k	EUR 180,000k	6-33 months
(2)	Interest derivative / interest derivative	Interest risk / micro hedge	EUR 664k	DKK 120,000k	15 months
(3)	Interest derivative / interest derivative	Interest risk / micro hedge	EUR 4,820k	GBP 110,000k	9-15 months
(4)	Currency derivative/ currency derivative	Currency risk/ micro hedge	EUR 1,862k	SEK 714,000k	3 months
(5)	Currency derivative/ currency derivative	Currency risk/ micro hedge	EUR 2,683k	GBP 260,000k	1-6 months

(1): According to the group's risk policy, risk exposures (in this case liabilities to banks subject to floating rates) are hedged immediately when they arise by entering into interest swaps for the same amount, in the same currency and on the same terms. Hedge effectiveness is measured using the critical term match method and calculating the amount of the ineffective portion of the hedge using the hypothetical derivative method. The diametrically opposed cash flows between the underlying and the hedging instrument will offset each other completely over the term of the hedge by the closing date. Generally, the underlyings have shorter terms than those stated in the above table because the interest swap is entered into for projected floating rate interest expenses in the current year and future accounting periods. As the amount and timing of this revenue can be reliably planned, anticipatory hedges were formed.

(2-3): Celesio AG enters into interest hedges on behalf of its subsidiaries and passes these on to its subsidiaries on identical terms and conditions. In these cases there is a hedge relationship between the external and internal transactions with the cash flows completely offsetting each other by the closing date.

(4-5): Celesio AG enters into currency hedges on behalf of its subsidiaries and passes these on to its subsidiaries on identical terms and conditions. In these cases there is a hedge relationship between the external and internal transactions with the cash flows completely offsetting each other by the closing date.

Notes to the income statement

(15) Investment result

	2010 EUR k	**2011** EUR k
Income from profit transfer agreements	37,531	6,740
Income from investments	224,211	344,717
of which received from affiliates	(224,211)	(343,017)
Expenses from loss absorption	- 32,400	- 91,799
Write-ups of financial assets	38,829	0
Impairment of financial assets	- 16,059	- 14,725
Total	**252,112**	**244,933**

The impairment of financial assets mainly relates to shares held in affiliates in Belgium (previous year shares in affiliates in the Netherlands).

(16) Interest result

	2010 EUR k	**2011** EUR k
Income from long-term loans	2,318	2,409
of which received from affiliates	(2,318)	(2,409)
Other interest and similar income	36,324	59,208
of which received from affiliates	(35,529)	(56,728)
Interest and similar expenses	- 61,067	- 56,067
of which to affiliates	(- 29,473)	(- 34,241)
of which interest expense from unwinding	(- 642)	(- 1,149)
Total	**- 22,425**	**5,550**

(17) Other income

	2010 EUR k	**2011** EUR k
Group tax allocations	16,924	6,361
of which corporate income tax (incl. solidarity surcharge)	(8,804)	(3,254)
of which trade tax	(8,120)	(3,107)
Income from previous periods	0	9,782
Sundry income	38,054	99,820
of which exchange rate gains	(7,277)	(34,380)
Total	**54,978**	**115,963**

Income from previous periods mainly comprises income from cost allocations. Sundry income primarily stems from services rendered for affiliates.

(18) Personnel expenses/employees

	2010 EUR k	**2011** EUR k
Wages and salaries	36,415	49,165
Social security and pension cost	5,890	6,480
of which post-employment benefits	(2,487)	(3,037)
Total	**42,305**	**55,645**

The average headcount in the 2011 fiscal year was 312 (previous year 324). Wages and salaries include expenses for restructuring measures and expenses incurred in connection with the settlement of contractual claims of members of the Management Board that left the company before the contractually agreed date.

(19) Other expenses

	2010 EUR k	**2011** EUR k
Other taxes	20	35
Sundry expenses	86,809	128,643
of which exchange rate losses	(7,283)	(34,302)
Total	**86,829**	**128,678**

Sundry expenses mainly comprise IT expenses, exchange rate losses, legal and consulting fees, costs for services rendered by affiliates, travel expenses, recruiting expenses, remuneration of the Supervisory Board, the cost of preparing financial statements and annual general meeting expenses as well as other rent and incidental costs.

(20) Extraordinary expenses

The application of Sec. 66 and Sec. 67 (1) to (5) EGHGB results in extraordinary expenses of EUR 3,457k (previous year 247k) related to the measurement of pension provisions and of EUR 0k (previous year 23k) related to provisions for phased retirement.

(21) Income taxes

	2010 EUR k	**2011** EUR k
Income taxes for previous years		
Corporate income tax/trade tax for previous years	- 3,429	- 1,785
Total	**- 3,429**	**- 1,785**

Other taxes are reported under (19), Other expenses.

Other notes

Statutory audit

The annual financial statements of Celesio AG, the German subsidiaries and the consolidated financial statements were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Ernst & Young Germany), Stuttgart. In accordance with Sec. 285 (1) No. 17 HGB, fees for the auditor have not been disclosed. The total fees of Ernst & Young Germany are disclosed in the consolidated financial statements of Celesio AG.

Exemption pursuant to Secs. 264 (3), 264a and 264b HGB

The following entities are exempted under Sec. 264 (3) HGB from the duty to publish their financial statements:

ABG Apotheken-Beratungsgesellschaft mbH, Stuttgart
Admenta Deutschland GmbH, Stuttgart
Apotheke DocMorris Holding GmbH, Stuttgart
Celesio Manufacturer Solutions Deutschland Vertriebsgesellschaft mbH, Stuttgart
Celesio Manufacturer Solutions Europe Distributors GmbH, Stuttgart
CEGE Beteiligungsgesellschaft mbH, Stuttgart
DocMorris International Retail GmbH, Stuttgart
DocMorris Kooperationen GmbH, Stuttgart
DocMorris Pharma GmbH, Aachen
GEHE Pharma Handel GmbH, Stuttgart
Gesellschaft für Versorgungskonzepte in der Wundbehandlung GmbH, Stuttgart
Inten GmbH, Stuttgart
Movianto GmbH, Stuttgart
Movianto Deutschland GmbH, Kist
Pharmexx GmbH, Hirschberg
pharmexpert GmbH, Hirschberg
pharmdirekt GmbH, Hirschberg
x-pharm GmbH, Hirschberg
Rudolf Spiegel GmbH, Grafschaft-Gelsdorf

GEHE Immobilien GmbH & Co. KG, Stuttgart, GEHE Informatik Services GmbH & Co. KG, Stuttgart, and Ancavion GmbH & Co. KG, Weiterstadt, are exempted from the duty to publish their financial statements pursuant to Secs. 264a, 264b HGB.

Celesio AG is the general partner of GEHE Immobilien GmbH & Co. KG, Stuttgart.

Group relationships

Franz Haniel & Cie. GmbH, Duisburg, prepares consolidated financial statements containing Celesio AG and its subsidiaries. These consolidated financial statements are published in the elektronischer Bundesanzeiger.

Notices from shareholders

According to a notice dated 2 April 2002 issued pursuant to Sec. 41 (2) Sentence 1 Wertpapierhandelsgesetz (WpHG, Securities Trading Act) Franz Haniel & Cie. GmbH, Duisburg, held a total of 60% of the voting rights in Celesio on 1 April 2002. To the knowledge of Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, came to 54.6% (previous year 54.6%) at the end of the reporting period.

On 27 January 2010, BlackRock Financial Management, Inc., New York, USA, BlackRock Holdco 2, Inc., Wilmington, Delaware, USA, and BlackRock, Inc., New York, USA, informed us by notice in accordance with Sec. 21 (1) WpHG of the following:

The voting share of BlackRock Financial Management, Inc. in Celesio AG exceeded the threshold of 3% on 20 January 2010 and amounted to 3.01% of voting rights on that date (5,116,420 voting rights). These voting rights are all allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of BlackRock Holdco 2, Inc. in Celesio AG exceeded the threshold of 3% of on 20 January 2010 and amounted to 3.01% of voting rights on that date (5,116,420 voting rights). These voting rights are all allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of BlackRock, Inc. in Celesio AG exceeded the threshold of 3% on 20 January 2010 and amounted to 3.1% of voting rights on that date (5,274,461 voting rights). These voting rights are all allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

On 23 February 2010 AXA S.A., Paris, France, AXA Financial, Inc., New York, NY, USA, AXA Equitable Financial Services, LLC, New York, NY, USA, AXA Equitable Life Insurance Company, New York, NY, USA, Equitable Holdings LLC, New York, NY, USA, AllianceBernstein Corporation, New York, NY, USA and AllianceBernstein L.P., New York, NY, USA, informed us by notice in accordance with Sec. 21 (1) WpHG of the following:

The voting share of AllianceBernstein L.P. in Celesio AG exceeded the threshold of 3% on 17 February 2010 and amounted to 2.98% of voting rights (5,064,542 voting rights). This 2.98% share in the voting rights (5,064,542) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.

The voting share of AllianceBernstein Corporation in Celesio AG exceeded the threshold of 3% on 17 February 2010 and amounted to 2.98% of voting rights (5,064,542 voting rights). This 2.98% share in the voting rights (5,064,542) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of Equitable Holdings LLC in Celesio AG exceeded the threshold of 3% on 17 February 2010 and amounted to 2.98% of voting rights (5,064,542 voting rights). This 2.98% share in the voting rights (5,064,542) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of AXA Equitable Life Insurance Company in Celesio AG exceeded the threshold of 3% on 17 February 2010 and amounted to 2.98% of voting rights (5,064,542 voting rights). This 2.98% share in the voting rights (5,064,542) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of AXA Equitable Financial Services in Celesio AG exceeded the threshold of 3% on 17 February 2010 and amounted to 2.98% of voting rights (5,064,542 voting rights). This 2.98% share in the voting rights (5,064,542) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of AXA Financial, Inc. in Celesio AG exceeded the threshold of 3% on 17 February 2010 and amounted to 2.98% of voting rights (5,064,542 voting rights). This 2.98% share in the voting rights (5,064,542) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of AXA S.A. in Celesio AG exceeded the threshold of 3% on 17 February 2010 and amounted to 2.99% of voting rights (5,087,527 voting rights). This 2.99% share in the voting rights (5,087,527) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

On 29 March 2010, BlackRock Financial Management, Inc., New York, USA, BlackRock Holdco 2, Inc., Wilmington, Delaware, USA, and BlackRock, Inc., New York, USA, informed us by notice in accordance with Sec. 21 (1) WpHG of the following:

The voting share of BlackRock Financial Management, Inc. in Celesio AG exceeded the threshold of 3% on 24 March 2010 and amounted to 2.62% of voting rights on that date (4,462,320 voting rights). These voting rights are all allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of BlackRock Holdco 2, Inc. in Celesio AG exceeded the threshold of 3% on 24 March 2010 and amounted to 2.62% of voting rights on that date (4,462,320 voting rights). These voting rights are all allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

The voting share of BlackRock, Inc. in Celesio AG exceeded the threshold of 3% on 24 March 2010 and amounted to 2.94% of voting rights on that date (4,993,196 voting rights). These voting rights are all allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

On 3 May 2010, AXA S.A., Paris, France, informed us in accordance with Sec. 21 (1) WpHG that its voting share in Celesio AG exceeded the threshold of 3% on 30 April 2010 and amounted to 3.09% on that date (5,252,250 voting rights). These voting shares are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

On 2 August 2010, AXA S.A., Paris, France, informed us in accordance with Sec. 21 (1) WpHG that its voting share in Celesio AG fell below the threshold of 3% on 30 July 2010 and amounted to 2.76% on that date (4,700,945 voting rights). These voting shares are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

On 10 February 2011, BlackRock, Inc., New York, NY, USA informed us in accordance with Sec. 21 (1) WpHG that its voting share in Celesio AG exceeded the threshold of 3% on 4 February 2011 and amounted to 3.03% on that date (5,149,968 voting rights). These voting shares are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

On 3 March 2011, Baillie Gifford & Co, Edinburgh, Scotland informed us in accordance with Sec. 21 (1) WpHG that its voting share in Celesio AG fell below the threshold of 3% on 1 March 2011 and amounted to 2.89% on that date (4,921,606 voting rights). Of the voting rights, 1.35% (2,300,921) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG and 1.54% (2,620,685 voting rights) are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.

On 18 August 2011, BlackRock, Inc., New York, NY, USA informed us in accordance with Sec. 21 (1) WpHG that its voting share in Celesio AG fell below the threshold of 3% on 15 August 2011 and amounted to 2.94% on that date (4,998,859 voting rights). These voting shares are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

Corporate governance

The Management Board and Supervisory Board last issued a declaration of compliance with the recommendations of the German Corporate Governance Codex pursuant to Sec. 161 AktG on 20 December 2011 and published this on their website at www.celesio.com.

The remuneration of Management Board members is presented individually for the first time in the 2011 fiscal year since a resolution taken on 27 April 2006 not to disclose it for five years. There is therefore no individual disclosure of Management Board members' remuneration for the previous year.

Main features of the compensation structure of the Management Board

Management Board remuneration is determined in accordance with the provisions of the Aktiengesetz (AktG, German Stock Corporations Act) and the German Corporate Governance Code. The total remuneration of the members of the Management Board comprises both performance-related and non-performance-related components. The compensation structure is conducive to the sustainable development of the company on account of remuneration components with a long-term incentive. In determining the remuneration of members of the Management Board, we take into account the size and complexity of the company, its economic and financial position and the amount and structure of remuneration of management boards of comparable companies, as well as the compensation structure in place otherwise at Celesio. We also consider the responsibilities and performance of each member of the Management Board. At the instigation of the General Committee, the Supervisory Board regularly reviews the structure and appropriateness of the remuneration system.

Remuneration of each member of the Management Board depends on the compensation structure defined in the respective contracts of each individual. Remuneration for Dr Oesterle (until 30 June 2011), Dr Holzherr (until 30 November 2011) and Mr Mähr (until 30 September 2011) was governed by contracts concluded prior to 2010. The remuneration for Mr Borchert and Dr Lonsert (until 31 December 2011) is based on contracts concluded after they joined the company in 2011 and 2010, respectively. Mr Borchert received a firm commitment for minimum remuneration (on a pro rata basis) comprising fixed salary plus bonus for 2011. Further adjustments were made to the existing compensation structure when Mr Pinger joined the company as Chairman of the Management Board (as of 15 August 2011) and in the course of renewing Mr Mähr's contract (from 1 October 2011). These adjustments reflect changes in the legal and regulatory environment resulting from the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG, German Act on the Appropriateness of Executive Board Compensation) which promotes remuneration of executive boards that is conducive to sustainable and long-term corporate governance.

Non performance-related remuneration components

The non-performance-related components consist of a fixed basic component, additional benefits and pension contributions. The fixed basic component is paid as a monthly salary. The additional benefits received by the Management Board mainly comprise the use of company cars, accident insurance, health insurance abroad, legal protection and D&O insurance. In accordance with Sec. 93 (2) Sentence 3 AktG, the deductible for D&O insurance is 10% of claims, but no more than one-and-a-half times the fixed annual salary. Members of the Management Board have to tax the fringe benefits from private use of company cars.

Performance-related remuneration components

The performance-related components consist of bonuses and a rolling remuneration component. The bonuses are paid out annually either in full or at a rate of 50%, with the remaining 50% retained for a vesting period of around three years. The rolling component currently takes the form of a performance cash scheme.

If, in its best judgement, the Supervisory Board deems the extraordinary service or success of a Management Board member to be worthy of special payments including special remuneration, it is entitled to award these. The same applies in the case of mutual agreement to terminate contracts.

Bonus

The bonus comprises a percentage share of earnings plus an additional payment if the earnings growth exceeds a pre-defined threshold. A standard bonus (in EUR) is determined individually for each member of the Management Board.

For Dr Oesterle (until 30 June 2011), Dr Holzherr (until 30 November 2011) and Mr Mähr (until 30 September 2011), the bonus was determined based on EBITDA. The bonuses for Mr Pinger, Mr Borchert, Dr Lonsert (until 31 December 2011) and Mr Mähr (from 1 October 2011) are based on EBIT.

An additional payment falls due if the year-on-year EBITDA or EBIT growth exceeds a pre-defined threshold. Members of the Management Board receive an additional fixed component (in EUR) for each full percentage point of growth over 5%. The percentage points are rounded up or down using recognised commercial criteria to determine the amount due. The maximum bonus is capped at twice the standard bonus.

The contracts concluded with Mr Pinger (from 15 August 2011) and Mr Mähr (from 1 October 2011) were supplemented to include provisions on a share deferral scheme. Under this scheme, 50% of the bonus calculated for a given fiscal year is retained for a vesting period that expires on the date of the annual general meeting in the third fiscal year following the reporting period. The amount is then invested in phantom shares in Celesio AG directly after the annual general meeting of the subsequent year. The number of phantom shares is calculated by dividing the amount of the bonus by an initial reference price. The Management Board participates in price gains and any dividends, but also bears the risk of losses. If Celesio AG decides to carry out any capital measures or restructuring that affect the share value, the Management Board members' phantom shares are treated in the same way as real shares. The amount paid out from the share deferral scheme is calculated on the scheduled date after approximately three years even if the member of the Management Board has left the company in the meantime. At the end of the three-year vesting period, the phantom shares are paid out in cash including any dividends. The amount payable is capped at twice the deferred bonus amount. The reference price used for conversion is based on the average closing rate of the last thirty trading days at the beginning and at the end of the vesting period. This share deferral scheme serves as a long-term incentive by strengthening commitment to sustainability and ownership.

Applying the provisions of German Accounting Standard 17 and IFRS 2, the total expense arising from share-based payment transactions and the fair value of the deferred shares are to be disclosed as of the issue date. The disclosures below are based on expectations of meeting targets for the 2011 fiscal year and the expected number of phantom shares depending on these targets, as well as the share price on the date of issue. There are no comparable figures for the previous year because the share deferral scheme was only launched in 2011.

	Fair value of deferred shares on the date of issue (EUR k)	Total expense arising from share-based payments for the share deferral scheme 2011 (EUR k)	Number of phantom shares
Markus Pinger (Chairman of the Management Board since 15/08/2011)	85	58	7,334
Wolfgang Mähr	42	35	4,246
Total	**127**	**93**	**11,580**

Performance cash scheme

The performance cash scheme was set up for the first time with effect as of 1 January 2008 for the period from 2008 to 2010 (2008 tranche). The second and third tranches of the performance cash scheme were set up with effect as of 1 January 2009 and 1 January 2010, respectively, for the periods 2009 to 2011 (tranche 2009) and 2010 to 2012 (tranche 2010). The Supervisory Board renewed the performance cash scheme – in line with the previous tranches – for a new tranche as of 1 January 2011 for the period 2011 to 2013 (2011 tranche).

At the beginning of the three-year period of the performance cash scheme, Management Board members receive a fixed standard amount (in EUR). The performance cash schemes are each payable in cash provided that the targets are met. The amount of cash payment depends on the standard amount set for each member of the Management Board as well as fulfilment of several performance targets. The achievement of targets is measured on an individual basis.

The 2009 and 2010 tranches of the performance cash scheme are based on share price increases (60%), rises in Celesio value-added (10%) and implementation of operating measures (30%).

The performance cash scheme for the 2011 tranche is based equally on the increase in share price (average of the last 30 trading days at the end of the three-year period compared to the average of the last thirty trading days leading up to the beginning of the three-year period) and accumulated Celesio value-added.

The Celesio value-added is a key performance indicator which serves our value-based corporate management. To obtain this indicator, the ratio of EBIT to capital employed is compared with the weighted average cost of capital.

The amount payable is capped at three times the standard amount. This standard amount is defined as the amount due if the share price increases by 100% plus the Celesio value-added accumulated over three years.

The standard amount for the 2011 tranche came to EUR 200k for Mr Mähr. For Mr Pinger, the standard amount was EUR 600k, applicable on a pro rata temporis basis since he joined the company. Mr Borchert's standard amount was EUR 490k, also applicable on a pro rata basis since he joined the company. Dr Oesterle (until 30 June 2011) and Dr Holzherr (until 30 November 2011) had standard amounts of EUR 400k and EUR 200k, respectively. Dr Lonsert (until 31 December 2011) had a standard amount of EUR 490k.

The performance targets for the 2008 tranche which would have been payable in 2011 were not met. As a result, no payments were made to members of the Management Board in connection with the performance cash scheme. The value of share price components in the 2011 tranche granted in the 2011 fiscal year was EUR 358k, relating to Dr Oesterle, Dr Holzherr, Dr Lonsert, Mr Mähr and – on a pro rata temporis basis – Mr Pinger and Mr Borchert.

	Fair value of 2011 performance cash scheme on the date of issue (EUR k)	Total expense arising from share-based payments for the 2011 performance cash scheme (EUR k)
Markus Pinger (Chairman of the Management Board since 15/08/2011)	12	4
Dr Fritz Oesterle (Chairman of the Management Board until 30/06/2011)	102	-
Stephan Borchert (since 01/08/2011)	17	4
Dr Christian Holzherr (until 30/11/2011)	51	-
Dr Michael Lonsert (until 31/12/2011)	125	-
Wolfgang Mähr	51	12
Total 2011	**358**	**20**
Total 2010	**235**	**82**

Total remuneration

The total remuneration of the Management Board came to EUR 4,968k in the 2011 fiscal year (previous year EUR 7,513k). This breaks down into EUR 2,756k for the basic component (previous year EUR 1,884k including additional benefits), EUR 1,727k for the portion of bonuses payable immediately (single-year variable component; previous year EUR 5,394k) and EUR 485k for the value of the 2011 tranche of the performance cash scheme and the value of deferred bonuses on the date of issue (multiple-year variable component; previous year EUR 235k). Of the bonuses, an amount of EUR 968k was guaranteed.

Total remuneration breaks down by member as follows:

Name	Basic component (EUR k)	Single-year variable component (EUR k)	Multiple-year variable component (EUR k)					Additional benefits (EUR k)	Total (EUR k)
				Share-based payment					
			Performance cash scheme value added	Performance cash scheme rise in share price	Share deferral	Total share-based payment	Total multiple-year variable component		
Markus Pinger (Chairman of the Management Board since 15/08/2011)	341	58	-	12	85	97	97	9	505
Dr Fritz Oesterle (Chairman of the Management Board until 30/06/2011)	371	-	-	102	-	102	102	12	485
Stephan Borchert (since 01/08/2011)	417	-	-	17	-	17	17	5	439
Dr Christian Holzherr (until 30/11/2011)	487	779	-	51	-	51	51	17	1,334
Dr Michael Lonsert (until 31/12/2011)	600	400	-	125	-	125	125	11	1,136
Wolfgang Mähr	474	490	-	51	42	93	93	12	1,069
Total 2011	**2,690**	**1,727**	**-**	**358**	**127**	**485**	**485**	**66**	**4,968**
Total 2010*	**1,826**	**5,394**	**-**	**235**	**-**	**235**	**235**	**58**	**7,513**

* In accordance with the resolution of the annual general meeting dated 27 April 2006, Management Board remuneration is not disclosed individually for 2010.

Post-employment expenses

Last name	Service cost 2011 (EUR k)	Fair value (DBO) 31/12/2011 (EUR k)	Expense (HGB) from pension obligations 2011 (EUR k)	Fair value (HGB) 31/12/2011 (EUR k)
Markus Pinger (Chairman of the Management Board since 15/08/2011)	140	140	141	141
Dr Fritz Oesterle (Chairman of the Management Board until 30/06/2011)	135	-	132	-
Stephan Borchert (since 01/08/2011)	93	93	94	94
Dr Christian Holzherr (until 30/11/2011)	255	-	241	-
Dr Michael Lonsert (until 31/12/2011)	207	-	197	-
Wolfgang Mähr	217	2,698	209	2,707
Total 2011	**1,047**	**2,931**	**1,014**	**2,942**

Total 2010*	**785**	**6,787**	**781**	**6,499**

* In accordance with the resolution of the annual general meeting dated 27 April 2006, Management Board remuneration is not disclosed individually for 2010.

Post-employment benefits

Management Board members benefit from a defined contribution plan. A contribution of 16% of the total basic component and standard bonus is added for Dr Oesterle (until 30 June 2011), Dr Holzherr (until 30 November 2011) and Mr Mähr (until 30 September 2011) each year, while the contribution for Mr Borchert and Dr Lonsert (until 31 December 2011) equals 14% of the total basic component, standard bonus and standard amount from multiple-year remuneration. When Mr Mähr's contract was extended as of 1 October 2011, the defined contribution was changed from a percentage to a fixed contribution (in EUR). The contracts for Mr Borchert and Dr Lonsert (until 31 December 2011) were also updated. Since then, an annual contribution of EUR 220k has been added to the pension account. A fixed contribution of EUR 300k was agreed for Mr Pinger as a condition of his contract as Chairman of the Management Board. The contribution is determined by the Supervisory Board regardless of salary and adjusted as part of the regular remuneration review process. A contractual trust arrangement (CTA) is in place to insure any claims not already insured against insolvency by Pensions-Sicherungs-Verein a.G., Cologne.

The contribution is made for the period of office as Management Board member. The company adds interest of 6% p.a. to the amount on the basic pension account at the beginning of each calendar year until the benefits can be claimed, plus the pro rata share for the final year until benefits can be claimed. Pensions can be claimed after leaving the company and from the age of 60 years. In the case of invalidity or death, the contributions that would have been due until the age of 63 are credited to the pension account which is then paid out.

The provisions on severance pay in Management Board contracts concluded in 2010 are capped in accordance with the recommendations of the German Corporate Governance Code. Accordingly, any payments granted to a member of the Management Board upon premature termination of office without due cause are capped at the higher of the remuneration due from the remaining term of the service agreement or two years' annual remuneration. If there are any tranches outstanding from the performance cash scheme when a member of the Management Board leaves the company before the end of the performance period and the targets are met in full, these are settled on a pro rata basis using the standard amount.

In the event of a change in control associated with significant disadvantages for the Management Board, the following applies: Management Board members can terminate their contracts giving three months' notice to the end of the month. In this case, the severance payment would be the total of all remuneration outstanding until the end of the contract, including the standard bonus and the fixed standard amount from the performance cash scheme, but capped at 150% of the ordinary severance pay cap.

Benefits to members of the Management Board that left the company in the reporting period

In the 2011 fiscal year, Dr Oesterle prematurely left the Management Board of Celesio AG as of 30 June 2011, Dr Holzherr as of 30 November 2011 and Dr Lonsert as of 31 December 2011.

They received the following benefits in connection with their leaving the Management Board and in accordance with the contractual arrangements for leaving the company before the contractually agreed date:

	Dr Oesterle (EUR k)	Dr Holzherr (EUR k)	Dr Lonsert (EUR k)
Remuneration settlement	8,000	2,807	3,103
Other benefits	968	45	87
Contribution commitment to the pension account	1,062	340	455
Total	**10,030**	**3,192**	**3,645**

When Dr Oesterle left the company, it was agreed to pay him full compensation for the current service agreement, comprising basic remuneration, bonuses and performance cash scheme, until the contractual end of his Management Board contract on 31 December 2013. In addition, Celesio agreed to cover insurance contributions and expenses, allow him continued use of the company car and office equipment, and pay future contributions to the pension account.

When Dr Holzherr and Dr Lonsert left the company, it was also agreed to pay them full compensation for the current service agreement, comprising basic remuneration, bonuses and performance cash scheme, until the contractual end of their Management Board contracts on 30 April 2013 and 30 September 2013, respectively. In addition, Celesio agreed to cover insurance contributions and expenses, allow them continued use of the company car and office equipment, and pay future contributions to the pension account. The bonuses for the 2011 fiscal year were settled at the pro rata share of the standard bonus due.

Other information

Former members of the Management Board and their surviving dependents received remuneration of EUR 17,245k in the reporting period (previous year EUR 294k). These figures include the benefits paid to Dr Oesterle, Dr Holzherr and Dr Lonsert in connection with terminating their service agreements. Celesio has set up pension provisions of EUR 12,898k (previous year EUR 6,251k) for this group of persons. In the 2011 fiscal year, no loans were granted to members of the Management Board, nor did the company enter into any contingent liabilities in favour of these persons.

Outlook on the compensation structure for 2012

Management Board remuneration has changed significantly following the departure of Dr Oesterle, Dr Holzherr and Dr Lonsert and the appointment of Mr Pinger as Chairman of the Management Board and Dr Helmes and Mr Borchert as new members. The current compensation structure needed to be reviewed and harmonised in light of changes in the economic conditions and corporate strategy. The compensation system is currently being refined and standardised for all members of the Management Board with the help of an independent advisor.

Total remuneration and compensation structure of the Supervisory Board

The remuneration paid to the Supervisory Board is defined in Art. 5 of the articles of association of Celesio AG. In addition to reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive fixed remuneration of EUR 5,000 annually and an additional payment of EUR 800 for each half percentage point of dividends distributed to shareholders in the past fiscal year that is in excess of 4% of issued capital entitled to dividends. These payments are net of VAT. The chairman receives twice the standard amount paid to the other members of the Supervisory Board and the deputy chairman receives one and a half times the standard amount. Each member of a committee – with the exception of the committee founded to satisfy Sec. 27 (3) Mitbestimmungsgesetz (MitbestG, Codetermination Act) – receives EUR 2,000 for each committee membership, with the chairman of a committee receiving EUR 4,000.

The total remuneration of the Supervisory Board came to EUR 491.1k in 2011 (previous year EUR 848.0k). Of this, EUR 67.5k (previous year EUR 67.5k) pertained to fixed remuneration for membership of the Supervisory Board. The variable components pegged to dividend pay-outs for membership of the Supervisory Board came to EUR 399.6k (previous year EUR 756.0k). The variable components pegged to dividend payouts for serving on committees came to EUR 24.0k (previous year EUR 24.0k). The table below shows the remuneration of each Supervisory Board member:

Last name	**Fixed component (EUR k)**	**Variable component (EUR k)**	**Remuneration for committee work (EUR k)**	**Total (EUR k)**
Prof Dr Jürgen Kluge (Chairman)	10.0	59.2	8.0	77.2
Ihno Goldenstein (Deputy Chairman)	7.5	44.4	2.0	53.9
Klaus Borowicz	5.0	29.6	2.0	36.6
Prof Dr med. Julius Michael Curtius	5.0	29.6	0.0	34.6
Dr Hubertus Erlen	5.0	29.6	4.0	38.6
Dirk-Uwe Kerrmann	5.0	29.6	0.0	34.6
Jörg Lauenroth-Mago	5.0	29.6	0.0	34.6
Susan Naumann	5.0	29.6	0.0	34.6
Ulrich Neumeister	5.0	29.6	2.0	36.6
W.M. Henning Rehder	5.0	29.6	2.0	36.6
Hanspeter Spek	5.0	29.6	0.0	34.6
Prof Dr Klaus Trützschler	5.0	29.6	4.0	38.6
Total 2011	**67.5**	**399.6**	**24.0**	**491.1**
Total 2010*	**67.5**	**756.0**	**24.0**	**848.0**

* Supervisory Board remuneration was not disclosed individually for 2010.

In the 2011 fiscal year, no loans were granted to members of the Supervisory Board, nor did the company enter into any contingent liabilities in favour of these persons.

Proposal from the Management Board for the appropriation of profits

The profit available for distribution of Celesio AG amounts to EUR 85,952,000.00 (previous year EUR 85,050,000.00).

The Management Board proposes distributing EUR 42,525,000.00 (previous year EUR 85,050,000.00) of the profit available for distribution as a dividend for the 2011 fiscal year and carrying forward EUR 43,427,000 to new account.

On the basis of this proposal for the appropriation of profits, the dividend for a no par share will be EUR 0.25 (previous year an ordinary dividend of EUR 0.50).

Stuttgart, 22 February 2012

The Management Board

Other appointments held by members of the Management Board in the 2011 fiscal year

	Membership in other Management Boards and comparable bodies	Membership in other Supervisory Boards and comparable bodies
Dr Fritz Oesterle Chairman of the Management Board (until 30 June 2011)	▪ None	▪ Brocacef Holding N.V., Member of the Supervisory Board (until 30 June 2011) ▪ Herba Chemosan Apotheker AG, Deputy Chairman of the Supervisory Board (until 30 June 2011) ▪ Landesbank Baden-Württemberg, Member of the Supervisory Board ▪ Perfect Life AG, Chairman of the Supervisory Board (from 8 April 2011 to 15 August 2011) ▪ Untertürkheimer Volksbank e.G., Member of the Supervisory Board
Markus Pinger Chairman of the Management Board (since 15 August 2011)	▪ None	▪ None
Stephan Borchert (since 1 August 2011)	▪ None	▪ Brocacef Holding N.V., Member of the Supervisory Board (since 20 October 2011)
Dr Christian Holzherr (until 30 November 2011)	▪ None	▪ Boerse Stuttgart Group, Member of the Supervisory Board - Boerse Stuttgart Holding GmbH - Boerse Stuttgart AG - EUWAX AG ▪ Medco Celesio B.V., Member of the Supervisory Board (until 30 September 2011)
Dr Michael Lonsert (until 31 December 2011)	▪ None	▪ Medco Celesio B.V., Member of the Supervisory Board (until 30 September 2011) ▪ Perfect Life AG, Deputy Chairman of the Supervisory Board (from 8 April 2011 to 31 December 2011)
Wolfgang Mähr	▪ None	▪ Herba Chemosan Apotheker AG, Member of the Supervisory Board (until 12 May 2011) and Deputy Chairman of the Supervisory Board (since 12 May 2011) ▪ GEHE Pharma Handel GmbH, Chairman of the Supervisory Board ▪ OCP S.A., Chairman of the Supervisory Board (until 31 December 2011) ▪ MCM Medicines Holding S.A., Member of the Supervisory Board (since 7 October 2011)
Dr Marion Helmes (since 1 January 2012)	▪ None	▪ Fugro N.V., Member of the Supervisory Board

Other appointments held by members of the Supervisory Board in the 2011 fiscal year

	Occupation	Membership in other Supervisory Boards and comparable bodies
Prof Dr Jürgen Kluge Chairman	Franz Haniel & Cie. GmbH, Chairman of the Management Board	▪ Metro AG, Chairman of the Supervisory Board (until 17 November 2011) ▪ TAKKT AG, Deputy Chairman of the Supervisory Board ▪ SMS GmbH, member of the Supervisory Board
Ihno Goldenstein[1)] Deputy Chairman	GEHE Pharma Handel GmbH, employee, goods-in department, Chairman of the General Works Council, Chairman of the European Works Council of Celesio AG	▪ None
Klaus Borowicz[1)]	GEHE Pharma Handel GmbH, Head of Hamburg branch	▪ None
Prof Dr med. Julius Michael Curtius	Cardiologist in private practice	▪ None
Dr Hubertus Erlen	Bayer Schering Pharma AG, Deputy Chairman of the Supervisory Board	▪ Bayer Schering Pharma AG, Deputy Chairman of the Supervisory Board ▪ Schaeffler GmbH, Member of the Supervisory Board
Dirk-Uwe Kerrmann[1)]	GEHE Pharma Handel GmbH, Employee in the commercial department	▪ None
Jörg Lauenroth-Mago[1)]	ver.di - Vereinte Dienstleistungs-gewerkschaft e.V. Trade Union Secretary responsible for the trade division in Saxony, Saxony-Anhalt and Thuringia	▪ GEHE Pharma Handel GmbH, Member of the Supervisory Board
Susan Naumann[1)]	ver.di Vereinte Dienstleistungs-gewerkschaft e. V. Trade Union Secretary	▪ GEHE Pharma Handel GmbH, Member of the Supervisory Board
Ulrich Neumeister[1)]	GEHE Pharma Handel GmbH, logistics employee	▪ None
W.M. Henning Rehder	SEN Group, CFO	▪ None
Hanspeter Spek	Sanofi-Aventis S.A. Member of the Executive Committee	▪ Hoechst GmbH, Chairman of the Supervisory Board ▪ Sanofi-Aventis Deutschland GmbH, Chairman of the Supervisory Board ▪ Sanofi-Aventis SpA, Italy, Member of the Board of Directors ▪ Sanofi-Aventis Nichi-Iko K.K., Japan, Chairman & Director ▪ Sanofi-aventis K.K., Japan, Director ▪ Sanofi SA (Sanofi AG), Switzerland, Member of the Board of Directors ▪ Sanofi-Aventis S.A. (Suisse), Switzerland, Member of the Board of Directors
Prof Dr Klaus Trützschler	Franz Haniel & Cie. GmbH, Member of the Management Board	▪ Bilfinger Berger AG, Member of the Supervisory Board ▪ TAKKT AG, Chairman of the Supervisory Board ▪ Wilh. Werhahn KG, Member of the Advisory Board ▪ Wuppermann AG, Chairman of the Supervisory

Board

- Zwiesel Kristallglas AG, Chairman of the Supervisory Board
- Sartorius AG, Member of the Supervisory Board

[1)] Employee representative.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, we confirm that the financial statements give a true and fair view of the assets position, financial position and results of operations of Celesio AG, Stuttgart, and the management report gives a true and fair view of the business performance including the results of operations and the situation of Celesio AG, Stuttgart, and describes the main opportunities and risks relating to the future development of Celesio AG, Stuttgart, for the remaining months of the fiscal year.

Stuttgart, 22 February 2012

The Management Board

MARKUS PINGER
CHAIRMAN OF THE MANAGEMENT BOARD

DR MARION HELMES
CHIEF FINANCIAL OFFICER

STEPHAN BORCHERT
MEMBER OF THE MANAGEMENT BOARD

WOLFGANG MÄHR
MEMBER OF THE MANAGEMENT BOARD

Audit opinion

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Celesio AG, Stuttgart, which has been combined with the group management report, for the fiscal year from 1 January to 31 December 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Stuttgart, 24 February 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

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